
**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 July 30, 2022

OR

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

Commission file number: 001-35535

TILLY'S, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

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

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

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

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

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

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

As of September 2, 2022, the registrant had the following shares of common stock outstanding:

Class A common stock \$0.001 par value

22,804,614

Class B common stock \$0.001 par value

7,306,108

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

Index

	<u>Page</u>
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. Financial Statements (Unaudited)	6
Consolidated Balance Sheets as of July 30, 2022, January 29, 2022 and July 31, 2021	6
Consolidated Statements of Income for the Thirteen and Twenty-Six Weeks Ended July 30, 2022 and July 31, 2021	7
Consolidated Statements of Comprehensive Income for the Thirteen and Twenty-Six Weeks Ended July 30, 2022 and July 31, 2021	8
Consolidated Statement of Stockholders' Equity as of July 30, 2022 and July 31, 2021	9
Consolidated Statements of Cash Flows for the Twenty-Six Weeks Ended July 30, 2022 and July 31, 2021	11
Notes to the Consolidated Financial Statements	12
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3. Quantitative and Qualitative Disclosures About Market Risk	32
Item 4. Controls and Procedures	32
<u>PART II. OTHER INFORMATION</u>	
Item 1. Legal Proceedings	33
Item 1A. Risk Factors	33
Item 6. Exhibits	33
Signatures	34

Forward-Looking Statements

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

- the impacts of inflation on consumer spending generally and on our operating results and financial condition;
- the impacts of the COVID-19 pandemic generally and on our operations, future financial or operational results, including with respect to our ability to keep stores open and e-commerce operational, cash and liquidity management, expense management, our ability to reduce costs, and our ability to procure sufficient quantities of inventory in line with our sales plans, or to effectively manage inventory levels on an ongoing basis relative to net sales performance and changing market conditions, particularly in light of ongoing supply chain disruptions that have significantly altered historical product flows both in terms of timing and amount of inventory available;
- our ability to adapt to downward trends in traffic for our stores and changes in our customers' purchasing patterns;
- our ability to successfully open new stores and profitably operate our existing stores;
- our ability to attract customers to our e-commerce website and generate acceptable levels of return from our digital marketing efforts and other e-commerce growth initiatives;
- our ability to efficiently utilize our e-commerce fulfillment center;
- effectively adapting to new challenges associated with our expansion into new geographic markets;
- our ability to establish, maintain and enhance a strong brand image;
- generating adequate cash from our existing stores and e-commerce to support our growth;
- identifying and responding to new and changing customer fashion preferences and fashion-related trends;
- competing effectively in an environment of intense competition both in stores and online;
- adjusting to increasing costs of mailing catalogs, paper and printing;
- the success of the malls, power centers, neighborhood and lifestyle centers, outlet centers and street-front locations in which our stores are located;
- our ability to attract customers in the various retail venues and geographies in which our stores are located;
- adapting to declines in consumer confidence and decreases in consumer spending;
- our ability to adapt to significant changes in sales due to the seasonality of our business;
- our ability to compete in social media marketing platforms;
- natural disasters, unusually adverse weather conditions, port delays, boycotts, epidemics, pandemics, acts of war, terrorism, civil unrest, and other unanticipated events;
- our dependence on third-party vendors to provide us with sufficient quantities of merchandise at acceptable prices;
- increases in costs of energy, transportation or utility costs and in the costs of labor and employment;
- our ability to balance proprietary branded merchandise with the third-party branded merchandise we sell;
- most of our merchandise is made in foreign countries, making price and availability of our merchandise susceptible to international trade conditions;
- failure of our vendors and their manufacturing sources to use acceptable labor or other practices;
- our dependence upon key executive management or our inability to hire or retain the talent required for our business;
- our ability to effectively adapt to our planned expansion;
- failure of our information technology systems to support our current and growing business, before and after our planned upgrades;
- disruptions in our supply chain and distribution center;
- our indebtedness and lease obligations, including restrictions on our operations contained therein;

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

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

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

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

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

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

	July 30, 2022	January 29, 2022	July 31, 2021
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 85,510	\$ 42,201	\$ 81,894
Marketable securities	30,874	97,027	66,644
Receivables	14,635	6,705	13,143
Merchandise inventories	89,295	65,645	86,853
Prepaid expenses and other current assets	13,775	16,400	7,506
Total current assets	234,089	227,978	256,040
Operating lease assets	221,114	216,508	216,046
Property and equipment, net	49,178	47,530	51,172
Deferred tax assets	11,526	11,446	10,487
Other assets	1,581	1,361	1,418
TOTAL ASSETS	\$ 517,488	\$ 504,823	\$ 535,163
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 47,942	\$ 28,144	\$ 59,053
Accrued expenses	23,506	19,073	23,898
Deferred revenue	14,312	17,096	13,040
Accrued compensation and benefits	7,445	17,056	16,567
Current portion of operating lease liabilities	51,007	51,504	50,916
Current portion of operating lease liabilities, related party	2,705	2,533	2,106
Other liabilities	727	761	948
Total current liabilities	147,644	136,167	166,528
Noncurrent portion of operating lease liabilities	173,916	171,965	185,179
Noncurrent portion of operating lease liabilities, related party	23,842	21,000	10,839
Other liabilities	518	978	1,385
Total long-term liabilities	198,276	193,943	197,403
Total liabilities	345,920	330,110	363,931
Commitments and contingencies (Notes 2 and 5)			
Stockholders' equity:			
Common stock (Class A), \$0.001 par value; 100,000 shares authorized; 22,805, 23,719 and 23,651 shares issued and outstanding, respectively	23	24	24
Common stock (Class B), \$0.001 par value; 35,000 shares authorized; 7,306, 7,306 and 7,306 shares issued and outstanding, respectively	7	7	7
Preferred stock, \$0.001 par value; 10,000 shares authorized; no shares issued or outstanding	—	—	—
Additional paid-in capital	168,120	166,929	165,407
Retained earnings	3,372	7,754	5,782
Accumulated other comprehensive income (loss)	46	(1)	12
Total stockholders' equity	171,568	174,713	171,232
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 517,488	\$ 504,823	\$ 535,163

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

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Net sales	\$ 168,308	\$ 201,952	\$ 314,083	\$ 365,109
Cost of goods sold (includes buying, distribution, and occupancy costs)	115,424	126,523	216,524	234,139
Rent expense, related party	902	702	1,762	1,404
Total cost of goods sold (includes buying, distribution, and occupancy costs)	116,326	127,225	218,286	235,543
Gross profit	51,982	74,727	95,797	129,566
Selling, general and administrative expenses	46,697	48,167	89,271	87,998
Rent expense, related party	133	133	266	267
Total selling, general, and administrative expenses	46,830	48,300	89,537	88,265
Operating income	5,152	26,427	6,260	41,301
Other income (expense), net	183	(102)	187	(218)
Income before income taxes	5,335	26,325	6,447	41,083
Income tax expense	1,516	5,927	1,815	9,726
Net income	\$ 3,819	\$ 20,398	\$ 4,632	\$ 31,357
Basic earnings per share of Class A and Class B common stock	\$ 0.13	\$ 0.67	\$ 0.15	\$ 1.04
Diluted earnings per share of Class A and Class B common stock	\$ 0.13	\$ 0.66	\$ 0.15	\$ 1.02
Weighted average basic shares outstanding	30,021	30,500	30,392	30,189
Weighted average diluted shares outstanding	30,186	31,113	30,619	30,837

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

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Net income	\$ 3,819	\$ 20,398	\$ 4,632	\$ 31,357
Other comprehensive income (loss), net of tax:				
Net change in unrealized gain (loss) on available-for-sale securities, net of tax	44	(11)	47	(8)
Other comprehensive income (loss), net of tax	44	(11)	47	(8)
Comprehensive income	\$ 3,863	\$ 20,387	\$ 4,679	\$ 31,349

