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

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**FORM 10-Q**

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

For the quarterly period ended August 4, 2018

OR

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

Commission file number: 001-35535

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**TILLY'S, INC.**

(Exact name of Registrant as specified in its charter)

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," or an "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 August 29, 2018, the registrant had the following shares of common stock outstanding:

Class A common stock \$0.001 par value	15,640,185
Class B common stock \$0.001 par value	13,668,497



**TILLY'S, INC.**  
**FORM 10-Q**  
**For the Quarterly Period Ended August 4, 2018**

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**Part I. Financial Information****Item 1. Financial Statements (Unaudited)**

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

	August 4, 2018	February 3, 2018	July 29, 2017
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 45,638	\$ 53,202	\$ 43,567
Marketable securities	78,588	82,750	66,064
Receivables	11,182	4,352	6,829
Merchandise inventories	74,815	53,216	75,033
Prepaid expenses and other current assets	9,062	9,534	9,391
Total current assets	219,285	203,054	200,884
Property and equipment, net	78,906	83,321	89,130
Other assets	3,391	3,736	6,843
Total assets	\$ 301,582	\$ 290,111	\$ 296,857
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 42,786	\$ 21,615	\$ 41,729
Accrued expenses	29,521	22,731	29,097
Deferred revenue	7,193	10,879	9,277
Accrued compensation and benefits	7,392	6,119	7,834
Dividends payable	—	29,067	—
Current portion of deferred rent	5,868	5,220	5,836
Capital lease obligation	—	—	386
Total current liabilities	92,760	95,631	94,159
Long-term portion of deferred rent	31,239	31,340	33,080
Other	2,236	2,715	—
Total liabilities	126,235	129,686	127,239
Commitments and contingencies (Note 5)			
Stockholders' equity:			
Common stock (Class A), \$0.001 par value; 100,000 shares authorized; 15,599, 14,927 and 13,864 shares issued and outstanding, respectively	15	15	14
Common stock (Class B), \$0.001 par value; 35,000 shares authorized; 13,708, 14,188 and 14,958 shares issued and outstanding, respectively	14	14	15
Preferred stock, \$0.001 par value; 10,000 shares authorized; no shares issued or outstanding	—	—	—
Additional paid-in capital	146,476	143,984	139,479
Retained earnings	28,756	16,398	30,008
Accumulated other comprehensive income	86	14	102
Total stockholders' equity	175,347	160,425	169,618
Total liabilities and stockholders' equity	\$ 301,582	\$ 290,111	\$ 296,857

*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)

	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Net sales	\$ 157,406	\$ 138,810	\$ 281,040	\$ 259,757
Cost of goods sold (includes buying, distribution, and occupancy costs)	107,301	97,881	195,957	185,923
Gross profit	50,105	40,929	85,083	73,834
Selling, general and administrative expenses	37,627	42,168	71,275	75,402
Operating income/(loss)	12,478	(1,239)	13,808	(1,568)
Other income, net	490	197	873	435
Income/(loss) before income taxes	12,968	(1,042)	14,681	(1,133)
Income tax expense/(benefit)	3,279	(446)	3,770	(376)
Net income/(loss)	<u>\$ 9,689</u>	<u>\$ (596)</u>	<u>\$ 10,911</u>	<u>\$ (757)</u>
Basic income/(loss) per share of Class A and Class B common stock	\$ 0.33	\$ (0.02)	\$ 0.37	\$ (0.03)
Diluted income/(loss) per share of Class A and Class B common stock	\$ 0.33	\$ (0.02)	\$ 0.37	\$ (0.03)
Weighted average basic shares outstanding	29,209	28,751	29,145	28,728
Weighted average diluted shares outstanding	29,681	28,751	29,567	28,728

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

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

	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Net income/(loss)	\$ 9,689	\$ (596)	\$ 10,911	\$ (757)
Other comprehensive (loss)/income:				
Net change in unrealized gain on available-for-sale securities, net of tax	(25)	59	72	36
Other comprehensive (loss)/income	(25)	59	72	36
Comprehensive income/(loss)	\$ 9,664	\$ (537)	\$ 10,983	\$ (721)

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

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

	Number of Shares		Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
	Common Stock (Class A)	Common Stock (Class B)					
Balance at February 3, 2018	14,927	14,188	\$ 29	\$ 143,984	\$ 16,398	\$ 14	\$ 160,425
Cumulative-effect adjustment from adoption of ASC 606 (Note 2)	—	—	—	—	1,447	—	1,447
Net income	—	—	—	—	10,911	—	10,911
Restricted stock vesting	52	—	—	—	—	—	—
Taxes paid in lieu of shares issued	(10)	—	—	(111)	—	—	(111)
Shares converted by founders	480	(480)	—	—	—	—	—
Share-based compensation expense	—	—	—	1,127	—	—	1,127
Employee exercises of stock options	150	—	—	1,476	—	—	1,476
Change in unrealized gain on available-for-sale securities	—	—	—	—	—	72	72
Balance at August 4, 2018	<u>15,599</u>	<u>13,708</u>	<u>\$ 29</u>	<u>\$ 146,476</u>	<u>\$ 28,756</u>	<u>\$ 86</u>	<u>\$ 175,347</u>

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

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

	<b>Six Months Ended</b>	
	<b>August 4, 2018</b>	<b>July 29, 2017</b>
<b>Cash flows from operating activities</b>		
Net income/(loss)	\$ 10,911	\$ (757)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Depreciation and amortization	11,503	11,904
Share-based compensation expense	1,127	1,195
Impairment of assets	786	451
Loss on disposal of assets	17	16
Gain on sales and maturities of marketable securities	(599)	(266)
Deferred income taxes	(203)	(364)
Changes in operating assets and liabilities:		
Receivables	(6,830)	(2,840)
Merchandise inventories	(21,789)	(27,265)
Prepaid expenses and other assets	461	(280)
Accounts payable	21,571	24,116
Accrued expenses	4,688	(74)
Accrued compensation and benefits	1,273	575
Deferred rent	547	(2,617)
Deferred revenue	(1,513)	(926)
Net cash provided by operating activities	<u>21,950</u>	<u>2,868</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(6,668)	(6,954)
Purchases of marketable securities	(79,822)	(62,898)
Maturities of marketable securities	84,678	52,082
Net cash used in investing activities	<u>(1,812)</u>	<u>(17,770)</u>
<b>Cash flows from financing activities</b>		
Dividends paid	(29,067)	(20,080)
Proceeds from exercise of stock options	1,476	105
Taxes paid in lieu of shares issued for share-based compensation	(111)	(101)
Payment of capital lease obligation	—	(449)
Net cash used in financing activities	<u>(27,702)</u>	<u>(20,525)</u>
Change in cash and cash equivalents	(7,564)	(35,427)
Cash and cash equivalents, beginning of period	53,202	78,994
Cash and cash equivalents, end of period	<u>\$ 45,638</u>	<u>\$ 43,567</u>
<b>Supplemental disclosures of cash flow information</b>		
Interest paid	\$ —	\$ 20
Income taxes paid	\$ 3,999	\$ 4,606
<b>Supplemental disclosure of non-cash activities</b>		
Unpaid purchases of property and equipment	\$ 1,223	\$ 5,328

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



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

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

Tillys is a leading destination specialty retailer of casual apparel, footwear and accessories for young men, young women, boys and girls with an extensive assortment of iconic global, emerging, and proprietary brands rooted in an active and social lifestyle. Tillys is headquartered in Irvine, California and we operated 226 stores, including three RSQ-branded pop-up stores, in 31 states as of August 4, 2018. 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.

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

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

In the opinion of management, the accompanying unaudited consolidated financial statements contain all normal and recurring adjustments necessary to present fairly the financial condition, results of operations and cash flows for the interim periods presented. The results of operations for the three and six months ended August 4, 2018 and July 29, 2017 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 February 3, 2018 ("fiscal 2017").

**Fiscal Periods**

Our fiscal year ends on the Saturday closest to January 31. References to fiscal 2018 refer to the fiscal year ending February 2, 2019. References to the fiscal quarters ended August 4, 2018 and July 29, 2017 refer to the three and six months ended as of those dates.

**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 February 3, 2018.

**Recently Adopted Accounting Standard**

On February 4, 2018, we adopted Financial Accounting Standards Board (the "FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* ("ASC 606"), using the modified retrospective transition method, which under ASC 606, means the standard applies retrospectively with the cumulative effect recognized in the opening retained earnings balance in fiscal 2018. Comparative information for the prior year fiscal quarter has not been adjusted and continues to be reported under the previous standard ASC 605. Under ASC 606, revenue is recognized when control of promised goods or services is transferred to our customers at an amount we expect to be entitled to in exchange for those goods or services. The adoption of this standard requires us to recognize gift card breakage income in proportion to redemptions as they occur. The new guidance also requires enhanced disclosures, such as disaggregation of revenues and revenue recognition policies that require significant judgment and identification of performance obligations to customers.

The adoption of ASC 606 resulted in a net cumulative effect adjustment that increased the opening balance of retained earnings by approximately \$1.4 million, as well as the following impacts:

- Breakage revenue is now recognized over time in proportion to actual customer redemptions. Breakage revenue was previously recognized two full fiscal years after the gift cards were activated when the probability of redemption was considered remote.
- Revenue for merchandise shipped to the customer from a distribution center or store is now recognized at the shipping point, whereas it was previously recognized upon customer receipt.

The impact of the adoption of ASC 606 on the Consolidated Balance Sheet as of August 4, 2018 was as follows (in thousands):

	As reported	Balances without adoption of ASC 606	Effect of Adoption Increase (Decrease)
Merchandise inventories	\$ 74,815	\$ 75,625	\$ (810)
Other assets	3,391	3,927	(536)
Accrued expenses	29,521	29,131	390
Deferred revenue	7,193	10,894	(3,701)
Retained earnings	28,756	26,791	1,965

The impact of the adoption of ASC 606 on our Consolidated Statements of Operations for the three and six months ended August 4, 2018 was as follows (in thousands):

	Three Months Ended			Six Months Ended		
	As reported	Balances without adoption of ASC 606	Effect of Adoption Increase (Decrease)	As reported	Balances without adoption of ASC 606	Effect of Adoption Increase (Decrease)
Net sales	\$ 157,406	\$ 156,470	\$ 936	\$ 281,040	\$ 279,512	\$ 1,528
Cost of goods sold	107,301	106,920	381	195,957	195,337	620
Gross profit	50,105	49,550	555	85,083	84,175	908

### 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 accompanying Consolidated Statements of Operations.

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

	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Retail stores	\$ 137,734	\$ 121,957	\$ 246,235	\$ 226,652
E-commerce	19,672	16,853	34,805	33,105
Total net sales	\$ 157,406	\$ 138,810	\$ 281,040	\$ 259,757

We accrue for estimated sales returns by customers based on historical sales return results. As of August 4, 2018, February 3, 2018 and July 29, 2017, our reserve for sales returns was \$3.3 million, \$1.1 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 card balances. The customer liability balance was \$5.7 million, \$9.2 million and \$7.1 million as of August 4, 2018, February 3, 2018 and July 29, 2017, respectively, and is included in deferred revenue on the accompanying Consolidated Balance Sheets. Our gift cards do not have expiration dates and in most cases there is no legal obligation to remit unredeemed gift cards to relevant jurisdictions. Based on actual historical redemption patterns, we determined that a small percentage of gift cards are unlikely to be redeemed (which we refer to as gift card “breakage”). Based on our historical gift card breakage rate, we recognize breakage revenue over the redemption period in proportion to actual gift card redemptions. Revenue recognized from gift cards was \$3.4 million and \$7.2 million for the three months and six months ended August 4, 2018, respectively, and \$3.7 million and \$7.9 million for the three and six months ended July 29, 2017, respectively.

