TILLY'S, INC.
Form 10-K
April 03, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended February 2, 2013

OR

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

Commission File Number: 001-35535

TILLY S, INC.

(Exact name of registrant as specified in its charter)

Delaware	**45-2164791**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
10 Whatney, Irvine, CA	**92618**
(Address of principal executive offices)	**(Zip Code)**

(949) 609-5599

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, $0.001 par value per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer: ¨	Accelerated filer: ¨
Nonaccelerated filer: x (Do not check if a smaller reporting company)	Smaller reporting company: ¨

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

The aggregate market value of voting stock held by nonaffiliates of the registrant as of the last business day of the registrant s most recently completed second fiscal quarter, at July 27, 2012, was $149,771,974 based on the closing sale price of $16.19 per share.

The registrant had 10,792,859 shares of Class A common stock, par value $0.001 per share, outstanding at March 15, 2013.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the registrant s Annual Meeting of Stockholders to be held June 12, 2013 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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Forward-Looking Statements

This annual report contains forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical or current fact included in this annual report are forward-looking statements. Forward-looking statements refer to our current expectations and projections relating to our financial condition, results of operations, plans, objectives, strategies, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as anticipate , estimate , expect , project , plan , intend , believe , may , might , will , should , can have and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. For example, all statements we make relating to our estimated and projected earnings, revenues, 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;

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 annual report and hereafter in our other SEC filings and public communications. You should evaluate all forward-looking statements made by us in the context of these risks and uncertainties.

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

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PART I

Item 1. Business

Our Company

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.

The Tilly s concept began in 1982 when our co-founders, Hezy Shaked and Tilly Levine, opened their first store in Orange County, California. Since 1984 the business has been conducted through World of Jeans & Tops, Inc., a California corporation (WOJT) formed by our co-founders, which operates under the name Tilly s . In May 2011, Tilly s, Inc., a Delaware corporation, was formed solely for the purpose of reorganizing the corporate structure of WOJT in preparation for an initial public offering (IPO).

As used in this Annual Report, except where the context otherwise requires or where otherwise indicated, the terms the Company , World of Jeans & Tops , WOJT , we , our , us and Tilly s refer to WOJT before the Reorganization Transaction (as defined below), and to Tilly s, Inc subsidiary after the Reorganization Transaction.

Reorganization Transaction and IPO

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

On May 3, 2012, we completed an IPO in which we issued and sold 7,600,000 shares of Class A common stock at a price of $15.50 per share, less underwriting discounts and offering expenses payable by us, a portion of which was reimbursed by the underwriters. Certain of our stockholders also sold 1,600,000 shares of Class A common stock in the IPO at a price of $15.50 per share. We did not receive any of the proceeds from the sale of stock by our stockholders. As a result of the IPO, we raised net proceeds of approximately $107 million, after deducting the underwriting discount of $8.7 million and related fees and expenses of approximately $2.5 million. On May 9, 2012, we used $84.0 million of the net proceeds from the IPO to pay in full the principal amount of notes representing WOJT s undistributed taxable income. These notes were issued to the former shareholders of WOJT in connection with the Reorganization Transaction and all payments were made to trusts related to our founders Hezy Shaked and Tilly Levine, and their children.

Our Strengths

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

Destination retailer with a broad, relevant assortment. We believe the combined depth and breadth of apparel, footwear and accessories offered at our stores exceeds the selection offered at many other specialty retailers. We offer an extensive selection of third-party, West Coast inspired and action sports brands complemented by our proprietary brands. Our merchandise includes a wide assortment of

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brands, styles, colors, sizes and price points to ensure we have what our customers want every time they visit our stores. We offer a balanced mix of merchandise across the guys and juniors categories, with additional merchandise in the boys, girls, footwear and accessories categories. We believe that by combining proven fashion trends and core style products with a vibrant blend of carefully selected music and visuals, we provide an in-store experience that is authentic, fun, and engaging for our core customers. We believe that our differentiated in-store environment, evolving selection of relevant brands and broader and deeper assortment positions us as a retail destination that appeals to a larger demographic than many other specialty retailers and encourages customers to visit our stores more frequently and spend more on each trip.

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

Flexible real estate strategy across real estate venues and geographies. Our stores have proven to be successful in different real estate venues and geographies. As of February 2, 2013, we operated profitable stores in malls, power centers, neighborhood and lifestyle centers, outlet centers and street-front locations across 60 markets in 28 states. We believe our success operating in these different retail venues and geographies demonstrates the portability of Tilly s and provides us with greater flexibility for future expansion.

Multi-pronged marketing approach. We utilize a multi-pronged marketing strategy to connect with our customers and drive traffic to our stores and website. First, we distribute catalogs to potential and existing customers from our proprietary database to familiarize them with the Tilly s brand and our products and to drive sales to our stores and our website. Second, we partner and collaborate with our vendors on exclusive events and contests to build credibility with our target customers, actively involve them in our brands, and enhance the connection between Tilly s and the West Coast lifestyle. Third, we use social media to communicate directly with our customers while also encouraging customers to interact with one another and provide feedback on our events and products. Fourth, through our We Care Program , we support and participate in various academic, art, and athletic programs at local schools and other organizations in communities surrounding our stores. All of these programs are complemented by email marketing as well as traditional radio and print advertising to build customer awareness and loyalty, highlight key merchandise offerings, drive traffic to our stores and website and promote the Tilly s brand.

Sophisticated systems and distribution infrastructure to support growth. Over the last five years, we have invested over $25 million in our highly automated distribution center and information systems to support our future growth. We believe our distribution and allocation capabilities are unique within the industry and allow us to operate at a higher level of efficiency than many of our competitors. Our distribution center allows us to quickly sort and process merchandise and deliver it to our stores in a floor-ready format for immediate display. Our systems enable us to respond to changing fashion trends, manage inventory in real time and provide a customized selection of merchandise at each location. We believe our distribution infrastructure can support a national retail footprint in excess of 500 stores with minimal incremental capital investment.

Experienced management team. Our senior management team, led by Hezy Shaked and Daniel Griesemer, has extensive experience across a wide range of disciplines in the specialty retail and direct-to-consumer industries, including store operations, merchandising, distribution, real estate, and finance. Mr. Shaked, our Co-Founder, Chairman of the Board of Directors, and Chief Strategy Officer, plays an important role in developing our long-term growth initiatives and cultivating our unique culture.

Mr. Griesemer, our President and Chief Executive Officer, joined Tilly s in February 2011 with 28 years of retail experience. He served in various roles with Coldwater Creek, Inc. from 2001 to 2009 including most recently as Chief Executive Officer. During his tenure, Coldwater Creek increased the store base from 13 to approximately 400 and increased revenues from approximately $340 million to approximately $1.1 billion. Mr. Griesemer also served in leadership positions at Gap, Inc. and Macy s, Inc.

Growth Strategy

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

Expand Our Store Base. We believe there is a significant opportunity to expand our store base from 168 locations as of February 2, 2013 to more than 500 stores across the United States over the next eight years. We have a proven ability to expand the number of stores we operate, as we have more than doubled our store count over the last five years from 73 stores at the beginning of fiscal 2008 to 168 stores at February 2, 2013. We plan to add at least 25 net new stores in fiscal year 2013 and to continue opening new stores at an annual rate of approximately 15% for the next several years thereafter. Our plan includes new store openings in both existing and new markets, and in both mall and off-mall locations.

As of February 2, 2013, we operated stores in 28 states. Over the past five years we have grown our presence in existing markets and successfully expanded into 42 new markets. We have entered new markets by opening stores in high traffic malls relevant to our core customer in order to establish the Tilly s brand, as well as in off-mall locations that effectively cover trade areas where our customers want to shop. The opportunity exists to continue to significantly broaden our national footprint by entering new markets through both mall and off-mall locations.

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

Grow Our e-Commerce Platform. We believe our e-commerce platform is an extension of our brand and retail stores, providing our customers a seamless shopping experience. Our e-commerce platform allows us to provide an expanded product offering relative to our stores, reach new customers and build our brand in markets where we currently do not have stores. In fiscal year 2012, our e-commerce net sales increased 21% over fiscal 2011 and represented a little more than 11% of our net sales, up from 6% of net sales in fiscal year 2008. We believe that our target customer regularly shops online and we see continued opportunity to grow our e-commerce business to approximately 15% of total net sales over time. Key factors driving growth include continuing our successful catalog and online marketing efforts, offering a wider selection of Internet-exclusive merchandise and expanding our online selection to ensure a broad and diverse offering of brands and products relative to our competition. We also believe we will see continued growth in our e-commerce sales as we open additional stores and build brand awareness in the communities surrounding those locations. To support this growth, we plan to open a new e-commerce distribution center by the end of fiscal year 2013.

Increase Our Operating Margins. We believe we have the opportunity to drive margin expansion through scale efficiencies and continued process improvements. We believe comparable store sales increases combined with our planned store growth will permit us to take advantage of largely fixed occupancy costs, favorable buying costs from larger volume purchases, leverage of our costs for store management and corporate overhead as well as the fixed portion of shipping and handling costs over higher sales volumes. In addition, we expect to improve margins and support growth by leveraging

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ongoing investments in infrastructure, including the opening of a dedicated distribution center for our e-commerce store and continuing upgrades to our point-of-sale, merchandise allocation and merchandise planning systems, as well as related work processes. We also will continue to use established business processes to identify and execute initiatives focused on lowering our unit costs and improving operational efficiency throughout our organization.

Merchandising, Purchasing, and Planning and Allocation

Merchandising

We seek to be viewed by our customers as the destination for West Coast inspired and action sports related apparel, footwear and accessories. We believe we offer an unparalleled selection of relevant brands, styles, colors, sizes and price points to ensure we have what our customers want every time they visit our stores. Our extensive selection of third-party and proprietary merchandise allows us to identify and address trends more quickly, offer a greater range of price points and manage our inventories more dynamically. We offer a balanced mix of merchandise across the guys and juniors categories, with additional merchandise in the boys, girls, footwear and accessories categories. We believe this category mix contributes to our broad demographic appeal. Our apparel merchandise includes branded, fashion and core styles for tops, outerwear, bottoms, and dresses. Accessories merchandise includes backpacks, hats, sunglasses, headphones, handbags, watches, jewelry and more. We focus on our merchandise presentation and vary the visual displays in our stores and windows multiple times per month, presenting new looks and fashion combinations to our customers.

Our ability to maintain an image consistent with the West Coast inspired and action sports lifestyle is important to our branded vendors and provides us better access to a wide assortment of products and styles. Our third-party branded merchandise features established and emerging brands. We strive to keep our merchandise mix current by continuously introducing emerging brands and styles not available at many other specialty retailers in order to identify and respond to the evolving desires of our customers. Within our diversified portfolio of hundreds of third-party brands, which represented approximately 70% of our net sales in 2012, our largest brand accounted for between 4.0% and 4.5% of our net sales in each of the last two fiscal years.

Selected third-party brands include, in alphabetical order:

Billabong	Levi s	Roxy
Converse	LRG	RVCA
DC Shoes	Metal Mulisha	Spy
Famous Stars & Straps	Neff	UGG
Fox	Nike	Vans
G-Shock	Nixon	Volcom
Hurley	O Neill	Young & Reckless
KR3W		
	Quiksilver	and many more

We supplement our third-party merchandise assortment with our own proprietary brands across many of our apparel and accessory product categories. We utilize our own branded merchandise to expand our price point range, identify and respond to changing fashion trends quickly, fill merchandise gaps and provide a deeper selection of styles and colors for proven fashion items. Our own brands represented approximately 30% and 31% of our net sales for fiscal years 2012 and 2011, respectively.

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Our proprietary branded merchandise includes:

Brand	Category
	Guys , boys and juniors denim apparel and cologne
	Juniors and girls apparel, footwear and accessories
	Guys and boys apparel and accessories
	Guys , boys and juniors apparel and cologne

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

Merchandise Purchasing

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

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

To ensure a relevant assortment, our teams:

- perform comprehensive analysis of sales trends from our stores and e-commerce site;
- gather feedback from our customers and our staff;
- maintain regular dialogue with our existing vendor network and potential new vendors;
- utilize trend and color forecasting services;
- participate in trade shows and action sport related events;
- review trade publications; and
- evaluate merchandise assortments offered by other retail and online merchants.

We have developed and maintain strong, and in many cases long-standing, relationships with our third-party vendors and we have a history of identifying and growing with emerging brands. We believe the Tilly s brand, shopping experience and core customer lifestyle is highly consistent with the image and philosophy of our key vendors. This, in addition to our customer connectivity, facilitates a partnership culture with our key vendors and provides us access to an extensive variety of products and styles, as well as certain merchandise that is exclusive to our stores and website. Our merchandise purchasing group also works closely with independent third parties who design and procure merchandise for our proprietary brands. Our proprietary brand capabilities enhance our

ability to rapidly identify and respond to trends and consistently offer our customers proven fashion items. We work with more than 100 vendors based in the United States to supply us with our proprietary branded product. These vendors source from both domestic and international markets and either have their own factories or contract with owners of factories to source finished product. By sourcing merchandise for our proprietary brands both domestically and internationally, we have the flexibility to benefit from shorter lead times associated with domestic manufacturing and lower costs associated with international manufacturing.

Planning and Allocation

Our merchandise planning and allocation team consists of a Vice President, directors, managers, planners and analysts. We have developed an inventory planning and allocation process to support our merchandise strategy. Working closely with our merchandise purchasing team, the planning and allocation team utilizes a disciplined approach to buying, forecasting, inventory control and allocation processes. Our planning and analysis team continually analyzes information from our management information system, including inventory levels and sell-through data, to regularly adjust the assortment at each store and the inventory levels for our company as a whole. Our broad third-party vendor base allows us to shift merchandise purchases to react quickly to changing consumer preferences and market conditions. Furthermore, the vendor base for our proprietary products provides us flexibility to develop our own branded products to quickly address emerging fashion trends and provide a deeper selection of styles, colors, and price points for proven fashion items. We modify our merchandising mix based upon store size, the season, and consumer preferences in different parts of the country. We are also able to react quickly to changing customer needs due to our shipment of merchandise to our stores five times per week. Finally, we coordinate closely with our visual merchandise managers and marketing group in order to manage inventory levels in connection with our promotions and seasonality.

Stores

Store Growth

During fiscal year 2012, we continued Tilly s national expansion by opening 28 net new stores, a 20% increase in store count. We doubled the number of states where we operate stores from 14 states at the end of fiscal year 2011 to 28 states at the end of fiscal year 2012.

As of February 2, 2013, we operated 168 stores throughout the United States. Our stores are located in mall and off-mall locations and averaged approximately 7,850 square feet. They generated average net sales per store of $2.7 million and net sales per square foot of $341 in fiscal year 2012.