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

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

	Number of Shares		Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Common Stock (Class A)	Common Stock (Class B)					
Balance at April 30, 2022	22,832	7,306	\$ 30	\$ 167,512	\$ 391	\$ 2	\$ 167,935
Net income	—	—	—	—	3,819	—	3,819
Restricted stock	63	—	—	—	—	—	—
Share-based compensation expense	—	—	—	588	—	—	588
Employee stock option exercises	5	—	—	20	—	—	20
Repurchase of common stock	(95)	—	—	—	(838)	—	(838)
Net change in unrealized gain on available-for-sale securities	—	—	—	—	—	44	44
Balance at July 30, 2022	<u>22,805</u>	<u>7,306</u>	<u>\$ 30</u>	<u>\$ 168,120</u>	<u>\$ 3,372</u>	<u>\$ 46</u>	<u>\$ 171,568</u>

	Number of Shares		Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Total Stockholders' Equity
	Common Stock (Class A)	Common Stock (Class B)					
Balance at May 1, 2021	22,837	7,306	\$ 30	\$ 158,454	\$ 16,094	\$ 23	\$ 174,601
Net income	—	—	—	—	20,398	—	20,398
Dividends paid (\$1.00 per share)	—	—	—	—	(30,710)	—	(30,710)
Restricted stock	20	—	—	—	—	—	—
Share-based compensation expense	—	—	—	531	—	—	531
Employee stock option exercises	794	—	1	6,422	—	—	6,423
Net change in unrealized loss on available-for-sale securities	—	—	—	—	—	(11)	(11)
Balance at July 31, 2021	<u>23,651</u>	<u>7,306</u>	<u>\$ 31</u>	<u>\$ 165,407</u>	<u>\$ 5,782</u>	<u>\$ 12</u>	<u>\$ 171,232</u>

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

	Number of Shares			Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Total Stockholders' Equity
	Common Stock (Class A)	Common Stock (Class B)	Common Stock				
Balance at January 29, 2022	23,719	7,306	\$ 31	\$ 166,929	\$ 7,754	\$ (1)	\$ 174,713
Net income	—	—	—	—	4,632	—	4,632
Restricted stock	63	—	—	—	—	—	—
Share-based compensation expense	—	—	—	1,151	—	—	1,151
Employee stock option exercises	10	—	—	40	—	—	40
Repurchase of common stock	(987)	—	(1)	—	(9,014)	—	(9,015)
Net change in unrealized gain on available-for-sale securities	—	—	—	—	—	47	47
Balance at July 30, 2022	22,805	7,306	\$ 30	\$ 168,120	\$ 3,372	\$ 46	\$ 171,568

	Number of Shares			Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Common Stock (Class A)	Common Stock (Class B)	Common Stock				
Balance at January 30, 2021	22,477	7,306	\$ 30	\$ 155,437	\$ 5,135	\$ 20	\$ 160,622
Net income	—	—	—	—	31,357	—	31,357
Dividends paid (\$1.00 per share)	—	—	—	—	(30,710)	—	(30,710)
Restricted stock	20	—	—	—	—	—	—
Share-based compensation expense	—	—	—	896	—	—	896
Employee stock option exercises	1,154	—	1	9,074	—	—	9,075
Net change in unrealized loss on available-for-sale securities	—	—	—	—	—	(8)	(8)
Balance at July 31, 2021	23,651	7,306	\$ 31	\$ 165,407	\$ 5,782	\$ 12	\$ 171,232

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

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

	Twenty-Six Weeks Ended	
	July 30, 2022	July 31, 2021
Cash flows from operating activities:		
Net income	\$ 4,632	\$ 31,357
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	7,003	8,809
Insurance proceeds from casualty loss	—	117
Share-based compensation expense	1,151	896
Impairment of assets	13	136
Loss on disposal of assets	77	62
Gain on sales and maturities of marketable securities	(94)	(74)
Deferred income taxes	(79)	1,462
Changes in operating assets and liabilities:		
Receivables	(5,203)	(2,997)
Merchandise inventories	(23,650)	(31,272)
Prepaid expenses and other current assets	2,609	(1,483)
Accounts payable	19,773	34,077
Accrued expenses	2,624	(5,859)
Accrued compensation and benefits	(9,611)	6,668
Operating lease liabilities	(3,082)	(3,481)
Deferred revenue	(2,784)	(452)
Other liabilities	(494)	(524)
Net cash (used in) provided by operating activities	(7,115)	37,442
Cash flows from investing activities:		
Purchases of property and equipment	(6,894)	(8,511)
Proceeds from sale of property and equipment	—	10
Insurance proceeds from casualty loss	—	29
Purchases of marketable securities	(29,947)	(66,625)
Proceeds from marketable securities	96,240	65,000
Net cash provided by (used in) investing activities	59,399	(10,097)
Cash flows from financing activities:		
Dividends paid	—	(30,710)
Proceeds from exercise of stock options	40	9,075
Share repurchases	(9,015)	—
Net cash used in financing activities	(8,975)	(21,635)
Increase in cash and cash equivalents	43,309	5,710
Cash and cash equivalents, beginning of period	42,201	76,184
Cash and cash equivalents, end of period	\$ 85,510	\$ 81,894
Supplemental disclosures of cash flow information:		
Income taxes paid	\$ 1,440	\$ 17,790
Supplemental disclosure of non-cash activities:		
Unpaid purchases of property and equipment	\$ 2,913	\$ 1,571
Operating lease liabilities arising from obtaining operating lease assets	\$ 31,819	\$ 9,790

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

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

Note 1: Description of the Company and Basis of Presentation

Tillys is a leading destination specialty retailer of casual apparel, footwear, accessories and hardgoods for young men, young women, boys and girls with an extensive assortment of iconic global, emerging, and proprietary brands rooted in an active and social lifestyle. Tillys is headquartered in Irvine, California and operated 242 stores, in 33 states as of July 30, 2022. Our stores are located in malls, lifestyle centers, 'power' centers, community centers, outlet centers and street-front locations. Customers may also shop online, where we feature the same assortment of products as carried in our brick-and-mortar stores, supplemented by additional online-only styles. Our goal is to serve as a destination for the latest, most relevant merchandise and brands important to our customers.

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

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

As used in these Notes to the Consolidated Financial Statements, except where the context otherwise requires or where otherwise indicated, the terms "the Company", "we", "our", "us" and "Tillys" refer to Tilly's, Inc. and its subsidiary, WOJT.

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

In the opinion of management, the accompanying unaudited consolidated financial statements contain all normal and recurring adjustments necessary to present fairly the financial condition, results of operations and cash flows for the interim periods presented. The results of operations for the thirteen and twenty-six week periods ended July 30, 2022 are not necessarily indicative of results to be expected for the full fiscal year. The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in our Annual Report on Form 10-K for the fiscal year ended January 29, 2022 ("fiscal 2021").

Fiscal Periods

Our fiscal year ends on the Saturday closest to January 31. References to fiscal 2022 refer to the fiscal year ending January 28, 2023. References to the fiscal quarters or first halves ended July 30, 2022 and July 31, 2021 refer to the thirteen and twenty-six week periods ended as of those dates, respectively.

Impact of the COVID-19 Pandemic on our Business

As of July 30, 2022, the ongoing COVID-19 pandemic (the "pandemic") and the impacts therefrom have continued to adversely impact our business, financial condition and results of operations. As we have seen over the past two years, there remain many uncertainties about the pandemic, including the anticipated duration and severity of the pandemic, particularly in light of ongoing vaccination efforts and emerging variant strains of the virus. To date, the pandemic has had far-reaching impacts on many aspects of the operations of the Company, directly and indirectly, including on consumer behavior, store traffic, operational capabilities and our operations generally, timing of deliveries, demands on our information technology and e-commerce capabilities, inventory and expense management, managing our workforce, and our people, which have materially disrupted our business and the market generally. The scope and nature of these impacts continue to evolve. We may experience adverse impacts in the future, including similar impacts to those we have previously experienced during the pandemic, such as regional quarantines, labor stoppages and shortages, changes in consumer purchasing patterns, mandatory or elective shut-downs of retail locations, disruptions to supply chains, including the inability of our suppliers and service providers to deliver materials and services on a timely basis, or at all, severe market volatility, liquidity disruptions, and overall economic instability, which, in many cases, had, and may in the future continue to have, material adverse impacts on our business, financial condition and results of operations. This situation is continually evolving, and additional impacts may arise that we are not aware of currently, or current impacts may become magnified.