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 awards that may be redeemed for 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. We expire unredeemed awards after 45 days from date of issuance and accumulated partial points 365 days after the last purchase activity. A liability is estimated based on the standalone selling price of awards and partial points earned and estimated redemptions. The deferred revenue for this program was \$1.5 million, \$1.2 million and \$0.9 million as of August 4, 2018, February 3, 2018 and July 29, 2017, respectively. Revenue recognized from our loyalty program was \$0.4 million and \$0.7 million for the three and six months ended August 4, 2018, respectively, and \$0.3 million and \$0.4 million for the three and six months ended and July 29, 2017, respectively.

#### **Income taxes**

The Securities and Exchange Commission has issued interpretive guidance under Staff Accounting Bulletin No. 118 (“SAB 118”) that allows for a measurement period up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts. We have not made any provision adjustments during the first half ended August 4, 2018. We are continuing to assess the final impact of the guidance which we expect to complete within the one-year time frame provided by SAB 118.

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

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (ASC 842). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. ASC 842, which will become effective for us in the first quarter of fiscal 2019, with early adoption permitted, must be adopted using the modified retrospective method. The new standard is expected to impact our consolidated financial statements as we conduct all of our retail sales and corporate operations in leased facilities. We are in the process of evaluating the impact of adopting the new standard on our consolidated financial statements.

In June 2016, the FASB issued 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 2020, with early adoption permitted and must be adopted using the modified retrospective method. We are in the process of evaluating the impact of adopting the new standard on our consolidated financial statements and related disclosures.

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

Marketable securities as of August 4, 2018 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 August 4, 2018, February 3, 2018 and July 29, 2017 (in thousands):

	<b>August 4, 2018</b>		
	<b>Cost or Amortized Cost</b>	<b>Gross Unrealized Holding Gains</b>	<b>Estimated Fair Value</b>
Commercial paper	\$ 54,389	\$ 118	\$ 54,507
Fixed income securities	24,081	—	24,081
	<u>\$ 78,470</u>	<u>\$ 118</u>	<u>\$ 78,588</u>

  

	<b>February 3, 2018</b>		
	<b>Cost or Amortized Cost</b>	<b>Gross Unrealized Holding Gains</b>	<b>Estimated Fair Value</b>
Commercial paper	\$ 59,566	\$ 23	\$ 59,589
Fixed income securities	23,119	42	23,161
	<u>\$ 82,685</u>	<u>\$ 65</u>	<u>\$ 82,750</u>

  

	<b>July 29, 2017</b>		
	<b>Cost or Amortized Cost</b>	<b>Gross Unrealized Holding Gains</b>	<b>Estimated Fair Value</b>
Commercial paper	\$ 44,713	\$ 170	\$ 44,883
Fixed income securities	21,181	—	21,181
	<u>\$ 65,894</u>	<u>\$ 170</u>	<u>\$ 66,064</u>

We recognized gains on investments for commercial paper that matured during the three and six months ended August 4, 2018 and July 29, 2017. Upon recognition of the gains, we reclassified these amounts out of Accumulated Other Comprehensive Income/(Loss) and into “Other income, net” on the Consolidated Statements of Operations.

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>August 4, 2018</b>	<b>July 29, 2017</b>	<b>August 4, 2018</b>	<b>July 29, 2017</b>
Gains on investments	\$ 240	\$ 83	\$ 435	\$ 215

#### **Note 4: Line of Credit**

Our amended and restated credit agreement with Wells Fargo Bank, N.A. (the “Bank”) provides for a \$25.0 million revolving line of credit with a maturity date of June 26, 2020. The interest rate charged on borrowings is selected at our discretion at the time of draw between the London Interbank Offered Rate, plus 0.75%, or at the Bank’s prime rate. The agreement allows for the declaration and payment of dividends or distributions to stockholders, subject to certain limitations. On February 20, 2018 and February 24, 2017, we paid a special cash dividend of \$1.00 per share and \$0.70 per share, respectively, to all holders of record of issued and outstanding shares of both our Class A and Class B common stock. The line of credit is secured by substantially all of our assets. As a sub-feature under the credit agreement, the Bank may also issue stand-by and/or commercial letters of credit up to \$15.0 million.

We are required to maintain certain financial and non-financial covenants in accordance with the line of credit. The financial covenants require certain levels of leverage and profitability, such as (i) income before income taxes must not be less than \$1.0 million (calculated at the end of each fiscal quarter on a trailing 12-month basis), (ii) a maximum ratio of 4.00 to 1.00 as of each quarter end for “Funded Debt to EBITDAR”, defined as the sum of total debt, capital leases and annual rent expense multiplied by six divided by the sum of net income, interest expense, taxes, depreciation, amortization and annual rent expense on a trailing 12-month basis, and (iii) requires minimum eligible inventory, cash, cash equivalents and marketable securities totaling \$50.0 million as of the end of each quarter. In addition, maximum investment in fixed assets in any fiscal year must not exceed \$50.0 million.

In September 2016, we established a \$750,000 standby letter of credit as security against insurance claims as required by our workers' compensation insurance policy. There has been no activity under this letter of credit since its inception.

As of August 4, 2018, we were in compliance with all of our covenants and had no outstanding borrowings under the revolving credit facility.

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

From time to time, we may become involved in lawsuits and other claims arising from our ordinary course of business. We have established loss provisions of approximately \$4.7 million 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. We have defended this case vigorously, and will continue to do so.

*Lauren Minniti, on behalf of herself and all others similarly situated, v. Tilly's, Inc., United States District Court, Southern District of Florida, Case No. 0:17-cv-60237-FAM.* On January 30, 2017, the plaintiff filed a putative class action lawsuit against us, alleging violations of the Telephone Consumer Protection Act of 1991 (the "TCPA"). Specifically, the complaint asserted a violation of the TCPA for allegedly sending unsolicited automated messages to the cellular telephones of the plaintiff and others. The complaint sought class certification and damages of \$500 per violation plus treble damages under the TCPA. In March 2017, we filed our initial response to this matter with the court. In June 2017, the parties attended a mediation. In July 2017, the parties reached an agreement in principle to settle this matter, subject to court approval, and we recorded an estimated loss provision of \$6.2 million in connection with the proposed settlement during the second quarter of fiscal 2017. In March 2018, the parties executed a settlement agreement, subject to final court approval. In April 2018, the court preliminarily approved the settlement agreement and certified a class for settlement purposes. In May 2018, the class members were sent notice of the settlement and in August 2018, the court granted final approval of the settlement. As a result, we recorded a \$1.5 million reduction in our original accrual estimate to reflect the final required cash payments to be made as part of this settlement. Additionally, we are required to issue non-transferable discount coupons to approximately 612,000 existing Tillys customers not covered by the cash payments in early September 2018. These coupons entitle the recipient to a one-time 50% discount on a single purchase transaction of up to \$1,000. Any unused coupons will expire upon the one year anniversary of the date of issuance. We cannot reasonably estimate the number of coupons that will be utilized, the timing of any coupon usage, the average transaction value utilizing these coupons, or the potential impact of their usage on our reported comparable store net sales, product margins and earnings per share over the course of the next twelve months, but the potential impact could be material and adverse. In particular, we generally expect that the usage of these coupons will have a positive impact on our comparable store net sales, and a negative impact on our product margins, although we cannot reasonably estimate the magnitude of such impacts. The potential impact on our operating income will depend on a variety of factors that cannot be reasonably estimated at this time, including but not limited to the factors described above.

*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 Tilly's and dismissed the complaint. Specifically, the court agreed with us that the plaintiff's cause of action for reporting-time pay fails as a matter of law as the plaintiff and other putative class members did not "report for work" with respect to certain shifts on which the plaintiff's claims are based. In November 2016, the court entered a written order sustaining our demurrer to the plaintiff's complaint and dismissing all of plaintiff's causes of action with prejudice. In January 2017, the plaintiff filed an appeal of the order to the California Court of Appeal. In October 2017, the plaintiff filed her opening appellate brief, and our responding appellate brief was filed in December 2017. In May 2018, the plaintiff filed her reply appellate brief. Later in May 2018, an amicus brief was filed by Abercrombie & Fitch Stores, Inc., in support of Tilly's position in this appeal. Oral arguments have been scheduled by the court for November 2018. We have defended this case vigorously, and will continue to do so.

In June 2015, we and one of our vendors entered into a settlement arrangement with a plaintiff who filed a copyright infringement lawsuit against the vendor and us related to certain vendor products we sell. The settlement required that the vendor pay \$2.0 million to the plaintiff over three years, and we agreed to guarantee such payments in exchange for a security interest in the vendor's intellectual property. We concluded this matter with the final settlement payment on June 5, 2018. The total settlement amount paid by us was not materially different from the amount previously accrued.

**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 either available-for-sale or held-to-maturity securities, and certain cash equivalents, specifically money market securities, commercial paper and bonds. The money market accounts are valued based on quoted market prices in active markets. The marketable securities are valued based on other observable inputs for those securities (including market corroborated pricing or other models that utilize observable inputs such as interest rates and yield curves) based on information provided by independent third party entities.

From time to time, we measure certain assets at fair value on a non-recurring basis, including evaluation of long-lived assets for impairment using Company specific assumptions which would fall within Level 3 of the fair value hierarchy.

Fair value calculations contain significant judgments and estimates, which may differ from actual results due to, among other things, economic conditions, changes to the business model or changes in operating performance.

During the three and six months ended August 4, 2018 and July 29, 2017, we did not make any transfers between Level 1 and Level 2 financial assets. Furthermore, as of August 4, 2018, February 3, 2018 and July 29, 2017, we did not have any Level 3 financial assets. We conduct reviews on a quarterly basis to verify pricing, assess liquidity and determine if significant inputs have changed that would impact the fair value hierarchy disclosure.

*Financial Assets*

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

	August 4, 2018			February 3, 2018			July 29, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Cash equivalents (1):</b>									
Money market securities	\$ 32,556	\$ —	\$ —	\$ 46,441	\$ —	\$ —	\$ 35,508	\$ —	\$ —
<b>Marketable securities:</b>									
Commercial paper	\$ —	\$ 54,507	\$ —	\$ —	\$ 59,589	\$ —	\$ —	\$ 44,883	\$ —
Fixed income securities	—	24,081	—	—	23,161	—	—	21,181	—

(1) Excluding cash.

*Impairment of Long-Lived Assets*

An impairment is recorded on a long-lived asset used in operations whenever events or changes in circumstances indicate that the net carrying amounts for such asset may not be recoverable. Important factors that could result in an impairment review include, but are not limited to, significant under-performance relative to historical or planned operating results, significant changes in the manner of use of the assets or significant changes in our business strategies. An evaluation is performed using estimated undiscounted future cash flows from operating activities compared to the carrying value of related assets for the individual stores. If the undiscounted future cash flows are less than the carrying value, an impairment loss is recognized for the difference between the carrying value and the estimated fair value of the assets based on the discounted cash flows of the assets using a rate that approximates our weighted average cost of capital. With regard to retail store assets, which are comprised of

leasehold improvements, fixtures and computer hardware and software, we consider the assets at each individual retail store to represent an asset group. In addition, we have considered the relevant valuation techniques that could be applied without undue cost and effort and have determined that the discounted estimated future cash flow approach provides the most relevant and reliable means by which to determine fair value in this circumstance.

