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 October 28, 2023

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	**45-2164791**
(State or other jurisdiction of incorporation or organization)	**(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 November 29, 2023, the registrant had the following shares of common stock outstanding:

Class A common stock $0.001 par value	22,667,615
Class B common stock $0.001 par value	7,306,108

TILLY'S, INC.
FORM 10-Q
For the Quarterly Period Ended October 28, 2023

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Forward-Looking Statements

This Quarterly Report on Form 10-Q (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 expense management, operating results and financial condition;
- our ability to adapt to declines in consumer confidence and decreases in consumer spending;
- the impact of fluctuations in the price and availability of raw materials, labor, and transportation;
- our ability to compete effectively in an environment of intense competition in stores, online and via social media marketing platforms;
- our ability to adapt to downward trends in traffic for our stores and changes in our customers' purchasing patterns;
- our ability to identify and respond to new and changing customer fashion preferences and fashion-related trends;
- our ability to successfully open new stores and profitably operate our existing stores;
- our ability to secure desirable lease arrangements and other economics to improve our profitability;
- 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;
- 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 adapt to unseasonable weather impacting sales of our seasonal merchandise;
- our dependence on third-party vendors to provide us with sufficient quantities of merchandise at acceptable prices and on time;
- our ability to adapt to significant changes in sales due to the seasonality of our business;
- our dependence upon key executive management or our inability to hire or retain the talent required for our business;
- our ability to establish, maintain and enhance a strong brand image;
- most of our merchandise is made in foreign countries, making price and availability of our merchandise susceptible to international trade conditions;
- our ability to balance proprietary branded merchandise with the third-party branded merchandise we sell;
- 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 generate sufficient cash flows to make significant periodic lease payments for our stores, corporate offices and distribution centers;
- our ability to attract customers in the various retail venues and geographies in which our stores are located;
- our ability to adapt to risks associated with climate change;
- our ability to respond to litigation claims we are subject to;
- failure of our vendors and their manufacturing sources to use acceptable labor or other practices;
- our ability to effectively respond to disruptions in our supply chain and distribution center;
- our ability to adjust to increasing costs of mailing catalogs, paper and printing;
- failure of our information technology systems to support our current and growing business, before and after our planned upgrades;
- our ability to secure our data and comply with privacy laws and the security standards for the credit card industry;
- disruptions to our information systems in the ordinary course of business, as a result of systems upgrades or due to intentional attacks;
- our inability to protect our trademarks or other intellectual property rights;
- our potential liability if we or our vendors unknowingly infringe upon the intellectual property rights of third parties;
- natural disasters, unusually adverse weather conditions, port delays, boycotts, epidemics, pandemics, acts of war, terrorism, civil unrest and other unanticipated events;
- the potential effects of unionization and work stoppages or slowdowns by our employees;
- our ability to respond to changes in employment and wage and hour laws;
- our ability to generate adequate cash from our existing stores and e-commerce to support our growth;

- our ability to generate sufficient undiscounted cash flows to recover our investment in long-lived and right-of-use assets;
- continuing costs incurred as a result of being a public company; and
- our responses to climate change, environmental, social and governance initiatives, and sustainability initiatives.

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

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

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

Part I. Financial Information

Item 1. Financial Statements (Unaudited)

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

	October 28, 2023	January 28, 2023	October 29, 2022
ASSETS			
Current assets:			
Cash and cash equivalents	$ 44,425	$ 73,526	$ 75,786
Marketable securities	49,523	39,753	29,985
Receivables	7,118	9,240	11,352
Merchandise inventories	82,753	62,117	81,589
Prepaid expenses and other current assets	11,816	17,762	16,036
Total current assets	**195,635**	**202,398**	**214,748**
Operating lease assets	216,205	212,845	222,664
Property and equipment, net	49,220	50,635	51,279
Deferred tax assets	13,229	8,497	10,261
Other assets	1,685	1,377	1,488
TOTAL ASSETS	**$ 475,974**	**$ 475,752**	**$ 500,440**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 27,025	$ 15,956	$ 30,225
Accrued expenses	14,688	15,889	17,239
Deferred revenue	13,520	16,103	13,859
Accrued compensation and benefits	10,590	8,183	9,756
Current portion of operating lease liabilities	50,063	48,864	50,047
Current portion of operating lease liabilities, related party	3,048	2,839	2,771
Other liabilities	330	470	806
Total current liabilities	**119,264**	**108,304**	**124,703**
Noncurrent portion of operating lease liabilities	171,388	167,913	176,621
Noncurrent portion of operating lease liabilities, related party	20,081	22,388	23,129
Other liabilities	391	349	455
Total long-term liabilities	**191,860**	**190,650**	**200,205**
Total liabilities	**311,124**	**298,954**	**324,908**
Commitments and contingencies (Notes 2 and 5)			
Stockholders' equity:			
Common stock (Class A), $0.001 par value; 100,000 shares authorized; 22,668, 22,562 and 22,537 shares issued and outstanding, respectively	23	23	23
Common stock (Class B), $0.001 par value; 35,000 shares authorized; 7,306, 7,306 and 7,306 shares issued and outstanding, respectively	7	7	7
Preferred stock, $0.001 par value; 10,000 shares authorized; no shares issued or outstanding	—	—	—
Additional paid-in capital	171,754	170,033	168,749
(Accumulated deficit) Retained earnings	(7,410)	6,530	6,634
Accumulated other comprehensive income	476	205	119
Total stockholders' equity	**164,850**	**176,798**	**175,532**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 475,974**	**$ 475,752**	**$ 500,440**

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

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 28, 2023	**October 29, 2022**	**October 28, 2023**	**October 29, 2022**
Net sales	**$ 166,475**	**$ 177,847**	**$ 450,063**	**$ 491,930**
Cost of goods sold (includes buying, distribution, and occupancy costs)	116,825	122,346	328,297	338,870
Rent expense, related party	931	918	2,793	2,680
Total cost of goods sold (includes buying, distribution, and occupancy costs)	**117,756**	**123,264**	**331,090**	**341,550**
Gross profit	**48,719**	**54,583**	**118,973**	**150,380**
Selling, general and administrative expenses	51,101	48,134	141,035	137,405
Rent expense, related party	134	134	400	400
Total selling, general, and administrative expenses	**51,235**	**48,268**	**141,435**	**137,805**
Operating (loss) income	**(2,516)**	**6,315**	**(22,462)**	**12,575**
Other income, net	1,341	675	3,625	862
(Loss) income before income taxes	**(1,175)**	**6,990**	**(18,837)**	**13,437**
Income tax (benefit) expense	(328)	1,841	(4,897)	3,656
Net (loss) income	**$ (847)**	**$ 5,149**	**$ (13,940)**	**$ 9,781**
Basic (loss) earnings per share of Class A and Class B common stock	$ (0.03)	$ 0.17	$ (0.47)	$ 0.32
Diluted (loss) earnings per share of Class A and Class B common stock	$ (0.03)	$ 0.17	$ (0.47)	$ 0.32
Weighted average basic shares outstanding	29,872	29,894	29,834	30,226
Weighted average diluted shares outstanding	29,872	30,050	29,834	30,428

