

TILLY'S, INC.  
Form S-1/A  
April 09, 2012  
Table of Contents

As filed with the Securities and Exchange Commission on April 6, 2012

Registration No. 333-175299

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**AMENDMENT NO. 4**  
**TO**  
**FORM S-1**  
**REGISTRATION STATEMENT**  
*UNDER*  
*THE SECURITIES ACT OF 1933*

**TILLY S, INC.**

(Exact name of registrant as specified in its charter)

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

**5600**  
(Primary Standard Industrial  
Classification Code Number)

**45-2164791**  
(I.R.S. Employer  
Identification Number)

**10 Whatney**

**Irvine, California 92618**

**(949) 609-5599**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Daniel Griesemer**

**President and Chief Executive Officer**

**Tilly's, Inc.**

**10 Whatney**

**Irvine, California 92618**

**(949) 609-5599**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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**Costa Mesa, California 92626**

**Irvine, California 92618**

**New York, New York 10004**

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## Approximate date of commencement of proposed sale to the public:

As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. "

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. "

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

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

## CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Proposed maximum aggregate offering price(1)	Amount of registration fee(2)
Class A Common Stock, \$0.001 par value per share	\$100,000,000	\$11,610

(1) Estimated solely for the purpose of calculating the amount of the registration fee in accordance with Rule 457(o) under the Securities Act of 1933, as amended.

(2) Previously paid on June 29, 2011.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**



**Table of Contents**

**The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**Subject to Completion, dated April 6, 2012**

## **Shares**

### **Class A Common Stock**

This is an initial public offering of Class A common stock of Tilly's, Inc.

We are offering \_\_\_\_\_ of the shares to be sold in the offering. The selling stockholders, which includes one of our officers and directors, identified in this prospectus are offering an additional \_\_\_\_\_ shares. We will not receive any of the proceeds from the sale of the shares being sold by the selling stockholders, including any shares sold by the selling stockholders in connection with the exercise of the underwriters' option to purchase additional shares.

Following this offering, we will have two classes of authorized common stock, Class A common stock and Class B common stock. The rights of the holders of Class A common stock and Class B common stock are identical, except with respect to voting and conversion. Each share of Class A common stock is entitled to one vote per share. Each share of Class B common stock is entitled to 10 votes per share and is convertible into one share of Class A common stock upon the occurrence of certain events. Upon completion of this offering, holders of our Class B common stock will control common stock representing \_\_\_\_\_ % of the total voting power of our common stock.

We expect the public offering price to be between \$ \_\_\_\_\_ and \$ \_\_\_\_\_ per share. Currently, no public market exists for the Class A common stock. After pricing of the offering, we expect that the Class A common stock will trade on the New York Stock Exchange under the symbol TLYS .

**Investing in our Class A common stock involves risks that are described in the Risk Factors section beginning on page 11 of this prospectus.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

	Per Share	Total
Initial public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to us	\$	\$
Proceeds, before expenses, to the selling stockholders	\$	\$

The underwriters have agreed to reimburse us for a portion of our out-of-pocket expenses in connection with this offering. See Underwriting .

To the extent that the underwriters sell more than \_\_\_\_\_ shares of Class A common stock, the underwriters have the option to purchase up to an additional \_\_\_\_\_ shares of Class A common stock from the selling stockholders at the initial public offering price, less the underwriting discount.

The underwriters expect to deliver the shares of Class A common stock against payment in New York, New York on or about \_\_\_\_\_, 2012.

**Goldman, Sachs & Co.**

**BofA Merrill Lynch**

**Piper Jaffray**

**William Blair & Company**

**Stifel Nicolaus Weisel**

Prospectus dated \_\_\_\_\_, 2012.

**Table of Contents**

**Table of Contents****TABLE OF CONTENTS**

## Prospectus

	<b>Page</b>
<u>Prospectus Summary</u>	1
<u>Risk Factors</u>	11
<u>Forward-Looking Statements</u>	28
<u>Use of Proceeds</u>	30
<u>Dividend Policy</u>	31
<u>Capitalization</u>	32
<u>Dilution</u>	34
<u>Selected Consolidated Financial and Other Data</u>	35
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	37
<u>Business</u>	61
<u>Management</u>	75
<u>Executive Compensation</u>	83
<u>Related Party Transactions</u>	102
<u>Principal and Selling Stockholders</u>	107
<u>Description of Capital Stock</u>	109
<u>Shares Eligible for Future Sale</u>	115
<u>Material U.S. Federal Income Tax Consequences to Non-U.S. Holders of our Class A Common Stock</u>	117
<u>Underwriting</u>	121
<u>Legal Matters</u>	126
<u>Experts</u>	126
<u>Where You Can Find Additional Information</u>	126
<u>Index to Financial Statements</u>	F-1

**Through and including (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.**

You should rely only on the information contained in this prospectus or any free writing prospectus filed with the U.S. Securities and Exchange Commission, or SEC. We and the selling stockholders have not, and the underwriters have not, authorized any other person to provide you with different information. We, the selling stockholders and the underwriters take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. Neither this prospectus nor any free writing prospectus is an offer to sell, nor is it seeking an offer to buy, these securities in any jurisdiction where the offer or sale is not permitted. The information in this prospectus is complete and accurate only as of the date on the front cover, regardless of its time of delivery or of any sale of shares of our common stock. The information may have changed since that date.

Persons who come into possession of this prospectus and any such free writing prospectus in jurisdictions outside the U.S. are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus and any such free writing prospectus applicable to that jurisdiction.





## **Table of Contents**

### **Basis of Presentation**

We operate on a fiscal calendar which results in a 52- or 53-week fiscal year ending on the Saturday closest to January 31st. The reporting periods contained in our financial statements included in this prospectus contain:

52 weeks of operations in fiscal year 2007, which ended on February 2, 2008;

52 weeks of operations in fiscal year 2008, which ended on January 31, 2009;

52 weeks of operations in fiscal year 2009, which ended on January 30, 2010;

52 weeks of operations in fiscal year 2010, which ended on January 29, 2011; and

52 weeks of operations in fiscal year 2011, which ended on January 28, 2012.

Fiscal years are identified in this prospectus according to the calendar year prior to the calendar year in which they ended. For example, references to 2011, fiscal 2011, fiscal year 2011 or similar references refer to the fiscal year ended January 28, 2012.

Tilly's, Inc., the issuer of the Class A common stock to be sold in this offering, is a Delaware corporation that was incorporated in May 2011. Tilly's, Inc. was formed solely for the purpose of reorganizing the corporate structure of World of Jeans & Tops, a California corporation. Pursuant to a reorganization transaction that we will effect prior to the completion of this offering, referred to as the Reorganization Transaction, World of Jeans & Tops will become a wholly owned subsidiary of Tilly's, Inc. In connection with the Reorganization Transaction, the shareholders of World of Jeans & Tops will contribute all of their equity interests in that corporation to Tilly's, Inc. in return for shares of Tilly's, Inc. Class B common stock on a one-for-one basis. Prior to the completion of the Reorganization Transaction, Tilly's, Inc. has not conducted any activities other than those incidental to its formation and the preparation of this prospectus. Accordingly, our consolidated financial statements and other financial information included in this prospectus as of dates and for periods prior to the date of the Reorganization Transaction reflect the results of operations and financial position of World of Jeans & Tops. Our consolidated financial information, if any, as of dates and for periods from and after the date of the Reorganization Transaction reflect the results of operations and financial condition of Tilly's, Inc. and its wholly owned subsidiary, unless otherwise expressly stated.

### **Market and Industry Data**

We obtained the industry, market and competitive position data throughout this prospectus from our own internal estimates and research, as well as from industry and general publications and research, surveys and studies conducted by third parties. Industry publications, studies and surveys generally state that they have been obtained from sources believed to be reliable, although they do not guarantee the accuracy or completeness of such information. While we believe that each of these studies and publications is reliable, we have not independently verified market and industry data from third-party sources. While we believe our internal company research is reliable and the definitions of our market and industry are appropriate, neither this research nor these definitions have been verified by any independent source.



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**Table of Contents**

**PROSPECTUS SUMMARY**

*This summary highlights selected information contained in greater detail elsewhere in this prospectus and does not contain all of the information that you should consider before investing in our Class A common stock. You should carefully read the following summary together with the more detailed information regarding us and our Class A common stock being sold in this offering, including Risk Factors and our financial statements and the accompanying notes, appearing elsewhere in this prospectus before making an investment decision. As used in this prospectus, except where the context otherwise requires or where otherwise indicated, the terms company, World of Jeans & Tops, we, our, us and Tilly's refer to Tilly's, Inc. and its subsidiary after the Reorganization Transaction.*

**Overview**

Tilly's is a fast-growing destination specialty retailer of West Coast inspired apparel, footwear and accessories. We believe we bring together an unparalleled selection of the most sought-after brands rooted in action sports, music, art and fashion. Our stores are designed to be a seamless extension of our teen and young adult consumers' lifestyles with a balance of guys' and juniors' merchandise in a stimulating environment. We believe our success across a variety of real estate venues and geographies in the United States demonstrates Tilly's portability. Our motto "If it's not here it's not happening" exemplifies our goal to serve as a destination for the latest, most relevant merchandise and brands important to our customers.

As of January 28, 2012, we operated 140 stores in 14 states, averaging approximately 7,800 square feet. We also sell our products through our e-commerce website, [www.tillys.com](http://www.tillys.com). Our business is characterized by the following key elements:

*Extensive assortment of relevant merchandise in a larger store format.* Our larger stores allow us to carry a more extensive selection of the most relevant, established and emerging brands and offer a greater assortment of apparel styles, sizes and price points across multiple categories. This broad selection enhances our ability to rapidly identify and respond to trends and consistently offer our customers both proven fashion items and core styles. We strive to keep our merchandising mix current by introducing additional brands and styles in response to the ever-evolving desires of our customers.

*The Tilly's experience.* Tilly's is a customer-driven lifestyle brand. We are energized and inspired by our customers' individuality and passion for action sports, music, art and fashion. Our stores bring these interests together in a vibrant, stimulating and authentic environment that is an extension of our customers' high velocity, multitasking lifestyle. We do this by blending the most relevant brands and styles with music videos, product-related visuals and a dedicated team of store associates. We believe the Tilly's experience drives customer awareness, loyalty and repeat visits while generating a buzz and excitement for our brand.

*Flexible real estate strategy across real estate venues and geographies.* We currently operate stores in 40 markets in 14 states across a variety of real estate venues including malls, power centers, neighborhood and lifestyle centers, outlet centers and street-front locations. Our geographic portability and real estate flexibility provide us with a wider scope of opportunities and enhance our ability to open new stores.

Our West Coast heritage dates back to 1982 when our founders, Hezy Shaked and Tilly Levine, opened our first store in Orange County, California. Over the last five years, we have demonstrated an ability to grow rapidly, having more than doubled our store count while entering 29 new markets. During this same period, we invested over \$20 million in infrastructure and systems to support our recent and long-term growth. We believe our team's passion for the West Coast inspired and action sports lifestyle, sense of urgency and pursuit of

## **Table of Contents**

excellence enables Tilly's to consistently deliver a superior customer experience and positions us to successfully execute our long-term growth strategy. In fiscal 2011, we increased net sales to \$400.6 million from \$332.6 million in fiscal 2010, or 20%, and we increased operating income to \$34.9 million from \$24.9 million in fiscal 2010, or 40%. Our comparable store sales increased 10.7% in fiscal year 2011 after a 6.7% increase in fiscal year 2010.

### **Competitive Strengths**

We believe that the following competitive strengths contribute to our success and distinguish us from our competitors:

*Destination retailer with a broad, relevant assortment.* We believe the combined depth and breadth of apparel, footwear and accessories offered at our stores exceeds the selection offered at many other specialty retailers. We strive to bring together proven fashion trends, core styles and a vibrant in-store experience that is engaging for our core customers. We believe that our differentiated in-store environment, evolving selection of relevant brands and broader and deeper assortment positions us as a retail destination that appeals to a larger demographic than many other specialty retailers and encourages customers to visit our stores more frequently and spend more on each trip.

*Dynamic merchandise model.* We believe our extensive selection of third-party and proprietary merchandise allows us to identify and address trends more quickly, offer a greater range of price points and manage our inventories more dynamically. By closely monitoring trends and shipping product to our stores five times per week, we adjust our merchandise mix with a frequency that promotes a current look to our stores and encourages frequent visits.

*Flexible real estate strategy across real estate venues and geographies.* Our stores have proven to be successful in different real estate venues and geographies. We operate profitable stores in malls, power centers, neighborhood and lifestyle centers, outlet centers and street-front locations across 40 markets in 14 states. We believe our success operating in these different retail venues and geographies demonstrates the portability of Tilly's and provides us with greater flexibility for future expansion.

*Multi-pronged marketing approach.* We utilize a multi-pronged marketing strategy to connect with our customers and drive traffic to our stores and website, including our catalog, in-store events and contests, social media and grass roots community programs. These initiatives are complemented by email marketing as well as traditional radio and print advertising to build customer awareness and loyalty, highlight key merchandise offerings, drive traffic to our stores and website and promote the Tilly's brand.

*Sophisticated systems and distribution infrastructure to support growth.* Over the last five years we have invested over \$20 million in our highly automated distribution center and information systems to support our future growth. We believe our distribution and allocation capabilities are unique within the industry and can support a national retail footprint in excess of 500 stores with minimal incremental capital investment.

*Experienced management team.* Our senior management team, led by Hezy Shaked and Daniel Griesemer, has extensive experience across a wide range of disciplines in the specialty retail and direct-to-consumer industries, including store operations, merchandising, distribution, real estate and finance.

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**Table of Contents**

**Our Growth Strategy**

We are pursuing several strategies to continue our profitable growth, including:

*Expand Our Store Base.* We believe there is a significant opportunity to expand our store base over the next 10 years from 140 locations as of January 28, 2012 to more than 500 stores across the United States. We plan to add at least 21 net new stores in fiscal year 2012 and to continue opening new stores at an annual rate of approximately 15% for the next several years thereafter. Our stores generate compelling economics. We expect net sales of approximately \$2.2 million and cash flow of \$300,000 from an average new store in its first 12 months, with growth to over \$400,000 in cash flow in the second 12-month period as the store begins to mature. This produces a cash-on-cash payback period of approximately 18 months based on a target net investment to open new stores of \$500,000 to \$550,000.

*Drive Comparable Store Sales.* We seek to maximize our comparable store sales by consistently offering new, on-trend and relevant merchandise across a broad assortment of categories, increasing our brand awareness through our multi-pronged marketing approach, providing an authentic store experience for our core customers and maintaining our high level of customer service. We believe our comparable store sales will benefit as stores opened in the last few years continue to mature and we continue to build brand awareness in new markets.

*Grow Our e-Commerce Platform.* We believe our e-commerce platform is an extension of our brand and retail stores, providing our customers with a seamless shopping experience. We believe we can grow our e-commerce platform by continuing our successful catalog and online marketing efforts, offering a wider selection of internet-exclusive merchandise and expanding our online selection to ensure a broad and diverse offering of brands and products relative to our competition. We also believe we will see continued growth in our e-commerce sales as we open additional stores and build brand awareness in the communities surrounding those locations. In fiscal 2011, e-commerce sales increased 33% and represented approximately 11% of our total net sales. We believe e-commerce sales will continue to outpace our total sales growth and reach 15% of net sales over time.

*Increase Our Operating Margins.* We believe we have the opportunity to drive margin expansion through scale efficiencies and continued process improvements focused on lowering our costs per unit and improving operational efficiency throughout our organization as we leverage our occupancy, buying, distribution and support staff costs, as well as systems, distribution facilities and corporate facilities costs over a greater sales base. In addition, we expect to improve margins and support growth by leveraging ongoing investments in infrastructure, including the opening of a dedicated distribution center for our e-commerce store and continuing upgrades to our point-of-sale, merchandise allocation and merchandise planning systems, as well as related work processes.

**Risk Factors**

There are a number of risks and uncertainties that may affect our financial and operating performance and our growth prospects. You should carefully consider all of the risks discussed in Risk Factors , which begins on page 11, before investing in our Class A common stock. These risks include, but are not limited to, the following:

we may not be able to identify and respond to changing customer preferences and fashion-related trends;

we may face intense competition and we may not be able to compete effectively;

we could be negatively impacted by changes in consumer confidence and spending;

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we have expanded rapidly in recent years and we may not be able to effectively manage our operations or our future growth;

## **Table of Contents**

we may not be able to execute on our growth strategy if we are unable to locate suitable locations or attract customers to our stores;

we may not be able to successfully expand into new geographic markets in the United States;

we may not be able to maintain and enhance our brand image, particularly in new markets;

our operating results fluctuate on a quarterly basis due to the seasonal nature of our business; and

we rely on key relationships with our suppliers and we may not be able to maintain or add to these relationships or obtain sufficient inventory to support our growth.

### **Corporate Information**

Tilly's, Inc. was incorporated in Delaware in May 2011. We are a holding company, and all of our business operations are conducted through World of Jeans & Tops, a California corporation, which, following the Reorganization Transaction, will be our wholly owned subsidiary. Our founders opened their first store in 1982 and formed World of Jeans & Tops in 1984. World of Jeans & Tops operates under the name Tilly's.

### **Office Location**

Our principal executive office is located at 10 Whatney, Irvine, California 92618. Our telephone number is (949) 609-5599 and our fax number is (949) 609-5508. Our website address is [www.tillys.com](http://www.tillys.com). The information contained on our website does not constitute part of, nor is it incorporated into, this prospectus.

### **Certain Trademark**

This prospectus includes references to trademarks such as, but not limited to, BLUE CROWN®, FULL TILT®, IF IT'S NOT HERE IT'S NOT HAPPENING®, INFAMOUS®, RSQ® and TILLY'S®, which are protected under applicable intellectual property laws and are our property and/or the property of our subsidiary. This prospectus also contains trademarks, service marks, copyrights and trade names of other companies, which are the property of their respective owners. We regard our trademarks as valuable and intend to maintain such marks and any related registrations. Solely for convenience, our trademarks and trade names referred to in this prospectus may appear without the ® or ™ symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights to these trademarks and trade names.



**Table of Contents**

**THE OFFERING**

<b>Common stock offered by us</b>	shares of Class A common stock
<b>Common stock offered by the selling stockholders</b>	shares of Class A common stock
<b>Underwriters' option to purchase additional shares</b>	The selling stockholders have granted the underwriters a 30-day option to purchase up to additional shares of Class A common stock at the initial public offering price less the underwriting discount.
<b>Class A common stock to be outstanding after this offering</b>	shares
<b>Class B common stock to be outstanding after this offering</b>	shares
<b>Use of proceeds</b>	<p>We estimate that the net proceeds to us from this offering will be approximately \$ million, after deducting the underwriting discount and estimated expenses payable by us, a portion of which will be reimbursed to us by the underwriters.</p> <p>We will not receive any proceeds from the sale of shares by the selling stockholders, including any shares sold by the selling stockholders in connection with the exercise of the underwriters' option to purchase additional shares.</p> <p>We intend to use \$84.0 million of the net proceeds from this offering to pay in full the principal amount of the undistributed earnings notes held by our existing shareholders in connection with World of Jeans &amp; Tops' final S Corporation distribution. We expect proceeds in excess of the final S Corporation distribution to be \$ million and we intend to use such proceeds for working capital and general corporate purposes. See "Use of Proceeds" for additional information.</p>
<b>Voting rights</b>	After the completion of this offering, our common stock will consist of two classes: Class A common stock and Class B common stock. Purchasers in this offering will acquire Class A common stock. Class A and Class B common stock are identical, except with respect to voting and conversion rights. Holders of Class A common stock are entitled to one vote per share, and holders of Class B common stock are entitled to 10 votes per share, on all matters to be voted on by our common stockholders. Shares of Class A and Class B common stock vote together as a single class on all matters submitted to a vote of stockholders.

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**Table of Contents**

	<p>Immediately following completion of this offering, all of the Class B common stock will be beneficially owned by Hezy Shaked, Tilly Levine and their children through related trusts, which we collectively refer to in this prospectus as the Shaked and Levine family entities. The Shaked and Levine family entities will control approximately % of the total voting power of our outstanding common stock following the completion of this offering. As a result, the Shaked and Levine family entities will be able to control the outcome of all matters submitted to a vote of our stockholders, including, for example, the election of directors, amendments to our certificate of incorporation and mergers or other business combinations. See Description of Capital Stock .</p>
<b>Class B common stock conversion rights</b>	<p>Shares of Class B common stock may only be held by the Shaked and Levine family entities and non-profit or other corporations, partnerships or trusts controlled by Mr. Shaked, Ms. Levine or their children. Shares of Class B common stock that are transferred to a holder other than a Hezy Shaked Entity (as defined in Description of Capital Stock ) will automatically convert into a like number of shares of Class A common stock. In addition, all of the Class B common stock will convert into Class A common stock on a one-for-one basis on the date upon which the number of shares of Class A common stock and Class B common stock beneficially owned by Hezy Shaked and any Hezy Shaked Entity, in the aggregate, represents less than 15.0% of the total number of shares of Class A and Class B common stock then outstanding. See Description of Capital Stock .</p>
<b>Dividend policy</b>	<p>We do not anticipate paying dividends on our common stock after completion of this offering. We intend to retain all available funds and any future earnings for use in the operation and expansion of our business.</p>
<b>Proposed New York Stock Exchange symbol</b>	<p>TLYS</p>
<b>Risk factors</b>	<p>See Risk Factors and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our Class A common stock.</p>

**Table of Contents**

The number of shares of Class A common stock that will be outstanding after completion of this offering excludes:

shares of Class A common stock issuable upon exercise of outstanding stock options, of which were vested as of  
; and

additional shares of Class A common stock that we expect to reserve for future issuance under our 2012 Equity and Incentive Award Plan upon consummation of this offering, of which approximately 695,000 shares are expected to be granted in the form of stock options and restricted stock to our employees and directors immediately following the pricing of this offering with an exercise price equal to the initial public offering price.

Except as otherwise noted, all information in this prospectus:

assumes that our shares of Class A common stock will be sold at \$ per share, which is the mid-point of the price range set forth on the cover page of this prospectus;

assumes that the underwriters do not exercise their option to purchase additional shares; and

gives effect to the completion of the Reorganization Transaction which will occur prior to consummation of this offering.