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

	2012	2011	2010	2009	2008
Regional Mall	89	71	62	55	42
Off-Mall (1)	79	69	63	56	57
	168	140	125	111	99

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

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At February 2, 2013 we operated 168 stores in 28 states as shown below:

State	Number of Stores	State	Number of Stores
Arizona	18	Nevada	6
California	79	New Jersey	7
Colorado	3	New York	3
Delaware	1	North Carolina	2
Florida	16	Ohio	1
Georgia	1	Oregon	2
Illinois	2	Pennsylvania	2
Indiana	2	South Dakota	1
Iowa	1	T ennessee	1
Kentucky	1	T exas	2
Maryland	2	Utah	3
Massachusetts	2	Virginia	3
Michigan	1	Washington	2
Minnesota	1	Wisconsin	3

Distinctive Store Experience

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

Expansion Opportunities and Site Selection

As of February 2, 2013 approximately 60% of our stores had been opened within the previous five years. The following table shows the number of stores opened and closed in each of our last five fiscal years:

Fiscal Year	Stores Opened	Stores Closed	Total Number of Stores at End of Period
2008	26		99
2009	13	1	111
2010	16	2	125
2011	16	1	140
2012	29	1	168
	100	5	

We plan to open at least 25 net new stores in fiscal year 2013 and to continue to open stores at an annual rate of approximately 15% for the next several years thereafter. Our new store openings are planned in both existing and new markets, for both mall and off-mall locations. We focus on locations that have above average incomes and an ability to draw from a sufficient population with attractive demographics. We have entered new markets by opening stores in high traffic malls relevant to our core customer in order to establish the Tilly s brand, as well as opening stores in off-mall locations that effectively cover trade areas where our customers want to shop.

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Store Management, Culture and Training

We believe that a key to our success is our ability to attract, train, retain and motivate qualified employees at all levels of our organization. Each of our stores typically operates with a three to five member store management team. In addition, each store has 10 or more full time equivalent store associates who represent the West Coast lifestyle and promote the Tilly s brand not only inside the store, but also in their schools and communities. The number of store associates we employ generally increases during peak selling seasons, particularly the back-to-school and the winter holiday seasons, and will increase to the extent that we open new stores.

We have developed a corporate culture that we believe empowers the individual store managers to make store-level business decisions and we reward them when they exceed sales targets. We are committed to improving the skills and careers of our workforce and providing advancement opportunities for employees. We evaluate our store associates weekly on measures such as sales per hour, units per transaction and dollars per transaction to ensure productivity, to recognize top performers and to identify potential training opportunities. We endeavor to design incentive programs for store associates that promote a competitive, yet fun, culture that is consistent with our image.

We provide our managers with the knowledge and tools to succeed through comprehensive training programs, focusing on both operational expertise and supervisory skills. Our training programs and workshops are offered at the store, district and regional levels, allowing managers from multiple locations to interact with each other and exchange ideas to better operate stores. Store associates receive training from their managers to improve their product expertise and selling skills.

e-Commerce

Our e-commerce platform was established in 2004 and has grown significantly in every year of operation. In fiscal 2012, our e-commerce net sales increased 21% relative to fiscal 2011 while traffic at www.tillys.com increased 24%. We grew our e-commerce business to a little over 11% of our total net sales in fiscal 2012 from 6% of net sales in fiscal 2008. We believe that our target customer regularly shops online and we see continued opportunity to grow our e-commerce business to approximately 15% of total net sales over time. In fiscal 2012 we sold merchandise to customers in all 50 states and approximately 10% of our e-commerce net sales were to customers in states without brick-and-mortar stores. Our website serves both as a sales channel and a marketing tool to our extended customer base, including those customers in markets where we do not currently have stores. We also believe our website reinforces the Tilly s brand image and serves as an effective advertising vehicle for our retail stores. Our website provides an expanded product offering relative to our stores and includes web exclusive merchandise. Similar to the merchandising approach in our stores, we frequently change the look of our website to highlight new brands and products and to encourage frequent visits. We utilize multiple channels to drive traffic to our website, including our catalog, marketing materials in our retail stores, search engine marketing, internet ad placement, shopping site partnerships, third-party affiliations, email marketing, mobile marketing and direct mail. In addition, we utilize the website to offer current information on our upcoming events, promotions and store locations.

Our current e-commerce fulfillment is operated out of our distribution center in Irvine, California. To accommodate our growth, by the end of fiscal year 2013 we plan to transition to a new e-commerce distribution center also located in Irvine, California.

Marketing and Advertising

Our marketing approach is designed to create an authentic connection with our customers by consistently generating a buzz and excitement for our brand while staying true to our West Coast inspired, action sports heritage. We utilize a multi-pronged marketing strategy to connect with our customers and drive traffic to our stores and website, comprised of the following:

Catalog. We view our catalog primarily as a sales and marketing tool to drive online and store traffic from both existing and new customers. We also believe our catalog reinforces the Tilly s brand and showcases our comprehensive selection of products in settings designed to reflect our brand s lifestyle image. In fiscal 2012, we mailed approximately 8.8 million catalogs to addresses included in our growing proprietary database, which currently includes key information on over 2.7 million customers. We send these catalogs, which include coupons that can be redeemed at stores or online, to the customers in our database several times a year, primarily around key shopping periods such as spring break, back-to-school, and the winter holidays.

Brand Partnerships. We partner and collaborate with our vendors for exclusive events such as autograph signings, in-store performances, contests, demos, giveaways, shopping sprees and VIP trips. In fiscal year 2012, we organized hundreds of events, many involving musicians, celebrities and athletes in the entertainment, music and action sports industries. For example, we partnered with Universal Music Group artist All American Rejects to host an autograph signing tour at six Tilly s locations from coast to coast. We also partnered with many major action sports brands in fiscal 2012. One such partnership was the Tilly s Young & Reckless $25,000 Sweepstakes, which generated over 100,000 entries and was supported by in-store autograph signings by Young & Reckless owner and MTV Fantasy Factory star, Drama. Through these partnerships, we are able to connect with and engage our customers in an exciting, authentic experience.

Social Media. We believe our core customers rely heavily on the opinions of their peers, often expressed through social media. Therefore we use our website blog as well as Facebook and Twitter posts as a viral marketing platform to communicate directly with our customers while also allowing customers to interact with one another and provide feedback on our events and products.

Community Outreach. Through our We Care Program and in partnership with our vendors, we support and participate in various academic, art, and athletic programs at local schools and other organizations in communities surrounding our stores.

Radio, Print and Email Marketing. We utilize traditional radio and print advertising as well as email marketing to build awareness, drive traffic to our stores and website and to promote local in-store promotions and events. We periodically send emails to the customers in our proprietary database to introduce new brands and products, offer promotions on select merchandise, highlight key events and announce new store openings. We believe there is an opportunity to use national print advertising to drive new traffic among potential customers.

Distribution

We centrally distribute all of our merchandise through a 126,000 square foot distribution facility co-located with our headquarters in Irvine, California. Our lease expires in December 2017 and we have two five-year renewal option periods. We moved to our current location in January 2003 and have invested over $37 million in our highly automated distribution center and information systems. We designed this state-of-the-art facility to allow us to manage our distribution operations in an efficient, cost-effective manner and to provide support for our growth initiatives. Extensive investments have been made to the distribution-center infrastructure, focused around systems automation, material-handling equipment, RF technologies, and automated sortation in order to further enhance our processing speed and long term scalability. We believe the automation systems we utilize in our facility allow us to operate at a higher level of efficiency and accuracy than many of our competitors.

We typically ship merchandise to our stores five times per week, providing them with a steady flow of both new and replenishment products. Merchandise is shipped in a floor-ready format (carrying price tickets, sensor tags and with hangers where appropriate) which allows store employees to spend less time processing the merchandise and more time with our customers. We use our own fleet of trucks to ship merchandise to our local (Southern California) stores and third-party distributors to ship merchandise to stores outside our local area.

We believe our distribution infrastructure can support a national retail footprint in excess of 500 stores with minimal incremental capital investment. In addition, we anticipate spending approximately $14 million to equip our new e-commerce distribution center, which we expect to open by the end of fiscal year 2013.

Management Information Systems

Our management information systems provide a full range of business process support and information to our store, merchandising, financial, real estate and other business teams. We selected, customized and integrated our information systems to enable and support our dynamic merchandise model. We believe our systems provide us with improved operational efficiencies, scalability, management control and timely reporting that allow us to identify and quickly respond to trends in our business. We believe that our information systems are scalable, flexible and have the capacity to accommodate our current growth plans.

We have made significant investments in our management information systems over the last several years and believe we are utilizing best of breed technology. We use software licensed from JDA Software Group, Inc. for allocation, SKU classification, inventory tracking, purchase order management and sales audit functions. We utilize MicroStrategy Incorporated for business intelligence. We utilize Manhattan Associates Inc. s warehouse management systems to handle merchandise distribution. We utilize technology from Strategic Distribution, Inc. in our distribution center enabling us to automate our merchandise sortation process, allowing us greater flexibility in scaling our operations for new store expansions and peak season operations. Our financial systems are licensed from Lawson and our payroll system uses a third-party platform provided by Automatic Data Processing, Inc.

We update our sales daily in our merchandising reporting systems by collecting sales information from each store s point-of-sale, or POS, terminals utilizing software from Micros Systems, Inc. Our POS system consists of registers providing processing of retail transactions, price look-up, time and attendance and e-mail. Sales information, inventory tracking and payroll hours are uploaded to our central host system. The host system downloads price changes, performs system maintenance and provides software updates to the stores through automated nightly two-way electronic communication with each store. We evaluate information obtained through nightly polling to implement merchandising decisions, including product purchasing/reorders, markdowns and allocation of merchandise on a daily basis.

Competition

The teenage and young adult retail apparel, accessories and footwear industry is highly competitive. We compete with other retailers for customers, store locations, store associates and management personnel. We currently compete with other teenage-focused retailers such as, but not limited to, Abercrombie & Fitch Co., Aeropostale, Inc., American Eagle Outfitters, Inc., The Buckle, Inc., Forever 21, Inc., Hot Topic, Inc., Pacific Sunwear of California, Inc., Urban Outfitters, Inc., The Wet Seal, 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. Further, we may face new competitors and increased competition from existing competitors as we expand into new markets and increase our presence in existing markets. Given the extensive number and types of retailers with which Tilly s competes for customers, we believe that our target market is highly fragmented and we do not believe we have a significant share of this market.

Competition in our sector is based, among other things, upon merchandise offerings, store location, price and the ability to identify with the customer. We believe that we compete favorably with many of our competitors based on our differentiated merchandising strategy, store environment, flexible real estate strategy and company culture. However, many of our competitors are larger, have significantly more stores, and have substantially greater financial, marketing and other resources than we do. Moreover, we recognize that we do not possess exclusive rights to many of the elements that comprise our in-store experience and product offerings. Our competitors can 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. See Risk Factors We face intense competition in our industry and we may not be able to compete effectively.

Trademarks

Ambitious , Blue Crown , Division 7 , Eldon , Full Tilt , If it s not here it s not happening , Infamous , RSQ , Tilly s , Vindicated some of these names, are among our trademarks registered with the U.S. Patent and Trademark Office. We regard our trademarks as valuable and intend to maintain such marks and any related registrations. We are not aware of any claims of infringement or other challenges to our right to use our marks in the U.S. We vigorously protect our trademarks.

Employees

As of February 2, 2013, we employed approximately 1,200 full-time and approximately 2,800 part-time employees, of which approximately 500 were employed at our corporate office and distribution facility and approximately 3,500 were employed at our store locations. However, the number of employees, especially part-time employees, fluctuates depending upon our seasonal needs and, in fiscal year 2012, varied between approximately 3,600 and 6,200 employees. None of our employees are represented by a labor union and we consider our relationship with our employees to be good.

Government Regulation

We are subject to labor and employment laws, laws governing advertising and promotions, privacy laws, safety regulations, consumer protection regulations and other laws that regulate retailers and govern the promotion and sale of merchandise and the operation of stores and warehouse facilities. We monitor changes in these laws and believe that we are in material compliance with applicable laws.

Insurance

We use a combination of insurance and self-insurance for a number of risk management activities, including workers compensation, general liability, automobile liability and employee-related health care benefits, a portion of which is paid by the employees. We evaluate our insurance requirements on an ongoing basis to maintain adequate levels of coverage.

Seasonality

Due to the seasonal nature of the retail industry, we have historically experienced and expect to continue to experience some fluctuations in our revenues and net income reflecting increased demand during the year-end holiday season, other holidays, such as Easter, the beginning of spring break and peak shopping periods, such as the back-to-school season. Revenues generated during the holiday selling season generally contribute to our relatively higher fourth quarter net income. Revenues generated around the back-to-school season generally contribute to our relatively higher third quarter net income. If for any reason our revenues were below seasonal norms or expectations during these quarters, our annual results of operations could be adversely affected. The level of our working capital reflects the seasonality of our business. We expect inventory levels, along with an increase in accounts payable and accrued expenses, generally to reach their highest levels in anticipation of the increased revenues during these periods.

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Additional Information

We make available free of charge on our internet website, www.tillys.com, copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after filing such material electronically with, or otherwise furnishing it to, the Securities and Exchange Commission (SEC). The public may also read and copy any materials that we have filed with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. In addition, these materials may be obtained at the web site maintained by the SEC at www.sec.gov.

The reference to our website address does not constitute incorporation by reference of the information contained on the website, and the information contained on the website is not part of this document.

Item 1A. Risk Factors

Investing in our securities involves a high degree of risk and you should carefully consider all of the information in this report. In particular, the following risks and uncertainties could materially affect our business, financial condition and results of operations in future periods, and should be kept in mind when you read forward-looking statements contained in this report. Forward-looking statements generally express expectations, beliefs, plans, objectives, assumptions and future events, and may be identified by the use of words or phrases such as anticipate , believe , estimate , expect , intend , plan and project , and similar words or phrases. The risks and uncertainties described below are not the only ones that we face. Additional risks not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and results of operations in future periods.

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, but not limited to, Abercrombie & Fitch Co., Aeropostale, Inc., American Eagle Outfitters, Inc., The Buckle, Inc., Forever 21, Inc., Hot Topic, Inc., Pacific Sunwear of California, Inc., Urban Outfitters, Inc., The Wet Seal, 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. Moreover, the internet and other new technologies facilitate competitive entry and comparison shopping in our retail segment. While we offer a multichannel shopping experience and use social media as a way to interact with our customers and enhance their shopping experiences, multichannel retailing is rapidly evolving and we must keep pace with changing customer expectations and new developments by our competitors. Competition with some or all of these retailers noted above could require us to lower our prices or risk losing customers. In addition, significant

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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 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 eight and a half years, increasing from 32 stores in June 2004 in the state of California to operating 168 stores in 28 states as of February 2, 2013. 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 29 stores in 2012 and 16 stores in 2011. We plan to open at least 25 net new stores in 2013. However, there can be no assurance that we will open the planned number of new stores in fiscal year 2013 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;

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- 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.