On a quarterly basis, we assess whether events or changes in circumstances have occurred that potentially indicate the carrying value of long-lived assets may not be recoverable. During the three and six months ended August 4, 2018, based on Level 3 inputs of historical operating performance, including sales trends, gross margin rates, current cash flows from operations and the projected outlook for each of our stores, we determined that two of our stores would not be able to generate sufficient cash flows over the remaining term of the related lease to recover our investment in the respective store. As a result, we recorded non-cash impairment charges during the three and six months ended August 4, 2018 of approximately \$0.6 million and \$0.8 million, respectively, to write-down the carrying value of certain long-lived store assets to zero.

	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
	(\$ in thousands)			
Carrying value of assets with impairment	\$641	\$451	\$786	\$451
Number of stores tested for impairment	4	6	5	8
Number of stores with impairment	1	2	2	2

### Note 7: Share-Based Compensation

The Tilly's, Inc. 2012 Amended and Restated Equity and Incentive Plan, as amended in June 2014 (the "2012 Plan"), authorizes up to 4,413,900 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 August 4, 2018, there were 1,496,740 shares still 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 nonqualified 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 the stock option activity for the six months ended August 4, 2018 (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 February 3, 2018	1,851,250	\$ 9.50		
Granted	301,625	\$ 11.33		
Exercised	(149,875)	\$ 9.85		
Forfeited	(41,000)	\$ 8.94		
Expired	(13,500)	\$ 15.30		
Outstanding at August 4, 2018	1,948,500	\$ 9.73	7.1	\$ 11,056
Vested and expected to vest at August 4, 2018	1,948,500	\$ 9.73	7.1	\$ 11,056
Exercisable at August 4, 2018	946,375	\$ 11.14	5.5	\$ 4,102

(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 quarter and the weighted average exercise price of in-the-money stock options outstanding at the end of each fiscal period. The market value per share was \$15.34 at August 4, 2018.

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 will issue shares of Class A common stock when the options are exercised.

The fair values of stock options granted during the six months ended August 4, 2018 and three and six months ended July 29, 2017 were estimated on the grant date using the following assumptions. There were no stock options granted during the three months ended August 4, 2018.

	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Weighted average grant-date fair value per option granted	NA	\$4.60	\$5.35	\$4.02
Expected option term (1)	NA	5.0 years	5.0 years	5.0 years
Weighted average expected volatility factor (2)	NA	50.5%	51.6%	51.4%
Weighted average risk-free interest rate (3)	NA	1.8%	2.6%	1.9%
Expected annual dividend yield	NA	—%	—%	—%

NA - Not applicable

- (1) We have limited historical information regarding expected option term. Accordingly, we determine the expected option term of the awards using the latest historical data available from comparable public companies and management's expectation of exercise behavior.
- (2) Stock volatility for each grant is measured using the weighted average of 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.

#### Restricted Stock

Restricted stock awards ("RSAs") represent restricted shares of our common stock issued upon the date of grant in which the recipient's rights in the stock are restricted until the shares are vested, and restricted stock units ("RSUs") represent a commitment to issue shares of our common stock in the future upon vesting. Under the 2012 Plan, we may grant RSAs to independent members of our Board of Directors and RSUs to certain employees. RSAs granted to our Board of Directors vest at a rate of 50% on each of the first two anniversaries of the grant date provided that the respective award recipient continues to serve on our Board of Directors through each of those vesting dates. 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.

A summary of the status of non-vested restricted stock changes during the six months ended August 4, 2018 are presented below:

	Restricted Stock	Weighted Average Grant-Date Fair Value
<b>Nonvested at February 3, 2018</b>	109,532	\$ 12.24
Granted	21,476	\$ 14.90
Vested	(67,732)	\$ 11.08
Forfeited	(1,125)	\$ 16.07
<b>Nonvested at August 4, 2018</b>	<b>62,151</b>	<b>\$ 14.36</b>

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

	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Cost of goods sold	\$ 127	\$ 159	\$ 267	\$ 300
Selling, general and administrative expenses	420	459	860	895
Share-based compensation	<b>\$ 547</b>	<b>\$ 618</b>	<b>\$ 1,127</b>	<b>\$ 1,195</b>



At August 4, 2018, there was \$4.2 million of total unrecognized stock-based compensation expense related to unvested stock options and restricted stock. This cost has a weighted average remaining recognition of 2.5 years.

**Note 8: Income/(Loss) Per Share**

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

The components of basic and diluted income/(loss) per share are as follows (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Net income/(loss)	\$ 9,689	\$ (596)	\$ 10,911	\$ (757)
Weighted average basic shares outstanding	29,209	28,751	29,145	28,728
Dilutive effect of stock options and restricted stock	472	—	422	—
Weighted average shares for diluted income per share	29,681	28,751	29,567	28,728
Basic income/(loss) per share of Class A and Class B common stock	\$ 0.33	\$ (0.02)	\$ 0.37	\$ (0.03)
Diluted income/(loss) per share of Class A and Class B common stock	\$ 0.33	\$ (0.02)	\$ 0.37	\$ (0.03)

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

	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Stock options	600	2,184	600	2,184
Restricted stock	22	112	22	112
Total	622	2,296	622	2,296

## 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 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 February 3, 2018. 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.*

### Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements are often identified by the use of words such as, but not limited to, “anticipate”, “believe”, “can”, “continue”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “project”, “seek”, “should”, “target”, “will”, “would” and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. These forward-looking statements are subject to numerous risks and uncertainties, including the risks and uncertainties described under the section titled “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended February 3, 2018, those identified in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Quarterly Report on Form 10-Q, and in other filings we may make with the Securities and Exchange Commission from time to time. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors may cause actual results to differ materially from those contained in any forward-looking statement. We qualify all of our forward-looking statements by these cautionary statements.

### Overview

Tillys is a destination specialty retailer of casual apparel, footwear and accessories for young men, young women, boys and girls. We offer an extensive assortment of iconic global, emerging, and proprietary brands rooted in an active and social lifestyle. Tillys started operations in 1982, when Hezy Shaked and Tilly Levine opened our first store in Orange County, California. As of August 4, 2018, we operated 226 stores in 31 states, comprised of 223 full-size stores averaging 7,600 square feet and three RSQ-branded pop-up stores averaging 2,600 square feet. We also sell our products through our e-commerce website, [www.tillys.com](http://www.tillys.com).

### Known or Anticipated Trends

The retail industry has experienced a general downward trend in customer traffic to physical stores for an extended period of time. Conversely, online shopping has generally increased and resulted in sustained online sales growth. We believe these market trends will continue, despite the improvement in store traffic that we have experienced during the last seven consecutive quarters. There can be no guarantee that our recent improvement in store traffic will continue given the broader industry trends. We will continue to focus our efforts on improving our existing stores, and expanding our online/digital capabilities through omni-channel initiatives designed to provide a seamless shopping experience for our customers, whether in-store or online.

During the second half of fiscal 2018, we currently plan to open seven new, full-size stores and close five full-size stores. We will leverage existing markets where we believe our brand recognition can be enhanced with new stores that are planned to drive additional improvement to our operating income.

As a result of the Tax Reform Act, which was signed into law in December 2017, we expect our effective income tax rate will be reduced to approximately 27% for fiscal 2018.

Pursuant to the settlement terms of a recently finalized legal matter, we are required to issue certain non-transferable discount coupons to approximately 612,000 existing Tillys customers in early September 2018 that allow for a one-time 50% discount on a single, future purchase transaction of up to \$1,000. Any unused coupons will expire upon the one year anniversary of the date of issuance. We cannot reasonably estimate the number of coupons that will be utilized, the timing of any coupon usage, the average transaction value utilizing these coupons, or the potential impact of their usage on our reported comparable store net sales, product margins and earnings per share over the course of the next twelve months, but the potential impact could be material and adverse. In particular, we generally expect that the usage of these coupons will have a positive impact on our comparable store net sales, and a negative impact on our product margins, although we cannot reasonably estimate the magnitude of such impacts. The potential impact on our operating income will depend on a variety of factors that cannot be

reasonably estimated at this time, including but not limited to the factors described above (see "Legal Proceedings" and "Risk Factors").

### **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 expenses and operating income.

#### *Net Sales*

Net sales reflect revenue from the sale of our merchandise at store locations as well as sales of merchandise through our e-commerce platform, which is reflected in sales when 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. Net sales are adjusted for the unredeemed awards and accumulated partial points on our customer loyalty program. Revenue from the sale of gift cards is deferred and not included in net sales until the gift cards are used to purchase merchandise. However, based upon historical patterns, some gift cards will never be redeemed (referred to as gift card "breakage"). Based on our historical gift card breakage rate, gift card breakage revenue is recognized over the redemption period in proportion to actual gift card redemptions and is also included in net sales.

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 Sales*

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

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

Comparable store sales are sales from our e-commerce platform and stores open at least 12 full fiscal months as of the end of the current reporting period. 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% and the store was not closed for more than five days 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 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 percentage of net sales have historically been higher in the third and fourth quarters of the fiscal year, as these periods include the back-to-school and winter holiday selling seasons. In those periods, various costs, such as occupancy costs, generally do not increase in proportion to the seasonal sales increase.

### *Selling, General and Administrative Expenses*

Our selling, general and administrative, or SG&A, expenses are composed of store selling expenses and corporate-level general and administrative expenses. Store selling expenses include store and regional support costs, including personnel, advertising and debit and credit card processing costs, e-commerce receiving and processing costs and store supplies costs. General and administrative expenses include the payroll and support costs of corporate functions such as executive management, legal, accounting, information systems, human resources, 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.

	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
<b>Statements of Operations Data:</b>				
<b>Net sales</b>	\$ 157,406	\$ 138,810	\$ 281,040	\$ 259,757
Cost of goods sold	107,301	97,881	195,957	185,923
<b>Gross profit</b>	<b>50,105</b>	<b>40,929</b>	<b>85,083</b>	<b>73,834</b>
Selling, general and administrative expenses	37,627	42,168	71,275	75,402
<b>Operating income/(loss)</b>	<b>12,478</b>	<b>(1,239)</b>	<b>13,808</b>	<b>(1,568)</b>
Other income, net	490	197	873	435
<b>Income/(loss) before income taxes</b>	<b>12,968</b>	<b>(1,042)</b>	<b>14,681</b>	<b>(1,133)</b>
Income tax expense/(benefit)	3,279	(446)	3,770	(376)
<b>Net income/(loss)</b>	<b>\$ 9,689</b>	<b>\$ (596)</b>	<b>\$ 10,911</b>	<b>\$ (757)</b>
<b>Percentage of Net Sales:</b>				
<b>Net sales</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Cost of goods sold	68.2%	70.5%	69.7%	71.6%
<b>Gross profit</b>	<b>31.8%</b>	<b>29.5%</b>	<b>30.3%</b>	<b>28.4%</b>
Selling, general and administrative expenses	23.9%	30.4%	25.4%	29.0%
<b>Operating income/(loss)</b>	<b>7.9%</b>	<b>(0.9)%</b>	<b>4.9%</b>	<b>(0.6)%</b>
Other income, net	0.3%	0.1%	0.3%	0.2%
<b>Income/(loss) before income taxes</b>	<b>8.2%</b>	<b>(0.8)%</b>	<b>5.2%</b>	<b>(0.4)%</b>
Income tax expense/(benefit)	2.1%	(0.3)%	1.3%	(0.1)%
<b>Net income/(loss)</b>	<b>6.2%</b>	<b>(0.4)%</b>	<b>3.9%</b>	<b>(0.3)%</b>

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

	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
<b>Operating Data:</b>				
Stores operating at end of period	226	221	226	221
Comparable store sales change (1)	4.4%	2.1%	2.4%	1.4%
Total square feet at end of period (in thousands)	1,698	1,690	1,698	1,690
Average net sales per retail store (in thousands) (2)	\$ 616	\$ 549	\$ 1,109	\$ 1,020
Average net sales per square foot (2)	\$ 82	\$ 72	\$ 147	\$ 133
E-commerce revenues (in thousands) (3)	\$ 19,672	\$ 16,853	\$ 34,805	\$ 33,105
E-commerce revenues as a percentage of net sales	12.5%	12.1%	12.4%	12.7%

(1) Comparable store sales are net sales from stores that have been open at least 12 full fiscal months as of the end of the current reporting period. A remodeled or relocated 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% and the store was not closed for more than five days in any fiscal month. Comparable store sales include sales through our e-commerce platform but exclude gift card breakage income, deferred revenue on loyalty program and e-commerce shipping and handling fee revenue.