**Table of Contents****SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA**

The following tables present summary consolidated financial and other data and pro forma information to reflect our conversion from an S Corporation to a C Corporation for income tax purposes. The summary consolidated statement of operations data for the fiscal years ended January 29, 2011 and January 28, 2012, and the summary consolidated balance sheet data as of January 28, 2012, are derived from our financial statements audited by Deloitte & Touche LLP, our independent registered public accounting firm, included elsewhere in this prospectus. The historical results presented below are not necessarily indicative of the results to be expected for any future period. You should read the following information together with the more detailed information contained in Selected Consolidated Financial and Other Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and the accompanying notes appearing elsewhere in this prospectus.

	Fiscal Year Ended	
	January 29, 2011	January 28, 2012
	(in thousands, except per share data)	
<b>Consolidated Statements of Operations Data:</b>		
Net sales	\$ 332,604	\$ 400,624
Cost of goods sold(1)	229,989	271,482
Gross profit	102,615	129,142
Selling, general and administrative expenses	77,668	94,217
Operating income	24,947	34,925
Interest expense, net	249	196
Income before provision for income taxes	24,698	34,729
Provision for income taxes	282	389
Net income	\$ 24,416	\$ 34,340
Net income per common share:		
Basic	\$ 1.22	\$ 1.72
Diluted	\$ 1.21	\$ 1.68
Weighted average shares outstanding:		
Basic	20,000	20,000
Diluted	20,098	20,500
<b>Pro Forma Income Information (unaudited)(2):</b>		
Historical income before provision for income taxes	\$ 24,698	\$ 34,729
Pro forma provision for income taxes	9,879	13,892
Pro forma net income	\$ 14,819	\$ 20,837
Pro forma basic income per common share(3)		
Pro forma diluted income per common share(3)		

**Table of Contents**

	Fiscal Year Ended	
	January 29, 2011	January 28, 2012
<b>Operating Data (unaudited):</b>		
Stores operating at beginning of period	111	125
Stores opened during the period	16	16
Stores closed during the period	2	1
Stores operating at end of period	125	140
Comparable store sales change(4)	6.7%	10.7%
Total square feet at end of period	967,011	1,094,419
Average square footage per store at end of period	7,736	7,817
Average net sales per store (in thousands)(5)	\$ 2,528	\$ 2,718
Average net stores sales per square foot(5)	\$ 326	\$ 350
Capital expenditures (in thousands)	\$ 15,674	\$ 20,223

	Actual January 28, 2012	Pro Forma January 28, 2012(7) (unaudited) (in thousands)	Pro Forma as adjusted January 28, 2012(8) (unaudited)
<b>Consolidated Balance Sheet Data:</b>			
Cash and cash equivalents	\$ 25,091	\$ 25,091	
Working capital	27,673	(51,328)	
Total assets	140,819	145,682	
Long-term debt, including current portion	4,638(6)	88,638	
Stockholders' equity	60,424	(19,650)	

- (1) Includes buying, distribution and occupancy costs.
- (2) The unaudited pro forma income information for all periods presented gives effect to an adjustment for income tax expense as if we had been a C Corporation at an assumed combined federal, state and local effective income tax rate, which approximates our statutory income tax rate, of 40%.
- (3) Reflects the increase in the number of shares which would be sufficient to replace the capital in excess of current year earnings being withdrawn pursuant to the Reorganization Transaction and the related distribution of notes and cash (see footnote 8 below). The pro forma adjustment to basic and diluted weighted average shares outstanding for the fiscal year ended January 28, 2012 is \_\_\_\_\_ and \_\_\_\_\_, respectively.
- (4) Comparable store sales are net sales from stores that have been open at least 12 full fiscal months as of the end of the applicable reporting period. A remodeled or relocated store is included in comparable store sales, both during and after construction, if the square footage of the store was not changed by more than 20% and the store was not closed for more than five days in any fiscal month. Comparable store sales include sales through our e-commerce store but exclude gift card breakage income and e-commerce shipping and handling fee revenue. E-commerce sales contributed 3.3% and 2.3% to the comparable store sales change for fiscal years 2010 and 2011, respectively.
- (5) The number of stores and the amount of square footage reflect the number of days during the period that new stores were open. E-commerce sales, e-commerce shipping revenue and gift card breakage income are excluded from our sales in deriving net sales per store and net sales per square foot.
- (6) Comprised solely of a capital lease for our corporate headquarters and distribution center.
- (7) This column gives effect to the Reorganization Transaction as described under Description of Capital Stock Reorganization Transaction, including (i) the issuance by World of Jeans & Tops of the

**Table of Contents**

- undistributed taxable earnings notes to its existing shareholders in the aggregate principal amount representing 100% of World of Jeans & Tops undistributed taxable income from the date of its formation up to the date of termination of its S Corporation status, as a final distribution prior to the termination of its S Corporation status, equal to \$84.0 million, and (ii) an increase in net deferred tax assets of approximately \$3.9 million (consisting of an increase in current deferred tax assets of \$5.0 million and an increase in non-current deferred tax liabilities of \$1.1 million) assuming its S Corporation status terminated on January 28, 2012.
- (8) This column gives effect to (i) the sale by us of \_\_\_\_\_ shares of our Class A common stock in this offering assuming an initial public offering price of \$ \_\_\_\_\_ per share, the mid-point of the filing range set forth on the cover page of this prospectus, after deducting the underwriting discount and estimated offering expenses payable by us, a portion of which will be reimbursed to us by the underwriters, (ii) the application of the estimated proceeds from this offering as described under Use of Proceeds and (iii) the recognition of cumulative to date stock-based compensation expense for nonqualified stock options, which increases additional paid-in capital by \$ \_\_\_\_\_ million.

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**Table of Contents**

**RISK FACTORS**

*An investment in our Class A common stock involves a high degree of risk. You should carefully consider the risks described below, together with the financial statements and other information contained in this prospectus, before making a decision to buy our Class A common stock. If any of the following risks actually occurs, our business, financial condition and results of operations could suffer. As a result, the trading price and value of our Class A common stock could decline and you could lose all or part of your investment in our Class A common stock.*

**Risks Related to Our Business**

*Our business depends upon identifying and responding to changing customer fashion preferences and fashion-related trends. If we cannot identify trends in advance or we select the wrong fashion trends, our sales could be adversely affected.*

Fashion trends in the West Coast inspired and action sports related apparel, footwear and accessories market can change rapidly. We need to anticipate, identify and respond quickly to changing trends and consumer demands in order to provide the merchandise our customers seek and maintain our brand image. If we cannot identify changing trends in advance, fail to react to changing trends or misjudge the market for a trend, our sales could be adversely affected and we may be faced with a substantial amount of unsold inventory or missed opportunities. As a result, we may be forced to mark down our merchandise in order to dispose of slow moving inventory which may result in lower profit margins, negatively impacting our financial condition and results of operations.

*We face intense competition in our industry and we may not be able to compete effectively.*

The retail industry is highly competitive. We currently compete with other retailers such as Abercrombie & Fitch Co., Aeropostale, Inc., American Eagle Outfitters, Inc., The Buckle, Inc., Forever 21, Inc., Hot Topic, Inc., Pacific Sunwear of California, Inc., The Wet Seal, Inc., Urban Outfitters, Inc. and Zumiez, Inc. In addition, we compete with independent specialty shops, department stores and direct marketers that sell similar lines of merchandise and target customers through catalogs and e-commerce. Competition with some or all of these retailers noted above could require us to lower our prices or risk losing customers. In addition, significant or unusual promotional activities by our competitors may cause us to respond in-kind and adversely impact our operating cash flow. Because of these factors, current and future competition could have a material adverse effect on our financial condition and results of operations.

Furthermore, many of our competitors have greater financial, marketing and other resources than we currently do, and therefore may be able to devote greater resources to the marketing and sale of their products, generate national brand recognition or adopt more aggressive pricing policies than we can, which would put us at a competitive disadvantage. Moreover, we do not possess exclusive rights to many of the elements that comprise our in-store experience and product offerings. Our competitors may seek to emulate facets of our business strategy and in-store experience, which could result in a reduction of any competitive advantage or special appeal that we might possess. In addition, most of our products are sold to us on a non-exclusive basis. As a result, our current and future competitors may be able to duplicate or improve on some or all of our in-store experience or product offerings that we believe are important in differentiating our stores and our customers' shopping experience. If our competitors were to duplicate or improve on some or all of our in-store experience or product offerings, our competitive position and our business could suffer.

*Our sales could be severely impacted by declines in consumer confidence and decreases in consumer spending.*

We depend upon consumers feeling confident to spend discretionary income on our product offering to drive our sales. Consumer spending may be adversely impacted by economic conditions such as consumer

## **Table of Contents**

confidence in future economic conditions, interest and tax rates, employment levels, salary and wage levels, general business conditions, the availability of consumer credit and the level of housing, energy and food costs. These risks may be exacerbated for retailers like us who focus on specialty apparel and accessories. Our financial performance is particularly susceptible to economic and other conditions in regions or states where we have a significant number of stores, such as the southwestern U.S. and Florida. If periods of decreased consumer spending persist, our sales could decrease and our financial condition and results of operations could be adversely affected.

*We have expanded rapidly in recent years and have limited operating experience at our current size.*

We have significantly expanded our operations in the last seven and a half years, increasing from 32 stores in June 2004 in the state of California to operating 140 stores in 14 states as of January 28, 2012. If our operations continue to grow, we will be required to expand our sales and distribution functions, marketing, support services, management information systems and administrative personnel. This expansion could increase the strain on our existing resources, causing operational difficulties such as difficulties in hiring, obtaining adequate levels of merchandise, delayed shipments and decreased customer service levels. These difficulties could cause our brand image to deteriorate and lead to a decrease in revenues, income and the price of our common stock.

*Our continued growth depends upon our ability to successfully open a significant number of new stores.*

We have grown our store count rapidly in recent years and that has contributed to our growth in profits. However, we must continue to open and operate new stores to help maintain this revenue and profit growth. We opened 16 stores in 2011 and 16 stores in 2010. We plan to open at least 21 net new stores in 2012. However, there can be no assurance that we will open the planned number of new stores in fiscal year 2012 or thereafter. Our ability to successfully open and operate new stores is subject to a variety of risks and uncertainties, such as:

identifying suitable store locations, the availability of which is beyond our control;

obtaining acceptable lease terms;

sourcing sufficient levels of inventory;

selecting the appropriate merchandise that appeals to our customers;

hiring and retaining store employees;

assimilating new store employees into our corporate culture;

effectively marketing the new stores' locations;

avoiding construction delays and cost overruns in connection with the build-out of new stores;

managing and expanding our infrastructure to accommodate growth; and

integrating the new stores with our existing buying, distribution and other support operations.



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Our failure to successfully address these challenges could have a material adverse effect on our financial condition and results of operations, causing the market price of our Class A common stock to decline.

***Expanding into new geographic markets may present challenges that are different from those we currently encounter. Failure to effectively adapt to these new challenges could adversely affect our ability to profitably operate those stores and maintain our brand image.***

We operate stores in a variety of different geographic markets in the U.S. and do not significantly differentiate between our stores by visual display or by the product offering. We also currently do not

## **Table of Contents**

significantly differentiate our general store business plan from store to store. As we expand store locations, we may face challenges that are different from those we currently encounter. Our expansion into new geographic markets could result in competitive, merchandising, distribution and other challenges. In addition, as the number of our stores increases, we may face risks associated with market saturation of our product offerings and locations. Our vendors may also restrict their sales to us in new markets to the extent they are already saturating that market with their products through other retailers or their own stores. There can be no assurance that any newly opened stores will be received as well as, or achieve net sales or profitability levels comparable to those of, our existing stores in the time periods estimated by us, or at all. If our stores fail to achieve, or are unable to sustain, acceptable net sales and profitability levels, our business may be materially harmed and we may incur significant costs associated with closing those stores and our brand image may be negatively impacted.

***Our business largely depends on a strong brand image, and if we are not able to maintain and enhance our brand, particularly in new markets where we have limited brand recognition, we may be unable to increase or maintain our level of sales.***

We believe that our brand image and brand awareness has contributed significantly to the success of our business. We also believe that maintaining and enhancing our brand image, particularly in new markets where we have limited brand recognition, is important to maintaining and expanding our customer base. As we execute our growth strategy, our ability to successfully integrate new stores into their surrounding communities, to expand into new markets or to maintain the strength and distinctiveness of our brand image in our existing markets will be adversely impacted if we fail to connect with our target customer. Maintaining and enhancing our brand image may require us to make substantial investments in areas such as merchandising, marketing, store operations, community relations, store graphics, catalog distribution and employee training, which could adversely affect our cash flow and which may not ultimately be successful. Failure to successfully market our brand in new and existing markets could harm our business, results of operations and financial condition.

***Our sales can significantly fluctuate based upon shopping seasons, which may cause our operating results to fluctuate disproportionately on a quarterly basis.***

Because of a traditionally higher level of sales during the back-to-school and winter holiday shopping seasons, our sales are typically higher in the third and fourth fiscal quarters than they are in the first and second fiscal quarters. Accordingly, the results of a single fiscal quarter, particularly the third and fourth fiscal quarters, should not be relied on as an indication of our annual results or future performance. In addition, any factors that harm our third and fourth fiscal quarter operating results could have a disproportionate effect on our results of operations for the entire fiscal year.

***We depend on cash generated from our existing store operations to support our growth which could strain our cash flow.***

We primarily rely on cash flow generated from existing stores to fund our current operations and our growth plans. It takes several months and a significant amount of cash to open a new store. If we continue to open a large number of stores relatively close in time, the cost of these store openings and the cost of continuing operations could reduce our cash position. An increase in our net cash outflow for new stores could adversely affect our operations by reducing the amount of cash available to address other aspects of our business.

In addition, as we expand our business, we will need significant amounts of cash from operations to pay our existing and future lease obligations, build out new store space, purchase inventory, pay personnel, pay for the increased costs associated with operating as a public company, and, if necessary, further invest in our infrastructure and facilities. If our business does not generate sufficient cash flow from operations to fund these activities, and sufficient funds are not otherwise available from the net proceeds we receive from this offering or our existing revolving credit facility or future credit facilities, we may need additional equity or debt financing. If such financing is not available to us on satisfactory terms, our ability to operate and expand our business or to

## **Table of Contents**

respond to competitive pressures would be limited and we could be required to delay, curtail or eliminate planned store openings. Moreover, if we raise additional capital by issuing equity securities or securities convertible into equity securities, your ownership may be diluted. Any debt financing we may incur may impose on us covenants that restrict our operations, and will require interest payments that would create additional cash demands and financial risk for us.

***Our ability to attract customers to our stores depends significantly on the success of the retail centers where the stores are located.***

We depend on the location of our stores to generate a large amount of our customer traffic. We try to select well-known and popular malls, power centers, neighborhood and lifestyle centers, outlet centers and street-front locations, usually near prominent retailers, to generate customer traffic for our stores. Customer traffic at these retail centers, and consequently our stores, could be adversely affected by economic downturns nationally or regionally, competition from Internet retailers, changes in consumer demographics, the closing or decrease in popularity of other retailers in the retail centers in which our stores are located, our inability to obtain or maintain prominent store locations within retail centers or the selection by prominent retailers and businesses of other locations. A reduction in customer traffic would likely lead to a decrease in our sales, and, if similar reductions in traffic occur at a number of our stores, this could have a material adverse effect on our financial condition and results of operations.

***Some of our new stores may open in locations close enough to our existing stores that sales at those existing stores may be negatively impacted.***

As we continue to open additional locations within existing markets, some of our new stores may open close enough to our existing stores that a segment of customers will stop shopping at our existing locations and prefer to shop at the new locations, and therefore sales and profitability at those existing stores may decline. If this were to occur with a number of our stores, this could have a material adverse effect on our results of operations.

***We purchase merchandise in advance of the season in which it will be sold and if we purchase too much inventory we may need to reduce prices in order to sell it, which may adversely affect our overall profitability.***

We must actively manage our purchase of inventory. Generally, we order merchandise months in advance of it being received and offered for sale. If there is a significant decrease in demand for our products or if we fail to accurately predict fashion trends or consumer demands, we may be forced to rely on markdowns or promotional sales to dispose of excess inventory. This could have an adverse effect on our margins and operating income.

***We buy and stock merchandise based upon seasonal weather patterns and therefore unseasonable weather could negatively impact our sales.***

We buy select merchandise for sale based upon expected weather patterns during the seasons of winter, spring, summer and fall. If we encounter untimely aberrations in weather conditions, such as warmer winters or cooler summers than would be considered typical, these weather variations could cause some of our merchandise to be inconsistent with what consumers wish to purchase, causing our sales to decline. Furthermore, extended unseasonable weather conditions in the southwestern U.S., particularly in California and Arizona, will likely have a greater impact on our sales because of our store concentration in that region.

***If we fail to maintain good relationships with our suppliers or if our suppliers are unable or unwilling to provide us with sufficient quantities of merchandise at acceptable prices, our business and operations may be adversely affected.***

Our business is largely dependent on continued good relations with our suppliers, including vendors for our third-party branded products and manufacturers for our proprietary branded products. We operate on a purchase order basis for our proprietary branded and third-party branded merchandise and do not have long-term

## **Table of Contents**

contractual relationships with our suppliers. Accordingly, our suppliers can refuse to sell us merchandise, limit the type or quantity of merchandise they sell us or raise prices at any time, which can have an adverse impact on our business. Deterioration in our relationships with our suppliers could have a material adverse impact on our business, and there can be no assurance that we will be able to acquire desired merchandise in sufficient quantities on terms acceptable to us in the future. Also, some of our vendors are vertically integrated, selling products directly from their own retail stores, and therefore are in direct competition with us. These vendors may decide at some point in the future to discontinue supplying their merchandise to us, supply us less desirable merchandise or raise prices on the products they do sell us. If we lose key vendors or are unable to find alternative vendors to supply us with substitute merchandise for lost products, our business may be adversely affected.

***A rise in the cost of raw materials, such as cotton, and the cost of labor and transportation could increase our cost of sales and cause our results of operations and margins to decline.***

Fluctuations in the price, availability and quality of fabrics or other raw materials used to manufacture our products, as well as the price for labor and transportation, could have adverse impacts on our cost of sales and our ability to meet our customers' demands. In particular, because a key component of our clothing is cotton, any increases in the cost of cotton may significantly affect the cost of our products and could have an adverse impact on our cost of sales. We may not be able to pass all or a portion of these higher costs on to our customers, which could have a material adverse effect on our profitability.

***Any inability to balance merchandise bearing our proprietary brands with the third-party branded merchandise we sell may have an adverse effect on our sales and gross margin.***

Our proprietary branded merchandise represented approximately 31% of our net sales for the fiscal year ended January 28, 2012. Our proprietary branded merchandise generally has a higher gross margin than the third-party branded merchandise we offer. As a result, we may determine that it is best for us to continue to hold or increase the penetration of our proprietary brands in the future. However, carrying our proprietary brands limits the amount of third-party branded merchandise we can carry and, therefore, there is a risk that the customers' perception that we offer many major brands will decline. By maintaining or increasing the amount of our proprietary branded merchandise, we are also exposed to greater fashion risk, as we may fail to anticipate fashion trends correctly. These risks, if they occur, could have a material adverse effect on sales and profitability.

***Most of our merchandise is produced in foreign countries, making the price and availability of our merchandise susceptible to international trade and other international conditions.***

Although we purchase our merchandise from domestic suppliers, these suppliers have a majority of their merchandise made in foreign countries. Some foreign countries can be, and have been, affected by political and economic instability and natural disasters, negatively impacting trade. The countries in which our merchandise currently is manufactured or may be manufactured in the future could become subject to new trade restrictions imposed by the U.S. or other foreign governments. Trade restrictions, including increased tariffs or quotas, embargoes and customs restrictions, against apparel items, as well as U.S. or foreign labor strikes, work stoppages or boycotts, could increase the cost or reduce the supply of apparel available to us and have a material adverse effect on our business, financial condition and results of operations. In addition, our merchandise supply could be impacted if our suppliers' imports become subject to existing or future duties and quotas, or if our suppliers face increased competition from other companies for production facilities, import quota capacity and shipping capacity. Any increase in the cost of our merchandise or limitation on the amount of merchandise we are able to purchase could have a material adverse effect on our financial condition and results of operations.

***If our vendors and manufacturing sources fail to use acceptable labor or other practices our reputation may be harmed, which could negatively impact our business.***

We purchase merchandise from independent third-party vendors and manufacturers. If any of these suppliers have practices that are not legal or accepted in the U.S., consumers may develop a negative view of us,

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**Table of Contents**

our brand image could be damaged and we could become the subject of boycotts by our customers and/or interest groups. Further, if the suppliers violate labor or other laws of their own country, these violations could cause disruptions or delays in their shipments of merchandise. For example, much of our merchandise is manufactured in China and Mexico, which have different labor practices than the U.S. We do not independently investigate whether our suppliers are operating in compliance with all applicable laws and therefore we rely upon the suppliers representations set forth in our purchase orders and vendor agreements concerning the suppliers compliance with such laws. If our goods are manufactured using illegal or unacceptable labor practices in these countries, or other countries from which our suppliers source the product we purchase, our ability to supply merchandise for our stores without interruption, our brand image and, consequently, our sales may be adversely affected.

***If we lose key management personnel our operations could be negatively impacted.***

Our business and growth depends upon the leadership and experience of our key executive management team, including our co-founder, Hezy Shaked, who currently serves as our Chief Strategy Officer and Chairman of our board of directors, and Daniel Griesemer, our President and Chief Executive Officer, and we may be unable to retain their services. We also may be unable to retain other existing management personnel that are critical to our success, which could result in harm to our vendor and employee relationships, loss of key information, expertise or know-how and unanticipated recruitment and training costs. The loss of services of any of our key personnel could have a material adverse effect on our business and prospects, and could be viewed in a negative light by investors and analysts, which could cause our Class A common stock price to decline. None of our employees, except for Mr. Griesemer, have employment agreements and we do not intend to purchase key person life insurance covering any employee. If we lose the services of any of our key personnel or we are not able to attract additional qualified personnel, we may not be able to successfully manage our business.