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 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.

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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 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 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 in locations 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. In addition, seasonal fluctuations also affect our inventory levels, as we usually order and carry a significant amount of inventory before the back-to-school and winter holiday shopping seasons. If we are not successful in selling our inventory during these periods, we may be forced to rely on

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markdowns or promotional sales to dispose of the inventory, or we may not be able to sell the inventory at all, which 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 regions such as in the southwestern U.S., particularly in California and Arizona, or Florida, will likely have a greater impact on our sales because of our store concentration in those regions.

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 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, 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, 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 30% of our net sales for the fiscal year ended February 2, 2013. 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, 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

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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.

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 168 stores as of February 2, 2013, we operated 79 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 that began several years ago, 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 warehouses and distribution center, which may strain our cash flow.

We lease all of our retail store locations as well as our corporate headquarters and warehouses 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 cancelation 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 2012, our total operating lease rent expense was $37.3 million and our common area maintenance expense was $14.3 million. This increased from $30.7 million and $11.3 million, respectively, in fiscal year 2011 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.

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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 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.

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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 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.

Most of our intellectual property has not been registered outside of the U.S. and we cannot prohibit other companies from using our unregistered 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

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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.

Our common stock consists 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. All of the shares of Class B common stock are beneficially owned by Hezy Shaked, Tilly Levine and their children through related trusts, which we refer to as the Shaked and Levine family entities. As of February 2, 2013, the Shaked and Levine family entities controlled approximately 94% of the total voting power of our outstanding common stock. In addition, Mr. Shaked serves as 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 have entered 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 our initial public offering in May 2012.

World of Jeans & Tops historically was 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 terminated and it thereafter became 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 entered into tax indemnification agreements with the former shareholders of World of Jeans & Tops prior to the Reorganization Transaction. Pursuant to the tax indemnification agreements, we agreed 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 also includes 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 terrorist 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.

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 March 2010, the Patient Protection and Affordable Care Act, or the Act, and the Health Care Education Reconciliation Act of 2010, or the Reconciliation Act, were signed into law. The Act and the Reconciliation Act include a number of health care provisions taking effect over several years, including expanded dependent coverage, incentives for business to provide health care benefits, a prohibition on denial of coverage and denial of claims on pre-existing conditions, a prohibition on limiting essential benefits, and other expansion of health care benefits and coverage. Some of the associated taxes and fees, as well as certain health care changes required by these acts, are expected to result in increased health care costs for us. The costs of such legislation may adversely impact our results of operations.

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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.

As a result of our recent initial public offering, our costs have increased and our management is required to devote substantial time to complying with public company regulations.

We have historically operated our business as a private company. In May 2012, we completed an initial public offering. As a result, we are required to incur additional legal, accounting, compliance and other expenses that we did not incur as a private company. We are obligated to file periodic reports with the SEC under the Securities Exchange Act of 1934, as amended. We are also subject to other reporting and corporate governance requirements, including certain requirements of the New York Stock Exchange, or NYSE, and certain provisions of the Sarbanes-Oxley Act of 2002, or SOX, and the regulations promulgated thereunder, which impose significant compliance obligations on us.

SOX, as well as rules subsequently implemented by the SEC and NYSE, have imposed increased regulation and disclosure and have required enhanced corporate governance practices of public companies. Our efforts to comply with evolving laws, regulations and standards are likely to result in increased administrative expenses and a diversion of management s time and attention from revenue-generating activities. We may not be successful in implementing or maintaining these requirements. In addition, if we were to fail to implement or maintain the requirements with respect to our internal accounting and audit functions, our ability to continue to report our operating results on a timely and accurate basis could be impaired and we could be subject to sanctions or investigation by regulatory authorities, such as the SEC or NYSE. Any such action could harm our reputation and the confidence of investors and customers in our company and could materially adversely affect our business and cause the price of our Class A common stock to decline.

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 SOX, and the Jumpstart Our Business Startups Act, or JOBS Act, we are required to provide annually an assessment of the effectiveness of our internal controls over financial reporting and, starting with the year after we are no longer an emerging growth company as defined in the JOBS Act, our independent registered public accounting firm will be required to provide an attestation on our assessment of our internal controls over financial reporting.

We are currently taking the necessary steps to comply with Section 404 of SOX. 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

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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 our initial public offering, we were 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, our S Corporation status terminated and we are now treated as a C Corporation for federal and applicable state income tax purposes. As a C Corporation, we are subject to increased federal and state income taxes. In addition, if the unaudited, open tax years in which we were an S Corporation are audited by the Internal Revenue Service, and we are determined not to have qualified for, or to have violated, our S Corporation status, we 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 our taxable income while we were 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.

The terms of our credit facility impose operating and financial restrictions on us that may impair our ability to respond to changing business and economic conditions.

On May 3, 2012, we amended and restated our credit agreement with Wells Fargo Bank, National Association (the Amended Credit Agreement). The Amended Credit Agreement amended and restated our prior credit agreement, and among other things, increased the line of credit and letter of credit subfacility. The Amended Credit Agreement contains customary affirmative and negative covenants, including limitations on indebtedness; limitations on consolidations, mergers and sales of assets; and limitations on transactions with affiliates. The Amended Credit Agreement also contains financial covenants setting forth requirements for certain levels of liquidity and profitability. These limitations and covenants may restrict our ability to respond to changing business and economic conditions, and may therefore have a material adverse effect on our business. If we are unable to meet these limitations and covenants, we may be in default under the Amended Credit Agreement, which could also have a material adverse effect on our business.

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 2012, sales from our e-commerce business increased 21% over the previous year and represented a little more than 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

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- 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.

Risks Related to Ownership of Our Class A Common Stock

We are 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.

Mr. Shaked controls more than 50% of the total voting power of our common stock and we are 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 are 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.

If securities or industry analysts 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 depends in part on the research and reports that securities or industry analysts publish about us or our business. 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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Financial forecasting by us and financial analysts who may publish estimates of our performance may differ materially from actual results.

Given the dynamic nature of our business, the current uncertain economic climate and the inherent limitations in predicting the future, forecasts of our revenues, comparable sales, margins, net income and other financial and operating forecasts may differ materially from actual results. Such discrepancies could cause a decline in the trading price of our Class A common stock.

We have a small public float and this may result in price swings in our Class A common stock or make it difficult to acquire or dispose of our Class A common stock.

As of February 2, 2013, we had 10,772,215 publicly traded shares of Class A common stock outstanding. This small public float can result in large swings in our stock price with relatively low trading volume. In addition, a purchaser that seeks to acquire a significant number of shares may be unable to do so without increasing our common stock price, and conversely, a seller that seeks to dispose of a significant number of shares may experience a decreasing stock price.

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 off-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.

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Future sales of our common stock by us or 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, or the perception that such sales might occur, may cause the market price for our Class A common stock to decline. As of February 2, 2013, we had 10,772,215 publicly traded shares of Class A common stock and 16,919,910 shares of Class B common stock outstanding, excluding 2,133,625 shares of Class A common stock issuable upon the exercise of outstanding stock options. All of these shares, other than the 16,919,910 shares of Class B common stock held by the Shaked and Levine family entities, are 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.

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 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.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

We lease approximately 172,000 square feet for our corporate headquarters and retail support and distribution center located at 10 Whatney and 12 Whatney, Irvine, California. Our lease began on January 1, 2003. We have exercised the first of three five-year renewal options on this lease. Upon exercising the first renewal option, the lease now terminates on December 31, 2017.

We lease approximately 24,000 square feet of office and warehouse space located at 15 Chrysler, Irvine, California. Our lease began on November 1, 2010 and terminates on October 31, 2014. Approximately 17,000 square feet of this building is subleased to a third party and we use the remaining space.

We lease approximately 26,000 square feet of office and warehouse space located at 11 Whatney, Irvine, California. The lease began on September 2, 2011 and terminates on June 30, 2022.

We lease approximately 81,000 square feet of office and warehouse space located at 17 Pasteur, Irvine, California. The lease began on November 1, 2011 and terminates on October 31, 2021. Pursuant to the lease agreement, we requested that the landlord expand the building. Upon commencement of the building expansion, we returned the building to the landlord for the duration of the construction. As of February 2, 2013, the landlord returned the expanded building to us. We expect to use this property as our e-commerce distribution center.

All of our stores, encompassing approximately 1.3 million total square feet as of February 2, 2013, are occupied under operating leases. The store leases generally have a base lease term of 10 years and many have renewal option periods, and we are generally responsible for payment of property taxes and utilities, common area maintenance and mall marketing fees.

Item 3. Legal Proceedings

From time to time, we may become involved in lawsuits and other claims arising from our ordinary course of business. Management is currently unable to predict the ultimate outcome of any litigation or claim, determine whether a liability has been incurred or make an estimate of the reasonably possible liability that could result from an unfavorable outcome because of the uncertainties related to the incurrence, amount and range of loss on any pending litigation or claim. Because of the unpredictable nature of these matters, we cannot provide any assurances regarding the outcome of any litigation or claim to which we are a party or that the ultimate outcome of any of the matters threatened or pending against us, including those disclosed below, will not have a material adverse effect on our financial condition or results of operations. See Item 1A Risk Factors Litigation costs and the outcome of litigation could have a material adverse effect on our business included in this report.

Kristin Christiansen and Shellie Smith, on behalf of themselves and all others similarly situated vs. World of Jeans & Tops, Superior Court of California, County of Sacramento, Case No. 34-2013-00139010. On January 29, 2013, the plaintiffs in this matter filed a lawsuit against us alleging violations of California Civil Code Section 1747.08 which prohibits requesting or requiring personal identification information from a customer paying for goods with a credit card and recording such information. The complaint seeks certification of a class, unspecified damages, injunctive relief and attorneys fees. We intend to defend this case vigorously.

Maria Rebolledo, individually and on behalf of all others similarly situated and on behalf of the general public vs. Tilly s, Inc.; World of Jeans & Tops, Superior Court of the State of California, County of Orange, Case No. 30-2012-00616290-CU-OE-CXC. On December 5, 2012, the plaintiff in this matter filed a lawsuit against us alleging violations of California s wage and hour, meal break and rest break rules and regulations, and unfair competition law, among other things. An amended complaint was filed on February 28, 2013, to include enforcement of California s private attorney general act. The complaint seeks an unspecified amount of damages and penalties. We intend to defend this case vigorously.

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Deborah Lyddy v. World of Jeans & Tops and Tilly s, Inc., Superior Court of California, County of San Diego (37-2011-00098812-CU-BT-CTL). In October 2011, plaintiff filed a putative class action against us alleging various causes of action based on our California gift card redemption policies. The plaintiff seeks unspecified damages, declaratory and injunctive relief and attorneys fees. The lawsuit is ongoing and we intend to defend this case vigorously.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our Class A common stock has been listed on the New York Stock Exchange under the symbol TLYS since May 4, 2012, the day after our initial public offering. The following table sets forth the high and low sales prices of our Class A common stock, as reported by the NYSE, during each fiscal quarter since our initial public offering:

	High	Low
Fiscal quarter ended:		
July 28, 2012 (commencing May 4, 2012)	$ 19.29	$ 13.70
October 28, 2012	19.57	15.41
February 2, 2013	17.15	12.36

As of March 22, 2013, we had approximately 14 stockholders of record, ten of whom were holders of our Class A common stock and four of whom were holders of our Class B common stock. The number of stockholders of record is based upon the actual number of stockholders registered at such date and does not include holders of shares in street names or persons, partnerships, associates, corporations or other entities identified in security position listings maintained by depositories.

Dividends

Our Class A common stock began trading on May 4, 2012, following our initial public offering. Since that time, we have not declared any cash dividends, and we do not anticipate declaring any cash dividends in the foreseeable future.

Prior to our initial public offering, as an S Corporation, we distributed annually to our shareholders amounts sufficient to cover their tax liabilities, due to the income that flowed through the shareholders tax returns. Additional amounts were distributed from time to time to our shareholders at the discretion of the board of directors. During fiscal year 2012, we paid distributions of $84.3 million to our shareholders, which included a final distribution (resulting from the termination of our S Corporation status) of 100% of our undistributed taxable income from the date of our formation through May 2, 2012.

Securities Authorized for Issuance Under Equity Compensation Plans

The information required by this Item is incorporated herein by reference to the Company s Proxy Statement for the 2013 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after the close of the fiscal year ended February 2, 2013.

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Stock Performance Graph

The graph set forth below compares the cumulative stockholder return on our Class A common stock between May 4, 2012 (the date of our initial public offering) and February 2, 2013 to the cumulative return of (i) the S&P Midcap 400 Index and (ii) the S&P 400 Apparel Retail Index over the same period. This graph assumes an initial investment of $100 on May 4, 2012 in our Class A common stock, the S&P Midcap 400 Index and the S&P 400 Apparel Retail Index and assumes the reinvestment of dividends, if any. The graph also assumes that the initial prices of our Class A common stock, the S&P Midcap 400 Index and the S&P 400 Apparel Retail Index on May 4, 2012 were the closing prices on that trading day.

Recent Sales of Unregistered Securities

Other than the sales of unregistered securities that have been previously reported, we did not sell any unregistered equity securities or purchase any of our securities during the fiscal year ended February 2, 2013.

Use of Proceeds from Registered Securities

On May 3, 2012, our Registration Statement on Form S-1, as amended (File No. 333-175299), was declared effective, pursuant to which we registered the offering and sale of 7,600,000 shares of Class A common stock by Tilly s, Inc., the associated sale of 400,000 shares of Class A common stock by selling stockholders, and the sale pursuant to the underwriters over-allotment option of an additional 1,200,000 shares of Class A common stock by selling stockholders, at a price of $15.50 per share. On May 9, 2012, Tilly s, Inc. sold all 7,600,000 shares of Class A common stock for an aggregate offering price of $117.8 million, the selling stockholders sold 1,600,000 shares of common stock, including 1,200,000 shares pursuant to the underwriters over-allotment option, for an aggregate offering price of $24.8 million, and the offering terminated. The underwriters were Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith, Incorporated, Piper Jaffray, William Blair & Company, L.L.C., and Stifel Nicolaus & Company, Incorporated.

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As a result of the offering, Tilly s, Inc. received net proceeds of approximately $107 million, after deducting the underwriting discount of $8.7 million and related fees and expenses of approximately $2.5 million. On May 9, 2012, we used $84.0 million of the net proceeds from the offering to pay in full the principal amount of notes representing World of Jeans & Tops undistributed taxable income. These notes were to the former shareholders of World of Jeans & Tops in connection with the Reorganization Transaction and all payments were made to trusts related to Hezy Shaked, Tilly Levine and their children.