Note 2: Summary of Significant Accounting Policies

Information regarding our significant accounting policies is contained in Note 2, “Summary of Significant Accounting Policies”, of the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended January 29, 2022.

Revenue Recognition

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

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Retail stores	\$ 137,088	\$ 164,626	\$ 254,571	\$ 292,302
E-commerce	31,220	37,326	59,512	72,807
Total net sales	\$ 168,308	\$ 201,952	\$ 314,083	\$ 365,109

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Mens	36 %	36 %	36 %	36 %
Womens	26 %	28 %	27 %	28 %
Accessories	18 %	17 %	16 %	16 %
Footwear	11 %	10 %	12 %	11 %
Boys	4 %	4 %	4 %	4 %
Girls	4 %	4 %	4 %	4 %
Hardgoods/Outdoor	1 %	1 %	1 %	1 %
Total net sales	100 %	100 %	100 %	100 %

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Third-party	68 %	70 %	68 %	71 %
Proprietary	32 %	30 %	32 %	29 %
Total net sales	100 %	100 %	100 %	100 %

We accrue for estimated sales returns by customers based on historical sales return results. As of July 30, 2022, January 29, 2022 and July 31, 2021, our reserve for sales returns was \$3.6 million, \$1.9 million and \$3.9 million, respectively.

We recognize revenue from gift cards as they are redeemed for merchandise. Prior to redemption, we maintain a current liability for unredeemed gift cards, the balance of which was \$8.9 million, \$11.2 million and \$7.9 million as of July 30, 2022, January 29, 2022 and July 31, 2021, respectively, and is included in deferred revenue on the accompanying Consolidated Balance Sheets. Our gift cards do not have expiration dates and in most cases there is no legal obligation to remit unredeemed gift cards to relevant jurisdictions. Based on actual historical redemption patterns, we determined that a small percentage of gift cards are unlikely to be redeemed, which we refer to as gift card breakage. Based on our historical gift card breakage rate, we recognize breakage revenue over the redemption period in proportion to actual gift card redemptions. Total revenue recognized from gift cards was \$3.2 million and \$3.4 million for the thirteen weeks ended July 30, 2022 and July 31, 2021, respectively. For the thirteen weeks ended July 30, 2022 and July 31, 2021, the opening gift card balance was \$9.8 million and \$8.4 million,

respectively, of which \$1.3 million and \$1.2 million respectively, was recognized as revenue during the respective periods. Total revenue recognized from gift cards was \$7.2 million for each of the twenty-six weeks ended July 30, 2022 and July 31, 2021, respectively. For the twenty-six weeks ended July 30, 2022 and July 31, 2021, the opening gift card balance was \$11.2 million and \$9.6 million, respectively, of which \$3.9 million and \$3.4 million respectively, was recognized as revenue during the respective periods.

We have a customer loyalty program where customers accumulate points based on purchase activity. Once a loyalty member achieves a certain point level, the member earns an award that may be used towards the purchase of merchandise. Unredeemed awards and accumulated partial points are accrued as deferred revenue and awards redeemed by the member for merchandise are recorded as an increase to net sales. Our loyalty program allows customers to redeem their awards instantly or build up to additional awards over time. During the first quarter of fiscal 2022, we modified our expiration policy related to unredeemed awards and accumulated partial points from expiration at 365 days after the customer's last purchase activity to expiration at 365 days after the customer's original purchase date. As a result of this modification in expiration policy, the estimated liability was reduced by \$0.5 million during the first quarter of fiscal 2022. A liability is estimated based on the standalone selling price of awards and partial points earned and estimated redemptions. The deferred revenue for this program was \$5.3 million, \$5.9 million and \$5.1 million as of July 30, 2022, January 29, 2022 and July 31, 2021, respectively. The value of points redeemed through our loyalty program was \$2.2 million and \$2.7 million for the thirteen week periods ended July 30, 2022 and July 31, 2021, respectively. For the thirteen week periods ended July 30, 2022 and July 31, 2021, the opening loyalty program balance was \$5.4 million and \$4.5 million, respectively, of which \$1.8 million and \$1.2 million, respectively, was recognized as revenue during the respective periods. The value of points redeemed through our loyalty program was \$4.3 million and \$4.8 million for the twenty-six week periods ended July 30, 2022 and July 31, 2021, respectively. For the twenty-six week periods ended July 30, 2022 and July 31, 2021, the opening loyalty program balance was \$5.9 million and \$3.9 million, respectively, of which \$3.5 million and \$2.3 million, respectively, was recognized as revenue during the respective periods.

Leases

We conduct all of our retail sales and corporate operations in leased facilities. Lease terms generally range up to ten years in duration (subject to elective extensions) and provide for escalations in base rents. Generally, we do not consider any additional renewal periods to be reasonably certain of being exercised. Most store leases include tenant allowances from landlords, rent escalation clauses and/or contingent rent provisions. Certain leases provide for additional rent based on a percentage of sales and annual rent increases generally based upon the Consumer Price Index. In addition, most of our store leases are net leases, which typically require us to be responsible for certain property operating expenses, including property taxes, insurance, common area maintenance, in addition to base rent. Many of our store leases contain certain co-tenancy provisions that permit us to pay rent based on a pre-determined percentage of sales when the occupancy of the retail center falls below minimums established in the lease. For non-cancelable operating lease agreements, operating lease assets and operating lease liabilities are established for leases with an expected term greater than one year and we recognize lease expense on a straight-line basis. Contingent rent, determined based on a percentage of net sales in excess of specified levels, is recognized as rent expense when the achievement of those specified net sales is probable.

We lease approximately 172,000 square feet of office and warehouse space (10 and 12 Whatney, Irvine, California) from a company that is owned by the co-founders of Tillys. During each of the thirteen and twenty-six week periods ended July 30, 2022 and July 31, 2021 we incurred rent expense of \$0.5 million and \$1.1 million, respectively, related to this lease. Our lease began on January 1, 2003 and terminates on December 31, 2027.

We lease approximately 26,000 square feet of office and warehouse space (11 Whatney, Irvine, California) from a company that is owned by one of the co-founders of Tillys. During each of the thirteen and twenty-six week periods ended July 30, 2022 and July 31, 2021, we incurred rent expense of \$0.1 million and \$0.2 million, respectively, related to this lease. Pursuant to the lease agreement, the lease payment adjusts annually based upon the Los Angeles/Anaheim/Riverside Urban Consumer Price Index, with the adjustment not to be below 3% nor exceed 7% in any one annual increase. The lease began on June 29, 2012 and was set to terminate on June 30, 2022. During June 2022, this lease was amended to, among other things, extend the term for an additional 10-year term and adjust the annual payment increases. Pursuant to the amended lease agreement, the lease payments adjust annually based upon the greater of 5% or the Consumer Price Index, and the lease now terminates on June 30, 2032.

We lease approximately 81,000 square feet of office and warehouse space (17 Pasteur, Irvine, California) from a company that is owned by one of the co-founders of Tillys. We use this property as our e-commerce distribution center. During the thirteen and twenty-six week periods ended July 30, 2022, we incurred rent expense of \$0.4 million and \$0.7 million, respectively, related to this lease. During the thirteen and twenty-six week periods ended July 31, 2021, we incurred rent expense of \$0.2 million and \$0.5 million, respectively, related to this lease. Pursuant to the lease agreement, the lease payment adjusts annually based upon the Los Angeles/Anaheim/Riverside Urban Consumer Price Index, with the adjustment not to be below 3% nor exceed 7% in any one annual increase. The lease began on November 1, 2011 with a 10-year term ending on October 31, 2021. During October 2021, this lease was amended to, among other things, extend the term for an additional 10-year term

and adjust the annual payment increases. Pursuant to the amended lease agreement, the lease payment adjusts annually based upon the greater of 5% or the Consumer Price Index and now terminates on October 31, 2031.

