

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

FORM 10-Q

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

For the quarterly period ended April 28, 2012

OR

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

For the transition period from to
Commission file number: 001-35535

TILLY'S, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

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

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 or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (do not check if a smaller reporting company) Smaller reporting company

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

As of May 31, 2012, the registrant had the following shares of common stock outstanding:

| | |
|--|------------|
| Class A common stock \$0.001 par value | 9,220,644 |
| Class B common stock \$0.001 par value | 18,400,000 |

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TILLY'S, INC.
FORM 10-Q
For the Quarter Ended April 28, 2012
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Part I. Financial Information**Item 1. Financial Statements (Unaudited)****WORLD OF JEANS & TOPS dba TILLY'S
BALANCE SHEETS**

(In thousands, except per share data)

(Unaudited)

| | April 28, 2012 | January 28, 2012 |
|---|-------------------|---------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 21,716 | \$ 25,091 |
| Receivables | 8,444 | 6,605 |
| Merchandise inventories | 40,267 | 36,531 |
| Prepaid expenses and other current assets | 5,536 | 5,616 |
| Total current assets | 75,963 | 73,843 |
| Property and equipment, net | 65,719 | 64,077 |
| Other assets | 3,481 | 2,899 |
| Total assets | <u>\$145,163</u> | <u>\$140,819</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 17,517 | \$ 16,830 |
| Deferred revenue | 3,884 | 4,865 |
| Accrued compensation and benefits | 4,864 | 7,536 |
| Accrued expenses | 10,993 | 12,935 |
| Current portion of deferred rent | 3,632 | 3,335 |
| Current portion of capital lease obligation/Related party (Note 8) | 679 | 669 |
| Total current liabilities | 41,569 | 46,170 |
| Long-term portion of deferred rent | 33,720 | 30,256 |
| Long-term portion of capital lease obligation/Related party (Note 8) | 3,796 | 3,969 |
| Total long-term liabilities | 37,516 | 34,225 |
| Total liabilities | 79,085 | 80,395 |
| Commitments and contingencies (Note 6) | | |
| Shareholders' equity: | | |
| Common stock, \$0.001 par value; 21,600 shares authorized, 20,000 shares issued and outstanding | 20 | 20 |
| Additional paid-in capital | 150 | 150 |
| Retained earnings | 65,908 | 60,254 |
| Total shareholders' equity | 66,078 | 60,424 |
| Total liabilities and shareholders' equity | <u>\$145,163</u> | <u>\$140,819</u> |

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

WORLD OF JEANS & TOPS dba TILLY'S
STATEMENTS OF OPERATIONS AND COMPREHENSIVE OPERATIONS
(In thousands, except per share data)
(Unaudited)

| | <u>Thirteen Weeks Ended</u> | |
|---|---------------------------------|---------------------------------|
| | <u>April 28,</u> <u>2012</u> | <u>April 30,</u> <u>2011</u> |
| Net sales | \$96,524 | \$ 83,131 |
| Cost of goods sold (includes buying, distribution, and occupancy costs) | 66,106 | 56,922 |
| Gross profit | 30,418 | 26,209 |
| Selling, general and administrative expenses | 24,392 | 21,244 |
| Operating income | 6,026 | 4,965 |
| Interest expense, net | 44 | 49 |
| Income before provision for income taxes | 5,982 | 4,916 |
| Provision for income taxes | 68 | 56 |
| Net income | <u>\$ 5,914</u> | <u>\$ 4,860</u> |
| Basic income per common share | \$ 0.30 | \$ 0.24 |
| Diluted income per common share | \$ 0.29 | \$ 0.24 |
| Weighted average basic common shares outstanding | 20,000 | 20,000 |
| Weighted average diluted common shares outstanding | 20,512 | 20,440 |
| Pro forma income information (Note 1): | | |
| Historical income before provision for income taxes | \$ 5,982 | \$ 4,916 |
| Pro forma provision for income taxes | 2,393 | 1,966 |
| Pro forma net income | <u>\$ 3,589</u> | <u>\$ 2,950</u> |
| Pro forma basic income per common share | \$ 0.18 | \$ 0.15 |
| Pro forma diluted income per common share | \$ 0.18 | \$ 0.14 |

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

WORLD OF JEANS & TOPS dba TILLY'S
STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

| | Thirteen Weeks Ended | |
|---|----------------------|-------------------|
| | April 28, 2012 | April 30, 2011 |
| Cash flows from operating activities | | |
| Net income | \$ 5,914 | \$ 4,860 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 3,904 | 3,718 |
| (Gain) loss on disposal of assets | (115) | 19 |
| Changes in operating assets and liabilities: | | |
| Receivables | (2,489) | (1,609) |
| Merchandise inventories | (3,599) | (2,128) |
| Prepaid expenses and other assets | (502) | (489) |
| Accounts payable | 687 | 1,616 |
| Accrued expenses | 22 | (3,117) |
| Accrued compensation and benefits | (2,672) | 911 |
| Deferred rent | 3,761 | 1,443 |
| Deferred revenue | (981) | (807) |
| Net cash provided by operating activities | <u>3,930</u> | <u>4,417</u> |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (7,523) | (3,001) |
| Insurance proceeds from casualty loss | 641 | — |
| Proceeds from disposal of property and equipment | — | 18 |
| Net cash used in investing activities | <u>(6,882)</u> | <u>(2,983)</u> |
| Cash flows from financing activities | | |
| Payment of capital lease obligation | (163) | (153) |
| Distributions | (260) | (1,849) |
| Net cash used in financing activities | <u>(423)</u> | <u>(2,002)</u> |
| Change in cash and cash equivalents | (3,375) | (568) |
| Cash and cash equivalents, beginning of period | <u>25,091</u> | <u>29,338</u> |
| Cash and cash equivalents, end of period | <u>\$21,716</u> | <u>\$28,770</u> |
| Supplemental disclosures of cash flow information | | |
| Interest paid | \$ 75 | \$ 81 |
| Income taxes paid | \$ 7 | \$ 21 |
| Supplemental disclosure of non-cash activities | | |
| Unpaid purchases of property and equipment | \$ 243 | \$ 296 |

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

WORLD OF JEANS & TOPS dba TILLY'S
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

1. Description of the Company and Basis of Presentation

World of Jeans & Tops dba Tilly's ("WOJT" or the "Company") operates a chain of specialty retail stores featuring casual clothing, footwear and accessories for teens and young adults. The Company operated a total of 145 and 140 stores as of April 28, 2012 and January 28, 2012, respectively. The stores are located in malls, lifestyle centers, 'power' centers, community centers, outlet centers and street-front locations. Customers may also shop online, where the Company features a similar assortment of product as is carried in its brick-and-mortar stores.

The accompanying unaudited financial statements include the assets, liabilities, revenues and expenses of the Company. These financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP") have been omitted from this report 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 of the Company for the interim periods presented. The results of operations for the thirteen weeks ended April 28, 2012 and April 30, 2011 are not necessarily indicative of results to be expected for the full fiscal year. These interim consolidated financial statements should be read in conjunction with the financial statements and notes included in the Company's Registration Statement on Form S-1, as amended (Registration No. 333-175299), which was declared effective on May 3, 2012.

Fiscal Periods

The Company's fiscal year ends on the Saturday closest to January 31. References to the fiscal quarters ended April 28, 2012 and April 30, 2011 refer to the thirteen-week periods ended as of those dates.

Reorganization and Initial Public Offering

On May 2, 2012, all four shareholders of WOJT contributed all of their equity interests in WOJT to Tilly's, Inc. in exchange for shares of Tilly's, Inc. Class B common stock on a one-for-one basis. In addition, WOJT terminated its "S" Corporation status and became a "C" Corporation. These events are collectively referred to as the "Reorganization." As a result of the Reorganization, WOJT became a wholly owned subsidiary of Tilly's, Inc.

On May 3, 2012, Tilly's, Inc. completed its initial public offering ("IPO") in which it issued and sold 7,600,000 shares of its Class A common stock and certain selling stockholders sold 400,000 shares of Class A common stock. In addition, on May 9, 2012, the underwriters

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exercised their option to purchase an additional 1,200,000 shares of Class A common stock from the selling stockholders to cover over-allotments. As a result, the total IPO size was 9,200,000 shares of Class A common stock, which consisted of 7,600,000 shares sold by Tilly's, Inc. and 1,600,000 shares sold by the selling stockholders. The 9,200,000 shares of Class A common stock sold in the offering were sold at a price of \$15.50 per share. Tilly's, Inc. did not receive any proceeds from the sale of shares by the selling stockholders.

These financial statements, including share and per share amounts, do not include the effect of the Reorganization or the IPO as these were completed subsequent to April 28, 2012. See Note 9 for more information relating to the Reorganization and the IPO.

Unaudited Pro Forma Income Information

The unaudited pro forma income information gives effect to the conversion of the Company to a "C" Corporation on May 2, 2012. Prior to such conversion, the Company was an "S" Corporation and generally not subject to income taxes. The pro forma net income and per share amounts, therefore, includes an adjustment for income tax expense as if the Company had been a "C" Corporation during the periods presented at an assumed combined federal, state and local effective tax rate of 40%, which approximates the calculated statutory tax rate for each period. In addition, the unaudited pro forma diluted weighted average shares outstanding was computed using the assumed 40% effective tax rate. As a result, the pro forma adjustment to diluted weighted average shares outstanding for the thirteen weeks ended April 28, 2012 is a reduction of approximately 68,000 shares.

2. Summary of Significant Accounting Policies

Information regarding significant accounting policies is contained in Note 2, "Summary of Significant Accounting Policies", of the financial statements of the Company's Registration Statement on Form S-1, as amended (File No. 333-175299). Presented below in the following notes is supplemental information that should be read in conjunction with "Notes to Financial Statements".

Deferred Offering Costs

Deferred offering costs of \$2.1 million and \$1.5 million are included in other assets on the Company's balance sheets as of April 28, 2012 and January 28, 2012, respectively. Upon consummation of the IPO, these costs were offset against the proceeds of the offering.

Income Taxes

The Company calculates its interim income tax provision in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 270, *Interim Reporting* and ASC Topic 740, *Accounting for Income Taxes* ("ASC 740"). At the end of each interim period, the Company estimates the annual effective tax rate and applies that rate to its ordinary quarterly earnings. The tax expense or benefit related to significant, unusual or extraordinary items is recognized in the interim period in which those items occur. In addition,

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the effect of changes in enacted tax laws, rates or tax status is recognized in the interim period in which the change occurs. The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment including the expected operating income for the year, permanent and temporary differences as a result of differences between amounts measured and recognized in accordance with tax laws and financial accounting standards and the likelihood of recovering deferred tax assets generated in the current fiscal year. The accounting estimates used to compute the provision for income taxes may change as new events occur, additional information is obtained or as the tax environment changes.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, management evaluates its estimates and judgments, including those related to inventory valuation, property and equipment, recoverability of long-lived assets, income taxes and stock-based compensation.

Recent Accounting Pronouncements

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220)-Presentation of Comprehensive Income*, (“ASU 2011-05”) which requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders’ equity. ASU 2011-05 is effective for interim and annual reporting periods beginning after December 15, 2011, with early adoption permitted. The Company adopted ASU 2011-05 in the three months ended April 28, 2012. As ASU 2011-05 only amends the presentation of the components of comprehensive income, the adoption did not have an impact on the Company’s financial position, results of operations or cash flows.

3. Financial Instruments

ASC Topic 820, *Fair Value Measurements and Disclosure*, (“ASC 820”) defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined under ASC 820 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. ASC 820 established the following three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value:

- *Level 1* – Quoted prices in active markets for identical assets and liabilities. The Company had money market securities within cash and cash equivalents totaling \$18.0 million and \$23.0 million at April 28, 2012 and January 28, 2012, respectively. These

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money market securities are reported at fair value utilizing Level 1 inputs, as quoted current market prices are readily available.

- *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.

The Company has no other financial instruments that would be considered significant for fair value measurement purposes.

4. Income Taxes

The Company has elected to be taxed under the provisions of subchapter “S” of the Internal Revenue Code for federal and state income tax purposes. Under these provisions, the Company is generally not subject to corporate level income taxes on its taxable income. However, the company is subject to a 1.5% California franchise tax. As an “S” Corporation, the shareholders are liable for federal and state income taxes on their share of the Company’s taxable income. The provision for income tax in the current period consists primarily of the California franchise tax. The Company generally distributes funds necessary to satisfy the shareholders’ personal income tax liabilities associated with their share of the company’s taxable income.

The Company recognizes income tax liabilities related to unrecognized tax benefits in accordance with ASC 740 and adjusts these liabilities when its judgment changes as the result of the evaluation of new information. As of April 28, 2012, there were no material unrecognized tax benefits and the Company does not anticipate that there will be a material change in the balance of the unrecognized tax benefits within the next 12 months. The Company recognizes penalties and interest related to unrecognized tax benefits as income tax expense.

As discussed in Notes 1 and 9, on May 2, 2012, the Company terminated its “S” Corporation status and became a “C” Corporation as part of the Reorganization.

5. Stock-Based Compensation

The Company accounts for stock-based compensation under the fair-value recognition provisions of ASC Topic 718, *Compensation-Stock Compensation*. Under these provisions, for its awards of stock options, the Company recognizes stock-based compensation expense in an amount equal to the fair market value of the underlying stock on the grant date of the respective award. This expense, net of estimated forfeitures, is recognized over the requisite service period. For stock options granted prior to the Company’s IPO, the awards contained a performance condition wherein, if they were vested, they only became exercisable upon the consummation of

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an IPO of Tilly's, Inc.'s common stock. Therefore, no stock-based compensation expense was recognized by the Company prior to the consummation of the IPO (see Note 9).

6. Commitments and Contingencies

The Company is subject to various claims and contingencies arising in the normal course of business, including those relating to product liability, legal, employee benefit, environmental and other matters. Management believes that the likelihood is remote that any of these claims will have a material effect on the Company's financial condition as of April 28, 2012 or its results of operations or cash flows for the periods presented.

Legal Proceedings

In October 2011, a putative class action, *Deborah Lyddy v. World of Jeans & Tops and Tilly's, Inc.* (37-2011-00098812-CU-BT-CTL) was filed against the Company in the Superior Court of the State of California for the County of San Diego, alleging various causes of action based on the Company's California gift card redemption policies.

From time to time, the Company becomes involved in lawsuits and other claims arising from its ordinary course of business. Because of the uncertainties related to the incurrence, amount and range of loss on any pending litigation or claim, management is currently unable to predict the ultimate outcome of any litigation or claim, determine whether a liability has been incurred or make an estimate of the reasonably possible liability that could result from an unfavorable outcome. Management believes, after considering a number of factors and the nature of any outstanding litigation or claims, that the outcome will not have a material effect upon the Company's results of operations, financial condition or cash flows. However, because of the unpredictable nature of these matters, the Company cannot provide any assurances regarding the outcome of any litigation or claim to which it is a party or the impact on it of an adverse ruling in such matters.

7. Net Income Per Share

Net income per share is computed under the provisions of ASC Topic 260, *Earnings Per Share*. Basic net income per share is based on the weighted average number of common shares outstanding for the period. Diluted net income per share is based on the weighted average number of common shares and potentially dilutive common share equivalents outstanding for the period. Dilutive common share equivalents include shares issuable upon an assumed exercise of outstanding stock options using the "treasury stock" method, whereby proceeds from such exercise and unamortized compensation on share-based awards are assumed to be used by the Company to purchase the common shares at the average market price during the period. The components of basic and diluted net income per share are as follows (in thousands, except per share amounts):

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| | Thirteen Weeks Ended | |
|--|----------------------|-------------------|
| | April 28, 2012 | April 30, 2011 |
| <i>Numerator:</i> | | |
| Net income | \$ 5,914 | \$ 4,860 |
| <i>Denominator:</i> | | |
| Weighted average number of common shares (basic) | 20,000 | 20,000 |
| Dilutive effect of stock-based awards | 512 | 440 |
| Weighted average number of common shares (diluted) | 20,512 | 20,440 |
| <i>Earnings per share:</i> | | |
| Basic | \$ 0.30 | \$ 0.24 |
| Diluted | \$ 0.29 | \$ 0.24 |

8. Related Parties

The Company leases its corporate headquarters and distribution center (10 and 12 Whatney, Irvine, California) from a company that is owned by the co-founders of WOJT. This lease expires on December 31, 2012, with multiple options to renew thereafter. The land component of this lease is accounted for as an operating lease and the building component is accounted for as a capital lease. The Company incurred rent expense of \$0.2 million for both of the thirteen weeks ended April 28, 2012 and April 30, 2011 for the operating component of this lease. The initial obligation at inception under the capital lease was \$9.2 million, with an outstanding balance of \$4.5 million and \$4.6 million as of April 28, 2012 and January 28, 2012, respectively. The gross amount of the building under capital lease was \$7.8 million as of both April 28, 2012 and January 28, 2012. The gross amount of accumulated depreciation of the building under capital lease was \$4.9 million and \$4.7 million as of April 28, 2012 and January 28, 2012, respectively.

The Company leases warehouse space (15 Chrysler, Irvine, California) from a company that is owned by one of the co-founders of WOJT. The lease expires on October 31, 2014 and is being accounted for as an operating lease. The Company incurred rent expense of \$0.1 million for both of the thirteen weeks ended April 28, 2012 and April 30, 2011. The Company subleases part of the building to an unrelated third party. The sublease terminates on May 31, 2014.

The Company leases office and warehouse space (11 Whatney, Irvine, California) from a company that is owned by one of the co-founders of WOJT. The lease is being accounted for as an operating lease. This building is currently being constructed by the landlord, and construction is expected to be completed during the first half of fiscal year 2012. The lease terminates ten years from the earlier of (i) the date the building is substantially completed or (ii) the date the Company can access the building and begin tenant improvements. The Company is not required to make lease payments until access to the building has been granted to begin tenant improvements and therefore, the Company did not incur any rent expense for this lease for either of the thirteen weeks ended April 28, 2012 or April 30, 2011.

The Company leases a building (17 Pasteur, Irvine, California) from a company that is owned by one of the co-founders of WOJT. The lease terminates on October 31, 2021 and is being accounted for as an operating lease. The Company intends to use this building at its e-

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commerce distribution center. Pursuant to the lease agreement, the Company has requested that the landlord expand the building, and the Company expects the expansion to be completed by the first half of fiscal year 2013. The Company is currently using this building for warehousing until the commencement of the expansion, at which point the Company will return the building to the landlord for the duration of the construction. The Company incurred rent expense of \$0.2 million for the thirteen weeks ended April 28, 2012 and incurred no rent expense for the thirteen weeks ended April 30, 2011 for this lease.

Prior to signing each of the related party leases above, the Company received an independent market analysis regarding the property and therefore believes that the terms of each lease are reasonable and are not materially different than terms the Company would have obtained from an unaffiliated third party.

9. Subsequent Events

As of April 28, 2012, the Company had capitalized \$2.1 million of offering costs associated with the IPO, which were recorded in other assets on its balance sheet. Upon the completion of the IPO, these offering costs, in addition to any offering costs incurred subsequent to April 28, 2012, were reclassified to additional paid-in capital and offset against the IPO proceeds.

On May 2, 2012, as part of the Reorganization, the Company's "S" Corporation status was terminated and the Company became subject to corporate-level federal and state income taxes at prevailing rates as a "C" Corporation. As a result of the conversion, the Company recorded an increase in current deferred tax assets of \$3.6 million, an increase in noncurrent deferred tax liabilities of \$0.6 million and a one-time deferred tax benefit of \$3.0 million. Also as part of the Reorganization, the Company issued notes totaling \$84.0 million to its then-current shareholders representing all of its undistributed taxable income from the date of its formation through the date of termination of its "S" Corporation status. As a result of the Reorganization, WOJT became a wholly owned subsidiary of Tilly's, Inc.

On May 3, 2012, Tilly's, Inc. completed its IPO in which it issued and sold 7,600,000 shares of its Class A common stock and certain selling stockholders sold 400,000 shares of Class A common stock. In addition, on May 9, 2012, the underwriters exercised their option to purchase an additional 1,200,000 shares of Class A common stock from certain selling stockholders to cover over-allotments. As a result, the total IPO size was 9,200,000 shares of Class A common stock, which consisted of 7,600,000 shares sold by Tilly's, Inc. and 1,600,000 shares sold by the selling stockholders. The 9,200,000 shares of Class A common stock in the offering were sold at a price of \$15.50 per share. Tilly's, Inc. did not receive any proceeds from the sale of shares by the selling stockholders.

On May 3, 2012, in connection with the completion of the IPO, the Company recognized \$7.6 million of stock-based compensation expense relating to stock options previously granted to employees and directors under the Tilly's 2007 Stock Option Plan (the "2007 Plan"). This amount represents the cumulative stock-based compensation expense from the inception of the 2007 Plan through the IPO date, as the Company had not previously recognized any stock-based compensation expense for these awards due to the performance condition wherein, if the stock

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options were vested, they would only become exercisable upon the consummation of the Company's IPO. In connection with the recognition of stock-based compensation, the Company recorded an increase in noncurrent deferred tax assets and income taxes payable of \$3.0 million.

On May 3, 2012, the Company amended its revolving credit facility agreement with Wells Fargo Bank, NA. The amended credit facility provides for a line of credit of \$25.0 million and matures on May 3, 2014. Interest charged on borrowings is either at the London Interbank Offered Rate ("LIBOR") plus 1.75%, or at the bank's prime rate. The Company has the ability to select between the prime or LIBOR-based rate at the time of a cash advance. Borrowing from the credit facility is secured by substantially all of the Company's assets. A sub-feature of the credit facility allows stand-by and commercial letters of credit up to \$15.0 million. The Company is required to maintain certain financial and nonfinancial covenants in accordance with the revolving credit facility. The financial covenants contain requirements for certain levels of liquidity and profitability, such as: (i) a minimum current asset to current liability ratio of 1.25 to 1.00, (ii) a net profit before tax of at least \$1, determined as of the end of each fiscal quarter on a cumulative rolling four-quarter basis, excluding a non-cash expense of up to a maximum of \$2.0 million for the write-off of impaired fixed assets for that period and (iii) a maximum ratio of 4.00 to 1.00 for "funded debt" to "EBITDAR", where "funded debt" includes credit facility borrowings, capital lease debt and eight times annual operating lease rent expense, and "EBITDAR" includes net income before interest, income taxes, depreciation, amortization and rent expense.

On May 4, 2012, Tilly's, Inc.'s board of directors granted stock options to employees to purchase a total of 650,500 shares of Class A common stock under the Tilly's 2012 Equity and Incentive Award Plan (the "2012 Plan"). The exercise price of these awards is equal to the IPO price of \$15.50 per share. The stock options vest in four equal annual installments beginning on May 4, 2013, provided that the respective award recipient continues to be employed by the Company through each of those dates. The grant date fair value of these awards totaled \$5.2 million. The Company is recognizing the expense relating to these awards, net of estimated forfeitures, on a straight-line basis over four years.

On May 4, 2012, the Tilly's, Inc.'s board of directors granted 5,161 restricted shares of Class A common stock to each of its four independent directors under the 2012 Plan. These shares vest in two equal annual installments beginning on May 4, 2013, provided that the respective award recipient continues to serve on Tilly's, Inc.'s board of directors through each of those dates. The grant date fair value of these awards totaled \$0.3 million. The Company is recognizing the expense relating to these awards on a straight line basis over two years.