With respect to the remaining $23 million in net proceeds from the offering, there has been no material change in the planned use of such proceeds from our initial public offering as described in the final prospectus filed with the SEC pursuant to Rule 424(b) and dated May 3, 2012.

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Item 6. Selected Financial 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 income data for the fiscal years ended February 2, 2013, January 28, 2012 and January 29, 2011 and selected consolidated balance sheet data as of February 2, 2013 and January 28, 2012 are derived from our consolidated financial statements audited by Deloitte & Touche LLP, our independent registered public accounting firm, included in Item 8 of this report. The selected consolidated statement of income data for the fiscal years ended January 30, 2010 and January 31, 2009 and the selected consolidated balance sheet data as of January 29, 2011, January 30, 2010 and January 31, 2009 are derived from our audited consolidated financial statements that have not been included elsewhere in this report. 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 report.

	Fiscal Year Ended (1)				
	February 2, 2013	January 28, 2012	January 29, 2011	January 30, 2010	January 31, 2009
	(in thousands, except per share data)				
Consolidated Statements of Income Data:					
Net sales	$ 467,291	$ 400,624	$ 332,604	$ 282,764	$ 254,983
Cost of goods sold (2)	317,096	271,482	229,989	195,430	172,107
Gross profit	150,195	129,142	102,615	87,334	82,876
Selling, general and administrative expenses	118,805	94,217	77,668	65,912	59,043
Operating income	31,390	34,925	24,947	21,422	23,833
Interest income (expense), net	(91)	(196)	(249)	(284)	35
Income before income taxes	31,299	34,729	24,698	21,138	23,868
Income tax expense	7,406	389	282	275	262
Net income	$ 23,893	$ 34,340	$ 24,416	$ 20,863	$ 23,606
Basic earnings per share	$ 0.93	$ 1.72	$ 1.22	$ 1.04	$ 1.18
Diluted earnings per share	$ 0.92	$ 1.68	$ 1.21	$ 1.04	$ 1.18
Weighted average basic shares outstanding	25,656	20,000	20,000	20,000	20,000
Weighted average diluted shares outstanding	26,076	20,500	20,098	20,014	20,000
Pro Forma Income Information (3):					
Pro forma income tax expense	$ 12,520	$ 13,892	$ 9,879	$ 8,455	$ 9,547
Pro forma net income	18,779	20,837	14,819	12,683	14,321
Pro forma basic earnings per share	$ 0.73	$ 1.04	$ 0.74	$ 0.63	$ 0.72
Pro forma diluted earnings per share	$ 0.72	$ 1.02	$ 0.74	$ 0.63	$ 0.72

	Fiscal Year Ended				
	February 2, 2013	January 28, 2012	January 29, 2011	January 30, 2010	January 31, 2009
Operating Data (unaudited):					
Stores operating at beginning of period	140	125	111	99	73
Stores opened during the period	29	16	16	13	26
Stores closed during the period	1	1	2	1	-
Stores operating at end of period	168	140	125	111	99
Comparable store sales change (4)	2.2%	10.7%	6.7%	-3.1%	-12.5%
Total square feet at end of period	1,318,803	1,094,419	967,011	862,971	775,832
Average square footage per store at end of period	7,850	7,817	7,736	7,775	7,837
Average net sales per store (in thousands) (5)	$ 2,676	$ 2,718	$ 2,528	$ 2,479	$ 2,750

Average net store sales per square foot (5)	$ 341	$ 350	$ 326	$ 318	$ 349
Capital expenditures (in thousands)	$ 33,298	$ 20,223	$ 15,674	$ 17,514	$ 23,406

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	As of				
	February 2, 2013	January 28, 2012	January 29, 2011 (in thousands)	January 30, 2010	January 31, 2009
Consolidated Balance Sheet Data:					
Cash, cash equivalents and marketable securities	$ 57,182	$ 25,091	$ 29,338	$ 25,705	$ 24,535
Working capital	73,891	27,673	33,907	29,639	22,779
Total assets	205,381	140,819	130,974	115,454	110,142
Total long-term debt (6)	3,970	4,638	5,266	5,857	6,412
Stockholders equity	117,296	60,424	62,092	59,896	55,053

(1) The fiscal year ended February 2, 2013 includes 53 weeks. The fiscal years ended January 28, 2012, January 29, 2011, January 30, 2010 and January 31, 2009 each included 52 weeks.
(2) Includes buying, distribution and occupancy costs.
(3) The unaudited pro forma income statement for all years presented gives effect to an adjustment for income tax expense as if we had been a C Corporation for all years presented at an assumed combined federal, state and local effective income tax rate, which approximates our statutory income tax rate, of 40%.
(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 current reporting period. A remodeled or relocated store is included in comparable store sales, both during and after construction, if the square footage of the store was not changed by more than 20% and the store was not closed for more than five days in any fiscal month. Comparable store sales include sales through our e-commerce store but exclude gift card breakage income and e-commerce shipping and handling fee revenue. E-commerce sales contributed 2.1%, 2.3%, 3.3%, 2.9% and 1.9% to the comparable store sales change for fiscal years 2012, 2011, 2010, 2009 and 2008, respectively. The comparable store sales change for the period ended February 2, 2013 excludes the 53rd week in fiscal year 2012.
(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.
(6) Comprised solely of a capital lease for our corporate headquarters and distribution center.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with the consolidated financial statements and the accompanying notes and the information contained in other sections of this report, particularly under the headings Risk Factors , Selected Consolidated Financial Data and Business . This discussion and analysis is based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. The statements in this discussion and analysis concerning expectations regarding our future performance, liquidity and capital resources, as well as other non-historical statements in this discussion and analysis, are forward-looking statements. See Forward-Looking Statements . These forward-looking statements are subject to numerous risks and uncertainties, including those described under Risk Factors . Our actual results could differ materially from those suggested or implied by any forward-looking statements.

We operate on a fiscal calendar widely used by the retail industry that results in a given fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to January 31 of the following year. References to fiscal year 2012 or fiscal 2012 refer to the fiscal year ended February 2, 2013, references to fiscal year 2011 or fiscal 2011 refer to the fiscal year ended January 28, 2012 and references to fiscal year 2010 or fiscal 2010 refer to the fiscal year ended January 29, 2011. Fiscal year 2012 consisted of a 53-week period, and fiscal years 2011 and 2010 each consisted of a 52-week period.

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Overview

Tilly s is a fast-growing destination specialty retailer of West Coast inspired apparel, footwear and accessories. We believe we bring together an unparalleled selection of the most sought-after brands rooted in action sports, music, art and fashion. Our West Coast heritage dates back to 1982 when Hezy Shaked and Tilly Levine opened our first store in Orange County, California. As of February 2, 2013, we operated 168 stores in 28 states, averaging approximately 7,850 square feet. We also sell our products through our e-commerce website, www.tillys.com.

Our strong growth and operating results reflect initiatives taken by our management team as well as our customers increasing awareness of our brand and merchandise assortment as we have expanded our presence in both existing and new markets. We increased net sales 17%, to $467.3 million in fiscal year 2012 from $400.6 million in fiscal year 2011. Operating income decreased 10%, to $31.4 million in fiscal year 2012 from $34.9 million in fiscal year 2011, primarily due to the recognition of $9.6 million of stock-based compensation expense for stock options during fiscal year 2012. Our comparable store sales increased 2.2% in fiscal year 2012 after a 10.7% increase in fiscal year 2011. Since the beginning of fiscal 2008, we have more than doubled our store count from 73 stores to 168 stores at the end of fiscal year 2012.

We expect to continue our strong growth in the future. We believe there is a significant opportunity to expand our store base to more than 500 stores over the next 8 years. We plan to add a total of at least 25 net new stores in fiscal year 2013 and to continue opening new stores at an annual rate of approximately 15% for the next several years thereafter. We expect to fund this store expansion through our cash on hand. We believe our success operating in different retail venues and geographies demonstrates the portability of Tilly s and provides us with flexibility for future expansion. We also expect to continue to support our comparable store sales by consistently offering new, on-trend and relevant merchandise, increasing our brand awareness, providing an engaging store experience for our core customers and maintaining our high level of customer service.

Over the last five years, we have invested over $25 million in infrastructure and systems to support our recent and long-term growth. We believe our distribution and allocation capabilities are unique within the industry and allow us to quickly sort and process merchandise and deliver it to our stores in a floor-ready format for immediate display. We believe our distribution infrastructure can support a national retail footprint in excess of 500 stores with minimal incremental capital investment. In addition, we anticipate spending approximately $14 million to equip our new e-commerce distribution center, which we expect to open near the end of fiscal year 2013. We plan to fund the tenant improvements for this leased facility from cash on hand and cash flows from operations.

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

How We Assess the Performance of Our Business

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

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Net Sales

Net sales reflect revenue from the sale of our merchandise at store locations as well as sales of merchandise through our e-commerce store, which is reflected in sales when the merchandise is received by the customer. Net sales also include shipping and handling fees for e-commerce shipments that have been delivered to the customer. Net sales are net of returns on sales during the period as well as an estimate of returns expected in the future stemming from current period sales. Revenue from the sale of gift cards is deferred and not included in net sales until the gift cards are used to purchase merchandise. However, over time, the redemption of some gift cards becomes remote (referred to as gift card breakage). Revenue from estimated gift card breakage is also included in net sales.

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

Comparable Store Sales

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

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

- overall economic trends;

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

		$ 187,200					
Kenneth J. Webster	1/04/10(3)				3,860	$ 17.03	45,799
	2/22/10(4)			3,260			58,484
		$ 117,000	$ 175,500				

(1) These columns show the potential payouts for each named executive officer based on performance goals set in the first quarter of 2010 under the 2009 Incentive Compensation Plan for fiscal year 2010. Mr. Webster s individual target award amount was increased in May 2010 upon his promotion and assumption of additional responsibilities. Detail regarding the actual award payouts for 2010 under the performance goals under the 2009 Incentive Compensation Plan is reported in the 2010 Summary Compensation Table and is included in the Compensation Discussion and Analysis above.

(2) The values included in this column represent the grant date fair value of stock and option awards computed in accordance with FASB ASC Topic 718, Compensation Stock Compensation.

(3) Nonqualified stock options granted pursuant to the 2009 Omnibus Equity Plan. These options vest with respect to one-fourth the total number of common shares underlying the stock options on each of the first four anniversaries of the grant date.

(4) Restricted stock awards granted pursuant to the 2009 Omnibus Equity Plan. The restricted stock awards vest in equal installments on each of the first three anniversaries of the date of grant. Detail regarding the restricted stock awards is reported in the 2010 Summary Compensation Table and is included in the Compensation Discussion and Analysis.

(5) As mentioned above, Mr. Hoppel s last day of employment with the Company was December 31, 2010. Accordingly, none of the awards made to Mr. Hoppel in 2010 have vested or will vest in the future.

Discussion of Summary Compensation Table and Grants of Plan-Based Awards Table

Description of Employment Agreements

Each of the Company s current executive officers is employed pursuant to an employment agreement (the Employment Agreements) effective February 26, 2008 with respect to Messrs. Thomas, Biehl and Klaben and March 1, 2008 with respect to Mr. Webster. The Employment Agreements provide for an initial two year employment term which automatically renews for additional one year periods. The Employment Agreements further provide for an automatic three year extension in the event of a Change in Control of the Company. During the employment term, the executive is entitled to receive at least the base salary in effect as of the effective date of the Employment Agreement, together with the right to participate in the Company s employee benefit plans, including health, life and disability insurance, retirement, deferred compensation and fringe benefits, as well as any incentive and equity compensation plans, as in effect from time to time, on the same basis as such plans are made available to other senior executives, and to receive a car allowance. Annual base salaries of the Company s executive officers under their respective Employment Agreements for 2011 are set forth under Compensation Discussion and Analysis Elements of Compensation Base Salary above.

Pursuant to the Employment Agreements, during the employment term, each executive is eligible to receive an annual bonus (an Annual Bonus) of up to one hundred fifty percent (150%) of a target amount designated for each executive, based upon a percentage of such executive s annual base salary (the Base Target). Annual Bonuses are based upon the achievement of performance targets established by the Board of Directors, or a duly authorized committee thereof, no later than 90 days after the beginning of each fiscal year during the employment period. Annual Bonuses, if any, are payable within two and one-half months after the end of the applicable fiscal year. Annual Bonuses are determined in accordance with the terms of the Company s 2009 Incentive Compensation Plan, as currently in effect and as it may be amended from time to time, including any predecessor or successor plan. In the event of an Incentive Plan Change in Control (as defined below under Other Potential Post-Employment Payments Payments made upon Change in Control), the Annual Bonus may be pro-rated in accordance with the terms of the 2009 Incentive Compensation Plan or such a predecessor or successor plan. Base Targets of the Company s executive officers under their respective Employment Agreements for 2011 are set forth above under Compensation Discussion and Analysis Elements of Compensation Annual and Other Cash Incentive Awards.

Under the Employment Agreements, our executive officers are entitled to receive monthly automobile allowances for 2011 in the following amounts: (i) Mr. Thomas, $1,000; (ii) Mr. Biehl, $1,000; (iii) Mr. Klaben, $800; and (iv) Mr. Webster, $800.

Additionally, in connection with our initial public offering, consummated on July 31, 2006, we entered into amended and restated management stockholder s agreements, effective as of April 1, 2006, with certain members of our management, including Messrs. Thomas, Biehl and Klaben.

Pursuant to and subject to the terms of the amended and restated management stockholder s agreements, each of these executives has the opportunity to include in registered sales of our Common Stock (other than an initial public offering or relating to any employee benefit plan or corporate merger, acquisition or reorganization) and any shelf registration statement filed by us with respect to our Common Stock, all or any part of the registrable securities (as such term is defined in the amended and restated management stockholder s agreements) then held by the executive. We will pay all of the expenses associated with an offering of such shares. Underwriting discounts will be shared proportionally.

For more terms, including post-termination payments and restrictive covenants, see Other Potential Post-Employment Payments.

Equity and Incentive Plan Awards

Chart Industries, Inc. 2009 Incentive Compensation Plan

Cash bonuses payable to the executive officers for 2010 and if earned in 2011 are payable pursuant to performance measures set under the 2009 Incentive Compensation Plan, which was adopted by the Board of Directors and approved by our stockholders on May 19, 2009. The performance measures established under the 2009 Incentive Compensation Plan for fiscal years 2010 and 2011 for executive officers are operating income, net income and working capital. The Compensation Committee selected these measures to align executive officer cash bonus measures to measures that are believed to be meaningful indications of our performance for our public stockholders. Under these targets, our executive officers are eligible to earn a cash incentive bonus for our 2011 fiscal year if performance exceeds threshold amounts in an amount up to a pre-determined percentage, ranging from 97.5% to 225% of the executive officer s base salary (with higher ranked officers eligible to receive a higher percentage of base salary), at maximum performance levels. Actual performance below the minimum performance threshold for a performance objective would result in no payment based on that objective. Our Compensation Committee has determined that our financial performance for 2010 achieved a weighted level of 56.89% of our 2010 performance measures, compared to a weighted level of 99.24% of our 2009 performance measures and a weighted level of 131.08% for 2008. Accordingly, we paid the annual bonuses for 2010 to our named executive officers set forth in the 2010 Summary Compensation Table under the caption Non-Equity Incentive Plan Compensation.