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

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 28, 2023	**October 29, 2022**	**October 28, 2023**	**October 29, 2022**
Net (loss) income	**$ (847)**	**$ 5,149**	**$ (13,940)**	**$ 9,781**
Other comprehensive income, net of tax:				
Net change in unrealized gain on available-for-sale securities, net of tax	223	73	271	120
Other comprehensive income, net of tax	223	73	271	120
Comprehensive (loss) income	**$ (624)**	**$ 5,222**	**$ (13,669)**	**$ 9,901**

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

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

	Number of Shares						
	Common Stock (Class A)	Common Stock (Class B)	Common Stock	Additional Paid-in Capital	(Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at July 29, 2023	**22,654**	**7,306**	**$ 30**	**$ 171,195**	**$ (6,563)**	**$ 253**	**$ 164,915**
Net loss	—	—	—	—	(847)	—	(847)
Restricted stock forfeited	(17)	—	—	—	—	—	—
Share-based compensation expense	—	—	—	606	—	—	606
Employee stock option exercises	31	—	—	126	—	—	126
Taxes paid on short-swing profits disgorgement payment	—	—	—	(173)	—	—	(173)
Net change in unrealized gain on available-for-sale securities	—	—	—	—	—	223	223
Balance at October 28, 2023	**22,668**	**7,306**	**$ 30**	**$ 171,754**	**$ (7,410)**	**$ 476**	**$ 164,850**

	Number of Shares						
	Common Stock (Class A)	Common Stock (Class B)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at July 30, 2022	**22,805**	**7,306**	**$ 30**	**$ 168,120**	**$ 3,372**	**$ 46**	**$ 171,568**
Net income	—	—	—	—	5,149	—	5,149
Share-based compensation expense	—	—	—	613	—	—	613
Employee stock option exercises	3	—		16	—	—	16
Repurchase of common stock	(271)	—	—	—	(1,887)	—	(1,887)
Net change in unrealized gain on available-for-sale securities	—	—	—	—	—	73	73
Balance at October 29, 2022	**22,537**	**7,306**	**$ 30**	**$ 168,749**	**$ 6,634**	**$ 119**	**$ 175,532**

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

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

	Number of Shares						
	Common Stock (Class A)	Common Stock (Class B)	Common Stock	Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at January 28, 2023	**22,562**	**7,306**	**$ 30**	**$ 170,033**	**$ 6,530**	**$ 205**	**$ 176,798**
Net loss	—	—	—	—	(13,940)	—	(13,940)
Restricted stock, net of forfeitures	57	—	—	—	—	—	—
Share-based compensation expense	—	—	—	1,684	—	—	1,684
Employee stock option exercises	49	—	—	210	—	—	210
Taxes paid on short-swing profits disgorgement payment	—	—	—	(173)	—	—	(173)
Net change in unrealized gain on available-for-sale securities	—	—	—	—	—	271	271
Balance at October 28, 2023	**22,668**	**7,306**	**$ 30**	**$ 171,754**	**$ (7,410)**	**$ 476**	**$ 164,850**

	Number of Shares						
	Common Stock (Class A)	Common Stock (Class B)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at January 29, 2022	**23,719**	**7,306**	**$ 31**	**$ 166,929**	**$ 7,754**	**$ (1)**	**$ 174,713**
Net income	—	—	—	—	9,781	—	9,781
Restricted stock	63	—	—	—	—	—	—
Share-based compensation expense	—	—	—	1,764	—	—	1,764
Employee stock option exercises	13	—		56	—	—	56
Repurchase of common stock	(1,258)	—	(1)	—	(10,901)	—	(10,902)
Net change in unrealized gain on available-for-sale securities	—	—	—	—	—	120	120
Balance at October 29, 2022	**22,537**	**7,306**	**$ 30**	**$ 168,749**	**$ 6,634**	**$ 119**	**$ 175,532**

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

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

	Thirty-Nine Weeks Ended	
	October 28, 2023	**October 29, 2022**
Cash flows from operating activities:		
Net (loss) income	$ (13,940)	$ 9,781
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	9,547	10,515
Share-based compensation expense	1,684	1,764
Impairment of assets	2,631	14
Loss on disposal of assets	2	64
(Gain) interest on maturities of marketable securities	(1,156)	(230)
Deferred income taxes	(4,732)	1,167
Changes in operating assets and liabilities:		
Receivables	4,196	(705)
Merchandise inventories	(20,636)	(15,944)
Prepaid expenses and other current assets	5,980	557
Accounts payable	11,033	2,068
Accrued expenses	106	(4,253)
Accrued compensation and benefits	2,407	(7,300)
Operating lease liabilities	(4,545)	(4,637)
Deferred revenue	(2,583)	(3,237)
Other liabilities	(452)	(706)
Net cash used in operating activities	**(10,458)**	**(11,082)**
Cash flows from investing activities:		
Purchases of marketable securities	(88,146)	(49,779)
Purchases of property and equipment	(10,543)	(11,897)
Proceeds from maturities of marketable securities	80,000	117,189
Proceeds from sale of property and equipment	9	—
Net cash (used in) provided by investing activities	**(18,680)**	**55,513**
Cash flows from financing activities:		
Proceeds from exercise of stock options	210	56
Taxes paid on short-swing profits disgorgement payment	(173)	—
Share repurchases	—	(10,902)
Net cash provided by (used in) financing activities	**37**	**(10,846)**
Change in cash and cash equivalents	**(29,101)**	**33,585**
Cash and cash equivalents, beginning of period	73,526	42,201
Cash and cash equivalents, end of period	**$ 44,425**	**$ 75,786**
Supplemental disclosures of cash flow information:		
Income taxes (refunded) paid	$ (6,429)	$ 1,440
Supplemental disclosure of non-cash activities:		
Unpaid purchases of property and equipment	$ 2,022	$ 3,511
Operating lease liabilities arising from obtaining operating lease assets	$ 44,246	$ 47,092

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 249 stores, in 33 states as of October 28, 2023. 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 thirty-nine week periods ended October 28, 2023 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 28, 2023 ("fiscal 2022").

Fiscal Periods
Our fiscal year ends on the Saturday closest to January 31. References to fiscal 2023 refer to the fiscal year ending February 3, 2024. References to the fiscal quarters or first nine months ended October 28, 2023 and October 29, 2022 refer to the thirteen and thirty-nine week periods ended as of those dates, respectively.

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 28, 2023.