On May 9, 2012, the Company used \$84.0 million of the net proceeds from the IPO to pay in full the principal amount of notes representing WOJT's undistributed taxable income. These notes were issued to the former shareholders of WOJT in connection with the Reorganization, as discussed above.

TILLY'S, INC.
STATEMENTS OF FINANCIAL POSITION
(Unaudited)

| | <u>April 28,</u> <u>2012</u> | <u>January 28,</u> <u>2012</u> |
|--|---------------------------------|-----------------------------------|
| Assets | | |
| Cash | \$ 1 | \$ 1 |
| Total assets | <u>\$ 1</u> | <u>\$ 1</u> |
| Stockholders' equity | | |
| Class A Common stock, \$0.001 par value; 100,000,000 shares authorized, 1,000 shares issued and outstanding | \$ 1 | \$ 1 |
| Class B Common Stock, \$0.001 par value; 35,000,000 shares authorized, no shares issued and outstanding | — | — |
| Preferred stock, \$0.001 par value; 10,000,000 shares authorized, no shares issued and outstanding | — | — |
| Total stockholders' equity | <u>\$ 1</u> | <u>\$ 1</u> |

The accompanying notes are an integral part of this financial statement.

TILLY'S, INC.
NOTES TO FINANCIAL STATEMENT
(Unaudited)

1. Description of the Company and Basis of Presentation

Tilly's, Inc. (the "Company") was formed as a Delaware corporation on May 4, 2011 and had no material assets or operations as of April 28, 2012.

The accompanying unaudited financial statement includes the assets of the Company. This financial statement has been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP") have been condensed or omitted from this report as is permitted by SEC rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading.

In the opinion of management, the accompanying unaudited financial statement contains all normal and recurring adjustments necessary to present fairly the financial condition of the Company as of April 28, 2012. The interim financial statement should be read in conjunction with the financial statements and notes included in the Company's Registration Statement on Form S-1, as amended (File No. 333-175299), which was declared effective on May 3, 2012.

2. Stockholders' Equity

As of April 28, 2012, the Company had 100,000,000 shares authorized and 1,000 shares issued and outstanding of Class A common stock with a par value of \$0.001 to one stockholder. As of April 28, 2012, the Company had 35,000,000 shares authorized and no shares issued of Class B common stock with a par value of \$0.001. As of April 28, 2012 the Company had 10,000,000 shares authorized and no shares issued of preferred stock with a par value of \$0.001.

3. Subsequent Events

On May 2, 2012, all four shareholders of World of Jeans & Tops contributed all of their equity interests in World of Jeans & Tops to Tilly's, Inc. in exchange for shares of Tilly's, Inc. Class B common stock on a one-for-one basis (collectively referred to as the "Reorganization"). In connection with the Reorganization, the Company repurchased 1,000 shares of its Class A common stock for \$0.001 per share from Hezy Shaked, which had been previously issued in connection with the formation and initial capitalization of the Company. As a result of the Reorganization, World of Jeans & Tops became a wholly owned subsidiary of Tilly's, Inc. Subsequent to the Reorganization, the only assets of Tilly's, Inc. are its investment in World of Jeans & Tops, and all of its operations are being conducted through World of Jeans & Tops.

On May 3, 2012, the Company completed its initial public offering ("IPO") in which it issued and sold 7,600,000 shares of Class A common stock and certain selling stockholders sold 400,000 shares of Class A common stock. In addition, on May 9, 2012, the underwriters

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exercised in full their option to purchase an additional 1,200,000 shares of Class A common stock from certain selling stockholders to cover over-allotments. As a result, the total IPO size was 9,200,000 shares of Class A common stock, which consisted of 7,600,000 shares sold by Tilly's and 1,600,000 shares sold by the selling stockholders. The 9,200,000 shares of Class A common stock in the offering were sold at a price of \$15.50 per share. The Company did not receive any proceeds from the sale of shares by the selling stockholders.

On May 4, 2012, the Company's board of directors granted stock options to employees to purchase a total of 650,500 shares of Class A common stock under the Tilly's 2012 Equity and Incentive Award Plan (the "2012 Plan"). The exercise price of these awards is equal to the Company's IPO price of \$15.50 per share. The stock options vest in four equal annual installments beginning on May 4, 2013, provided that the respective award recipient continues to be employed by the Company on each of those dates. The grant date fair value of these awards totaled \$5.2 million. World of Jeans & Tops is recognizing the expense relating to these awards, net of estimated forfeitures, on a straight-line basis over four years.

On May 4, 2012, the Company's board of directors granted 5,161 restricted shares of Class A common stock to each of its four independent directors under the 2012 Plan. These shares vest in two equal annual installments beginning on May 4, 2013, provided that the respective award recipient continues to serve on the Company's board of directors as of those dates. The grant date fair value of these awards totaled \$0.3 million. World of Jeans & Tops is recognizing the expense relating to these awards on a straight line basis, over two years.

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 World of Jeans & Tops dba Tilly's and Tilly's, Inc. included in Item 1 of this Quarterly Report on Form 10-Q and with our audited financial statements and the related notes included in our Registration Statement on Form S-1, as amended (File No. 333-175299), which was declared effective on May 3, 2012. As used in this Quarterly Report on Form 10-Q, except where the context otherwise requires or where otherwise indicated, the terms "company", "World of Jeans & Tops", "we", "our", "us" 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 (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (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 Registration Statement on Form S-1, as amended (File No. 333-175299), 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. 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

Tilly's is a fast-growing destination specialty retailer of West Coast inspired apparel, footwear and accessories. We believe we bring together an unparalleled selection of the most sought-after brands rooted in action sports, music, art and fashion. Our West Coast heritage dates back to 1982 when Hezy Shaked and Tilly Levine opened our first store in Orange County, California. As of April 28, 2012, we operated 145 stores, averaging 7,800 square feet, in 19 states. We also sell our products through our e-commerce website, www.tillys.com (the information available at our website address is not incorporated by reference into this report).

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Our growth and operating results reflect initiatives taken by our management team as well as our customers' increasing awareness of our brand and merchandise assortment as we have expanded our presence in both existing and new markets. We increased net sales \$13.4 million, or 16%, to \$96.5 million for the thirteen weeks ended April 28, 2012 from \$83.1 million for the thirteen weeks ended April 30, 2011. We increased operating income \$1.0 million, or 21%, to \$6.0 million for the thirteen weeks ended April 28, 2012 from nearly \$5.0 million for the thirteen weeks ended April 30, 2011. Our comparable store sales increased 4.3% for the thirteen weeks ended April 28, 2012, which followed a 10.7% increase for the full fiscal year 2011. Since the beginning of fiscal 2007, we more than doubled our store count from 61 stores to 145 stores as of April 28, 2012.

As of April 28, 2012, we have added five net new stores in fiscal year 2012 and plan to add at least 16 additional net stores by the end of the year. We plan to continue opening new stores at an annual rate of approximately 15% for the next several years thereafter. We expect to fund this store expansion through our cash on hand and cash flows from operations.

We believe our business strategy will continue to offer significant opportunity, but it also presents risks and challenges. These risks and challenges include, but are not limited to, that we may not be able to effectively identify and respond to changing fashion trends and customer preferences, that we may not be able to find desirable locations for new stores and that we may not be able to effectively manage our future growth. In addition, our financial results can be expected to be directly impacted by trends in the general economy. A decline in consumer spending or a substantial increase in product costs due to commodity cost increases or general inflation could lead to a reduction in our sales as well as greater margin pressure as costs may not be able to be passed on to consumers and the competitive environment could become more highly promotional. See "Risk Factors" in the company's Registration Statement on Form S-1, as amended (File No. 333-175299), for other important factors that could adversely impact us and our results of operations.

On May 2, 2012, all four shareholders of World of Jeans & Tops contributed all of their equity interests in World of Jeans & Tops to Tilly's, Inc. in exchange for shares of Tilly's, Inc. Class B common stock on a one-for-one basis. In addition, World of Jeans & Tops terminated its "S" Corporation status and became a "C" Corporation. These events are collectively referred to as the "Reorganization." As a result of the Reorganization, World of Jeans & Tops became a wholly owned subsidiary of Tilly's, Inc.

On May 3, 2012, we completed an initial public offering of common stock, or IPO, in which we issued and sold 7,600,000 shares of Class A common stock at a price of \$15.50 per share, less underwriting discounts and offering expenses payable by us, a portion of which was reimbursed by the underwriters. Certain of our stockholders also sold 1,600,000 shares of Class A common stock in the IPO at a price of \$15.50 per share. We did not receive any of the proceeds from the sale of stock by our stockholders. As a result of the IPO, Tilly's, Inc. received net proceeds of approximately \$107 million, after deducting the underwriting discount of \$8.7 million and related fees and expenses of approximately \$2.5 million. On May 9, 2012, we used \$84.0 million of the net proceeds from the offering to pay in full the principal amount of notes representing World of Jeans & Tops' undistributed taxable income. These notes were to the former shareholders of World of Jeans & Tops in connection with the Reorganization and all payments were made to trusts related to Hezy Shaked, Tilly Levine and their children.

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sale of shares by us for working capital and other general corporate purposes. The amounts and timing of any expenditures will vary depending on the amount of cash generated by our operations, competitive and technological developments and the rate of growth of our business.

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 store, which is reflected in sales when the merchandise is received by the customer. Net sales also include shipping and handling fees for e-commerce shipments that have been delivered 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. 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, over time, the redemption of some gift cards becomes remote (referred to as gift card breakage). Revenue from estimated gift card breakage 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

A store is included in comparable store sales when it has 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 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 store, but exclude 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 regarding our comparable store sales may not be comparable to similar data made available by other retailers.

Measuring the change in year-over-year comparable store sales allows us to evaluate how our store base is performing. Numerous factors affect our comparable store sales, including:

- overall economic trends;

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

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

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 expense for our internal buying organization. Distribution costs include all inbound freight costs as well as costs for receiving, processing, warehousing and shipping of merchandise to or from our distribution center, 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.

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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 categories such as between guys' and juniors' apparel, footwear or accessories. A substantial shift in the mix of products could have a material impact on our results of operations. In addition, gross profit and gross profit as a percent of sales have historically been higher in the third and fourth quarters of the fiscal year, as these periods include the back-to-school and winter holiday selling seasons. This reflects that various costs, including occupancy costs, generally do not increase in proportion to the seasonal sales increase.

Selling, General and Administrative Expenses

Our selling, general and administrative, or SG&A, expenses are comprised of store selling expenses and corporate-level general and administrative expenses. Store selling expenses include store and regional support costs, including personnel, advertising and debit and credit card processing costs, e-commerce 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 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.

The components of our SG&A expenses may not be comparable to those of other retailers. We expect that our SG&A expenses will increase in future periods due to our continuing store growth and in part due to additional legal, accounting, insurance and other expenses we expect to incur as a result of being a public company. Among other things, we expect that compliance with the Sarbanes-Oxley Act of 2002 and related rules and regulations will result in significant incremental legal, accounting and other overhead costs.

Our stock-based awards granted prior to our IPO contained a performance condition wherein, if they were vested, they only became exercisable upon the consummation of an IPO of our common stock. Therefore, no stock-based compensation expense was recognized by us prior to the consummation of its IPO. Accordingly, the Company recognized \$7.6 million of compensation expense relating to these awards on May 3, 2012, the date of our IPO.

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

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

| | Thirteen Weeks Ended | |
|--|----------------------|-------------------|
| | April 28, 2012 | April 30, 2011 |
| (in thousands) | | |
| Statements of Income Data: | | |
| Net sales | \$96,524 | \$ 83,131 |
| Cost of goods sold | 66,106 | 56,922 |
| Gross profit | 30,418 | 26,209 |
| Selling, general and administrative expenses | 24,392 | 21,244 |
| Operating income | 6,026 | 4,965 |
| Interest expense, net | 44 | 49 |
| Income before provision for income taxes | 5,982 | 4,916 |
| Provision for income taxes | 68 | 56 |
| Net income | <u>\$ 5,914</u> | <u>\$ 4,860</u> |
| Percentage of Net Sales: | | |
| Net sales | 100.0% | 100.0% |
| Cost of goods sold | 68.5% | 68.5% |
| Gross profit | 31.5% | 31.5% |
| Selling, general and administrative expenses | 25.3% | 25.5% |
| Operating income | 6.2% | 6.0% |
| Interest income (expense), net | 0.0% | 0.1% |
| Income before provision for income taxes | 6.2% | 5.9% |
| Provision for income taxes | 0.1% | 0.1% |
| Net income | <u>6.1%</u> | <u>5.8%</u> |
| Pro Forma Data (1): | | |
| Income before provision for income taxes | \$ 5,982 | \$ 4,916 |
| Pro forma provision for income taxes | 2,393 | 1,966 |
| Pro forma net income | <u>\$ 3,589</u> | <u>\$ 2,950</u> |

- (1) The pro forma data for both periods presented gives effect to an adjustment for income tax expense as if we had been a "C" Corporation at an assumed combined federal, state and local effective tax rate of 40%, which approximates our statutory income tax rate.

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

| | Thirteen Weeks Ended | |
|--|----------------------|-------------------|
| | April 28, 2012 | April 30, 2011 |
| Store Operating Data: | | |
| Stores operating at end of period | 145 | 126 |
| Comparable store sales change (1) | 4.3% | 18.2% |
| Total square feet at end of period | 1,133,566 | 977,164 |
| Average net sales per store (in thousands) (2) | \$ 605 | \$ 596 |
| Average net sales per square foot (2) | \$ 77 | \$ 77 |
| E-commerce revenues (in thousands) (3) | \$ 10,900 | \$ 8,300 |

- (1) E-commerce sales contributed 2.8% and 2.3% to the comparable store sales change for the thirteen week periods ended April 28, 2012 and April 30, 2011, respectively.
- (2) E-commerce sales, e-commerce shipping fee revenue and gift card breakage are excluded from net sales in deriving average net sales per store and average net sales per square foot.

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

Thirteen Weeks Ended April 28, 2012 Compared to Thirteen Weeks Ended April 30, 2011

Net Sales

Net sales increased \$13.4 million, or 16%, to \$96.5 million for the thirteen weeks ended April 28, 2012 from \$83.1 million for the thirteen weeks ended April 30, 2011. A portion of this increase was due to net sales of \$9.9 million from stores open in the first quarter of fiscal 2012 that were not open during the same period last year, as well as the increase in e-commerce shipping fees, due to the increase in e-commerce sales. Net sales also increased due to a comparable store net sales increase of 4.3%, or \$3.5 million, in the thirteen weeks ended April 28, 2012 compared to the thirteen weeks ended April 30, 2011. This increase was due to higher net sales of guys', juniors' and girls' apparel and accessories and footwear, offset by slightly lower net sales of boys' apparel. There were 123 comparable brick-and-mortar stores and 22 non-comparable brick-and-mortar stores open as of April 28, 2012.

Net sales from our e-commerce store, including shipping fees, increased \$2.6 million, or 31%, to \$10.9 million for the thirteen weeks ended April 28, 2012 from \$8.3 million for the thirteen weeks ended April 30, 2011.

Gross Profit

Gross profit increased \$4.2 million, or 16%, to \$30.4 million for the thirteen weeks ended April 28, 2012 from \$26.2 million for the thirteen weeks ended April 30, 2011. As a percentage of net sales, gross profit was 31.5% for both the thirteen weeks ended April 28, 2012 and April 30, 2011. A 0.5% increase in occupancy costs as a percentage of net sales was offset by 0.4% and 0.1% decreases in product costs and buying costs as a percentage of net sales, respectively.

Selling, General and Administrative Expenses

SG&A expenses increased \$3.2 million, or 15%, to \$24.4 million for the thirteen weeks ended April 28, 2012 from \$21.2 million for the thirteen weeks ended April 30, 2011. As a percentage of net sales, SG&A expenses were 25.3% and 25.5% for the thirteen weeks ended April 28, 2012 and April 30, 2011, respectively.

Store selling expenses increased \$2.1 million, or 15%, to \$16.2 million for the thirteen weeks ended April 28, 2012 from \$14.1 million for the thirteen weeks ended April 30, 2011. As a percentage of net sales, store selling expenses were 16.8% and 17.0% for the thirteen weeks ended April 28, 2012 and April 30, 2011, respectively.

The following contributed to the decrease in store selling expenses as a percentage of net sales:

- store and regional payroll, payroll benefits and related personnel costs increased \$1.4 million, which represents a decrease of 0.2% as a percentage of net sales, as these costs increased more slowly than sales;

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- marketing costs increased \$0.6 million, or 0.2% as a percentage of net sales, primarily resulting from increased distribution of catalog mailings, increased support of our e-commerce business and more new store grand openings than in the prior year;
- credit and debit card processing fees decreased \$0.1 million, or 0.4% as a percentage of net sales; and
- supplies and other support costs increased \$0.2 million, or 0.2% as a percentage of net sales.

General and administrative expenses increased \$1.1 million, or 15%, to \$8.2 million for the thirteen weeks ended April 28, 2012 from \$7.1 million for the thirteen weeks ended April 30, 2011. As a percentage of net sales, general and administrative expenses were 8.5% and 8.6% for the thirteen weeks ended April 28, 2012 and April 30, 2011, respectively.

The following contributed to the decrease in general and administrative expenses as a percentage of net sales:

- payroll, payroll benefits and related costs for corporate office personnel increased \$0.7 million, which represents a decrease of 0.2% as a percentage of net sales, as these costs increased more slowly than sales;
- depreciation, legal and other office expenses increased \$0.4 million, or 0.2% as a percentage of net sales; and
- a gain on the disposal of assets in the first quarter of fiscal 2012 of \$0.1 million, which represents a decrease of 0.1% as a percentage of net sales compared to the first quarter of fiscal 2011, relating to insurance proceeds received in excess of the book value in connection with assets destroyed as the result of a mall fire near one of our stores late in fiscal 2010.

Operating Income

Operating income increased \$1.0 million, or 21%, to \$6.0 million for the thirteen weeks ended April 28, 2012 from nearly \$5.0 million for the thirteen weeks ended April 30, 2011. As a percentage of net sales, operating income was 6.2% and 6.0% for the thirteen weeks ended April 28, 2012 and April 30, 2011, respectively. The increase in operating income as a percentage of net sales was mostly due to certain costs increasing more slowly than sales, as discussed above.

Interest Expense, Net

Net interest expense was \$44,000 and \$49,000 for the thirteen weeks ended April 28, 2012 and April 30, 2011, respectively. Net interest expense reflects interest paid on a capitalized lease of our corporate office and distribution center as well as costs related to maintaining our unused

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line of credit bank facility, net of interest income earned on cash balances and on tenant construction allowances due from landlords.

Provision for Income Taxes

Income taxes were \$68,000 and \$56,000 for the thirteen weeks ended April 28, 2012 and April 30, 2011, respectively. This reflects the \$1.1 million increase in income before provision for income taxes for the thirteen weeks ended April 28, 2012 as compared to the thirteen weeks ended April 30, 2011, as the effective tax rate was 1.14% in both periods.

Historically, World of Jeans & Tops recognized income taxes as an "S" Corporation for federal and state income tax purposes and therefore, with the exception of a limited number of state and local jurisdictions, it was not subject to income taxes. The shareholders of World of Jeans & Tops, and not World of Jeans & Tops itself, were subject to income tax on their distributive share of its earnings. In connection with the Reorganization, World of Jeans & Tops converted to a "C" Corporation. On a pro forma basis, if World of Jeans & Tops had been taxed as a "C" Corporation at an estimated 40% effective tax rate, income taxes would have increased to \$2.4 million for the thirteen weeks ended April 28, 2012 from \$2.0 million for the thirteen weeks ended April 30, 2011, an increase proportional to the increase in income before provision for income taxes.

Net Income

Net income increased \$1.1 million, or 22%, to \$5.9 million for the thirteen weeks ended April 28, 2012 from nearly \$4.9 million for the thirteen weeks ended April 30, 2011, due to the factors discussed above. Applying a pro forma 40% "C" Corporation effective tax rate to these thirteen week periods in both years, rather than the "S" Corporation tax rate that actually applied to us, pro forma net income increased \$0.6 million, or 22%, to \$3.6 million for the thirteen weeks ended April 28, 2012 from nearly \$3.0 million for the thirteen weeks ended April 30, 2011.

Basic income per common share increased 25%, to \$0.30 for the thirteen weeks ended April 28, 2012 from \$0.24 for the thirteen weeks ended April 30, 2011. Diluted income per common share increased 21%, to \$0.29 for the thirteen weeks ended April 28, 2012 from \$0.24 for the thirteen weeks ended April 30, 2011. Applying a pro forma 40% "C" Corporation effective tax rate to these thirteen week periods in both years, rather than the "S" Corporation tax rate that actually applied to us, pro forma basic income per common share increased 20%, to \$0.18 for the thirteen weeks ended April 28, 2012 from \$0.15 for the thirteen weeks ended April 30, 2011, and pro forma diluted income per common share increased 29%, to \$0.18 for the thirteen weeks ended April 28, 2012 from \$0.14 for the thirteen weeks ended April 30, 2011.

Liquidity and Capital Resources

General

Our business relies on cash flows from operating activities as well as cash on hand as our primary sources of liquidity. In addition, we have had access to additional liquidity through a

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\$15.0 million revolving credit facility with Wells Fargo Bank, NA. We have never drawn funds from or issued letters of credit financing from the revolving credit facility. Upon consummation of our IPO, we amended our existing facility with Wells Fargo Bank, NA to a \$25.0 million revolving credit facility. We do not expect to draw from the revolving credit facility over the next 12 months. We expect to finance company operations and store growth with existing cash on hand and net proceeds from the IPO.

Historically our primary cash needs have been for merchandise inventories, payroll, store rent, capital expenditures associated with opening new stores, improvements to our distribution facilities, marketing and information technology expenditures and shareholder distributions. In addition to cash and cash equivalents, the most significant components of our working capital are merchandise inventories, accounts payable and other current liabilities. We believe that cash flows from operating activities, the availability of cash under our anticipated revolving credit facility and net proceeds from this offering will be sufficient to cover working capital requirements and anticipated capital expenditures for the next 12 months. If cash flows from operations, borrowings under our existing or anticipated revolving credit facility and net proceeds from this offering are not sufficient or available to meet our capital requirements, then we will be required to obtain additional equity or debt financing in the future. There can be no assurance that equity or debt financing will be available to us when we need it or, if available, that the terms will be satisfactory to us and not dilutive to our then-current stockholders.

Cash Flow Analysis

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

| | Thirteen Weeks Ended | |
|---|----------------------|-------------------|
| | April 28, 2012 | April 30, 2011 |
| | (in thousands) | |
| Net cash provided by operating activities | \$ 3,930 | \$ 4,417 |
| Net cash used in investing activities | (6,882) | (2,983) |
| Net cash used in financing activities | (423) | (2,002) |

Net Cash Provided by Operating Activities

Operating activities consist primarily of net income adjusted for non-cash items that include depreciation and gains or losses on disposals of assets, plus the effect on changes during the period in our assets and liabilities.

We generated \$3.9 million of net cash from operating activities for the thirteen weeks ended April 28, 2012. The significant components of cash flows from operating activities were net income of \$5.9 million and the add-back of non-cash depreciation and amortization expense of \$3.9 million. In addition, deferred rent increased by \$3.8 million due to the opening of new stores. The above was offset by an increase in merchandise inventories of \$3.6 million due to the seasonality of inventory purchases, an increase in receivables of \$2.5 million due to the growth of the business and a decrease in accrued compensation and benefits of \$2.7 million due mainly

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to the payment of incentive bonuses during the first quarter of fiscal 2012 relating to the company's fiscal 2011 results.