(2) E-commerce sales, e-commerce shipping and handling fee revenue and gift card breakage are excluded from net sales in deriving average net sales per retail store.

(3) E-commerce revenues include e-commerce sales and e-commerce shipping fee revenue.

## Second Quarter Ended August 4, 2018 Compared to Second Quarter Ended July 29, 2017

### Net Sales

Net sales were \$157.4 million in the second quarter of fiscal 2018 compared to \$138.8 million in the second quarter of fiscal 2017, an increase of \$18.6 million, or 13.4%. Approximately \$12.3 million of this increase was attributable to the calendar shift impact of the 53rd week in fiscal 2017's retail calendar, which caused a portion of the back-to-school season to shift into the second quarter this year versus the third quarter last year. The remaining \$6.3 million of this increase was due to higher comparable store sales and net sales from five net new stores. Comparable store sales, including e-commerce, increased 4.4%, driven by an increase in store traffic as compared to the second quarter of fiscal 2017. E-commerce revenues represented 12.5% of our total net sales, or \$19.7 million, in the second quarter of fiscal 2018 compared to 12.1%, or \$16.9 million, in the second quarter of fiscal 2017. Our comparable store sales growth was primarily attributable to strength in our footwear, girls, womens, mens, and accessories merchandise assortments, partially offset by weakness in our boys assortment which was down less than 1%.

### Gross Profit

Gross profit was \$50.1 million in the second quarter of fiscal 2018 compared to \$40.9 million in the second quarter of fiscal 2017, an increase of \$9.2 million, or 22.5%. Gross margin, or gross profit as a percentage of net sales, was 31.8% during the second quarter of fiscal 2018, an improvement of 230 basis points compared to 29.5% during the second quarter of fiscal 2017. The 230 basis point improvement in gross margin was primarily attributable to leveraging lower total occupancy costs on higher total net sales. Product margins were approximately flat.

### Selling, General and Administrative Expenses

SG&A expenses were \$37.6 million in the second quarter of fiscal 2018 compared to \$42.2 million in the second quarter of fiscal 2017, a decrease of \$4.5 million, or 10.7%. As a percentage of net sales, SG&A expenses were 23.9% for the second quarter of fiscal 2018, an improvement of 650 basis points compared to 30.4% during the second quarter of fiscal 2017. 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
(5.4)%	\$(7.6)	Aggregate reduction in legal matter impacts as a result of the \$6.2 million loss provision established in the second quarter of fiscal 2017, which was subsequently reduced by \$1.5 million during the second quarter of 2018 as a result of the court-approved terms of the final settlement of such legal matter.
(0.9)%	1.8	The percentage decrease was primarily attributable to a decrease in corporate and store payroll and benefits expenses as a percentage of net sales. The dollar increase was primarily attributable to higher sales volume, minimum wage increases in certain jurisdictions and the opening of five net new stores and corporate bonus provision increases due to improved year-over-year operations.
(0.2)%	1.3	The percentage decrease was attributable to a net decrease in all other SG&A expenses as a percentage of net sales. The dollar increase was primarily attributable to an increase in marketing spend due to a portion of the back-to-school season falling into the second quarter of fiscal 2018 versus the third quarter in fiscal 2017.
<b>(6.5)%</b>	<b>\$(4.5)</b>	<b>Total</b>

### Operating Income/(Loss)

Operating income was \$12.5 million, or 7.9% of net sales, in the second quarter of fiscal 2018 compared to an operating loss of \$(1.2) million, or (0.9)% of net sales, for the second quarter of fiscal 2017. Of this \$13.7 million improvement in year-over-year operating income, approximately \$7.6 million was attributable to the aggregate year-over-year impact of the legal matter noted above, approximately \$4.2 million was attributable to the retail calendar shift impact noted earlier, and approximately \$1.9 million was attributable to increased comparable store net sales results.

### Income Tax Expense/(Benefit)

Income tax expense was \$3.3 million in the second quarter of fiscal 2018 compared to an income tax benefit of \$(0.4) million in the second quarter of fiscal 2017. Our effective tax rate was 25.3% for the second quarter of fiscal 2018. Income tax expense/(benefit) includes discrete benefits related to stock grant activity for both periods. Income tax expense in the second quarter of fiscal 2018 also includes discrete tax benefits related to a tax method change which was impacted by the recently enacted U.S. Tax Cuts and Jobs Act of 2017.

*Net Income/(Loss) and Income/(Loss) Per Share*

Net income was \$9.7 million for the second quarter of fiscal 2018 compared to net loss of \$(0.6) million for the second quarter of fiscal 2017, representing an increase of \$10.3 million, attributable to the factors discussed above. Basic and diluted income per share was \$0.33 for the second quarter of fiscal 2018 compared to a loss per share of \$(0.02) for the second quarter of fiscal 2017.

*Six Months Ended August 4, 2018 Compared to Six Months Ended July 29, 2017**Net Sales*

Net sales were \$281.0 million in the first half of fiscal 2018 compared to \$259.8 million in the first half of fiscal 2017, an increase of \$21.3 million, or 8.2%. Approximately \$15.2 million of this increase was attributable to the calendar shift impact of the 53rd week in fiscal 2017's retail calendar, which caused a portion of the back-to-school season to shift into the second quarter this year versus the third quarter last year. The remaining \$6.1 million of this increase was attributable to higher comparable store net sales and net sales from five net new stores. Comparable store sales, including e-commerce, increased 2.4%, driven by an increase in store traffic as compared to the first half of fiscal 2017. E-commerce revenues represented 12.4% of our total net sales, or \$34.8 million, in the first half of fiscal 2018 as compared to 12.7%, or \$33.1 million, in the first half of fiscal 2017. Our comparable store sales growth was primarily attributable to strength in our footwear, girls, mens, womens, and boys merchandise assortments, partially offset by weakness in our accessories assortment which was down less than 1%.

*Gross Profit*

Gross profit was \$85.1 million in the first half of fiscal 2018 compared to \$73.8 million in the first half of fiscal 2017, an increase of \$11.2 million, or 15.2%. Gross margin, or gross profit as a percentage of net sales, was 30.3% and 28.4% during the first half of fiscal 2018 and fiscal 2017, respectively. This 190 basis point improvement in gross margin was primarily attributable to leveraging lower total occupancy costs on higher total net sales. Product margins were flat.

*Selling, General and Administrative Expenses*

SG&A expenses were \$71.3 million in the first half of fiscal 2018 compared to \$75.4 million in the first half of fiscal 2017, a decrease of \$4.1 million, or 5.5%. As a percentage of net sales, SG&A expenses were 25.4% during the first half of fiscal 2018 and 29.0% during the first half of fiscal 2017. The components of the SG&A increase, both in terms of percentage of net sales and total dollars, were as follows:

%	\$ millions	Primarily Attributable to
(2.9)%	\$(7.6)	Aggregate reduction in legal matter impacts as a result of the \$6.2 million loss provision established in the second quarter of fiscal 2017, which was subsequently reduced by \$1.5 million during the second quarter of 2018 as a result of the court-approved terms of the final settlement of such legal matter.
(0.6)%	2.0	The percentage decrease was primarily attributable to a decrease in corporate and store payroll and benefits expenses as a percentage of net sales. The dollar increase was primarily attributable to higher sales volume, minimum wage increases in certain jurisdictions and the opening of five net new stores and corporate bonus provision increases due to improved year-over-year operations.
(0.1)%	1.5	The percentage decrease was attributable to a net decrease in all other SG&A expenses as a percentage of net sales. The dollar increase was primarily attributable to an increase in marketing spend due to a portion of the back-to-school season falling into the second quarter of fiscal 2018 versus the third quarter in fiscal 2017.
<b>(3.6)%</b>	<b>\$(4.1)</b>	<b>Total</b>

*Operating Income/(Loss)*

Operating income was \$13.8 million, or 4.9% of net sales, for the first half of fiscal 2018 compared to an operating loss of \$(1.6) million, or (0.6)% of net sales, for the first half of fiscal 2017. Of this \$15.4 million improvement in year-over-year operating income, approximately \$7.6 million was attributable to the aggregate year-over-year impact of the legal matter noted above, approximately \$5.2 million was attributable to the retail calendar shift impact noted earlier, and approximately \$2.6 million was attributable to increased comparable store net sales results.

### Income Tax Expense/(Benefit)

Income tax expense was \$3.8 million, or 25.7% of income before taxes, for the first half of fiscal 2018 compared to an income tax benefit of \$(0.4) million, or 33.2% of loss before taxes, for the first half of fiscal 2017. Income tax expense/(benefit) includes discrete benefits related to stock grant activity for both periods. Income tax expense for the first half of fiscal 2018 also includes discrete tax benefits related to a tax method change which was impacted by the recently enacted U.S. Tax Cuts and Jobs Act of 2017.

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

Net income was \$10.9 million for the first half of fiscal 2018 compared to a net loss of \$(0.8) million for the first half of fiscal 2017, due to the factors discussed above. Basic and diluted income per share was \$0.37 for the first half of fiscal 2018 compared to a loss of \$(0.03) for the first half of fiscal 2017.

### Liquidity and Capital Resources

Our primary cash needs are for merchandise inventories, payroll, store rent and capital expenditures. We have historically provided for these needs from internally generated cash flows. In addition, we have access to additional liquidity through a \$25.0 million revolving credit facility with Wells Fargo Bank, NA. We expect to continue to finance our operations from cash and marketable securities on hand as well as cash flows from operations without borrowing under our revolving credit facility over the next twelve months.

Working capital at August 4, 2018, was \$126.5 million compared to \$107.4 million at February 3, 2018, an increase of \$19.1 million. The changes in our working capital during the first half of fiscal 2018 were as follows:

\$ millions	Description
\$107.4	Working capital at February 3, 2018
6.8	Increase in receivables for credit cards, primarily due to a portion of the back-to-school season falling into the second quarter of fiscal 2018 versus the third quarter of fiscal 2017, and an increase in tenant allowances due to an increase in net new stores
3.7	Decrease in deferred revenue primarily due to the balance sheet implementation impacts of our adoption of ASC 606, <i>Revenue Recognition</i>
8.6	Net increase from changes in all other current assets and liabilities
<u>\$126.5</u>	<u>Working capital at August 4, 2018</u>

### Cash Flow Analysis

A summary of operating, investing and financing activities is shown in the following table (in thousands):

	Six Months Ended	
	August 4, 2018	July 29, 2017
Net cash provided by operating activities	\$ 21,950	\$ 2,868
Net cash used in investing activities	(1,812)	(17,770)
Net cash used in financing activities	(27,702)	(20,525)
Net decrease in cash and cash equivalents	<u>\$ (7,564)</u>	<u>\$ (35,427)</u>

### Net Cash Provided By Operating Activities

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

Net cash flows provided by operating activities were \$22.0 million during the first half of fiscal 2018 compared to \$2.9 million in the first half of fiscal 2017. The \$19.1 million increase in cash provided by operating activities was primarily due to higher net income and the timing of vendor payments.