Revenue Recognition

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

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
Retail stores	$ 132,431	$ 141,539	$ 360,050	$ 396,109
E-commerce	34,044	36,308	90,013	95,821
Total net sales	**$ 166,475**	**$ 177,847**	**$ 450,063**	**$ 491,930**

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
Mens	35 %	37 %	35 %	37 %
Womens	25 %	25 %	28 %	26 %
Accessories	19 %	19 %	17 %	17 %
Footwear	11 %	11 %	12 %	12 %
Boys	5 %	4 %	4 %	4 %
Girls	5 %	4 %	4 %	4 %
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		Thirty-Nine Weeks Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
Third-party	69 %	69 %	68 %	69 %
Proprietary	31 %	31 %	32 %	31 %
Total net sales	**100 %**	**100 %**	**100 %**	**100 %**

We accrue for estimated sales returns by customers based on historical sales return results. As of October 28, 2023, January 28, 2023 and October 29, 2022, our reserve for sales returns was $1.5 million, $1.6 million and $1.9 million, respectively, and is included in accrued expenses on the accompanying Consolidated Balance Sheets.

We recognize revenue from gift cards as they are redeemed for merchandise. Prior to redemption, we maintain a current liability for unredeemed gift card balances. The customer liability balance was $8.8 million, $11.1 million and $8.7 million as of October 28, 2023, January 28, 2023 and October 29, 2022, respectively, and is included in deferred revenue on the accompanying Consolidated Balance Sheets. Our gift cards do not have expiration dates, and in most cases there is no legal obligation to remit unredeemed gift cards to relevant jurisdictions. Based on actual historical redemption patterns, we determined that a small percentage of gift cards are unlikely to be redeemed (which we refer to as gift card "breakage"). Based on our historical gift card breakage rate, we recognize breakage revenue over the redemption period in proportion to actual gift card redemptions. Revenue recognized from gift cards was $2.3 million and $2.6 million for the thirteen weeks ended October 28, 2023 and October 29, 2022, respectively. For the thirteen weeks ended October 28, 2023 and October 29, 2022, the opening gift card balance was $9.2 million and $8.9 million, respectively, of which $0.7 million was recognized as revenue in both periods. Revenue recognized from gift cards was $8.6 million and $9.9 million for the thirty-nine weeks ended October 28, 2023 and October 29, 2022, respectively. For the thirty-nine weeks ended October 28, 2023 and October 29, 2022, the opening gift card balance was $11.1 million and $11.2 million, respectively, of which $4.1 million and $4.6 million, respectively, were recognized as revenue during the period.

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 points earned and expected future redemptions. The deferred revenue for this program was $4.7 million, $5.0 million and $5.2 million as of October 28, 2023, January 28, 2023 and October 29, 2022, respectively. The value of points redeemed through our loyalty program was $2.1 million and $2.2 million for the thirteen weeks ended October 28, 2023 and October 29, 2022, respectively. For the thirteen weeks ended October 28, 2023 and October 29, 2022, the opening loyalty program balance was $4.8 million and $5.3 million, respectively, of which $1.7 million and $1.8 million, respectively, was recognized as revenue during these periods. The value of points redeemed through our loyalty program was $5.8 million and $6.5 million for the thirty-nine weeks ended October 28, 2023 and October 29, 2022, respectively. For the thirty-nine weeks ended October 28, 2023 and October 29, 2022, the opening loyalty program balance was $5.0 million and $5.9 million, respectively, of which $4.0 million and $4.9 million, respectively, was recognized as revenue during these periods.

Property and Equipment, net

Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Equipment is depreciated over five to seven years. Furniture and fixtures are depreciated over five years. Computer software is depreciated over three years. Leasehold improvements and the cost of acquiring leasehold rights are amortized over the lesser of the term of the lease or the estimated useful life of the improvement. The cost of assets sold or retired and the related accumulated depreciation is removed from the accounts with any resulting gain or loss included in net (loss) income in the accompanying Consolidated Statements of Operations.

Repairs and maintenance costs are charged directly to expense as incurred. Major renewals, replacements and improvements that substantially extend the useful life of an asset are capitalized and depreciated.

At October 28, 2023, January 28, 2023 and October 29, 2022, property and equipment consisted of the following (in thousands):

	October 28, 2023	January 28, 2023	October 29, 2022
Leasehold improvements	$ 160,072	$ 158,511	$ 155,640
Furniture and fixtures	47,216	47,571	47,148
Computer hardware and software	46,292	42,903	42,538
Machinery and equipment	34,546	34,263	34,076
Vehicles	2,497	2,190	2,187
Construction in progress	6,156	6,214	7,634
Property and equipment, gross	**296,779**	**291,652**	**289,223**
Accumulated depreciation	(247,559)	(241,017)	(237,944)
Property and equipment, net	**$ 49,220**	**$ 50,635**	**$ 51,279**

Depreciation expense related to property and equipment was $3.1 million and $3.5 million for the thirteen weeks ended October 28, 2023 and October 29, 2022, respectively. Depreciation expense related to property and equipment was $9.5 million and $10.5 million for the thirty-nine weeks ended October 28, 2023 and October 29, 2022, respectively.

Leases

We conduct all of our retail sales and corporate operations in leased facilities. Lease terms generally range up to 10 years in duration (subject to elective extensions) and provide for escalations in base rents. Many of our store leases contain one or more options to renew the lease at our sole discretion. Generally, we do not consider any additional renewal periods to be reasonably certain of being exercised.

Most store leases include tenant allowances from landlords, rent escalation clauses and/or contingent rent provisions. Certain leases provide for additional rent based on a percentage of sales and annual rent increases generally based upon the Consumer Price Index. In addition, most of our store leases are net leases, which typically require us to be responsible for certain property operating expenses, including property taxes, insurance, common area maintenance, in addition to base rent. Many of our store leases contain certain co-tenancy provisions that permit us to pay rent based on a pre-determined percentage of sales when the occupancy of the retail center falls below minimums established in the lease. For non-cancelable operating lease agreements, operating lease assets and operating lease liabilities are established for leases with an expected term greater than one year, and we recognize lease expense on a straight-line basis. Contingent rent, determined based on a percentage of 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 thirty-nine week periods ended October 28, 2023 and October 29, 2022 we incurred rent expense of $0.5 million and $1.6 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 (the "LAARUCPI"), not to exceed 7%. The 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 the thirteen and thirty-nine week periods ended October 28, 2023, we incurred rent expense of $0.2 million and $0.5 million, respectively, related to this lease. During the thirteen and thirty-nine week periods ended October 29, 2022, we incurred rent expense of $0.2 million and $0.4 million, respectively, related to this lease. Pursuant to the lease agreement, the lease payment adjusts annually at the greater of 5% or the change in the LAARUCPI. The lease began on June 29, 2012 and 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 each of the thirteen and thirty-nine week periods ended October 28, 2023 and October 29, 2022 we incurred rent expense of $0.4 million and $1.1 million, respectively, related to this lease. The lease payment adjusts annually based upon the greater of 5% or the change in the LAARUCPI. The lease began on November 1, 2011 and 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 five years and terminates on January 31, 2027. Sublease income is recognized on a straight-line basis over the sublease agreement and is recorded as an offset within the selling, general and administrative section in the Consolidated Statements of Operations.

