

TILLY'S, INC.
Form 10-Q
June 11, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended April 28, 2012

OR

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

For the transition period from to

Commission file number: 001-35535

TILLY S, INC.

(Exact name of Registrant as specified in its charter)

Edgar Filing: TILLY'S, INC. - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

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

10 Whatney

Irvine, CA 92618

(Address of principal executive offices)

(949) 609-5599

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

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

Table of Contents

TILLY S, INC.

FORM 10-Q

For the Quarter Ended April 28, 2012

Index

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	3
<u>World of Jeans & Tops dba Tilly s</u>	3
<u>Balance Sheets as of April 28, 2012 and January 28, 2012</u>	3
<u>Statements of Operations and Comprehensive Operations for the Thirteen Weeks Ended April 28, 2012 and April 30, 2011</u>	4
<u>Statements of Cash Flows for the Thirteen Weeks Ended April 28, 2012 and April 30, 2011</u>	5
<u>Notes to the Financial Statements for the Thirteen Weeks Ended April 28, 2012 and April 30, 2011</u>	6
<u>Tilly s, Inc.</u>	14
<u>Statement of Financial Position as of April 28, 2012</u>	14
<u>Notes to Financial Statement as of April 28, 2012</u>	15
Item 2. <u>Management s Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	28
Item 4. <u>Controls and Procedures</u>	28
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	31
Item 1A. <u>Risk Factors</u>	31
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
Item 6. <u>Exhibits</u>	32

Table of Contents**Part I. Financial Information****Item 1. Financial Statements (Unaudited)****WORLD OF JEANS & TOPS dba TILLY S****BALANCE SHEETS**

(In thousands, except per share data)

(Unaudited)

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

Edgar Filing: TILLY'S, INC. - Form 10-Q

Total liabilities and shareholders' equity

\$ 145,163 \$ 140,819

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

Table of Contents**WORLD OF JEANS & TOPS dba TILLY S****STATEMENTS OF OPERATIONS AND COMPREHENSIVE OPERATIONS**

(In thousands, except per share data)

(Unaudited)

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

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

Table of Contents**WORLD OF JEANS & TOPS dba TILLY S****STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

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

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

Table of Contents

WORLD OF JEANS & TOPS dba TILLY'S

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

1. Description of the Company and Basis of Presentation

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

The accompanying unaudited financial statements include the assets, liabilities, revenues and expenses of the Company. These financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) have been omitted from this report as is permitted by SEC rules and regulations.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all normal and recurring adjustments necessary to present fairly the financial condition, results of operations and cash flows of the Company for the interim periods presented. The results of operations for the thirteen weeks ended April 28, 2012 and April 30, 2011 are not necessarily indicative of results to be expected for the full fiscal year. These interim consolidated financial statements should be read in conjunction with the financial statements and notes included in the Company's Registration Statement on Form S-1, as amended (Registration No. 333-175299), which was declared effective on May 3, 2012.

Fiscal Periods

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

Reorganization and Initial Public Offering

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

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

Table of Contents

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

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

Unaudited Pro Forma Income Information

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

2. Summary of Significant Accounting Policies

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

Deferred Offering Costs

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

Income Taxes

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

Table of Contents

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

Use of Estimates

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

Recent Accounting Pronouncements

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

3. Financial Instruments

ASC Topic 820, *Fair Value Measurements and Disclosure*, (ASC 820) defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined under ASC 820 as the exit price associated with the sale of an asset or transfer of a liability in an orderly transaction between market participants at the measurement date. ASC 820 established the following three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value:

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

Table of Contents

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

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs (i.e. projections, estimates, interpretations, etc.) that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

4. Income Taxes