### Net Cash Used In Investing Activities

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

Net cash used in investing activities was \$1.8 million during the first half of fiscal 2018 compared to \$17.8 million during the first half of fiscal 2017. Net cash used in investing activities in the first half of fiscal 2018 consisted of purchases of marketable securities of \$79.8 million and capital expenditures totaling \$6.7 million, partially offset by proceeds from the



maturities of marketable securities of \$84.7 million. Net cash used in investing activities during the first half of fiscal 2017 consisted of purchases of marketable securities of \$62.9 million and capital expenditures totaling \$7.0 million, partially offset by proceeds from the maturities of marketable securities of \$52.1 million.

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

Financing activities primarily consist of cash dividend payments, taxes paid in lieu of shares issued for share based compensation, proceeds from employee exercises of stock options and payments on a capital lease obligation.

Net cash used in financing activities was \$27.7 million during the first half of fiscal 2018 compared to \$20.5 million during the first half of fiscal 2017. Financing activities in the first half of fiscal 2018 primarily consisted of dividends paid of \$29.1 million, and taxes paid in lieu of shares issued for share based compensation of \$0.1 million, partially offset by \$1.5 million in proceeds from stock option exercises. Financing activities in the first half of fiscal 2017 primarily consisted of dividends paid of \$20.1 million, cash payments on a capital lease obligation of \$0.4 million and taxes paid in lieu of shares issued for share based compensation of \$0.1 million, partially offset by \$0.1 million in proceeds from stock option exercises.

#### **Line of Credit**

Our amended and restated credit agreement with Wells Fargo Bank, N.A. (the "Bank") provides for a \$25.0 million revolving line of credit with a maturity date of June 26, 2020. The interest rate charged on borrowings is selected at our discretion at the time of draw between the London Interbank Offered Rate, plus 0.75%, or at the Bank's prime rate. The agreement allows for the declaration and payment of dividends or distributions to stockholders, subject to certain limitations. On February 20, 2018 and February 24, 2017, we paid a special cash dividend of \$1.00 per share and \$0.70 per share, respectively, to all holders of record of issued and outstanding shares of both Class A and Class B common stock. The line of credit is secured by substantially all of our assets. As a sub-feature under the credit agreement, the Bank may also issue stand-by and/or commercial letters of credit up to \$15.0 million.

We are required to maintain certain financial and non-financial covenants in accordance with the line of credit. The financial covenants require certain levels of leverage and profitability, such as (i) income before income taxes not to be less than \$1.0 million (calculated at the end of each fiscal quarter on a trailing 12-month basis), (ii) a maximum ratio of 4.00 to 1.00 as of each quarter end for "Funded Debt to EBITDAR", defined as the sum of total debt, capital leases and annual rent expense multiplied by six divided by the sum of net income, interest expense, taxes, depreciation, amortization and annual rent expense on a trailing 12-month basis, and (iii) requires minimum eligible inventory, cash, cash equivalents and marketable securities totaling \$50.0 million as of the end of each quarter. In addition, maximum investment in fixed assets in any fiscal year of \$50.0 million.

In September 2016, we established a \$750,000 standby letter of credit as security against insurance claims as required by our workers' compensation insurance policy. There has been no activity under this letter of credit since its inception.

As of August 4, 2018, we were in compliance with all of our covenants and had no outstanding borrowings under the revolving credit facility.

#### **Contractual Obligations**

As of August 4, 2018, 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 February 3, 2018.

#### **Off-Balance Sheet Arrangements**

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

#### **Critical Accounting Policies and Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires the appropriate application of certain accounting policies, some of which require us to make estimates and assumptions about future events and their impact on amounts reported in our consolidated financial statements. Since future events and their impact cannot be determined with absolute certainty, the actual results will inevitably differ from our estimates. 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 February 3, 2018.

On February 4, 2018, we adopted new revenue recognition policies based on new revenue recognition requirements. The adoption impacted our critical accounting policies as follows:

- Breakage revenue is now recognized over time in proportion to actual customer redemptions. Breakage revenue was previously recognized two full fiscal years after the gift cards were activated when the probability of redemption was considered remote.
- Revenue for merchandise shipped to the customer from a distribution center or store is now recognized at the shipping point, whereas it was previously recognized upon customer receipt.

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

As of August 4, 2018, there were no material changes in the market risks described in the “Quantitative and Qualitative Disclosure of Market Risks” section of our Annual Report on Form 10-K for the fiscal year ended February 3, 2018.

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

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

Our management, with the participation of our Disclosure Committee, including our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of August 4, 2018. 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 August 4, 2018, 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

From time to time, we may become involved in lawsuits and other claims arising from our ordinary course of business. We have established loss provisions of approximately \$4.7 million 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. We have defended this case vigorously, and will continue to do so.

*Lauren Minniti, on behalf of herself and all others similarly situated, v. Tilly's, Inc., United States District Court, Southern District of Florida, Case No. 0:17-cv-60237-FAM.* On January 30, 2017, the plaintiff filed a putative class action lawsuit against us, alleging violations of the Telephone Consumer Protection Act of 1991 (the "TCPA"). Specifically, the complaint asserted a violation of the TCPA for allegedly sending unsolicited automated messages to the cellular telephones of the plaintiff and others. The complaint sought class certification and damages of \$500 per violation plus treble damages under the TCPA. In March 2017, we filed our initial response to this matter with the court. In June 2017, the parties attended a mediation. In July 2017, the parties reached an agreement in principle to settle this matter, subject to court approval, and we recorded an estimated loss provision of \$6.2 million in connection with the proposed settlement during the second quarter of fiscal 2017. In March 2018, the parties executed a settlement agreement, subject to final court approval. In April 2018, the court preliminarily approved the settlement agreement and certified a class for settlement purposes. In May 2018, the class members were sent notice of the settlement and in August 2018, the court granted final approval of the settlement. As a result, we recorded a \$1.5 million reduction in our original accrual estimate to reflect the actual required cash payments to be made as part of this settlement. Additionally, we are required to issue non-transferable discount coupons to approximately 612,000 existing Tilly's customers not covered by the cash payments in early September 2018. These coupons entitle the recipient to a one-time 50% discount on a single purchase transaction of up to \$1,000. Any unused coupons will expire upon the one year anniversary of the date of issuance. We cannot reasonably estimate the number of coupons that will be utilized, the timing of any coupon usage, the average transaction value utilizing these coupons, or the potential impact of their usage on our reported comparable store net sales, product margins and earnings per share over the course of the next twelve months, but the potential impact could be material and adverse. In particular, we generally expect that the usage of these coupons will have a positive impact on our comparable store net sales, and a negative impact on our product margins, although we cannot reasonably estimate the magnitude of such impacts. The potential impact on our operating income will depend on a variety of factors that cannot be reasonably estimated at this time, including but not limited to the factors described above.

*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 Tilly's and dismissed the complaint. Specifically, the court agreed with us that the plaintiff's cause of action for reporting-time pay fails as a matter of law as the plaintiff and other putative class members did not "report for work" with respect to certain shifts on which the plaintiff's claims are based. In November 2016, the court entered a written order sustaining our demurrer to the plaintiff's complaint and dismissing all of plaintiff's causes of action with prejudice. In January 2017, the plaintiff filed an appeal of the order to the California Court of Appeal. In October 2017, the plaintiff filed her opening appellate brief, and our responding appellate brief was filed in December 2017. In May 2018, the plaintiff filed her reply appellate brief. Later in May 2018, an amicus brief was filed by Abercrombie & Fitch Stores, Inc., in support of Tilly's position in this appeal. Oral arguments have been scheduled by the court for November 2018. We have defended this case vigorously, and will continue to do so.

In June 2015, we and one of our vendors entered into a settlement arrangement with a plaintiff who filed a copyright infringement lawsuit against the vendor and us related to certain vendor products we sell. The settlement required that the vendor pay \$2.0 million to the plaintiff over three years, and we agreed to guarantee such payments in exchange for a security interest in the vendor's intellectual property. We concluded this matter with the final settlement payment on June 5, 2018. The total settlement amount paid by us was not materially different from the amount previously accrued.

#### 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. For a detailed discussion of the risks that affect our business, please refer to the section entitled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended February 3, 2018, which is supplemented by the additional risk factor set forth below. Other than as provided below, there have been no material changes to our risk factors as previously disclosed in our Annual Report on Form 10-K.

##### Risks Related to Our Business

**In connection with a recently finalized settlement agreement, we were required to issue certain discount coupons to certain of our existing customers, which could materially and adversely affect our financial condition and results of operations.**

Pursuant to the settlement terms of a recently finalized and previously disclosed legal matter, *Lauren Minniti, on behalf of herself and all others similarly situated, v. Tilly's, Inc.*, we are required to issue certain non-transferable discount coupons to approximately 612,000 existing Tillys customers in early September 2018 that allow for a one-time 50% discount on a single, future purchase transaction of up to \$1,000. Any unused coupons will expire upon the one year anniversary of the date of issuance. We cannot reasonably estimate the number of coupons that will be utilized, the timing of any coupon usage, the average transaction value of any future purchase transactions utilizing these coupons, or the potential impact of any future coupon usage on our reported sales, product margins or operating results, but the potential impact over the course of the next twelve months could be material and could adversely affect our financial condition and results of operations.

#### Item 6. Exhibits

Exhibit No.	Description of Exhibit
<a href="#">10.1*</a>	<a href="#">Settlement Agreement, effective as of August 7, 2018, by and between Lauren Minniti, on behalf of herself and a settlement class of similarly-situated persons, and Tilly's, Inc.</a>
<a href="#">31.1*</a>	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.</a>
<a href="#">31.2*</a>	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.</a>
<a href="#">32.1**</a>	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101	Interactive data files from Tilly's, Inc.'s Quarterly Report on Form 10-Q for the quarter ended August 4, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive Income/(Loss); (iv) the Consolidated Statement of Stockholders' Equity; (v) the Consolidated Statements of Cash Flows and (vi) Notes to Consolidated Financial Statements.
*	Filed herewith
**	Furnished herewith and not "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

**SIGNATURES**

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

Date: August 30, 2018

**Tilly's, Inc.**

/s/ Edmond Thomas

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Edmond Thomas

*President, Chief Executive Officer and Director  
(Principal Executive Officer)*

Date: August 30, 2018

/s/ Michael Henry

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Michael Henry

*Chief Financial Officer  
(Principal Financial Officer)*

## SETTLEMENT AGREEMENT

This Settlement Agreement (“Agreement” or “Settlement Agreement”) is entered into between Lauren Minniti (“Named Plaintiff” or “Plaintiff” or “Minniti”), on behalf of herself and a settlement class of similarly-situated persons (identified herein as the “Settlement Class”), and Tilly’s, Inc. (“Defendant” or “Tilly’s”). The Parties to this Agreement are collectively referred to as the “Parties.” This Agreement is entered into on March 14 , 2018.

