

TILLY'S, INC.  
Form 424B1  
May 04, 2012  
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Filed Pursuant to Rule 424(b)(1)  
Registration No. 333-175299

## 8,000,000 Shares

### Class A Common Stock

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

We are offering 7,600,000 of the shares to be sold in the offering. The selling stockholders, which include one of our officers and directors, identified in this prospectus are offering an additional 400,000 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 96% of the total voting power of our common stock.

The initial public offering price is \$15.50 per share. Prior to this offering, there has been no public market for the Class A common stock. The Class A common stock has been approved for listing on the New York Stock Exchange under the symbol "TLYS".

We are an emerging growth company as that term is used in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act").

**Investing in our Class A common stock involves risks that are described in the Risk Factors section beginning on page 12 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	\$ 15.50	\$ 124,000,000
Underwriting discount	\$ 1.085	\$ 8,680,000
Proceeds, before expenses, to us	\$ 14.415	\$ 109,554,000
Proceeds, before expenses, to the selling stockholders	\$ 14.415	\$ 5,766,000

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 8,000,000 shares of Class A common stock, the underwriters have the option to purchase up to an additional 1,200,000 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 May 9, 2012.

**Goldman, Sachs & Co.**

**BofA Merrill Lynch**

**Piper Jaffray**

**William Blair & Company**

**Stifel Nicolaus Weisel**

**Prospectus dated May 3, 2012.**

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**Through and including May 28, 2012 (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.



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**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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**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



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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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**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 12, 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;

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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.

**Implications of Being an Emerging Growth Company**

We qualify as an emerging growth company as that term is used in the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other burdens that are otherwise applicable generally to public companies. These provisions include:

A requirement to have only two years of audited financial statements and only two years of related MD&A;

Exemption from the auditor attestation requirement in the assessment of the emerging growth company's internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002;

Reduced disclosure about the emerging growth company's executive compensation arrangements; and

No non-binding advisory votes on executive compensation or golden parachute arrangements.

We have not taken advantage of any of these reduced reporting burdens in this prospectus, although we may choose to do so in future filings. If we do take advantage of any of these exemptions, we do not know if some investors will find our common stock less attractive as a result. The result may be a less active trading market for our common stock and our stock price may be more volatile.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. However, we are choosing to opt out of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

We could remain an emerging growth company for up to five years, or until the earliest of (i) the last day of the first fiscal year in which our annual gross revenues exceed \$1 billion, (ii) the date that we become a large accelerated filer as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter, or (iii) the date on which we have issued more than \$1 billion in non-convertible debt during the preceding three year period.



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**Recent Developments**

Management has prepared the net sales and comparable store sales information below in good faith based upon our internal reporting for the fiscal quarter ended April 28, 2012. Such information has not yet been subject to our normal quarterly financial closing processes and our independent registered public accounting firm has not commenced its review of these results. Therefore, the final results for the full fiscal quarter ended April 28, 2012 may be materially different. The company is currently unable to provide additional material financial measures, including any ranges, with a reasonable degree of certainty for this recently completed fiscal quarter.

Net sales for the fiscal quarter ended April 28, 2012 were approximately \$96 to \$97 million as compared to \$83 million for the fiscal quarter ended April 30, 2011. Comparable store sales increased 4.3% for the fiscal quarter ended April 28, 2012 following an increase of 18.2% for the fiscal quarter ended April 30, 2011. As of April 28, 2012, the company operated 145 stores, reflecting five openings fiscal year-to-date, with at least 16 net new stores expected to open in the remainder of the fiscal year.

These results should not be viewed as a substitute for full interim financial statements prepared in accordance with GAAP. Our financial statements for the quarter ended April 28, 2012 are not expected to be filed with the SEC until after this offering is completed.