We generated \$4.4 million of net cash from operating activities for the thirteen weeks ended April 30, 2011. The significant components of cash flows from operating activities were net income of \$4.9 million and the add-back of non-cash depreciation and amortization expense of \$3.7 million. In addition, deferred rent increased by \$1.4 million due to the opening of new stores during the period. The above was offset by an increase in merchandise inventories of \$2.1 million due to the seasonality of inventory purchases, an increase in receivables of \$1.6 million due to the growth of the business and a decrease in accounts payable and accrued expenses of \$1.5 million due to the timing of payments.

Net Cash Used in Investing Activities

Investing activities consist primarily of capital expenditures for growth related to new store openings as well as for remodels and changes in fixtures and equipment at existing stores, investments in information technology, distribution center enhancements, investments in assets at our corporate headquarters and the addition or replacement of company vehicles.

Net cash used in investing activities was \$6.9 million and \$3.0 million for the thirteen weeks ended April 28, 2012 and April 30, 2011, respectively. Capital expenditures related to stores represented the bulk of this spending. Spending on new stores and the remodeling or other improvements of existing stores were \$6.4 million and \$2.4 million for the thirteen weeks ended April 28, 2012 and April 30, 2011, respectively. The remaining capital expenditures in each period were primarily for our investment in information technology systems and distribution and corporate facility enhancements.

Net Cash Used in Financing Activities

Financing activities consist of distributions to the "S" Corporation shareholders of World of Jeans & Tops prior to the Reorganization and payments on our capital lease obligation.

Net cash used in financing activities was \$0.4 million and \$2.0 million for the thirteen weeks ended April 28, 2012 and April 30, 2011, respectively. This included \$0.3 million and \$1.8 million, respectively, in distributions to the then-current shareholders of World of Jeans & Tops.

Credit Agreement

On May 3, 2012, we entered into an amended and restated credit agreement with Wells Fargo Bank, N.A. The revolving credit facility provides for a \$25.0 million revolving credit facility with a maturity date of May 3, 2014. The interest charged is either at the London Interbank Offered Rate, or LIBOR, plus 1.75% or at the bank's prime rate. We have the ability to select between the prime or LIBOR-based rate at the time of a cash advance. The revolving credit facility is secured by substantially all of the Company's assets. As a sub-feature under the revolving credit facility the bank may issue stand-by and commercial letters of credit up to \$15.0 million. We are required to maintain certain financial and nonfinancial covenants in accordance

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with the revolving credit facility. These covenants include maintaining a minimum current ratio, not exceeding a maximum funded debt to earnings before interest, taxes, depreciation, amortization and annual rent expense (“EBITDAR”) ratio, capital expenditures not exceeding established limits and achieving a minimum pre-tax profit on a rolling four quarter basis.

Contractual Obligations

As of April 28, 2012, there were no material changes to our contractual obligations described in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of our Registration Statement on Form S-1, as amended (File No. 333-175299).

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 management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the related disclosures of contingent assets and liabilities at the date of the financial statements. A summary of the Company’s significant accounting policies is included in Note 2 to the financial statements of World of Jeans & Tops dba Tilly’s in the Company’s Registration Statement on Form S-1, as amended (File No. 333-175299).

Certain of the Company’s accounting policies and estimates are considered critical, as these policies and estimates are the most important to the depiction of the Company’s consolidated financial statements and require significant, difficult or complex judgments, often about the effect of matters that are inherently uncertain. Such policies are summarized in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of our Registration Statement on Form S-1, as amended (File No. 333-175299). As discussed in Note 1 to the World of Jeans & Tops dba Tilly’s financial statements in this report, on May 2, 2012, in conjunction with the conversion of World of Jeans & Tops from an “S” Corporation to a “C” Corporation for income tax purposes, we began recognizing income taxes as a “C” Corporation. As of the date of this filing, there were no other significant changes to any of the critical accounting policies and estimates described in the Registration Statement.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of April 28, 2012, there were no material changes in the market risks described in the “Quantitative and Qualitative Disclosure of Market Risks” section of our Registration Statement on Form S-1, as amended (File No. 333-175299).

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 April 28, 2012. 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 the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of April 28, 2012, 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

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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

In October 2011, a putative class action, *Deborah Lyddy v. World of Jeans & Tops and Tilly's, Inc.*, (37-2011-00098812-CU-BT-CTL) was filed against us in the Superior Court of the State of California for the County of San Diego, alleging various causes of action based on our California gift card redemption policies.

From time to time, we become involved in lawsuits and other claims arising from our ordinary course of business. Because of the uncertainties related to the incurrence, amount and range of loss on any pending litigation or claim, management is currently unable to predict the ultimate outcome of any litigation or claim, determine whether a liability has been incurred or make an estimate of the reasonably possible liability that could result from an unfavorable outcome. Management believes, after considering a number of factors and the nature of any outstanding litigation or claims, that the outcome will not have a material effect upon our results of operations, financial condition or cash flows. However, 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 the impact on us of an adverse ruling in such matters. Therefore, see the "Risk Factors—Litigation costs and the outcome of litigation could have a material adverse effect on our business" section of our Registration Statement on Form S-1, as amended (File No. 333-175299).

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 Registration Statement on Form S-1, as amended (File No. 333-175299). There have been no material changes to our risk factors as previously disclosed in our Registration Statement.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(b) Use of Proceeds

On May 3, 2012, our Registration Statement on Form S-1, as amended (File No. 333-175299), was declared effective, pursuant to which we registered the offering and sale of 7,600,000 shares of Class A common stock by Tilly's, Inc., the associated sale of 400,000 shares of Class A common stock by selling stockholders, and the sale pursuant to the underwriters' over-allotment option of an additional 1,200,000 shares of Class A common stock by selling stockholders, at a price of \$15.50 per share. On May 9, 2012, Tilly's, Inc. sold all 7,600,000 shares of Class A common stock for an aggregate offering price of \$117.8 million, the selling stockholders sold 1,600,000 shares of common stock, including 1,200,000 shares pursuant to the underwriters' over-allotment option, for an aggregate offering price of \$24.8 million, and the offering terminated. The underwriters were Goldman, Sachs & Co., Merrill Lynch, Pierce,

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Fenner & Smith, Incorporated, Piper Jaffray, William Blair & Company, L.L.C., and Stifel Nicolaus & Company, Incorporated.

As a result of the offering, Tilly's, Inc. received net proceeds of approximately \$107 million, after deducting the underwriting discount of \$8.7 million and related fees and expenses of approximately \$2.5 million. On May 9, 2012, we used \$84.0 million of the net proceeds from the offering to pay in full the principal amount of notes representing World of Jeans & Tops' undistributed taxable income. These notes were to the former shareholders of World of Jeans & Tops in connection with the Reorganization and all payments were made to trusts related to Hezy Shaked, Tilly Levine and their children.

With respect to the remaining \$23 million in net proceeds from the offering, there has been no material change in the planned use of such proceeds from our initial public offering as described in the final prospectus filed with the Securities and Exchange Commission pursuant to Rule 424(b) and dated May 3, 2012.

Item 6. Exhibits

| Exhibit No. | Description of Exhibit |
|--------------------|--|
| 10.1 | Amended and Restated Credit Agreement between World of Jeans & Tops and Wells Fargo Bank, NA dated as of May 3, 2012. |
| 10.2 | General Pledge Agreement between Tilly's, Inc. and Wells Fargo Bank, NA dated as of May 3, 2012. |
| 10.3 | Amended and Restated Security Agreement-Equipment, between World of Jeans & Tops and Wells Fargo Bank, NA dated as of May 3, 2012. |
| 10.4 | Amended and Restated Security Agreement-Rights to Payment and Inventory, between World of Jeans & Tops and Wells Fargo Bank, NA dated as of May 3, 2012. |
| 10.5 | Continuing Guaranty of Tilly's, Inc. with Wells Fargo Bank, NA dated as of May 3, 2012. |
| 10.6 | Revolving Credit Agreement Note from World of Jeans & Tops dated as of May 3, 2012. |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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101 The following materials from Tilly's, Inc.'s Quarterly Report on Form 10-Q for the quarter ended April 28, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) World of Jeans & Tops dba Tilly's Balance Sheets; (ii) World of Jeans & Tops dba Tilly's Statements of Operations; (iii) World of Jeans & Tops dba Tilly's Statements of Cash Flows; (iv) World of Jeans & Tops dba Tilly's Notes to Financial Statements, tagged as blocks of text; (v) Tilly's, Inc. Statement of Position and (vi) Tilly's, Inc. Notes to Financial Statement, tagged as blocks of text.*

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, and are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

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

Tilly's, Inc.

Date: June 11, 2012

/s/ Daniel Griesemer

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

Date: June 11, 2012

/s/ William Langsdorf

William Langsdorf
*Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)*

**AMENDED AND RESTATED
CREDIT AGREEMENT**

THIS AGREEMENT is entered into as of May 3, 2012, by and between WORLD OF JEANS & TOPS, a California corporation (“Borrower”), and WELLS FARGO BANK, NATIONAL ASSOCIATION (“Bank”).

RECITALS

Borrower and Bank are parties to that certain Credit Agreement dated as of May 1, 2003 (as amended to the date hereof, the “Existing Credit Agreement”), and Borrower and Bank desire to amend and restate the Existing Credit Agreement on the terms set forth herein.

Borrower has requested that Bank extend or continue credit to Borrower as described below, and Bank has agreed to provide such credit to Borrower on the terms and conditions contained herein.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Bank and Borrower hereby agree as follows:

ARTICLE I
CREDIT TERMS

SECTION 1.1. LINE OF CREDIT.

(a) Line of Credit. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make advances to Borrower from time to time up to and including May 3, 2014, not to exceed at any time the aggregate principal amount of Twenty Five Million Dollars (\$25,000,000.00) (“Line of Credit”), the proceeds of which shall be used to finance Borrower’s working capital requirements. Borrower’s obligation to repay advances under the Line of Credit shall be evidenced by a promissory note substantially in the form of Exhibit A attached hereto (“Line of Credit Note”), all terms of which are incorporated herein by this reference.

(b) Letter of Credit Subfeature. As a subfeature under the Line of Credit, Bank agrees from time to time during the term thereof to issue or cause an affiliate to issue commercial and standby letters of credit for the account of Borrower (each, a “Letter of Credit” and collectively, “Letters of Credit”); provided however, that the aggregate undrawn amount of all outstanding Letters of Credit shall not at any time exceed Fifteen Million Dollars (\$15,000,000.00). The form and substance of each Letter of Credit shall be subject to approval by Bank, in its sole discretion. Each Letter of Credit shall be issued for a term not to exceed three hundred sixty-five (365) days, as designated by Borrower; provided however, that no Letter of Credit shall have an expiration date more than one hundred twenty (120) days beyond the maturity date of the Line of Credit. The undrawn amount of all Letters of Credit shall be reserved under the Line of Credit and shall not be available for borrowings thereunder. Each Letter of Credit shall be subject to the additional terms and conditions of the Letter of Credit agreements, applications and any related documents required by Bank in connection with the issuance thereof. Each drawing paid under a Letter of Credit shall be deemed an advance under the Line of Credit and shall be repaid by Borrower in accordance with the terms and conditions

of this Agreement applicable to such advances; provided however, that if advances under the Line of Credit are not available, for any reason, at the time any drawing is paid, then Borrower shall immediately pay to Bank the full amount drawn, together with interest thereon from the date such drawing is paid to the date such amount is fully repaid by Borrower, at the rate of interest applicable to advances under the Line of Credit. In such event Borrower agrees that Bank, in its sole discretion, may debit any account maintained by Borrower with Bank for the amount of any such drawing.

(c) Limitation on Borrowings. During any Formula Period, outstanding borrowings under the Line of Credit shall not at any time exceed seventy five percent (75%) of Borrower's eligible inventory (exclusive of work in process and inventory which is obsolete, unsalable or damaged), with the value determined on a cost basis. The foregoing shall be determined by Bank upon receipt and review of the collateral report required pursuant to Section 4.3(b) hereof and such other documents and collateral information as Bank may from time to time require. As used herein, "Formula Period" shall mean a period commencing from the first day of the calendar month immediately following a calendar month in which the average daily usage under the Line of Credit exceeds Fifteen Million Dollars (\$15,000,000.00) and continuing up to and including the last day of a calendar quarter during which, in any month of such quarter, the average daily usage under the Line of Credit is equal to or less than Fifteen Million Dollars (\$15,000,000.00).

(d) Borrowing and Repayment. Borrower may from time to time during the term of the Line of Credit borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions contained herein or in the Line of Credit Note; provided however, that the total outstanding borrowings under the Line of Credit shall not at any time exceed the maximum principal amount available thereunder, as set forth above.

SECTION 1.2. INTEREST/FEES.

(a) Interest. The outstanding principal balance of each credit subject hereto shall bear interest, and the amount of each drawing paid under any Letter of Credit shall bear interest from the date such drawing is paid to the date such amount is fully repaid by Borrower, at the rate of interest set forth in each promissory note or other instrument or document executed in connection therewith.

(b) Computation and Payment. Interest shall be computed on the basis of a 360-day year, actual days elapsed. Interest shall be payable at the times and place set forth in each promissory note or other instrument or document required hereby.

(c) Unused Commitment Fee. Borrower shall pay to Bank a fee equal to ten-hundredths percent (0.10%) per annum (computed on the basis of a 360-day year, actual days elapsed) on the average daily unused amount of the Line of Credit, which fee shall be calculated on a calendar quarter basis by Bank and shall be due and payable by Borrower in arrears on the last day of each September, December, March and June.

(d) Letter of Credit Fees. Borrower shall pay to Bank (i) fees with respect to each standby Letter of Credit equal to 1.50% per annum (computed on the basis of a 360-day year,

actual days elapsed) of the face amount thereof, which fees shall be due and payable on each one-year anniversary of the issuance date of each such standby Letter of Credit and (ii) such other fees upon the issuance of each Letter of Credit, upon the payment or negotiation of each drawing under any Letter of Credit and upon the occurrence of any other activity with respect to any Letter of Credit (including without limitation, the transfer, amendment or cancellation of any Letter of Credit) determined in accordance with Bank's standard fees and charges then in effect for such activity.

SECTION 1.3. COLLECTION OF PAYMENTS. Borrower authorizes Bank to collect all interest and fees due under the Line of Credit by charging Borrower's deposit account number 4945-012565 with Bank, or any other deposit account maintained by Borrower with Bank, for the full amount thereof. Should there be insufficient funds in any such deposit account to pay all such sums when due, the full amount of such deficiency shall be immediately due and payable by Borrower.

SECTION 1.4. COLLATERAL.

As security for all indebtedness of Borrower to Bank subject hereto, Borrower hereby grants to Bank security interests of first priority in all Borrower's accounts receivable and other rights to payment, general intangibles, inventory and equipment.

All of the foregoing shall be evidenced by and subject to the terms of such security agreements, financing statements, deeds of trust and other documents as Bank shall reasonably require, all in form and substance satisfactory to Bank. Borrower shall reimburse Bank immediately upon demand for all costs and expenses incurred by Bank in connection with any of the foregoing security, including without limitation, filing and recording fees and costs of appraisals, audits and title insurance.

SECTION 1.5. GUARANTIES. The payment and performance of all indebtedness and other obligations of Borrower to Bank hereunder and under the other Loan Documents shall be guaranteed by Tilly's, Inc., as evidenced by and subject to the terms of guaranties in form and substance satisfactory to Bank and shall be secured by a first priority lien in favor of Bank on the equity interests of the Borrower owned by Tilly's, Inc.

ARTICLE II
REPRESENTATIONS AND WARRANTIES

Borrower makes the following representations and warranties to Bank, which representations and warranties shall survive the execution of this Agreement and shall continue in full force and effect until the full and final payment, and satisfaction and discharge, of all obligations of Borrower to Bank subject to this Agreement.

SECTION 2.1. LEGAL STATUS. Borrower is a corporation, duly organized and existing and in good standing under the laws of the State of California, and is qualified or licensed to do business (and is in good standing as a foreign corporation, if applicable) in all jurisdictions in which such qualification or licensing is required or in which the failure to so qualify or to be so licensed could have a material adverse effect on Borrower.

SECTION 2.2. AUTHORIZATION AND VALIDITY. This Agreement and each promissory note, guarantee, security agreement, pledge agreement, contract, instrument and other document required hereby or at any time hereafter delivered to Bank in connection herewith (collectively, the "Loan Documents") have been duly authorized, and upon their execution and delivery in accordance with the provisions hereof will constitute legal, valid and binding agreements and obligations of Borrower or the party which executes the same, enforceable in accordance with their respective terms.

SECTION 2.3. NO VIOLATION. The execution, delivery and performance by Borrower of each of the Loan Documents do not violate any provision of any law or regulation, or contravene any provision of the Articles of Incorporation or By-Laws of Borrower, or result in any breach of or default under any contract, obligation, indenture or other instrument to which Borrower is a party or by which Borrower may be bound.

SECTION 2.4. LITIGATION. There are no pending, or to the best of Borrower's knowledge threatened, actions, claims, investigations, suits or proceedings by or before any governmental authority, arbitrator, court or administrative agency which could have a material adverse effect on the financial condition or operation of Borrower other than those disclosed by Borrower to Bank in writing prior to the date hereof.

SECTION 2.5. CORRECTNESS OF FINANCIAL STATEMENT. The financial statement of Borrower dated January 28, 2012, a true copy of which has been delivered by Borrower to Bank prior to the date hereof, (a) is complete and correct and presents fairly the financial condition of Borrower, (b) discloses all liabilities of Borrower that are required to be reflected or reserved against under generally accepted accounting principles, whether liquidated or unliquidated, fixed or contingent, and (c) has been prepared in accordance with generally accepted accounting principles consistently applied. Since the date of such financial statement there has been no material adverse change in the financial condition of Borrower, nor has Borrower mortgaged, pledged, granted a security interest in or otherwise encumbered any of its assets or properties except in favor of Bank or as otherwise permitted by Bank in writing.

SECTION 2.6. INCOME TAX RETURNS. Borrower has no knowledge of any pending assessments or adjustments of its income tax payable with respect to any year.

SECTION 2.7. NO SUBORDINATION. There is no agreement, indenture, contract or instrument to which Borrower is a party or by which Borrower may be bound that requires the subordination in right of payment of any of Borrower's obligations subject to this Agreement to any other obligation of Borrower.

SECTION 2.8. PERMITS, FRANCHISES. Borrower possesses, and will hereafter possess, all permits, consents, approvals, franchises and licenses required and rights to all trademarks, trade names, patents, and fictitious names, if any, necessary to enable it to conduct the business in which it is now engaged in compliance with applicable law.

SECTION 2.9. ERISA. Borrower is in compliance in all material respects with all applicable provisions of the Employee Retirement Income Security Act of 1974, as amended or recodified from time to time ("ERISA"); Borrower has not violated any provision of any defined

employee pension benefit plan (as defined in ERISA) maintained or contributed to by Borrower (each, a “Plan”); no Reportable Event as defined in ERISA has occurred and is continuing with respect to any Plan initiated by Borrower; Borrower has met its minimum funding requirements under ERISA with respect to each Plan; and each Plan will be able to fulfill its benefit obligations as they come due in accordance with the Plan documents and under generally accepted accounting principles.

SECTION 2.10. OTHER OBLIGATIONS. Borrower is not in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation.

SECTION 2.11. ENVIRONMENTAL MATTERS. Except as disclosed by Borrower to Bank in writing prior to the date hereof, Borrower is in compliance in all material respects with all applicable federal or state environmental, hazardous waste, health and safety statutes, and any rules or regulations adopted pursuant thereto, which govern or affect any of Borrower’s operations and/or properties, including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986, the Federal Resource Conservation and Recovery Act of 1976, and the Federal Toxic Substances Control Act, as any of the same may be amended, modified or supplemented from time to time. None of the operations of Borrower is the subject of any federal or state investigation evaluating whether any remedial action involving a material expenditure is needed to respond to a release of any toxic or hazardous waste or substance into the environment. Borrower has no material contingent liability in connection with any release of any toxic or hazardous waste or substance into the environment.

ARTICLE III CONDITIONS

SECTION 3.1. CONDITIONS OF EXTENSION OF CREDIT. The obligation of Bank to extend or continue to extend any credit contemplated by this Agreement is subject to the fulfillment to Bank’s satisfaction of all of the following conditions:

- (a) Approval of Bank Counsel. All legal matters incidental to the extension of credit by Bank shall be satisfactory to Bank’s counsel.
- (b) Documentation. Bank shall have received, in form and substance satisfactory to Bank, each of the following, duly executed:
 - (i) This Agreement and each promissory note or other instrument or document required hereby.
 - (ii) Corporate Resolution: Borrowing.
 - (iii) Certificate of Incumbency.
 - (iv) Continuing Security Agreement: Rights to Payment and Inventory.
 - (v) Security Agreement: Equipment.
 - (vi) Disbursement Order.

(vii) A Continuing Guaranty and a Pledge Agreement executed by Tilly's, Inc., together with a secretary's certificate, board resolutions, and such other documents relating to Tilly's, Inc. as required by Bank.

(viii) Such other documents as Bank may require under any other Section of this Agreement.

(c) Financial Condition. There shall have been no material adverse change, as determined by Bank, in the financial condition or business of Borrower, nor any material decline, as determined by Bank, in the market value of any collateral required hereunder or a substantial or material portion of the assets of Borrower.

(d) Insurance. Borrower shall have delivered to Bank evidence of insurance coverage on all Borrower's property, in form, substance, amounts, covering risks and issued by companies satisfactory to Bank, and where required by Bank, with loss payable endorsements in favor of Bank.

SECTION 3.2. CONDITIONS OF EACH EXTENSION OF CREDIT. The obligation of Bank to make each extension of credit requested by Borrower hereunder shall be subject to the fulfillment to Bank's satisfaction of each of the following conditions:

(a) Compliance. The representations and warranties contained herein and in each of the other Loan Documents shall be true on and as of the date of the signing of this Agreement and on the date of each extension of credit by Bank pursuant hereto, with the same effect as though such representations and warranties had been made on and as of each such date, and on each such date, (i) no material adverse change in the business, assets, operations, prospects or condition (financial or otherwise) of the Borrower, the ability of the Borrower to perform any of its obligations under this Agreement or under any of the other Loan Documents, or the rights of or benefits available to the Bank under this Agreement or any of the other Loan Documents shall have occurred, and (ii) no Event of Default as defined herein, and no condition, event or act which with the giving of notice or the passage of time or both would constitute such an Event of Default, shall have occurred and be continuing or shall exist.

(b) Documentation. Bank shall have received all additional documents which may be required in connection with such extension of credit.

(c) Additional Letter of Credit Documentation. Prior to the issuance of each Letter of Credit, Bank shall have received a Letter of Credit Agreement, properly completed and duly executed by Borrower.

ARTICLE IV AFFIRMATIVE COVENANTS

Borrower covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower shall, unless Bank otherwise consents in writing:

SECTION 4.1. PUNCTUAL PAYMENTS. Punctually pay all principal, interest, fees or other liabilities due under any of the Loan Documents at the times and place and in the manner specified therein, and immediately upon demand by Bank, the amount by which the outstanding principal balance of any credit subject hereto at any time exceeds any limitation on borrowings applicable thereto.