**WHEREAS**, Named Plaintiff and Defendant are Parties to a civil action entitled *Lauren Minniti v. Tilly’s, Inc.*, Case No. 17-CH-926, pending in the Circuit Court of the 19th Judicial District, Lake County, Illinois (the “Litigation”); and

**WHEREAS**, Named Plaintiff alleges on behalf of herself and a putative class that Defendant violated the federal Telephone Consumer Protection Act (“TCPA”), 47 U.S.C. § 227, and FCC regulations by sending unsolicited automated text messages to the cellular telephone number of Named Plaintiff and the putative class members without prior express consent; and

**WHEREAS**, Defendant denies any and all liability for the claims made in the Litigation; and

**WHEREAS**, Named Plaintiff’s attorneys have investigated the relevant facts and researched the law relating to the Litigation, determining, among other things, that Defendant sent approximately 615,593 text messages on or about November 30, 2016 to unique cellular telephone numbers of persons who enrolled for an account with Tilly’s; and

**WHEREAS**, the approximately 615,593 text messages were sent to persons who had previously provided their cell phone numbers to Defendant when they opened Tilly’s accounts either in person at a Tilly’s store or on Tilly’s website; and

**WHEREAS**, Tilly's does not admit or concede any wrongdoing or liability, and it is entering into this Settlement Agreement solely to avoid the inconvenience and expense of further litigation that Defendant has agreed to settle all claims, demands, and liabilities that have been asserted, or could have been asserted, in the Litigation; and

**WHEREAS**, Named Plaintiff and Counsel for the putative class have concluded that the terms and conditions provided in this Agreement are fair, reasonable, adequate, and in the best interests of the Settlement Class as a means of resolving this Litigation, after considering

(1) the benefits the Settlement Class will receive under this Settlement, (2) the fact that Defendant has demonstrated that it will vigorously oppose the claims asserted in the Litigation if the Settlement is not approved, and (3) the attendant risks, costs, uncertainties, and delays of litigation; and

**WHEREAS**, the terms and conditions set forth in the Settlement Agreement were negotiated among the Parties in good faith and at arm's length; and

**WHEREAS**, the Parties stipulate and agree that the claims of Named Plaintiff and the Settlement Class should be and are hereby compromised and settled, subject to the Court's approval, upon the following terms and conditions:

**Section 1. Whereas Clauses.**

The above Whereas clauses are incorporated herein and made a part hereof.

**Section 2. Definitions.**

As used herein, the following terms have the meanings set forth below.

2.1 "Administrator" or "Settlement Administrator" means a third-party agent or administrator selected by the Named Plaintiff and approved by the Defendant (which approval shall not be unreasonably withheld) to help implement and effectuate the terms of this Settlement Agreement.





2.2 “Attorneys’ Fees and Expenses” means such funds as may be awarded to Class Counsel to compensate them for their fees and all expenses incurred by Plaintiff or Class Counsel in connection with the Litigation.

2.3 “Cash Option” means the \$25.00 Cash Settlement Payment that a Settlement Class Member may opt for as his or her remedy provided that the Settlement Class Member first chooses not to use the Voucher Payment as the Settlement Class Member’s remedy.

2.4 “Cash Settlement Check” means the check containing the Class Settlement Relief for each Settlement Class Member who submits a valid and timely Claim and elects the Cash Option.

2.5 “Cash Settlement Payment” means the \$25.00 payment to be made to Settlement Class Members who submit properly completed and timely Claim Forms to the Settlement Administrator pursuant to the Claim Form Instructions, who qualify for such relief under this Settlement Agreement, and who elect the Cash Option.

2.6 “Claim” means a written request for a Cash Settlement Payment submitted by a Settlement Class Member to the Settlement Administrator, pursuant to the Claim Form and Claim Form Instructions in substantially the form of Exhibit B to this Agreement or as ultimately approved by the Court.

2.7 “Claim Form” means the form attached as part of Exhibit B to this Agreement and/or as ultimately approved by the Court.

2.8 “Claim Form Instructions” means the instructions to complete the Claim Form, which are attached as part of Exhibit B to this Agreement.

2.9 “Class Counsel” means Brian J. Wanca of the law firm of Anderson + Wanca.

2.10 “Class Notice” or “Notice” means the program of notice described in this Agreement to be provided to Settlement Class Members, including the Email Notice and Settlement Website, which will notify Settlement Class Members, among other things, about their right to Class Settlement Relief, about their right to complete a Claim Form to be eligible for a Cash Settlement Payment, the amount of any Cash Settlement Payment, the right to opt out and object to the Settlement, the Class Settlement Relief options (the Cash Option or Voucher Payment), the preliminary approval of the Settlement, and the scheduling of the Final Approval Hearing.

2.11 The “Class Notice Date” shall be the last date upon which Class Notice can be disseminated.

2.12 “Class Settlement Relief” means all relief provided in this Agreement to the Settlement Class Members by Tilly’s providing, among other things, all Settlement Class Members a Voucher Payment with the option for the Settlement Class Members to reject the Voucher Payment and file a Claim for the Cash Option.

2.13 “Court” means the 19th Judicial District, Lake County, Illinois.

2.14 “Days” means calendar days, except that, when computing any period of time prescribed or allowed by this Agreement, the day of the act, event, or default from which the designated period of time begins to run shall not be included. Further, when computing any period of time prescribed or allowed by this Agreement, the last day of the period so computed shall be included, unless it is a Saturday, a Sunday, or a federal legal holiday, in which event the period runs until the end of the next business day which is not a Saturday, Sunday, or federal legal holiday.

2.15 “Email Notice” means the notice that is emailed by the Settlement Administrator to Settlement Class Members, in substantially the form attached as Exhibit B to this Agreement and/or as ultimately approved by the Court.

2.16 “Final Approval” means the entry of the Final Approval Order and Judgment approving the Settlement after the Final Approval Hearing is conducted.

2.17 “Final Approval Date” means the date on which the Judgment in this case becomes final. If there are intervenors or objectors and no appeal has been taken from the Judgment, the Final Approval Date means the date on which the time to appeal has expired. If any appeal has been taken from the Judgment, the Final Approval Date means the date on which all appeals, including petitions for rehearing, petitions for rehearing en banc, and petitions for certiorari or any other form of review, have been finally disposed of in a manner that affirms the Judgment.

2.18 “Final Approval Hearing” means the hearing held by the Court to determine whether the terms of this Agreement are fair, reasonable, and adequate for the Settlement Class as a whole, whether the Settlement should be granted final approval, and whether the Judgment should be entered.

2.19 “Final Approval Order” means the Order in substantially similar form as Exhibit C and providing for, among other things, final approval of the Settlement Agreement as fair, reasonable, and adequate.

2.20 “Incentive Award” means compensation for the Plaintiff in the Litigation for her time and effort undertaken in the Litigation.

2.21 “Judgment” means the Final Approval Order and Judgment to be entered by the Court pursuant to the Settlement and in substantially similar form as Exhibit C.

2.22 “Named Plaintiff” or “Plaintiff” or “Minniti” means Lauren Minniti.

2.23 “Objection Deadline” means the date identified in the Preliminary Approval Order and Class Notice by which a Settlement Class Member must serve written objections, if any, to the Settlement in accordance with this Agreement to be able to object to the Settlement. The Objection Deadline shall be forty-five (45) days after the Class Notice Date.

2.24 “Opt-Out Deadline” means the date identified in the Preliminary Approval Order and Class Notice by which a Request for Exclusion must be served in writing on the Settlement Administrator in accordance with this Agreement in order for a Settlement Class Member to be excluded from the Settlement Class. The Opt-Out Deadline shall be forty-five (45) days after the Class Notice Date.

2.25 “Parties” means Plaintiff and Defendant.

2.26 “Preliminary Approval Motion” means Plaintiff’s motion for the Court to preliminarily approve the Settlement Agreement and to enter the Preliminary Approval Order, including all exhibits and documents attached thereto.

2.27 “Preliminary Approval Order” means the order in substantially similar form as Exhibit A and providing for, among other things, preliminary approval of the Settlement Agreement as fair, reasonable, and adequate; and preliminary certification of the Settlement Class for Settlement purposes only.

2.28 “Protective Order” means the agreed confidentiality agreement and Order governing the exchange of confidential information entered by the Court on January 18, 2018.

2.29 “Release” or “Releases” means the releases of all Released Claims by the Releasing Persons against the Released Persons, as provided for in this Settlement Agreement.

2.30 “Released Claims” means all claims, actions, causes of action, suits, debts, sums of money, payments, obligations, defenses, reckonings, promises, damages, penalties, attorney’s fees and costs, liens, judgments, demands, and any other forms of liability released pursuant to this Settlement Agreement.

2.31 “Released Persons” means: (a) Tilly’s and its respective past or present divisions, parents, employees, officers, directors, agents, shareholders, predecessors, attorneys, and each of their respective past or present divisions, parents, employees, shareholders, predecessors, and all of the officers, directors, employees, agents, shareholders, and attorneys of all such entities; and (b) Oracle America, Inc., who acted on behalf of Tilly’s, or any of its respective past or present divisions, employees, officers, directors, predecessors, with respect to the processing and sending of the Text Messages.

2.32 “Releasing Persons” means Plaintiff, all Settlement Class Members who do not properly and timely opt out of the Settlement, and their respective heirs, executors, administrators, successors, and assigns.

2.33 “Request for Exclusion” means a written request from a Settlement Class Member that seeks to exclude the Settlement Class Member from the Settlement Class and that complies with all requirements in this Agreement.

2.34 “Settlement” means all of the settlement terms and conditions set forth in this Agreement.

2.35 “Settlement Class” or “Class” means all members of the class of allegedly aggrieved persons in the Litigation that will be certified by the Court for Settlement purposes. The Settlement Class shall consist of the approximately 615,593 persons who on or about

November 30, 2016 received a single text message from Defendant, or from any entity acting on Defendant's behalf, on his or her unique cellular telephone number.

2.36 "Settlement Class List" means the individuals who are members of the Settlement Class, along with their last known email address. The Settlement Class List consists of approximately 615,593 individuals, and shall be treated as Confidential Information under the Protective Order.

2.37 "Settlement Class Member" means any member of the Settlement Class.

2.38 "Settlement Class Payment List" means the list, which Tilly's shall have the right to review, identifying Settlement Class Members who have submitted Claims; whether the Claim was rejected or accepted, and if rejected, the reason it was rejected; the address to which the Cash Settlement Check shall be sent; and the total amount of Cash Settlement Payments to be made.

2.39 "Settlement Website" means the Internet site created by the Settlement Administrator pursuant to this Agreement to provide information about the Settlement.

2.40 "Settling Parties" means, collectively, Tilly's, Plaintiff, all Settlement Class Members, and all Releasing Persons.

2.41 "Text Messages" means the approximate 615,593 text messages sent by Tilly's, or by a person on Tilly's behalf, on or about November 30, 2016 and which were similar to the text message identified in Plaintiff's Complaint in the Litigation.

2.42 "Voucher Payment" means a voucher for a fifty percent (50%) discount for purchases at Tilly's of \$1,000.00 or less provided that such purchases are made in a single transaction and within one year (365 calendar days) of the voucher being sent to the



Settlement Class Members; one non-transferrable voucher will be provided to each Settlement Class Member.

**Section 3. For Settlement Purposes Only.**

This Agreement is entered into to resolve all disputes among Defendant, on the one hand, and Named Plaintiff and the Settlement Class on the other. The assertions, statements, agreements and representations made herein are for purposes of settlement only and the Parties expressly agree that, if the Settlement is not finally approved, this Agreement is null and void and may not be used by any of the Parties for any reason.

**Section 4. The Settlement Class.**

For purposes of Settlement only, the Parties agree to certify the following Settlement

Class:

The approximately 615,593 persons who on or about November 30, 2016 received a single text message from Defendant, or from any entity acting on Defendant's behalf, on his or her unique cellular telephone number.