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

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

Fiscal Year	Related Party	Other	Total	Sublease Income
2022	\$ 1,911	\$ 33,855	\$ 35,766	\$ 44
2023	3,932	58,365	62,297	90
2024	4,085	48,101	52,186	95
2025	4,245	38,463	42,708	99
2026	4,411	27,144	31,555	104
Thereafter	13,491	61,068	74,559	—
Total minimum lease payments	32,075	266,996	299,071	432
Less: Amount representing interest	5,528	42,073	47,601	—
Present value of operating lease liabilities	\$ 26,547	\$ 224,923	\$ 251,470	\$ 432

As of July 30, 2022, additional operating lease contracts that have not yet commenced are approximately \$8.0 million. Further, additional operating lease contracts and modifications executed subsequent to the balance sheet date, but prior to the filing date, are approximately \$2.3 million.

Lease expense for the thirteen and twenty-six week periods ended July 30, 2022 and July 31, 2021 was as follows (in thousands):

	Thirteen Weeks Ended July 30, 2022			Thirteen Weeks Ended July 31, 2021		
	Cost of goods sold	SG&A	Total	Cost of goods sold	SG&A	Total
Fixed operating lease expense	\$ 15,716	\$ 320	\$ 16,036	\$ 14,935	\$ 322	\$ 15,257
Variable lease expense	4,224	9	4,233	4,835	11	4,846
Total lease expense	\$ 19,940	\$ 329	\$ 20,269	\$ 19,770	\$ 333	\$ 20,103

	Twenty-Six Weeks July 30, 2022			Twenty-Six Weeks Ended July 31, 2021		
	Cost of goods sold	SG&A	Total	Cost of goods sold	SG&A	Total
Fixed operating lease expense	\$ 30,991	\$ 641	\$ 31,632	\$ 30,246	\$ 636	\$ 30,882
Variable lease expense	8,011	23	8,034	8,735	1	8,736
Total lease expense	\$ 39,002	\$ 664	\$ 39,666	\$ 38,981	\$ 637	\$ 39,618

For the thirteen and twenty-six weeks ended July 31, 2021, we corrected an immaterial error of \$94 thousand and \$189 thousand, respectively, which consisted solely of a reclassification of fixed operating lease expense from SG&A to cost of goods sold, on the table above.

Supplemental lease information for the twenty-six weeks ended July 30, 2022 and July 31, 2021 was as follows:

	Twenty-Six Weeks Ended July 30, 2022	Twenty-Six Weeks Ended July 31, 2021
Cash paid for amounts included in the measurement of operating lease liabilities (in thousands)	\$34,849	\$34,452
Weighted average remaining lease term (in years)	5.8 years	5.5 years
Weighted average interest rate (1)	6.14%	6.40%

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

Common Stock Share Repurchases

We may repurchase shares of our common stock from time to time pursuant to authorizations approved by our Board of Directors (see Note 9). As permitted under Delaware corporation law, shares repurchased are retired and, accordingly, are not presented separately as treasury stock in the consolidated financial statements. Instead, the value of repurchased shares is deducted from retained earnings.

Income Taxes

Our income tax expense was \$1.8 million, or 28.2% of pre-tax income, compared to an income tax expense of \$9.7 million, or 23.7% of pre-tax income, for the twenty-six weeks ended July 30, 2022 and July 31, 2021, respectively. The increase in the effective income tax rate was primarily due to the discrete tax effects of stock-based compensation.

Reclassifications of Prior Year Presentation

Certain prior year amounts on the Consolidated Balance Sheets, have been reclassified to conform with the current year presentation. These reclassifications had no effect on the reported results of operations. A reclassification has been made to last year's Consolidated Balance Sheet for the first half ended July 31, 2021 to identify deferred tax assets of \$10.5 million and the long-term portion of credit facility costs of \$0.3 million. This change in classification does not affect previously reported cash flows from operating activities in the Consolidated Statements of Cash Flows.

New Accounting Standards Not Yet Adopted

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

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

Note 3: Marketable Securities

Marketable securities as of July 30, 2022 consisted of commercial paper, classified as available-for-sale, and fixed income securities, classified as held-to-maturity, as we have the intent and ability to hold them to maturity. Our investments in commercial paper and fixed income securities are recorded at fair value and amortized cost, respectively, which approximates fair value. All of our marketable securities are less than one year from maturity.

The following table summarizes our investments in marketable securities at July 30, 2022, January 29, 2022 and July 31, 2021 (in thousands):

July 30, 2022				
	Cost or Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Commercial paper	\$ 24,848	\$ 44	\$ —	\$ 24,892
Fixed income securities	5,982	—	—	5,982
Total marketable securities	\$ 30,830	\$ 44	\$ —	\$ 30,874
January 29, 2022				
	Cost or Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Commercial paper	\$ 64,235	\$ 9	\$ (11)	\$ 64,233
Fixed income securities	32,794	—	—	32,794
Total marketable securities	\$ 97,029	\$ 9	\$ (11)	\$ 97,027
July 31, 2021				
	Cost or Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Commercial paper	\$ 59,962	\$ 16	\$ —	\$ 59,978
Fixed income securities	6,666	—	—	6,666
Total marketable securities	\$ 66,628	\$ 16	\$ —	\$ 66,644

We recognized gains on investments for commercial paper that matured during the thirteen and twenty-six week periods ended July 30, 2022 and July 31, 2021. Upon recognition of the gains, we reclassified these amounts out of "Accumulated Other Comprehensive Income (Loss)" and into "Other income (expense), net" on the Consolidated Statements of Income.

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Gains on investments	\$ 47	\$ 43	\$ 65	\$ 72

Note 4: Credit Agreement

New Credit Agreement

On January 20, 2022, we entered into a senior secured credit agreement (the "Credit Agreement") and revolving line of credit note (the "Note") with Wells Fargo Bank, National Association (the "Bank"). The Credit Agreement provides for a senior secured revolving credit facility ("Revolving Facility") of up to \$25.0 million ("Revolving Commitment") consisting of revolving loans, letters of credit and swing line loans, with a sub-limit on letters of credit outstanding at any time of \$15.0 million. The Revolving Facility matures on January 20, 2024. The payment and performance in full of the secured obligations under the Revolving Facility are secured by a lien on and security interest in all of the assets of our company.

The payment and performance in full of the obligations under the Credit Agreement are guaranteed by the Company pursuant to a continuing guaranty (the "Guaranty") granted by the Company in favor of the Bank. The payment and performance of the Company's obligations under the Guaranty are secured by a lien on, and pledge of, all of the equity interests owned by the Company.

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

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

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

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

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

Prior Credit Agreement

The Credit Agreement replaced our previously existing asset-backed credit agreement (the "Prior Credit Agreement"), dated as of November 9, 2020, as amended, with the Bank, which had revolving commitments of up to \$65.0 million, a sub-limit on letters of credit of \$10.0 million and a sub-limit for swing-line loans of \$7.5 million.

The Prior Credit Agreement was terminated concurrently with the entry into the Credit Agreement. The maximum borrowings permitted under the Prior Credit Agreement was equal to the lesser of (x) the revolving commitment and (y) the borrowing base. The borrowing base was equal to (a) 90% of the borrower's eligible credit card receivables, plus (b) 90% of the cost of the borrower's eligible inventory, less inventory reserves established by the agent, and adjusted by the appraised value of such eligible inventory, plus (c) 90% of the cost of the borrower's eligible in-transit inventory, less inventory reserves established by the agent, and adjusted by the appraised value of such eligible in-transit inventory (not to exceed 10% of the total amount of all eligible inventory included in the borrowing base) less (d) reserves established by the agent. As of the date the Prior Credit Agreement was terminated, we had no outstanding borrowings under the Credit Agreement and the only utilization of the letters of credit sub-limit under the Credit Agreement was a \$2.025 million irrevocable standby letter of credit, which was previously issued under the Prior Credit Agreement and was transferred on such date to the Credit Agreement.

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

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

Note 5: Commitments and Contingencies

Indemnifications, Commitments, and Guarantees

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

Legal Proceedings

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

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

Note 6: Fair Value Measurements

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

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

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

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

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

During the thirteen and twenty-six week periods ended July 30, 2022 and July 31, 2021, we did not make any transfers between Level 1 and Level 2 financial assets. Furthermore, as of July 30, 2022, January 29, 2022 and July 31, 2021, we did not have any Level 3 financial assets. We conduct reviews on a quarterly basis to verify pricing, assess liquidity and determine if significant inputs have changed that would impact the fair value hierarchy disclosure.