The maturity of operating lease liabilities and sublease income as of October 28, 2023 were as follows (in thousands):

Fiscal Year	**Related Party**	**Other**	**Total**	**Sublease Income**
2023	$ 1,003	$ 17,222	$ 18,225	$ 24
2024	4,085	60,943	65,028	95
2025	4,244	51,535	55,779	99
2026	4,411	40,225	44,636	104
2027	4,167	32,724	36,891	—
Thereafter	9,324	63,526	72,850	—
Total minimum lease payments	**27,234**	**266,175**	**293,409**	**322**
Less: Amount representing interest	4,105	44,724	48,829	—
Present value of operating lease liabilities	**$ 23,129**	**$ 221,451**	**$ 244,580**	**$ 322**

As of October 28, 2023, additional operating lease contracts that have not yet commenced are $2.4 million. Further, additional operating lease contracts and modifications executed subsequent to the balance sheet date, but prior to the report date, are $1.2 million.

Lease expense for the thirteen and thirty-nine week periods ended October 28, 2023 and October 29, 2022 was as follows (in thousands):

	Thirteen Weeks Ended					
	October 28, 2023			**October 29, 2022**		
	Cost of goods sold	**SG&A**	**Total**	**Cost of goods sold**	**SG&A**	**Total**
Fixed operating lease expense	$ 16,748	$ 350	$ 17,098	$ 16,230	$ 331	$ 16,561
Variable lease expense	4,409	16	4,425	4,274	10	4,284
Total lease expense	**$ 21,157**	**$ 366**	**$ 21,523**	**$ 20,504**	**$ 341**	**$ 20,845**

	Thirty-Nine Weeks Ended					
	October 28, 2023			October 29, 2022		
	Cost of goods sold	SG&A	Total	Cost of goods sold	SG&A	Total
Fixed operating lease expense	$ 48,205	$ 1,044	$ 49,249	$ 47,221	$ 972	$ 48,193
Variable lease expense	15,096	55	15,151	12,285	33	12,318
Total lease expense	**$ 63,301**	**$ 1,099**	**$ 64,400**	**$ 59,506**	**$ 1,005**	**$ 60,511**

Supplemental lease information for the thirty-nine weeks ended October 28, 2023 and October 29, 2022 was as follows:

	Thirty-Nine Weeks Ended	
	October 28, 2023	October 29, 2022
Cash paid for amounts included in the measurement of operating lease liabilities (in thousands)	$53,660	$52,971
Weighted average remaining lease term (in years)	5.5 years	5.8 years
Weighted average interest rate **(1)**	6.60%	6.32%

(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.

Income Taxes

Our income tax benefit was $(4.9) million, or 26.0% of pre-tax loss, compared to income tax expense of $3.7 million, or 27.2% of pre-tax income, for the thirty-nine weeks ended October 28, 2023 and October 29, 2022, respectively. The decrease in the effective income tax rate was primarily attributable to a decrease in pre-tax income and discrete income tax items associated with stock-based compensation.

New Accounting Standards Adopted

In November 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2019-11, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses* ("ASU 2019-11") which amends ASU No. 2016-13 *Measurement of Credit Losses on Financial Instruments* and 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. We adopted ASU 2019-11 in the first quarter of fiscal 2023, which applied to our fixed income securities recorded at amortized cost and classified as held-to-maturity and to our trade receivables. The adoption of this accounting standard did not have a material effect on our consolidated financial statements and related disclosures.

Note 3: Marketable Securities

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

The following table summarizes our investments in marketable securities at October 28, 2023, January 28, 2023 and October 29, 2022 (in thousands):

	October 28, 2023			
	Cost or Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Commercial paper	$ 48,874	$ 649	$ —	$ 49,523
Total marketable securities	**$ 48,874**	**$ 649**	**$ —**	**$ 49,523**

	January 28, 2023			
	Cost or Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Commercial paper	$ 29,570	$ 180	$ —	$ 29,750
Fixed income securities	10,003	—	—	10,003
Total marketable securities	**$ 39,573**	**$ 180**	**$ —**	**$ 39,753**

	October 29, 2022			
	Cost or Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Commercial paper	$ 24,789	$ 136	$ —	$ 24,925
Fixed income securities	5,060	—	—	5,060
Total marketable securities	**$ 29,849**	**$ 136**	**$ —**	**$ 29,985**

We recognized gains on investments for commercial paper that matured during the thirteen and thirty-nine week periods ended October 28, 2023 and October 29, 2022. Upon recognition of the gains, we reclassified these amounts out of "Accumulated Other Comprehensive Income" and into “Other income, net” on the Consolidated Statements of Operations.

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
Gains on investments	$ 442	$ 109	$ 1,158	$ 174

Note 4: Asset-Backed Credit Agreement

New Credit Agreement

On April 27, 2023 (the “Closing Date”), we entered into an asset-backed credit agreement and revolving line of credit note (the "Note" and, collectively, the “Credit Agreement”) with Wells Fargo Bank, National Association, as lender (the “Bank”). The Credit Agreement provides for an asset-based, senior secured revolving credit facility (“Revolving Facility”) of up to $65.0 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 $10.0 million and a sub-limit for swing line loans of $7.5 million, which replaced our Prior Credit Agreement. The Credit Agreement also includes an uncommitted accordion feature whereby we may increase the Revolving Commitment by an aggregate amount not to exceed $12.5 million, subject to certain conditions. The Revolving Facility matures on April 27, 2026. 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 our assets.

The maximum borrowings permitted under the Revolving Facility is equal to the lesser of (x) the Revolving Commitment and (y) the applicable borrowing base, which is equal to (i) 90% of our eligible credit card receivables, plus (ii) 90% of the cost of certain adjusted eligible inventory, less certain inventory reserves, plus (iii) 90% of the cost of certain adjusted eligible in-transit inventory, less certain inventory reserves, less (iv) certain other reserves established by the Bank.

The unused portion of the Revolving Commitment accrues a commitment fee of 0.375% per annum. Borrowings under the Revolving Facility bear interest at a rate per annum that ranges from the Secured Overnight Financing Rate (“SOFR”) plus a credit spread adjustment (equal to 10 basis points for one- and three-month term SOFR) plus 1.50% to 2.00%, or a base rate (as calculated in accordance with the Credit Agreement) (the “Base Rate”) plus 0.50% to 1.00%, based on the average daily borrowing capacity under the Revolving Facility over the applicable fiscal quarter. We are allowed to elect to apply either SOFR or Base Rate interest to borrowings at its discretion, other than in the case of swing line loans, to which the Base Rate shall apply.