SECTION 4.2. ACCOUNTING RECORDS. Maintain adequate books and records in accordance with generally accepted accounting principles consistently applied, and permit any representative of Bank, at any reasonable time, to inspect, audit and examine such books and records, to make copies of the same, and to inspect the properties of Borrower.

SECTION 4.3. FINANCIAL STATEMENTS. Provide to Bank all of the following, in form and detail satisfactory to Bank:

(a) not later than 90 days after and as of the end of each fiscal year, audited consolidated and consolidating financial statements of Tilly's, Inc., prepared by an independent certified public accountant acceptable to Bank, to include consolidated and consolidating balance sheet, income statement and statement of cash flow, management report, and auditor's report, together with all supporting schedules and footnotes;

(b) commencing with the fiscal quarter ending July 28, 2012, not later than 45 days after and as of the end of each fiscal quarter, consolidated and consolidating financial statements of Tilly's, Inc., prepared by Tilly's, Inc., to include a balance sheet and income statement, and with respect to each fiscal quarter ending prior to July 28, 2012, quarterly financial statements of Borrower, prepared by Borrower, to include a balance sheet and income statement;

(c) not later than 45 days after and as of the end of each fiscal quarter, a store profit and loss statement, prepared by Borrower, to include all revenues and expenses on an individual store basis for all of the Borrower's then operating retail clothing store locations;

(d) contemporaneously with each delivery of annual and quarterly consolidated financial statements required hereby, a certificate of the president or chief financial officer of Borrower that said financial statements are accurate, that there exists no Event of Default nor any condition, act, or event which with the giving of notice or the passage of time or both would constitute an Event of Default, and setting forth in reasonable detail calculations of the financial covenants set forth in Section 4.9 hereof;

(e) not later than 90 days after commencement of each fiscal year of Tilly's, Inc., projections for such fiscal year and for each quarter thereof including forecasted consolidated balance sheets and statements of income, together with an explanation of the assumptions on which such forecasts are based;

(f) promptly upon request by Bank, copies of audit reports, management letters or recommendations submitted to the board of directors (or any committee thereof) of Tilly's, Inc. or the Borrower by independent accountants in connection with the accounts or books of such companies or any audit thereof;

(g) promptly after the same become available, copies of each annual report, proxy or financial statement or other report or communication sent to the stockholders of Tilly's, Inc., and copies of all annual, regular, periodic and special reports and registration statements which Tilly's, Inc. or Borrower may file or be required to file with the U.S. Securities and Exchange Commission and not otherwise required to be delivered to Bank pursuant to this Agreement;

(h) from time to time such other information as Bank may reasonably request.

Documents required to be delivered pursuant to Section 4.3(a), 4.3(b) and 4.3(g) (to the extent any such documents are included in materials otherwise filed with the U.S. Securities and Exchange Commission) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (i) on which Tilly's, Inc. posts such documents, or provides a link thereto on the website of Tilly's, Inc. on the Internet at the website address www.tillys.com or another website address provided by the Borrower in a written notice to Bank or (ii) on which such documents are posted on a publicly available website maintained by or on behalf of the U.S. Securities and Exchange Commission for access to documents filed in the EDGAR database; provided that the Borrower shall notify Bank (by telecopier or electronic mail) of the posting of any such documents and, if requested by Bank, provide to Bank by electronic mail electronic versions (i.e., soft copies) of such documents.

SECTION 4.4. COMPLIANCE. Preserve and maintain all licenses, permits, governmental approvals, rights, privileges and franchises necessary for the conduct of its business; and comply with the provisions of all documents pursuant to which Borrower is organized and/or which govern Borrower's continued existence and with the requirements of all laws, rules, regulations and orders of any governmental authority applicable to Borrower and/or its business.

SECTION 4.5. INSURANCE. Maintain and keep in force insurance of the types and in amounts customarily carried in lines of business similar to that of Borrower, including but not limited to fire, extended coverage, public liability, flood, property damage and workers' compensation, with all such insurance carried with companies and in amounts satisfactory to Bank, and deliver to Bank from time to time at Bank's request schedules setting forth all insurance then in effect.

SECTION 4.6. FACILITIES. Keep all properties useful or necessary to Borrower's business in good repair and condition, and from time to time make necessary repairs, renewals and replacements thereto so that such properties shall be fully and efficiently preserved and maintained.

SECTION 4.7. TAXES AND OTHER LIABILITIES. Pay and discharge when due any and all indebtedness, obligations, assessments and taxes, both real or personal, including without limitation federal and state income taxes and state and local property taxes and assessments, except such (a) as Borrower may in good faith contest or as to which a bona fide dispute may arise, and (b) for which Borrower has made provision, to Bank's satisfaction, for eventual payment thereof in the event Borrower is obligated to make such payment.

SECTION 4.8. LITIGATION. Promptly give notice in writing to Bank of any litigation pending or threatened against Borrower (i) affecting Tilly's, Inc., Borrower or any of their

respective subsidiaries which, individually or in the aggregate, could reasonably be expected to have a material adverse effect on Borrower or such entity or involve a monetary claim in excess of \$1,000,000, (ii) affecting or with respect to this Agreement, any other Loan Document or any security interest or lien created thereunder or (iii) involving an environmental claim or potential liability under environmental laws in excess of \$500,000.

SECTION 4.9. FINANCIAL CONDITION. Maintain Borrower as a consolidated subsidiary of Tilly's, Inc. for accounting purposes, and maintain Borrower's financial condition as follows using generally accepted accounting principles consistently applied and used consistently with prior practices (except to the extent modified by the definitions herein):

(a) Current Ratio not at any time less than 1.25 to 1.00, determined as of the end of each fiscal quarter, with "Current Ratio" defined as total current assets of Tilly's, Inc. and its consolidated subsidiaries divided by total current liabilities.

(b) Net Profit Before Tax of Tilly's, Inc. and its consolidated subsidiaries not less than \$1.00, excluding a non-cash expense of up to a maximum of \$2,000,000.00 for the write-off of impaired fixed assets as per the requirements of Accounting Standard Classification Topic ASC 360 for the cumulative rolling four-quarter period being measured, determined as of the end of each fiscal quarter on a cumulative rolling four-quarter basis.

(c) Total Funded Debt to EBITDAR of Tilly's, Inc. and its consolidated subsidiaries not greater than 4.00 to 1.00 as of each quarter end, determined on a rolling four-quarter basis, with "Funded Debt" defined as the sum of (i) all obligations for borrowed money, (ii) capital leases, and (iii) annual rent expense from all operating leases multiplied by eight (8) and "EBITDAR" defined as the sum of net income, interest expense, taxes, depreciation, amortization and annual rent expense.

SECTION 4.10. NOTICE TO BANK. Promptly (but in no event more than five (5) days after the occurrence of each such event or matter) give written notice to Bank in reasonable detail of: (a) the occurrence of any Event of Default, or any condition, event or act which with the giving of notice or the passage of time or both would constitute an Event of Default; (b) any change in the name or the organizational structure of Borrower; (c) the occurrence and nature of any Reportable Event or Prohibited Transaction, each as defined in ERISA, or any funding deficiency with respect to any Plan; or (d) any termination or cancellation of any insurance policy which Borrower is required to maintain, or any material uninsured or partially uninsured loss through liability or property damage, or through fire, theft or any other cause affecting Borrower's property.

ARTICLE V NEGATIVE COVENANTS

Borrower further covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower will not without Bank's prior written consent:

SECTION 5.1. USE OF FUNDS. Use any of the proceeds of any credit extended hereunder except for the purposes stated in Article I hereof.

SECTION 5.2. CAPITAL EXPENDITURES. Make any additional investment in fixed assets in any fiscal year in excess of an aggregate of \$50,000,000.00.

SECTION 5.3. OTHER INDEBTEDNESS. Create, incur, assume or permit to exist any indebtedness or liabilities resulting from borrowings, loans or advances, whether secured or unsecured, matured or unmatured, liquidated or unliquidated, joint or several, except (a) the liabilities of Borrower to Bank, (b) additional debt in an amount not to exceed \$1,500,000.00 in the aggregate, (c) debt evidenced by those certain promissory notes dated on or about the date hereof in an aggregate principal amount not to exceed \$90,000,000, issued by Borrower in favor of certain stockholders of Borrower the terms of which have been approved by Bank so long as (i) such notes have been repaid in full and cancelled by not later than 14 days after the date thereof and (ii) no Event of Default as defined herein, and no condition, event or act which with the giving of notice or the passage of time or both would constitute such an Event of Default, shall exist at the time of such repayment or shall result therefrom, (d) any other liabilities of Borrower existing as of, and disclosed to Bank prior to, the date hereof, and (e) capital lease obligations relating to the Borrower's distribution and corporate headquarters facility.

SECTION 5.4. MERGER, CONSOLIDATION, TRANSFER OF ASSETS. Merge into or consolidate with any other entity (except for mergers in connection with acquisitions expressly permitted under Section 5.6 in which the Borrower is the survivor); make any substantial change in the nature of Borrower's business as conducted as of the date hereof; nor sell, lease, transfer or otherwise dispose of all or a substantial or material portion of Borrower's assets except in the ordinary course of its business.

SECTION 5.5. GUARANTIES. Guarantee or become liable in any way as surety, endorser (other than as endorser of negotiable instruments for deposit or collection in the ordinary course of business), accommodation endorser or otherwise for, nor pledge or hypothecate any assets of Borrower as security for, any liabilities or obligations of any other person or entity, except any of the foregoing in favor of Bank.

SECTION 5.6. LOANS, ADVANCES, INVESTMENTS, ACQUISITIONS. Make any loans or advances to or investments in any person or entity, or acquire any other person or entity or all or substantially all of the assets of any other person or entity or any business unit thereof, except (i) loans and advances made to employees or shareholders of the Borrower, (ii) any of the foregoing existing as of, and disclosed to Bank prior to, the date hereof, and (iii) acquisitions that meet all of the following criteria: (a) the persons or assets to be acquired are in the same or substantially similar lines of business as the Borrower, (b) the board of directors or equivalent governing body of the other parties to each such acquisition have approved or consented to the acquisition, (c) immediately before and after giving effect to each such proposed acquisition, no Event of Default shall have occurred and be continuing, (d) Borrower shall be in pro forma compliance with the financial covenants set forth in Section 4.9 hereof after giving effect to each such acquisition, (e) the aggregate total consideration paid in connection with all such acquisitions made during the term of this Agreement shall not exceed \$25,000,000, (f) Borrower shall have adequate cash on hand from its operations to pay the purchase price and other

consideration to be paid in connection with each such acquisition, and, in any case, no proceeds of the loans made under this Agreement shall be used to pay the consideration for any such acquisition, and (g) prior to the consummation of any such acquisition, Borrower shall have delivered to Bank documentation of each of the foregoing in form and substance reasonably acceptable to Bank. In addition (and notwithstanding the foregoing) Borrower shall not form, create or acquire any subsidiaries.

SECTION 5.7. DIVIDENDS, DISTRIBUTIONS. Declare or pay any dividend or distribution, either in cash, stock or any other property on Borrower's stock now or hereafter outstanding, nor redeem, retire, repurchase or otherwise acquire any shares of any class of Borrower's stock now or hereafter outstanding, other than (i) distributions to Tilly's, Inc. in an amount in any fiscal year not to exceed the amount required to discharge the consolidated tax liability of Tilly's, Inc. and the Borrower payable during such fiscal year, and (ii) payments permitted under Section 5.3(c) hereof to the extent such payments constitute a dividend or distribution.

SECTION 5.8. PLEDGE OF ASSETS. Mortgage, pledge, grant or permit to exist a security interest in, or lien upon, all or any portion of Borrower's assets now owned or hereafter acquired, except any of the foregoing in favor of Bank or which is existing as of, and disclosed to Bank in writing prior to, the date hereof.

SECTION 5.9. TRANSACTIONS WITH AFFILIATES. Enter into any transaction of any kind with any shareholder or affiliate of the Borrower or Tilly's, Inc., whether or not in the ordinary course of business, other than on fair and reasonable terms substantially as favorable to Borrower as would be obtained by Borrower in a comparable arm's length transaction with a person other than an affiliate, except that the foregoing shall not prohibit (i) tax distributions permitted by Section 5.7 hereof or (ii) payment of reasonable and customary fees for, and reimbursement of out-of-pocket expenses incurred by, members of the board of directors of Borrower or Tilly's, Inc.

ARTICLE VI
EVENTS OF DEFAULT

SECTION 6.1. The occurrence of any of the following shall constitute an "Event of Default" under this Agreement:

(a) Borrower shall fail to pay when due any principal, interest, fees or other amounts payable under any of the Loan Documents.

(b) Any financial statement or certificate furnished to Bank in connection with, or any representation or warranty made by Borrower or any other party under this Agreement or any other Loan Document shall prove to be incorrect, false or misleading in any material respect when furnished or made.

(c) Any default in the performance of or compliance with any obligation, agreement or other provision contained herein or in any other Loan Document (other than those specifically described as an "Event of Default" in this Section 6.1), and with respect to any such default which by its nature can be cured, such default shall continue for a period of twenty (20) days

after the earlier of (i) an officer of Borrower becoming aware of such default or (ii) receipt by Borrower of notice from Bank of such default's occurrence.

(d) Any default in the payment or performance of any obligation, or any defined event of default, under the terms of any contract or instrument (other than any of the Loan Documents) pursuant to which Borrower, any guarantor hereunder or any general partner or joint venturer in Borrower if a partnership or joint venture (with each such guarantor, general partner and/or joint venturer referred to herein as a "Third Party Obligor") has incurred (i) any debt or other liability to Bank or (ii) any debt or other liability to any other person or entity in an individual principal amount of \$500,000 or more or with an aggregate principal amount of \$1,000,000 or more.

(e) Borrower or any Third Party Obligor shall become insolvent, or shall suffer or consent to or apply for the appointment of a receiver, trustee, custodian or liquidator of itself or any of its property, or shall generally fail to pay its debts as they become due, or shall make a general assignment for the benefit of creditors; Borrower or any Third Party Obligor shall file a voluntary petition in bankruptcy, or seeking reorganization, in order to effect a plan or other arrangement with creditors or any other relief under the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time ("Bankruptcy Code"), or under any state or federal law granting relief to debtors, whether now or hereafter in effect; or Borrower or any Third Party Obligor shall file an answer admitting the jurisdiction of the court and the material allegations of any involuntary petition; or Borrower or any Third Party Obligor shall be adjudicated a bankrupt, or an order for relief shall be entered against Borrower or any Third Party Obligor by any court of competent jurisdiction under the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors.

(f) The filing of a notice of judgment lien against Borrower or any Third Party Obligor; or the recording of any abstract of judgment against Borrower or any Third Party Obligor in any county in which Borrower or such Third Party Obligor has an interest in real property; or the service of a notice of levy and/or of a writ of attachment or execution, or other like process, against the assets of Borrower or any Third Party Obligor; or the entry of a judgment against Borrower or any Third Party Obligor; or any involuntary petition or proceeding pursuant to the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors is filed or commenced against Borrower or any Third Party Obligor.

(g) There shall exist or occur any event or condition that Bank in good faith believes impairs, or is substantially to impair, the prospect of payment or performance by Borrower, any Third Party Obligor, or the general partner of either if such entity is a partnership, of its obligations under any of the Loan Documents.

(h) The death or incapacity of Borrower or any Third Party Obligor if an individual; the dissolution or liquidation of Borrower or any Third Party Obligor if a corporation, partnership, joint venture or other type of entity; or Borrower or any such Third Party Obligor, or any of its directors, stockholders or members shall take action seeking to effect the dissolution or liquidation of Borrower or such Third Party Obligor.

(i) Any Loan Document, at any time after its execution and delivery for any reason other than satisfaction in full of all the Obligations, ceases to be in full force and effect; or any Loan Party contests in any manner the validity or enforceability of any Loan Document; or any Loan Party denies that it has any further liability or obligation under any Loan Document or purports to revoke, terminate or rescind any Loan Document.

(j) Tilly's, Inc. shall cease to own and control 100% of the issued and outstanding capital stock of the Borrower, or, as to Tilly's, Inc., (i) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934) other than Hezy Shaked and Tialit Levine (and their respective heirs and executors, and trusts as to which they are settlors or trustees or other trusts to which such trusts are settlors) shall become the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934), directly or indirectly, of 25% or more of the equity interests of Tilly's, Inc. entitled to vote for members of the board of directors of Tilly's, Inc. on a fully-diluted basis or (ii) during any period of 12 consecutive months, a majority of the members of the board of directors of Tilly's, Inc. cease to be composed of individuals who either were members of such board on the first day of such period or whose election or nomination to such board was approved by individuals who at the time of such election or nomination constituted at least a majority of such board (excluding, in each case, any individual whose initial nomination for or assumption of office as a member of such board occurred as a result of a solicitation of proxies or consents that was not made by or on behalf of the board of directors).

(k) Tilly's, Inc. shall (i) engage in any business other than (A) entering into and performing its obligations under, and in accordance with, the Loan Documents to which it is a party, (B) owning the capital stock of Borrower and (C) issuing its own capital stock or options to acquire such capital stock, (ii) incur any indebtedness other than (A) its guarantee of the obligations of Borrower hereunder in favor of Bank and (B) its guarantee of the indebtedness or liabilities of Borrower permitted under Section 5.3 hereof and of Borrower's obligations under real property leases entered into by Borrower in the ordinary course of business, or (iii) own any assets other than the capital stock of Borrower and cash and cash equivalents.

SECTION 6.2. REMEDIES. Upon the occurrence of any Event of Default: (a) all indebtedness of Borrower under each of the Loan Documents, any term thereof to the contrary notwithstanding, shall at Bank's option and without notice become immediately due and payable without presentment, demand, protest or notice of dishonor, all of which are hereby expressly waived by each Borrower; (b) the obligation, if any, of Bank to extend any further credit under any of the Loan Documents shall immediately cease and terminate; and (c) Bank shall have all rights, powers and remedies available under each of the Loan Documents, or accorded by law, including without limitation the right to resort to any or all security for any credit subject hereto and to exercise any or all of the rights of a beneficiary or secured party pursuant to applicable law. All rights, powers and remedies of Bank may be exercised at any time by Bank and from time to time after the occurrence of an Event of Default, are cumulative and not exclusive, and shall be in addition to any other rights, powers or remedies provided by law or equity.

ARTICLE VII
MISCELLANEOUS

SECTION 7.1. NO WAIVER. No delay, failure or discontinuance of Bank in exercising any right, power or remedy under any of the Loan Documents shall affect or operate as a waiver of such right, power or remedy; nor shall any single or partial exercise of any such right, power or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power or remedy. Any waiver, permit, consent or approval of any kind by Bank of any breach of or default under any of the Loan Documents must be in writing and shall be effective only to the extent set forth in such writing.

SECTION 7.2. NOTICES. All notices, requests and demands which any party is required or may desire to give to any other party under any provision of this Agreement must be in writing delivered to each party at the following address:

BORROWER: WORLD OF JEANS & TOPS
 10 Whatney
 Irvine, CA 92618

With a copy to:

Legal Department
10 Whatney
Irvine, CA 92618

BANK: WELLS FARGO BANK, NATIONAL ASSOCIATION
 Orange Coast Regional Commercial Banking Office
 2030 Main Street, Suite 900
 Irvine, CA 92614

or to such other address as any party may designate by written notice to all other parties. Each such notice, request and demand shall be deemed given or made as follows: (a) if sent by hand delivery, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or three (3) days after deposit in the U.S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

SECTION 7.3. COSTS, EXPENSES AND ATTORNEYS' FEES. Borrower shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), expended or incurred by Bank in connection with (a) the negotiation and preparation of this Agreement and the other Loan Documents, Bank's continued administration hereof and thereof, and the preparation of any amendments and waivers hereto and thereto, (b) the enforcement of Bank's rights and/or the collection of any amounts which become due to Bank under any of the Loan Documents, and (c) the prosecution or defense of any action in any way related to any of the Loan Documents, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to any Borrower or any other person or entity.

SECTION 7.4. SUCCESSORS, ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties; provided however, that Borrower may not assign or transfer its interest hereunder without Bank's prior written consent. Bank reserves the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, Bank's rights and benefits under each of the Loan Documents. In connection therewith, Bank may disclose all documents and information which Bank now has or may hereafter acquire relating to any credit subject hereto, Borrower or its business, or any collateral required hereunder.

SECTION 7.5. ENTIRE AGREEMENT; AMENDMENT. This Agreement and the other Loan Documents constitute the entire agreement between Borrower and Bank with respect to each credit subject hereto and supersede all prior negotiations, communications, discussions and correspondence concerning the subject matter hereof. This Agreement may be amended or modified only in writing signed by each party hereto.

SECTION 7.6. NO THIRD PARTY BENEFICIARIES, This Agreement is made and entered into for the sole protection and benefit of the parties hereto and their respective permitted successors and assigns, and no other person or entity shall be a third party beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any other of the Loan Documents to which it is not a party.

SECTION 7.7. TIME. Time is of the essence of each and every provision of this Agreement and each other of the Loan Documents.

SECTION 7.8. SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this Agreement.

SECTION 7.9. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same Agreement.

SECTION 7.10. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

SECTION 7.11. ARBITRATION.

(a) Arbitration. The parties hereto agree, upon demand by any party, to submit to binding arbitration all claims, disputes and controversies between or among them (and their respective employees, officers, directors, attorneys, and other agents), whether in tort, contract or otherwise arising out of or relating to in any way (i) the loan and related Loan Documents which are the subject of this Agreement and its negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination; or (ii) requests for additional credit.

(b) Governing Rules. Any arbitration proceeding will (i) proceed in a location in California selected by the American Arbitration Association (“AAA”); (ii) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (iii) be conducted by the AAA, or such other administrator as the parties shall mutually agree upon, in accordance with the AAA’s commercial dispute resolution procedures, unless the claim or counterclaim is at least \$1,000,000.00 exclusive of claimed interest, arbitration fees and costs in which case the arbitration shall be conducted in accordance with the AAA’s optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large, complex commercial disputes to be referred to, as applicable, as the “Rules”). If there is any inconsistency between the terms hereof and the Rules, the terms and procedures set forth herein shall control. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any dispute. Nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. §91 or any similar applicable state law.

(c) No Waiver of Provisional Remedies, Self-Help and Foreclosure. The arbitration requirement does not limit the right of any party to (i) foreclose against real or personal property collateral; (ii) exercise self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession; or (iii) obtain provisional or ancillary remedies such as replevin, injunctive relief, attachment or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of any party to submit any dispute to arbitration or reference hereunder, including those arising from the exercise of the actions detailed in sections (i), (ii) and (iii) of this paragraph.

(d) Arbitrator Qualifications and Powers. Any arbitration proceeding in which the amount in controversy is \$5,000,000.00 or less will be decided by a single arbitrator selected according to the Rules, and who shall not render an award of greater than \$5,000,000.00. Any dispute in which the amount in controversy exceeds \$5,000,000.00 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations. The arbitrator will be a neutral attorney licensed in the State of California or a neutral retired judge of the state or federal judiciary of California, in either case with a minimum of ten years experience in the substantive law applicable to the subject matter of the dispute to be arbitrated. The arbitrator will determine whether or not an issue is arbitratable and will give effect to the statutes of limitation in determining any claim. In any arbitration proceeding the arbitrator will decide (by documents only or with a hearing at the arbitrator’s discretion) any pre-hearing motions which are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all disputes in accordance with the substantive law of California and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the California Rules of Civil Procedure or other applicable law. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction. The institution

and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

(e) Discovery. In any arbitration proceeding discovery will be permitted in accordance with the Rules. All discovery shall be expressly limited to matters directly relevant to the dispute being arbitrated and must be completed no later than 20 days before the hearing date and within 180 days of the filing of the dispute with the AAA. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.