Financial Assets

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

	July 30, 2022			January 29, 2022			July 31, 2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Cash equivalents (1):									
Money market securities	\$ 64,210	\$ —	\$ —	\$32,764	\$ —	\$ —	\$63,097	\$ —	\$ —
Commercial paper	\$ —	\$14,980	\$ —	\$ —	\$4,999	\$ —	\$ —	\$ —	\$ —
Marketable securities:									
Commercial paper	\$ —	\$ 24,892	\$ —	\$ —	\$ 64,233	\$ —	\$ —	\$ 59,978	\$ —

(1) Excluding cash.

Impairment of Long-Lived Assets

On at least a quarterly basis, we assess whether events or changes in circumstances have occurred that potentially indicate the carrying value of long-lived assets may not be recoverable. Based on Level 3 inputs of historical operating performance, including sales trends, gross margin rates, current cash flows from operations and the projected outlook for each our stores, we determined that certain stores would not be able to generate sufficient cash flows over the remaining term of the related leases to recover our investment in the respective stores. As a result, we recorded non-recurring, non-cash impairment charges of less than \$0.1 million and \$0.1 million in the twenty-six weeks ended July 30, 2022 and July 31, 2021, respectively, to write-down the carrying value of certain long-lived store assets to their estimated fair values.

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
	(\$ in thousands)			
Carrying value of assets with impairment	\$ —	\$ 176	\$ 13	\$ 176
Fair value of assets impaired	\$ —	\$ 40	\$ —	\$ 40
Number of stores tested for impairment	3	3	4	11
Number of stores with impairment	—	1	1	1

Note 7: Share-Based Compensation

The Tilly's, Inc. 2012 Second Amended and Restated Equity and Incentive Plan, as amended in June 2020 (the "2012 Plan"), authorizes up to 6,613,900 shares for issuance of options, shares or rights to acquire our Class A common stock and allows for, among other things, operating income and comparable store sales growth targets as additional performance goals that may be used in connection with performance-based awards granted under the 2012 Plan. As of July 30, 2022, there were 1,782,627 shares available for future issuance under the 2012 Plan.

Stock Options

We grant stock options to certain employees that give them the right to acquire our Class A common stock under the 2012 Plan. The exercise price of options granted is equal to the closing price per share of our stock at the date of grant. The non qualified options vest at a rate of 25% on each of the first four anniversaries of the grant date provided that the award recipient continues to be employed by us through each of those vesting dates, and expire ten years from the date of grant.

The following table summarizes stock option activity for the twenty-six weeks ended July 30, 2022 (aggregate intrinsic value in thousands):

	Stock Options	Grant Date Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value (1)
Outstanding at January 29, 2022	1,570,211	\$ 9.02		
Granted	507,500	\$ 9.44		
Exercised	(9,750)	\$ 4.13		
Forfeited	(35,500)	\$ 9.66		
Expired	(49,500)	\$ 15.50		
Outstanding at July 30, 2022	1,982,961	\$ 8.98	7.8	\$ 1,549
Exercisable at July 30, 2022	768,761	\$ 9.50	6.1	\$ 586

(1) Intrinsic value for stock options is defined as the difference between the market price of our Class A common stock on the last business day of the fiscal period and the weighted average exercise price of in-the-money stock options outstanding at the end of the fiscal period. The market value per share was \$7.57 at July 30, 2022.

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

The fair values of stock options granted during the thirteen and twenty-six weeks ended July 30, 2022 and July 31, 2021 were estimated on the grant date using the following assumptions:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Weighted average grant-date fair value per option granted	\$4.12	\$8.56	\$4.97	\$5.67
Expected option term (1)	5.2 years	5.6 years	5.2 years	5.4 years
Weighted average expected volatility factor (2)	58.6%	59.4%	58.6%	59.9%
Weighted average risk-free interest rate (3)	3.0%	0.9%	2.3%	0.9%
Expected annual dividend yield (4)	—%	—%	—%	—%

- (1) The expected option term of the awards represents the estimated time that options are expected to be outstanding based upon historical option data.
- (2) Stock volatility for each grant is measured using the historical daily price changes of our common stock over the most recent period equal to the expected option term of the awards.
- (3) The risk-free interest rate is determined using the rate on treasury securities with the same term as the expected life of the stock option as of the grant date.
- (4) We do not currently have a dividend policy.

Restricted Stock Awards

Restricted stock awards ("RSAs") represent restricted shares issued upon the date of grant in which the recipient's rights in the stock are restricted until the shares are vested, whereas restricted stock units ("RSUs") represent shares issuable in the future upon vesting. Under the 2012 Plan, we grant RSAs to independent members of our Board of Directors and RSUs to certain employees. RSAs granted to Board members vest at a rate of 50% on each of the first two anniversaries of the grant date provided that the respective award recipient continues to serve on our Board of Directors through each of those vesting dates. The RSUs granted to certain employees vest at a rate of 25% on each of the first four anniversaries of the grant date provided that the respective recipient continues to be employed by us through each of those vesting dates. We determine the fair value of restricted stock underlying the RSAs and RSUs based upon the closing price of our Class A common stock on the date of grant.

The following table summarizes the status of non-vested RSAs changed during the twenty-six weeks ended July 30, 2022:

	Restricted Stock	Weighted Average Grant-Date Fair Value
Nonvested at January 29, 2022	45,464	\$ 10.56
Granted	63,492	\$ 7.56
Vested	(35,472)	\$ 9.02
Nonvested at July 30, 2022	<u>73,484</u>	<u>\$ 8.71</u>

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Cost of goods sold (1)	\$ 90	\$ 82	\$ 179	\$ 43
Selling, general, and administrative	498	449	972	853
Total share-based compensation	<u>\$ 588</u>	<u>\$ 531</u>	<u>\$ 1,151</u>	<u>\$ 896</u>

(1) Share-based compensation expense for the twenty-six weeks ended July 31, 2021 includes forfeiture credits due to the departure of the Company's prior Chief Merchandising Officer effective March 19, 2021.

At July 30, 2022, there was \$5.5 million of total unrecognized share-based compensation expense related to unvested stock options and restricted stock. This cost has a weighted average remaining recognition period of 2.8 years.

Note 8: Earnings Per Share

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

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Net income	\$ 3,819	\$ 20,398	\$ 4,632	\$ 31,357
Weighted average basic shares outstanding	30,021	30,500	30,392	30,189
Dilutive effect of in-the-money stock options and RSAs	165	613	227	648
Weighted average shares for diluted earnings per share	<u>30,186</u>	<u>31,113</u>	<u>30,619</u>	<u>30,837</u>
Basic earnings per share of Class A and Class B common stock	\$ 0.13	\$ 0.67	\$ 0.15	\$ 1.04
Diluted earnings per share of Class A and Class B common stock	<u>\$ 0.13</u>	<u>\$ 0.66</u>	<u>\$ 0.15</u>	<u>\$ 1.02</u>

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Stock options	1,525	659	1,402	803
Restricted stock	10	20	10	20
Total	1,535	679	1,412	823

Note 9: Share Repurchase Program

On March 14, 2022, our Board of Directors authorized a share repurchase program, pursuant to which we are authorized to repurchase up to 2,000,000 shares of our Class A common stock through March 14, 2023, in open market transactions through a broker-dealer at prevailing market prices, in block trades, or by any other means in accordance with federal securities laws. During the twenty-six weeks ended July 30, 2022, we repurchased 987,427 shares of our Class A common stock at a weighted average price of \$9.10 per share for a total of \$9.0 million under the program. At July 30, 2022, the remaining repurchase authorization totaled 1,012,573 shares.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the financial condition and results of our operations should be read together with the financial statements and related notes of Tilly's, Inc. included in Part I Item 1 of this Quarterly Report on Form 10-Q (this "Report") and with our audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended January 29, 2022. As used in this Quarterly Report on Form 10-Q, except where the context otherwise requires or where otherwise indicated, the terms "the Company", "World of Jeans & Tops", "we", "our", "us", "Tillys" and "Tilly's" refer to Tilly's, Inc. and its subsidiary.