Under the Credit Agreement, we are subject to a variety of affirmative and negative covenants customary in an asset-based lending facility, including a financial covenant relating to availability (which is required to remain above the greater of: (i) ten percent (10%) of the Loan Cap (as defined in the Credit Agreement) and (ii) $6.0 million). Prior to the first anniversary of the Closing Date, we are prohibited from declaring or paying any cash dividends to our stockholders or repurchasing our common stock. Thereafter, we are permitted to declare or pay cash dividends and/or repurchase our 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.

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; actual or asserted invalidity of any the Credit Agreement or related loan documents; or a change of control.

As of October 28, 2023, we were in compliance with all of our covenants, were eligible to borrow up to a total of $63.0 million, and had no outstanding borrowings under the Credit Agreement. The only utilization of the letters of credit sub-limit under the Credit Agreement was a $2.025 million irrevocable standby letter of credit.

Prior Credit Agreement

The Credit Agreement replaced our previously existing senior secured credit agreement (as amended, the "Prior Credit Agreement") and revolving line of credit note dated as of January 20, 2022 with the Bank, which had revolving commitments of up to $25.0 million 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. In connection with the entry into the Prior Credit Agreement, on January 20, 2022, we also entered into the Prior Security Agreements.

Borrowings under the Prior Credit Agreement bore interest at a rate per annum equal to SOFR plus 0.75%. Amounts available to be drawn under outstanding letters of credit accrued fees in an amount equal to 1.00% per annum. The unused portion of the Prior Credit Agreement was not subject to a commitment fee. As of the Closing Date, 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 the Closing Date.

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 will not have a material adverse effect on our financial condition, results of operations or cash flows. As of the date of these consolidated financial statements, we were not engaged in any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on our consolidated results of operations or financial position.

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.

Furthermore, as of October 28, 2023, January 28, 2023 and October 29, 2022, 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):

	October 28, 2023			January 28, 2023			October 29, 2022		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Cash equivalents **(1)**:									
Money market securities	$ 42,544	$ —	$ —	$51,756	$ —	$ —	$62,848	$ —	$ —
Commercial paper	—	—	—	—	19,871	—	—	9,948	—
Marketable securities:									
Commercial paper	$ —	$ 49,523	$ —	$ —	$ 29,750	$ —	$ —	$ 24,925	$ —

(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 and operating lease right-of-use ("ROU") 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 of our stores, we determine if a store would be able to generate sufficient undiscounted cash flows over the remaining term to recover our investment in long-lived and ROU assets. If the undiscounted future cash flows are less than the carrying value, an impairment loss is recognized for the difference between the carrying value and the estimated fair value of assets based on the discounted cash flows of the assets using a rate that approximates the weighted average cost of capital plus a company specific risk premium. Impairment losses are allocated between the long-lived assets and ROU assets on a relative carrying amount basis. ROU fair values are estimated by an independent third party and represent the highest and best use to a market participant. 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 or the ROU in the respective stores. As a result of this assessment, we recorded non-recurring, non-cash impairment charges of $2.6 million and less than $0.1 million in the thirty-nine weeks ended October 28, 2023 and October 29, 2022, respectively, to write-down the carrying value of certain long-lived store assets and ROU assets to their estimated fair values.

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
	($ in thousands)			
Carrying value of assets with impairment	$ 4,415	$ 1	$ 5,572	$ 14
Fair value of assets impaired	$ 2,740	$ —	$ 2,941	$ —
Number of stores tested for impairment	39	8	41	9
Number of stores with impairment	11	1	21	2

Note 7: Share-Based Compensation

The Tilly's, Inc. 2012 Second Amended and Restated Equity and Incentive Plan, as amended in June 2020 (the "2012 Plan"), authorizes up to 6,613,900 shares for issuance of options, shares or rights to acquire our Class A common stock and allows for, among other things, operating income and comparable store sales growth targets as additional performance goals that may be used in connection with performance-based awards granted under the 2012 Plan. As of October 28, 2023, there were 1,116,863 shares available for future issuance under the 2012 Plan.

Stock Options

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

The following table summarizes stock option activity for the thirty-nine weeks ended October 28, 2023 (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 28, 2023 **(2)**	1,868,243	$ 8.99		
Granted	758,500	$ 6.44		
Exercised	(49,375)	$ 4.26		
Forfeited	(46,375)	$ 8.23		
Expired	(44,062)	$ 12.19		
Outstanding at October 28, 2023	**2,486,931**	**$ 8.26**	**7.5**	**$ 2,507**
Exercisable at October 28, 2023	**1,080,831**	**$ 9.33**	**5.7**	**$ 901**

(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 $7.90 at October 28, 2023.

(2) Reflects the removal of 5,000 stock options held by a former employee that expired during fiscal 2022, which we identified during the first quarter of fiscal 2023.

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

The fair values of stock options granted during the thirteen and thirty-nine weeks ended October 28, 2023 and October 29, 2022 were estimated on the grant date using the following assumptions:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
Weighted average grant-date fair value per option granted	—	$3.82	$3.50	$4.94
Expected option term **(1)**	—	5.2 years	5.5 years	5.2 years
Weighted average expected volatility factor **(2)**	—%	58.6%	56.3%	58.6%
Weighted average risk-free interest rate **(3)**	—%	3.6%	4.0%	2.4%
Expected annual dividend yield **(4)**	—%	—%	—%	—%

(1) The expected option term of the awards represents the estimated time that options are expected to be outstanding based upon historical option data.
(2) Stock volatility for each grant is measured using the historical daily price changes of our common stock over the most recent period equal to the expected option term of the awards.
(3) The risk-free interest rate is determined using the rate on treasury securities with the same term as the expected life of the stock option as of the grant date.
(4) We do not currently have a dividend policy, and we do not currently anticipate paying any cash dividends on our common stock at this time. In compliance with our new Credit Agreement, we are prohibited from declaring or paying any cash dividends prior to April 27, 2024.

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 restricted stock as of October 28, 2023, and the changes since January 28, 2023:

	Restricted Stock	Weighted Average Grant-Date Fair Value
Nonvested at January 28, 2023	**73,484**	**$ 8.71**
Granted	73,284	$ 6.55
Vested	(41,738)	$ 9.58
Forfeited	(17,505)	$ 6.86
Nonvested at October 28, 2023	**87,525**	**$ 6.86**

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
Cost of goods sold	$ 82	$ 100	$ 206	$ 280
Selling, general, and administrative	524	513	1,478	1,484
Total share-based compensation	**$ 606**	**$ 613**	**$ 1,684**	**$ 1,764**

At October 28, 2023, there was $5.1 million of total unrecognized share-based compensation expense related to unvested stock options and restricted stock. This cost has a weighted average remaining recognition period of 2.7 years.