Under the 2009 Incentive Compensation Plan, a performance period may be for a fiscal year or a multi-year cycle, as determined by the Compensation Committee, and performance objectives upon the attainment of which target incentive bonuses will be awarded may be based on one or more of certain performance criteria which may relate to us, one or more of our subsidiaries, our divisions or units, or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any combination thereof, all as the Compensation Committee determines. The Compensation Committee may appropriately adjust any performance evaluation under a performance objective or objectives to reflect or exclude certain unusual events that may occur during the performance period. If there is an Incentive Plan Change in Control the Compensation Committee will determine promptly, in its discretion, whether and to what extent the performance criteria have been met or will be deemed to have been met for the year in which the Incentive Plan Change in Control occurs and for any completed performance period for which a determination under the plan has not been made. If the Committee determines the criteria have been met, participants will receive their bonuses as soon as practicable, but in no event more than 30 days after the determination.

Pursuant to the terms of the 2009 Incentive Compensation Plan, no executive officer or other participant may receive a bonus, with respect to any fiscal year, in excess of $5.0 million. The Compensation Committee has absolute discretion to reduce or eliminate the amount otherwise payable under the 2009 Incentive Compensation Plan and to establish rules or procedures which limit the amount payable to a participant to an amount that is less than the amount otherwise approved as that participant s incentive bonus, except that following an Incentive Plan Change in Control the Compensation Committee continues to have such right only in the event that a participant engages in misconduct or materially fails to fulfill his or her duties, in each case, as determined by the Compensation Committee.

Chart Industries, Inc. Incentive Compensation Plan

Cash bonuses payable for 2008 and 2009 to the executive officers are payable pursuant to and in accordance with the Old Incentive Compensation Plan, which was adopted by the Board of Directors and approved by our stockholders on July 17 and July 18, 2006, respectively. The performance measures established under the Old Incentive Compensation Plan for fiscal years 2008 and 2009 for executive officers were operating income, net income and working capital. The Compensation Committee selected these measures to align executive officer cash bonus measures to measures that are believed to be meaningful indications of our performance for our public stockholders. Actual performance below the minimum performance threshold for a performance objective would result in no payment based on that objective. As discussed above, our Compensation Committee determined that our financial performance for 2009 achieved a weighted level of 99.24% of our 2009 performance measures and 131.08% for 2008. Accordingly, we paid the annual bonuses for 2008 and 2009 to our named executive officers set forth in the 2010 Summary Compensation Table under the caption Non-Equity Incentive Plan Compensation.

Chart Industries, Inc. 2009 Omnibus Equity Plan and the Amended and Restated Chart Industries, Inc. 2005 Stock Incentive Plan

The 2009 Omnibus Equity Plan was initially adopted by our Board of Directors and approved by stockholders on May 19, 2009. The 2009 Omnibus Equity Plan is intended to replace the 2005 Stock Incentive Plan. The purpose of the 2009 Omnibus Equity Plan is to attract and retain skilled and qualified officers, employees and directors who are expected to contribute to our long-term success by providing long-term incentive compensation opportunities competitive with those made available by other companies, to motivate participants to achieve the long-term success and growth of the Company, to facilitate ownership of shares of the Company, and to align the interests of participants with those of our stockholders.

Both the 2009 Omnibus Equity Plan and the 2005 Stock Incentive Plan provide for grants of (1) stock options, (2) stock appreciation rights, (3) restricted stock, (4) restricted stock units, and (5) other stock-based grants, including shares of our Common Stock awarded to our non-employee directors, executive officers, other key employees and consultants. As of March 31, 2011, there were 630,287 shares of Common Stock reserved for issuance under the 2009 Omnibus Equity Plan, including 166,786 outstanding shares of restricted stock that are subject to forfeiture until they vest under the terms of the restricted stock awards. As of March 31, 2011, there were 1,353,352 shares of Common Stock reserved for issuance under the 2005 Stock Incentive Plan. No new grants will be made under the 2005 Stock Incentive Plan, but we expect shares will be issued in the future under outstanding awards. For information about Common Stock issuable under the 2009 Omnibus Equity Plan and 2005 Stock Incentive Plan at March 31, 2011, see Equity Compensation Plan Information.

Both the 2009 Omnibus Equity Plan and 2005 Stock Incentive Plan are administered by our Board of Directors, which has delegated its duties and powers to our Compensation Committee. The Compensation Committee has the full power and authority to establish the terms and conditions of any award consistent with the provisions of the 2009 Omnibus Equity Plan or the 2005 Stock Incentive Plan and to waive any such terms and conditions at any time. The Compensation Committee is authorized to interpret the 2009 Omnibus Equity Plan and the 2005 Stock Incentive Plan, to establish, amend and rescind any rules and regulations relating to the 2009 Omnibus Equity Plan or the 2005 Stock Incentive Plan and to make any other determinations that it deems necessary or desirable for the administration of the 2009 Omnibus Equity Plan or the 2005 Stock Incentive Plan. The Compensation Committee is authorized to correct any defect or supply any omission or reconcile any inconsistency in either plan in the manner and to the extent the committee deems necessary or desirable.

An option holder may exercise an option by written notice and payment of the exercise price (1) in cash, (2) to the extent permitted by our Board of Directors, by the surrender of a number of shares of Common Stock already owned by the option holder for at least six months (or such other period as established from time to time by the Board consistent with the applicable plan), (3) in a combination of cash and shares of Common Stock (as qualified by clause (2)), (4) through the delivery of irrevocable instructions to a broker to sell shares obtained upon the exercise of the option and deliver to us an amount equal to the exercise price for the shares of Common Stock being purchased or (5) through such cashless exercise procedures as the Board may permit. Holders who are subject to the withholding of federal and state income tax as a result of exercising an option or the vesting or grant of another award under our 2009 Omnibus Equity Plan or 2005 Stock Incentive Plan may satisfy the income tax withholding obligation through the withholding of a portion of the shares of Common Stock to be received.

2010 OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END TABLE

The following table and related notes and discussion present information about equity awards held by our named executive officers at December 31, 2010.

	Option Awards(1)				Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(13)
Samuel F. Thomas	356,876(2)		$ 6.50	11/23/2015		
	237,388(3)		6.50	11/23/2015		
	13,725(4)	4,575(4)	27.74	8/02/2017		
	9,475(5)	9,475(5)	30.95	1/02/2018		
	12,500(6)	37,500(6)	11.00	1/02/2019		
		47,170(7)	17.03	1/04/2020		
					17,430(8)	$ 588,785
					26,150(9)	883,347
					43,420(10)	1,466,727
Michael F. Biehl	20,244(3)		6.50	11/23/2015		
	4,575(4)	1,525(4)	27.74	8/02/2017		
	3,250(5)	3,250(5)	30.95	1/02/2018		
	2,437(6)	7,313(6)	11.00	1/02/2019		
		11,000(7)	17.03	1/04/2020		
					5,990(8)	$ 202,342
					8,990(9)	303,682
					9,290(10)	313,816
Matthew J. Klaben	28,082(2)		12.16	3/29/2016		
	27,384(11)	6,973(11)	12.16	3/29/2016		
	2,175(4)	725(4)	27.74	8/02/2017		
	1,510(5)	1,510(5)	30.95	1/02/2018		
	1,302(6)	3,908(6)	11.00	1/02/2019		
		5,730(7)	17.03	1/04/2020		
					2,780(8)	$ 93,908
					4,800(9)	162,144
					4,840(10)	163,495
James H. Hoppel, Jr.(12)					2,540(8)	$ 85,801
Kenneth J. Webster	975(4)	325(4)	27.74	8/02/2017		
	1,120(5)	1,120(5)	30.95	1/02/2018		
	840(6)	2,520(6)	11.00	1/02/2019		
		3,860(7)	17.03	1/04/2020		
					2,060(8)	$ 69,587
					3,090(9)	104,380
					3,260(10)	110,123

(1) The securities underlying options which were granted in 2008, 2009 and 2010 are also included in the aggregate grant date fair value in the Option Awards column of the 2010 Summary Compensation Table.

(2) The securities underlying these options represent performance options granted under the 2005 Stock Incentive Plan. The performance options became exercisable upon the recognition of a net return by First Reserve, our then private equity owner, with respect to its investment in the Company in connection with the Company s secondary offering in June 2007.

(3) The securities underlying these options represent time options granted on November 23, 2005 under the 2005 Stock Incentive Plan and vest annually in equal installments over five years based on continued service.

(4) The securities underlying these options represent options granted on August 2, 2007 under the 2005 Stock Incentive Plan and vest annually in equal installments over four years based on continued service.

(5) The securities underlying these options represent options granted on January 2, 2008 under the 2005 Stock Incentive Plan and vest annually in equal installments over four years based on continued service.

(6) The securities underlying these options represent options granted on January 2, 2009 under the 2005 Stock Incentive Plan and vest annually in equal installments over four years based on continued service.

(7) The securities underlying these options represent options granted on January 4, 2010 under the 2009 Omnibus Equity Plan and vest annually in equal installments over four years based on continued service. These stock options are also included in the All Other Option Awards column of the 2010 Grants of Plan-Based Awards Table.

(8) These performance units were granted on January 2, 2008 pursuant to the 2005 Stock Incentive Plan. Detail regarding the performance units is reported in the 2010 Summary Compensation Table and is included in the Compensation Discussion and Analysis, including discussion of the vesting of 32.19% of these performance units on February 22, 2011.

(9) These performance units were granted on February 23, 2009 pursuant to the 2005 Stock Incentive Plan. Detail regarding the performance units is reported in the 2010 Summary Compensation Table and is included in the Compensation Discussion and Analysis.

(10) These restricted stock awards were granted on February 22, 2010 pursuant to the 2009 Omnibus Equity Plan. The restricted stock awards vest in equal installments on each of the first three anniversaries of the date of grant. Detail regarding the restricted stock is reported in the 2010 Summary Compensation Table and is included in the Compensation Discussion and Analysis. These restricted stock awards are also included in the All Other Stock Awards column of the 2010 Grants of Plan-Based Awards Table.

(11) The securities underlying these options represent time options granted on March 29, 2006 under the 2005 Stock Incentive Plan and vest annually in equal installments over five years based on continued service.

(12) Pursuant to the award agreements, all of Mr. Hoppel s unvested awards were forfeited as of December 31, 2010, his last day of employment with the Company.

(13) Calculated based on a December 31, 2010 closing price of $33.78.

2010 OPTION EXERCISES AND STOCK VESTED TABLE

The following table presents information about the number of shares issued upon option exercises and performance unit vesting, and the value realized upon exercise or vesting, by our named executive officers in 2010.

	Option Awards		Stock Awards(2)	
Name	**Number of Shares Acquired on Exercise(#)**	**Value Realized on Exercise($)**	**Number of Shares Acquired on Vesting(#)**	**Value Realized on Vesting($)**
Samuel F. Thomas			3,843	$ 68,943
Michael F. Biehl	8,243	$ 153,320	1,282	22,999
Matthew J. Klaben			610	10,943
James H. Hoppel, Jr.	71,004(1)	$ 1,802,374	524	9,401
Kenneth J. Webster			273	4,898

(1) Represents shares acquired by Mr. Hoppel upon the exercise of stock options after he ceased to be an executive officer but before December 31, 2010.

(2) Represents shares acquired in connection with the vesting on February 22, 2010 of 22.81% of the performance unit awards granted on August 2, 2007.

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2010 NONQUALIFIED DEFERRED COMPENSATION TABLE

The following table and related notes and discussion present information about the amount of compensation deferred, and the earnings accrued thereon, by our named executive officers in 2010.

Name	Executive Contributions in Last FY ($)	Registrant Contributions in Last FY ($)	Aggregate Earnings in Last FY ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last FYE ($)
Samuel F. Thomas(1)	$	$ 29,077	$ 11,256	$	$ 105,995

(1) Under the New Deferred Income Plan, Mr. Thomas was the only executive officer who was eligible for certain Company profit sharing contributions for the period of time in which the New Deferred Income Plan was effective for 2010. Accordingly, on February 3, 2011 the Company made a non-elective contribution to Mr. Thomas account in the amount of $29,077 for 2010, which is included in the 2010 Summary Compensation Table under All Other Compensation.

Pursuant to the Company s New Deferred Income Plan and Old Deferred Income Plan (together the Deferred Income Plans), eligible employees (and directors under the Old Deferred Income Plan) are entitled to elect to defer up to 100% of their compensation, consisting of total salary, bonuses and commissions or director and meeting fees payable in a calendar year. Regardless of the circumstances under which a participant s relationship with the Company terminates, all deferrals made pursuant to the plan will be fully vested. Contributions made by the Company, and any gains or losses on such contributions, vest ratably over three years of participation in the Old Deferred Income Plan and ratably after five years of service under the New Deferred Income Plan. Generally, deferral elections are made by participants in the taxable year immediately prior to the taxable year to which the deferral pertains, and are effective as of the first day of such taxable year. The Deferred Income Plans are unfunded and all benefits under the plan are payable solely from the general assets of the Company.

Benefits under the Deferred Income Plans are payable upon the participant s reaching his or her normal or early retirement date or termination of employment. Payments are made either in a lump sum, or in equal annual installments for a period of up to ten years, as designated by the participant at the time of deferral. Payments may be accelerated under the Deferred Income Plans in the event that (1) a plan interest under the Old Deferred Income Plan is awarded to a former spouse of a participant under court order; (2) a change in control (as defined under the Deferred Income Plans) occurs; (3) a participant has an unforeseeable emergency; (4) a participant becomes disabled; or (5) death occurs prior to completion of payment of benefits. The Company would not expect to permit a participant to receive more than one distribution as a result of an unforeseeable emergency in any calendar year. A participant may also elect to receive an in-service distribution at the time of completing an election of deferral, and such payment is payable in a lump sum on the designated in-service withdrawal date. For information regarding post-termination payments under the plan, see Other Potential Post-Employment Payments.

Participants in the Deferred Income Plans may direct the investment of their balance held within the plan among a number of alternative investment fund options, and earnings and losses on participants investments are determined based on the individual performance of the underlying investment options. A participant may regularly change their investment allocation within the plans. A rabbi trust has been established under the plans to hold assets separate from our other assets for the purpose of paying future participant benefit obligations. Assets held in the rabbi trust are available to our general creditors in the event of our insolvency.