***If we cannot retain or find qualified employees to meet our staffing needs in our stores, our distribution center, or our corporate offices, our business could be adversely affected.***

Our success depends upon the quality of the employees we hire. We seek employees who are motivated, represent our corporate culture and brand image and, for many positions, have knowledge of our merchandise and the skill necessary to excel in a customer service environment. The turnover rate in the retail industry is high and finding qualified candidates to fill positions may be difficult. If we cannot attract and retain corporate employees, district managers, store managers and store associates with the qualifications we deem necessary, our ability to effectively operate and expand may be adversely affected. In addition, we rely on temporary personnel to staff our distribution center, as well as seasonal part-time employees to provide incremental staffing to our stores in busy selling seasons such as the back-to-school and winter holiday seasons. We cannot guarantee that we will be able to find adequate temporary or seasonal personnel to staff our operations when needed, which may strain our existing personnel and negatively impact our operations.

***Our corporate headquarters, distribution center and management information systems are in a single location in southern California, and if their operations are disrupted, we may not be able to operate our store support functions or ship merchandise to our stores, which would adversely affect our business.***

Our corporate headquarters, distribution center and management information systems are in a single location in Irvine, California. If we encounter any disruptions to our operations at this building or if it were to shut down for any reason, including by fire or other natural disaster, then we may be prevented from effectively operating our stores, shipping and processing our merchandise and operating our e-commerce business. Furthermore, the risk of disruption or shut down at this building is greater than it might be if it were located in another region, as southern California is prone to natural disasters such as earthquakes and wildfires. Any disruption or shut down at this location could significantly impact our operations and have a material adverse effect on our financial condition and results of operations.

## **Table of Contents**

***Our stores are mostly located in the southwestern U.S. and Florida, with a significant number of stores located in California, putting us at risk to region-specific disruptions.***

Out of a total of 140 stores as of January 28, 2012, we operated 78 stores in California, 18 stores in Arizona, six stores in Nevada and 16 stores in Florida. Sales in these states could be more susceptible than the country generally to disruptions, such as from economic and weather conditions, demographic and population changes and changes in fashion tastes, and consequently, we may be more susceptible to these factors than more geographically diversified competitors. For example, because of the negative economic impact caused by the downturn in the housing market, sales in these states may have slowed more than sales would have in other regions or the country as a whole. Compared to the country as a whole, stores in California are exposed to a relatively high risk of damage from a major earthquake or wildfires, while stores in Florida are also exposed to a relatively high risk from hurricane damage. Any negative impact upon or disruption to the operations of stores in these states could have a material adverse effect on our financial condition and results of operations.

***We are required to make significant lease payments for our store leases and corporate offices and distribution center, which may strain our cash flow.***

We lease all of our retail store locations as well as our corporate headquarters and distribution center. We do not own any real estate. Leases for our stores are typically for terms of ten years and many can be extended in five-year increments. Many of our leases have early cancellation clauses which permit us to terminate the lease if certain sales thresholds are not met in certain periods of time. Our costs under these leases are a significant amount of our expenses and are growing rapidly as we expand the number of locations and existing locations experience expense increases. In fiscal year 2011, our total operating lease rent expense was \$30.7 million and our common area maintenance expense was \$11.3 million. This increased from \$26.3 million and \$9.5 million, respectively, in fiscal year 2010 and can be expected to continue to increase as we open more stores. We are required to pay additional rent under many of our lease agreements based upon achieving certain sales plateaus for each store location. In addition, we must make significant payments for common area maintenance and real estate taxes. Many of our lease agreements also contain provisions which increase the rent payments on a set time schedule, causing the cash rent paid for a location to escalate over the term of the lease. In addition, rent costs could escalate when multi-year leases are renewed at the expiration of their lease term. These costs are significant, recurring and increasing, which places a consistent strain on our cash flow.

We depend on cash flows from operations to pay our lease expenses and to fulfill our other cash needs. If our business does not generate sufficient cash flows from operating activities, and sufficient funds are not otherwise available to us from borrowings under our available revolving credit facility or from other sources, we may not be able to service our operating lease expenses, grow our business, respond to competitive challenges or to fund our other liquidity and capital needs, which would harm our business.

Additional sites that we lease are likely to be subject to similar long-term leases. If an existing or future store is not profitable, and we decide to close it, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. In addition, as our leases expire, we may fail to negotiate renewals, either on commercially acceptable terms or at all, which could cause us to close stores in desirable locations. If we are unable to enter into new leases or renew existing leases on terms acceptable to us or be released from our obligations under leases for stores that we close, our business, profitability and results of operations may be harmed.

***We rely on Integrity Retail Distribution and Federal Express to deliver merchandise to our stores located outside of southern California and therefore our business could be negatively impacted by disruptions in the operations of these third-party providers.***

We rely on Integrity Retail Distribution to ship our merchandise from our distribution center in Irvine, California to our stores located in northern and central California, Arizona and Nevada, and we rely on Federal Express to ship our merchandise to stores in all other states. We also rely on Federal Express and the U.S. Postal

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**Table of Contents**

Service to ship all e-commerce sales packages to our customers. Relying on these third-party delivery services puts us at risk from disruptions in their operations, such as employee strikes, inclement weather and their ability to meet our shipping demands. If we are forced to use other delivery services, our costs could increase and we may not be able to meet shipment deadlines. Moreover, we may not be able to obtain terms as favorable as those received from the transportation providers we currently use, which would further increase our costs. These circumstances may negatively impact our financial condition and results of operations.

***We may not be able to maintain comparable store sales or sales per square foot, which may cause our results of operations to decline and the price of our Class A common stock to be volatile.***

The investing public may use comparable store sales or net store sales per square foot projections or results, over a certain period of time, such as on a quarterly or yearly basis, as an indicator of our profitability growth. Our comparable store sales can vary significantly from period to period for a variety of reasons, such as the age of stores, changing economic factors, unseasonable weather, changing fashion trends, pricing, the timing of the release of new merchandise and promotional events and increased competition. These factors could cause comparable store sales or net store sales per square foot to decline period to period or fail to grow at expected rates, which could adversely affect our results of operations and cause the price of our Class A common stock to be volatile during such periods.

***If our management information systems fail to operate or are unable to support our growth, our operations could be disrupted.***

We rely upon our management information systems in almost every aspect of our daily business operations. For example, our management information systems serve an integral part in enabling us to order merchandise, process merchandise at our distribution center and retail stores, perform and track sales transactions, manage personnel, pay vendors and employees, operate our e-commerce business and report financial and accounting information to management. In addition, we rely on our management information systems to enable us to leverage our costs as we grow. If our management information systems fail to operate or are unable to support our growth, our store operations and e-commerce business could be severely disrupted, and we could be required to make significant additional expenditures to remediate any such failure.

***Our internal operations or management information systems could be disrupted by system security failures. These disruptions could negatively impact our sales, increase our expenses, and harm our reputation and the price of our Class A common stock.***

Hackers, computer programmers and internal users may be able to penetrate our network security and create system disruptions, cause shutdowns and misappropriate our confidential information or that of third parties, including our customers. Therefore, we could incur significant expenses addressing problems created by security breaches to our network. This risk is heightened because we collect and store customer information for marketing purposes, as well as credit card information. We must, and do, take precautions to secure customer information and prevent unauthorized access to our database of confidential information. However, if unauthorized parties, including external hackers or computer programmers, gain access to our database, they may be able to steal this confidential information. Our failure to secure this information could result in costly litigation, adverse publicity or regulatory action that could have a material adverse effect on our financial condition and results of operations. In addition, sophisticated hardware and operating system software and applications that we procure from third parties may contain defects in design or manufacture that could unexpectedly interfere with our operations. The cost to alleviate security risks, defects in software and hardware and address any problems that occur could negatively impact our sales, distribution and other critical functions, as well as our financial results.

***If we are unable to protect our intellectual property rights, our financial results may be negatively impacted.***

Our success depends in large part on our brand image. Our company's name, logo, domain name and our proprietary brands and our registered and unregistered trademarks and copyrights are valuable assets that serve to

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**Table of Contents**

differentiate us from our competitors. We currently rely on a combination of copyright, trademark, trade dress and unfair competition laws to establish and protect our intellectual property rights. We cannot assure you that the steps taken by us to protect our proprietary rights will be adequate to prevent infringement of our trademarks and proprietary rights by others, including imitation and misappropriation of our brand. We cannot assure you that obstacles will not arise as we expand our product lines and geographic scope. The unauthorized use or misappropriation of our intellectual property could damage our brand identity and the goodwill we created for our company, which could cause our sales to decline. Moreover, litigation may be necessary to protect or enforce these intellectual property rights, which could result in substantial costs and diversion of our resources, causing a material adverse effect on our business, financial condition, results of operations or cash flows. If we cannot protect our intellectual property rights, our brand identity and the goodwill we created for our company may diminish, causing our sales to decline.

We have not registered any of our intellectual property outside of the U.S. and cannot prohibit other companies from using our trademarks in foreign countries. Use of our trademarks in foreign countries could negatively impact our identity in the U.S. and cause our sales to decline.

***We may be subject to liability if we, or our vendors, infringe upon the intellectual property rights of third parties.***

We may be subject to liability if we infringe upon the intellectual property rights of third parties. If we were to be found liable for any such infringement, we could be required to pay substantial damages and could be subject to injunctions preventing further infringement. Such infringement claims could harm our brand image. In addition, any payments we are required to make and any injunction we are required to comply with as a result of such infringement actions could adversely affect our financial results.

We purchase merchandise from vendors that may be subject to design copyrights, design patents, or otherwise may incorporate protected intellectual property. We are not involved in the manufacture of any of the merchandise we purchase from our vendors for sale to our customers, and we do not independently investigate whether these vendors legally hold intellectual property rights to merchandise that they are manufacturing or distributing. As a result, we rely upon vendors' representations set forth in our purchase orders and vendor agreements concerning their right to sell us the products that we purchase from them. If a third party claims to have licensing rights with respect to merchandise we purchased from a vendor, or we acquire unlicensed merchandise, we could be obligated to remove such merchandise from our stores, incur costs associated with destruction of such merchandise if the distributor or vendor is unwilling or unable to reimburse us and be subject to liability under various civil and criminal causes of action, including actions to recover unpaid royalties and other damages and injunctions. Although our purchase orders and vendor agreement with each vendor require the vendor to indemnify us against such claims, a vendor may not have the financial resources to defend itself or us against such claims, in which case we may have to pay the costs and expenses associated with defending such claim. Any of these results could harm our brand image and have a material adverse effect on our business and growth.

***Our founders control a majority of the voting power of our common stock, which may prevent other stockholders from influencing corporate decisions and may result in conflicts of interest that cause the price of our Class A common stock to decline.***

Upon consummation of this offering, our common stock will consist of two classes: Class A and Class B. Holders of Class A common stock are entitled to one vote per share, and holders of Class B common stock are entitled to 10 votes per share, on all matters to be voted on by our common stockholders. Immediately following completion of this offering, all of the shares of Class B common stock will be beneficially owned by the Shaked and Levine family entities. As a result, the Shaked and Levine family entities will control approximately % of the total voting power of our outstanding common stock, assuming no exercise by the underwriters of their option to purchase additional shares of Class A common stock in this offering. In addition, Mr. Shaked serves as



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**Table of Contents**

Chairman of the Board of Directors, and is the voting trustee, pursuant to a voting trust agreement, covering the shares owned by Ms. Levine. As a result, Mr. Shaked is in a position to dictate the outcome of any corporate actions requiring stockholder approval, including the election of directors and mergers, acquisitions and other significant corporate transactions. Mr. Shaked may delay or prevent a change of control from occurring, even if the change of control could appear to benefit the stockholders. Mr. Shaked may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This ownership concentration may adversely impact the trading of our Class A common stock because of a perceived conflict of interest that may exist, thereby depressing the value of our Class A common stock.

***We will enter into tax indemnification agreements with our existing shareholders and could become obligated to make payments to them for any additional federal, state or local income taxes assessed against them for fiscal periods prior to the completion of this offering.***

World of Jeans & Tops has historically been treated as an S Corporation for U.S. federal income tax purposes. Effective upon completion of the Reorganization Transaction, World of Jeans & Tops S Corporation status will terminate and it will thereafter be subject to federal income taxes and increased state income taxes. In the event of an adjustment to World of Jeans & Tops reported taxable income for a period or periods prior to termination of its S Corporation status, its shareholders during those periods could be liable for additional income taxes for those prior periods. Therefore, we will enter into tax indemnification agreements with the former shareholders of World of Jeans & Tops prior to consummation of this offering. Pursuant to the tax indemnification agreements, we will agree to indemnify, defend and hold harmless each such shareholder on an after-tax basis against additional income taxes, plus interest and penalties resulting from adjustments made, as a result of a final determination made by a competent tax authority, to the taxable income World of Jeans & Tops reported as an S Corporation. Such indemnification will also include any losses, costs or expenses, including reasonable attorneys fees, arising out of a claim for such tax liability.

***War, terrorism or civil unrest could negatively affect our business.***

All of our stores are located in public areas where large numbers of people typically gather. Terrorist attacks, threats of terrorists attacks or civil unrest involving public areas could cause people not to visit areas where our stores are located. Further, armed conflicts or acts of war throughout the world may create uncertainty, causing consumers to spend less on discretionary purchases, including on apparel and accessories, and disrupting our ability to obtain merchandise for our stores. Such decreases in consumer spending or disruptions in our ability to obtain merchandise would likely decrease our sales and materially adversely affect our financial condition and results of operations.

***Litigation costs and the outcome of litigation could have a material adverse effect on our business.***

From time to time we may be subject to litigation claims through the ordinary course of our business operations regarding, but not limited to, employment matters, compliance with the Americans with Disabilities Act of 1990, apparel, footwear and accessory safety standards, security of customer and employee personal information, contractual relations with vendors, marketing and infringement of trademarks and other intellectual property rights. Litigation to defend ourselves against claims by third parties, or to enforce any rights that we may have against third parties, may be necessary, which could result in substantial costs and diversion of our resources, causing a material adverse effect on our business, financial condition, results of operations or cash flows.

Management does not believe the nature of any pending legal proceeding will have a material adverse effect on our financial condition and results of operations. However, management's assessment may change at any time based upon the discovery of facts or circumstances that are presently not known to us. Therefore, there can be no assurance that any pending or future litigation will not have a material adverse effect on our financial condition and results of operations.

## **Table of Contents**

***We may be subject to unionization, work stoppages, slowdowns or increased labor costs.***

Currently, none of our employees are represented by a union. However, our employees have the right under the National Labor Relations Act to form or affiliate with a union. If some or all of our workforce were to become unionized and the terms of the collective bargaining agreement were significantly different from our current compensation arrangements, it could increase our costs and adversely impact our profitability. Moreover, participation in labor unions could put us at increased risk of labor strikes and disruption of our operations.

***Violations of and/or changes in laws, including employment laws and laws related to our merchandise, could make conducting our business more expensive or change the way we do business.***

We are subject to numerous regulations, including labor and employment, customs, truth-in-advertising, consumer protection and zoning and occupancy laws and ordinances that regulate retailers generally and/or govern the importation, promotion and sale of merchandise and the operation of stores and warehouse facilities. If these regulations were violated by our management, employees or vendors, the costs of certain goods could increase, or we could experience delays in shipments of our goods, be subject to fines or penalties or suffer reputational harm, which could reduce demand for our merchandise and hurt our business and results of operations.

Similarly, changes in laws could make operating our business more expensive or require us to change the way we do business. For example, changes in laws related to employee healthcare, hours, wages, job classification and benefits could significantly increase operating costs. In addition, changes in product safety or other consumer protection laws could lead to increased costs for certain merchandise, or additional labor costs associated with readying merchandise for sale. It may be difficult for us to foresee regulatory changes impacting our business and our actions needed to respond to changes in the law could be costly and may negatively impact our operations.

***We will incur significant expenses as a result of being a publicly traded company, which could negatively impact our earnings.***

As a result of becoming a public company, and of being a public company, we expect to incur significant incremental legal, accounting, insurance and other expenses. Compliance with the Sarbanes-Oxley Act of 2002 and the rules implemented by the SEC and New York Stock Exchange, or NYSE, require changes to corporate governance practices of public companies that did not apply to us prior to becoming a public company. In addition, the reporting requirements of the Securities Exchange Act of 1934, as amended, will require, among other things, that we file annual, quarterly and current reports with respect to our business and financial condition. Our compliance with these laws, rules and regulations have increased, and will continue to increase, our expenses, including legal and accounting costs, and make some of our operations more costly and time consuming. In addition, it may also be more difficult for us to find and retain qualified persons to serve on our board of directors or as executive officers. Further, any additional expenses in legal, accounting, insurance and other related expenses could reduce our earnings and have a material adverse effect on our financial condition and results of operations.

***Our failure to maintain adequate internal controls over our financial and management systems may cause errors in our financial reporting. These errors may cause a loss of investor confidence and result in a decline in the price of our Class A common stock.***

Our public company reporting obligations and our anticipated growth will likely strain our financial and management systems, internal controls and our employees. In addition, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, we are required to finish documenting and testing our internal controls so our management can certify the effectiveness of our internal controls over financial reporting and our independent registered public accounting firm can render an opinion on our internal controls over financial reporting by the time our annual report for fiscal year 2013 is due and annually thereafter.

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**Table of Contents**

We are currently taking the necessary steps to comply with Section 404. However, this process is time consuming and costly. If during this process we identify one or more material weaknesses in our internal controls, it is possible that our management may not be able to certify that our internal controls are effective by the certification deadline. We cannot be certain we will be able to successfully complete the implementation, certification and attestation requirements of Section 404 within the time period allowed.

Moreover, if we identify any material weaknesses or significant deficiencies in our internal controls, we will have to implement appropriate changes to these controls, which may require specific compliance training for our directors, officers and employees, require the hiring of additional finance, accounting, legal and other personnel, entail substantial costs to modify our existing accounting systems and take a significant period of time to complete. Such changes may not, however, be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and could materially impair our ability to operate our business. Effective internal controls are necessary for us to produce reliable financial reports and are important to prevent fraud. As a result, our failure to satisfy the requirements of Section 404 on a timely basis could result in us being subject to regulatory action and a loss of investor confidence in the reliability of our financial statements, both of which in turn could cause the market value of our Class A common stock to decline.

***Prior to this offering, World of Jeans & Tops was treated as an S Corporation under Subchapter S of the Internal Revenue Code, and claims of taxing authorities related to its prior status as an S Corporation could harm us.***

Concurrent with and as a result of the Reorganization Transaction, World of Jeans & Tops S Corporation status will terminate and World of Jeans & Tops will be treated as a C Corporation for federal and applicable state income tax purposes. As a C Corporation, World of Jeans & Tops will become subject to federal and increased state income taxes. In addition, if the unaudited, open tax years in which World of Jeans & Tops was an S Corporation are audited by the Internal Revenue Service, and World of Jeans & Tops is determined not to have qualified for, or to have violated, its S Corporation status, World of Jeans & Tops will be obligated to pay back taxes, interest and penalties, and the company will not have the right to reclaim tax distributions it made to its shareholders during those periods. These amounts could include taxes on all of World of Jeans & Tops taxable income while it was an S Corporation. Any such claims could result in additional costs to us and could have a material adverse effect on our results of operations and financial condition.

***We will need to amend our existing credit facility upon completion of our initial public offering and there is no guarantee that we will be able to do so. The terms of this amended facility may impose operating and financial restrictions on us that may impair our ability to respond quickly to changing business and economic conditions. If we need to draw on this facility, the impairment could have a significant adverse impact on our business.***

Our existing credit facility with Wells Fargo Bank does not permit for our corporate reorganization and initial public offering. Therefore, immediately before the completion of our initial public offering, we expect to amend our credit facility. In addition, the amended facility is expected to provide a \$25 million revolving line of credit, which we may use to finance working capital or other needs, including the purchase of inventory and equipment, capital expenditures and funding for other general corporate purposes. There is no guarantee that we will be able to amend the facility and, should we ever need to use the facility, our inability to successfully secure an amended facility could have a significant adverse impact on our business, including our plans for continued growth. We expect the amended revolving credit facility will contain requirements for certain levels of tangible net worth, liquidity and profitability, such as: (i) a minimum current asset to current liability ratio of 1.25 to 1.00, (ii) a net profit before tax of at least \$1, excluding a non-cash expense of up to a maximum of \$2 million for the write-off of impaired fixed assets for the cumulative rolling four-quarter period measured, determined as of the end of each fiscal quarter on a cumulative rolling four-quarter basis and (iii) a maximum ratio of 4.00 to 1.00 for funded debt to EBITDAR, where funded debt includes credit facility borrowings, capital lease debt and eight times annual operating lease rent expense, and EBITDAR includes net income before interest, income taxes, depreciation, amortization and rent expense. Obligations under the revolving credit facility will likely be

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## **Table of Contents**

secured by substantially all of our assets. Our ability to comply with these restrictions and covenants may be affected by events beyond our control. A breach of any of these restrictions and covenants could result in a default under the revolving credit facility. If a default occurs, the lender may elect to terminate the availability of undrawn amounts, increase the interest rate on all borrowings outstanding and declare all borrowings outstanding, together with accrued interest and other fees, to be immediately due and payable. If we are unable to repay outstanding borrowings when due, whether at their maturity or if declared due and payable by the lender following a default, the lender will have the right to proceed against the collateral granted to it to secure the indebtedness. As a result, any breach of these restrictions and covenants could have a material adverse effect on us.

***We may engage in strategic transactions that could negatively impact our liquidity, increase our expenses and present significant distractions to our management.***

We may consider strategic transactions and business arrangements, including, but not limited to, acquisitions, asset purchases, partnerships, joint ventures, restructurings, divestitures and investments. Any such transaction may require us to incur non-recurring or other charges, may increase our near and long-term expenditures and may pose significant integration challenges or disrupt our management or business, which could harm our operations and financial results.

***Our e-commerce business subjects us to numerous risks that could have an adverse effect on our results of operations.***

For fiscal year 2011, sales from our e-commerce business increased 33% over the previous year and represented approximately 11% of our total net sales. Our e-commerce business and its continued growth subject us to certain risks that could have an adverse effect on our results of operations, including:

diversion of traffic from our stores;

liability for online content;

government regulation of the Internet; and

risks related to the computer systems that operate our website and related support systems, including computer viruses, electronic break-ins and similar disruptions.