Note 8: (Loss) 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 (loss) earnings per share were as follows (in thousands, except per share amounts):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
Net (loss) income	$ (847)	$ 5,149	$ (13,940)	$ 9,781
Weighted average basic shares outstanding	29,872	29,894	29,834	30,226
Dilutive effect of in-the-money stock options and RSAs	—	156	—	202
Weighted average shares for diluted earnings per share	**29,872**	**30,050**	**29,834**	**30,428**
Basic (loss) earnings per share of Class A and Class B common stock	$ (0.03)	$ 0.17	$ (0.47)	$ 0.32
Diluted (loss) earnings per share of Class A and Class B common stock	**$ (0.03)**	**$ 0.17**	**$ (0.47)**	**$ 0.32**

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
Stock options	2,098	1,529	2,103	1,408
Restricted stock	—	10	—	10
Total	**2,098**	**1,539**	**2,103**	**1,418**

Note 9: Share Repurchase Program

On March 14, 2022, our Board of Directors authorized a share repurchase program, pursuant to which we were 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 fiscal year ended January 28, 2023, we repurchased 1,258,330 shares of our Class A common stock at a weighted average price of $8.63 per share for a total of $10.9 million under the program. At January 28, 2023, the remaining repurchase authorization totaled 741,670 shares, which remained unpurchased upon expiration of the program on March 14, 2023.

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 28, 2023. As used in this Report, except where the context otherwise requires or where otherwise indicated, the terms "the Company", "World of Jeans & Tops", "we", "our", "us", "Tillys" and "Tilly's" refer to Tilly's, Inc. and its subsidiary.

Overview

Tillys is a destination specialty retailer of casual apparel, footwear, accessories and hardgoods for men, women, boys and girls. We believe we bring together an unparalleled selection of iconic global, emerging, and proprietary brands rooted in an active and outdoor lifestyle. The Tillys concept began in 1982, when our co-founders, Hezy Shaked and Tilly Levine, opened our first store in Orange County, California. As of October 28, 2023, we operated 249 stores in 33 states, averaging approximately 7,270 square feet per store, compared to 247 total stores at the same time last year. We also sell our products through our e-commerce website, www.tillys.com.

Known or Anticipated Trends

Economic Trends

We believe the uncertain and inflationary economic environment has had, and is likely to continue to have, a significant, adverse impact on our consumer's confidence and spending and, by extension, our operating results. Persistent inflation has also resulted in increased costs for many products and services that are necessary for the operation of our business, such as product costs, labor costs, shipping costs, and digital marketing costs, among others. For example, store payroll and payroll related expenses represented approximately 47% of our total selling, general and administrative expenses for the first nine months of fiscal 2023. Our average hourly rate for store payroll in the first nine months of fiscal 2023 was 26% higher than in the pre-pandemic first nine months of fiscal 2019 and 7% higher than in the first nine months of last year. Minimum wage increases are estimated to cost us approximately $3 million more during fiscal 2023 than in fiscal 2022 and are estimated to add another approximately $2 million in costs during fiscal 2024 compared to fiscal 2023. These and other cost increases may continue to have a material adverse impact on our results of operations and financial condition in fiscal 2023 and into fiscal 2024, particularly if the broader economy is negatively impacted by recessionary impacts for an extended period of time. We currently expect that our total capital expenditures for fiscal 2023 will be approximately $13 million, inclusive of 7 total new stores and upgrades to certain distribution and information technology systems.

Fiscal 2024 New Store Openings and Capital Expenditure Plans

During fiscal 2024, we currently expect to open four new stores. We currently expect that our total capital expenditures for fiscal 2024 will not exceed $15 million, inclusive of our new store plans and upgrades to certain distribution and information technology infrastructure systems.

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 (loss) 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 is performing. Numerous factors affect our comparable store net 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 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, relocated or refreshed 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 comparable store net 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 net 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” net sales differently than we do. As a result, data in this Report regarding our comparable store net 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 (Loss) Income

Operating (loss) income equals gross profit less SG&A expenses. Operating (loss) income excludes interest income, interest expense and income taxes. Operating (loss) income percentage measures operating (loss) 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		Thirty-Nine Weeks Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
Statements of Operations Data:				
Net sales	**$ 166,475**	**$ 177,847**	**$ 450,063**	**$ 491,930**
Cost of goods sold	116,825	122,346	328,297	338,870
Rent expense, related party	931	918	2,793	2,680
Total cost of goods sold	**117,756**	**123,264**	**331,090**	**341,550**
Gross profit	**48,719**	**54,583**	**118,973**	**150,380**
Selling, general and administrative expenses	51,101	48,134	141,035	137,405
Rent expense, related party	134	134	400	400
Total selling, general and administrative expenses	**51,235**	**48,268**	**141,435**	**137,805**
Operating (loss) income	**(2,516)**	**6,315**	**(22,462)**	**12,575**
Other income, net	1,341	675	3,625	862
(Loss) income before income taxes	**(1,175)**	**6,990**	**(18,837)**	**13,437**
Income tax (benefit) expense	(328)	1,841	(4,897)	3,656
Net (loss) income	**$ (847)**	**$ 5,149**	**$ (13,940)**	**$ 9,781**
Percentage of Net Sales:				
Net sales	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**
Cost of goods sold	70.2 %	68.8 %	72.9 %	68.9 %
Rent expense, related party	0.6 %	0.5 %	0.6 %	0.5 %
Total cost of goods sold	**70.7 %**	**69.3 %**	**73.6 %**	**69.4 %**
Gross profit	**29.3 %**	**30.7 %**	**26.4 %**	**30.6 %**
Selling, general and administrative expenses	30.7 %	27.1 %	31.3 %	27.9 %
Rent expense, related party	0.1 %	0.1 %	0.1 %	0.1 %
Total selling, general and administrative expenses	**30.8 %**	**27.1 %**	**31.4 %**	**28.0 %**
Operating (loss) income	**(1.5)%**	**3.6 %**	**(5.0)%**	**2.6 %**
Other income, net	0.8 %	0.4 %	0.8 %	0.2 %
(Loss) income before income taxes	**(0.7)%**	**3.9 %**	**(4.2)%**	**2.7 %**
Income tax (benefit) expense	(0.2)%	1.0 %	(1.1)%	0.7 %
Net (loss) income	**(0.5)%**	**2.9 %**	**(3.1)%**	**2.0 %**

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
Operating Data:				
Stores operating at end of period	249	247	249	247
Comparable store net sales change **(1)**	(9.0)%	(14.9)%	(11.3)%	(14.9)%
Total square feet at end of period (in '000s)	1,810	1,800	1,810	1,800
Average net sales per physical store (in '000s) **(2)**	$ 534	$ 578	$ 1,449	$ 1,635
Average net sales per square foot **(2)**	$ 73	$ 79	$ 199	$ 224
E-commerce net sales (in '000s) **(3)**	$ 34,044	$ 36,308	$ 90,013	$ 95,821
E-commerce net sales as a percentage of net sales	20.4 %	20.4 %	20.0 %	19.5 %

(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.