**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.

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**THE OFFERING**

<b>Common stock offered by us</b>	7,600,000 shares of Class A common stock
<b>Common stock offered by the selling stockholders</b>	400,000 shares of Class A common stock
<b>Underwriters' option to purchase additional shares</b>	<p>The selling stockholders have granted the underwriters a 30-day option to purchase up to 1,200,000 additional shares of Class A common stock at the initial public offering price less the underwriting discount.</p>
<b>Class A common stock to be outstanding after this offering</b>	8,000,000 shares
<b>Class B common stock to be outstanding after this offering</b>	19,600,000 shares
<b>Use of proceeds</b>	<p>We estimate that the net proceeds to us from this offering will be approximately \$107.6 million, after deducting the underwriting discount and estimated offering 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 net proceeds in excess of the final S Corporation distribution to be \$23.6 million, after deducting the underwriting discount and estimated offering expenses payable by us, 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>	<p>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</p>

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	<p>Class A and Class B common stock vote together as a single class on all matters submitted to a vote of stockholders. 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 96% 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>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>



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

1,540,000 shares of Class A common stock issuable upon exercise of outstanding stock options, of which 783,375 were vested as of January 28, 2012; and

2,914,000 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, including options to purchase shares to be granted to our named executive officers (in the respective amounts set forth on page 88 of this prospectus), 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 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.

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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 net income per common share(3)	\$ 0.74	\$ 0.87
Pro forma diluted net income per common share(3)	\$ 0.74	\$ 0.85

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	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	\$ 50,645
Working capital	27,673	(51,328)	58,226
Total assets	140,819	145,682	171,148
Long-term debt, including current portion	4,638(6)	88,638	4,638
Stockholders' equity	60,424	(19,650)	90,753

- (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 7 below). The pro forma adjustment to basic and diluted weighted average shares outstanding for the fiscal year ended January 28, 2012 is 4,075,000 and 4,094,400, 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 shareholders of World of Jeans & Tops exchanging all of their equity interests in World of Jeans & Tops for shares of Tilly's, Inc. Class B common stock on a one-for-one basis, (ii) the issuance by World of Jeans & Tops of the undistributed taxable earnings notes to

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- 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 (iii) 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, a decrease in non-current deferred tax assets of \$0.2 million and an increase in non-current deferred tax liabilities of \$0.9 million) assuming World of Jeans & Tops S Corporation status terminated on January 28, 2012.
- (8) This column gives effect to (i) the sale of 7,600,000 shares of our Class A common stock in this offering at the initial public offering price of \$15.50 per share, after deducting the underwriting discount of \$8.2 million and estimated net offering expenses of \$2.0 million payable by us, (ii) the application of the estimated net proceeds from this offering as described under Use of Proceeds , (iii) the recognition of cumulative to date stock-based compensation expense for nonqualified stock options, which increases additional paid-in capital by \$7.1 million and (iv) an increase in net deferred tax assets of \$2.8 million (consisting of a decrease in non-current deferred tax liabilities of \$0.9 million and an increase in non-current deferred tax assets of \$1.9 million) due to the recognition of the stock-based compensation expense. The increase in cash and cash equivalents of \$25.6 million consists of \$23.6 million in estimated net proceeds and \$2.0 million in proceeds which offset offering expenses previously incurred in connection with this offering.

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**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

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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

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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



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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

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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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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.

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***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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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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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 96% 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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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.

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***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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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

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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 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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**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.

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*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 9,200,000 shares of Class A common stock and 18,400,000 shares of Class B common stock outstanding, excluding 1,540,000 shares of Class A common stock issuable upon the exercise of outstanding stock options. All of these shares, other than the 18,400,000 shares of Class B common stock held by the Shaked and Levine family entities, 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.

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

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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 this offering. As a result, purchasers of our Class A common stock in this offering will suffer immediate and substantial dilution. Based on the initial public offering price of \$15.50 per share, and our pro forma net tangible book value as of January 28, 2012, the dilution will be \$12.21 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.

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**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;

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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.

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**USE OF PROCEEDS**

We estimate that the net proceeds from our sale of 7,600,000 shares of our Class A common stock in this offering will be approximately \$107.6 million at an offering price of \$15.50 per share 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.

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 net proceeds in excess of the final S Corporation distribution to be approximately \$23.6 million, after deducting the underwriting discount and estimated offering expenses payable by us. 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.

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**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.