***We may incur substantial expenses related to our issuance of stock-based compensation, which may have a negative impact on our operating results for future periods.***

We follow the provisions of the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, 718, *Compensation-Stock Compensation*, for stock-based compensation. Our stock-based compensation expenses may be significant in future periods, which could have an adverse impact on our operating and net income. FASB ASC 718 requires the use of subjective assumptions, including the options' expected lives and the price volatility of our Class A common stock. Changes in the subjective input assumptions can materially affect the amount of our stock-based compensation expense. In addition, an increase in the competitiveness of the market for qualified employees could result in an increased use of stock-based compensation awards, which in turn would result in increased stock-based compensation expense in future periods.

Our stock-based awards contain a performance condition whereby the company's common stock must be publicly traded in order to exercise vested options. Unrecognized cumulative stock-based compensation expense through January 28, 2012, before any related tax benefit, was \$7.1 million. We will recognize this non-cash deferred compensation expense upon the consummation of our initial public offering.

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**Table of Contents**

**Risks Related to this Offering and Ownership of Our Class A Common Stock**

*We will be a controlled company within the meaning of the NYSE rules, and, as a result, we may rely on exemptions from certain corporate governance requirements that provide protection to stockholders of other companies.*

Upon completion of this offering, Mr. Shaked will control more than 50% of the total voting power of our common stock and we will be considered a controlled company under the NYSE corporate governance listing standards. As a controlled company, certain exemptions under the NYSE listing standards will exempt us from the obligation to comply with certain NYSE corporate governance requirements, including the requirements:

that a majority of our board of directors consist of independent directors, as defined under the rules of the NYSE;

that we have a corporate governance and nominating committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and

that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities.

Although we intend to comply with these listing requirements even though we will be a controlled company, there is no guarantee that we will not take advantage of these exemptions in the future. Accordingly, so long as we are a controlled company, holders of our Class A common stock may not have the same protections afforded to stockholders of companies that are subject to all of the NYSE corporate governance requirements.

*There has been no public market for our Class A common stock and an active trading market for our Class A common stock may never develop following the offering.*

Prior to this offering, there has been no public market for our Class A common stock and we cannot guarantee that an active trading market will develop or be sustained after the offering. If an active market does not develop or is not sustained, it may be difficult for you to sell your Class A common stock at a favorable price or at all. We cannot predict the future value of our Class A common stock. The initial public offering price will be based upon negotiations between us and the underwriters and may not bear any relationship to the market price our Class A common stock may trade at after the offering. As a result, the value of our Class A common stock may decline below the initial public offering price, based upon the market for our Class A common stock or changes in our financial condition and results of operations, and you may not be able to resell your shares of our Class A common stock at or above the initial public offering price.

*If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the price and trading volume of our Class A common stock could decline.*

The trading market for our Class A common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. We do not currently have and may never obtain research coverage by securities and industry analysts. If no securities or industry analysts commence coverage of us, the trading price for our Class A common stock would be negatively impacted. If we obtain securities or industry analyst coverage and if one or more of the analysts who covers us downgrades our Class A common stock or publishes inaccurate or unfavorable research about our business, the price of our Class A common stock would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our Class A common stock could decrease, which could cause the price of our Class A common stock and trading volume to decline.

**Table of Contents**

*The price of our Class A common stock may be volatile and decline in value.*

The market for retail apparel stocks can be highly volatile. As a result, the market price of our Class A common stock is likely to be volatile and investors may experience a decrease in the value of the Class A common stock, unrelated to our operations. The price of our Class A common stock could fluctuate significantly in response to a number of factors, as discussed in this Risk Factors section and such as those listed below:

variations in our operating performance and the performance of our competitors;

publication of research reports or recommendation by securities analysts about us, our competitors or our industry, or a lack of such securities analyst coverage;

our failure or our competitors' failure to meet analysts' projections or guidance;

our levels of comparable store sales;

changes to our management team;

regulatory developments negatively affecting our industry;

changes in stock market valuations of our competitors;

the development and sustainability of an active trading market for our Class A common stock;

the public's response to press releases or other public announcements by us or third parties, including our filings with the SEC;

the performance and successful integration of any new stores that we open;

actions by competitors or other mall and non-mall tenants;

announcements by us or our competitors of new product offerings or significant acquisitions;

ratings downgrades by any securities analysts who follow our common stock;

fluctuations in the stock markets generally;

changes in general market and economic conditions; and

changes in fashion trends that we did not anticipate.

Further, securities class action litigation has often been initiated against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management's attention and resources, and could also require us to make substantial payments to satisfy judgments or to settle litigation. The threat or filing of class action litigation lawsuits could cause the price of our Class A common stock to decline.

***Future sales of our common stock by existing stockholders could cause the price of our Class A common stock to decline.***

Any sales of a substantial number of shares of our common stock in the public market after this offering, or the perception that such sales might occur, may cause the market price for our Class A common stock to decline. Upon completion of this offering, assuming that the underwriters exercise in full their option to purchase additional shares, we will have \_\_\_\_\_ shares of Class A common stock and \_\_\_\_\_ shares of Class B common stock outstanding, excluding \_\_\_\_\_ shares of Class A common stock issuable upon the exercise of outstanding stock options. All of these shares, other than the \_\_\_\_\_ shares of Class B common stock held by the Shaked and Levine family entities and the \_\_\_\_\_ shares of Class A common stock held by our directors and officers and other affiliates, as defined in Rule 144 of the Securities Act of 1933, as amended, or Rule 144, will be freely tradable without restriction under the Securities Act of 1933, as amended, or Securities Act. The shares held by the Shaked and Levine family entities and our directors, officers and other affiliates are restricted securities under the Securities Act, and may not be sold in the public market unless the sale is registered under the Securities Act or an exemption from registration is available.

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## **Table of Contents**

Each of our executive officers, directors and the selling stockholders have agreed, subject to certain exceptions, to be bound by a lock-up agreement that prevents us and them from selling or transferring shares of our common stock during the 180-day period following this offering. However, these shares will be freely tradable, subject to the limitations of Rule 144, in the public markets after the expiration of the lock-up period, which could depress the value of our Class A common stock. Moreover, Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated may, in their sole discretion, release any of the shares held by our executive officers, directors and other current stockholders from the restrictions of the lock-up agreement at any time without notice, which would allow the immediate sale of these shares in the market, subject to the limitations of Rule 144. See Underwriting .

### ***Our corporate organizational documents and Delaware law have anti-takeover provisions that may inhibit or prohibit a takeover of us and the replacement or removal of our management.***

In addition to the effect that the concentration of ownership and voting power in the Shaked and Levine family entities, the anti-takeover provisions under Delaware law, as well as the provisions contained in our corporate organizational documents, may make an acquisition of us more difficult.

For example:

our certificate of incorporation includes a provision authorizing our board of directors to issue blank check preferred stock without stockholder approval, which, if issued, would increase the number of outstanding shares of our capital stock and make it more difficult for a stockholder to acquire us;

our certificate of incorporation provides that if all shares of our Class B common stock are converted into Class A common stock or otherwise cease to be outstanding, our board of directors will be divided into three classes in the manner provided by our certificate of incorporation. After the directors in each class serve for the initial terms provided in our certificate of incorporation, each class will serve for a staggered three-year term;

our certificate of incorporation permits removal of a director only for cause by the affirmative vote of the holders of a majority of the voting power of the company once the board of directors is divided into three classes and provides that director vacancies can only be filled by an affirmative vote of a majority of directors then in office;

our bylaws require advance notice of stockholder proposals and director nominations; and

Section 203 of the Delaware General Corporation Law may prevent large stockholders from completing a merger or acquisition of us.

These provisions may prevent a merger or acquisition of us which could limit the price investors would pay for our common stock in the future.

### ***We do not intend to pay cash dividends on our common stock, which may make our Class A common stock less desirable to investors and decrease its value.***

We intend to retain all of our earnings to finance our operations and growth and do not anticipate paying any cash dividends on our common stock for the foreseeable future. Therefore, you may only receive a return on your investment in our Class A common stock if the market price increases above the price at which you purchased it, which may never occur.

### ***You will experience immediate and substantial dilution.***

Purchasers of Class A common stock in this offering will pay a price per share that is substantially higher than the pro forma net tangible book value per share of our outstanding Class A common stock immediately after





**Table of Contents**

this offering. As a result, purchasers of our Class A common stock in this offering will suffer immediate and substantial dilution. Based on an assumed initial public offering price of \$        per share, the mid-point of the price range set forth on the cover page of this prospectus, and our pro forma net tangible book value as of       , the dilution will be \$        per share of Class A common stock to new investors in this offering. If the underwriters sell additional shares of Class A common stock following the exercise of their option to purchase additional shares or if option holders exercise outstanding options to purchase shares of Class A common stock, further dilution could occur.

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical or current fact included in this prospectus 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 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, 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:

our ability to successfully open a significant number of new stores;

effectively adapting to new challenges associated with our expansion into new geographic markets;

our ability to maintain and enhance a strong brand image;

generating adequate cash from our existing stores to support our growth;

identifying and responding to new and changing customer fashion preferences and fashion-related trends;

competing effectively in an environment of intense competition;

containing the increase in the cost of mailing catalogs, paper and printing;

the success of the malls, power centers, neighborhood and lifestyle centers, outlet centers and street-front locations in which our stores are located;

our ability to attract customers in the various retail venues and geographies in which our stores are located;

adapting to declines in consumer confidence and decreases in consumer spending;

our ability to adapt to significant changes in sales due to the seasonality of our business;

price reductions or inventory shortages resulting from failure to purchase the appropriate amount of inventory in advance of the season in which it will be sold;

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natural disasters, unusually adverse weather conditions, boycotts and unanticipated events;

changes in the competitive environment in our industry and the markets we serve, including increased competition from other retailers;

our dependence on third-party vendors to provide us with sufficient quantities of merchandise at acceptable prices;

increases in costs of fuel or other energy, transportation or utility costs and in the costs of labor and employment;

our ability to balance proprietary branded merchandise with the third-party branded merchandise we sell;

most of our merchandise is made in foreign countries, making price and availability of our merchandise susceptible to international trade conditions;

failure of our vendors and their manufacturing sources to use acceptable labor or other practices;

**Table of Contents**

our dependence upon key executive management or our inability to hire or retain the talent required for our business;

our ability to effectively adapt to our rapid expansion in recent years and our planned expansion;

failure of our information technology systems to support our current and growing business, before and after our planned upgrades;

disruptions in our supply chain and distribution center;

our indebtedness and lease obligations, including restrictions on our operations contained therein;

our reliance upon independent third-party transportation providers for certain of our product shipments;

our ability to maintain comparable store sales or sales per square foot, which may cause our operations and stock price to be volatile;

disruptions to our information systems in the ordinary course or as a result of systems upgrades;

our inability to protect our trademarks or other intellectual property rights;

acts of war, terrorism or civil unrest;

the impact of governmental laws and regulations and the outcomes of legal proceedings;

our ability to secure the personal financial information of our customers and comply with the security standards for the credit card industry;

our failure to maintain adequate internal controls over our financial and management systems; and

increased costs as a result of being a public company.

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

See **Risk Factors** 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 prospectus 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 forward-looking statements included in this prospectus 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.

**Table of Contents****USE OF PROCEEDS**

We estimate that the net proceeds from our sale of \_\_\_\_\_ shares of our Class A common stock in this offering will be approximately \$ \_\_\_\_\_ million, assuming an offering price of \$ \_\_\_\_\_ per share (the mid-point of the price range set forth on the cover page of this prospectus) and after deducting the underwriting discount and estimated offering expenses payable by us, a portion of which will be reimbursed to us by the underwriters. We will not receive any proceeds from the sale of shares of our Class A common stock by the selling stockholders, which includes one of our officers and directors, including any shares sold by the selling stockholders in connection with the exercise of the underwriters' option to purchase additional shares. A \$1.00 increase (decrease) in the assumed initial public offering price of \$ \_\_\_\_\_ per share would increase (decrease) the net proceeds to us of this offering by \$ \_\_\_\_\_ million, assuming the sale by us of \_\_\_\_\_ shares of our Class A common stock and after deducting the underwriting discount and estimated expenses. A 1.0 million increase (decrease) in the number of shares offered by us, assuming an initial public offering price of \$ \_\_\_\_\_ per share, which is the mid-point of the price range set forth on the cover page of this prospectus, would increase (decrease) the net proceeds to us by \$ \_\_\_\_\_ million, after deducting the underwriting discount and estimated expenses.

The principal purposes of this offering are to obtain capital to pay all undistributed cumulative earnings to date to the current shareholders of World of Jeans & Tops, obtain additional capital, create a public market for our common stock and facilitate our future access to the public equity markets. Prior to completion of this offering, World of Jeans & Tops will issue notes to its then-existing S Corporation shareholders, which will reflect the amount of undistributed cumulative earnings remaining in World of Jeans & Tops from the date of its formation up to the date of termination of its S Corporation status. The notes have a term of 15 days and their interest rate will be the one-month LIBOR rate as of the date of their execution. We expect to use \$84.0 million of the net proceeds from this offering to pay in full the principal amount of the notes, as well as any accrued interest. Therefore, our stockholders immediately following this offering, who were also the shareholders of World of Jeans & Tops prior to termination of its S Corporation status, will receive most of the net proceeds from the sale of shares offered by us.

We expect proceeds in excess of the final S Corporation distribution to be approximately \$ \_\_\_\_\_ million. We intend to use such excess proceeds for working capital and other general corporate purposes, which may include funding new store openings and funding other operating costs such as merchandise inventories, payroll, store rent, marketing and infrastructure expenditures. The amounts and timing of any expenditures will vary depending on the amount of cash generated by our operations, competitive and technological developments and the rate of growth of our business. Therefore, we do not currently have a specific plan for the excess proceeds from this offering and our management will have significant flexibility in applying the net proceeds. Pending their use, we intend to invest the excess proceeds from this offering in short term, investment-grade, interest-bearing instruments.

**Table of Contents**

**DIVIDEND POLICY**

We do not anticipate paying dividends on our common stock after the completion of this offering. We intend to retain all available funds and any future earnings for use in the operation and expansion of our business. Any determination in the future to pay dividends will depend upon our financial condition, capital requirements, operating results and other factors deemed relevant by our board of directors, including any contractual or statutory restrictions on our ability to pay dividends.

As an S Corporation, World of Jeans & Tops distributed to its shareholders every year an amount sufficient to cover their tax liability due to the income that was reported by the shareholders on their individual tax returns. Additional amounts were distributed to its shareholders at the discretion of the board of directors of World of Jeans & Tops. For fiscal years 2010 and 2011, World of Jeans & Tops paid distributions to its shareholders of \$22.2 million and \$36.0 million, respectively. In connection with the Reorganization Transaction, World of Jeans & Tops will issue to its existing shareholders notes in an aggregate principal amount equal to \$84.0 million. This represents all of World of Jeans & Tops undistributed taxable income from the date of its formation up to the date of termination of its S Corporation status. Upon completion of this offering, we will use a majority of the net proceeds from this offering to pay in full the principal amount of these undistributed earnings notes as described under Use of Proceeds . We do not anticipate paying any additional distributions to our S Corporation shareholders subsequent to the consummation of this offering.



**Table of Contents****CAPITALIZATION**

The following table sets forth our cash and cash equivalents and capitalization as of January 28, 2012:

on an actual basis, reflecting the capitalization of World of Jeans & Tops prior to the Reorganization Transaction;

on a pro forma basis to give effect to the Reorganization Transaction as described under Description of Capital Stock Reorganization Transaction, including (i) the issuance by World of Jeans & Tops of the undistributed taxable earnings notes to its then shareholders in the aggregate principal amount representing 100% of its undistributed taxable income from the date of its formation through the date of termination of its S Corporation status, as a final distribution prior to the termination of its S Corporation status, equal to \$84.0 million and (ii) an increase in net deferred tax assets of approximately \$3.9 million (consisting of an increase in current deferred tax assets of \$5.0 million and an increase in non-current deferred tax liabilities of \$1.1 million) assuming World of Jeans & Tops S Corporation status terminated on January 28, 2012; and

on a pro forma basis as adjusted to give effect to: (i) the sale of shares of our Class A common stock in this offering at an assumed initial public offering price of \$ per share, which is the mid-point of the price range set forth on the cover page of this prospectus, after deducting the underwriting discount and estimated offering expenses payable by us, a portion of which will be reimbursed to us by the underwriters, (ii) the application of the estimated proceeds from this offering as described under Use of Proceeds and (iii) the recognition of cumulative to date stock-based compensation expense for nonqualified stock options, which increases additional paid-in capital by \$ million.

You should read this table in conjunction with Use of Proceeds, Selected Consolidated Financial and Other Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this prospectus.

	As of January 28, 2012		Pro Forma as adjusted(2) (unaudited)
	Actual (unaudited)	Pro Forma (unaudited)	
	(In thousands, except per share amounts)		
Cash and cash equivalents	\$ 25,091	\$ 25,091	
Debt:			
Existing line of credit (1)			
Other debt (capital lease liability)	4,638		
Total debt	4,638		
Stockholders' equity:			
Common stock, \$0.001 par value; 21,600 shares authorized, 20,000 shares issued and outstanding	20		
Common stock (Class A), \$0.001 par value; 100,000 shares authorized, shares issued and outstanding			
Common stock (Class B), \$0.001 par value; 35,000 shares authorized, shares issued and outstanding			
Preferred stock, \$0.001 par value; 10,000 shares authorized, no shares issued or outstanding			
Additional paid-in capital	150		
Retained earnings	60,254		
Total stockholders' equity	60,424		

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Total capitalization	\$ 65,062	\$	\$
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- (1) The existing line of credit with Wells Fargo Bank, NA provides for borrowings of up to \$15.0 million, of which \$15.0 million was available to borrow as of January 28, 2012. Upon consummation of the initial public

**Table of Contents**

- offering, our existing line of credit with Wells Fargo Bank, NA will be amended. We expect the amended line of credit to contain substantially the same terms as the previous line of credit, but provide for borrowings of up to \$25.0 million.
- (2) A \$1.00 increase (decrease) in the assumed initial public offering price of \$        per share, which is the mid-point of the range set forth on the cover page of this prospectus, would increase (decrease) each of additional paid-in capital, total stockholders' equity and total capitalization by approximately \$        million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the underwriting discount and estimated offering expenses payable by us, a portion of which will be reimbursed to us by the underwriters. Similarly, each increase (decrease) of 1.0 million shares in the number of shares offered by us, would increase (decrease) additional paid-in capital, total stockholders' equity and total capitalization by approximately \$        million. The pro forma as adjusted information discussed above is illustrative only and will be adjusted based on the actual public offering price and terms of this offering determined at pricing.

**Table of Contents****DILUTION**

If you invest in our Class A common stock, your investment will be diluted immediately to the extent of the difference between the public offering price per share of our Class A common stock and the pro forma net tangible book value per share of our Class A common stock after this offering.

Our pro forma net tangible book value as of \_\_\_\_\_ was approximately \$ \_\_\_\_\_ million, or \$ \_\_\_\_\_ per share of common stock. Pro forma net tangible book value per share represents the amount of our total tangible assets reduced by the amount of our total liabilities, divided by the number of shares of our common stock outstanding, on a pro forma basis after giving effect to the Reorganization Transaction as described under Description of Capital Stock Reorganization Transaction, including (i) the issuance by World of Jeans & Tops of 100% of its undistributed taxable earnings to its then shareholders resulting from the termination of its S Corporation status, equal to \$84.0 million, (ii) an increase in net deferred tax assets of \$3.9 million (consisting of an increase in current deferred tax assets of \$5.0 million and an increase in non-current deferred tax liabilities of \$1.1 million) assuming the S Corporation status of World of Jeans & Tops terminated on January 28, 2012 and (iii) compensation expense of \$ \_\_\_\_\_ million resulting from prior stock options issued under our 2007 Stock Option Plan becoming exercisable upon completion of this offering.

After giving effect to (i) the sale of the \_\_\_\_\_ shares of Class A common stock offered by us assuming an initial public offering price of \$ \_\_\_\_\_ per share, which is the mid-point of the price range set forth on the cover page of this prospectus, less the underwriting discount and estimated offering expenses payable by us, a portion of which will be reimbursed to us by the underwriters and (ii) the application of the estimated proceeds from this offering as described in Use of Proceeds, our pro forma as adjusted net tangible book value as of \_\_\_\_\_ would have been approximately \$ \_\_\_\_\_ million, or \$ \_\_\_\_\_ per share. This represents an immediate increase in pro forma net tangible book value of \$ \_\_\_\_\_ per share to existing stockholders and an immediate dilution of \$ \_\_\_\_\_ per share to new investors. The following table illustrates this dilution.

Assumed initial public offering price per share	\$
Pro forma net tangible book value per share as of _____	\$
Increase in pro forma net tangible book value per share attributable to this offering	
Pro forma net tangible book value per share as of _____, as adjusted for this offering	
Dilution per share to new investors	\$

After this offering and assuming the exercise in full of all options outstanding and exercisable as of \_\_\_\_\_, pro forma net tangible book value per share as of \_\_\_\_\_, as adjusted for this offering, would have been approximately \$ \_\_\_\_\_ million, representing an immediate increase in pro forma net tangible book value of \$ \_\_\_\_\_ per share to existing stockholders and an immediate dilution of \$ \_\_\_\_\_ per share to new investors.

A \$1.00 increase (decrease) in the assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the mid-point of the price range set forth on the cover page of this prospectus, would increase (decrease) our pro forma as adjusted net tangible book value by approximately \$ \_\_\_\_\_ million, or \$ \_\_\_\_\_ per share, and the dilution per share to investors in this offering by approximately \$ \_\_\_\_\_ per share, assuming no change to the number of shares offered by us as set forth on the cover page of this prospectus, and after deducting the underwriting discount and estimated offering expenses payable by us, a portion of which will be reimbursed to us by the underwriters. We may also increase or decrease the number of shares we are offering. A 1.0 million increase (decrease) in the number of shares offered by us would increase (decrease) our pro forma as adjusted net tangible book value by approximately \$ \_\_\_\_\_ million, or \$ \_\_\_\_\_ per share, assuming an initial public offering price of \$ \_\_\_\_\_ per share, which is the mid-point of the price range set forth on the cover page of this prospectus, and the dilution per share to investors in this offering by approximately \$ \_\_\_\_\_ per share after deducting the underwriting discount and estimated offering expenses payable by us, a portion of which will be reimbursed to us by the underwriters. The pro forma as adjusted information discussed above is illustrative only.