Third Quarter (13 Weeks) Ended October 28, 2023 Compared to Third Quarter (13 Weeks) Ended October 29, 2022

Net Sales

Total net sales were $166.5 million, a decrease of $11.4 million, or 6.4%, compared to $177.8 million last year. Total comparable net sales, including both physical stores and e-commerce, decreased by 9.0%. We believe persistent inflation continues to have an adverse impact on spending by our customers, and, in particular, our younger customer demographic.

- Net sales from physical stores were $132.4 million, a decrease of $9.1 million or 6.4%, compared to $141.5 million last year, with a comparable store net sales decrease of 9.1%. In comparable stores, customer traffic decreased by 9%, total transaction volume decreased by 9%, and the average transaction value was flat. Net sales from physical stores represented 79.6% of total net sales both this year and last year. We ended the third quarter with 249 total stores compared to 247 total stores at the end of the third quarter last year.
- Net sales from e-commerce were $34.0 million, a decrease of $2.3 million or 6.2%, compared to $36.3 million last year. E-commerce net sales represented 20.4% of total net sales both this year and last year.

Gross Profit

Gross profit was $48.7 million, or 29.3% of net sales, compared to $54.6 million, or 30.7% of net sales, last year. Buying, distribution, and occupancy costs deleveraged by 90 basis points, despite being $1.0 million lower than last year primarily due to a decrease in distribution costs resulting from reduced freight costs, partially offset by higher occupancy costs as a result of two net additional stores compared to last year. Product margins declined by 50 basis points primarily due to increased markdowns and estimated inventory valuation reserves.

Selling, General and Administrative Expenses

SG&A expenses were $51.2 million or 30.8% of net sales, compared to $48.3 million, or 27.1% of net sales, last year. The primary components of the SG&A variances, both in terms of percentage of net sales and total dollars, were as follows:

%	$ millions	Primarily Attributable to
1.0%	$1.7	Increase in non-cash store asset impairment charges.
0.6%	0.7	Increase in marketing expenses.
1.6%	0.7	Increase in store and corporate payroll and related benefits primarily due to the impact of minimum wage increases and other wage increases related to employee retention.
0.4%	(0.1)	Net change from all other SG&A expenses.
3.6%	**$3.0**	**Total**

Operating (Loss) Income

Operating loss was $(2.5) million, or (1.5)% of net sales, compared to operating income of $6.3 million, or 3.6% of net sales, last year as a result of the combination of factors noted above.

Other Income, Net

Other income was $1.3 million compared to $0.7 million last year, primarily attributable to earning significantly higher rates of return on our marketable securities.

Income Tax (Benefit) Expense

Income tax benefit was $(0.3) million, or 28.0% of pre-tax loss, compared to income tax expense of $1.8 million, or 26.3% of pre-tax income, last year. The increase in the effective income tax rate was primarily attributable to a decrease in pre-tax income and discrete income tax items associated with stock-based compensation.

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

Net loss was $(0.8) million, or $(0.03) per share, compared to net income of $5.1 million, or $0.17 per diluted share, last year as a result of the combination of factors noted above.

Thirty-Nine Weeks Ended October 28, 2023 Compared to Thirty-Nine Weeks Ended October 29, 2022

Net Sales

Total net sales were $450.1 million, a decrease of $41.9 million or 8.5%, compared to $491.9 million last year. Total comparable net sales, including both physical stores and e-commerce, decreased by 11.3%. We believe persistent inflation continues to have an adverse impact on spending by our younger customer demographic.

- Net sales from physical stores were $360.0 million, a decrease of $36.1 million or 9.1%, compared to $396.1 million last year with a comparable store net sales decrease of 12.3%. In comparable stores, customer traffic decreased by 10%, total transaction volume decreased by 12%, and the average transaction value was flat. Net sales from physical stores represented 80.0% of total net sales compared to 80.5% of total net sales last year.
- Net sales from e-commerce were $90.0 million, a decrease of $5.8 million or 6.1%, compared to $95.8 million last year. E-commerce net sales represented 20.0% of total net sales compared to 19.5% of total net sales last year.

Gross Profit

Gross profit was $119.0 million, or 26.4% of net sales, compared to $150.4 million, or 30.6% of net sales, last year. Buying, distribution, and occupancy costs deleveraged by 260 basis points and increased by $2.3 million collectively, predominantly due to occupancy costs, as a result of operating two net additional stores and carrying these costs against a lower level of net sales, partially offset by a decrease in distribution costs resulting from reduced freight costs. Product margins declined by 150 basis points primarily due to increased markdowns and estimated inventory valuation reserves.

Selling, General and Administrative Expenses

SG&A expenses were $141.4 million, or 31.4% of net sales, compared to $137.8 million, or 28.0% of net sales, last year. The primary components of the SG&A variances, both in terms of percentage of net sales and total dollars, were as follows:

%	$ millions	Primarily Attributable to
0.6%	$2.6	Increase in non-cash store impairment charges.
0.6%	$1.4	Increase in corporate payroll primarily due to the impact of wage increases related to employee retention.
2.2%	(0.4)	Net change in all other SG&A expenses.
3.4%	**$3.6**	**Total**

Operating (Loss) Income

Operating loss was $(22.5) million, or (5.0)% of net sales, compared to operating income of $12.6 million, or 2.6% of net sales, last year as a result of the combination of factors noted above.

Other Income, Net

Other income was $3.6 million compared to $0.9 million last year, primarily attributable to earning significantly higher rates of return on our marketable securities.

Income Tax (Benefit) Expense

Income tax benefit was $(4.9) million, or 26.0% of pre-tax loss, compared to income tax expense of $3.7 million, or 27.2% of pre-tax income, last year. The decrease in the effective income tax rate was primarily attributable to a decrease in pre-tax income and discrete income tax items associated with stock-based compensation.

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

Net loss was $(13.9) million, or $(0.47) per share, compared to net income of $9.8 million, or $0.32 per diluted share, last year as a result of the combination of factors noted above.

Liquidity and Capital Resources

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

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

Working Capital

Working capital at October 28, 2023, was $76.4 million compared to $94.1 million at January 28, 2023, a decrease of $17.7 million. The primary changes in our working capital during the first three quarters of fiscal 2023 were as follows:

$ millions	Description
$94.1	**Working capital at January 28, 2023**
(19.3)	Decrease in cash, cash equivalents, and marketable securities primarily due to lower net income.
(5.9)	Decrease in prepaid expenses and other current assets primarily from prepaid income taxes.
(2.4)	Decrease primarily due to an increase in accrued compensation and benefits expenses.
(2.1)	Decrease in receivables primarily from tenant improvement allowances.
9.6	Increase in merchandise inventories net of accounts payable.
2.6	Increase primarily due to a decrease in deferred revenue.
(0.2)	Net change from all other changes in current assets and current liabilities.
76.4	**Working capital at October 28, 2023**

Cash Flow Analysis

A summary of operating, investing and financing activities for the thirty-nine weeks ended October 28, 2023 compared to the thirty-nine weeks ended October 29, 2022 is shown in the following table (in thousands):

	Thirty-Nine Weeks Ended	
	October 28, 2023	October 29, 2022
Net cash used in operating activities	$ (10,458)	$ (11,082)
Net cash (used in) provided by investing activities	(18,680)	55,513
Net cash provided by (used in) financing activities	37	(10,846)
Net change in cash and cash equivalents	**$ (29,101)**	**$ 33,585**

Net Cash Used in Operating Activities

Operating activities consist primarily of net (loss) income adjusted for non-cash items that include depreciation, asset impairment write-downs, deferred income taxes, (gain) interest on maturities of marketable securities and share-based compensation expense, plus the effect on cash of changes during the year in our assets and liabilities.