(f) Class Proceedings and Consolidations. The resolution of any dispute arising pursuant to the terms of this Agreement shall be determined by a separate arbitration proceeding and such dispute shall not be consolidated with other disputes or included in any class proceeding.

(g) Payment Of Arbitration Costs And Fees. The arbitrator shall award all costs and expenses of the arbitration proceeding.

(h) Real Property Collateral; Judicial Reference. Notwithstanding anything herein to the contrary, no dispute shall be submitted to arbitration if the dispute concerns indebtedness secured directly or indirectly, in whole or in part, by any real property unless (i) the holder of the mortgage, lien or security interest specifically elects in writing to proceed with the arbitration, or (ii) all parties to the arbitration waive any rights or benefits that might accrue to them by virtue of the single action rule statute of California, thereby agreeing that all indebtedness and obligations of the parties, and all mortgages, liens and security interests securing such indebtedness and obligations, shall remain fully valid and enforceable. If any such dispute is not submitted to arbitration, the dispute shall be referred to a referee in accordance with California Code of Civil Procedure Section 638 et seq., and this general reference agreement is intended to be specifically enforceable in accordance with said Section 638. A referee with the qualifications required herein for arbitrators shall be selected pursuant to the AAA's selection procedures. Judgment upon the decision rendered by a referee shall be entered in the court in which such proceeding was commenced in accordance with California Code of Civil Procedure Sections 644 and 645.

(i) Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business or by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a dispute, the arbitration provision most directly related to the Loan Documents or the subject matter of the dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the Loan Documents or any relationship between the parties.

(j) Small Claims Court. Notwithstanding anything herein to the contrary, each party retains the right to pursue in Small Claims Court any dispute within that court's jurisdiction. Further, this arbitration provision shall apply only to disputes in which either party seeks to recover an amount of money (excluding attorneys' fees and costs) that exceeds the jurisdictional limit of the Small Claims Court.

SECTION 7.12. NO NOVATION OR IMPAIRMENT OF SECURITY INTERESTS. This Agreement shall not cause a novation, payment and reborrowing, or termination of any of the indebtedness or obligations of Borrower under the Existing Credit Agreement or other loan documents executed in connection therewith (collectively, the "Existing Loan Documents"), nor shall it extinguish, discharge, terminate or impair Borrower's indebtedness or obligations or Bank's rights or remedies under the Existing Credit Agreement and the other Existing Loan Documents; provided, however, that all such indebtedness, obligations, rights and remedies shall be on the terms and conditions of, and as set forth in, this Agreement and the Loan Documents. In addition, this Agreement shall not release, limit or impair in any way the priority of any security interests and liens held by Bank against any assets of Borrower arising under the Existing Credit Agreement or the other Existing Loan Documents.

[signatures follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first written above.

WORLD OF JEANS & TOPS

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ Bill Langsdorf

Name: Bill Langsdorf

Title: Senior Vice President and Chief
Financial Officer

By: /s/ Mark Magdaleno

Name: Mark Magdaleno

Title: Vice President

Signature Page to Amended and Restated Credit Agreement

GENERAL PLEDGE AGREEMENT

TO: WELLS FARGO BANK, NATIONAL ASSOCIATION

1. GRANT OF SECURITY INTEREST. For valuable consideration, the undersigned TILLY'S, INC., a Delaware corporation ("Grantor"), hereby assigns, transfers to and pledges with WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank"), and grants to Bank a security interest in, the following described money and property, together with all other money and property as may at any time be delivered to and deposited with Bank: all of the issued and outstanding equity interests in World of Jeans & Tops, a California corporation, beneficially owned or held by Grantor, including but not limited to 20,000,000 shares of common stock of World of Jeans & Tops evidenced by certificate No. 20 (collectively called "Collateral"), together with whatever is receivable or received when any of the Collateral or proceeds thereof are sold, collected, exchanged or otherwise disposed of, whether such disposition is voluntary or involuntary, including without limitation, (a) all rights to payment, including returned premiums, with respect to any insurance relating to any of the foregoing, (b) all rights to payment with respect to any claim or cause of action affecting or relating to any of the foregoing, and (c) all stock rights, rights to subscribe, stock splits, liquidating dividends, cash dividends, dividends paid in stock, new securities or other property of any kind which Grantor is or may hereafter be entitled to receive on account of any securities pledged hereunder, including without limitation, stock received by Grantor due to stock splits or dividends paid in stock or sums paid upon or in respect of any securities pledged hereunder upon the liquidation or dissolution of the issuer thereof (hereinafter called "Proceeds"), and in the event that Grantor receives any such Proceeds, Grantor will hold the same in trust on behalf of and for the benefit of Bank and will immediately deliver all such Proceeds to Bank in the exact form received, with the endorsement of Grantor if necessary and/or appropriate undated stock powers duly executed in blank, to be held by Bank as part of the Collateral, subject to all terms hereof.

2. OBLIGATIONS SECURED. The obligations secured hereby are the payment and performance of: (a) all present and future Indebtedness of World of Jeans & Tops, a California corporation to Bank; (b) all obligations of Grantor to Bank under that certain Continuing Guaranty dated as of the date hereof, (c) all obligations of Grantor and rights of Bank under this Agreement; and (d) all present and future obligations of Grantor to Bank of other kinds. The word "Indebtedness" is used herein in its most comprehensive sense and includes any and all advances, debts, obligations and liabilities of Grantor, or any of them, heretofore, now or hereafter made, incurred or created, whether voluntary or involuntary and however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, including under any swap, derivative, foreign

exchange, hedge, deposit, treasury management or other similar transaction or arrangement, and whether Grantor may be liable individually or jointly with others, or whether recovery upon such Indebtedness may be or hereafter becomes unenforceable.

3. **TERMINATION.** This Agreement will terminate upon the performance of all obligations of Grantor to Bank, including without limitation, the payment of all Indebtedness of Grantor to Bank, and the termination of all commitments of Bank to extend credit to Grantor, existing at the time Bank receives written notice from Grantor of the termination of this Agreement.

4. **OBLIGATIONS OF BANK.** Bank has no obligation to make any loans hereunder. Any money received by Bank in respect of the Collateral may be deposited, at Bank's option, into a non-interest bearing account over which Grantor shall have no control, and the same shall, for all purposes, be deemed Collateral hereunder. Bank's obligation with respect to Collateral and Proceeds in its possession shall be strictly limited to the duty to exercise reasonable care in the custody and preservation of such Collateral and Proceeds, and such duty shall not include any obligation to ascertain or to initiate any action with respect to or to inform Grantor of maturity dates, conversion, call or exchange rights, or offers to purchase the Collateral or Proceeds, or any similar matters, notwithstanding Bank's knowledge of the same. Bank shall have no duty to take any steps necessary to preserve the rights of Grantor against prior parties, or to initiate any action to protect against the possibility of a decline in the market value of the Collateral or Proceeds. Bank shall not be obligated to take any action with respect to the Collateral or Proceeds requested by Grantor unless such request is made in writing and Bank determines, in its sole discretion, that the requested action would not unreasonably jeopardize the value of the Collateral and Proceeds as security for the Indebtedness. Bank may at any time deliver the Collateral and Proceeds, or any part thereof, to any Grantor, and the receipt thereof by any Grantor shall be a complete and full acquittance for the Collateral and Proceeds so delivered, and Bank shall thereafter be discharged from any liability or responsibility therefor.

5. **REPRESENTATIONS AND WARRANTIES.** Grantor represents and warrants to Bank that: (a) Grantor's legal name is exactly as set forth on the first page of this Agreement, and all of Grantor's organizational documents or agreements delivered to Bank are complete and accurate in every respect; (b) Grantor is the owner and has possession or control of the Collateral and Proceeds; (c) Grantor has the exclusive right to pledge the Collateral and Proceeds; (d) all Collateral and Proceeds are genuine, free from liens, adverse claims, setoffs, default, prepayment, defenses and conditions precedent of any kind or character, except the lien created hereby or as otherwise agreed to by Bank, or as heretofore disclosed by Grantor to Bank, in writing; (e) all statements contained herein and, where applicable, in the Collateral, are true and complete in all material respects; (f) no financing statement covering any of the Collateral or Proceeds, and naming any secured party other than Bank, is on file in any public office; and (g) specifically with respect to Collateral and Proceeds consisting of investment securities,

instruments, chattel paper, documents, contracts, insurance policies or any like property, (i) all persons appearing to be obligated thereon have authority and capacity to contract and are bound as they appear to be, and (ii) the same comply with applicable laws concerning form, content and manner of preparation and execution.

6. COVENANTS OF GRANTOR.

(a) Grantor agrees in general: (i) to pay Indebtedness secured hereby when due; (ii) to indemnify Bank against all losses, claims, demands, liabilities and expenses of every kind caused by property subject hereto; (iii) to permit Bank to exercise its powers; (iv) to execute and deliver such documents as Bank deems necessary to create, perfect and continue the security interests contemplated hereby; (v) not to change its name, and as applicable, its chief executive office, its principal residence or the jurisdiction in which it is organized and/or registered without giving Bank prior written notice thereof; (vi) not to change the places where Grantor keeps any Collateral or Grantor's records concerning the Collateral and Proceeds without giving Bank prior written notice of the address to which Grantor is moving same; and (vii) to cooperate with Bank in perfecting all security interests granted herein and in obtaining such agreements from third parties as Bank deems necessary, proper or convenient in connection with the preservation, perfection or enforcement of any of its rights hereunder.

(b) Grantor agrees with regard to the Collateral and Proceeds, unless Bank agrees otherwise in writing: (i) that Bank is authorized to file financing statements in the name of Grantor to perfect Bank's security interest in Collateral and Proceeds; (ii) not to permit any lien on the Collateral or Proceeds, except in favor of Bank; (iii) not to sell, hypothecate or otherwise dispose of, nor permit the transfer by operation of law of, any of the Collateral or Proceeds or any interest therein, nor withdraw any funds from any deposit account pledged to Bank hereunder; (iv) to keep, in accordance with generally accepted accounting principles, complete and accurate records regarding all Collateral and Proceeds, and to permit Bank to inspect the same and make copies thereof at any reasonable time; (v) if requested by Bank, to receive and use reasonable diligence to collect Proceeds, in trust and as the property of Bank, and to immediately endorse as appropriate and deliver such Proceeds to Bank daily in the exact form in which they are received together with a collection report in form satisfactory to Bank; (vi) in the event Bank elects to receive payments of Proceeds hereunder, to pay all expenses incurred by Bank in connection therewith, including expenses of accounting, correspondence, collection efforts, filing, recording, record keeping and expenses incidental thereto; (vii) to provide any service and do any other acts which may be necessary to keep all Collateral and Proceeds free and clear of all defenses, rights of offset and counterclaims; and (viii) if the Collateral or Proceeds consists of securities and so long as no Event of Default exists, to vote said securities and to give consents, waivers and ratifications with respect thereto, provided that no vote shall be cast or consent, waiver or ratification given or

action taken which would impair Bank's interests in the Collateral and Proceeds or be inconsistent with or violate any provisions of this Agreement.

7. POWERS OF BANK. Grantor appoints Bank its true attorney in fact to perform any of the following powers, which are coupled with an interest, are irrevocable until termination of this Agreement and may be exercised from time to time by Bank's officers and employees, or any of them: (a) while an Event of Default exists, to perform any obligation of Grantor hereunder in Grantor's name or otherwise; (b) to notify any person obligated on any security, instrument or other document subject to this Agreement of Bank's rights hereunder; (c) to collect by legal proceedings or otherwise all dividends, interest, principal or other sums now or hereafter payable upon or on account of the Collateral or Proceeds; (d) while an Event of Default exists, to enter into any extension, modification, reorganization, deposit, merger or consolidation agreement, or any other agreement relating to or affecting the Collateral or Proceeds, and in connection therewith to deposit or surrender control of the Collateral and Proceeds, to accept other property in exchange for the Collateral and Proceeds, and to do and perform such acts and things as Bank may deem proper, with any money or property received in exchange for the Collateral or Proceeds, at Bank's option, to be applied to the Indebtedness or held by Bank under this Agreement; (e) to accept other property in exchange for the Collateral and Proceeds, with any money or property received in exchange for the Collateral or Proceeds, at Bank's option, to be applied to the Indebtedness or held by Bank under this Agreement; (f) to make any compromise or settlement Bank deems desirable or proper in respect of the Collateral and Proceeds; (g) to insure, process and preserve the Collateral and Proceeds; (h) while an Event of Default exists, to exercise all rights, powers and remedies which Grantor would have, but for this Agreement, with respect to all Collateral and Proceeds subject hereto; and (i) to do all acts and things and execute all documents in the name of Grantor or otherwise, deemed by Bank as necessary, proper and convenient in connection with the preservation, perfection or enforcement of its rights hereunder. To effect the purposes of this Agreement or otherwise upon instructions of Grantor, or any of them, Bank may cause any Collateral and/or Proceeds to be transferred to Bank's name or the name of Bank's nominee. If an Event of Default has occurred and is continuing, any or all Collateral and/or Proceeds consisting of securities may be registered, without notice, in the name of Bank or its nominee, and thereafter Bank or its nominee may exercise, without notice, all voting and corporate rights at any meeting of the shareholders of the issuer thereof, any and all rights of conversion, exchange or subscription, or any other rights, privileges or options pertaining to such Collateral and/or Proceeds, all as if it were the absolute owner thereof. The foregoing shall include, without limitation, the right of Bank or its nominee to exchange, at its discretion, any and all Collateral and/or Proceeds upon the merger, consolidation, reorganization, recapitalization or other readjustment of the issuer thereof, or upon the exercise by the issuer thereof or Bank of any right, privilege or option pertaining to any shares of the Collateral and/or Proceeds, and in connection therewith, the right to deposit and deliver any and all of the Collateral and/or Proceeds with any committee, depository, transfer agent, registrar or other designated agency upon such terms and conditions as Bank may determine. All of the foregoing rights, privileges or options may be exercised without liability on the part of Bank or its nominee except to account for property actually

received by Bank. Bank shall have no duty to exercise any of the foregoing, or any other rights, privileges or options with respect to the Collateral or Proceeds and shall not be responsible for any failure to do so or delay in so doing.

8. PAYMENT OF PREMIUMS, TAXES, CHARGES, LIENS AND ASSESSMENTS. Grantor agrees to pay, prior to delinquency, all insurance premiums, taxes, charges, liens and assessments against the Collateral and Proceeds, and upon the failure of Grantor to do so, Bank at its option may pay any of them and shall be the sole judge of the legality or validity thereof and the amount necessary to discharge the same. Any such payments made by Bank shall be obligations of Grantor to Bank, due and payable immediately upon demand, together with interest at a rate determined in accordance with the provisions of this Agreement, and shall be secured by the Collateral and Proceeds, subject to all terms and conditions of this Agreement.

9. EVENTS OF DEFAULT. The occurrence of any of the following shall constitute an "Event of Default" under this Agreement: (a) any default in the payment or performance of any obligation, or any defined event of default, under (i) any contract or instrument evidencing any Indebtedness to Bank, (ii) any other agreement between Grantor or World of Jeans & Tops and Bank, including without limitation any loan agreement, relating to or executed in connection with any Indebtedness, or (iii) any contract or instrument evidencing any Indebtedness to any other person or entity in an individual principal amount of \$500,000 or more or with an aggregate principal amount of \$1,000,000 or more; (b) any representation or warranty made by Grantor herein shall prove to be incorrect, false or misleading in any material respect when made; (c) Grantor shall fail to observe or perform any obligation or agreement contained herein; (d) any impairment in the rights of Bank in any Collateral or Proceeds, or any attachment or like levy on any property of Grantor; and (e) Bank, in good faith, believes any or all of the Collateral and/or Proceeds to be in danger of misuse, dissipation, commingling, loss, theft, damage or destruction, or otherwise in jeopardy or unsatisfactory in character or value.

10. REMEDIES. Upon the occurrence of any Event of Default, Bank shall have the right to declare immediately due and payable all or any Indebtedness secured hereby and to terminate any commitments to make loans or otherwise extend credit to Grantor. Bank shall have all other rights, powers, privileges and remedies granted to a secured party upon default under the California Uniform Commercial Code or otherwise provided by law, including without limitation, the (a) right to contact all persons obligated to Grantor on any Collateral or Proceeds and to instruct such persons to deliver all Collateral and/or Proceeds directly to Bank, and (b) to sell, lease, license or otherwise dispose of any or all Collateral. All rights, powers, privileges and remedies of Bank shall be cumulative. No delay, failure or discontinuance of Bank in exercising any right, power, privilege or remedy hereunder shall affect or operate as a waiver of such right, power, privilege or remedy; nor shall any single or partial exercise of any such right, power, privilege or remedy preclude, waive or otherwise affect any other or further

exercise thereof or the exercise of any other right, power, privilege or remedy. Any waiver, permit, consent or approval of any kind by Bank of any default hereunder, or any such waiver of any provisions or conditions hereof, must be in writing and shall be effective only to the extent set forth in writing. It is agreed that public or private sales or other dispositions, for cash or on credit, to a wholesaler or retailer or investor, or user of property of the types subject to this Agreement, or public auctions, are all commercially reasonable since differences in the prices generally realized in the different kinds of dispositions are ordinarily offset by the differences in the costs and credit risks of such dispositions. While an Event of Default exists: (a) Grantor will not dispose of any Collateral or Proceeds except on terms approved by Bank; (b) Bank may appropriate the Collateral and apply all Proceeds toward repayment of the Indebtedness in such order of application as Bank may from time to time elect; (c) Bank may, at any time and at Bank's sole option, liquidate any time deposits pledged hereunder, whether or not said time deposits have matured and notwithstanding the fact that such liquidation may give rise to penalties for early withdrawal of funds; and (d) at Bank's request, Grantor will assemble and deliver all Collateral and Proceeds, and books and records pertaining thereto, to Bank at a reasonably convenient place designated by Bank. For any Collateral or Proceeds consisting of securities, Bank shall have no obligation to delay a disposition of any portion thereof for the period of time necessary to permit the issuer thereof to register such securities for public sale under any applicable state or Federal law, even if the issuer thereof would agree to do so. Grantor further agrees that Bank shall have no obligation to process or prepare any Collateral for sale or other disposition.

11. DISPOSITION OF COLLATERAL AND PROCEEDS; TRANSFER OF INDEBTEDNESS. In disposing of Collateral hereunder, Bank may disclaim all warranties of title, possession, quiet enjoyment and the like. Any proceeds of any disposition of any Collateral or Proceeds, or any part thereof, may be applied by Bank to the payment of expenses incurred by Bank in connection with the foregoing, including reasonable attorneys' fees, and the balance of such proceeds may be applied by Bank toward the payment of the Indebtedness in such order of application as Bank may from time to time elect. Upon the transfer of all or any part of the Indebtedness, Bank may transfer all or any part of the Collateral or Proceeds and shall be fully discharged thereafter from all liability and responsibility with respect to any of the foregoing so transferred, and the transferee shall be vested with all rights and powers of Bank hereunder with respect to any of the foregoing so transferred; but with respect to any Collateral or Proceeds not so transferred, Bank shall retain all rights, powers, privileges and remedies herein given.

12. STATUTE OF LIMITATIONS. Until all Indebtedness shall have been paid in full and all commitments by Bank to extend credit to Grantor have been terminated, the power of sale or other disposition and all other rights, powers, privileges and remedies granted to Bank hereunder shall continue to exist and may be exercised by Bank at any time and from time to time irrespective of the fact that the Indebtedness or any part thereof may have become barred by any statute of limitations, or

that the personal liability of Grantor may have ceased, unless such liability shall have ceased due to the payment in full of all Indebtedness secured hereunder.

13. MISCELLANEOUS. When there is more than one Grantor named herein: (a) the word "Grantor" shall mean all or any one or more of them as the context requires; (b) the obligations of each Grantor hereunder are joint and several; and (c) until all Indebtedness shall have been paid in full, no Grantor shall have any right of subrogation or contribution, and each Grantor hereby waives any benefit of or right to participate in any of the Collateral or Proceeds or any other security now or hereafter held by Bank. Grantor hereby waives any right to require Bank to (i) proceed against Grantor or any other person, (ii) marshal assets or proceed against or exhaust any security from Grantor or any other person, (iii) perform any obligation of Grantor with respect to any Collateral or Proceeds, and (d) make any presentment or demand, or give any notice of nonpayment or nonperformance, protest, notice of protest or notice of dishonor hereunder or in connection with any Collateral or Proceeds. Grantor further waives any right to direct the application of payments or security for any Indebtedness of Grantor or indebtedness of customers of Grantor.

14. NOTICES. All notices, requests and demands required under this Agreement must be in writing, addressed to Bank at the address specified in any other loan documents entered into between Grantor and Bank and to Grantor at the address of its chief executive office (or principal residence, if applicable) specified below or to such other address as any party may designate by written notice to each other party, and shall be deemed to have been given or made as follows: (a) if personally delivered, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or three (3) days after deposit in the U.S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

15. COSTS, EXPENSES AND ATTORNEYS' FEES. Grantor shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), expended or incurred by Bank in connection with (a) the perfection and preservation of the Collateral or Bank's interest therein, and (b) the realization, enforcement and exercise of any right, power, privilege or remedy conferred by this Agreement, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Grantor or in any way affecting any of the Collateral or Bank's ability to exercise any of its rights or remedies with respect thereto. If not paid when due, all of the foregoing shall be paid by Grantor with interest from the date of demand until paid in full at a rate per annum equal to the greater of ten percent (10%) or Bank's Prime Rate in effect from time to time.

16. SUCCESSORS; ASSIGNS; AMENDMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties, and may be amended or modified only in writing signed by Bank and Grantor.

17. RESERVED.

18. SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or any remaining provisions of this Agreement.

19. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

Grantor warrants that Grantor is an organization registered under the laws of the State of Delaware.

Grantor warrants that its chief executive office (or principal residence, if applicable) is located at the following address: 10 & 12 Whatney, Irvine, CA 92618.

[signature follows]

IN WITNESS WHEREOF, this Agreement has been duly executed as of May 3rd, 2012.

TILLY'S, INC.

By: /s/ Bill Langsdorf

Name: Bill Langsdorf

Title: Senior Vice President and
Chief Financial Officer

Signature Page to General Pledge Agreement

AMENDED AND RESTATED
SECURITY AGREEMENT: EQUIPMENT

WORLD OF JEANS & TOPS (“Debtor”) and WELLS FARGO BANK, NATIONAL ASSOCIATION (“Bank”) are parties to that certain Security Agreement—Equipment, dated as of May 22, 2006 (the “Existing Security Agreement”). The Existing Security Agreement secures Debtor’s obligations to Bank under the terms of that certain Credit Agreement dated as of May 1, 2003, as amended and restated by that certain Amended and Restated Credit Agreement dated as of the date hereof (and as it may hereafter be amended, restated, supplemented or otherwise modified from time to time, the “Credit Agreement”) pursuant to which Bank has made a loan or loans and other financial accommodations to Debtor. As a condition to Bank’s continuing to provide financial accommodations to Debtor pursuant to the Credit Agreement, Bank has requested, and Debtor has agreed, to amend and restate the terms of the Existing Security Agreement in its entirety pursuant to the terms of this Agreement, as set forth below.