If the underwriters exercise their option to purchase up to \_\_\_\_\_ additional shares of Class A common stock in this offering from the selling stockholders, our pro forma as adjusted net tangible book value as of \_\_\_\_\_ and dilution per share to new investors will not change.



**Table of Contents****SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA**

The following tables present selected consolidated financial and other data as of and for the periods indicated, and certain unaudited pro forma information to reflect our conversion from an S Corporation to a C Corporation for income tax purposes. The selected consolidated statement of operations data for the fiscal years ended January 30, 2010, January 29, 2011 and January 28, 2012 and selected consolidated balance sheet data as of January 29, 2011 and January 28, 2012 are derived from our consolidated financial statements audited by Deloitte & Touche LLP, our independent registered public accounting firm, included elsewhere in this prospectus. The selected consolidated statement of operations data for the fiscal years ended February 2, 2008 and January 31, 2009 and the selected consolidated balance sheet data as of February 2, 2008, January 31, 2009 and January 30, 2010 are derived from our audited consolidated financial statements that have not been included in this prospectus. The historical results presented below are not necessarily indicative of the results to be expected for any future period. You should read this selected consolidated financial data in conjunction with the consolidated financial statements and accompanying notes and the information under Management's Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this prospectus.

	Fiscal Year Ended(1)				
	February 2, 2008	January 31, 2009	January 30, 2010	January 29, 2011	January 28, 2012
(in thousands, except per share data)					
<b>Consolidated Statements of Operations Data:</b>					
Net sales	\$ 245,913	\$ 254,983	\$ 282,764	\$ 332,604	\$ 400,624
Cost of goods sold(2)	154,357	172,107	195,430	229,989	271,482
Gross profit	91,556	82,876	87,334	102,615	129,142
Selling, general and administrative expenses	51,840	59,043	65,912	77,668	94,217
Operating income	39,716	23,833	21,422	24,947	34,925
Interest income (expense), net	607	35	(284)	(249)	(196)
Income before provision for income taxes	40,323	23,868	21,138	24,698	34,729
Provision for income taxes	416	262	275	282	389
Net income	\$ 39,907	\$ 23,606	\$ 20,863	\$ 24,416	\$ 34,340
Net income per common share:					
Basic	\$ 2.00	\$ 1.18	\$ 1.04	\$ 1.22	\$ 1.72
Diluted	\$ 2.00	\$ 1.18	\$ 1.04	\$ 1.21	\$ 1.68
Weighted average shares outstanding:					
Basic	20,000	20,000	20,000	20,000	20,000
Diluted	20,000	20,000	20,014	20,098	20,500
<b>Pro Forma Income Information(3):</b>					
Pro forma provision for income taxes	\$ 16,129	\$ 9,547	\$ 8,455	\$ 9,879	\$ 13,892
Pro forma net income	\$ 24,194	\$ 14,321	\$ 12,683	\$ 14,819	\$ 20,837
Pro forma basic net income per common share(4)					
Pro forma diluted net income per common share(4)					

**Table of Contents**

	Fiscal Year Ended				
	February 2, 2008	January 31, 2009	January 30, 2010	January 29, 2011	January 28, 2012
<b>Operating Data (unaudited):</b>					
Stores operating at beginning of period	61	73	99	111	125
Stores opened during the period	13	26	13	16	16
Stores closed during the period	1		1	2	1
Stores operating at end of period	73	99	111	125	140
Comparable store sales change(5)	8.7%	-12.5%	-3.1%	6.7%	10.7%
Total square feet at end of period	576,156	775,832	862,971	967,011	1,094,419
Average square footage per store at end of period	7,893	7,837	7,775	7,736	7,817
Average net sales per store (in thousands)(6)	\$ 3,452	\$ 2,750	\$ 2,479	\$ 2,528	\$ 2,718
Average net store sales per square foot(6)	\$ 439	\$ 349	\$ 318	\$ 326	\$ 350
Capital expenditures (in thousands)	\$ 14,817	\$ 23,406	\$ 17,514	\$ 15,674	\$ 20,223

	As of				
	February 2, 2008	January 31, 2009	January 30, 2010 (in thousands)	January 29, 2011	January 28, 2012
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 25,359	\$ 24,535	\$ 25,705	\$ 29,338	\$ 25,091
Working capital	24,354	22,779	29,639	33,907	27,673
Total assets	93,449	110,142	115,454	130,974	140,819
Long-term debt, including current portion(7)	6,933	6,412	5,857	5,266	4,638
Shareholders' equity	46,637	55,053	59,896	62,092	60,424

- (1) All fiscal years presented include 52 weeks.
- (2) Includes buying, distribution and occupancy costs.
- (3) The unaudited pro forma income statement for all years presented gives effect to an adjustment for income tax expense as if we had been a C Corporation at an assumed combined federal, state and local effective income tax rate, which approximates our statutory income tax rate, of 40%.
- (4) Reflects the increase in the number of shares which would be sufficient to replace the capital in excess of current year earnings being withdrawn pursuant the Reorganization Transaction. The pro forma adjustment to basic and diluted weighted average shares outstanding for the fiscal year ended January 28, 2012 is        and       , respectively.
- (5) Comparable store sales are net sales from stores that have been open at least 12 full fiscal months as of the end of the current reporting period. A remodeled or relocated store is included in comparable store sales, both during and after construction, if the square footage of the store was not changed by more than 20% and the store was not closed for more than five days in any fiscal month. Comparable store sales include sales through our e-commerce store but exclude gift card breakage income and e-commerce shipping and handling fee revenue. E-commerce sales contributed 3.4%, 1.9%, 2.9%, 3.3% and 2.3% to the comparable store sales change for fiscal years 2007, 2008, 2009, 2010 and 2011, respectively.
- (6) The number of stores and the amount of square footage reflect the number of days during the period that new stores were open. E-commerce sales, e-commerce shipping revenue, and gift card breakage income are excluded from our sales in deriving net sales per store.
- (7) Comprised solely of a capital lease for our corporate headquarters and distribution center.

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**Table of Contents**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

*You should read the following discussion in conjunction with the consolidated historical financial statements and the accompanying notes included elsewhere in this prospectus, as well as the information presented under "Selected Consolidated Financial and Other Data". The statements in the following discussion and analysis regarding expectations about our future performance, liquidity and capital resources and any other non-historical statements in this discussion and analysis, are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, those described under "Risk Factors", "Forward-Looking Statements" and other matters included elsewhere in this prospectus. Our actual results could differ materially from those contained in or implied by any forward-looking statements.*

*We operate on a fiscal calendar widely used by the retail industry that results in a given fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to January 31 of the following year. References to "fiscal year 2011" or "fiscal 2011" refer to the fiscal year ended January 28, 2012, references to "fiscal year 2010" or "fiscal 2010" refer to the fiscal year ended January 29, 2011 and references to "fiscal year 2009" or "fiscal 2009" refer to the fiscal year ended January 30, 2010. Each of fiscal years 2011, 2010 and 2009 consisted of a 52-week period.*

**Overview**

Tilly's is a fast-growing destination specialty retailer of West Coast inspired apparel, footwear and accessories. We believe we bring together an unparalleled selection of the most sought-after brands rooted in action sports, music, art and fashion. Our West Coast heritage dates back to 1982 when Hezy Shaked and Tilly Levine opened our first store in Orange County, California. As of January 28, 2012, we operated 140 stores in 14 states, averaging approximately 7,800 square feet. We also sell our products through our e-commerce website, [www.tillys.com](http://www.tillys.com).

Our strong growth and operating results reflect initiatives taken by our management team as well as our customers' increasing awareness of our brand and merchandise assortment as we have expanded our presence in both existing and new markets. We increased net sales 20%, from \$332.6 million in fiscal year 2010 to \$400.6 million in fiscal year 2011. We increased operating income 40%, from \$24.9 million in fiscal year 2010 to \$34.9 million in fiscal year 2011. Our comparable store sales increased 10.7% in fiscal year 2011 after a 6.7% increase in fiscal year 2010. Since the beginning of fiscal 2007, we have more than doubled our store count from 61 stores to 140 stores at the end of fiscal year 2011.

We expect to continue our strong growth in the future. We believe there is a significant opportunity to expand our store base to more than 500 stores over the next 10 years. We plan to add a total of at least 21 net new stores in fiscal year 2012 and to continue opening new stores at an annual rate of approximately 15% for the next several years thereafter. We expect to fund this store expansion through our cash on hand, which may include a portion of the proceeds from this offering, and cash flows from operations. We believe our success operating in different retail venues and geographies demonstrates the portability of Tilly's and provides us with flexibility for future expansion. We also expect to continue to support our comparable store sales by consistently offering new, on-trend and relevant merchandise, increasing our brand awareness, providing an engaging store experience for our core customers and maintaining our high level of customer service.

Our unit growth is supported by our new store economics, which we believe to be compelling. Our new store model assumes a target store size averaging 7,500 to 8,000 square feet. In the first 12 months after opening, our new store model targets net sales of approximately \$2.2 million and cash flows of \$300,000, with cash flows rising to over \$400,000 in the second 12 months as the store begins to mature. The target net investment to open our stores is between \$500,000 and \$550,000, reflecting a mild inflationary increase to the range of historical



## **Table of Contents**

average costs incurred to open stores since the beginning of 2005. This results in an average pre-tax cash-on-cash payback period on our investment of about 18 months.

The sales and cash flow targets as well as the range of net investment targets are based on historical results, including store openings in fiscal 2011. The average store net investment range reflects the initial store build-out costs net of landlord allowances, preopening expenses and the investment in initial inventories, net of payables. The expected net investment range relies in part on a continuation of the historical levels of landlord allowances. Based on past real estate industry practices and our experience leasing and opening new locations in a variety of real estate environments and markets, we expect the average net investment, including the amount of landlord allowances, to be generally consistent over the next several years. However, if the amount of landlord allowances drop significantly, the amount of net investment to open new stores could rise, as could the expected cash-on-cash payback period. Furthermore, the Company's anticipated net investment may increase over time depending on a number of factors beyond our control, such as the cost of construction materials, competition for new retail locations and changes in the commercial real estate environment. In addition, the Company's anticipated yearly cash flows may be impacted by several factors, such as the level of competition and the specific store location at a particular venue and the concentration of our stores within a limited geographic area.

Over the last five years, we have invested over \$20 million in infrastructure and systems to support our recent and long-term growth. We believe our distribution and allocation capabilities are unique within the industry and allow us to quickly sort and process merchandise and deliver it to our stores in a floor-ready format for immediate display. We believe our distribution infrastructure can support a national retail footprint in excess of 500 stores with minimal incremental capital investment. In addition, we anticipate spending approximately \$7 million to equip our new e-commerce distribution center, which we expect to open in the first half of fiscal year 2013. We plan to fund the tenant improvements for this leased facility from cash on hand and cash flows from operations.

We believe our business strategy will continue to offer significant opportunity, but it also presents risks and challenges. These risks and challenges include, but are not limited to, that we may not be able to effectively identify and respond to changing fashion trends and customer preferences, that we may not be able to find desirable locations for new stores and that we may not be able to effectively manage our future growth. In addition, our financial results can be expected to be directly impacted by trends in the general economy. A decline in consumer spending or a substantial increase in product costs due to commodity cost increases or general inflation could lead to a reduction in our sales as well as greater margin pressure as costs may not be able to be passed on to consumers and the competitive environment could become more highly promotional. See **Risk Factors** for other important factors that could adversely impact us and our results of operations. We strive to ensure that addressing these risks does not divert our attention from continuing to build on the strengths that we believe have driven the growth of our business.

### **How We Assess the Performance of Our Business**

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

#### ***Net Sales***

Net sales reflect revenue from the sale of our merchandise at store locations as well as sales of merchandise through our e-commerce store, which is reflected in sales when the merchandise is received by the customer. Net sales also include shipping and handling fees for e-commerce shipments that have been delivered to the customer. Net sales are net of returns on sales during the period as well as an estimate of returns expected in the future stemming from current period sales. Revenue from the sale of gift cards is deferred and not included in net

## **Table of Contents**

sales until the gift cards are used to purchase merchandise. However, over time, the redemption of some gift cards becomes remote (referred to as gift card breakage). Revenue from estimated gift card breakage is also included in net sales.

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

### ***Comparable Store Sales***

Comparable store sales are net sales from stores that have been open at least 12 full fiscal months as of the end of the current reporting period. A remodeled or relocated store is included in comparable store sales, both during and after construction, if the square footage of the store was not changed by more than 20% and the store was not closed for more than five days in any fiscal month. Comparable store sales include sales through our e-commerce store, but exclude gift card breakage income and e-commerce shipping and handling fee revenue. Some of our competitors and other retailers may calculate comparable or same store sales differently than we do. As a result, data in this prospectus regarding our comparable store sales may not be comparable to similar data made available by other retailers.

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

overall economic trends;

our ability to identify and respond effectively to consumer preferences and fashion trends;

competition;

the timing of our releases of new and seasonal styles;

changes in our product mix;

pricing;

the level of customer service that we provide in stores;

our ability to source and distribute products efficiently;

calendar shifts of holiday or seasonal periods;

the number and timing of store openings and the relative proportion of new stores to mature stores; and

the timing and success of promotional and advertising efforts.

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

***Gross Profit***

Gross profit is equal to our net sales less our cost of goods sold. Cost of goods sold reflects the direct cost of purchased merchandise as well as buying, distribution and occupancy costs. Buying costs include compensation expense for our internal buying organization. Distribution costs include inbound freight costs as well as costs for receiving, processing, warehousing and shipping of merchandise to or from our distribution center, to our e-commerce customers and between store locations. Occupancy costs include the rent, common area

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## **Table of Contents**

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

### ***Selling, General and Administrative Expenses***

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

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

Our stock-based awards contain a performance condition whereby the company's common stock must be publicly traded in order to exercise vested options. Unrecognized cumulative stock-based compensation expense through January 28, 2012, before any related tax benefit, was \$7.1 million. We will recognize this non-cash deferred compensation as an SG&A expense upon the consummation of our initial public offering.

### ***Operating Income***

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

### ***Income Taxes***

Historically, World of Jeans & Tops has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code of 1986, as amended, or the Code, for federal tax purposes. As a result, its income has not

**Table of Contents**

been subject to U.S. federal income taxes or state income taxes in those states where the S Corporation status is recognized. In general, the corporate income or loss of an S Corporation is allocated to its stockholders for inclusion in their personal federal income tax returns and personal state income tax returns in those states where the S Corporation status is recognized. No provision or liability for federal or state income tax has been provided in our financial statements except for those states where the S Corporation status is not recognized and for the 1.5% California franchise tax to which we are also subject as a California S Corporation. The provision for income tax in the current period consists of these taxes. World of Jeans & Tops has distributed funds to its shareholders in an amount necessary to satisfy the shareholders estimated personal S Corporation income tax liabilities.

As a result of the Reorganization Transaction, World of Jeans & Tops S Corporation status will terminate and World of Jeans & Tops will be treated as a C Corporation under Subchapter C of the Code. The revocation of World of Jeans & Tops S Corporation election will have a material impact on our results of operations, financial condition and cash flows. Our effective income tax rate will increase and our net income will decrease since we will be subject to both federal and state taxes on our earnings.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of the change in tax rates resulting from our being a C Corporation will be recognized in income in the quarter such change takes place. This difference between the financial statement carrying amounts of assets and liabilities and their respective tax basis would have been recorded as a net deferred tax asset of \$4.2 million if it had been recorded at the balance sheet date of January 28, 2012.

All pro forma provisions for income taxes and pro forma net income data reflect estimated adjustments for federal and state income taxes as if we had been taxed as a C Corporation, rather than an S Corporation, at an estimated 40% effective tax rate in all years presented.

**Table of Contents****Results of Operations**

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

	Fiscal Year Ended		
	January 30, 2010	January 29, 2011 (in thousands)	January 28, 2012
<b>Statements of Income Data:</b>			
Net sales	\$ 282,764	\$ 332,604	\$ 400,624
Cost of goods sold	195,430	229,989	271,482
Gross profit	87,334	102,615	129,142
Selling, general and administrative expenses	65,912	77,668	94,217
Operating income	21,422	24,947	34,925
Interest expense, net	284	249	196
Income before provision for income taxes	21,138	24,698	34,729
Provision for income taxes	275	282	389
Net income	\$ 20,863	\$ 24,416	\$ 34,340
<b>Percentage of Net Sales:</b>			
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	69.1%	69.1%	67.8%
Gross profit	30.9%	30.9%	32.2%
Selling, general and administrative expenses	23.3%	23.4%	23.5%
Operating income	7.6%	7.5%	8.7%
Interest expense, net	0.1%	0.1%	0.0%
Income before provision for income taxes	7.5%	7.4%	8.7%
Provision for income taxes	0.1%	0.1%	0.1%
Net income	7.4%	7.3%	8.6%
<b>Pro Forma Data (unaudited)(1):</b>			
Income before provision for income taxes	\$ 21,138	\$ 24,698	\$ 34,729
Pro forma provision for income taxes	8,455	9,879	13,892
Pro forma net income	\$ 12,683	\$ 14,819	\$ 20,837

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

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

	Fiscal Year Ended		
	January 30, 2010	January 29, 2011	January 28, 2012
<b>Store Operating Data:</b>			
Stores operating at end of period	111	125	140
Comparable store sales change(1)	-3.1%	6.7%	10.7%
Total square feet at end of period	862,971	967,011	1,094,419
Average net sales per store (in thousands)(2)	\$ 2,479	\$ 2,528	\$ 2,718
Average net sales per square foot(2)	\$ 318	\$ 326	\$ 350
E-commerce revenues (in thousands)(3)	\$ 22,511	\$ 32,804	\$ 43,587

- (1) Comparable store sales are net sales from stores that have been open at least 12 full fiscal months as of the end of the current reporting period. A remodeled or relocated store is included in comparable store sales,

**Table of Contents**

both during and after construction, if the square footage of the store was not changed by more than 20% and the store was not closed for more than five days in any fiscal month. Comparable store sales include sales through our e-commerce store but exclude gift card breakage income and e-commerce shipping and handling fee revenue. E-commerce sales contributed 2.9%, 3.3% and 2.3% to the comparable store sales change for fiscal years 2009, 2010 and 2011, respectively.

- (2) E-commerce sales, e-commerce shipping fee revenue and gift card breakage are excluded from net sales in deriving average net sales per store and average net sales per square foot.
- (3) E-commerce revenues include e-commerce sales and e-commerce shipping fee revenue.

***Fiscal Year 2011 Compared to Fiscal Year 2010****Net Sales*

Net sales increased from \$332.6 million in fiscal year 2010 to \$400.6 million in fiscal year 2011, an increase of \$68.0 million, or 20%. New stores opened in fiscal year 2011 accounted for \$18.8 million of the increase in net sales. Also, \$15.2 million of the increase in net sales resulted from the additional portion of the year that stores opened during fiscal year 2010 were operating in fiscal year 2011, as well as fees charged to customers for shipping merchandise sold through our e-commerce store. Net sales also increased due to a comparable store net sales increase of 10.7%, or \$34.0 million. The comparable store net sales increase stemmed from higher net sales of guys , juniors and girls apparel, footwear and accessories, which was partially offset by slightly lower net sales of boys apparel. There were 121 comparable stores and 19 non-comparable stores open at January 28, 2012.

Net sales, including shipping and handling fees, from our e-commerce store increased from \$32.8 million in fiscal year 2010 to \$43.6 million in fiscal year 2011, an increase of \$10.8 million, or 33%. This increase reflects higher sales in all major product categories (guys and juniors apparel, footwear and accessories), which was attributable at least partially to the greater marketing efforts that directly supported the e-commerce business. E-commerce sales, excluding shipping and handling fees, are included in our calculation of comparable store sales, as comparable store sales is intended to reflect revenue from the sale of merchandise only.

*Gross Profit*

Gross profit increased from \$102.6 million in fiscal year 2010 to \$129.1 million in fiscal year 2011, an increase of \$26.5 million, or 26%. As a percentage of net sales, gross profit was 30.9% and 32.2% during fiscal years 2010 and 2011, respectively. Of the 1.3% increase, 0.7% related to buying, distribution and occupancy costs increasing at a slower rate than the increase in net sales. The remaining 0.6% of the increase in gross profit as a percentage of net sales was mostly due to lower promotional markdowns.

*Selling, General and Administrative Expenses*

SG&A expenses increased from \$77.7 million in fiscal year 2010 to \$94.2 million in fiscal year 2011, an increase of \$16.5 million, or 21%. As a percentage of net sales, SG&A expenses were 23.4% and 23.5% during fiscal years 2010 and 2011, respectively.

Store selling expenses increased from \$53.7 million in fiscal year 2010 to \$63.8 million in fiscal year 2011, an increase of \$10.1 million, or 19%. As a percentage of net sales, store selling expenses were 16.1% and 15.9% during fiscal years 2010 and 2011, respectively.

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

marketing costs increased \$3.0 million, or 0.3% as a percentage of net sales, reflecting growth in the size and number of marketing campaigns, including the frequency and distribution of catalog mailings as well as marketing costs incurred to support and drive the growth of our e-commerce business;



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**Table of Contents**

store and regional payroll, payroll benefits and related personnel costs increased \$6.2 million, but decreased 0.4% as a percentage of net sales, reflecting cost leverage as these costs increased more slowly than net sales; and

supplies and other support costs increased \$0.9 million, but decreased 0.1% as a percentage of net sales.

General and administrative expenses increased from \$24.0 million in fiscal year 2010 to \$30.4 million in fiscal year 2011, an increase of \$6.4 million, or 27%. As a percentage of net sales, general and administrative expenses were 7.2% and 7.6% during fiscal years 2010 and 2011, respectively.

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

payroll, payroll benefits and related costs for corporate office personnel increased \$6.6 million, or 0.8% as a percentage of net sales. This increase reflects the addition of staff to support company growth and pay increases, and an increase in incentive pay reflecting individual and company-wide performance;

depreciation, legal and other office expenses did not change significantly in absolute terms between fiscal years 2010 and 2011, but decreased 0.3% as a percentage of net sales; and

a charge for the impairment of the fixed assets at one store location of \$0.8 million in fiscal year 2010 and one store location of \$0.6 million in fiscal year 2011, which represented 0.2% and 0.1% as a percentage of net sales in each year, respectively.