Notwithstanding anything in the Deferred Income Plans to the contrary, the Deferred Income Plans are administered in accordance with the requirements of, or to meet the requirements for exemption from, Section 409A of the Internal Revenue Code.

OTHER POTENTIAL POST-EMPLOYMENT PAYMENTS

The table below and related notes and discussion summarize certain information related to (i) the amount of compensation payable to each of the named executive officers of our Company under their respective Employment Agreements in the event of termination of the executive s employment due to resignation without good reason and termination for cause, involuntary termination without cause or resignation with good reason and not within two years after a Change in Control, death, disability or retirement, and involuntary termination without cause or resignation with good reason within two years after a Change in Control, and upon a Change in Control and (ii) in the case of Mr. Hoppel, the actual treatment of his separation from the Company on December 31, 2010. The amounts shown assume that such termination was effective as of December 31, 2010, the last business day of 2010, and thus include amounts earned through such time and are estimates of the amounts which would be paid out to the executives upon their termination. The actual amounts to be paid out can only be determined at the time of an executive s actual separation from our Company.

Effective August 23, 2010, James H. Hoppel, Jr., voluntarily stepped down as Vice President Corporate Development and Treasurer of the Company to pursue other opportunities. In order to assist the Company with the transition of his duties, Mr. Hoppel continued to serve as an employee of the Company through December 31, 2010 (the Transition Period) pursuant to the terms of the Transition Agreement. The Transition Agreement provided that Mr. Hoppel would continue to be compensated at his current salary rate and continue to receive customary employment benefits under his prior employment agreement through the end of the Transition Period, at which time no further compensation or benefits would be due. Mr. Hoppel was not eligible to receive any cash incentive award for the 2010 fiscal year and would not receive any severance payment upon the termination of the Transition Period. Mr. Hoppel s resignation was deemed an Executive Resignation Without Good Reason under his prior employment agreement. As such, he was entitled to no additional benefits or compensation beyond our fiscal year-end and the impact of his resignation upon equity awards would be consistent with the treatment discussed below under Payments made upon Involuntary Termination for Cause or Resignation without Good Reason.

Payments made upon Involuntary Termination for Cause or Resignation without Good Reason

Salary, Bonus and Benefits. Pursuant to the terms of the Employment Agreements, in the event that a named executive officer is terminated by us for Cause or resigns without Good Reason, he is entitled to receive his base salary, annual bonus and benefits, including accrued but unpaid vacation, that are earned but unpaid as of the date of termination. Under the terms of the Employment Agreements, Cause is defined as the executive s willful failure to perform duties, commission of, or plea of guilty or no contest to a felony or crime involving moral turpitude, willful malfeasance or misconduct which is demonstrably injurious to us or our subsidiaries, material breach of the material terms of the agreement, commission of an act of gross negligence, corporate waste, disloyalty or unfaithfulness to us which adversely affects our business or that of our subsidiaries or affiliates, or any other act or course of conduct which will demonstrably have a material adverse effect on us or a subsidiary or an affiliate s business. Good Reason is defined as: (i) a material diminution in executive s base salary (excluding any general salary reduction similarly affecting substantially all other senior executives of the Company as a result of a material adverse change in the Company s prospects or business); (ii) a material diminution in executive s authority, duties, or responsibilities; (iii) a material change in the geographic location at which executive must perform services; or (iv) any other action or inaction that constitutes a material breach by the Company of the Employment Agreement.

Treatment of Nonqualified Stock Options. Under the terms of the stock option agreements under which the non-qualified stock options were awarded to the named executive officers, in the event that a named executive officer is terminated by us for Cause or resigns without Good Reason, the unvested portion of all stock options will be cancelled.

Treatment of Performance Units. Under the terms of the performance unit agreements under which the performance units were awarded to the named executive officers, in the event that a named executive officer is terminated by us for Cause or resigns without Good Reason during the performance period, all performance units will be cancelled.

Treatment of Restricted Stock. Under the terms of the restricted stock agreements under which restricted stock was awarded to the named executive officers, in the event that a named executive officer is terminated by us for Cause or resigns without Good Reason, any unvested restricted stock will be cancelled.

Treatment of Deferred Compensation. Under the terms of the Deferred Income Plans, in the event that a participant s employment is terminated due to (1) conviction of certain crimes enumerated in the Deferred Income Plan or (2) any breach of the duty of loyalty to us, any acts of omission in the performance of a participant s Company duties not in good faith or which involve intentional misconduct or a knowing violation of law, or any transaction in the performance of a participant s Company duties from which the participant derived an improper personal benefit (Cause under the Deferred Income Plans), the participant will not be entitled to receive any benefits or payments under the terms of the plan, other than the participant deferrals. If a participant s employment is terminated for resignation without Good Reason, the participant will be entitled to receive benefits and payments based on the participant s vested account.

Payments made upon Involuntary Termination Without Cause or Resignation for Good Reason

Salary, Bonus and Benefits. Pursuant to the terms of the Employment Agreements, in the event that a named executive officer is terminated by us without Cause or resigns for Good Reason not within two years of a Change in Control, he is entitled to receive his base salary, annual bonus and benefits, including accrued but unpaid vacation, that are earned but unpaid as of the date of termination and, subject to the execution and delivery of a release of claims against us and compliance with the restrictive covenants described below under Restrictive Covenants that Apply During and After Termination of Employment , (1) a lump sum payment equal to the following percentage of the executive s base salary and target annual bonus: Mr. Thomas, 200%; Mr. Biehl, 150%; and all other officers, 100%; and (2) continued coverage under the Company s group health plans for the following period, depending upon the executive s position: Mr. Thomas, 24 months; Mr. Biehl, 18 months; and all other executives, 12 months. To the extent that continued coverage is not permissible under the terms of such plans beyond eighteen months, we may instead pay an amount equal to the premium subsidy we would have otherwise paid on the executive officer s behalf for such coverage.

Treatment of Nonqualified Stock Options. Under the terms of the stock option agreements under which the non-qualified stock options were awarded to the named executive officers, in the event that a named executive officer is terminated by us without Cause or resigns for Good Reason, any unvested stock options will be cancelled by us without consideration.

Treatment of Performance Units. Under the terms of the performance unit agreements under which the performance units were awarded to the named executive officers, in the event that a named executive officer is terminated by us without Cause or resigns for Good Reason during the performance period, all performance units will be cancelled.

Treatment of Restricted Stock. Under the terms of the restricted stock agreements under which restricted stock was awarded to the named executive officers, in the event that a named executive officer is terminated by us without Cause or resigns for Good Reason, any unvested restricted stock will be cancelled.

Treatment of Deferred Compensation. Under the terms of the Deferred Income Plans, in the event that a participant s employment is terminated by us without Cause or by resignation for Good Reason, the participant will be entitled to receive benefits and payments based upon the participant s vested account.

Payments made upon Termination by Reason of Death or Disability; Retirement

Salary, Bonus and Benefits. Pursuant to the terms of the Employment Agreements, in the event that a named executive officer is terminated by reason of death or ceases to be employed as a result of disability he will be entitled to receive his base salary, annual bonus and benefits, including accrued but unpaid vacation, that are earned but unpaid as of the date of termination and, a pro rata portion of the annual bonus, if any, that the executive would have been entitled to receive for the year in which the termination occurs, based on our actual results for the year and the percentage of the fiscal year that has elapsed through the date of the executive s termination of employment.

Treatment of Nonqualified Stock Options. Under the terms of the stock option agreements under which the non-qualified stock options were awarded to the executive officers, in the event that a named executive officer is terminated due to death or disability, (x) any stock options awarded in 2005 or 2006 that would have vested in the calendar year in which such termination occurs, will become fully vested and (y) any stock options awarded in 2007, 2008, 2009, 2010 or 2011 will become immediately vested. Under the terms of the stock option agreements governing stock options awarded in 2007, 2008, 2009, 2010 and 2011, in the event a named executive officer is terminated due to retirement upon reaching the age of 60, provided the executive has completed 10 years of service with us (Retirement), the options will continue to vest and become exercisable as if the officer had remained employed. No named executive officer was eligible for Retirement on December 31, 2010, and accordingly, the table below does not present any benefits associated with Retirement.

Treatment of Performance Units. Under the terms of the performance unit agreements under which the performance units were awarded to the named executive officers, in the event that a named executive officer is terminated due to Retirement, death or disability during the performance period, the executive (or his or her beneficiary or beneficiaries) shall be entitled to a pro-rated number of units calculated by multiplying (x) by (y) where: (x) is the number of Shares, if any, that would have been earned by the executive as the result of the satisfaction of the performance requirements; and (y) is the number of months that the executive was employed (rounded up to the nearest whole number) during the performance period divided by the number of months in the performance period. No named executive officer was eligible for Retirement on December 31, 2010, and accordingly, the table below does not present any benefits associated with Retirement.

Treatment of Restricted Stock. Under the terms of the restricted stock agreements under which restricted stock was awarded to the named executive officers, in the event that a named executive officer is terminated as a result of death or disability or as the result of the participant s Retirement with the Committee s approval, the restricted stock, together with any shares issued as a result of the investment of dividends attributable to the restricted stock will, to the extent not then vested and not previously canceled, immediately become fully vested as of the date of the death or disability or Retirement with Committee approval.

Treatment of Deferred Compensation. Under the terms of the Deferred Income Plans, in the event that a participant s employment is terminated due to death or disability , the benefit payable to the participant under the Deferred Income Plans will fully vest. We will distribute the participant s account as soon as practicable following the date of death or disability. In the event that either death or disability occurs prior to commencement of the payment of benefits, payments will be made as a lump sum. In the event that a participant s employment is terminated due to death following the commencement of the payment of benefits, but prior to the completion of all such benefits, we will continue to make installment payments under the Old Deferred Income Plan over the remainder of the period, as though the participant had survived, but pay benefits under the New Deferred Income Plan to the participant s designated beneficiary in a lump sum.

Payments made upon Expiration of Employment Term

Salary, Bonus and Benefits. Pursuant to the terms of the Employment Agreements, in the event that the employment of a named executive officer is terminated upon expiration of the employment term without renewal, he will be entitled to receive his base salary, annual bonus and benefits, including accrued but unpaid vacation, that are earned but unpaid as of the date of termination. No named executive officer s Employment Agreement could have terminated on December 31, 2010, as a result of the rolling term of the agreement, since we could not have provided the required notice before expiration under the terms of the applicable agreement. Accordingly, no benefits are shown in the table below related to expiration of the Employment Agreement term on December 31, 2010.

Treatment of Nonqualified Stock Options. Under the terms of the stock option agreements under which the non-qualified stock options were awarded to the executive officers, in the event that the employment of a named executive officer is terminated upon expiration of the employment term without renewal, the unvested portion of all options will be cancelled by us without consideration.

Treatment of Performance Units. Under the terms of the performance unit agreements under which the performance units were awarded to the named executive officers, in the event that a named executive officer is terminated upon expiration of the employment term without renewal during the performance period, all performance units will be cancelled.

Treatment of Restricted Stock. Under the terms of the restricted stock agreements under which restricted stock was awarded to the named executive officers, in the event that a named executive officer is terminated upon expiration of the employment term without renewal, any unvested restricted stock will be cancelled.

Treatment of Deferred Compensation. Under the terms of the Deferred Income Plans, in the event that a participant s employment is terminated upon expiration of the employment term without renewal, the participant will be entitled to receive an amount equal to the participant s vested account. The payment generally will be made on or about the first day of the seventh month following termination.

Payments made upon Change in Control

Salary, Bonus and Benefits. Pursuant to the terms of the Employment Agreements, in the event that a named executive officer is terminated by us without Cause or resigns for Good Reason within two years of a Change in Control, he is entitled to receive his base salary, annual bonus and benefits, including accrued but unpaid vacation, that are earned but unpaid as of the date of termination and, subject to the execution and delivery of a release of claims against us and compliance with the restrictive covenants described below under Restrictive Covenants that Apply During and After Termination of Employment , (1) a lump sum payment equal to the following percentage of the executive s base salary and target annual bonus: Mr. Thomas, 300%; Mr. Biehl, 200%; and all other officers, 100%; and (2) continued coverage under the Company s group health plans for the following period: Mr. Thomas, 36 months; Mr. Biehl, 24 months; and all other executives, 12 months. The severance payments to be paid to the executive officers upon a termination of employment without Cause or for Good Reason within two years following a Change in Control may be reduced under the Employment Agreements if (x) the payments would result in the imposition of a golden parachute excise tax under the Internal Revenue Code Section 280G and (y) the reduced payments would result in the executive officer receiving a greater net after-tax payment.

Treatment of Nonqualified Stock Options. Under the terms of the 2005 Stock Incentive Plan and the 2009 Omnibus Equity Plan and the stock option agreements under which the non-qualified stock options were awarded to the named executive officers, in the event of the occurrence of any of the following events: (1) the sale or disposition, in one or a series of related transactions, of all or substantially all, of our assets to any person or group; (2) any person or group is or becomes the beneficial owner of more than 50% (30% in the case of the

2009 Omnibus Equity Plan and the 2009 Incentive Compensation Plan) of the total voting power of our voting stock, including by way of merger, consolidation, tender or exchange offer or otherwise; or (3) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board (together with any new directors whose election by such Board or whose nomination for election by our stockholders was approved by a vote of a majority of our directors, then still in office, who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board then in office (each, an Incentive Plan Change in Control), the stock options will immediately become fully vested and exercisable.

Treatment of Performance Units. Under the terms of the performance unit agreements under which the performance units were awarded to the named executive officers, in the event of an Incentive Plan Change in Control, (1) the performance requirements shall be deemed to have been satisfied at the greater of either: (i) the target level of the performance requirements as if the entire performance period had elapsed; or (ii) the level of actual achievement of the performance requirements as of the date of the Incentive Plan Change in Control; and (2) the appropriate number of shares, or, if the Committee so elects, cash, shall be issued or paid to the executive not later than 30 days after the date of the Incentive Plan Change in Control.

Treatment of Restricted Stock. Under the terms of the restricted stock agreements under which restricted stock was awarded to the named executive officers, in the event of an Incentive Plan Change in Control, subject to the Participant s continuous employment from the grant date through the date of the Incentive Plan Change in Control, the restricted stock, together with any shares issued as a result of the investment of dividends attributable to the restricted stock will, to the extent not then vested and not previously forfeited or canceled, immediately become fully vested as of the date of the Incentive Plan Change in Control.

Treatment of Deferred Compensation. Under the terms of the Deferred Income Plans, in the event of a change of ownership or effective control of the Company within the meaning of Section 409A of the Internal Revenue Code, a participant s interest in all amounts credited to the participant s account under the plans will fully and immediately vest, become nonforfeitable and be distributed in a single lump sum.