Excluded from the Settlement Class are (a) Defendant and its present and former employees, officers, directors, shareholders, and its successors, assigns, and legal representatives; and (b) this Court and all Illinois state judges and officers of the Court. The Parties further agree that Named Plaintiff may be appointed as the "Class Representative" and that Brian J. Wanca of Anderson + Wanca may be appointed as "Class Counsel."

**Section 5. Preliminary Approval and Class Notice.**

5.1 Within seven (7) days of execution of this Agreement, Named Plaintiff will file a Preliminary Approval Motion for entry of a Preliminary Approval Order. Named Plaintiff will request that the Court enter a Preliminary Approval Order in the form attached hereto as Exhibit A. Named Plaintiff will request that the Court approve a Class Notice and Claim

Form in the form attached hereto as Exhibit B and request that the Court permit the Parties to send the Class Notice to the Settlement Class by electronic mail (“Email”) to the Settlement Class Members with a known Email address. The Class Notice will be sent via U.S. Mail to those members without a known Email address or to which the Email transmission failed provided that the Settlement Administrator can identify a mailing address for such Settlement Class Members. A Settlement Website will be set up for the Settlement Class Members to access the Settlement Agreement, including the Class Notice, Claim Form, and Claim Form Instructions.

5.2 Within three (3) days after the date of the Preliminary Approval Order, Tilly’s will provide to the Settlement Administrator the Settlement Class List in electronic format. The Settlement Class List provided by Tilly’s shall be designated as “Confidential” and subject to the agreed Protective Order. The Settlement Class List shall include the following data fields: (a) Settlement Class Member’s name, (b) the Settlement Class Member’s email address, and (c) the Settlement Class Member’s cellular telephone number.

**Section 6. The Class Settlement Relief.**

6.1 Within thirty (30) days of the date of the Final Approval Order, the Settlement Administrator will provide to each Settlement Class Member a Voucher Payment. The Voucher Payment will provide each Settlement Class Member with a fifty percent (50%) discount which may be used for a single transaction at Tilly’s for purchases not to exceed \$1,000.00 resulting in no more than a \$500.00 discount. The Voucher Payment will have no minimum purchase required. No Claim Form is necessary for Settlement Class Members who accept the Voucher Payment. The Voucher Payment shall be valid and redeemable for a time-period of one year (365 calendar days) from the date the Voucher Payment is sent by Email to the Settlement Class Members.



6.2 The Class Settlement Relief is the Voucher Payment by default unless a Settlement Class Member, upon receiving the Class Notice, elects the Cash Option by submitting a Claim as provided for in this Agreement. Any Settlement Class Member who submits a Claim for the Cash Option will not receive the Voucher Payment.

6.3 Settlement Class Members will have sixty (60) days from the Class Notice Date to reject the Voucher Payment and submit a Claim Form for the Cash Option. Claim Forms may be submitted via facsimile, U.S. Mail, or the Settlement Website. Settlement Class Members who elect the Cash Option instead of the Voucher Payment shall receive \$25.00 for each unique cellular telephone number that received the Text Message. Settlement Class Members shall not be entitled to both the Voucher Payment and the Cash Option.

6.4 Settlement Class Members who elect the Cash Option will be mailed their \$25.00 Cash Settlement Check thirty (30) days after Final Approval and will be informed that Cash Settlement Checks containing payments must be cashed within ninety (90) days of issuance or else the Cash Settlement Check will be void and they will have no further right or entitlement to any payment under the terms of this Settlement. Any money remaining from Cash Settlement Checks issued to claiming Settlement Class Members who fail to cash their Cash Settlement Check within ninety (90) days of issuance shall be paid as a *cy pres* award to Prairie State Legal Services, as approved by the Court.

**Section 7. The Settlement Administrator.**

Class-settlement.com (the “Settlement Administrator”) shall serve as the Settlement Administrator. The Settlement Administrator will send and administer the Class Notice, assist the class members in completing Claim Forms for the Cash Option if they reject Voucher Payment, receive the Claim Forms, track and provide Class Notice and Voucher Payments to Settlement Class Members, and provide a Settlement Class Payment List to



counsel for the Parties. Upon request, the Settlement Administrator will provide copies of all Claim Forms to counsel for the Parties. The Parties agree to cooperate in good faith regarding the resolution of any dispute over the validity or timeliness of any submitted Claim Forms.

The decisions of the Settlement Administrator with respect to Claims shall be final and binding. All fees and costs of the Settlement Administrator, including the costs associated with paying third parties to provide Notice to the Class, shall be paid by the Plaintiff.

**Section 8. Class Notice.**

The Parties will cause the Settlement Administrator to send the Class Notice by Email and via U.S. Mail to those Settlement Class Members without a known Email address or to which the Email transmission failed provided that the Settlement Administrator can identify a mailing address for such Settlement Class Members. The Class Notice will be sent within twenty-one (21) days of the date of the Preliminary Approval Order.

**Section 9. Final Approval.**

The Preliminary Approval Order will set a date for a Final Approval Hearing. At the Final Approval Hearing, the Parties will request that the Court enter the Final Approval Order and Judgment. The fact that the Court may require non-substantive changes in the Final Approval Order will not invalidate this Agreement. If the Court does not enter a Final Approval Order substantially in the form of Exhibit C or a modified version thereof which is acceptable to all Parties, which becomes a final and non-appealable order, then this Agreement shall be null and void.

**Section 10. Incentive Award, Attorneys' Fees and Expenses.**

10.1 As part of the Preliminary Approval Motion, the Named Plaintiff will request that the Court award her an Incentive Award of ten thousand dollars (\$10,000.00) for representing the Settlement Class, subject to the Court's approval.



10.2 Class Counsel, Anderson + Wanca, will request that the Court award it thirty percent (30%) of the cash value of the Settlement, or \$4,616,947.00, as Attorneys' Fees and Expenses, subject to the Court's approval. Any Attorneys' Fees and Expenses requested by Class Counsel shall not exceed \$4,616,947.00, which reflects approximately thirty percent (30%) of the cash value of the Class Settlement Relief. Tilly's agrees not to oppose or otherwise object to a motion or application for the award of Attorneys' Fees and Expenses, provided the Attorneys' Fees and Expenses requested do not exceed \$4,616,947.00. If, in approving the Settlement Agreement, Tilly's is ordered to pay more than \$4,616,947.00 in Attorneys' Fees and Expenses, Tilly's shall have an immediate right to terminate this Agreement and render it null and void.

10.3 The payment of the Incentive Award shall be made within twenty-one (21) days after the date of the Final Approval Order.

10.4 The payment of Attorneys' Fees and Expenses shall be made on January 7, 2019, or twenty-one (21) days after the date of the Final Approval Order, whichever is later. The awarded Attorneys' Fees and Expenses will be set forth in the Final Approval Order.

**Section 11. Effective Date.**

This Agreement shall not be effective until the Effective Date. "Effective Date" means the calendar date five (5) days after the later of (a) the date on which the Court enters the Final Approval Order dismissing with prejudice the claims of all Settlement Class Members (including Named Plaintiff) who do not properly opt out of the Settlement as provided in the Class Notice, or (b) if any Settlement Class Member objected to the Settlement, the date on which the date for filing an appeal has expired or, if there are appeals, the date on which the Final Approval Order and Judgment have been affirmed in all material



respects by the appellate court of last resort to which such appeals have been taken and such affirmances are no longer subject to further appeal or review.

**Section 12. Releases.**

12.1 Release as to Settlement Class Members. Upon the entry of the Final

Approval Order each member of the Settlement Class, other than Plaintiff, shall, by operation of the Judgment, be deemed to have fully, conclusively, irrevocably, forever, and finally released, relinquished, and discharged the Released Persons from any and all claims, actions, causes of action, suits, defenses, debts, sums of money, payments, obligations, promises, defenses, damages, penalties, attorney's fees and costs, liens, judgments, and demands of any kind whatsoever that each member of the Settlement Class may have on or before the entry of the Final Approval Order or may have had in the past, whether in arbitration, administrative, or judicial proceedings, whether as individual claims or as claims asserted on a class basis, whether past or present, mature or not yet mature, known or unknown, suspected or unsuspected, whether based on federal, state, or local law, statute, ordinance, regulations, contract, common law, or any other source, that were or could have been sought or alleged in the Litigation or that relate, concern, arise from, or pertain in any way to the sending of the Text Messages.

12.2 The Release in Section 12.1 shall include, but is not limited to, all claims related to the sending of the Text Messages and any claims for any attorneys' fees, costs, expenses, statutory or punitive damages, or expert fees in connection with or related in any manner to the Litigation.

12.3 Nothing in Section 12.1 shall be deemed a release of any Settlement Class Member's respective rights and obligations under this Agreement.

12.4 Released Claims of Plaintiff. Upon the entry of the Final Approval Order, Plaintiff, on behalf of herself, her heirs, guardians, assigns, executors, and administrators, hereby releases and discharges the Released Persons from any and all claims, actions, causes of action, suits, defenses, debts, sums of money, payments, obligations, promises, defenses, damages, penalties, attorney's fees and costs, liens, judgments, and demands of any kind whatsoever that Plaintiff may have on or before the entry of the Final Approval Order or may have had in the past, whether in arbitration, administrative, or judicial proceedings, whether as individual claims or as claims asserted on a class basis, whether past or present, mature or not yet mature, known or unknown, suspected or unsuspected, whether based on federal, state, or local law, statute, ordinance, regulations, contract, common law, or any other source, that were or could have been sought or alleged in the Litigation or that relate, concern, arise from, or pertain in any way to the Parties' conduct, transactions, and relationship prior to the entry of the Final Approval Order, including the sending of the Text Messages.

12.5 Nothing in Section 12.4 shall be deemed a release of Plaintiff's rights and obligations under this Agreement.

12.6 Plaintiff and Class Counsel further represent that there are no outstanding liens or claims against the Litigation, it being recognized that Plaintiff will solely be charged with the responsibility to satisfy any other liens or claims asserted in the Litigation.

12.7 Released Claims of Defendant. Defendant, for and in consideration of the terms and undertakings herein, the sufficiency and fairness of which are acknowledged, release and forever discharge the Named Plaintiff (and each of her present and former agents, assigns and attorneys) from any and all claims, demands, debts, liabilities, actions, causes of action of every kind and nature, obligations, damages, losses, and costs, whether known or



unknown, actual or potential, suspected or unsuspected, direct or indirect, contingent or fixed, that have been or could have been, that arise out of or relate to the sending of the Text Messages or Plaintiff's prosecution of this action.

12.8 Voluntary Release Of Unknown Claims. Plaintiff and each Settlement Class

Member recognize that, even if they may later discover facts in addition to or different from those which they now know or believe to be true, they nevertheless agree that, upon entry of the Judgment, they fully, finally, and forever settle and release any and all claims covered by these Releases. The Settling Parties, including all Settlement Class Members, acknowledge that the foregoing Releases were bargained for and are a material element of the Agreement.

12.9 Settlement Class Members Who Opt Out. This Agreement and the Releases

herein do not affect the rights of Settlement Class Members who timely and properly submit a Request for Exclusion from the Settlement in accordance with this Settlement Agreement.

12.10 Authority of Court. The administration and implementation of this Settlement

Agreement shall be under the authority of the Court. The Court shall retain jurisdiction to protect, preserve, and implement the Settlement Agreement, including, but not limited to, enforcement of the Releases contained in the Agreement. The Court expressly retains jurisdiction in order to enter such further orders as may be necessary or appropriate in administering and implementing the terms and provisions of the Settlement Agreement.