*Operating Income*

Operating income increased from \$24.9 million in fiscal year 2010 to \$34.9 million in fiscal year 2011, an increase of \$10.0 million, or 40%. As a percentage of net sales, operating income was 7.5% and 8.7% during fiscal years 2010 and 2011, respectively. Of the 1.2% increase in operating income as a percentage of net sales, 0.6% was due to lower product costs as a percentage of net sales resulting from lower promotional markdowns, and the remaining 0.6% was due to other costs and expenses increasing at a slower rate than net sales.

*Interest Income (Expense), Net*

Net interest expense was \$0.2 million in fiscal year 2010 and fiscal year 2011. Net interest expense reflects interest paid on a capitalized lease of our corporate office and distribution center as well as costs related to maintaining our unused line of credit bank facility, net of interest income earned on cash balances and on tenant construction allowances due from landlords.

*Provision for Income Taxes*

Income taxes were \$0.3 million and \$0.4 million in fiscal years 2010 and 2011, respectively. This reflected a slight drop in the effective tax rate, from 1.14% of income before provision for income taxes in fiscal year 2010 to 1.12% of income before provision for income taxes in fiscal year 2011.

Historically, World of Jeans & Tops has recognized income taxes as an S Corporation for federal and state income tax purposes and therefore, with the exception of a limited number of state and local jurisdictions, it has not been subject to income taxes. The shareholders of World of Jeans & Tops, and not World of Jeans & Tops itself, have been subject to income tax on their distributive share of its earnings. In connection with the Reorganization Transaction, World of Jeans & Tops will convert to a C Corporation. On a pro forma basis, if World of Jeans & Tops had been taxed as a C Corporation at an estimated 40% effective tax rate, income taxes would have increased from \$9.9 million in fiscal year 2010 to \$13.9 million in fiscal year 2011, an increase proportional to the increase in income before provision for income taxes.

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**Table of Contents**

*Net Income*

Net income increased from \$24.4 million in fiscal year 2010 to \$34.3 million in fiscal year 2011, an increase of \$9.9 million, or 41%, due to the factors discussed above. Applying a pro forma 40% C Corporation effective tax rate to both years, rather than the S Corporation tax rate that actually applied to us, pro forma net income increased from \$14.8 million in fiscal year 2010 to \$20.8 million in fiscal year 2011, an increase of \$6.0 million, or 41%.

***Fiscal Year 2010 Compared to Fiscal Year 2009***

*Net Sales*

Net sales increased from \$282.8 million in fiscal year 2009 to \$332.6 million in fiscal year 2010, an increase of \$49.8 million, or 18%. Much of this increase was due to net sales of \$20.0 million from new stores opened in fiscal year 2010. Also, \$11.4 million of the increase in net sales resulted from the additional portion of the year that stores opened during fiscal year 2009 were operating in fiscal year 2010, as well as fees charged to customers for shipping merchandise sold through our e-commerce store. Net sales also increased due to a comparable store net sales increase of 6.7%, or \$18.4 million. The comparable store net sales increase stemmed from higher net sales of accessories and guys apparel, which was partially offset by lower net sales of footwear and girls apparel. There were 109 comparable stores and 16 non-comparable stores open at January 29, 2011.

Net sales, including shipping and handling fees, from our e-commerce store increased from \$22.5 million in fiscal year 2009 to \$32.8 million in fiscal year 2010, an increase of \$10.3 million, or 46%. This increase reflects higher sales in all major product categories (guys and juniors apparel, footwear and accessories), which was attributable at least partially to the greater marketing efforts that directly supported the e-commerce business. E-commerce sales, excluding shipping and handling fees, are included in our calculation of comparable store sales, as comparable store sales is intended to reflect revenue from the sale of merchandise only.

*Gross Profit*

Gross profit increased from \$87.3 million in fiscal year 2009 to \$102.6 million in fiscal year 2010, an increase of \$15.3 million, or 18%. As a percentage of net sales, gross profit was 30.9% in both years. A small decrease in both initial product costs and in promotional markdowns as a percentage of net sales was offset by a small increase in distribution costs as a percentage of net sales as we invested in distribution center infrastructure to support future store base expansion. Buying and occupancy costs were similar in both years as a percentage of net sales.

*Selling, General and Administrative Expenses*

SG&A expenses increased from \$65.9 million in fiscal year 2009 to \$77.7 million in fiscal year 2010, an increase of \$11.8 million, or 18%. As a percentage of net sales, SG&A expenses were 23.3% and 23.4% during fiscal years 2009 and 2010, respectively.

Store selling expenses increased from \$43.8 million in fiscal year 2009 to \$53.7 million in fiscal year 2010, an increase of \$9.9 million, or 23%. As a percentage of net sales, store selling expenses were 15.5% and 16.1% during fiscal years 2009 and 2010, respectively.

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

marketing costs increased \$2.9 million, or 0.6% as a percentage of net sales, reflecting growth in the size and number of marketing campaigns, including the frequency and distribution of catalog mailings as well as marketing costs incurred to support and drive the growth of our e-commerce business;

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**Table of Contents**

credit and debit card processing fees increased \$0.9 million, or 0.1% as a percentage of net sales, and supplies and other support costs increased \$0.8 million remaining constant as a percentage of net sales; and

store and regional payroll, payroll benefits and related personnel costs increased \$5.3 million, which represents a decrease of 0.1% as a percentage of net sales, reflecting slight cost leverage as these costs increased more slowly than sales.

General and administrative expenses increased from \$22.1 million in fiscal year 2009 to \$24.0 million in fiscal year 2010, an increase of \$1.9 million, or 9%. As a percentage of net sales, general and administrative expenses were 7.8% and 7.2% during fiscal years 2009 and 2010, respectively.

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

depreciation, legal and other office expenses decreased \$1.1 million, a 0.7% decrease as a percentage of net sales;

payroll, payroll benefits and related costs for corporate office personnel decreased 0.1% as a percentage of net sales. This decrease as a percentage of net sales reflects slight cost leverage as these costs increased more slowly than sales. In absolute amounts, payroll, payroll benefits and related corporate office personnel costs increased \$2.2 million with the addition of staff to support company growth and to fund pay increases and an increase in incentive pay reflecting individual and company-wide performance; and

a charge for the impairment of the fixed assets at one store location in fiscal year 2010 of \$0.8 million, an increase of 0.2% of net sales, which partially offset the above decreases as a percentage of sales. There was no impairment charge in fiscal year 2009.

*Operating Income*

Operating income increased from \$21.4 million in fiscal year 2009 to \$24.9 million in fiscal year 2010, an increase of \$3.5 million, or 16%. As a percentage of net sales, operating income was 7.6% and 7.5% during fiscal years 2009 and 2010, respectively. This decrease in operating income as a percentage of net sales was mostly due to the increase in marketing costs as discussed above.

*Interest Income (Expense), Net*

Net interest expense decreased slightly from \$0.3 million in fiscal year 2009 to \$0.2 million in fiscal year 2010, a decrease of \$0.1 million. Net interest expense reflects interest paid on a capitalized lease of our corporate office and distribution center as well as costs related to maintaining our unused line of credit bank facility, net of interest income earned on cash balances and on tenant construction allowances due from landlords.

*Provision for Income Taxes*

Income taxes were \$0.3 million in both fiscal years 2009 and 2010. This reflected a higher pre-tax income in fiscal year 2010, offset by a slight drop in the effective tax rate, from 1.30% of income before provision for income taxes in fiscal year 2009 to 1.14% of income before provision for income taxes in fiscal year 2010.

Historically, World of Jeans & Tops has recognized income taxes as an S Corporation for federal and state income tax purposes and therefore, with the exception of a limited number of state and local jurisdictions, it has not been subject to income taxes. The shareholders of World of Jeans & Tops, and not World of Jeans & Tops itself, have been subject to income tax on their distributive share of its earnings. In connection with the Reorganization Transaction, World of Jeans & Tops will convert to a C Corporation. On a pro forma basis, if World of Jeans & Tops had been taxed as a C Corporation at an estimated 40% effective tax rate, income taxes would have increased from \$8.5 million in fiscal year 2009 to \$9.9 million in fiscal year 2010, an increase proportional to the increase in income before provision for income taxes.

**Table of Contents***Net Income*

Net income increased from \$20.9 million in fiscal year 2009 to \$24.4 million in fiscal year 2010, an increase of \$3.5 million, or 17%, due to the factors discussed above. Applying a pro forma 40% C Corporation effective tax rate to both years, rather than the S Corporation tax rate that actually applied to us, pro forma net income increased from \$12.7 million in fiscal year 2009 to \$14.8 million in fiscal year 2010, an increase of \$2.1 million, or 17%.

**Quarterly Operating Results and Seasonality**

We have historically experienced and expect to continue experiencing seasonal and quarterly fluctuations in our net sales and operating results. Our net sales and operating income are typically lower in the first and second quarters of our fiscal year, while the third and fourth quarters contain the back-to-school and winter holiday periods that historically have accounted for a larger proportion of our annual net sales and a larger than proportionate share of annual operating income. Our full year net sales have generally split 40% to 45% in the first half and 55% to 60% in the second half of the fiscal year. Quarterly sales and operating income may also fluctuate significantly as a result of a variety of factors, including but not limited to the timing of store openings and the relative proportion of our new stores to mature stores, fashion trends and changes in consumer preferences, calendar shifts of holiday or seasonal periods, changes in merchandise mix, timing of promotional events, general economic conditions, competition and weather conditions.

The following table sets forth selected unaudited quarterly statements of operations data for the two most recent fiscal years and the current fiscal year. The unaudited quarterly information has been prepared on a basis consistent with the audited financial statements included elsewhere herein. This information should be read in conjunction with our audited consolidated financial statements and the accompanying notes included elsewhere in this prospectus. The operating results for any fiscal quarter are not indicative of the operating results for a full fiscal year or for any future period and there can be no assurance that any trend reflected in such results will continue in the future.

	Fiscal Year 2010				Fiscal Year 2011			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(\$ in thousands)							
Net sales	\$ 64,344	\$ 70,053	\$ 91,498	\$ 106,709	\$ 83,131	\$ 87,260	\$ 107,304	\$ 122,929
Gross profit	18,626	18,762	30,379	34,848	26,209	25,718	35,858	41,357
Operating income	1,759	665	10,823	11,700	4,965	3,561	12,344	14,055
Net income	1,659	597	10,625	11,535	4,860	3,469	12,155	13,856
<b>Percentage of Annual Results:</b>								
Net sales	19.3%	21.1%	27.5%	32.1%	20.8%	21.8%	26.8%	30.7%
Gross profit	18.2%	18.3%	29.6%	34.0%	20.3%	19.9%	27.8%	32.0%
Operating income	7.1%	2.7%	43.4%	46.9%	14.2%	10.2%	35.3%	40.2%
Net income	6.8%	2.4%	43.5%	47.2%	14.2%	10.1%	35.4%	40.3%
<b>Percentage of Net Sales:</b>								
Gross profit	28.9%	26.8%	33.2%	32.7%	31.5%	29.5%	33.4%	33.6%
Operating income	2.7%	0.9%	11.8%	11.0%	6.0%	4.1%	11.5%	11.4%
Net income	2.6%	0.9%	11.6%	10.8%	5.8%	4.0%	11.3%	11.3%
<b>Store Data:</b>								
Total stores open at end of quarter	112	120	121	125	126	131	134	140
Comparable store sales change(1)	2.2%	-3.6%	10.3%	14.6%	18.2%	15.2%	8.5%	4.9%

(1) Comparable store sales are net sales from stores that have been open at least 12 full fiscal months as of the end of the current reporting period. A remodeled or relocated store is included in comparable store sales, both during and after

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**Table of Contents**

construction, if the square footage of the store was not changed by more than 20% and the store was not closed for more than five days in any fiscal month. Comparable store sales include sales through our e-commerce store but exclude gift card breakage income and e-commerce shipping and handling fee revenue. E-commerce sales contributed 3.1%, 2.7%, 2.2% and 4.4% to the comparable store sales change for the first, second, third and fourth fiscal quarters of 2010, respectively. E-commerce sales contributed 2.3%, 1.8%, 2.3% and 2.8% to the comparable store sales change for the first, second, third and fourth fiscal quarters of 2011, respectively.

**Liquidity and Capital Resources**

***General***

Our business relies on cash flows from operating activities as well as cash on hand as our primary sources of liquidity. In addition, we have had access to additional liquidity through a \$15.0 million revolving credit facility with Wells Fargo Bank, NA. We have never drawn funds from or issued letters of credit financing from the revolving credit facility. The existing revolving credit facility will terminate at the time of the initial public offering. However, upon consummation of our initial public offering, we plan to amend our existing facility with Wells Fargo Bank, NA to a \$25.0 million revolving credit facility. Historically, we have not drawn upon the existing credit facility and we do not expect to draw from the revolving credit facility over the next 12 months. We expect to finance company operations and store growth with existing cash on hand, which may include a portion of the proceeds from this offering, and cash flows from operations. Therefore, for the reasons stated above, we do not believe an inability to amend the credit facility would have a material adverse impact on our operations, liquidity or growth plans. There can be no assurance that we will be able to amend the revolving credit facility agreement consistent with management's expectations.

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

**Table of Contents**

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

	January 30, 2010	Fiscal Year Ended January 29, 2011 (in thousands)	January 28, 2012
<b>Cash Flows from Operating Activities:</b>			
Net income	\$ 20,863	\$ 24,416	\$ 34,340
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	13,915	14,292	15,129
Loss on disposal of assets	784	224	232
Impairment of assets		1,985	554
Changes in assets and liabilities	(306)	785	2,329
Net cash provided by operating activities	\$ 35,256	\$ 41,702	\$ 52,584
<b>Cash Flows from Investing Activities:</b>			
Purchase of property and equipment	\$ (17,514)	\$ (15,674)	\$ (20,223)
Insurance proceeds from casualty loss		375	
Proceeds from disposal of property and equipment	3	41	28
Net cash used in investing activities	\$ (17,511)	\$ (15,258)	\$ (20,195)
<b>Cash Flows from Financing Activities:</b>			
Payment of capital lease obligation	\$ (555)	\$ (591)	\$ (628)
Distributions	(16,020)	(22,220)	(36,008)
Net cash used in financing activities	\$ (16,575)	\$ (22,811)	\$ (36,636)
Change in cash and cash equivalents	\$ 1,170	\$ 3,633	\$ (4,247)
Cash and cash equivalents at beginning of period	\$ 24,535	\$ 25,705	\$ 29,338
Cash and cash equivalents at end of period	\$ 25,705	\$ 29,338	\$ 25,091

*Net Cash Provided by Operating Activities*

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

We generated \$52.6 million of net cash from operating activities in fiscal year 2011. The significant components of cash flows from operating activities were net income of \$34.3 million and the add-back of non-cash depreciation and amortization expense of \$15.1 million. In addition, accounts payable and accrued expenses increased by \$2.3 million due to the timing of payments and growth in inventory. Accrued compensation and benefits increased by \$3.4 million due to the addition of staff to support company growth and pay increases, and an increase in incentive pay reflecting individual and company-wide performance. Deferred rent increased by \$4.2 million due to the opening of new stores. The above was offset by an increase in merchandise inventories of \$3.0 million due to the opening of new stores and the growth in sales, an increase in receivables of \$2.3 million due to the growth of the business and an increase in prepaid expenses and other assets of \$2.9 million due to the growth in the number of stores and the timing of payments.

We generated \$41.7 million of net cash from operating activities in fiscal year 2010. The significant components for cash flows from operating activities were net income of \$24.4 million and the add-back of non-cash depreciation and amortization expense of \$14.3 million and non-cash impairment of assets of \$2.0 million. In addition, accounts payable and accrued expenses increased by \$9.4 million due to the timing of payments and growth in inventory and deferred rent increased by \$3.1 million due to the opening of new stores. The above was offset by an increase in merchandise inventories of \$9.6 million due to the opening of new stores and growth in



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**Table of Contents**

sales, an increase in receivables of \$2.2 million due to the growth of the business and a receivable on a casualty insurance claim and an increase in prepaid expenses and other current assets of \$1.4 million due to the growth in the number of stores and the timing of payments.

We generated \$35.3 million of net cash from operating activities in fiscal year 2009. The significant components for cash flows from operating activities were net income of \$20.9 million and the add-back of non-cash depreciation and amortization expense of \$13.9 million. In addition, deferred rent increased by \$3.0 million due to the opening of new stores during the year. The above was offset by an increase in merchandise inventories of \$3.9 million due to the opening of new stores and growth in sales.

*Net Cash Used in Investing Activities*

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

Capital expenditures for the opening of 13, 16 and 16 new stores and the remodeling and other improvements of existing stores were \$11.1 million, \$13.3 million and \$16.1 million in fiscal years 2009, 2010 and 2011, respectively. The remaining capital expenditures in each period were primarily for our investment in information technology systems and distribution and corporate facility enhancements.

Capital expenditures during fiscal year 2012 are expected to be between \$35 million and \$40 million. We expect to spend approximately \$23 million for new stores and remodels of existing stores, approximately \$8 million for enhancements to our distribution centers and corporate offices and the remainder for information technology systems and other store projects. These expenditures are expected to be funded from cash provided by operations.

*Net Cash Used in Financing Activities*

Financing activities consist of distributions to our shareholders and payments on our capital lease obligation.

Net cash used in financing activities was \$16.6 million, \$22.8 million and \$36.6 million in fiscal years 2009, 2010 and 2011, respectively. This included \$16.0 million, \$22.2 million and \$36.0 million, respectively, in distributions to our shareholders primarily for them to pay their S Corporation taxes, and \$0.6 million in each of the fiscal years 2009, 2010 and 2011 for payments on our capital lease obligation.

In addition, immediately before the termination of its S Corporation status, World of Jeans & Tops will establish notes payable, bearing a market rate of interest, due to its S Corporation shareholders which will reflect the amount of undistributed cumulative earnings remaining in the company from the date of its formation up to the date of termination of its S Corporation status. We will use a significant portion of the proceeds from this offering to pay such notes, representing the final distribution to the shareholders of World of Jeans & Tops, who are also our existing stockholders. We expect this distribution to be \$84.0 million.

*Line of Credit*

We have been operating with a \$15.0 million revolving credit facility with Wells Fargo Bank, NA that expires on the earlier of August 1, 2012 or the consummation of our initial public offering. Upon consummation of our initial public offering, we plan to amend our existing facility with Wells Fargo Bank, NA to a \$25.0 million revolving credit facility. We anticipate that the interest charged on borrowings will either be at the London Interbank Offered Rate, or LIBOR, plus 1.75% or at the bank's prime rate. We expect to have the ability to select between the prime or LIBOR-based rate at the time of a cash advance. Similar to the existing credit facility, we expect that advances will be secured by substantially all of our assets, and that as a sub-feature under



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**Table of Contents**

the line of credit the bank may issue stand-by and commercial letters of credit up to \$15.0 million. We would be required to maintain certain financial and nonfinancial covenants in accordance with the amended revolving credit facility. The financial covenants are expected to contain requirements for certain levels of tangible net worth, liquidity and profitability, such as: (i) a minimum current asset to current liability ratio of 1.25 to 1.00, (ii) a net profit before tax of at least \$1, excluding a non-cash expense of up to a maximum of \$2 million for the write-off of impaired fixed assets for the cumulative rolling four-quarter period measured, determined as of the end of each fiscal quarter on a cumulative rolling four-quarter basis and (iii) a maximum ratio of 4.00 to 1.00 for funded debt to EBITDAR, where funded debt includes credit facility borrowings, capital lease debt and eight times annual operating lease rent expense, and EBITDAR includes net income before interest, income taxes, depreciation, amortization and rent expense. There can be no assurance that Tilly's will be able to amend the revolving credit facility agreement consistent with management's expectations.

*Contractual Obligations*

We enter into long-term contractual obligations and commitments in the normal course of business, primarily noncancellable capital and operating leases.

We lease approximately 172,000 square feet for our corporate headquarters and distribution center from a company that is owned by the co-founders of Tilly's. These buildings are located at 10 and 12 Whatney, Irvine, California. The lease expires on December 31, 2012, with three five-year renewal option periods. The land component of this lease is accounted for as an operating lease and the building component is accounted for as a capital lease. Because the company initially guaranteed the related-party lessor's debt obligation with respect to this leased property through December 31, 2017, the depreciation of the long-lived leasehold assets and the amortization of the capital lease liability were determined to be 15 years to correspond to the timing of the company's guaranty. As of March 9, 2011, the financial institution holding the mortgage guaranty cancelled the guaranty. The initial obligation at inception under the capital lease was \$9.2 million, with an outstanding balance of \$4.6 million as of January 28, 2012. The value of the capital lease assets was \$7.8 million as of January 28, 2012. The accumulated depreciation of the building under the capital lease was \$4.7 million as of January 28, 2012. Prior to signing the lease, we received an independent market analysis regarding this property and therefore believe that the terms of this lease are reasonable and are not materially different than terms we would have obtained from an unaffiliated third party.

We lease approximately 24,000 square feet of office and warehouse space from a company that is owned by one of the co-founders of Tilly's. This building is located at 15 Chrysler, Irvine California. The lease expires on October 31, 2014. The lease is accounted for as an operating lease. We sublease approximately 17,000 square feet of the building to an unrelated third party. The sublease began December 1, 2010 and terminates on May 31, 2014. The rental income paid to us with respect to the sublease, per square foot, is slightly above the rental expense paid by us with respect to the master lease. Prior to signing the lease, we received an independent market analysis regarding this property and therefore believe that the terms of this lease are reasonable and are not materially different than terms we would have obtained from an unaffiliated third party.

On September 2, 2011, we entered into a lease agreement for approximately 26,000 square feet of office and warehouse space with a company that is owned by one of the co-founders of Tilly's. This building is located at 11 Whatney, Irvine, California and is currently being constructed by the landlord. Construction is expected to be completed during the first half of fiscal year 2012. The lease terminates ten years from the earlier of (i) the date the building is substantially completed or (ii) the date we can access the building and begin tenant improvements. We are not required to make lease payments until access to the building has been granted to begin tenant improvements. The lease will be accounted for as an operating lease. Prior to signing the lease, we received an independent market analysis regarding this property and therefore believe that the terms of this lease are reasonable and are not materially different than terms we would have obtained from an unaffiliated third party.