Restrictive Covenants that Apply During and After Termination of Employment

Under the Employment Agreements, each executive is required to comply with certain restrictive covenants during his employment term and for the following period following the date of termination: Mr. Thomas, 24 months (extended to 36 months if Change in Control severance is received); Mr. Biehl, 18 months (extended to 24 months if Change in Control severance is received); and all other executives, 12 months (the Restricted Period). During the Restricted Period, the executive shall not, whether on the executive s own behalf or on behalf of or in conjunction with any person, directly or indirectly compete with the Company or solicit customers or employees of the Company. In addition, the executive may not disclose any confidential information about the Company during or at any time following the employment period.

Potential Post-Employment Payments under the Employment Agreements

Assuming that the employment of each named executive officer was terminated under each of the following circumstances on December 31, 2010, the last business day of 2010, payments made and benefits provided would have the following estimated values:

	Involuntary Termination for Cause/Resignation by Executive without Good Reason	Involuntary Termination without Cause/Resignation by Executive for Good Reason	Disability/Death(9)	Change in Control(10)
Cash Severance(1)				
Samuel F. Thomas	$	$ 3,000,000	$	$ 4,500,000
Michael F. Biehl		810,000		1,080,000
Matthew J. Klaben		425,250		425,250
James H. Hoppel, Jr.(2)		N/A	N/A	N/A
Kenneth J. Webster		297,000		297,000
Annual Incentive Plan Bonus(3)				
Samuel F. Thomas			512,010	512,010
Michael F. Biehl			153,603	153,603
Matthew J. Klaben			103,682	103,682
James H. Hoppel, Jr.		N/A	N/A	N/A
Kenneth J. Webster			66,561	66,561
Health and Welfare Benefits(4)				
Samuel F. Thomas		27,342		42,220
Michael F. Biehl		20,313		27,342
Matthew J. Klaben		13,284		13,284
James H. Hoppel, Jr.		N/A	N/A	N/A
Kenneth J. Webster		13,284		13,284
Accelerated vesting of time options(5)				
Samuel F. Thomas			1,698,795	1,698,795
Michael F. Biehl			369,249	369,249
Matthew J. Klaben			193,654	344,410
James H. Hoppel, Jr.		N/A	N/A	N/A
Kenneth J. Webster			127,193	127,193
Accelerated vesting of performance units(6)				
Samuel F. Thomas			778,404	1,072,853
Michael F. Biehl			267,583	368,810
Matthew J. Klaben			138,295	192,343
James H. Hoppel, Jr.		N/A	N/A	N/A
Kenneth J. Webster			91,983	126,776
Accelerated vesting of restricted stock(7)				
Samuel F. Thomas			1,466,728	1,466,728
Michael F. Biehl			313,816	313,816
Matthew J. Klaben			163,495	163,495
James H. Hoppel, Jr.		N/A	N/A	N/A
Kenneth J. Webster			110,123	110,123
Deferred Compensation(8)				
Samuel F. Thomas				
TOTAL				
Samuel F. Thomas	$	$ 3,027,342	$ 4,455,937	$ 9,292,606
Michael F. Biehl		830,313	1,104,251	2,312,820
Matthew J. Klaben		438,534	599,126	1,242,464
James H. Hoppel, Jr.				

Kenneth J. Webster	310,284	395,860	740,937

(1) Cash severance amounts consist of a lump sum payment equal to the following percentage of the executive s base salary and target annual bonus: Mr. Thomas, 200% (300% if after a Change in Control); Mr. Biehl, 150% (200% if after a Change in Control); and all other officers, 100%. The amounts in the table do not include accrued but unused vacation, since the policy governing vacation for the executive officers mandates the forfeiture of all accrued vacation for the current year not used by the end of the year, and each scenario assumed termination of employment on the last day of the year. In the event that an executive is terminated prior to the end of the fiscal year, the executive would be entitled to compensation for any unused vacation that could be used prior to the end of the fiscal year. Our executives are presently entitled to the following vacation benefits: Mr. Thomas, five weeks; Mr. Biehl, four weeks; Mr. Klaben, four weeks; and Mr. Webster, three weeks.

(2) As noted above, Mr. Hoppel s employment with the Company ceased on December 31, 2010 pursuant to the terms of the Transition Agreement. Pursuant to the terms of the Transition Agreement, Mr. Hoppel s resignation was deemed an Executive Resignation Without Good Reason under his prior employment agreement. As such, he was entitled to no additional benefits or compensation beyond our fiscal year-end and disclosure regarding other possible triggering events is therefore not applicable.

(3) Our 2009 Incentive Compensation Plan, under which incentive bonuses were paid for 2010, generally requires a participant to be employed on the day of payment of the bonus, which was March 11, 2011. The bonus amounts payable under the incentive plan are based on the realization of 56.89% of our 2010 performance goals, as set forth under the Estimated Future Payouts Under Non-Equity Incentive Plan Awards portion of the 2010 Grants of Plan-Base Awards Table above and in the 2010 Summary Compensation Table above. The Compensation Committee has the authority to exercise negative discretion under the 2009 Incentive Compensation Plan to reduce or eliminate incentive bonuses based on certain factors. See Compensation Discussion and Analysis Elements of Compensation Annual and Other Cash Incentive Awards for additional information about the Compensation Committee s negative discretion under the 2009 Incentive Compensation Plan. The presentation in the table assumes the Compensation Committee did not exercise such negative discretion.

(4) Health and welfare benefits consist of health care and dental. These benefits after termination of employment for 2010 have been calculated based on actual cost to us for 2011. For each year following 2011, costs are approximated based on the actual cost for 2011 plus an assumed 6% annual increase in medical benefits cost and an assumed 2% annual increase in dental benefit cost.

(5) The value of the stock options that vest upon death or disability or an Incentive Plan Change in Control represents the difference between the aggregate market value of the shares underlying the unvested portion of these options on December 31, 2010, at $33.78 per share, the closing price of our Common Stock on that day, and the aggregate exercise price of the option.

(6) In the event of termination due to disability or death, the executive (or his or her beneficiary) is entitled to a pro-rated number of performance units, calculated by multiplying (x) by (y) where: (x) is the number of units, if any, that would have been earned by the executive as the result of the satisfaction of the performance requirements; and (y) is the number of months that the executive was employed (rounded up to the nearest whole number) during the performance period divided by the total number of months in each performance period. With respect to death or disability, the table reflects the current assumption, based on information available for performance through December 31, 2010, that the performance goals for units awarded in 2008 would have vested in an amount equal to 32.19% of the total amount of performance units granted in 2008. For performance units awarded in 2009 the table reflects the assumption that the performance units granted in 2009 will vest at 100% of target levels, even though we are unable to accurately predict the actual performance of the 2009 awards. See Compensation Discussion and Analysis Elements of Compensation Long-Term Incentive Compensation above for more information about these assumptions. Whether or to what extent awards actually will be earned depends on future events. The value of the performance units upon an Incentive Plan Change in Control represents the product of (i) the total number of units earned at satisfaction of the target level performance requirements as if the entire performance period had elapsed, and (ii) $33.78.

(7) The value of the restricted stock awards that vest upon death or disability or an Incentive Plan Change in Control represents the aggregate market value of the shares underlying the unvested portion of the restricted stock awards on December 31, 2010, at $33.78 per share, the closing price of our Common Stock on that day.

(8) Prior to July 1, 2010, there were no contributions by the Company under the Deferred Income Plans and the Company does not provide above-market returns on any participant balances in the Deferred Income Plans. Mr. Thomas was the only executive officer eligible for Company contributions under the New Deferred Compensation Plan for 2010 and received Company contributions totaling $29,077. Since Mr. Thomas is fully vested in this amount, it is not recognized in the table. For specific deferred compensation balances, see 2010 Nonqualified Deferred Compensation Table.

(9) No named executive officer was eligible for Retirement on December 31, 2010, and accordingly, the table does not present any benefits associated with Retirement.

(10) Assumes termination of employment results from resignation for Good Reason or Involuntary Termination without Cause within two years following a Change in Control.

2010 DIRECTOR COMPENSATION TABLE

The following table and related notes and discussion summarize compensation paid to our non-employee directors for our 2010 fiscal year, presented in accordance with SEC rules.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	Total ($)
W. Douglas Brown	$ 61,000	$ 55,000	$ 116,000
Richard E. Goodrich	69,000	55,000	124,000
Steven W. Krablin	71,000	55,000	126,000
Michael W. Press	76,000	55,000	131,000
James M. Tidwell	61,000	55,000	116,000
Thomas L. Williams	61,000	55,000	116,000

(1) Beginning with the July 2010 quarterly stock award, the grant date value of the director stock awards was increased from $12,500 per quarter to $15,000 per quarter.

Director Compensation

Directors who are also employees do not receive any additional compensation for services performed as a member of our Board of Directors or any committees thereof. We pay our non-employee directors an annual retainer of $40,000, payable in equal quarterly installments, and grant quarterly to each non-employee director stock awards valued at $15,000 on the date of grant, which are fully vested on the date of grant. Awards for 2010 were made pursuant to our 2009 Omnibus Equity Plan. The receipt of stock may be deferred by each director until a later fiscal year after the grant date, or, if elected, until the earlier of the January following separation of service from the board or the occurrence of a change in control, in all cases to the extent permitted under Section 409A of the Internal Revenue Code.

For the second half of 2010 and going forward, the Nominations and Corporate Governance Committee modified the equity compensation component of director compensation. As modified, effective July 1, 2010, the Company s non-employee directors receive quarterly stock awards valued at $15,000.

In addition to the compensation described above, our lead independent director receives an annual retainer of $10,000, the chairperson of our Audit Committee receives an additional $8,000 annual retainer, the chairperson of our Compensation Committee receives an additional $6,000 annual retainer and the chairperson of our Nominations and Corporate Governance Committee receives an additional $5,000 annual retainer, in each case paid in equal quarterly installments. Additionally, we pay our non-employee directors a fee of $2,000 for Board meetings scheduled to be held in person and a fee of $1,000 for Board meetings scheduled to be held telephonically. In connection with meetings of the committees of our Board of Directors, we pay our committee members a fee of $1,000 per committee meeting. In addition, our stock ownership guidelines provide that directors must accumulate investments of at least $100,000 in our Common Stock during their first 24 months on our Board. Directors are encouraged to maintain $100,000 of investments in Company stock after the expiration of the 24 month period. Shares of our Common Stock issuable upon settlement of stock units or granted as quarterly stock grants will count towards the $100,000 requirement. As of March 29, 2011, all of our directors have met the ownership guidelines.

Compensation Committee Interlocks and Insider Participation

Since May 20, 2008, our Compensation Committee has consisted of Richard E. Goodrich, Steven W. Krablin, Michael W. Press and Thomas L. Williams. None of Messrs. Goodrich, Krablin, Press, or Williams is a present or past employee or officer of ours or any of our subsidiaries. None of our executive officers has served on the Board of Directors or Compensation Committee (or other committee serving an equivalent function) of any other entity, one of whose executive officers served on our Board of Directors or Compensation Committee.

AUDIT COMMITTEE REPORT

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight of the integrity of the Company s financial statements, the Company s compliance with legal and regulatory requirements, the independent registered public accounting firm s qualifications and independence, and the performance of the Company s internal audit function and independent registered public accounting firm. The Audit Committee s activities are governed by a written charter adopted by the Board of Directors.

In fulfilling its oversight responsibilities, the Audit Committee has reviewed and discussed the audited financial statements contained in the 2010 Annual Report on SEC Form 10-K with the Company s management and Ernst & Young LLP, the independent registered public accounting firm for fiscal 2010.

The Audit Committee has discussed with Ernst & Young LLP the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended. In addition, the Audit Committee has discussed with Ernst & Young LLP the firm s independence from the Company and its management, including the matters in the written disclosures and letter from Ernst & Young LLP pursuant to the applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered accountant s communications with the Audit Committee concerning independence, which the Company has received.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board (and the Board has approved) that the audited financial statements be included in the Company s Annual Report on SEC Form 10-K for the fiscal year ended December 31, 2010, for filing with the Securities and Exchange Commission.

The Audit Committee has determined that the rendering of the non-audit services by Ernst & Young LLP was compatible with maintaining the registered public accounting firm s independence.

Submitted by the Audit Committee of the Board of Directors as of February 22, 2011.

Steven W. Krablin, Chairman

W. Douglas Brown

Richard E. Goodrich

James M. Tidwell

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The Audit Committee has reviewed the audit fees of the independent registered public accounting firm. For work performed in regard to fiscal years 2010 and 2009, the Company paid Ernst & Young LLP the following fees for services, as categorized below:

	Fiscal Year 2010	Fiscal Year 2009
Audit fees(1)	$ 1,568,366	$ 1,537,974
Audit-related fees(2)	$ 96,100	$
Tax fees(3)	$ 343,853	$ 269,776
All other fees(4)	$ 2,000	$ 2,149
Total fees	$ 2,010,319	$ 1,809,899

(1) Includes fees for audit services principally relating to the annual audit, quarterly reviews and registration statements.
(2) Includes fees for services related to our acquisition activity in 2010.
(3) Tax compliance, tax advice and tax planning.
(4) All other services not reported under (1) through (3). The fees listed above represent a subscription fee for online technical accounting guidance.

A representative of Ernst & Young LLP is expected to be present at the Annual Meeting of Stockholders. The representative will be given an opportunity to make a statement if desired and to respond to questions regarding Ernst & Young LLP s examination of our consolidated financial statements and records for the year ended December 31, 2010.

Our Board has a policy to assure the independence of its independent registered public accounting firm. Prior to the audit of each fiscal year, the Audit Committee receives a written report from Ernst & Young LLP describing the elements expected to be performed in the course of its audit of the Company s financial statements for the coming year. All audit related services, tax services and other services were pre-approved for 2010 by the Audit Committee, which concluded that the provision of such services by Ernst & Young LLP was compatible with the maintenance of that firm s independence in the conduct of its auditing functions. The Audit Committee has selected Ernst & Young LLP to audit our 2011 financial statements.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2010 about our Common Stock that may be issued upon the exercise of options, warrants and rights granted under all of our existing equity compensation plans, including our 2009 Omnibus Equity Plan and our 2005 Stock Incentive Plan.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)(2)	Weighted-average exercise price of outstanding options, warrants and rights (b)(3)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)(4)
Equity compensation plans approved by security holders(1)	1,964,614	$ 11.68	969,040
Equity compensation plans not approved by security holders			
Total	1,964,614	$ 11.68	969,040

(1) The amount in column (a) includes: (i) 1,582,192 shares issuable upon the exercise of outstanding stock options; (ii) 10,944 shares subject to vested stock units; (iii) 357,888 shares issuable upon achievement of maximum targets for performance unit awards; and (iv) 13,590 shares issuable upon vesting of restricted stock units to foreign grantees in lieu of restricted stock.