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**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 shareholders of World of Jeans & Tops exchanging all of their equity interests in World of Jeans & Tops for shares of Tilly's, Inc. Class B common stock on a one-for-one basis, (ii) 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 (iii) 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, a decrease in non-current deferred tax assets of \$0.2 million and an increase in non-current deferred tax liabilities of \$0.9 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 7,600,000 shares of our Class A common stock in this offering at an initial public offering price of \$15.50 per share, after deducting the underwriting discount of \$8.2 million and estimated net offering expenses of \$2.0 million payable by us, (ii) the application of the estimated net proceeds from this offering as described under Use of Proceeds, (iii) the recognition of cumulative to date stock-based compensation expense for nonqualified stock options, which increases additional paid-in capital by \$7.1 million and (iv) an increase in net deferred tax assets of \$2.8 million (consisting of a decrease in non-current deferred tax liabilities of \$0.9 million and an increase in non-current deferred tax assets of \$1.9 million) due to the recognition of the stock-based compensation expense. The increase in cash and cash equivalents of \$25.6 million consists of \$23.6 million in estimated net proceeds and \$2.0 million in proceeds which offset offering expenses previously incurred in connection with this offering.

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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		
	Actual	Pro Forma	Pro Forma
	(unaudited)	(unaudited)	as adjusted (unaudited)
	(In thousands, except per share amounts)		
Cash and cash equivalents	\$ 25,091	\$ 25,091	\$ 50,645
Debt:			
Existing line of credit (1)			
Other debt (2)	4,638	88,638	4,638
Total debt	4,638	88,638	4,638
Stockholders' equity:			
Common stock, \$0.001 par value; 21,600,000 shares authorized, 20,000,000 shares issued and outstanding	20		
Common stock (Class A), \$0.001 par value; 100,000,000 shares authorized, 8,000,000 shares issued and outstanding			8
Common stock (Class B), \$0.001 par value; 35,000,000 shares authorized, 19,600,000 shares issued and outstanding		20	20
Preferred stock, \$0.001 par value; 10,000,000 shares authorized, no shares issued or outstanding			
Additional paid-in capital	150	150	114,796
Retained earnings	60,254	(19,820)	(24,071)
Total stockholders' equity	60,424	(19,650)	90,753
Total capitalization	\$ 65,062	\$ 68,988	\$ 95,391

- (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 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) Amounts include both the current and non-current portions of our capital lease liability.

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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 January 28, 2012 was approximately \$(19.7) million, or \$(0.98) 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 shareholders of World of Jeans & Tops exchanging all of their equity interests in World of Jeans & Tops for shares of Tilly's, Inc. Class B common stock on a one-for-one basis, (ii) 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 (iii) 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, a decrease in non-current deferred tax assets of \$0.2 million and an increase in non-current deferred tax liabilities of \$0.9 million) assuming World of Jeans & Tops S Corporation status terminated on January 28, 2012.

After giving effect to (i) the sale of the 7,600,000 shares of Class A common stock offered by us at an initial public offering price of \$15.50 per share, less the underwriting discount of \$8.2 million and estimated net offering expenses of \$2.0 million payable by us, (ii) the application of the estimated net proceeds from this offering as described under "Use of Proceeds", (iii) the recognition of cumulative to date stock-based compensation expense for nonqualified stock options, which increases additional paid-in capital by \$7.1 million and (iv) an increase in net deferred tax assets of \$2.8 million (consisting of a decrease in non-current deferred tax liabilities of \$0.9 million and an increase in non-current deferred tax assets of \$1.9 million) due to the recognition of the stock-based compensation expense, our pro forma as adjusted net tangible book value as of January 28, 2012 would have been approximately \$90.8 million, or \$3.29 per share. This represents an immediate increase in pro forma net tangible book value of \$4.27 per share to existing stockholders and an immediate dilution of \$12.21 per share to new investors. The following table illustrates this dilution.

Initial public offering price per share	\$ 15.50
Pro forma net tangible book value per share as of January 28, 2012	\$ (0.98)
Increase in pro forma net tangible book value per share attributable to this offering	4.27
Pro forma net tangible book value per share as of January 28, 2012, as adjusted for this offering	3.29
Dilution per share to new investors	\$ 12.21

After this offering and assuming the exercise in full of all options outstanding and exercisable as of January 28, 2012, pro forma net tangible book value per share as of January 28, 2012, as adjusted for this offering, would have been approximately \$3.20, representing an immediate increase in pro forma net tangible book value of \$4.18 per share to existing stockholders and an immediate dilution of \$12.30 per share to new investors.

If the underwriters exercise their option to purchase up to 1,200,000 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 January 28, 2012 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)	\$ 1.21	\$ 0.72	\$ 0.63	\$ 0.74	\$ 0.87
Pro forma diluted net income per common share(4)	\$ 1.21	\$ 0.72	\$ 0.63	\$ 0.74	\$ 0.85

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	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				