**Table of Contents**

On November 1, 2011, we entered into a lease agreement for approximately 81,000 square feet of office and warehouse space with a company that is owned by one of the co-founders of Tilly's. This building is located at 17 Pasteur, Irvine, California. The lease terminates on October 31, 2021. The lease is accounted for as an operating lease. We intend to use this property as our e-commerce distribution center beginning in the first half of fiscal year 2013. Prior to signing the lease, we received an independent market analysis regarding this property and therefore believe that the terms of this lease are reasonable and are not materially different than terms we would have obtained from an unaffiliated third party.

With the exception of the corporate headquarters and distribution center and warehouse leases discussed above, our leases are generally noncancellable operating leases expiring at various dates through 2022. Certain leases provide for additional rent based on a percentage of sales and annual rent increases based upon the Consumer Price Index. In addition, 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 such lease.

As of January 28, 2012, our contractual cash obligations over the next several periods are set forth below (in thousands).

	Total	Payments Due by Period			
		Less Than 1 Year	1 - 2 Years	3 - 5 Years	More Than 5 Years
Capital Lease Obligations (1)(3)	\$ 5,560	\$ 1,020	\$ 1,800	\$ 1,880	\$ 860
Operating Lease Obligations (2)(3)	264,909	39,030	68,533	63,248	94,098
Purchase Obligations (4)	91,536	91,536			
Total	\$ 362,005	\$ 131,586	\$ 70,333	\$ 65,128	\$ 94,958

- (1) The capital lease is for the building portion of our corporate headquarters and distribution center, including interest.
- (2) Our store leases generally have initial lease terms of 10 years and include renewal options on substantially the same terms and conditions as the original lease. Also included in operating leases is the land portion of the corporate headquarters and distribution center lease, as well as the warehouse leases described above.
- (3) Amounts represent commitments for minimum lease payments under noncancellable leases.
- (4) Purchase obligations consist primarily of inventory purchase orders for goods not yet received.

**Off-Balance Sheet Arrangements**

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

**Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. 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.

We believe the application of our accounting policies, and the estimates inherently required therein, are reasonable. Our accounting policies and estimates are reevaluated on an ongoing basis and adjustments are made when facts and circumstances dictate a change.

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## **Table of Contents**

The policies and estimates discussed below involve the selection or application of alternative accounting policies that are material to our consolidated financial statements. With respect to critical accounting policies, even a relatively minor variance between actual and expected experience can potentially have a materially favorable or unfavorable impact on subsequent results of operations. However, our historical results for the periods presented in the consolidated financial statements have not been materially impacted by such variances. Our accounting policies are more fully described in Note 2 of the notes to the audited financial statements, *Summary of Significant Accounting Policies*. Management has discussed the development and selection of these critical accounting policies and estimates with our board of directors.

We have certain accounting policies that require more significant management judgment and estimates than others. These include our accounting policies with respect to revenue recognition, merchandise inventories, long-lived assets, stock-based compensation and accounting for income taxes, which are more fully described below.

### ***Revenue Recognition***

Sales are recognized at the time of purchase by customers at our retail store locations. Sales are recorded net of taxes collected from customers. For online sales, revenue is recognized at the estimated time goods are received by customers. On average, customers receive goods within three days of being shipped. The estimate of the transit times for these shipments is based on shipping terms and historical delivery times. Shipping and handling fees billed to customers for online sales are included in net sales and the related shipping and handling costs are classified as cost of goods sold in the Consolidated Statements of Operations. For fiscal years 2009, 2010 and 2011, shipping and handling fee revenue included in net sales was \$1.9 million, \$2.6 million and \$3.8 million, respectively.

We reserve for projected merchandise returns based upon historical experience and various other assumptions that we believe to be reasonable. Customers can return merchandise within 30 days of the original purchase date. Merchandise returns are often resalable merchandise and are refunded by issuing the same tender as in the original purchase. Merchandise exchanges of the same product and price are not considered merchandise returns and, therefore, are not included in the population when calculating the sales returns reserve. The total reserve for returns was \$0.5 million and \$0.6 million at January 29, 2011 and January 28, 2012, respectively. Should the returns rate as a percentage of net sales significantly change in future periods, it could have a material impact on our results of operations.

We recognize the sales from gift cards as they are redeemed for merchandise. Prior to redemption, we maintain an unearned revenue liability for unredeemed gift card balances. Our gift cards do not have expiration dates; however, over time, the redemption of some gift cards is remote and there is no obligation to remit the unredeemed gift cards to relevant jurisdictions (gift card breakage). An assessment of the ultimate non-redemption rate of gift cards is performed when enough time has passed since the activation of the cards to enable a determination of the ultimate breakage rate based upon our historical redemption experience. This date of assessment has historically been two full fiscal years after the fiscal year in which the cards were activated. At the time of assessment a breakage estimate is calculated and recorded in net sales. Breakage revenue for gift cards was \$0.5 million, \$0.4 million and \$0.5 million in fiscal years 2009, 2010 and 2011, respectively. If the gift card breakage experience were to change significantly in future periods, it could have a material impact on our results of operations.

### ***Merchandise Inventories***

Merchandise inventories are stated at the lower of cost or market. Market is determined based on the estimated net realizable value, which generally is the merchandise selling price. Cost is calculated using the retail inventory method. Under the retail inventory method, inventory is stated at its current retail selling value and then is converted to a cost basis by applying a cost-to-retail ratio based on beginning inventory and the fiscal year purchase activity. The retail inventory method inherently requires management judgments and estimates, such as the amount and timing of markdowns needed in order to sell through slow-moving inventories.

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## **Table of Contents**

Markdowns are recorded when the sales value of the inventory has diminished. Factors considered in the determination of markdowns include current and anticipated demand, customer preferences, age of the merchandise and fashion trends. When a decision is made to mark down merchandise, the resulting gross margin reduction is recognized in the period in which the markdown is recorded. During each accounting period, we record adjustments to our inventories, which are reflected in cost of goods sold, if the cost of specific inventory items on hand exceeds the amount we expect to realize from the ultimate sale or disposal of the inventory. This adjustment calculation requires us to make assumptions and estimates, which are based on factors such as merchandise seasonality, historical trends and estimated inventory levels, including sell-through of remaining units.

Total markdowns, including permanent and promotional markdowns, on a cost basis were \$20.8 million, \$22.8 million and \$23.2 million and represented 7.4%, 6.9% and 5.8% of net sales in fiscal years 2009, 2010 and 2011, respectively. We accrued \$0.3 million for planned but unexecuted markdowns, including markdowns related to slow-moving merchandise, as of both January 29, 2011 and January 28, 2012.

To the extent that management's estimates differ from actual results, additional markdowns may be required that could reduce our gross margin, operating income and the carrying value of inventories. Our success is largely dependent upon our ability to anticipate the changing fashion tastes of our customers and to respond to those changing tastes in a timely manner. If we fail to anticipate, identify or react appropriately to changing styles, trends or brand preferences of our customers, we may experience lower sales, excessive inventories and more frequent and extensive markdowns, which would adversely affect our operating results.

We also record an inventory shrinkage reserve calculated as a percentage of net sales for estimated merchandise losses for the period between the last physical inventory count and the balance sheet date. These estimates are based on historical percentages and can be affected by changes in merchandise mix and changes in shrinkage trends. We perform physical inventory counts twice a year for the entire chain of stores and our distribution center and adjust the inventory shrinkage reserve accordingly. If actual physical inventory losses differ significantly from the estimate, our results of operations could be adversely impacted. The inventory shrinkage reserve reduces the value of total inventory and is a component of inventories on the Consolidated Balance Sheets. The inventory shrinkage reserve at January 29, 2011 and January 28, 2012 was not material.

### ***Long-Lived Assets***

We evaluate the carrying value of our long-lived assets, consisting largely of leasehold improvements, furniture and fixtures and equipment at store, distribution center and corporate office locations, for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Factors that are considered important that could result in the necessity to perform an impairment review include a current-period operating or cash flow loss combined with a history of operating or cash flow losses and a projection or forecast that indicates continuing losses or insufficient income associated with the realization of a long-lived asset or asset group. Other factors include a significant change in the manner of the use of the asset or a significant negative industry or economic trend. This evaluation is performed based on estimated undiscounted future cash flows from operating activities compared with the carrying value of the related assets. If the undiscounted future cash flows are less than the carrying value, an impairment loss is recognized, measured by the difference between the carrying value and the estimated fair value of the assets, based on discounted cash flows using our weighted-average cost of capital, with such estimated fair values determined using the best information available. Quarterly, we assess whether events or changes in circumstances have occurred that potentially indicate the carrying value of long-lived assets may not be recoverable.

During fiscal year 2010 the net book value of fixed assets at one store was impaired with a charge of \$0.8 million. Similarly, in fiscal year 2011 the net book value of fixed assets at another store was impaired with a charge of \$0.6 million. These charges were recorded as the assets were not projected to generate sufficient cash flows to recover the carrying values. In addition, we recorded an impairment charge of \$1.2 million in fiscal year

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**Table of Contents**

2010 due to smoke damage to assets resulting from a fire in the mall where one of our stores is located. We have an insurance policy covering the assets that were destroyed. There were no impairment charges during fiscal year 2009.

The estimation of future cash flows from operating activities requires significant estimates of factors that include future sales and gross margin performance. Factors used in the valuation of long-lived assets with finite lives include, but are not limited to, discount rates, management's plans for future operations, recent operating results and projected future cash flows. If our net sales or gross profit performance or other estimated operating results are not achieved at or above our forecasted level, or inflation exceeds our forecast and we are unable to recover such costs through price increases, the carrying value of certain of our retail stores may prove to be unrecoverable and we may incur additional impairment charges in the future.

***Stock-Based Compensation***

In June 2007 our board of directors adopted the 2007 Stock Option Plan, or 2007 Plan, which authorized the issuance of options to purchase up to 1.6 million shares of common stock for employees, consultants and directors. These share-based awards are granted at an exercise price equal to the fair market value of our common stock at the date of grant. These awards vest in equal installments over a four year period (service period) and generally expire at the earlier of 30 days after employment or services are terminated or ten years from the date of grant. The awards also include a performance condition that prevents the awards from becoming exercisable until the consummation of an initial public offering by us. As the awards contain both a service requirement and a performance condition, compensation expense is not recognized in the financial statements until the later of the consummation of an initial public offering by us or completion of the requisite service period.

We account for stock-based compensation in accordance with the provisions of ASC Topic 718, *Compensation-Stock Compensation* (ASC 718), which establishes accounting for equity instruments exchanged for employee services. Under the provisions of this statement, stock-based compensation expense is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense on a straight-line basis over the employee's requisite service period (generally the vesting period of the equity grant). As required under this guidance, we estimate forfeitures for options granted which are not expected to vest. Changes in these inputs and assumptions can materially affect the measurement of the estimated fair value of our stock-based compensation expense.

Determining the fair value of stock-based awards at the grant date requires judgment. We use the Black-Scholes option-pricing model to determine the fair value of stock options. The determination of the grant date fair value of options using an option-pricing model is affected by a number of assumptions, such as our estimated common stock fair value, our expected stock price volatility over the expected term of the options, stock option exercise and cancellation behaviors, risk-free interest rates, and expected dividends, which we estimate as follows:

*Fair Value of Our Common Stock.* Because our common stock is not publicly traded, we must estimate the fair value of our common stock, as discussed in "Determination of the Fair Value of Common Stock on Grant Date" below.

*Expected Term.* We have limited historical information regarding expected option term. Accordingly, we determined the expected stock option term of the awards using the latest historical data available from comparable public companies and our expectation of exercise behavior.

*Volatility.* As we do not have a trading history for our common stock, the expected stock price volatility for each grant is measured using the average of historical daily price changes of comparable public companies' common stock over the most recent period equal to the expected term of our stock option awards. We intend to consistently apply this process using the same or similar public companies until a sufficient amount of historical information regarding the volatility of our own common stock share price becomes available. However, if the circumstances change so the identified companies are

**Table of Contents**

no longer similar to us, we will select companies we believe are more suitable and use their publicly available share prices in the calculation.

*Risk-Free Rate.* The risk-free interest rate is based on the yields of U.S. Treasury securities with maturities similar to the expected term of the stock options for each stock option group.

*Dividend Yield.* We have never declared or paid any cash dividends and do not plan to pay cash dividends in the foreseeable future. Consequently, we used an expected dividend yield of zero.

If any of the assumptions used in the Black-Scholes model change significantly, stock-based compensation for future awards may differ materially compared with the awards granted previously.

The following table presents the weighted-average assumptions we used to estimate the fair value of stock options granted during the periods presented:

	<b>Fiscal Year Ended</b>		
	<b>January 30, 2010</b>	<b>January 29, 2011</b>	<b>January 28, 2012</b>
Expected option term	5.0 years	5.0 years	5.0 years
Expected volatility factor	45.5%	61.0%	59.7%
Risk-free interest rate	1.8%	1.0%	2.2%
Expected annual dividend yield	0.0%	0.0%	0.0%

Our estimate of pre-vesting forfeitures, or forfeiture rate, was based on our internal analysis, which included the award recipients' positions within the company and the vesting period of the awards. The result of the Black-Scholes calculation was compensation expense, cumulative through January 28, 2012, for all options granted under the 2007 Plan and before any related tax benefit, of \$7.1 million. This compensation expense has not been recognized in our financial statements as the stock options contain both a service requirement and a performance condition. Therefore, we will recognize this deferred compensation expense upon the consummation of the initial public offering.

*Determination of the Fair Value of Common Stock on Grant Date*

We have been a private company with no active public market for our common stock. The fair value of the common stock underlying our stock options was determined by our board of directors, which intended all stock options granted to be exercisable at a price per share not less than the per share fair value of our common stock underlying those stock options on the date of grant. We have determined the estimated per share fair value of our common stock using a contemporaneous valuation consistent with the American Institute of Certified Public Accountants Practice Aid, Valuation of Privately-Held Company Equity Securities Issued as Compensation, or the Practice Aid. In conducting this valuation, we considered all objective and subjective factors that we believed to be relevant, including our best estimate of our business condition, prospects and operating performance at the valuation date. Within this contemporaneous valuation performed by management, with the assistance of third-party valuation specialists hired by us, a range of factors, assumptions and methodologies were used. The significant factors included:

the fact that we are a private retail company with illiquid securities;

our historical operating results;

our discounted future cash flows, based on our projected operating results;

the hiring of key personnel;

the likelihood of achieving a liquidity event for the shares of common stock underlying these stock options, such as an initial public offering or sale of our company, given prevailing market conditions;

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**Table of Contents**

any adjustment necessary to recognize a lack of marketability for our common stock;

valuation of comparable public companies at the time of grant;

the U.S. and global capital market conditions; and

outlook for our industry at the time of grant.

After review of the fair value analysis, our board of directors authorized the use of that fair value as the exercise price for options granted on the date of that valuation report.

*Common Stock Valuation Methodologies*

For the contemporaneous valuation of our common stock, management estimated, as of January 28, 2012, the latest valuation date, our enterprise value on a continuing operations basis primarily using the income and market approaches which are both acceptable valuation methods in accordance with the Practice Aid. The income approach utilized a discounted cash flow methodology based on our financial forecasts and projections, as detailed below. The market approach utilized both the guideline public company and the guideline merged and acquired methodologies based on data obtained on comparable public companies, as detailed below. Management considered both objective and subjective factors, including information provided by a third-party valuation firm, to determine its best estimate of the fair market value of our common stock.

For the discounted cash flow methodology, we prepared detailed annual forecasts of cash flows for future years, which we refer to as the discrete forecast period. The value of the cash flows beyond the discrete forecast period was derived by applying a capitalized earnings approach, in which such cash flows are assumed to grow at a constant annual long-term growth rate and in which the terminal-year cash flow is capitalized at a rate equal to the estimated discount rate less the estimated constant annual long-term growth rate. Our forecasts of future cash flows were based on our estimated net debt-free cash flows and were discounted to the valuation date at an estimate of our weighted average cost of capital. We weighted the discounted cash flow method 50% in determining the total fair value of our equity as this approach was determined to represent the best indication of value because this method relied on a detailed financial forecast for the next five fiscal years as well as growth and profitability assumptions for subsequent years that are specific to Tilly's business model.

The guideline public company method of the market approach is based on the market prices of stock for comparable companies. Indications of value were estimated by deriving multiples of equity or invested capital to various measures of revenue, earnings or cash flow for the selected guideline companies and then applying such multiples to the metrics of our business. When selecting comparable companies, consideration was given to industry similarity, their specific products offered, financial data availability and capital structure. We weighted the guideline public company method 40%. In selecting the revenue and EBITDA multiples from other companies to apply to Tilly's, we considered differences between Tilly's and eleven comparable companies in terms of size, profitability and growth, among other factors. Given the timely nature of the public company data and the quantity of the public companies in the group that were in the same or similar retail sector as Tilly's, the guideline public company method was given a weighting of 40%. We weighted the guideline public company method less than the discounted cash flow method due to the fact that the stock price and earnings estimates for the comparable public companies were relatively volatile as of the valuation date.

The guideline merged and acquired method of the market approach follows the same basic methodology as the guideline public company method. However, instead of deriving multiples based on stock prices of guideline companies, indications of value are estimated by deriving multiples of equity or invested capital from sales of entire companies. We weighted the guideline merged and acquired method only 10% as most of the observed industry transactions occurred in a different economic environment (none since December 2009) and we had higher EBITDA margins than many of the target companies.

We believe that the procedures employed in the discounted cash flow, guideline public company and guideline merged and acquired methodologies are reasonable and consistent with the Practice Aid.



**Table of Contents**

We granted stock options with the following exercise prices between May 2, 2010 and the date of this prospectus:

<b>Option Grant Date</b>	<b>Number of Shares Underlying Options</b>	<b>Exercise Price Per Share</b>	<b>Common Stock Fair Value Per Share at Grant Date</b>	<b>Fair Value of Stock Options Granted</b>
October 2010(1)	762,500	\$ 8.98	\$ 8.98	\$4.57 - \$7.01
March 2011	578,000	16.26	16.26	8.52

(1) Includes 739,500 stock options that were re-priced on a one-for-one basis to \$8.98 per share. See the section below titled *Stock Option Re-Pricing*.

Based upon the assumed initial public offering price of \$ per share, which is the mid-point of the price range set forth on the cover page of this prospectus, the aggregate intrinsic value of stock options outstanding as of was approximately \$ million, of which approximately \$ million related to vested stock options and approximately \$ million related to unvested stock options.

Significant factors considered by our board of directors in determining the fair value of our common stock at these grant dates included:

*October 2010*

We performed a valuation of our common stock as of fiscal month ended August 28, 2010 which included the back-to-school shopping season that peaks in August. Although the U.S. economy had been recovering from recession in 2010, the recovery was weaker than in many past recovery periods. The financial results of many of our comparable companies reflected weak performance driven generally by either negative or only modestly positive year-to-date comparable store sales through August. Our comparable store sales trends for this same period were consistent with our comparable companies, with close to zero comparable store sales growth, lower income than the same year-to-date period in the prior year and sales and income running well below the forecast for fiscal 2010 that was incorporated in the prior valuation of our common stock. As a result of these factors, we lowered our financial forecast and expectations for growth in fiscal 2010 and, because they were building upon 2010 expected results, the forecasted sales and income in fiscal 2011 and beyond. The marketability discount was 15%, based upon expectations that an initial public offering would not occur until at least early in 2012. This valuation determined the value of our common stock to be \$8.98 per share. Our board of directors granted stock options with exercise prices at \$8.98 per share on October 8, 2010, the date the valuation was finalized, after determining that the fair value of our common stock would not have materially changed between the valuation date and the date of the grant. In addition, stock options previously granted with exercise prices greater than \$8.98 per share were re-priced to \$8.98 per share as of October 8, 2010 by our board of directors. See *Stock Option Re-Pricing* section below.

*March 2011*

We performed a valuation of our common stock as of the fiscal year end date of January 29, 2011. Over the previous quarter the national economy grew more quickly than earlier in fiscal 2010 and our comparable companies results generally improved substantially in the fourth quarter of fiscal 2010. Our results, similarly, improved substantially, with a double-digit comparable store sales increase in the fourth quarter of fiscal 2010 compared to the fourth quarter of fiscal 2009 and profitability for the quarter well above the prior year's fourth quarter. Therefore, profitability for fiscal 2010 ended up being well above the revised forecast used in the August 2010 valuation. This greatly improved sales and profit trend continued into February and March of fiscal 2011. As a result, we increased the financial forecast and expectations for growth in fiscal 2011 and beyond. Concurrently, our comparable companies financial results led to, in many cases, increased market prices for their common stock. The marketability discount was 10%, based upon expectations that an initial public offering would not occur until mid 2011 at the earliest. This

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**Table of Contents**

valuation determined the value of our common stock to be \$16.26 per share. Our board of directors granted stock options with exercise prices at \$16.26 per share on March 31, 2011, the date the valuation was finalized, after determining that the fair value of our common stock would not have materially changed between the valuation date and the date of the grant.

***Stock Option Re-Pricing***

In October 2010, our board of directors approved a common stock option re-pricing whereby previously granted stock options held by current employees with exercise prices above \$8.98 per share were re-priced on a one-for-one basis to \$8.98 per share with no modification to any other terms of the previously issued stock options. As a result, 739,500 stock options originally granted to purchase common stock at prices ranging from \$9.64 to \$14.47 were re-priced in order to continue maintaining an equity incentive for our employees and reflect a significantly different economic environment. We treated the re-pricing as a modification for accounting purposes of the original awards and calculated additional compensation costs for the difference between the fair value of the re-priced award and the fair value of the original award on the re-pricing date. The re-pricing affected 48 optionees and resulted in incremental unrecognized stock-based compensation expense of \$0.6 million. Expense related to vested stock options will be recognized upon the consummation of our initial public offering, and expense related to unvested stock options will be amortized over the remaining vesting period of the stock options. Our assumptions used to estimate the fair value of the original awards immediately before the re-pricing and the fair value of the re-priced awards required significant judgment.

