

TILLY'S, INC.
Form 10-Q
December 10, 2013
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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 November 2, 2013

OR

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

For the transition period from _____ to _____

Commission file number: 001-35535

TILLY S, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

10 Whatney
Irvine, CA 92618

(Address of principal executive offices)

(949) 609-5599

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2) Yes No

As of December 5, 2013, the registrant had the following shares of common stock outstanding:

Class A common stock \$0.001 par value	11,370,639
Class B common stock \$0.001 par value	16,642,366

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TILLY'S, INC.

FORM 10-Q

For the Quarter Ended November 2, 2013

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Table of Contents**Part I. Financial Information****Item 1. Financial Statements (Unaudited)****TILLY S, INC.****CONSOLIDATED BALANCE SHEETS**

(In thousands, except per share data)

(Unaudited)

	November 2, 2013	February 2, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 20,657	\$ 17,314
Marketable securities	29,932	39,868
Receivables	5,901	5,934
Merchandise inventories	56,378	46,595
Prepaid expenses and other current assets	13,398	11,387
Total current assets	126,266	121,098
Property and equipment, net	102,411	80,926
Other assets	3,418	3,357
Total assets	\$ 232,095	\$ 205,381
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 26,960	\$ 18,261
Deferred revenue	4,118	5,453
Accrued compensation and benefits	3,407	6,094
Accrued expenses	12,114	12,132
Current portion of deferred rent	5,397	4,555
Current portion of capital lease obligation/Related party (Note 10)	746	712
Total current liabilities	52,742	47,207
Long-term portion of deferred rent	41,899	37,620
Long-term portion of capital lease obligation/Related party (Note 10)	2,694	3,258
Total long-term liabilities	44,593	40,878
Total liabilities	97,335	88,085
Commitments and contingencies (Note 5)		
Stockholders' equity:		

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Common stock (Class A), \$0.001 par value; November 2, 2013 100,000 shares authorized, 11,361 shares issued and outstanding; February 2, 2013 100,000 shares authorized, 10,772 shares issued and outstanding	11	11
Common stock (Class B), \$0.001 par value; November 2, 2013 35,000 shares authorized, 16,642 shares issued and outstanding; February 2, 2013 35,000 shares authorized, 16,920 shares issued and outstanding	17	17
Preferred stock, \$0.001 par value; November 2, 2013 and February 2, 2013 10,000 shares authorized, no shares issued or outstanding		
Additional paid-in capital	122,153	117,391
Retained earnings (deficit)	12,581	(140)
Accumulated other comprehensive (loss) income	(2)	17
Total stockholders' equity	134,760	117,296
Total liabilities and stockholders' equity	\$ 232,095	\$ 205,381

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

Table of Contents**TILLY'S, INC.****CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except per share data)

(Unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Net sales	\$ 123,779	\$ 124,895	\$ 355,941	\$ 326,521
Cost of goods sold (includes buying, distribution, and occupancy costs)	85,587	83,087	247,395	223,150
Gross profit	38,192	41,808	108,546	103,371
Selling, general and administrative expenses	28,042	27,940	87,279	86,795
Operating income	10,150	13,868	21,267	16,576
Other income (expense), net	116	(42)	20	(46)
Income before income taxes	10,266	13,826	21,287	16,530
Income tax expense	4,121	4,532	8,566	2,478
Net income	\$ 6,145	\$ 9,294	\$ 12,721	\$ 14,052
Basic earnings per share of Class A and Class B common stock	\$ 0.22	\$ 0.34	\$ 0.46	\$ 0.56
Diluted earnings per share of Class A and Class B common stock	\$ 0.22	\$ 0.33	\$ 0.45	\$ 0.55
Weighted average basic shares outstanding	27,884	27,658	27,768	24,979
Weighted average diluted shares outstanding	28,166	28,079	28,091	25,403
Pro forma income information (Note 1):				
Historical income before income taxes		\$ 13,826		\$ 16,530
Pro forma income tax expense		5,530		6,612
Pro forma net income		\$ 8,296		\$ 9,918
Pro forma basic earnings per share of Class A and Class B common stock		\$ 0.30		\$ 0.40
Pro forma diluted earnings per share of Class A and Class B common stock		\$ 0.30		\$ 0.39

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

Table of Contents**TILLY'S, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In thousands)

(Unaudited)

	Thirteen Weeks Ended November 2, October 27, 2013 2012		Thirty-Nine Weeks Ended November 2, October 27, 2013 2012	
Net income	\$ 6,145	\$ 9,294	\$ 12,721	\$ 14,052
Other comprehensive income, net of tax:				
Net change in unrealized gain/loss on available-for-sale securities	(12)	6	(19)	6
Other comprehensive (loss) income, net of tax:	(12)	6	(19)	6
Comprehensive income	\$ 6,133	\$ 9,300	\$ 12,702	\$ 14,058

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

Table of Contents**TILLY'S, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(In thousands)

(Unaudited)

	Number of Shares			Additional	Retained	Accumulated	Total
	Common	Common	Common	Paid-in	Earnings	Other	Stockholders
	Stock	Stock	Stock	Capital	(Deficit)	(Loss)	Equity
	(Class	(Class				Income	
	A)	B)					
Balance at February 2, 2013	10,772	16,920	\$ 28	\$ 117,391	\$ (140)	\$ 17	\$ 117,296
Net income					12,721		12,721
Restricted stock	31						
Shares converted by founders	278	(278)					
Net change in unrealized gain/loss on available-for-sale securities						(19)	(19)
Stock-based compensation expense				2,373			2,373
Exercise of stock options, including tax benefit of \$42	280			2,389			2,389
Balance at November 2, 2013	11,361	16,642	\$ 28	\$ 122,153	\$ 12,581	\$ (2)	\$ 134,760

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

Table of Contents**TILLY S, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

	Thirty-Nine Weeks Ended	
	November 2, 2013	October 27, 2012
Cash flows from operating activities		
Net income	\$ 12,721	\$ 14,052
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,470	12,299
Loss on disposal of assets	133	153
(Gain) loss on sales and maturities of marketable securities	(161)	28
Deferred income taxes	351	6,325
Stock-based compensation expense	2,373	8,893
Excess tax benefit from stock-based compensation	(157)	(94)
Changes in operating assets and liabilities:		
Receivables	33	(2,184)
Merchandise inventories	(9,783)	(13,202)
Prepaid expenses and other assets	(2,410)	(12,121)
Accounts payable	8,144	8,477
Accrued expenses	443	(1,048)
Accrued compensation and benefits	(2,687)	(1,072)
Deferred rent	5,121	7,435
Deferred revenue	(1,335)	(1,375)
Net cash provided by operating activities	27,256	26,566
Cash flows from investing activities		
Purchase of property and equipment	(36,015)	(25,585)
Proceeds from sale of property and equipment	21	17
Insurance proceeds from casualty loss		799
Purchases of marketable securities	(29,935)	(60,419)
Sales and maturities of marketable securities	40,000	35,510
Net cash used in investing activities	(25,929)	(49,678)
Cash flows from financing activities		
Payment of capital lease obligation	(530)	(497)
Net proceeds from initial public offering		106,789
Proceeds from exercise of stock options	3,025	805

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Tax withholding payments related to exercise of stock options	(636)	
Excess tax benefit from stock-based compensation	157	94
Distributions		(84,287)
Net cash provided by financing activities	2,016	22,904
Change in cash and cash equivalents	3,343	(208)
Cash and cash equivalents, beginning of period	17,314	25,091
Cash and cash equivalents, end of period	\$ 20,657	\$ 24,883