(2) As a result of stock option, restricted stock unit and director stock awards, option exercises, award payouts and forfeitures in the first quarter of 2011, the number of securities issuable upon exercise of outstanding options, warrants and rights at March 31, 2011 is 1,816,853. This amount includes at March 31, 2011: (i) 1,498,036 shares issuable upon the exercise of outstanding stock options (having a weighted average price of $14.12 and a weighted average remaining term of 6.24 years); (ii) 11,355 shares subject to vested stock units; (iii) 294,975 shares issuable if maximum targets for performance unit awards are achieved; and (iv) 12,487 shares issuable upon vesting of stock units granted to foreign grantees in lieu of restricted stock.

(3) The weighted average exercise price of outstanding options, warrants and rights does not take into account stock unit awards or performance unit awards since these awards do not have an exercise price.

(4) Includes 166,786 outstanding shares of restricted stock at March 31, 2011 that are subject to forfeiture until they vest under the terms of the restricted stock awards.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company s officers and directors and persons who own 10% or more of a registered class of the Company s equity securities to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the SEC. Officers, directors and 10% or greater stockholders are required by SEC regulations to furnish the Company with copies of all Forms 3, 4 and 5 they file.

Based solely on the Company s review of the copies of such forms it has received, the Company believes that all of its officers and directors complied with all filing requirements applicable to them with respect to transactions during the fiscal year ended December 31, 2010.

RELATED PARTY TRANSACTIONS

On March 27, 2007, our Board of Directors adopted written Related Party Transaction Policies and Procedures (the Policy), which provides that it is the policy of the Company not to enter into any Related Party Transaction (as such term is defined in the Policy) with one of our executive officers, directors or director nominees, or stockholders known to beneficially own over 5% of a class of our voting securities or their related persons, unless either (i) the Audit Committee approves the transaction in accordance with the guidelines set forth in the Policy or (ii) the transaction is approved by a majority of the Company s disinterested directors. Such Related Party Transactions shall be disclosed in the Company s SEC filings as and to the extent required by applicable SEC rules and regulations.

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed Ernst & Young LLP as our independent registered public accounting firm to audit our financial statements for the year ending December 31, 2011. The Board of Directors recommends ratification of the Audit Committee s appointment of Ernst & Young LLP.

The selection of Ernst & Young LLP as our independent registered public accounting firm is not required to be submitted to a vote of our stockholders for ratification; however, we are submitting the appointment of Ernst & Young LLP to the Company s stockholders for ratification as a matter of good corporate practice and in order to provide a method by which stockholders may communicate their opinion to the Audit Committee. The Sarbanes-Oxley Act of 2002 requires that the Audit Committee be directly responsible for the appointment, compensation and oversight of our independent registered public accounting firm. If our stockholders fail to vote on an advisory basis in favor of the selection, the Audit Committee will reconsider whether to retain Ernst & Young LLP, and may retain that firm or another firm without re-submitting the matter to our stockholders. Even if our stockholders ratify the appointment, the Audit Committee may, in its discretion, direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in our best interests and the interests of our stockholders.

Our Board of Directors unanimously recommends a vote FOR Proposal No. 2 to ratify the Audit Committee s appointment of Ernst & Young LLP as our independent registered public accounting firm for fiscal 2011.

ADVISORY VOTE ON EXECUTIVE COMPENSATION

Under the Dodd-Frank Act, our stockholders are entitled to vote at the Annual Meeting to approve the compensation of our named executive officers, as disclosed in this proxy statement in accordance with the compensation disclosure rules of the SEC. Pursuant to the Dodd-Frank Act, the stockholder vote on executive compensation is an advisory vote only, and it is not binding on the Company or the Board of Directors.

Although the vote is non-binding, the Compensation Committee and the Board value the opinions of our stockholders and will consider the outcome of the vote when making future compensation decisions.

As described more fully in the Compensation Discussion and Analysis section of this proxy statement, our executive compensation programs are designed to:

- create and enhance stockholder value by attracting and retaining key executive talent;
- align our executive officers incentives with stockholder value creation by tying compensation to the achievement of measurable operational and strategic objectives; and
- award compensation at levels commensurate with each executive officer s performance, experience and responsibilities.

Our programs seek to align executive compensation with shareholder value on an annual and long-term basis through a combination of base pay, annual incentives and long-term incentives, with appropriate governance policies to mitigate risks associated with our programs. Our annual incentives are strongly performance based, with cash amounts that are tied directly to our annual financial performance. In addition, long-term incentive awards are comprised of a balance of stock options, performance units and restricted stock, which links executive compensation directly to stockholder value and long-term performance while providing meaningful retention incentives. We believe our compensation programs have been effective in achieving our short- and long-term goals.

During the past three years, we have focused on restructuring our existing businesses on a more cost-effective basis while utilizing our strong balance sheet to realize new opportunities in the backdrop of the severe economic downturn. We believe we have been successful in creating a strong and profitable cash generating base that is highly leverageable to the economic recovery.

We are asking our stockholders to indicate their support for our named executive officer compensation as described in this proxy statement. This proposal, commonly known as a say-on-pay proposal, gives our stockholders the opportunity to express their views on our named executive officers compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this proxy statement. Accordingly, we will ask our stockholders to vote FOR the following resolution at the Annual Meeting:

RESOLVED, that the Company s stockholders approve the compensation of the named executive officers, as disclosed in the Company s Proxy Statement for the 2011 Annual Meeting of Stockholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the 2010 Summary Compensation Table and the other related tables and disclosure.

Our Board of Directors unanimously recommends a vote FOR Proposal No. 3 to approve the compensation of the named executive officers as disclosed in this proxy statement.

ADVISORY VOTE ON FREQUENCY OF FUTURE ADVISORY VOTES

ON EXECUTIVE COMPENSATION

The Dodd-Frank Act also enables our stockholders to indicate how frequently we should seek an advisory vote on the compensation of our named executive officers, as disclosed pursuant to the SEC s compensation disclosure rules. By voting on this proposal, stockholders may indicate whether they would prefer an advisory vote on named executive officer compensation once every one, two, or three years.

After careful consideration of this proposal, our Board of Directors has determined that an advisory vote on executive compensation that occurs every year is the most appropriate alternative for the Company, and therefore our Board of Directors recommends that you vote for a one-year interval for the advisory vote on executive compensation.

In formulating its recommendation, our Board of Directors considered that an annual advisory vote on executive compensation will allow our stockholders to provide us with their direct and timely input on our compensation philosophy, policies and practices as disclosed in the proxy statement every year. Additionally, an annual advisory vote on executive compensation is consistent with our policy of seeking input from, and engaging in discussions with, our stockholders on corporate governance matters and our executive compensation philosophy, policies and practices.

You may cast your vote on your preferred voting frequency by choosing the option of one year, two years, three years or abstain from voting when you vote in response to the resolution set forth below. Stockholders will vote on the following resolution at the Annual Meeting:

RESOLVED, that the option of once every one year, two years, or three years that receives the highest number of votes cast for this resolution will be determined to be the preferred frequency with which the Company is to hold an advisory vote to approve the compensation of the named executive officers, as disclosed pursuant to the Securities and Exchange Commission s compensation disclosure rules (which disclosure shall include the Compensation Discussion and Analysis, the Summary Compensation Table, and the other related tables and disclosure).

The option of one year, two years or three years that receives the highest number of votes cast by stockholders will be the frequency for the advisory vote on executive compensation that has been selected by stockholders. However, because this vote is advisory and not binding on the Board of Directors or the Company in any way, the Board may decide that it is in the best interests of our stockholders and the Company to hold an advisory vote on executive compensation more or less frequently than the option approved by our stockholders.

Our Board of Directors unanimously recommends a vote FOR 1 YEAR on Proposal No. 4 regarding the frequency of the shareholder vote to approve the compensation of the named executive officers.

STOCKHOLDER PROPOSALS FOR 2012 ANNUAL MEETING

From time to time, stockholders present proposals that may be proper subjects for inclusion in the proxy statement and for consideration at an Annual Meeting. To be included in the proxy for the Annual Meeting for 2012, proposals must be received by the Company no later than December 15, 2011. Proposals for inclusion in the proxy statement must comply with the Exchange Act including Rule 14a-8, as well as with our By-Laws.

Pursuant to the Company s By-Laws, stockholders may present proposals that are proper subjects for consideration at an annual meeting of stockholders. Our By-Laws require all stockholders who intend to make proposals at an annual stockholders meeting to submit their proposals to the Company not less than 90 calendar days nor more than the 120 calendar days prior to the first anniversary of the date of the preceding year s annual meeting of stockholders. To be eligible for consideration at the 2012 Annual Meeting, proposals that have not been received by December 15, 2011 must be received by the Company between January 27, 2012 and February 26, 2012. In the event the date of the 2012 Annual Meeting is changed by more than 25 calendar days from the first anniversary of the 2011 Annual Meeting, stockholder notice must be received not later than the close of business on the 10th calendar day following the date on which notice of the Annual Meeting was mailed or public announcement of the date is made, whichever first occurs. These provisions are intended to allow all stockholders to have an opportunity to consider business expected to be raised at the meeting.

OTHER MATTERS TO COME BEFORE THE ANNUAL MEETING

The Board is not aware of any other business to be presented for a vote of the stockholders at the Annual Meeting. If any other matters are properly presented for a vote, the people named as proxies will have discretionary authority, to the extent permitted by law, to vote on such matters according to their best judgment.

The chairman of the Annual Meeting may refuse to allow presentation of a proposal or nominee for the Board if the proposal or nominee was not properly submitted.

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Upon the receipt of a written request from any stockholder entitled to vote at the forthcoming Annual Meeting, the Company will mail, at no charge to the stockholder, a copy of the Company s Annual Report on Form 10-K, including the financial statements and schedules required to be filed with the Commission pursuant to Rule 13a-1 under the Exchange Act for the Company s most recent fiscal year. Requests from

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beneficial owners of the Company s voting securities must set forth a good-faith representation that as of the record date for the Annual Meeting, the person making the request was the beneficial owner of securities entitled to vote at such Annual Meeting. Written requests for the Annual Report on Form 10-K should be directed to our Secretary.

It is important that your shares be represented at the meeting, regardless of the number of shares that you hold. **YOU, THEREFORE, ARE URGED TO COMPLETE, DATE, AND SIGN THE ENCLOSED PROXY CARD AND RETURN IT IN THE ENCLOSED ENVELOPE OR SUBMIT A PROXY BY TELEPHONE OR THE INTERNET BY FOLLOWING THE INSTRUCTIONS ON THE PROXY CARD.** Stockholders who are present at the meeting may revoke their proxies and vote in person or, if they prefer, may abstain from voting in person and allow their proxies to be voted.

Samuel F. Thomas

Chairman, Chief Executive Officer and President

Garfield Heights, Ohio

ATTN: CORPORATE SECRETARY

ONE INFINITY CORPORATE CENTRE DRIVE

SUITE 300

GARFIELD HEIGHTS, OH 44125

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS

If you would like to reduce the costs incurred by Chart Industries, Inc. in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 p.m. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way,Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

M32613-P08645 KEEP THIS PORTION FOR YOUR RECORDS

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED. DETACH AND RETURN THIS PORTION ONLY

CHART INDUSTRIES, INC	For All	Withhold All	For All Except	To withhold authority to vote for any individual nominee(s), mark For All Except and write the number(s) of the nominee(s) on the line below.
Vote on Directors (1) Election of the following nominees to serve on the Board of Directors of the Company:	..	..	..	

Nominees:

01)	Samuel F. Thomas	05)	Michael W. Press
02)	W. Douglas Brown	06)	James M. Tidwell
03)	Richard E. Goodrich	07)	Thomas L. Williams

04) Steven W. Krablin

	Vote on Proposals	For	Against	Abstain
(2)	Ratification of the selection of Ernst & Young LLP as the Company s independent registered public accounting firm.	..	..	..
(3)	Advisory vote on executive compensation.	..	..	..

		1 Year	2 Years	3 Years	Abstain
(4)	Advisory vote on the frequency of future advisory votes on executive compensation.	..	..	..	..

In their discretion to act on any other matters that may properly come before the meeting.

The Board of Directors recommends you vote FOR the nominees and proposals (2) and (3) and for 1 Year with respect to proposal (4) above.

	Yes	No
Please indicate if you plan to attend this meeting.	..	..

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date

YOUR VOTE IS IMPORTANT

Regardless of whether you plan to attend the Annual Meeting of Stock holders, you can be sure the shares of Common Stock are represented at the meeting by promptly returning the proxy in the enclosed envelope.

(Continued from reverse side)

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting to be held on May 26, 2011:

The Proxy Statement and Annual Report are available at www.chartindustries.com/proxy2011

ä **If you have not voted via the Internet or telephone, please fold and detach card at**

perforation and return the bottom portion in the enclosed envelope. ä

M32614-P08645

CHART INDUSTRIES, INC.

PROXY FOR COMMON STOCK

Proxy Solicited on Behalf of the Board of Directors of

the Company for the Annual Meeting of Stockholders to be held on May 26, 2011

The undersigned hereby (i) appoints Michael F. Biehl and Matthew J. Klaben, and each of them, his true and lawful agents and proxy holders with full power of substitution in each to appear and vote all of the Common Stock of Chart Industries, Inc. (the Company) that the undersigned will be entitled to vote at the Annual Meeting of Stockholders of the Company to be held at the Company s offices located at One Infinity Corporate Centre Drive, 1st Floor, Garfield Heights, Ohio 44125-5370 on May 26, 2011 at 9:00 a.m., Eastern Time, and at any adjournments or postponements thereof, hereby revoking any and all proxies heretofore given, and (ii) authorizes and directs said proxy holders to vote all of the Common Stock of the Company represented by this proxy as indicated on the reverse side.

The shares of Common Stock represented by this proxy will be voted as indicated in the spaces on the reverse. To the extent that no directions are given with respect to a proposal on the reverse, the shares of Common Stock represented by this proxy will be voted FOR the election of the seven nominees to serve on the Board of Directors, FOR the ratification of the selection of Ernst & Young LLP as the Company s independent registered public accounting firm, FOR the advisory vote on executive compensation and for 1 Year with respect to the advisory vote on the frequency of future advisory votes on executive compensation. The shares of Common Stock represented by this proxy will be voted in the discretion of the proxy holders on all other matters properly brought before the Annual Meeting and any adjournments or postponements thereof.

You are encouraged to specify your choices by marking the appropriate boxes, SEE REVERSE SIDE. The proxy holders cannot vote the shares of Common Stock unless you sign and return this card.

Please mark, sign and date your proxy card and return it promptly in the accompanying envelope.