**Section 13. Settlement Class Enjoined.**

Upon the issuance of the Judgment, all Settlement Class Members who did not exclude themselves as required by the Class Notice (and any person or entity claiming by or through him, her, or it, as heir, administrator, devisee, predecessor, successor, attorney, representative of any kind, shareholder, partner, director or owner of any kind, affiliate, subrogee, assignee, or insurer) will be forever barred and permanently enjoined from directly,



indirectly, representatively or in any other capacity, filing, commencing, prosecuting, continuing, litigating, intervening in, participating in as class members or otherwise, or receiving any benefits or other relief from any other lawsuit, any other arbitration, or any other administrative, regulatory, or other proceeding against Defendant and Oracle America, Inc. (and each of their respective present and former employees, officers, directors, shareholders, and its successors, assigns, agents, and attorneys) about the Released Claims, and all persons and entities shall be forever barred and permanently enjoined from filing, commencing, or prosecuting any other lawsuit concerning the Text Messages against any person or entity including the Defendant (and including by seeking to amend a pending complaint to include class allegations or by seeking class certification in a pending action in any jurisdiction) on behalf of Settlement Class Members who have not timely opted-out from the Settlement Class if such other lawsuit is based on or arises from the Released Claims.

**Section 14. Cooperation.**

Named Plaintiff and Defendant agree to cooperate fully with one another to effect the consummation of this Agreement and to achieve the Settlement provided for herein.

**Section 15. Agreement Contingent Upon Entry of Final Approval.**

If the Court refuses to grant the Final Approval Order, or if the Court's Final Approval Order is reversed or materially modified on appeal, then this Agreement shall be null and void and neither the fact that this Agreement was made nor any stipulation, representation, agreement, or assertion made in this Agreement may be used against any Party.

**Section 16. Notices.**

All Notices (other than the Class Notice) required by the Agreement shall be made in writing and communicated by electronic mail and U.S. Mail to the following addresses:

All Notices to Plaintiff or the Settlement Class shall be sent to Class Counsel, c/o:

Brian J. Wanca Anderson + Wanca  
3701 Algonquin Road, Suite 500 Rolling Meadows, IL 60008  
Email: [bwanca@andersonwanca.com](mailto:bwanca@andersonwanca.com)

*Counsel for Named Plaintiff and Settlement Class*

All Notices to Tilly's shall be sent to Tilly's Counsel: Robert M. Brochin

Morgan, Lewis & Bockius LLP  
200 South Biscayne Boulevard, Suite 5300  
Miami, FL 33131-2339  
Telephone: (305) 415-3000  
Facsimile: (305) 415-3001  
Email: [bobby.brochin@morganlewis.com](mailto:bobby.brochin@morganlewis.com)

*Counsel for Tilly's, Inc.*

**Section 17. Opt Out of Settlement/Exclusion from Settlement.**

17.1 A Settlement Class Member who wishes to opt out of the Settlement Class must do so in writing. In order to opt out, a Settlement Class Member must send to the Settlement Administrator at the address listed in the Class Notice, a Request for Exclusion that is postmarked no later than the Opt-Out Deadline, as specified in the Class Notice (or as the Court otherwise requires). The Request for Exclusion must: (a) identify the case name; (b) identify the name, address, and cellular telephone number of the Settlement Class Member; (c) identify the cellular phone number to which the Text Message was sent; (d) be personally signed by the Settlement Class Member requesting exclusion; and (e) contain a statement that indicates a desire to be excluded from the Settlement Class in the Litigation to the effect of "I want to be excluded from the *Tilly's Settlement*" and the date.

17.2 Any Settlement Class Member who does not opt out of the Settlement in the manner described herein shall be deemed to be part of the Settlement Class and shall be bound by all subsequent proceedings, orders, and judgments.



17.3 Each Settlement Class Member may only submit a Request for Exclusion for himself or herself. No “mass” or “class” opt outs shall be allowed.

17.4 A Settlement Class Member who desires to opt out must take timely affirmative written action pursuant to this Section, even if the Settlement Class Member desiring to opt out of the Class (a) files or has filed a separate action against any of the Released Persons, or (b) is, or becomes, a putative class member in any other class action filed against any of the Released Persons.

17.5 Opt Outs Not Bound. Any Settlement Class Member who properly opts out of the Settlement Class as provided for in this Section shall not: (a) be bound by any orders or judgments relating to the Settlement; (b) be entitled to relief under, or be affected by, the Agreement; (c) gain any rights by virtue of the Agreement; or (d) be entitled to object to any aspect of the Settlement.

17.6 List Of Requests For Exclusion. Class Counsel shall provide Tilly’s Counsel with a list of all timely Requests for Exclusion fourteen (14) days before Final Approval Hearing.

17.7 Right To Terminate Based Upon Volume Of Opt Outs. If the number of Settlement Class Members who properly and timely exercise their right to opt out of the Settlement Class exceeds three percent (3%) of the total number of Settlement Class Members, the Settling Parties stipulate and agree that Tilly’s shall have the right, but not the obligation, to terminate this Agreement without penalty or sanction.

17.8 All Settlement Class Members Bound By Settlement. Except for those Settlement Class Members who timely and properly file a Request for Exclusion, all other

Settlement Class Members will be deemed to be Settlement Class Members for all purposes under the Agreement, and upon the Final Approval Date, will be bound by its terms.

**Section 18. Objection.**

Any Settlement Class Member may object to the terms of this Agreement in writing, by the Objection Deadline, as detailed in the Class Notice and Preliminary Approval Order. Any Settlement Class Member who exercises his or her right to object to this Agreement will be responsible for his or her own attorneys' fees and costs. Except as the Court may order otherwise, no Settlement Class Member objecting to the Settlement shall be heard and no papers, briefs, pleadings, or other documents submitted by any such Settlement Class Member shall be received and considered by the Court unless such Settlement Class Member shall both file with the Court and mail to Class Counsel and counsel for Defendant a written objection with the caption *Lauren Minniti v. Tilly's, Inc.*, No. 17-CH-926, that includes:

- (a) the Settlement Class Member's full name, current address, and cellular telephone number;
- (b) a signed declaration that he or she is a member of the Settlement Class; (c) the names of all attorneys that assisted the Settlement Class Member in preparing the objection; (d) a list of all other class action cases in which the Settlement Class Member or all attorneys assisting the Settlement Class Member in the preparation of the objection have filed objections to settlements; (e) the specific grounds for the objection; and (f) all documents, writings or evidence that such Settlement Class Member wants the Court to consider. All written objections shall be filed with the Court and postmarked no later than the Objection Deadline. Any member of the Settlement Class who fails to object in the manner prescribed herein shall be deemed to have waived his or her objections and forever be barred from making any such objections in this Litigation or in any other action or proceeding related to the Released Claims. Any member of the Settlement Class not otherwise excluded who objects in the



manner prescribed and whose objection is rejected by the Court remains a member of the Settlement Class and is bound by the terms and conditions of this Settlement Agreement.

**Section 19. Court Submission.**

Class Counsel will submit this Agreement and the Exhibits hereto, along with such other supporting papers as may be appropriate, to the Court for preliminary approval of this Agreement pursuant to 735 ILCS 5/2-801, *et seq.* If the Court declines to grant preliminary approval of this Agreement and to order notice of hearing with respect to the proposed Class, or if the Court declines to grant Final Approval to the foregoing after such notice and hearing, this Agreement will terminate as soon as the Court enters an order unconditionally and finally adjudicating that this Agreement and Settlement will not be approved.

**Section 20. Integration Clause.**

This Agreement contains the full, complete, and integrated statement of each and every term and provision agreed to by and among the Parties and supersedes any prior writings or agreements (written or oral) between or among the Parties, which prior agreements may no longer be relied upon for any purpose. This Agreement shall not be orally modified in any respect and can be modified only by the written agreement of the Parties supported by acknowledged written consideration.

**Section 21. Headings.**

Headings contained in this Agreement are for convenience of reference only and are not intended to alter or vary the construction and meaning of this Agreement.

**Section 22. Binding and Benefiting Others.**

This Agreement shall be binding upon and inure to the benefit or detriment of the Parties and the Settlement Class Members who do not opt out, and to their respective agents,

employees, representatives, officers, directors, shareholders, divisions, parent corporations, subsidiaries, heirs, executors, assigns, and successors in interest.

**Section 23. Representations and Warranties.**

The Parties each further represent, warrant, and agree that, in executing this Agreement, they do so with full knowledge of any and all rights that they may have with respect to the claims released in this Agreement and that they have received independent legal counsel from their attorneys with regard to the facts involved and the controversy herein compromised and with regard to their rights arising out of such facts. Each of the individuals executing this Agreement warrants that he or she has the authority to enter into this Agreement and to legally bind the party for which he or she is signing.

**Section 24. Governing Law.**

The contractual terms of this Agreement shall be interpreted and enforced in accordance with the substantive law of the State of Illinois, without regard to its conflict of laws and/or choice of law provisions.

**Section 25. Mutual Interpretation.**

The Parties agree and stipulate that this Agreement was negotiated on an arm's-length basis between Parties of equal bargaining power. Also, Class Counsel and counsel for Defendant have drafted the Agreement jointly. Accordingly, no ambiguity shall be construed in favor of or against any of the Parties. Named Plaintiff acknowledges, but does not concede or agree with, Defendant's statements regarding the merits of the claims, and Defendant acknowledges, but does not concede to or agree with, Named Plaintiff's statements regarding the merits of the claims.

**Section 26. Counterparts.**

This Agreement may be executed in counterparts, each of which shall be deemed to be an original, and such counterparts together shall constitute one and the same instrument.

Facsimile and scanned signatures shall bind the Parties to this Agreement as though they are original signatures.

**Section 27. Severability.**

In the event any one or more of the provisions contained in this Agreement shall for any reason be held invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions if the Parties and their counsel mutually elect by written stipulation to be filed with the Court within twenty-one (21) days to proceed as if such invalid, illegal, or unenforceable provisions had never been included in this Agreement.

**Section 28. Continuing Jurisdiction.**

Without affecting the finality of the final Judgment, the Court shall retain continuing jurisdiction over the Litigation and the Parties, including all members of the Settlement Class, the administration and enforcement of this Agreement and the Settlement, and the benefits to the Settlement Class hereunder, including, for such purposes as supervising the implementation, enforcement, construction, and interpretation of this Agreement, the order preliminarily approving the Settlement, the Final Approval Order and final Judgment, hearing and determining an application by Class Counsel for an award of fees and expenses, and the distribution of Settlement proceeds to the Settlement Class. Any dispute or controversies arising with respect to the interpretation, enforcement, or implementation of the Agreement shall be presented by motion to the Court.

**[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK]**

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed on the date set forth beside their respective signatures.

DATED: March 14, 2018

**PLAINTIFF**

LAUREN MINNITI, On behalf of herself and the Settlement Class  
/s/ Lauren Minniti

DATED: March 14, 2018

**DEFENDANT**

TILLY'S, INC.  
By: /s/ Mike Henry  
Its: CFO

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

I, Edmond Thomas, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tilly's, Inc. for the quarter ended August 4, 2018;
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: August 30, 2018

/s/ Edmond Thomas

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Edmond Thomas

*President, Chief Executive Officer and Director*



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

I, Michael Henry, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tilly's, Inc. for the quarter ended August 4, 2018;
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: August 30, 2018

/s/ Michael Henry

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Michael Henry

*Chief Financial Officer*

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

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended August 4, 2018 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: August 30, 2018

/s/ Edmond Thomas

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Edmond Thomas

*President, Chief Executive Officer and Director*

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended August 4, 2018 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: August 30, 2018

/s/ Michael Henry

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Michael Henry

*Chief Financial Officer*

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