Overview

Tillys is a destination specialty retailer of casual apparel, footwear, accessories and hardgoods for men, women, boys and girls. We believe we bring together an unparalleled selection of iconic global, emerging, and proprietary brands rooted in an active and outdoor lifestyle. The Tillys concept began in 1982, when our co-founders, Hezy Shaked and Tilly Levine, opened our first store in Orange County, California. As of July 30, 2022, we operated 242 stores in 33 states, averaging approximately 7,301 square feet per store, compared to 244 total stores last year at this time. We also sell our products through our e-commerce website, www.tillys.com.

Known or Anticipated Trends

Ongoing Impacts of the COVID-19 Pandemic

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

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

Supply Chain Disruptions. We source a significant portion of our merchandise assortment from third parties who manufacture their products in countries that have experienced widespread issues with the pandemic, thereby significantly impacting the global supply chain for merchandise inventories. Disruptions in the global transportation network remain prevalent, particularly in certain Southern California receiving ports which handle a significant portion of United States merchandise imports. These issues are resulting in shipping delays and increased shipping costs throughout the retail industry, including for us. Any untimely delivery of merchandise could have a negative impact on our ability to serve our customers with the specific merchandise they want in the quantities they wish to purchase in a timely manner, thereby potentially resulting in lost sales or increased markdowns to move through excess seasonal inventories that were delivered late. These supply chain issues, and the media attention surrounding them, had an impact on consumer shopping patterns during the fiscal 2021 holiday season and may do so again to some extent, and have caused us to adjust our merchandise planning, allocation and pricing strategies from historical practices, among other impacts. We have been monitoring the situation very closely and have been in frequent contact with our key brand partners to assess delivery delays on a continuous basis. However, we are unable to predict the specific effects these factors will have on our fiscal 2022 net sales, results of operations, and our inventory position at any point in time during fiscal 2022.

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

Operational Impacts. As of the date of filing this Report, there remain many uncertainties regarding the ongoing pandemic, including its anticipated duration and severity. In addition to the economic impacts on the Company, the pandemic has had far-reaching impacts on many aspects of the operations of the Company, directly and indirectly, including on consumer behavior, store traffic, operational capabilities and our corporate, distribution center and store operations generally, timing of deliveries, demands on our information technology and e-commerce capabilities, inventory and expense management, managing our

workforce, and our people, which have materially disrupted our business. With the continued challenges posed by the pandemic, we may experience adverse impacts in the future, including similar impacts to those we have previously experienced during the pandemic, such as regional quarantines, changes in consumer purchasing patterns, mandatory or elective shut-downs of retail locations, and operational challenges posted by the inability of our suppliers and service providers to deliver materials and services on a timely basis, which, in many cases, had, and may in the future continue to have, material adverse impacts on our business. This situation is continually evolving, and additional impacts may arise that we are not aware of currently, or current impacts may become magnified.

Fiscal 2022 New Store Openings and Capital Expenditure Plans

During fiscal 2022, we currently expect to open a total of 11 new stores within existing markets, primarily in California, Texas and the Northeast, four of which have been opened as of the date of this Report. We expect our total capital expenditures for fiscal 2022 to be in the range of approximately \$22 million to \$24 million, inclusive of our new store plans, investments in website and mobile app upgrades, distribution efficiencies, and other information technology infrastructure investments.

How We Assess the Performance of Our Business

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

Net Sales

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

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

Comparable Store Net Sales

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

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

Our comparable store sales are defined as sales from our e-commerce platform and stores open on a daily basis compared to the same respective fiscal dates of the prior year. A remodeled, relocated or refreshed store is included in comparable store sales, both during and after construction, if the square footage of the store used to sell merchandise was not changed by more than 20% in any fiscal month. We include sales from our e-commerce platform as part of comparable store sales as we manage and analyze our business on a single omni-channel basis and have substantially integrated our investments and operations for our stores and e-commerce platform to give our customers seamless access and increased ease of shopping. Comparable store sales

exclude gift card breakage income and e-commerce shipping and handling fee revenue. Some of our competitors and other retailers may calculate comparable or “same store” sales differently than we do. As a result, data in this Report regarding our comparable store sales may not be comparable to similar data made available by other retailers.

Gross Profit

Gross profit is equal to our net sales less our cost of goods sold. Cost of goods sold reflects the direct cost of purchased merchandise as well as buying, distribution and occupancy costs. Buying costs include compensation and benefit expense for our internal buying organization. Distribution costs include costs for receiving, processing and warehousing our store merchandise, and shipping of merchandise to or from our distribution and e-commerce fulfillment centers and to our e-commerce customers and between store locations. Occupancy costs include the rent, common area maintenance, utilities, property taxes, security and depreciation costs of all store locations. These costs are significant and can be expected to continue to increase as our company grows. The components of our reported cost of goods sold may not be comparable to those of other retail companies.

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

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

Selling, General and Administrative Expenses

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

Operating Income

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

Results of Operations

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Statements of Income Data:				
Net sales	\$ 168,308	\$ 201,952	\$ 314,083	\$ 365,109
Cost of goods sold	115,424	126,523	216,524	234,139
Rent expense, related party	902	702	1,762	1,404
Total cost of goods sold	116,326	127,225	218,286	235,543
Gross profit	51,982	74,727	95,797	129,566
Selling, general and administrative expenses	46,697	48,167	89,271	87,998
Rent expense, related party	133	133	266	267
Total selling, general and administrative expenses	46,830	48,300	89,537	88,265
Operating income	5,152	26,427	6,260	41,301
Other income (expense), net	183	(102)	187	(218)
Income before income taxes	5,335	26,325	6,447	41,083
Income tax expense	1,516	5,927	1,815	9,726
Net income	\$ 3,819	\$ 20,398	\$ 4,632	\$ 31,357
Percentage of Net Sales:				
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	68.6 %	62.7 %	68.9 %	64.1 %
Rent expense, related party	0.5 %	0.3 %	0.6 %	0.4 %
Total cost of goods sold	69.1 %	63.0 %	69.5 %	64.5 %
Gross profit	30.9 %	37.0 %	30.5 %	35.5 %
Selling, general and administrative expenses	27.7 %	23.9 %	28.4 %	24.1 %
Rent expense, related party	0.1 %	0.1 %	0.1 %	0.1 %
Total selling, general and administrative expenses	27.8 %	23.9 %	28.5 %	24.2 %
Operating income	3.1 %	13.1 %	2.0 %	11.3 %
Other income (expense), net	0.1 %	(0.1) %	0.1 %	(0.1) %
Income before income taxes	3.2 %	13.0 %	2.1 %	11.3 %
Income tax expense	0.9 %	2.9 %	0.6 %	2.7 %
Net income	2.3 %	10.1 %	1.5 %	8.6 %

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2022	July 31, 2021	July 30, 2022	July 31, 2021
Operating Data:				
Stores operating at end of period	242	244	242	244
Comparable store net sales change (1)	(16.4)%	10.6 %	(14.9)%	9.5 %
Total square feet at end of period (in '000s)	1,767	1,788	1,767	1,788
Average net sales per physical store (in '000s) (2)	\$ 570	\$ 676	\$ 1,056	\$ 1,213
Average net sales per square foot (2)	\$ 78	\$ 92	\$ 144	\$ 165
E-commerce net sales (in '000s) (3)	\$ 31,220	\$ 37,326	\$ 59,512	\$ 72,807
E-commerce net sales as a percentage of net sales	18.5 %	18.5 %	18.9 %	19.9 %

- (1) Our comparable store net sales are defined as sales from our e-commerce platform and stores open on a daily basis compared to the same respective fiscal dates of the prior year. A remodeled or relocated store is included in comparable store net sales, both during and after construction, if the square footage of the store used to sell merchandise was not changed by more than 20% in any fiscal month. We include sales from our e-commerce platform as part of our comparable store net sales as we manage and analyze our business on an omni-channel basis and have substantially integrated our investments and

operations for our stores and e-commerce platform to give our customers seamless access and increased ease of shopping. Comparable store net sales exclude gift card breakage income, and e-commerce shipping and handling fee revenue.

- (2) The number of stores and the amount of square footage reflect the number of days during the period that stores were open. E-commerce sales, e-commerce shipping and handling fee revenue and gift card breakage income are excluded from net sales in deriving average net sales per retail store and average net sales per square foot.
- (3) E-commerce net sales include e-commerce sales and e-commerce shipping and handling fee revenue.