1. GRANT OF SECURITY INTEREST. For valuable consideration, the undersigned Debtor hereby grants and transfers to Bank a security interest in all goods, tools, machinery, furnishings, furniture and other equipment, now or at any time hereafter, and prior to the termination hereof, owned or acquired by Debtor, wherever located, whether in the possession of Debtor or any other person and whether located on Debtor’s property or elsewhere, and all improvements, replacements, accessions and additions thereto and embedded software included therein and books and records relating thereto (collectively called “Collateral”), together with whatever is receivable or received when any of the Collateral or proceeds thereof are sold, leased, collected, exchanged or otherwise disposed of, whether such disposition is voluntary or involuntary, including without limitation, (a) all accounts, money, contract rights, chattel papers (whether electronic or tangible), instruments, promissory notes, documents, general intangibles, payment intangibles and other rights to payment of every kind now or at any time hereafter arising from any such sale, lease, collection, exchange or other disposition of any of the foregoing, (b) all rights to payment, including returned premiums, with respect to any insurance relation to any of the foregoing, and (c) all rights to payment with respect to any claim or cause of action affecting or relating to any of the foregoing (hereinafter called “Proceeds”).

2. OBLIGATIONS SECURED. The obligations secured hereby are the payment and performance of: (a) all present and future Indebtedness of Debtor to Bank; (b) all obligations of Debtor and rights of Bank under this Agreement; and (c) all present and future obligations of Debtor to Bank of other kinds. The word “Indebtedness” is used herein in its most comprehensive sense and includes any and all advances, debts, obligations and liabilities of Debtor, or any of them, heretofore, now or hereafter made, incurred or created, whether voluntary or involuntary and however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, and whether Debtor may be liable individually or jointly, or whether recovery upon such Indebtedness may be or hereafter becomes unenforceable.

3. TERMINATION. This Agreement will terminate upon the performance of all obligations of Debtor to Bank, including without limitation, the payment of all Indebtedness of Debtor to Bank, and the termination of all commitments of Bank to extend credit to Debtor, existing at the time Bank receives written notice from Debtor of the termination of this Agreement.

4. OBLIGATIONS OF BANK. Bank has no obligation to make any loans hereunder. Any money receiver by Bank in respect of the Collateral may be deposited, at Bank's option, into a non-interest bearing account over which Debtor shall have no control, and the same shall, for all purposes, be deemed Collateral hereunder.

5. REPRESENTATION AND WARRANTIES. Debtor represents and warrants to Bank that: (a) Debtor's legal name is exactly as set forth on the first page of this Agreement, and all of Debtor's organizational documents or agreements delivered to Bank are complete and accurate in every respect; (b) Debtor is the owner and has possession or control of the Collateral and Proceeds; (c) Debtor has the exclusive right to grant a security interest in the Collateral and Proceeds; (d) all Collateral and Proceeds are genuine, free from liens, adverse claims, setoffs, default, prepayment, defenses and conditions precedent of any kind or character, except the lien created hereby or as otherwise agreed to by Bank, or heretofore disclosed by Debtor to Bank in writing; (e) all statements contained herein are true and complete in all material respects; (f) no financing statement covering any of the Collateral or Proceeds, and naming any secured party other than Bank, is on file in any public office; and (g) Debtor is not in the business of selling goods of the kind included within the Collateral subject to this Agreement, and Debtor acknowledges that no sale or other disposition of any Collateral, including without limitations, any Collateral which Debtor may deem to be surplus, has been or shall be consented to or acquiesced in by Bank, except as specifically set forth in writing by Bank.

6. COVENANTS OF DEBTOR.

6.1 Debtor agrees in general: (a) to pay Indebtedness secured hereby when due; (b) to indemnify Bank against all losses, claims, demands, liabilities and expenses of every kind caused by property subject hereto; (c) to permit Bank to exercise its powers; (d) to execute and deliver such documents as Bank deems necessary to create, perfect and continue the security interests contemplated hereby; (e) not to change its name, and as applicable, its chief executive office, its principal residence or the jurisdiction in which it is organized and/or registered without giving Bank prior written notice thereof; (f) not to change the places where Debtor keeps any Collateral or Debtor's records concerning the Collateral and Proceeds without giving Bank prior written notice of the address to which Debtor is moving same; and (g) to cooperate with Bank in perfecting all security interests granted herein and in obtaining such agreements from third parties as Bank deems necessary, proper or convenient in connection with the preservation, perfection or enforcement of any of its rights hereunder.

6.2 Debtor agrees with regard to the Collateral and Proceeds, unless Bank agrees otherwise in writing: (a) that Bank is authorized to file financing statements in the name of Debtor to perfect Bank's security interest in Collateral and Proceeds; (b) to insure the Collateral with Bank named as loss payee, in form, substance and amounts, under agreements, against risks and liabilities, and with insurance companies satisfactory to Bank; (c) to operate the Collateral in accordance

with all applicable statutes, rules and regulations relating to the use and control thereof, and not to use the Collateral for any unlawful purpose or in any way that would void any insurance required to be carried in connection therewith; (d) not to permit any security interest in or lien on the Collateral or Proceeds, including without limitation, liens arising from repairs to or storage of the Collateral, except in favor of Bank; (e) to pay when due all license fees, registration fees and other charges in connection with any Collateral; (f) not to remove the Collateral from Debtor's premises except in the ordinary course of Debtor's business; (g) not to sell, hypothecate or otherwise dispose of, nor permit the transfer by operation of law of, any of the Collateral or Proceeds or any interest therein; (h) not to rent, lease or charter the Collateral; (i) to permit Bank to inspect the Collateral at any time; (j) to keep, in accordance with generally accepted accounting principles, complete and accurate records regarding all Collateral and Proceeds, and to permit Bank to inspect the same and make copies thereof at any reasonable time; (k) if requested by Bank, to receive and use reasonable diligence to collect Proceeds, in trust and as the property of Bank, and to immediately endorse as appropriate and deliver such Proceeds to Bank daily in the exact form in which they are received together with a collection report in form satisfactory to Bank; (l) not to commingle Proceeds or collections thereunder with other property; (m) to give only normal allowances and credits and to advise Bank thereof immediately in writing if they affect any Collateral or Proceeds in any material respect; (n) in the event Bank elects to receive payments of Proceeds hereunder, to pay all expenses incurred by Bank in connection therewith, including expenses of accounting, correspondence, collection efforts, reporting to account or contract debtors, filling, recording, record keeping and expenses incidental thereto; and (o) to provide any services and do any other acts which may be necessary to maintain, preserve and protect all Collateral and, as appropriate and applicable, to keep the Collateral in good and saleable condition and repair, to deal with the Collateral in accordance with the standards and practices adhered to generally by owners of like property, and to keep all Collateral and Proceeds free and clear of all defenses, rights of offset and counterclaims.

7. POWERS OF BANK. Debtor appoints Bank its true attorney-in-fact to perform any of the following powers, which are coupled with an interest, are irrevocable until termination of this Agreement and may be exercised from time to time by Bank's officers and employees, or any of them: (a) while an Event of Default exists, to perform any obligation of Debtor hereunder in Debtor's name or otherwise; (b) to give notice to account debtors or others of Bank's rights in the Collateral and Proceeds, to enforce or forebear from enforcing the same and, while an Event of Default exists, to make extension or modification agreements with respect thereto; (c) while an Event of Default exists, to release persons liable on Proceeds and to give receipts and acquittances and compromise disputes in connection therewith; (d) to release or substitute security; (e) to resort to security in any order; (f) to prepare, execute, file, record or deliver notes, assignments, schedules, designation statements, financing statements, continuation statements, termination statements, statements of assignment, applications for registration or like papers to perfect, preserve or release Bank's interest in the Collateral and Proceeds; (g) if Debtor has lockbox arrangements with Bank or while an Event of Default exists, to receive, open and read mail addressed to Debtor; (h) if Debtor has lockbox or cash management arrangements with Bank or while an Event of Default exists, to take cash, instruments for payment of money and other property to which Bank is entitled; (i) to verify facts concerning the Collateral and Proceeds by inquiry of obligors thereon, or otherwise, in its own name or a fictitious name; (j) if Debtor has lockbox arrangements with Bank or while an Event of Default exists, to endorse, collect, deliver and receive payment under instruments for the payment of money constituting or

relating to Proceeds; (k) while an Event of Default exists, to prepare, adjust, execute, deliver and receive payment under insurance claims, and to collect and receive payment of and endorse any instrument in payment of loss or returned premiums or any other insurance refund or return, and to apply such amounts received by Bank, at Bank's sole option, toward repayment of the Indebtedness or replacement of the Collateral; (l) while an Event of Default exists, to exercise all rights, powers and remedies which Debtor would have, but for this Agreement, with respect to all Collateral and Proceeds subject hereto; (m) to enter onto Debtor's premises in inspecting the Collateral at any reasonable time and, unless an Event of Default exists, with reasonable notice; and (n) to do all acts and things and execute all documents in the name of Debtor or otherwise, deemed by Bank as necessary, proper and convenient in connection with the preservation, perfection or enforcement of its rights hereunder.

8. PAYMENT OF PREMIUMS, TAXES, CHARGES, LIENS AND ASSESSMENTS. Debtor agrees to pay, prior to delinquency, all insurance premiums, taxes, charges, liens and assessments against the Collateral and Proceeds, and upon the failure of Debtor to do so, Bank at its option may pay any of them and shall be the sole judge of the legality or validity thereof and the amount necessary to discharge the same. Any such payments made by Bank shall be obligations of Debtor to Bank, due and payable immediately upon demand, together with interest at a rate determined in accordance with the provisions of this Agreement, and shall be secured by the Collateral and Proceeds, subject to all terms and conditions of this Agreement.

9. EVENTS OF DEFAULT. The occurrence of any of the following shall constitute an "Event of Default" under this Agreement: (a) any default in the payment or performance of any obligations or any defined event of default, under (i) any contract or instrument evidencing any Indebtedness to Bank, (ii) any other agreement between Debtor and Bank, including without limitation any loan agreement, relating to or executed in connection with any Indebtedness, or (iii) any contract or instrument evidencing any Indebtedness to any other person or entity in an individual principal amount of \$500,000 or more or with an aggregate principal amount of \$1,000,000 or more; (b) any representation or warranty made by Debtor herein shall prove to be incorrect, false or misleading in any material respect when made; (c) Debtor shall fail to observe or perform any obligation or agreement contained herein; (d) any impairment of the rights of Bank in any collateral or Proceeds, or any attachment or like levy on any property of Debtor; and (e) Bank, in good faith, believes any or all of the Collateral and/or Proceeds to be in danger of misuse, dissipation, commingling, loss, theft, damage or destruction, or otherwise in jeopardy or unsatisfactory in character or value.

10. REMEDIES. Upon the occurrence of any Event of Default, Bank shall have the right to declare immediately due and payable all or any Indebtedness secured hereby and to terminate any commitments to make loans or otherwise extend credit to Debtor. Bank shall have all other rights, powers, privileges and remedies granted to a secured party upon default under the California Uniform Commercial Code or otherwise provided by law, including without limitation, the right (a) to contact all persons obligated to Debtor on any Collateral or Proceeds and to instruct such persons to deliver all Collateral and/or Proceeds directly to Bank, and (b) to sell, lease, license or otherwise dispose of any or all Collateral. All rights, powers, privileges and remedies of Bank shall be cumulative. No delay, failure or discontinuance of Bank in exercising any right, power, privilege or remedy hereunder shall affect or operate as a waiver of such right, power, privilege or remedy; nor shall any single or partial exercise of any such right,

power, privilege or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power, privilege or remedy. Any waiver, permit, consent or approval of any kind by Bank of any default hereunder, or any such waiver of any provisions or conditions hereof, must be in writing and shall be effective only to the extent set forth in writing. It is agreed that public or private sales or other dispositions, for cash or on credit, to a wholesaler or retailer or investor, or user of property of the types subject to this Agreement, or public actions, are all commercially reasonable since differences in the prices generally realized in the different kinds of dispositions are ordinarily offset by the differences in the costs and credit risks of such dispositions. While an Event of Default exists: (a) Debtor will deliver to Bank from time to time, as requested by Bank, current lists of all Collateral and Proceeds; (b) Debtor will not dispose of any Collateral and Proceeds except on terms approved by Bank; (c) at Bank's request, Debtor will assemble and deliver all Collateral and Proceeds, and books and records pertaining thereto, to Bank at a reasonably convenient place designated by Bank; and (d) Bank may, without notice to Debtor, enter onto Debtor's premises and take possession of the Collateral. Debtor further agrees that Bank shall have no obligation to process or prepare any Collateral for sale or other disposition.

11. DISPOSITION OF COLLATERAL AND PROCEEDS; TRANSFER OF INDEBTEDNESS. In disposing of Collateral hereunder, Bank may disclaim all warranties of title, possession, quiet enjoyment and the like. Any proceeds of any disposition of any Collateral or Proceeds, or any part thereof, may be applied by Bank to the payment of expenses incurred by Bank in connection with the foregoing, including reasonable attorneys' fees, and the balance of such proceeds may be applied by Bank toward the payment of the Indebtedness in such order of application as Bank may from time to time elect. Upon transfer of all or any part of the Indebtedness, Bank may transfer all or any part of the Collateral or Proceeds and shall be fully discharged thereafter from all liability and responsibility with respect to any of the foregoing so transferred, and the transferee shall be vested with all rights and powers of Bank hereunder with respect to any of the foregoing so transferred; but with respect to any Collateral or Proceeds not so transferred Bank shall retain all rights, powers, privileges and remedies herein given.

12. STATUTE OF LIMITATIONS Until all Indebtedness shall have been paid in full and all commitments by Bank to extend credit to Debtor have been terminated, the power of sale or other disposition and all other rights, powers, privileges and remedies granted to Bank hereunder shall continue to exist and may be exercised by Bank at any time and from time to time irrespective of the fact that the Indebtedness or any part thereof may have become barred by any statute of limitations, or that the personal liability of Debtor may have ceased, unless such liability shall have ceased due to the payment in full of all Indebtedness secured hereunder.

13. MISCELLANEOUS. When there is more than one Debtor named herein: (a) the word "Debtor" shall mean all or any one or more of them as the context requires; (b) the obligations of each Debtor hereunder are joint and several; and (c) until all Indebtedness shall have been paid in full, no Debtor shall have any right of subrogation or contribution, and each Debtor hereby waives any benefit of or right to participate in any of the Collateral or Proceeds or any other security now or hereafter held by Bank. Debtor hereby waives any right to require Bank to (i) proceed against Debtor or any other person, (ii) marshal assets or proceed against or exhaust any security from Debtor or any other person, (iii) perform any obligation of Debtor with respect to any Collateral or Proceeds, and (d) make any presentment or demand, or give any notice of

nonpayment or nonperformance, protest, notice of protest or notice of dishonor hereunder or in connection with any Collateral or Proceeds. Debtor further waives any right to direct the application of payments or security for any Indebtedness of Debtor or indebtedness of customers of Debtor.

14. NOTICES. All notices, requests and demands required under this Agreement must be in writing, addressed to Bank at the address specified in any other loan documents entered into between Debtor and Bank and to Debtor at the address of its chief executive office (or principal residence, if applicable) specified below or to such other address as any party may designate by written notice to each other party, and shall be deemed to have been given or made as follows: (a) if personally delivered, upon delivery, (b) if sent by mail, upon the earlier of the date of receipt or 3 days after deposit in the U.S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

15. COSTS, EXPENSES AND ATTORNEYS' FEES. Debtor shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), expended or incurred by Bank in connection with (a) the perfection and preservation of the Collateral or Bank's interest therein and (b) the realization, enforcement and exercise of any right, power, privilege or remedy conferred by this Agreement, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Debtor or in any way affecting any of the Collateral or Bank's ability to exercise any of its rights or remedies with respect thereto. If not paid when due, all of the foregoing shall be paid by Debtor with interest from the date of demand until paid in full at a rate per annum equal to the greater of ten percent (10%) or Bank's Prime Rate in effect from time to time.

16. SUCCESSORS; ASSIGNS; AMENDMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties, and may be amended or modified only in writing signed by Bank and Debtor.

17. RESERVED.

18. SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or any remaining provisions of this Agreement.

19. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

20. ADDITIONAL REPRESENTATIONS AND WARRANTIES

(a) Debtor warrants that Debtor is an organization registered under the laws of California.

(b) Debtor warrants that its chief executive office (or principal residence, if applicable) is located at the following address: 10 & 12 Whatney, Irvine, CA 92618-2807

(c) Debtor warrants that the Collateral (except goods in transit) is located or domiciled at the following additional address: "See Exhibit A attached hereto and incorporated herein by this reference".

21. NO NOVATION OR IMPAIRMENT OF SECURITY INTERESTS This Agreement shall not cause a novation or termination of any of the obligations of Debtor under the Existing Security Agreement or the other loan documents executed in connection with the Existing Security Agreement, nor shall it extinguish, discharge, terminate or impair Debtor's obligations or Bank's rights or remedies under any Existing Security Agreement and such other loan documents; provided that all such obligations, rights and remedies shall be on the terms and conditions of, and as set forth in, this Agreement and the other Loan Documents related hereto. In addition, this Agreement shall not release, limit or impair in any way the priority of any security interests and liens held by Bank against any assets of Debtor arising under the Existing Security Agreements or such other loan documents.

[signature follows]

IN WITNESS WHEREOF, this Agreement has been duly executed as of May 3rd, 2012.

WORLD OF JEANS & TOPS

By: /s/ Bill Langsdorf

Name: Bill Langsdorf
Title: Senior Vice President and
Chief Financial Officer

*Signature Page to Amended and Restated
Security Agreement: Equipment*

AMENDED AND RESTATED
CONTINUING SECURITY AGREEMENT:
RIGHTS TO PAYMENT AND INVENTORY

WORLD OF JEANS & TOPS (“Debtor”) and WELLS FARGO BANK, NATIONAL ASSOCIATION (“Bank”) are parties to that certain Continuing Security Agreement—Rights to Payment and Inventory, dated as of August 1, 2010 (the “Existing Security Agreement”). The Existing Security Agreement secures Debtor’s obligations to Bank under the terms of that certain Credit Agreement dated as of May 1, 2003, as amended and restated by that certain Amended and Restated Credit Agreement dated as of the date hereof (and as it may hereafter be amended, restated, supplemented or otherwise modified from time to time, the “Credit Agreement”) pursuant to which Bank has made a loan or loans and other financial accommodations to Debtor. As a condition to Bank’s continuing to provide financial accommodations to Debtor pursuant to the Credit Agreement, Bank has requested, and Debtor has agreed, to amend and restate the terms of the Existing Security Agreement in its entirety pursuant to the terms of this Agreement, as set forth below.

1. GRANT OF SECURITY INTEREST. For valuable consideration, the undersigned Debtor hereby grants and transfers to Bank a security interest in all accounts, deposit accounts, money, chattel paper (whether electronic or tangible), instruments, promissory notes, documents, general intangibles, including all intellectual property, payment intangibles, software, letter of credit rights, health-care insurance receivables and other rights to payment (collectively called “Rights to Payment”), now existing or at any time hereafter, and prior to the termination hereof, arising (whether they arise from the sale, lease or other disposition of inventory or from performance of contracts for service, manufacture, construction, repair or otherwise or from any other source whatsoever), including all securities, guaranties, warranties, indemnity agreements, insurance policies, supporting obligations and other agreements and any books and records pertaining to the same or the property described therein, and in all goods returned by or repossessed from Debtor’s customers, together with a security interest in all inventory, goods held for sale or lease or to be furnished under contracts for service, goods so leased or furnished, raw materials, component parts and embedded software, work in process or materials used or consumed in Debtor’s business and all warehouse receipts, bills of lading and other documents evidencing goods owned or acquired by Debtor, and all goods covered thereby, now or at any time hereafter, and prior to the termination hereof, owned or acquired by Debtor, wherever located, and all products thereof and all books and records relating thereto; (collectively called “Inventory”), whether in the possession of Debtor, warehousemen, bailees or any other person, or in process of delivery and whether located at Debtor’s places of business or elsewhere (with all Rights to Payment and Inventory referred to herein collectively as the “Collateral”), together with whatever is receivable or received when any of the Collateral or proceeds thereof are sold, leased, collected, exchanged or otherwise disposed of, whether such disposition is voluntary or involuntary, including without limitation, all Rights to Payment, including returned premiums, with respect to any insurance relating to any of the foregoing, and all Rights to Payment with respect to any claim or cause of action affecting or relating to any of the foregoing (hereinafter called “Proceeds”).

2. OBLIGATIONS SECURED. The obligations secured hereby are the payment and

performance of: (a) all present and future Indebtedness of Debtor to Bank; (b) all obligations of Debtor and rights of Bank under this Agreement; and (c) all present and future obligations of Debtor to Bank of other kinds. The word "Indebtedness" is used herein its most comprehensive sense and includes any and all advances, debts, obligations and liabilities of Debtor, or any of them, heretofore, now or hereafter made, incurred or created, whether voluntary or involuntary and however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, including under any swap, derivative, foreign exchange, hedge, deposit, treasury management or other similar transaction or arrangement, and whether Debtor may be liable individually or jointly, or whether recovery upon such Indebtedness may be or hereafter becomes unenforceable.

3. TERMINATION. This Agreement will terminate upon the performance of all obligations of Debtor to Bank, including without limitation, the payment of all Indebtedness of Debtor to Bank, and the termination of all commitments of Bank to extend credit to Debtor, existing at the time Bank receives written notice from Debtor of the termination of this Agreement.

4. OBLIGATIONS OF BANK. Bank has no obligation to make any loans hereunder. Any money received by Bank in respect of the Collateral may be deposited, at Bank's option, into a non-interest bearing account over which Debtor shall have no control, and the same shall, for all purposes, be deemed Collateral hereunder.

5. REPRESENTATION AND WARRANTIES. Debtor represents and warrants to Bank that: (a) Debtor's legal name is exactly as set forth on the first page of this Agreement, and all of the Debtor's organizational documents or agreements delivered to Bank are complete and accurate in every respect; (b) Debtor is the owner and has possession or control of the Collateral and Proceeds; (c) Debtor has the exclusive right to grant a security interest in the Collateral and Proceeds; (d) all Collateral and Proceeds are genuine, free from liens, adverse claims, setoffs, defaults, prepayment, defenses and conditions precedent of any kind or character, except the lien created hereby or as otherwise agreed to by Bank, or heretofore disclosed by Debtor to Bank, in writing; (e) all statements contained herein and, where applicable, in the Collateral are true and complete in all material respects; (f) no financing statement covering any of the Collateral or Proceeds, and naming any secured party other than Bank, is on file in any public office; (g) all persons appearing to be obligated on Rights to Payment and Proceeds have authority and capacity to contract and are bound as they appear to be; (h) all property subject to chattel paper has been properly registered and filed in compliance with law and to perfect the interest of Debtor in such property; and (i) all Rights to Payment and Proceeds comply with all applicable laws concerning form, content and manner of preparation and execution, including where applicable Federal Reserve Regulation Z and any State consumer credit laws.