Net cash used in operating activities was $10.5 million this year compared to $11.1 million last year. The $0.6 million decrease in net cash used in operating activities compared to last year was due to a variety of largely offsetting increases and decreases of similar amounts within current assets and current liabilities.

Net Cash (Used in) Provided by Investing Activities

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

Net cash used in investing activities was $18.7 million this year compared to net cash provided of $55.5 million last year. Net cash used in investing activities in the first three quarters of fiscal 2023 consisted of purchases of marketable securities of $88.1 million and capital expenditures totaling $10.5 million, partially offset by maturities of marketable securities of $80.0 million. Net cash provided by investing activities in the first three quarters of fiscal 2022 consisted of maturities of marketable securities of $117.2 million, partially offset by the purchases of marketable securities of $49.8 million and capital expenditures totaling $11.9 million.

Net Cash Provided by (Used in) Financing Activities

Financing activities primarily consist of share repurchases and proceeds from employee exercises of stock options.

Net cash provided by financing activities was $37 thousand this year resulting from the proceeds of employee exercises of stock options of $0.2 million, partially offset by taxes paid on a short-swing profits disgorgement payment to us of $0.2 million. Net cash used in financing activities of $10.8 million last year was attributable to the repurchase of shares of our common stock of $10.9 million partially offset by proceeds from the exercise of stock options of 56 thousand.

Asset-Backed Credit Agreement

On April 27, 2023 (the “Closing Date”), we entered into an asset-backed credit agreement and revolving line of credit note (the "Note" and, collectively, the “Credit Agreement”) with Wells Fargo Bank, National Association, as lender (the “Bank”). The Credit Agreement provides for an asset-based, senior secured revolving credit facility (“Revolving Facility”) of up to $65.0 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 $10.0 million and a sub-limit for swing line loans of $7.5 million, which replaced our previous senior unsecured credit agreement. The Credit Agreement also includes an uncommitted accordion feature whereby we may increase the Revolving Commitment by an aggregate amount not to exceed $12.5 million, subject to certain conditions. The Revolving Facility matures on April 27, 2026. 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 our assets.

The maximum borrowings permitted under the Revolving Facility is equal to the lesser of (x) the Revolving Commitment and (y) the applicable borrowing base, which is equal to (i) 90% of our eligible credit card receivables, plus (ii) 90% of the cost of certain adjusted eligible inventory, less certain inventory reserves, plus (iii) 90% of the cost of certain adjusted eligible in-transit inventory, less certain inventory reserves, less (iv) certain other reserves established by the Bank.

The unused portion of the Revolving Commitment accrues a commitment fee of 0.375% per annum. Borrowings under the Revolving Facility bear interest at a rate per annum that ranges from the Secured Overnight Financing Rate (“SOFR”) plus a credit spread adjustment (equal to 10 basis points for one- and three-month term SOFR) plus 1.50% to 2.00%, or a base rate (as calculated in accordance with the Credit Agreement) (the “Base Rate”) plus 0.50% to 1.00%, based on the average daily borrowing capacity under the Revolving Facility over the applicable fiscal quarter. We are allowed to elect to apply either SOFR or Base Rate interest to borrowings at its discretion, other than in the case of swing line loans, to which the Base Rate shall apply.

Under the Credit Agreement, we are subject to a variety of affirmative and negative covenants customary in an asset-based lending facility, including a financial covenant relating to availability (which is required to remain above the greater of: (i) ten percent (10%) of the Loan Cap (as defined in the Credit Agreement) and (ii) $6.0 million). Prior to the first anniversary of the Closing Date, we are prohibited from declaring or paying any cash dividends to our stockholders or repurchasing our common stock. Thereafter, we are permitted to declare or pay cash dividends and/or repurchase our 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.

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; actual or asserted invalidity of any the Credit Agreement or related loan documents; or a change of control.

As of October 28, 2023, we were in compliance with all of our covenants, were eligible to borrow up to a total of $63.0 million, and had no outstanding borrowings under the Credit Agreement. The only utilization of the letters of credit sub-limit under the Credit Agreement was a $2.025 million irrevocable standby letter of credit.

Contractual Obligations

As of October 28, 2023, 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 28, 2023.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires the appropriate application of certain accounting policies, some of which require us to make estimates and assumptions about future events and their impact on amounts reported in our consolidated financial statements. Since future events and their impact cannot be determined with absolute certainty, the actual results will inevitably differ from our estimates. A summary of our significant accounting policies is included in Note 2 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended January 28, 2023.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of October 28, 2023, 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 28, 2023.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and our Chief Financial Officer, with the participation of our Disclosure Committee, evaluated the effectiveness of our disclosure controls and procedures as of October 28, 2023. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of October 28, 2023, 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 thirteen weeks ended October 28, 2023 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 Report, please refer to the section titled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended January 28, 2023 for a detailed discussion of the risks that affect our business.

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

Not applicable.

Item 6. Exhibits

Exhibit No.	Description of Exhibit
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files from Tilly's, Inc.'s Quarterly Report on Form 10-Q for the quarter ended October 28, 2023, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive (Loss) Income; (iv) the Consolidated Statements of Stockholders' Equity; (v) the Consolidated Statements of Cash Flows and (vi) Notes to the Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

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

SIGNATURES

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

	Tilly's, Inc.
Date: December 1, 2023	/s/ Edmond Thomas
	Edmond Thomas *President, Chief Executive Officer and Director* *(Principal Executive Officer)*
Date: December 1, 2023	/s/ Michael Henry
	Michael Henry *Executive Vice President, Chief Financial Officer* *(Principal Financial Officer)*

Exhibit 31.1

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

I, Edmond Thomas, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tilly's, Inc. for the quarter ended October 28, 2023;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 1, 2023

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

Exhibit 31.2

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

I, Michael Henry, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tilly's, Inc. for the quarter ended October 28, 2023;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 1, 2023

/s/ Michael Henry
Michael Henry
Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended October 28, 2023 of Tilly's, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Edmond Thomas, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: December 1, 2023

/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 October 28, 2023 of Tilly's, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Henry, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: December 1, 2023

/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.