Second Quarter (13 Weeks) Ended July 30, 2022 Compared to Second Quarter (13 Weeks) Ended July 31, 2021

Net Sales

Total net sales were \$168.3 million, a decrease of \$33.6 million, or 16.7%, compared to \$202.0 million last year, primarily due to the impacts of last year's pent-up consumer demand and stimulus payments resulting from the pandemic.

- Net sales from physical stores were \$137.1 million, a decrease of \$27.5 million or 16.7%, compared to \$164.6 million last year. Net sales from physical stores represented 81.5% of total net sales both this year and last year. The Company ended the second quarter with 242 total stores compared to 244 total stores at the end of the second quarter last year.
- Net sales from e-commerce were \$31.2 million, a decrease of \$6.1 million or 16.4%, compared to \$37.3 million last year. E-commerce net sales represented 18.5% of total net sales both this year and last year.

Gross Profit

Gross profit was \$52.0 million, or 30.9% of net sales, compared to \$74.7 million, or 37.0% of net sales, last year. Buying, distribution and occupancy costs deleveraged by 330 basis points collectively, despite being reduced by \$0.9 million due to carrying these costs against a significantly lower level of net sales this year. Product margins declined by 280 basis points primarily due to an increased markdown rate compared to last year.

Selling, General and Administrative Expenses

SG&A expenses were \$46.8 million or 27.8% of net sales, compared to \$48.3 million, or 23.9% of net sales, last year. The components of the SG&A variances, both in terms of percentage of net sales and total dollars, were as follows:

%	\$ millions	Primarily Attributable to
(1.4)%	\$(2.8)	Decrease in corporate bonus expense due to lack of a bonus accrual in fiscal 2022.
0.1%	(0.7)	Decrease in e-commerce marketing expenses.
2.5%	0.5	Increase in store payroll and related benefits primarily due to wage inflation.
0.3%	0.3	Increase in technology services costs.
0.3%	0.3	Increase in e-commerce fulfillment costs primarily due to wage inflation.
0.3%	0.3	Increase in insurance premiums.
0.2%	0.3	Increase in donations expense.
1.6%	0.3	Net change in all other SG&A expenses.
3.9%	\$(1.5)	Total

Operating Income

Operating income was \$5.2 million, or 3.1% of net sales, compared to \$26.4 million, or 13.1% of net sales, last year.

Income Tax Expense

Income tax expense was \$1.5 million, or 28.4% of pre-tax income, compared to \$5.9 million, or 22.5% of pre-tax income, last year. The increase in the effective income tax rate was primarily due to the discrete tax effects of stock-based compensation.

Net Income and Income Per Diluted Share

Net income was \$3.8 million, or \$0.13 per diluted share, compared to \$20.4 million, or \$0.66 per diluted share, last year.

First Half (26 Weeks) Ended July 30, 2022 Compared to First Half (26 Weeks) Ended July 31, 2021*Net Sales*

Total net sales were \$314.1 million, a decrease of \$51.0 million or 14.0%, compared to \$365.1 million last year, primarily due to the impacts of last year's pent-up consumer demand and stimulus impacts resulting from the pandemic.

- Net sales from physical stores were \$254.6 million, a decrease of \$37.7 million or 12.9%, compared to \$292.3 million last year. Net sales from stores represented 81.1% of total net sales compared to 80.1% of total net sales last year.
- Net sales from e-commerce were \$59.5 million, a decrease of \$13.3 million or 18.3%, compared to \$72.8 million last year. E-commerce net sales represented 18.9% of total net sales compared to 19.9% of total net sales last year.

Gross Profit

Gross profit was \$95.8 million, or 30.5% of net sales, compared to \$129.6 million, or 35.5% of net sales, last year. Buying, distribution and occupancy costs deleveraged by 270 basis points collectively, despite being reduced by \$1.9 million due to carrying these costs against a significantly lower level of net sales this year. Product margins declined by 230 basis points primarily due to an increased markdown rate compared to last year.

Selling, General and Administrative Expenses

SG&A expenses were \$89.5 million or 28.5% of net sales, compared to \$88.3 million, or 24.2% of net sales, last year. The components of the SG&A variances, both in terms of percentage of net sales and total dollars, were as follows:

%	\$ millions	Primarily Attributable to
2.6%	\$2.5	Increase in store payroll and related benefits primarily due to wage inflation.
0.4%	1.6	Credit from the reversal of a disputed California sales tax assessment in last year's first quarter.
0.3%	0.6	Increase in technology services costs.
0.2%	0.5	Increase in insurance premiums.
(1.2)%	(4.3)	Decrease in corporate bonus expense due to lack of a bonus accrual in fiscal 2022.
2.0%	0.4	Net change in all other SG&A expenses.
4.3%	\$1.3	Total

Operating Income

Operating income was \$6.3 million, or 2.0% of net sales, compared to \$41.3 million, or 11.3% of net sales, last year.

Income Tax Expense

Income tax expense was \$1.8 million, or 28.2% of pre-tax income, compared to \$9.7 million, or 23.7% of pre-tax income, last year. The increase in the effective income tax rate was primarily due to the discrete tax effects of stock-based compensation.

Net Income and Income Per Diluted Share

Net income was \$4.6 million, or \$0.15 per diluted share, compared to \$31.4 million, or \$1.02 per diluted share, last year.

Liquidity and Capital Resources

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

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

Working Capital

Working capital at July 30, 2022, was \$86.4 million compared to \$91.8 million at January 29, 2022, a decrease of \$5.4 million. The changes in our working capital during the first half of fiscal 2022 were as follows:

\$ millions	Description
\$91.8	Working capital at January 29, 2022
(9.0)	Repurchase of shares under our share repurchase program.
(4.4)	Decrease primarily due to an increase in accrued expenses related to accrued construction, returns reserves, and timing of sales tax payments.
7.9	Increase in receivables, primarily due to timing of credit and debit card receivables.
3.9	Increase in merchandise inventories, net of accounts payable.
(3.8)	Other net decreases.
\$86.4	Working capital at July 30, 2022

Cash Flow Analysis

A summary of operating, investing and financing activities for the twenty-six weeks ended July 30, 2022 compared to the twenty-six weeks ended July 31, 2021 is shown in the following table (in thousands):

	Twenty-Six Weeks Ended	
	July 30, 2022	July 31, 2021
Net cash (used in) provided by operating activities	\$ (7,115)	\$ 37,442
Net cash provided by (used in) investing activities	59,399	(10,097)
Net cash used in financing activities	(8,975)	(21,635)
Net increase in cash and cash equivalents	\$ 43,309	\$ 5,710

Net Cash (Used in) Provided by Operating Activities

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

Net cash used in operating activities was \$7.1 million this year compared to net cash provided of \$37.4 million last year. The \$44.6 million decrease in cash provided by operating activities was primarily due to lower net sales in fiscal 2022 compared to record net sales in fiscal 2021. The net sales decline was primarily due to the impacts of pent-up customer demand following the winding down of the 2020 pandemic restrictions and the pandemic-related federal stimulus payments on fiscal 2021 operations, coupled with the negative impact of a highly inflationary consumer environment in fiscal 2022.

Net Cash Provided by (Used In) Investing Activities

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

Net cash provided by investing activities was \$59.4 million this year compared to \$10.1 million in net cash used last year. Net cash provided by investing activities in the first half of fiscal 2022 consisted of maturities of marketable securities of \$96.2 million, partially offset by the purchases of marketable securities of \$29.9 million and capital expenditures totaling \$6.9 million. Net cash used in investing activities during the first half of fiscal 2021 consisted of purchases of marketable securities of \$66.6 million and capital expenditures totaling \$8.5 million, partially offset by proceeds from the maturities of marketable securities of \$65.0 million.

Net Cash Used in Financing Activities

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

Net cash used in financing activities was \$9.0 million this year compared to net cash used of \$21.6 million last year. Financing activities in the first half of fiscal 2022 consisted of cash used to repurchase shares of our common stock of \$9.0 million, partially offset by proceeds from the exercise of stock options of \$40 thousand. Financing activities in the first half of fiscal 2021 consisted of dividends paid of \$30.7 million, partially offset by proceeds from the exercise of stock options of \$9.1 million.