6. COVENANTS OF DEBTOR.

6.1 Debtor agrees in general: (a) to pay Indebtedness secured hereby when due; (b) to indemnify Bank against all losses, claims, demands, liabilities and expenses of every kind caused by property subject hereto; (c) to permit Bank to exercise its powers; (d) to execute and deliver such documents as Bank deems necessary to create, perfect and continue the security interests contemplated hereby; (e) not to change its name, and as applicable, its chief executive office, its

principal residence or the jurisdiction in which it is organized and/or registered without giving Bank prior written notice thereof; (f) not to change the places where Debtor keeps any Collateral or Debtor's records concerning the Collateral and Proceeds without giving Bank prior written notice of the address to which Debtor is moving same; and (g) to cooperate with Bank in perfecting all security interests granted herein and in obtaining such agreements from third parties as Bank deems necessary, proper or convenient in connection with the preservation, perfection or enforcement of any of its rights hereunder.

6.2 Debtor agrees with regard to the Collateral and Proceeds, unless Bank agrees otherwise in writing: (a) that Bank is authorized to file financing statements in the name of Debtor to perfect Bank's security interest in Collateral and Proceeds; (b) to insure Inventory and, where applicable, Rights to Payment with Bank named as loss payee, in form, substance and amounts, under agreements, against risks and liabilities, and with insurance companies satisfactory to Bank; (c) not to use any Inventory for any unlawful purpose or in any way that would void any insurance required to be carried in connection therewith; (d) not to remove Inventory from Debtor's premises except in the ordinary course of Debtor's business; (e) not to permit any security interest in or lien on the Collateral or Proceeds, including without limitation, liens arising from the storage of Inventory, except in favor of Bank; (f) not to sell, hypothecate or otherwise dispose of, nor permit the transfer by operation of law of, any of the Collateral or Proceeds or any interest therein, except sales of Inventory to buyers in the ordinary course of Debtor's business; (g) to furnish reports to Bank of all acquisitions, returns, sales and other dispositions of the Inventory in such form and detail and at such times as Bank may require; (h) to permit Bank to inspect the Collateral at any time; (i) to keep, in accordance with generally accepted accounting principles, complete and accurate records regarding all Collateral and Proceeds, and to permit Bank to inspect the same and make copies thereof at any reasonable time; (j) if requested by Bank, to receive and use reasonable diligence to collect Rights to Payment and Proceeds, in trust and as the property of Bank, and to immediately endorse as appropriate and deliver such Rights to Payment and Proceeds to Bank daily in the exact form in which they are received together with a collection report in form satisfactory to Bank; (k) not to commingle Rights to Payment, Proceeds or collections thereunder with other property; (l) to give only normal allowances and credits and to advise Bank thereof immediately in writing if they affect any Rights to Payment or Proceeds in any material respect; (m) on demand, to deliver to Bank returned property resulting from, or payment equal to, such allowances or credits on any Rights to Payment or Proceeds or to execute such documents and do such other things as Bank may reasonably request for the purpose of perfecting, preserving and enforcing its security interest in such returned property; (n) from time to time, when requested by Bank to prepare and deliver a schedule of all Collateral and Proceeds subject to this Agreement and to assign in writing and deliver to Bank all accounts, contracts, leases and other chattel paper; instruments, documents and other evidences thereof; (o) in the event Bank elects to receive payments of Rights to Payment or Proceeds hereunder, to pay all expenses incurred by Bank in connection therewith, including expenses of accounting, correspondence, collection efforts, reporting to account or contract debtors, filling, recording, record keeping and expenses incidental thereto; and (p) to provide any services and do any other acts which may be necessary to maintain, preserve and protect all Collateral and, as appropriate and applicable, to keep all Collateral in good and saleable condition in accordance with the standards and practices adhered to generally by users and manufactures of like property, and to keep all Collateral and Proceeds free and clear of all defenses, rights of offset and counterclaims.

7. **POWERS OF BANK.** Debtor appoints Bank its true attorney-in-fact to perform any of the following powers, which are coupled with an interest, are irrevocable until termination of this Agreement and may be exercised from time to time by Bank's officers and employees, or any of them: (a) while an Event of Default exists, to perform any obligation of Debtor hereunder in Debtor's name or otherwise; (b) to give notice to account debtors or others of Bank's rights in the Collateral and Proceeds, to enforce or forebear from enforcing the same and, while an Event of Default exists, make extension or modification agreements with respect thereto; (c) while an Event of Default exists, to release persons liable on Proceeds and to give receipts and acquittances and compromise disputes in connection therewith; (d) to release or substitute security; (e) to resort to security in any order; (f) to prepare, execute, file, record or deliver notes, assignments, schedules, designation statements, financing statements, continuation statements, termination statements, statements of assignment, applications for registration or like papers to perfect, preserve or release Bank's interest in the Collateral and Proceeds; (g) if Debtor has lockbox arrangements with Bank or while an Event of Default exists, to receive, open and read mail addressed to Debtor; (h) if Debtor has lockbox or cash management arrangements with Bank or while an Event of Default exists, to take cash, instruments for the payment of money and other property to which Bank is entitled; (i) to verify facts concerning the Collateral and Proceeds by inquiry of obligors thereon, or otherwise, in its own name or a fictitious name; (j) if Debtor has lockbox arrangements with Bank or while an Event of Default exists, to endorse, collect, deliver and receive payment under instruments for the payment of money constituting or relating to Proceeds; (k) while an Event of Default exists, to prepare, adjust, execute, deliver and receive payment under insurance claims, and to collect and receive payment of and endorse any instrument in payment of loss or returned premiums or any other insurance refund or return, and to apply such amounts received by Bank, at Bank's sole option, toward repayment of the Indebtedness or replacement of the Collateral; (l) while an Event of Default exists, to exercise all rights, powers and remedies which Debtor would have, but for this Agreement, with respect to all Collateral and Proceeds subject hereto; (m) to enter onto Debtor's premises in inspecting the Collateral at any reasonable time and, unless an Event of Default exists, with reasonable notice; (n) if Debtor has lockbox or cash management arrangements with Bank or while an Event of Default exists, to make withdrawals from and to close deposit accounts or other accounts with any financial institution, wherever located, into which Proceeds may have been deposited, and to apply funds so withdrawn to payment of the Indebtedness; (o) to preserve or release the interest evidenced by chattel paper to which Bank is entitled hereunder and to endorse and deliver any evidence of title incidental thereto; and (p) to do all acts and things and execute all documents in the name of Debtor or otherwise, deemed by Bank as necessary, proper and convenient in connection with the preservation, perfection or enforcement of its rights hereunder.

8. **PAYMENT OF PREMIUMS, TAXES, CHARGES, LIENS AND ASSESSMENTS.** Debtor agrees to pay, prior to delinquency, all insurance premiums, taxes, charges, liens and assessments against the Collateral and Proceeds, and upon the failure of Debtor to do so, Bank at its option may pay any of them and shall be the sole judge of the legality or validity thereof and the amount necessary to discharge the same. Any such payments made by Bank shall be obligations of Debtor to Bank, due and payable immediately upon demand, together with interest at a rate determined in accordance with the provisions of the Agreement, and shall be secured by the Collateral and Proceeds, subject to all terms and conditions of this Agreement.

9. **EVENTS OF DEFAULT.** The occurrence of any of the following shall constitute an

“Event of Default” under this Agreement: (a) any default in the payment or performance of any obligation, or any defined event of default, under (i) any contract or instrument evidencing any Indebtedness to Bank, (ii) any other agreement between Debtor and Bank, including without limitation any loan agreement, relating to or executed in connection with any Indebtedness, or (iii) any contract or instrument evidencing any Indebtedness to any other person or entity in an individual principal amount of \$500,000 or more or with an aggregate principal amount of \$1,000,000 or more; (b) any representation or warranty made by Debtor herein shall prove to be incorrect, false or misleading in any material respect when made; (c) Debtor shall fail to observe or perform any obligation or agreement contained herein; (d) any impairment of the rights of Bank in any Collateral or Proceeds, or any attachment or like levy on any property of Debtor; and (e) Bank, in good faith, believes any or all of the Collateral and/or Proceeds to be in danger of misuse, dissipation, commingling, loss, theft, damage or destruction, or otherwise in jeopardy or unsatisfactory in character or value.

10. REMEDIES. Upon the occurrence of any Event of Default, Bank shall have the right to declare immediately due and payable all or any Indebtedness secured hereby and to terminate any commitments to make loans or otherwise extend credit to Debtor. Bank shall have all other rights, powers, privileges and remedies granted to a secured party upon default under the California Uniform Commercial Code or otherwise provided by law, including without limitation, the right (a) to contact all persons obligated to Debtor on any Collateral or Proceeds and to instruct such persons to deliver all Collateral and/or Proceeds directly to Bank, and (b) to sell, lease, license, or otherwise dispose of any or all Collateral. All rights, powers, privileges and remedies of Bank shall be cumulative. No delay, failure or discontinuance of Bank in exercising any right, power, privilege or remedy hereunder shall affect or operate as a waiver of such right, power, privilege or remedy; nor shall any single or partial exercise of any such right, power, privilege or preclude, waive or otherwise affect any other or future exercise thereof or the exercise of any other right, power, privilege or remedy. Any waiver, permit, consent, or approval of any kind by Bank of any default hereunder, or any such waiver of any provisions or conditions hereof, must be in writing and shall be effective only to the extent set forth in writing. It is agreed that public or private sales or other dispositions, for cash or on credit, to a wholesaler or retailer or investor, or user of property of the types subject to this Agreement, or public auctions, are all commercially reasonable since differences in the prices generally realized in different kinds of dispositions are ordinarily offset by the differences in the costs and credit risks of such dispositions. While an Event of Default exists: (a) Debtor will deliver to Bank from time to time, as requested by Bank, current lists of all Collateral and Proceeds; (b) Debtor will not dispose of any Collateral or Proceeds except on terms approved by Bank; (c) at Bank’s request, Debtor will assemble and deliver all Collateral and Proceeds, and books and records pertaining thereto, to Bank at a reasonably convenient place designated by Bank; and (d) Bank may, without notice to Debtor, enter onto Debtor’s premises and take possession of the Collateral. With respect to any sale by Bank of any Collateral subject to this Agreement, Debtor hereby expressly grants to Bank the right to sell such Collateral using any or all of Debtor’s trademarks, trade names, trade name rights and/or proprietary labels or marks. Debtor further agrees that Bank shall have no obligation to process or prepare any Collateral for sale or other disposition.

11. DISPOSITION OF COLLATERAL AND PROCEEDS; TRANSFER OF INDEBTEDNESS. In disposing of Collateral hereunder, Bank may disclaim all warranties of

title, possession, quiet enjoyment and the like. Any proceeds of any disposition of any Collateral or Proceeds, or any part thereof, may be applied by Bank to the payment of expenses incurred by Bank in connection with the foregoing, including reasonable attorneys' fees, and the balance of such proceeds may be applied by Bank toward the payment of the Indebtedness in such order of application as Bank may from time to time elect. Upon the transfer of all or any part of the Indebtedness, Bank may transfer all or any part of the Collateral or Proceeds and shall be fully discharged thereafter from all liability and responsibility with respect to any of the foregoing so transferred, and the transferee shall be vested with all rights and powers of Bank hereunder with respect to any of the foregoing so transferred; but with respect to any Collateral or Proceeds not so transferred Bank shall retain all rights, powers, privileges and remedies herein given.

12. STATUTE OF LIMITATIONS Until all Indebtedness shall have been paid in full and all commitments by Bank to extend credit to Debtor have been terminated, the power of sale or other rights, powers, privileges and remedies granted to Bank hereunder shall continue to exist and may be exercised by Bank at any time and from time to time irrespective of the fact that the Indebtedness or any part thereof may have become barred by any statute of limitations, or that the personal liability of Debtor may have ceased, unless such liability shall have ceased due to the payment in full of all Indebtedness secured hereunder.

13. MISCELLANEOUS. When there is more than one Debtor named herein: (a) the word "Debtor" shall mean all or any one or more of them as the context requires; (b) the obligations of each Debtor hereunder are joint and several; and (c) until all Indebtedness shall have been paid in full, no Debtor shall have any right of subrogation or contribution, and each Debtor hereby waives any benefit of or right to participate in any of the Collateral or Proceeds or any other security now or hereafter held by Bank. Debtor hereby waives any right to require Bank to (i) proceed against Debtor or any other person, (ii) marshal assets or proceed against or exhaust any security from Debtor or any other person, (iii) perform any obligation of Debtor with respect to any Collateral or Proceeds, and (d) make any presentment or demand, or give any notice of nonpayment of nonperformance, protest, notice of protest or notice of dishonor hereunder or in connection with any Collateral or Proceeds. Debtor further waives any right to direct the application of payments or security for any Indebtedness of Debtor or Indebtedness of customers of Debtor.

14. NOTICES. All notices, requests and demands required under this Agreement must be in writing, addressed to Bank at the address specified in any other loan documents entered into between Debtor and Bank and to Debtor at the address of its chief executive office (or principal residence, if applicable) specified below or to such other address as any party may designate by written notice to each other party, and shall be deemed to have been given or made as follows: (a) if personally delivered, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or 3 days after deposit in the U.S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

15. COSTS, EXPENSES AND ATTORNEYS' FEES. Debtor shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), expended or incurred by Bank in connection with (a) the perfection and preservation of the Collateral or Bank's interest therein, and (b) the realization,

enforcement and exercise of any right, power, privilege or remedy conferred by this Agreement, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Debtor or in any way affecting any of the Collateral or Bank's ability to exercise any of its rights or remedies with respect thereto. If not paid when due, all of the foregoing shall be paid by Debtor with interest from the date of demand until paid in full at a rate per annum equal to the greater of ten percent (10%) or Bank's Prime Rate in effect from time to time.

16. SUCCESSORS; ASSIGNS; AMENDMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties, and may be amended or modified only in writing signed by Bank and Debtor.

17. RESERVED.

18. SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibitions or invalidity, without invalidating the remainder of such provision or any remaining provisions of this Agreement.

19. GOVERNING LAW. This Agreement shall be governed by and constructed in accordance with the laws of the State of California.

20. ADDITIONAL REPRESENTATIONS AND WARRANTIES

(a) Debtor warrants that Debtor is an organization registered under the laws of California.

(b) Debtor warrants that its chief executive office (or principal residence, if applicable) is located at the following address: 10 & 12 Whatney, Irvine, CA 92618

(c) Debtor warrants that the Collateral (except goods in transit) is located or domiciled at the following additional address: "See Exhibit A attached hereto and incorporated herein by this reference".

21. NO NOVATION OR IMPAIRMENT OF SECURITY INTERESTS This Agreement shall not cause a novation or termination of any of the obligations of Debtor under the Existing Security Agreement or the other loan documents executed in connection with the Existing Security Agreement, nor shall it extinguish, discharge, terminate or impair Debtor's obligations or Bank's rights or remedies under any Existing Security Agreement and such other loan documents; provided that all such obligations, rights and remedies shall be on the terms and conditions of, and as set forth in, this Agreement and the other Loan Documents related hereto. In addition, this Agreement shall not release, limit or impair in any way the priority of any security interests and liens held by Bank against any assets of Debtor arising under the Existing Security Agreements or such other loan documents.

IN WITNESS WHEREOF, this Agreement has been duly executed as of May 3rd, 2012.

WORLD OF JEANS & TOPS

By: /s/ Bill Langsdorf

Name: Bill Langsdorf

Title: Senior Vice President and
Chief Financial Officer

*Signature Page to Amended and Restated
Continuing Security Agreement: Rights to Payment and Inventory*

CONTINUING GUARANTY

TO: WELLS FARGO BANK, NATIONAL ASSOCIATION

1. GUARANTY; DEFINITIONS. In consideration of any credit or other financial accommodation heretofore, now or hereafter extended or made to WORLD OF JEANS & TOPS, a California corporation ("Borrower"), by WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank"), and for other valuable consideration, the undersigned TILLY'S, INC., a Delaware corporation ("Guarantor"), jointly and severally unconditionally guarantees and promises to pay to Bank, or order, on demand in lawful money of the United States of America and in immediately available funds, any and all Indebtedness of the Borrower to Bank. The term "Indebtedness" is used herein in its most comprehensive sense and includes any and all advances, debts, obligations and liabilities of Borrower heretofore, now or hereafter made, incurred or created, whether voluntary or involuntary and however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, including under any swap, derivative, foreign exchange, hedge, deposit, treasury management or other similar transaction or arrangement, and whether the Borrower may be liable individually or jointly with others, or whether recovery upon such Indebtedness may be or hereafter becomes unenforceable. This Guaranty is a guaranty of payment and not collection.

2. SUCCESSIVE TRANSACTIONS; REVOCATION; OBLIGATION UNDER OTHER GUARANTIES. This is a continuing guaranty and all rights, powers and remedies hereunder shall apply to all past, present and future Indebtedness of the Borrower to Bank, including that arising under successive transactions which shall either continue the Indebtedness, increase or decrease it, or from time to time create new Indebtedness after all or any prior Indebtedness has been satisfied, and notwithstanding the death, incapacity, dissolution, liquidation or bankruptcy of the Borrower or Guarantor or any other event or proceeding affecting the Borrower or Guarantor. This Guaranty shall not apply to any new Indebtedness created after actual receipt by Bank of written notice of its revocation as to such new Indebtedness; provided however, that loans or advances made by Bank to the Borrower after revocation under commitments existing prior to receipt by Bank of such revocation, and extensions, renewals or modifications, of any kind, of Indebtedness incurred by the Borrower or committed by Bank prior to receipt by Bank of such revocation, shall not be considered new Indebtedness. Any such notice must be sent to Bank by registered U.S. mail, postage prepaid, addressed to its office at 2030 Main Street, Suite 900, Irvine, California 92614, or at such other address as Bank shall from time to time designate. Any payment by Guarantor shall not reduce Guarantor's maximum obligation hereunder unless written notice to that effect is actually received by Bank at or prior to the time of such payment. The obligations of Guarantor hereunder shall be in addition to any obligations of Guarantor under any other guaranties

of any liabilities or obligations of the Borrower or any other persons heretofore or hereafter given to Bank unless said other guaranties are expressly modified or revoked in writing; and this Guaranty shall not, unless expressly herein provided, affect or invalidate any such other guaranties.

3. OBLIGATIONS JOINT AND SEVERAL; SEPARATE ACTIONS; WAIVER OF STATUTE OF LIMITATIONS; REINSTATEMENT OF LIABILITY. The obligations hereunder are joint and several and independent of the obligations of Borrower, and a separate action or actions may be brought and prosecuted against Guarantor whether action is brought against the Borrower or any other person, or whether the Borrower or any other person is joined in any such action or actions. Guarantor acknowledges that this Guaranty is absolute and unconditional, there are no conditions precedent to the effectiveness of this Guaranty, and this Guaranty is in full force and effect and is binding on Guarantor as of the date written below, regardless of whether Bank obtains collateral or any guaranties from others or takes any other action contemplated by Guarantor. Guarantor waives the benefit of any statute of limitations affecting Guarantor's liability hereunder or the enforcement thereof, and Guarantor agrees that any payment of any Indebtedness or other act which shall toll any statute of limitations applicable thereto shall similarly operate to toll such statute of limitations applicable to Guarantor's liability hereunder. The liability of Guarantor hereunder shall be reinstated and revived and the rights of Bank shall continue if and to the extent for any reason any amount at any time paid on account of any Indebtedness guaranteed hereby is rescinded or must otherwise be restored by Bank, whether as a result of any proceedings in bankruptcy or reorganization or otherwise, all as though such amount had not been paid. The determination as to whether any amount so paid must be rescinded or restored shall be made by Bank in its sole discretion; provided however, that if Bank chooses to contest any such matter at the request of Guarantor, Guarantor agrees to indemnify and hold Bank harmless from and against all costs and expenses, including reasonable attorneys' fees, expended or incurred by Bank in connection therewith, including without limitation, in any litigation with respect thereto.

4. AUTHORIZATIONS TO BANK. Guarantor authorizes Bank either before or after revocation hereof, without notice to or demand on Guarantor, and without affecting Guarantor's liability hereunder, from time to time to: (a) alter, compromise, renew, extend, accelerate or otherwise change the time for payment of, or otherwise change the terms of the Indebtedness or any portion thereof, including increase or decrease of the rate of interest thereon; (b) take and hold security for the payment of this Guaranty or the Indebtedness or any portion thereof, and exchange, enforce, waive, subordinate or release any such security; (c) apply such security and direct the order or manner of sale thereof, including without limitation, a non-judicial sale permitted by the terms of the controlling security agreement, mortgage or deed of trust, as Bank in its discretion may determine; (d) release or substitute any one or more of the endorsers or any other guarantors of the Indebtedness, or any portion thereof, or any other party thereto; and (e) apply payments received by Bank from the Borrower to any Indebtedness of the Borrower to Bank, in such order as Bank shall determine in its sole discretion, whether or not such Indebtedness is covered by this Guaranty, and Guarantor hereby waives any

provision of law regarding application of payments which specifies otherwise. Bank may without notice assign this Guaranty in whole or in part. Upon Bank's request, Guarantor agrees to provide to Bank copies of Guarantor's financial statements.

5. REPRESENTATIONS AND WARRANTIES; COVENANTS.

(a) Guarantor represents and warrants to Bank that: (i) this Guaranty is executed at Borrower's request; (ii) Guarantor shall not, without Bank's prior written consent, sell, lease, assign, encumber, hypothecate, transfer or otherwise dispose of all or a substantial or material part of Guarantor's assets other than in the ordinary course of Guarantor's business; (iii) Bank has made no representation to Guarantor as to the creditworthiness of the Borrower; and (iv) Guarantor has established adequate means of obtaining from the Borrower on a continuing basis financial and other information pertaining to Borrower's financial condition. Guarantor agrees to keep adequately informed from such means of any facts, events or circumstances which might in any way affect Guarantor's risks hereunder, and Guarantor further agrees that Bank shall have no obligation to disclose to Guarantor any information or material about the Borrower which is acquired by Bank in any manner.

(b) Guarantor agrees that, so long as any part of the Indebtedness of the Borrower to Bank shall remain unpaid, Guarantor will perform or observe all of the terms, covenants and agreements set forth in the Loan Documents (as such term is defined in the Amended and Restated Credit Agreement dated as of the date hereof between Borrower and Bank, as it may hereafter be amended, restated, supplemented or otherwise modified from time to time) that refer or apply to Guarantor.

6. GUARANTOR'S WAIVERS.

(a) Guarantor waives any right to require Bank to: (i) proceed against the Borrower or any other person; (ii) marshal assets or proceed against or exhaust any security held from the Borrower or any other person; (iii) give notice of the terms, time and place of any public or private sale or other disposition of personal property security held from the Borrower or any other person; (iv) take any other action or pursue any other remedy in Bank's power; or (v) make any presentment or demand for performance, or give any notice of nonperformance, protest, notice of protest or notice of dishonor hereunder or in connection with any obligations or evidences of indebtedness held by Bank as security for or which constitute in whole or in part the Indebtedness guaranteed hereunder, or in connection with the creation of new or additional Indebtedness.