***Accounting for Income Taxes***

Historically, World of Jeans & Tops has recognized income taxes as an S Corporation for federal and state income tax purposes. As such, with the exception of a limited number of state and local jurisdictions, it has not been subject to income taxes. The shareholders of World of Jeans & Tops, and not World of Jeans & Tops itself, are subject to income tax on their distributive share of its earnings. World of Jeans & Tops paid distributions to the shareholders to fund their tax obligations attributable to taxable income of World of Jeans & Tops, in addition to any discretionary distributions paid to its shareholders. As a result of the Reorganization Transaction, World of Jeans & Tops S Corporation status will terminate and World of Jeans & Tops will be treated as a C Corporation for federal and applicable state income tax purposes.

**Recently Issued Accounting Pronouncements**

In May 2011, the FASB issued Accounting Standards Update ( ASU ) No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* . ASU 2011-04 provides additional guidance on fair value measurements that clarifies the application of existing guidance and disclosure requirements, changes certain fair value measurement principles and requires additional disclosures about fair value measurements. The updated guidance became effective on a prospective basis for the company on January 29, 2012. Based on the company's evaluation of this ASU, the adoption of this standard is not expected to have a material impact on the company's financial position or results of operations.

The FASB issues ASUs to amend the authoritative literature in the Accounting Standards Codification. There have been a number of ASUs to date that amend the original text of the Accounting Standards Codification. Except for the ASU listed above, those issued to date either (i) provide supplemental guidance, (ii) are technical corrections, (iii) are not applicable to the Company or (iv) are not expected to have a significant impact on the Company.

**Table of Contents**

**Quantitative and Qualitative Disclosure of Market Risks**

*Interest Rate Risk*

We are subject to interest rate risk in connection with borrowings, if any, under our line of credit, which bears interest at variable rates. As of January 29, 2011 and January 28, 2012, we had no outstanding borrowings under our line of credit.

*Impact of Inflation*

Our results of operations and financial condition are presented based on historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on our results of operations and financial condition have been immaterial.

*Foreign Exchange Rate Risk*

We currently source all merchandise through domestic vendors and all purchases are denominated in U.S. dollars. We do not hedge using any derivative instruments and historically have not been impacted by changes in exchange rates.

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**Table of Contents**

**BUSINESS**

**Overview**

Tilly's is a fast-growing destination specialty retailer of West Coast inspired apparel, footwear and accessories. We believe we bring together an unparalleled selection of the most sought-after brands rooted in action sports, music, art and fashion. Our stores are designed to be a seamless extension of our teen and young adult consumers' lifestyles, with a balance of guys' and juniors' merchandise, in a stimulating environment. As we have grown, we believe our success across a variety of real estate venues and geographies in the United States has demonstrated Tilly's portability. We believe our distinctive store experience combined with our extensive selection of merchandise positions us to exceed our customers' expectations. Tilly's is a passionate lifestyle brand and our motto, "If it's not here it's not happening" exemplifies our goal to serve as a destination for the latest, most relevant merchandise and brands important to our customers.

As of January 28, 2012, we operated 140 stores in 14 states, averaging approximately 7,800 square feet. We also sell our products through our e-commerce website, www.tillys.com. Our business is characterized by the following key elements:

*Extensive assortment of relevant merchandise in a larger store format.* Our larger stores allow us to carry a more extensive selection of brands and products. Our stores feature third-party brands, including Billabong, Element, Hurley, Levi's, LRG, Neff, RVCA, Uggs, and Volcom, to name just a few, complemented by our proprietary brands, such as RSQ, Full Tilt, Blue Crown, and Infamous. Our larger stores also allow us to offer a greater assortment of apparel styles, sizes and price points across multiple categories as well as a strong assortment of footwear, backpacks, hats and other accessories. This broad selection focused on guys and juniors enhances our ability to rapidly identify and respond to trends and positions us as a destination for both proven fashion items and core styles. We strive to keep our merchandising mix current by introducing additional brands and styles in response to the ever-evolving desires of our customers.

*The Tilly's experience.* Tilly's is a customer-driven lifestyle brand. We derive our energy and inspiration from our customers' individuality and passion for action sports, music, art, and fashion. Our stores bring these interests together in a vibrant, stimulating and authentic environment that is an extension of our customers' high velocity, multitasking lifestyle. We do this by blending the most relevant brands and styles with music videos, product-related visuals and a dedicated team of store associates. Our associates share the same passion as our customers for action sports, music, art and fashion, enabling them to easily engage with our customers and make shopping at Tilly's a fun, social experience. Outside of our stores, we connect with our consumers using the same authentic approach, including social media, community outreach and sponsorship of contests, demos and other events. We believe the Tilly's experience drives customer awareness, loyalty and repeat visits while generating a buzz and excitement for our brand.

*Flexible real estate strategy across real estate venues and geographies.* As of January 28, 2012 we operated stores in 40 markets in 14 states across a variety of real estate venues including malls, power centers, neighborhood and lifestyle centers, outlet centers and street-front locations. Our geographic portability and real estate flexibility provide us with a wider scope of opportunities and enhance our ability to open new stores. As we continue our national store expansion, we focus on identifying the most attractive locations within relevant trade areas to ensure our stores are located where our customers want to shop.

Our West Coast heritage dates back to 1982 when Hezy Shaked and Tilly Levine opened our first store in Orange County, California, the center of the surf and skate lifestyle. Over the last 30 years, we have built and nurtured strong relationships with our customers, brand partners and vendors while expanding our business. We have also demonstrated an ability to grow rapidly, having more than doubled our store count while entering 29 new markets in the last five years. During this same period, we invested over \$20 million in infrastructure and

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## **Table of Contents**

systems to support our recent and long-term growth, and enhanced our senior management team while protecting the entrepreneurial culture that we believe makes Tilly's unique. We believe our corporate culture facilitates our ability to attract and retain high quality employees and is a critical driver of our performance. We believe our team's passion for the West Coast inspired and action sports lifestyle, sense of urgency and pursuit of excellence enables Tilly's to consistently deliver a superior customer experience and positions us to successfully execute our long-term growth strategy.

We increased net sales 20%, from \$332.6 million in fiscal year 2010 to \$400.6 million in fiscal year 2011. We increased operating income 40%, from \$24.9 million in fiscal year 2010 to \$34.9 million in fiscal year 2011. Our comparable store sales increased 10.7% in fiscal year 2011 after a 6.7% increase in fiscal year 2010.

### **Competitive Strengths**

We believe that the following competitive strengths contribute to our success and distinguish us from our competitors:

*Destination retailer with a broad, relevant assortment.* We believe the combined depth and breadth of apparel, footwear and accessories offered at our stores exceeds the selection offered at many other specialty retailers. We offer an extensive selection of third-party, West Coast inspired and action sports brands complemented by our proprietary brands. Our merchandise includes a wide assortment of brands, styles, colors, sizes and price points to ensure we have what our customers want every time they visit our stores. We offer a balanced mix of merchandise across the guys and juniors categories, with additional merchandise in the boys, girls, footwear and accessories categories. We believe that by combining proven fashion trends and core style products with a vibrant blend of carefully selected music and visuals, we provide an in-store experience that is authentic, fun, and engaging for our core customers. We believe that our differentiated in-store environment, evolving selection of relevant brands and broader and deeper assortment positions us as a retail destination that appeals to a larger demographic than many other specialty retailers and encourages customers to visit our stores more frequently and spend more on each trip.

*Dynamic merchandise model.* We believe our extensive selection of third-party and proprietary merchandise allows us to identify and address trends more quickly, offer a greater range of price points and manage our inventories more dynamically. By closely monitoring trends and shipping product to our stores five times per week, we are able to adjust our merchandise mix based on store size and location. We also keep our merchandise mix relevant by introducing emerging brands not available at many other retailers. Our merchandising capabilities enable us to adjust our merchandise mix with a frequency that promotes a current look to our stores and encourages frequent visits.

*Flexible real estate strategy across real estate venues and geographies.* Our stores have proven to be successful in different real estate venues and geographies. As of January 28, 2012, we operated profitable stores in malls, power centers, neighborhood and lifestyle centers, outlet centers and street-front locations across 40 markets in 14 states. We believe our success operating in these different retail venues and geographies demonstrates the portability of Tilly's and provides us with greater flexibility for future expansion.

*Multi-pronged marketing approach.* We utilize a multi-pronged marketing strategy to connect with our customers and drive traffic to our stores and website. First, we distribute catalogs to potential and existing customers from our proprietary database to familiarize them with the Tilly's brand and our products and to drive sales to our stores and our website. Second, we partner and collaborate with our vendors on exclusive events and contests to build credibility with our target customers, actively involve them in our brands, and enhance the connection between Tilly's and the West Coast lifestyle. Third, we use social media to communicate directly with our customers while also encouraging customers to interact with one another and provide feedback on our events and products. Fourth, through our We

## Table of Contents

Care Program , we support and participate in various academic, art, and athletic programs at local schools and other organizations in communities surrounding our stores. All of these programs are complemented by email marketing as well as traditional radio and print advertising to build customer awareness and loyalty, highlight key merchandise offerings, drive traffic to our stores and website and promote the Tilly s brand.

*Sophisticated systems and distribution infrastructure to support growth.* Over the last five years, we have invested over \$20 million in our highly automated distribution center and information systems to support our future growth. We believe our distribution and allocation capabilities are unique within the industry and allow us to operate at a higher level of efficiency than many of our competitors. Our distribution center allows us to quickly sort and process merchandise and deliver it to our stores in a floor-ready format for immediate display. Our systems enable us to respond to changing fashion trends, manage inventory in real time and provide a customized selection of merchandise at each location. We believe our distribution infrastructure can support a national retail footprint in excess of 500 stores with minimal incremental capital investment.

*Experienced management team.* Our senior management team, led by Hezy Shaked and Daniel Griesemer, has extensive experience across a wide range of disciplines in the specialty retail and direct-to-consumer industries, including store operations, merchandising, distribution, real estate, and finance. Mr. Shaked, our Co-Founder, Chairman of the Board of Directors, and Chief Strategy Officer, plays an important role in developing our long-term growth initiatives and cultivating our unique culture. Mr. Griesemer, our President and Chief Executive Officer, joined Tilly s in February 2011 with 28 years of retail experience. He served in various roles with Coldwater Creek, Inc. from 2001 to 2009 including most recently as Chief Executive Officer. During his tenure, Coldwater Creek increased the store base from 13 to approximately 400 and increased revenues from approximately \$340 million to approximately \$1.1 billion. Mr. Griesemer also served in leadership positions at Gap, Inc. and Macy s, Inc.

### **Our Growth Strategy**

We are pursuing several strategies to continue our profitable growth, including:

*Expand Our Store Base.* We believe there is a significant opportunity to expand our store base from 140 locations as of January 28, 2012 to more than 500 stores across the United States over the next 10 years. We have a proven ability to expand the number of stores we operate, as we have more than doubled our store count over the last five years from 61 stores at the beginning of fiscal 2007 to 140 stores at January 28, 2012. We plan to add at least 21 net new stores in fiscal year 2012 and to continue opening new stores at an annual rate of approximately 15% for the next several years thereafter. Our plan includes new store openings in both existing and new markets, and in both mall and off-mall locations.

## **Table of Contents**

As of January 28, 2012, we operated stores in 14 states. Over the past five years we have grown our presence in existing markets and successfully expanded into 29 new markets. We have entered new markets by opening stores in high traffic malls relevant to our core customer in order to establish the Tilly's brand, as well as in off-mall locations that effectively cover trade areas where our customers want to shop. The opportunity exists to continue to significantly broaden our national footprint by entering new markets through both mall and non-mall locations. The following shows our store locations as of January 28, 2012, as well as our scheduled openings of new stores for the first half of fiscal year 2012:

Our new store model targets a store size averaging 7,500 to 8,000 square feet and a cash-on-cash payback period of about 18 months based on a target net investment to open new stores of \$500,000 to \$550,000. In the first 12 months after opening, we target net sales of approximately \$2.2 million and cash flow of \$300,000, growing to over \$400,000 in cash flow in the second 12-month period as the store begins to mature.

*Drive Comparable Store Sales.* We seek to maximize our comparable store sales by consistently offering new, on-trend and relevant merchandise across a broad assortment of categories, increasing our brand awareness through our multi-pronged marketing approach, providing an authentic store experience for our core customers and maintaining our high level of customer service. We believe our comparable store sales will benefit as stores opened in the last few years continue to mature and we continue to build brand awareness in new markets.

*Grow Our e-Commerce Platform.* We believe our e-commerce platform is an extension of our brand and retail stores, providing our customers a seamless shopping experience. Our e-commerce platform allows us to provide an expanded product offering relative to our stores, reach new customers and build our brand in markets where we currently do not have stores. In fiscal 2011, our e-commerce net sales increased 33% relative to fiscal 2010 and represented approximately 11% of our net sales, up from 5% of net sales in fiscal 2007. We believe that our target customer regularly shops online and we see continued opportunity to grow our e-commerce business to approximately 15% of total net sales over time. Key factors driving growth include continuing our successful catalog and online marketing efforts, offering a wider selection of Internet-exclusive merchandise and expanding our online selection to ensure a broad and diverse offering of brands and products relative to our competition. We also believe we will see continued growth in our e-commerce sales as we open additional stores and build brand awareness in the communities surrounding those locations. To support this growth, we plan to open a new e-commerce distribution center in the first half of fiscal year 2013.

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## **Table of Contents**

*Increase Our Operating Margins.* We believe we have the opportunity to drive margin expansion through scale efficiencies and continued process improvements. We believe comparable store sales increases combined with our planned store growth will permit us to take advantage of largely fixed occupancy costs, favorable buying costs from larger volume purchases, leverage of our costs for store management and corporate overhead as well as the fixed portion of shipping and handling costs over higher sales volumes. In addition, we expect to improve margins and support growth by leveraging ongoing investments in infrastructure, including the opening of a dedicated distribution center for our e-commerce store and continuing upgrades to our point-of-sale, merchandise allocation and merchandise planning systems, as well as related work processes. We also will continue to use established business processes to identify and execute initiatives focused on lowering our unit costs and improving operational efficiency throughout our organization.

### **About Tilly's**

The Tilly's 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 formed by our co-founders, which operates under the name Tilly's. In May 2011, Tilly's, Inc., a Delaware corporation, was formed solely for the purpose of reorganizing the corporate structure of World of Jeans & Tops and effecting this initial public offering. Pursuant to the Reorganization Transaction which we will effect prior to the completion of this offering, the shareholders of World of Jeans & Tops will contribute all of their equity interests in that corporation to Tilly's, Inc. in return for shares of Tilly's, Inc. Class B common stock on a one-for-one basis, which capitalization shall be adjusted prior to the offering. Following the Reorganization Transaction, World of Jeans & Tops will become the sole subsidiary of Tilly's, Inc. All of the business operations will continue to be conducted through World of Jeans & Tops, operating under the name Tilly's, and Tilly's, Inc. will serve as a holding company. Prior to the completion of this Reorganization Transaction, Tilly's, Inc. has not conducted any activities other than those incidental to its formation and the preparation of this prospectus.

### **Our Market**

Our core consumers include teens and young adults that participate in action sports, as well as those that identify with the West Coast and action sports lifestyle. We believe interest in and awareness of the action sports and West Coast lifestyle continues to grow and influence a broader consumer base that shop at our stores.

According to Euromonitor International's Consumer and Countries 2011 report, U.S. retail sales of apparel, footwear and accessories totaled \$334.2 billion in 2010, which represents an increase of 5.5% from \$316.9 billion in 2009. According to Board-Trac's 2010 Size of Market Trend Report on skateboarding and surfing, U.S. retail sales of skateboard and surf apparel, footwear and accessories alone were estimated to be approximately \$7.1 billion in 2010. Our core customer demographic is 14 to 24 year old teens and young adults. According to the U.S. Census Bureau's National Population Projections released in 2008, this segment of the population was expected to grow approximately 10% from 2000 to 2010.

### **Merchandising, Purchasing, and Planning and Allocation**

#### ***Merchandising***

We seek to be viewed by our customers as the destination for West Coast inspired and action sports related apparel, footwear and accessories. We believe we offer an unparalleled selection of relevant brands, styles, colors, sizes and price points to ensure we have what our customers want every time they visit our stores. Our extensive selection of third-party and proprietary merchandise allows us to identify and address trends more quickly, offer a greater range of price points and manage our inventories more dynamically. We offer a balanced



**Table of Contents**

mix of merchandise across the guys and juniors categories, with additional merchandise in the boys, girls, footwear and accessories categories. We believe this category mix contributes to our broad demographic appeal. Our apparel merchandise includes branded, fashion and core styles for tops, outerwear, bottoms, and dresses. Accessories merchandise includes backpacks, hats, sunglasses, headphones, handbags, watches, jewelry and more. We focus on our merchandise presentation and vary the visual displays in our stores and windows multiple times per month, presenting new looks and fashion combinations to our customers.

Our ability to maintain an image consistent with the West Coast inspired and action sports lifestyle is important to our branded vendors and provides us better access to a wide assortment of products and styles. Our third-party branded merchandise features established and emerging brands. We strive to keep our merchandise mix current by continuously introducing emerging brands and styles not available at many other specialty retailers in order to identify and respond to the evolving desires of our customers. Within our diversified portfolio of hundreds of third-party brands, which represented a little less than 70% of our net sales in 2011, our largest brand accounted for approximately 5% of our net sales in each of the last two fiscal years.

Selected third-party brands include, in alphabetical order:

Billabong	Levi s	Roxy
DC Shoes	LRG	RVCA
Element	Metal Mulisha	Skullcandy
Etnies	Neff	UGG
Famous Stars & Straps	Nike	Vans
Fox	O Neill	Volcom
Hurley	Quiksilver	and many more

We supplement our third-party merchandise assortment with our own proprietary brands across many of our apparel and accessory product categories. We utilize our own branded merchandise to expand our price point range, identify and respond to changing fashion trends quickly, fill merchandise gaps and provide a deeper selection of styles and colors for proven fashion items. Our own brands represented approximately 29% and 31% of our net sales for fiscal years 2010 and 2011, respectively.

Our proprietary branded merchandise includes:

<b>Brand</b>	<b>Category</b>
	Guys , boys and juniors denim apparel and cologne
	Juniors and girls apparel, footwear and accessories
	Guys and boys apparel
	Guys , boys and juniors apparel and cologne

We believe that our extensive selection of merchandise, from both established and emerging brands as well as our proprietary brands, caters to a wide demographic of core customers and enhances our store image as a destination that carries the most sought-after apparel, footwear and accessories.

## **Table of Contents**

### ***Merchandise Purchasing***

Our merchandise purchasing staff is organized by category and product type and consists of a Vice President/General Merchandise Manager, divisional merchandise managers, buyers, associate buyers and assistant buyers. We believe a key element of our success is our team's ability to identify and source the latest proven fashion trends and core styles that are most relevant to our customers.

Our purchasing approach focuses on product relevance, availability, cost and speed of production in order to provide timely frequent delivery of merchandise to our stores. Our purchasing group and planning and allocation team are highly coordinated and maintain a disciplined buying strategy.

To ensure a relevant assortment, our teams:

perform comprehensive analysis of sales trends from our stores and e-commerce site;

gather feedback from our customers and our staff;

maintain regular dialogue with our existing vendor network and potential new vendors;

utilize trend and color forecasting services;

participate in trade shows and action sport related events;

review trade publications; and

evaluate merchandise assortments offered by other retail and online merchants.

We have developed and maintain strong, and in many cases long-standing, relationships with our third-party vendors and we have a history of identifying and growing with emerging brands. We believe the Tilly's brand, shopping experience and core customer lifestyle is highly consistent with the image and philosophy of our key vendors. This, in addition to our customer connectivity, facilitates a partnership culture with our key vendors and provides us access to an extensive variety of products and styles, as well as certain merchandise that is exclusive to our stores and website. Our merchandise purchasing group also works closely with independent third parties who design and procure merchandise for our proprietary brands. Our proprietary brand capabilities enhance our ability to rapidly identify and respond to trends and consistently offer our customers proven fashion items. We work with more than 100 vendors based in the United States to supply us with our proprietary branded product. These vendors source from both domestic and international markets and either have their own factories or contract with owners of factories to source finished product. By sourcing merchandise for our proprietary brands both domestically and internationally, we have the flexibility to benefit from shorter lead times associated with domestic manufacturing and lower costs associated with international manufacturing.

### ***Planning and Allocation***

Our merchandise planning and allocation team consists of a Vice President, directors, managers, planners and analysts. We have developed an inventory planning and allocation process to support our merchandise strategy. Working closely with our merchandise purchasing team, the planning and allocation team utilizes a disciplined approach to buying, forecasting, inventory control and allocation processes. Our planning and analysis team continually analyzes information from our management information system, including inventory levels and sell-through data, to regularly adjust the assortment at each store and the inventory levels for our company as a whole. Our broad third-party vendor base allows us to shift merchandise purchases to react quickly to changing consumer preferences and market conditions. Furthermore, the vendor base for our proprietary products provides us flexibility to develop our own branded products to quickly address emerging fashion trends and provide a

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deeper selection of styles, colors, and price points for proven fashion items. We modify our merchandising mix based upon store size, the season, and consumer preferences in different parts of the country. We are also able to react quickly to changing customer needs due to our shipment of merchandise to our stores

**Table of Contents**

five times per week. Finally, we coordinate closely with our visual merchandise managers and marketing group in order to manage inventory levels in connection with our promotions and seasonality.

**Stores**

As of January 28, 2012, we operated 140 stores throughout the United States. Our stores are located in mall and off-mall locations. Our stores averaged approximately 7,800 square feet and generated average net sales per store of \$2.7 million and net sales per square foot of \$350 for fiscal year 2011.

The table below indicates certain historical information regarding our stores by type of retail center as of fiscal year end for each of the years indicated below:

	2007	2008	2009	2010	2011
Regional Mall	28	42	55	62	71
Off-Mall(1)	45	57	56	63	69
	73	99	111	125	140

(1) Includes power centers, neighborhood and lifestyle centers, outlet centers and street-front locations.

The following table shows the number of stores in each of the 14 states we operated in as of January 28, 2012:

State	Number of Stores
Arizona	18
California	78
Colorado	3
Delaware	1
Florida	16
Maryland	2
Nevada	6
New Jersey	7
New York	2
Pennsylvania	1
Utah	1
Virginia	3
Washington	1
Wisconsin	1
	140

***Distinctive Store Experience***

Tilly's is a customer-driven lifestyle brand. We are energized and inspired by our customers' individuality and passion for action sports, music, art, and fashion. Our stores bring these interests together in a vibrant, stimulating an