Credit Agreement

New Credit Agreement

On January 20, 2022, we entered into a senior secured credit agreement (the "Credit Agreement") and revolving line of credit note (the "Note") with Wells Fargo Bank, National Association (the "Bank"). The Credit Agreement provides for a senior secured revolving credit facility ("Revolving Facility") of up to \$25.0 million ("Revolving Commitment") consisting of revolving loans, letters of credit and swing line loans, with a sub-limit on letters of credit outstanding at any time of \$15.0 million. The Revolving Facility matures on January 20, 2024. The payment and performance in full of the secured obligations under the Revolving Facility are secured by a lien on and security interest in all of the assets of our company.

The payment and performance in full of the obligations under the Credit Agreement are guaranteed by the Company pursuant to a continuing guaranty (the "Guaranty") granted by the Company in favor of the Bank. The payment and performance of the Company's obligations under the Guaranty are secured by a lien on, and pledge of, all of the equity interests owned by the Company.

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

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

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

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

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

Prior Credit Agreement

The Credit Agreement replaced our previously existing asset-backed credit agreement (the "Prior Credit Agreement"), dated as of November 9, 2020, as amended, with the Bank, which had revolving commitments of up to \$65.0 million, a sub-limit on letters of credit of \$10.0 million and a sub-limit for swing-line loans of \$7.5 million.

The Prior Credit Agreement was terminated concurrently with the entry into the Credit Agreement. The maximum borrowings permitted under the Prior Credit Agreement was equal to the lesser of (x) the revolving commitment and (y) the borrowing base. The borrowing base was equal to (a) 90% of the borrower's eligible credit card receivables, plus (b) 90% of the cost of the borrower's eligible inventory, less inventory reserves established by the agent, and adjusted by the appraised value of such eligible inventory, plus (c) 90% of the cost of the borrower's eligible in-transit inventory, less inventory reserves established by the agent, and adjusted by the appraised value of such eligible in-transit inventory (not to exceed 10% of the total amount of all eligible inventory included in the borrowing base) less (d) reserves established by the agent. As of the date the Prior Credit Agreement was terminated, we had no outstanding borrowings under the Credit Agreement and the only utilization of the letters of credit sub-limit under the Credit Agreement was a \$2.025 million irrevocable standby letter of credit, which was previously issued under the Prior Credit Agreement and was transferred on such date to the Credit Agreement.

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

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

Contractual Obligations

As of July 30, 2022, there were no material changes to our contractual obligations as described in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of our Annual Report on Form 10-K for the fiscal year ended January 29, 2022.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires the appropriate application of certain accounting policies, some of which require us to make estimates and assumptions about future events and their impact on amounts reported in our consolidated financial statements. Since future events and their impact cannot be determined with absolute certainty, the actual results will inevitably differ from our estimates. As noted elsewhere in this Report, the COVID-19 pandemic has had significant impacts on our business and the economy generally, making estimates and assumptions about future events far more difficult, if not impossible. A summary of our significant accounting policies is included in Note 2 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended January 29, 2022.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and our Chief Financial Officer, with the participation of our Disclosure Committee, evaluated the effectiveness of our disclosure controls and procedures as of July 30, 2022. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of July 30, 2022, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

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

Inherent Limitations on Effectiveness of Controls

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

These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by

collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Part II. Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

We operate in a rapidly changing environment that involves a number of risks that could materially and adversely affect our business, financial condition, prospects, operating results or cash flows. In addition to the other information set forth in this Quarterly Report on Form 10-Q, please refer to the section titled “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended January 29, 2022 for a detailed discussion of the risks that affect our business.

Item 6. Exhibits

Exhibit No.	Description of Exhibit
10.1	First Amendment to Amended and Restated Office Lease Between Amnet Holdings, LLC and World of Jeans & Tops, dated June 30, 2022.
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files from Tilly’s, Inc.’s Quarterly Report on Form 10-Q for the quarter ended July 30, 2022, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Income; (iii) the Consolidated Statements of Comprehensive Income; (iv) the Consolidated Statement of Stockholders’ Equity; (v) the Consolidated Statements of Cash Flows and (vi) Notes to the Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

** Furnished herewith and not “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

SIGNATURES

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

Date: September 6, 2022

Tilly's, Inc.

/s/ Edmond Thomas

Edmond Thomas

President, Chief Executive Officer and Director

(Principal Executive Officer)

Date: September 6, 2022

/s/ Michael Henry

Michael Henry

Executive Vice President, Chief Financial Officer

(Principal Financial Officer)

FIRST AMENDMENT TO LEASE

THIS FIRST AMENDMENT TO LEASE (this "Amendment") is executed as of June 30, 2022, by and between Amnet Holdings, a California limited liability company ("Landlord"), and World of Jeans & Tops, a California Corporation ("Tenant").

RECITALS

A. By written Lease Agreement between Landlord and Tenant dated Septemeber 2, 2011 (as amended from time to time, the "Lease"), Tenant agreed to lease from Landlord certain Leased Property, more commonly known as 11 Whatney, located in the City of Irvine, County of Orange, State of California, which is more particularly described in the Lease. Capitalized terms not defined herein shall have the meanings as set forth in the Lease.

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

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

1. **Lease Term.** The Term of the lease is hereby extended for a period of Ten (10) years, commencing upon July 1, 2022 (the "Extension Term Commencement Date") and ending June 30, 2032 unless sooner terminated in accordance with the terms and conditions in Amending Agreement or the Lease. Further, all terms, covenants and conditions applicable to the Lease Term will be equally applicable to the Extension Term except hereinafter modified. The phrase "Lease Term" wherever it appears in the Lease shall be deemed to include the Original Lease Term and Extension Term.

2. **Minimum Monthly Rent.** Provided Tenant is not in default of the Lease, commencing on the extension Term Commencement Date and continuing through and including the expiration of the Extension Term, Minimum Monthly Rent and Annual Rent (Section 1.9 and 4.1), Tenant shall pay to Landlord, without notice or demand, a Minimum Monthly Rent equal to Forty One Thousand Six Hundred and 00/100 Dollars (\$41,600.00).

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

3. **Security Deposit.** Tenant has deposited with Landlord the sum Thirty-Five Thousand Three Hundred Fifty-Five and 92/100 Dollars (\$35,355.92). Said sum shall be increased to One Hundred Seventy Thousand Six Hundred Seventy and 51/100 Dollars (\$170,670.51). Difference owed from current security deposit is One Hundred Thirty-Five Thousand Three Hundred Fourteen and 59/100 Dollars (\$135,314.59) and shall be deposited along with first months Minimum Monthly Rent.

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

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

6. **Hold Harmless.** Unless due to the negligent act or omission of Landlord, its agents, contractors or employees, Tenant assumes all risk of damage to the property or injury to person in, upon, or about the Premises from any cause. Tenant shall defend the Landlord, Landlord's agents, employees, lenders, and affiliates against any such claims at Tenant's expense by counsel reasonably satisfactory to Landlord.

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

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

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

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

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

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

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

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

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

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

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

(Signature page follows)

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

“LANDLORD”

Amnet Holdings, LLC,
a California limited liability company

/s/ Hezy Shaked

Hezy Shaked, Manager

“TENANT”

World of Jeans & Tops, a California Corporation

/s/ Edmond Thomas

Edmond Thomas, President CEO

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

I, Edmond Thomas, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tilly's, Inc. for the quarter ended July 30, 2022;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 6, 2022

/s/ Edmond Thomas

Edmond Thomas

President, Chief Executive Officer and Director

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

I, Michael Henry, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tilly's, Inc. for the quarter ended July 30, 2022;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 6, 2022

/s/ Michael Henry

Michael Henry

Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended July 30, 2022 of Tilly's, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Edmond Thomas, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: September 6, 2022

/s/ Edmond Thomas

Edmond Thomas

President, Chief Executive Officer and Director

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended July 30, 2022 of Tilly's, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Henry, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: September 6, 2022

/s/ Michael Henry

Michael Henry

Chief Financial Officer

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