(b) Guarantor waives any defense to its obligations hereunder based upon or arising by reason of: (i) any disability or other defense of the Borrower or any other person; (ii) the cessation or limitation from any cause whatsoever, other than payment in full, of the Indebtedness of the Borrower or any other person; (iii) any lack of authority of any officer, director, partner, agent or any other person acting or purporting to act on behalf of the Borrower which is a corporation, partnership or other type of entity, or any defect in the formation of the Borrower; (iv) the application by the Borrower of the proceeds of any Indebtedness for purposes other than the purposes represented by the Borrower to, or intended or understood by, Bank or Guarantor; (v) any act or omission by Bank which directly or indirectly results in or aids the discharge of the Borrower or any portion of the Indebtedness by operation of law or otherwise, or which in any way impairs or suspends any rights or remedies of Bank against the Borrower; (vi) any impairment of the value of any interest in any security for the Indebtedness or any portion thereof, including without limitation, the failure to obtain or maintain perfection or recordation of any interest in any such security, the release of any such security without substitution, and/or the failure to preserve the value of, or to comply with applicable law in disposing of, any such security; (vii) any modification of the Indebtedness, in any form whatsoever, including any modification made after revocation hereof to any Indebtedness incurred prior to such revocation, and including without limitation the renewal, extension, acceleration or other change in time for payment of, or other change in the terms of, the Indebtedness or any portion thereof, including increase or decrease of the rate of interest thereon; or (viii) any requirement that Bank give any notice of acceptance of this Guaranty. Until all Indebtedness shall have been paid in full, Guarantor shall have no right of subrogation, and Guarantor waives any right to enforce any remedy which Bank now has or may hereafter have against the Borrower or any other person, and waives any benefit of, or any right to participate in, any security now or hereafter held by Bank. Guarantor further waives all rights and defenses Guarantor may have arising out of (A) any election of remedies by Bank, even though that election of remedies, such as a non-judicial foreclosure with respect to any security for any portion of the Indebtedness, destroys Guarantor's rights of subrogation or Guarantor's rights to proceed against the Borrower for reimbursement, or (B) any loss of rights Guarantor may suffer by reason of any rights, powers or remedies of the Borrower in connection with any anti-deficiency laws or any other laws limiting, qualifying or discharging Borrower's Indebtedness, whether by operation of Sections 726, 580a or 580d of the Code of Civil Procedure as from time to time amended, or otherwise, including any rights Guarantor may have to a Section 580a fair market value hearing to determine the size of a deficiency following any foreclosure sale or other disposition of any real property security for any portion of the Indebtedness.

7. BANK'S RIGHTS WITH RESPECT TO GUARANTOR'S PROPERTY IN BANK'S POSSESSION. In addition to all liens upon and rights of setoff against the monies, securities or other property of Guarantor given to Bank by law, Bank shall have a lien upon and a right of setoff against all monies, securities and other property of Guarantor now or hereafter in the possession of or on deposit with Bank, whether held in a general or special account or deposit or for safekeeping or otherwise, and every

such lien and right of setoff may be exercised without demand upon or notice to Guarantor. No lien or right of setoff shall be deemed to have been waived by any act or conduct on the part of Bank, or by any neglect to exercise such right of setoff or to enforce such lien, or by any delay in so doing, and every right of setoff and lien shall continue in full force and effect until such right of setoff or lien is specifically waived or released by Bank in writing.

8. SUBORDINATION. Any Indebtedness of the Borrower now or hereafter held by Guarantor is hereby subordinated to the Indebtedness of Borrower to Bank. Such Indebtedness of Borrower to Guarantor is assigned to Bank as security for this Guaranty and the Indebtedness and, if Bank requests, shall be collected and received by Guarantor as trustee for Bank and paid over to Bank on account of the Indebtedness of Borrower to Bank but without reducing or affecting in any manner the liability of Guarantor under the other provisions of this Guaranty. Any notes or other instruments now or hereafter evidencing such Indebtedness of the Borrower to Guarantor shall be marked with a legend that the same are subject to this Guaranty and, if Bank so requests, shall be delivered to Bank. Bank is hereby authorized in the name of Guarantor from time to time to file financing statements and continuation statements and execute such other documents and take such other action as Bank deems necessary or appropriate to perfect, preserve and enforce its rights hereunder.

9. REMEDIES; NO WAIVER. All rights, powers and remedies of Bank hereunder are cumulative. No delay, failure or discontinuance of Bank in exercising any right, power or remedy hereunder shall affect or operate as a waiver of such right, power or remedy; nor shall any single or partial exercise of any such right, power or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power or remedy. Any waiver, permit, consent or approval of any kind by Bank of any breach of this Guaranty, or any such waiver of any provisions or conditions hereof, must be in writing and shall be effective only to the extent set forth in writing.

10. COSTS, EXPENSES AND ATTORNEYS' FEES. Guarantor shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), expended or incurred by Bank in connection with the enforcement of any of Bank's rights, powers or remedies and/or the collection of any amounts which become due to Bank under this Guaranty, and the prosecution or defense of any action in any way related to this Guaranty, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Guarantor or any other person or entity. If not paid when due, all of the foregoing shall be paid by Guarantor with interest from

the date of demand until paid in full at a rate per annum equal to the greater of ten percent (10%) or Bank's Prime Rate in effect from time to time.

11. SUCCESSORS; ASSIGNMENT. This Guaranty shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties; provided however, that Guarantor may not assign or transfer any of its interests or rights hereunder without Bank's prior written consent. Guarantor acknowledges that Bank has the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, any Indebtedness of Borrower to Bank and any obligations with respect thereto, including this Guaranty. In connection therewith, Bank may disclose all documents and information which Bank now has or hereafter acquires relating to Guarantor and/or this Guaranty, whether furnished by Borrower, Guarantor or otherwise. Guarantor further agrees that Bank may disclose such documents and information to Borrower.

12. AMENDMENT. This Guaranty may be amended or modified only in writing signed by Bank and Guarantor.

13. RESERVED.

14. APPLICATION OF SINGULAR AND PLURAL. All words used herein in the plural shall be deemed to have been used in the singular where the context and construction so require; and when there is more than one Borrower named herein, or when this Guaranty is executed by more than one Guarantor, the word "Borrower" and the word "Guarantor" respectively shall mean all or any one or more of them as the context requires.

15. UNDERSTANDING WITH RESPECT TO WAIVERS; SEVERABILITY OF PROVISIONS. Guarantor warrants and agrees that each of the waivers set forth herein is made with Guarantor's full knowledge of its significance and consequences, and that under the circumstances, the waivers are reasonable and not contrary to public policy or law. If any waiver or other provision of this Guaranty shall be held to be prohibited by or invalid under applicable public policy or law, such waiver or other provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such waiver or other provision or any remaining provisions of this Guaranty.

16. GOVERNING LAW. This Guaranty shall be governed by and construed in accordance with the laws of the State of California.

17. ARBITRATION.

(a) Arbitration. The parties hereto agree, upon demand by any party, to submit to binding arbitration all claims, disputes and controversies between or among them (and their respective employees, officers, directors, attorneys, and other agents), whether in tort, contract or otherwise, in any way arising out of or relating to this Guaranty and its negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination.

(b) Governing Rules. Any arbitration proceeding will (i) proceed in a location in California selected by the American Arbitration Association (“AAA”); (ii) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (iii) be conducted by the AAA, or such other administrator as the parties shall mutually agree upon, in accordance with the AAA’s commercial dispute resolution procedures, unless the claim or counterclaim is at least \$1,000,000.00 exclusive of claimed interest, arbitration fees and costs in which case the arbitration shall be conducted in accordance with the AAA’s optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large, complex commercial disputes to be referred to herein, as applicable, as the “Rules”). If there is any inconsistency between the terms hereof and the Rules, the terms and procedures set forth herein shall control. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any dispute. Nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. §91 or any similar applicable state law.

(c) No Waiver of Provisional Remedies, Self-Help and Foreclosure. The arbitration requirement does not limit the right of any party to (i) foreclose against real or personal property collateral; (ii) exercise self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession; or (iii) obtain provisional or ancillary remedies such as replevin, injunctive relief, attachment or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of any party to submit any dispute to arbitration or reference hereunder, including those arising from the exercise of the actions detailed in sections (i), (ii) and (iii) of this paragraph.

(d) Arbitrator Qualifications and Powers. Any arbitration proceeding in which the amount in controversy is \$5,000,000.00 or less will be decided by a single arbitrator selected according to the Rules, and who shall not render an award of greater than \$5,000,000.00. Any dispute in which the amount in controversy exceeds \$5,000,000.00 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations. The arbitrator will be a neutral attorney licensed in the State of California or a neutral retired judge of the state or federal judiciary of California, in either case with a minimum of ten years experience in the substantive law applicable to the subject matter of the dispute to be arbitrated. The arbitrator will determine whether or not an issue is arbitratable and will give effect to the statutes of limitation in determining any claim. In any arbitration proceeding the arbitrator will decide (by documents only or with a hearing at the arbitrator's discretion) any pre-hearing motions which are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all disputes in accordance with the substantive law of California and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the California Rules of Civil Procedure or other applicable law. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

(e) Discovery. In any arbitration proceeding, discovery will be permitted in accordance with the Rules. All discovery shall be expressly limited to matters directly relevant to the dispute being arbitrated and must be completed no later than 20 days before the hearing date. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.

(f) Class Proceedings and Consolidations. No party hereto shall be entitled to join or consolidate disputes by or against others in any arbitration, except parties who have executed this Guaranty or any other contract, instrument or document relating to any Indebtedness, or to include in any arbitration any dispute as a representative or member of a class, or to act in any arbitration in the interest of the general public or in a private attorney general capacity.

(g) Payment Of Arbitration Costs And Fees. The arbitrator shall award all costs and expenses of the arbitration proceeding.

(h) Real Property Collateral; Judicial Reference. Notwithstanding anything herein to the contrary, no dispute shall be submitted to arbitration if the dispute concerns indebtedness secured directly or indirectly, in whole or in part, by any real property unless (i) the holder of the mortgage, lien or security interest specifically elects in writing to proceed with the arbitration, or (ii) all parties to the arbitration waive any rights or benefits that might accrue to them by virtue of the single action rule statute of California, thereby agreeing that all indebtedness and obligations of the parties, and all mortgages, liens and security interests securing such indebtedness and obligations, shall remain fully valid and enforceable. If any such dispute is not submitted to arbitration, the dispute shall be referred to a referee in accordance with California Code of Civil Procedure Section 638 et seq., and this general reference agreement is intended to be specifically enforceable in accordance with said Section 638. A referee with the qualifications required herein for arbitrators shall be selected pursuant to the AAA's selection procedures. Judgment upon the decision rendered by a referee shall be entered in the court in which such proceeding was commenced in accordance with California Code of Civil Procedure Sections 644 and 645.

(i) Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business or by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a dispute, the arbitration provision most directly related to the documents between the parties or the subject matter of the dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the documents or any relationship between the parties.

(j) Small Claims Court. Notwithstanding anything herein to the contrary, each party retains the right to pursue in Small Claims Court any dispute within that court's jurisdiction. Further, this arbitration provision shall apply only to disputes in which either party seeks to recover an amount of money (excluding attorneys' fees and costs) that exceeds the jurisdictional limit of the Small Claims Court.

[signature follows]

IN WITNESS WHEREOF, the undersigned Guarantor has executed this Guaranty as of May 3rd, 2012.

TILLY'S, INC.

By: /s/ Bill Langsdorf

Name: Bill Langsdorf

Title: Senior Vice President and
Chief Financial Officer

Signature Page to Continuing Guaranty

WELLS FARGO

REVOLVING LINE OF CREDIT NOTE

\$25,000,000.00

Irvine, California
May 3, 2012

FOR VALUE RECEIVED, the undersigned **WORLD OF JEANS & TOPS** ("Borrower") promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") at its office at Orange County RCBO, 2030 Main Street, Suite #900, Irvine, CA 92614, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of \$25,000,000.00, or so much thereof as may be advanced and be outstanding, with interest thereon, to be computed on each advance from the date of its disbursement as set forth herein.

1. DEFINITIONS.

As used herein, the following terms shall have the meanings set forth after each, and any other term defined in this Note shall have the meaning set forth at the place defined:

1.1 "Business Day" means any day except a Saturday, Sunday or any other day on which commercial banks in California are authorized or required by law to close.

1.2 "Fixed Rate Term" means a period commencing on a Business Day and continuing for 1, 2 or 3 months, as designated by Borrower, during which all or a portion of the outstanding principal balance of the Note bears interest determined in relation to LIBOR; provided however, that no Fixed Rate Term may be selected for a principal amount less than \$100,000.00; and provided further, that no Fixed Rate Term shall extend beyond the scheduled maturity date hereof. If any Fixed Rate Term would end on a day which is not a Business Day, then such Fixed Rate Term shall be extended to the next succeeding Business Day.

1.3 "LIBOR" means the rate per annum (rounded upward, if necessary, to the nearest whole 1/8 of 1%) determined pursuant to the following formula:

$$\text{LIBOR} = \frac{\text{Base LIBOR}}{100\% - \text{LIBOR Reserve Percentage}}$$

(a) "Base LIBOR" means the rate per annum for United States dollar deposits quoted by Bank as the Inter-Bank Market Offered Rate, with the understanding that such rate is quoted by Bank for the purpose of calculating effective rates of interest for loans making reference thereto, on the first day of a Fixed Rate Term for delivery of funds on said date for a period of time approximately equal to the number of days in such Fixed Rate Term and in an amount approximately equal to the principal amount to which such Fixed Rate Term applies. Borrower understands and agrees that Bank may base its quotation of the Inter-Bank Market Offered Rate upon such offers or other market indicators of the Inter-Bank Market as Bank in its discretion deems appropriate including, but not limited to, the rate offered for U.S. dollar deposits on the London Inter-Bank Market.

(b) "LIBOR Reserve Percentage" means the reserve percentage prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Federal Reserve Board, as amended), adjusted by Bank for expected changes in such reserve percentage during the applicable Fixed Rate Term.

1.4 "Prime Rate" means at any time the rate of interest most recently announced within Bank at its principal office as its Prime Rate, with the understanding that the Prime Rate is one of Bank's base rates and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto, and is evidenced by the recording thereof after its announcement in such internal publication or publications as Bank may designate.

2. INTEREST.

2.1 Interest. The outstanding principal balance of this Note shall bear interest (computed on the basis of a 360-day year, actual days elapsed) either (a) at a fluctuating rate per annum equal to 0.00000% above the Prime Rate in effect from time to time, or (b) at a fixed rate per annum determined by Bank to be 1.75000% above LIBOR in effect on the first day of the applicable Fixed Rate Term. When interest is determined in relation to the Prime Rate, each change in the rate of interest hereunder shall become effective on the date each Prime Rate change is announced within Bank. With respect to each LIBOR selection hereunder, Bank is hereby authorized to note the date, principal amount, interest rate and Fixed Rate Term applicable thereto and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on any schedule attached to this Note, which notations shall be prima facie evidence of the accuracy of the information noted.

2.2 Selection of Interest Rate Options. At any time any portion of this Note bears interest determined in relation to LIBOR, it may be continued by Borrower at the end of the Fixed Rate Term applicable thereto so that all or a portion thereof bears interest determined in relation to the Prime Rate or to LIBOR for a new Fixed Rate Term designated by Borrower. At any time any portion of this Note bears interest determined in relation to the Prime Rate, Borrower may convert all or a portion thereof so that it bears interest determined in relation to LIBOR for a Fixed Rate Term designated by Borrower. At such time as Borrower requests an advance hereunder or wishes to select a LIBOR option for all or a portion of the outstanding principal balance hereof, and at the end of each Fixed Rate Term, Borrower shall give Bank notice specifying: (a) the interest rate option selected by Borrower; (b) the principal amount subject thereto; and (c) for each LIBOR selection, the length of the applicable Fixed Rate Term. Any such notice may be given by telephone (or such other electronic method as Bank may permit) so long as, with respect to each LIBOR selection, (i) if requested by Bank, Borrower provides to Bank written confirmation thereof not later than 3 Business Days after such notice is given, and (ii) such notice is given to Bank prior to 10:00 a.m. on the first day of the Fixed Rate Term, or at a later time during any Business Day if Bank, at its sole option but without obligation to do so, accepts Borrower's notice and quotes a fixed rate to Borrower. If Borrower does not immediately accept a fixed rate when quoted by Bank, the quoted rate shall expire and any subsequent LIBOR request from Borrower shall be subject to redetermination by Bank of the applicable fixed rate. If no specific designation of interest is made at the time any advance is requested hereunder or at the end of any Fixed Rate Term, Borrower shall be deemed to have

made a Prime Rate interest selection for such advance or the principal amount to which such Fixed Rate Term applied.

2.3 Taxes and Regulatory Costs. Borrower shall pay to Bank immediately upon demand, in addition to any other amounts due or to become due hereunder, any and all (a) withholdings, interest equalization taxes, stamp taxes or other taxes (except income and franchise taxes) imposed by any domestic or foreign governmental authority and related in any manner to LIBOR, and (b) future, supplemental, emergency or other changes in the LIBOR Reserve Percentage, assessment rates imposed by the Federal Deposit Insurance Corporation or similar requirements or costs imposed by any domestic or foreign governmental authority or resulting from compliance by Bank with any request or directive (whether or not having the force of law) from any central bank or other governmental authority and related in any manner to LIBOR to the extent they are not included in the calculation of LIBOR. In determining which of the foregoing are attributable to any LIBOR option available to Borrower hereunder, any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

2.4 Payment of Interest. Interest accrued on this Note shall be payable on the 1st day of each month, commencing June 1, 2012.

2.5 Default Interest. From and after the maturity date of this Note, or such earlier date as all principal owing hereunder becomes due and payable by acceleration or otherwise, or at Bank's option upon the occurrence, and during the continuance of an Event of Default, the outside principal balance of this Note shall bear interest at an increased rate per annum (computed on the basis of a 360-day year, actual days elapsed) equal to 4% above the rate of interest from time to time applicable to this Note.

3. BORROWING AND REPAYMENT.

3.1 Borrowing and Repayment. Borrower may from time to time during the term of this Note borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions of this Note and of the Credit Agreement between Borrower and Bank defined below; provided however, that the total outstanding borrowings under this Note shall not at any time exceed the principal amount stated above. The unpaid principal balance of this obligation at any time shall be the total amounts advanced hereunder by the holder hereof less the amount of principal payments made hereon by or for Borrower, which balance may be endorsed hereon from time to time by the holder. The outstanding principal balance of this Note shall be due and payable in full on May 3, 2014.

3.2 Advances. Advances hereunder, to the total amount of the principal sum available hereunder, may be made by the holder at the oral or written request of (a) any authorized officer of Borrower, acting alone, who is authorized to request advances and direct the disposition of any advances and as to which the holder has received evidence of incumbency and such authorization, until written notice of revocation of such authority is received by the holder at the office designated above, or (b) any person, with respect to advances deposited to the credit of any deposit account of Borrower, which advances, when so deposited, shall be conclusively presumed to have been made to or for the benefit of Borrower regardless of the fact that persons other than those authorized to request advances may have authority to draw against such account.

The holder shall have no obligation to determine whether any person requesting an advance is or has been authorized by Borrower.

3.3 Application of Payments. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof. All payments credited to principal shall be applied first, to the outstanding principal balance of this Note which bears interest determined in relation to the Prime Rate, if any, and second, to the outstanding principal balance of this Note which bears interest determined in relation to LIBOR, with such payments applied to the oldest Fixed Rate Term first.

4. PREPAYMENT.

4.1 Prime Rate. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to the Prime Rate at any time, in any amount and without penalty.

4.2 LIBOR. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to LIBOR at any time and in the minimum amount of \$100,000.00; provided however, that if the outstanding principal balance of such portion of this Note is less than said amount, the minimum prepayment amount shall be the entire outstanding principal balance thereof. In consideration of Bank providing this prepayment option to Borrower, or if any such portion of this Note shall become due and payable at any time prior to the last day of the Fixed Rate Term applicable thereto by acceleration or otherwise, Borrower shall pay to Bank immediately upon demand a fee which is the sum of the discounted monthly differences for each month from the month of prepayment through the month in which such Fixed Rate Term matures, calculated as follows for each such month:

- (a) Determine the amount of interest which would have accrued each month on the amount prepaid at the interest rate applicable to such amount had it remained outstanding until the last day of the Fixed Rate Term applicable thereto.
- (b) Subtract from the amount determined in (a) above the amount of interest which would have accrued for the same month on the amount prepaid for the remaining term of such Fixed Rate Term at LIBOR in effect on the date of prepayment for new loans made for such term and in a principal amount equal to the amount prepaid.
- (c) If the result obtained in (b) for any month is greater than zero, discount that difference by LIBOR used in (b) above.

Borrower acknowledges that prepayment of such amount may result in Bank incurring additional costs, expenses and/or liabilities, and that it is difficult to ascertain the full extent of such costs, expenses and/or liabilities. Borrower, therefore, agrees to pay the above-described prepayment fee and agrees that said amount represents a reasonable estimate of the prepayment costs, expenses and/or liabilities of Bank. If Borrower fails to pay any prepayment fee when due, the amount of such prepayment fee shall thereafter bear interest until paid at a rate per annum 2.000% above the Prime Rate in effect from time to time (computed on the basis of a 360-day year, actual days elapsed).

5. EVENTS OF DEFAULT.

This Note is made pursuant to and is subject to the terms and conditions of that certain Amended and Restated Credit Agreement between Borrower and Bank dated as of May 3, 2012, as amended from time to time (the "Credit Agreement"). Any default in the payment or performance of any obligation under this Note, or any defined event of default under the Credit Agreement, shall constitute an "Event of Default" under this Note.

6. MISCELLANEOUS.

6.1 Remedies. Upon the occurrence of any Event of Default, the holder of this Note, at the holder's option, may declare all sums of principal and interest outstanding hereunder to be immediately due and payable without presentment, demand, notice of nonperformance, notice of protest, protest or notice of dishonor, all of which are expressly waived by Borrower, and the obligation, if any, of the holder to extend any further credit hereunder shall immediately cease and terminate. Borrower shall pay to the holder immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of the holder's in-house counsel), expended or incurred by the holder in connection with the enforcement of the holder's rights and/or the collection of any amounts which become due to the holder under this Note, and the prosecution or defense of any action in any way related to this Note, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Borrower or any other person or entity.

6.2 Obligations Joint and Several. Should more than one person or entity sign this Note as a Borrower, the obligations of each such Borrower shall be joint and several.

6.3 Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of California.

[signature follows]

IN WITNESS WHEREOF, the undersigned has executed this Note as of the date first written above.

WORLD OF JEANS & TOPS

By: /s/ Bill Langsdorf

Name: Bill Langsdorf

Title: Senior Vice President and

Chief Financial Officer

Signature Page to Revolving Line of Credit Note

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

I, Daniel Griesemer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tilly's, Inc. for the quarter ended April 28, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of 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)) 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) 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
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect

the registrant's ability to record, process, summarize and report financial information; and

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 11, 2012

/s/ Daniel Griesemer

Daniel Griesemer

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, William Langsdorf, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tilly's, Inc. for the quarter ended April 28, 2012;
2. Based on my knowledge, this report does not contain any untrue statement of 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)) 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) 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
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect

the registrant's ability to record, process, summarize and report financial information; and

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 11, 2012

/s/ William Langsdorf

William Langsdorf

Senior Vice President and 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 April 28, 2012 of Tilly's, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel Griesemer, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: June 11, 2012

/s/ Daniel Griesemer
Daniel Griesemer
President, Chief Executive Officer and Director

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended April 28, 2012 of Tilly's, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William Langsdorf, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: June 11, 2012

/s/ William Langsdorf
William Langsdorf
Senior Vice President and 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.

