

Zumiez Inc
Form 10-K
March 17, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended: January 31, 2015

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission File Number: 000-51300

ZUMIEZ INC.

(Exact name of Registrant as specified in its charter)

Washington
(State or other jurisdiction of
incorporation or organization)

91-1040022
(IRS Employer
Identification No.)

Edgar Filing: Zumiez Inc - Form 10-K

4001 204th Street SW
Lynnwood, Washington
(Address of principal executive offices)

(425) 551-1500

98036
(Zip Code)

(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Act: **Common Stock**

Name of each exchange on which registered: **The Nasdaq Global Select Market**

Securities registered under 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

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

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 last 90 days. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant as of the last business day of the second fiscal quarter, August 1, 2014, was \$602,237,794.

At March 6, 2015, there were 29,417,024 shares outstanding of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this report is incorporated by reference from the Registrant's definitive proxy statement, relating to the Annual Meeting of Shareholders scheduled to be held May 28, 2015, which definitive proxy statement will be filed not later than 120 days after the end of the fiscal year to which this report relates.

Table of Contents

ZUMIEZ INC.

FORM 10-K

TABLE OF CONTENTS

PART I

Item 1.	<u>Business</u>	3
Item 1A.	<u>Risk Factors</u>	10
Item 1B.	<u>Unresolved Staff Comments</u>	21
Item 2.	<u>Properties</u>	21
Item 3.	<u>Legal Proceedings</u>	21
Item 4.	<u>Mine Safety Disclosures</u>	21

PART II

Item 5.	<u>Market for the Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities</u>	22
Item 6.	<u>Selected Financial Data</u>	25
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	40
Item 8.	<u>Financial Statements and Supplementary Data</u>	41
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	41
Item 9A.	<u>Controls and Procedures</u>	41
Item 9B.	<u>Other Information</u>	44

PART III

Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	44
Item 11.	<u>Executive Compensation</u>	44
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters</u>	44
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	44
Item 14.	<u>Principal Accountant Fees and Services</u>	44

PART IV

Item 15.	<u>Exhibits, Financial Statement Schedules</u>	45
	<u>Signatures</u>	74

Table of Contents

ZUMIEZ INC.

FORM 10-K

PART I.

This Form 10-K contains forward-looking statements. These statements relate to our expectations for future events and future financial performance. Generally, the words anticipates, expects, intends, may, should, plans, believes, predicts, potential, continue and expressions identify forward-looking statements. Forward-looking statements involve risks and uncertainties, and future events and circumstances could differ significantly from those anticipated in the forward-looking statements. These statements are only predictions. Actual events or results may differ materially. Factors which could affect our financial results are described in Item 1A below and in Item 7 of Part II of this Form 10-K. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assume responsibility for the accuracy and completeness of the forward-looking statements. We undertake no duty to update any of the forward-looking statements after the date of this report to conform such statements to actual results or to changes in our expectations.

We use a fiscal calendar widely used by the retail industry that results in a fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to January 31. Each fiscal year consists of four 13-week quarters, with an extra week added to the fourth quarter every five or six years. Fiscal 2015 will be the 52 week period ending January 30, 2016. Fiscal 2014 was the 52-week period ending January 31, 2015. Fiscal 2013 was the 52-week period ending February 1, 2014. Fiscal 2012 was the 53-week period ending February 2, 2013. Fiscal 2011 was the 52-week period ending January 28, 2012. Fiscal 2010 was the 52-week period ending January 29, 2011.

Zumiez, the Company, we, us, its, our and similar references refer to Zumiez Inc. and its wholly-owned subsidiaries.

Item 1. BUSINESS

Zumiez is a leading multi-channel specialty retailer of apparel, footwear, accessories and hardgoods rooted in youth culture as expressed through music, art, fashion and action sports lifestyle for young men and women. Zumiez Inc. was formed in August 1978 and is a Washington State corporation.

At January 31, 2015, we operated 603 stores; 550 in the United States (U.S.), 35 in Canada and 18 in Europe. We operate under the names Zumiez and Blue Tomato. Additionally, we operate ecommerce websites at www.zumiez.com and www.blue-tomato.com.

We completed the acquisition of Snowboard Dachstein Tauern GmbH and Blue Tomato Graz Handel GmbH (collectively, Blue Tomato) during fiscal 2012. Blue Tomato is a multi-channel retailer for board sports and related apparel and footwear that operates primarily in the European marketplace.

We operate a sales strategy that integrates our stores with our ecommerce platform. There is significant interaction between our store sales and our ecommerce sales channels and we believe that they are utilized in tandem to serve our customers. Our selling platforms bring the look and feel of an independent specialty shop by emphasizing the action sports lifestyle through a distinctive store environment and high-energy sales personnel. We seek to staff our stores with store associates who are knowledgeable users of our products, which we believe provides our customers with enhanced customer service and supplements our ability to identify and react quickly to emerging trends and fashions. We design our selling platforms to appeal to teenagers and young adults and to serve as a destination for our customers. We believe that our distinctive selling platforms concepts and compelling economics will provide continued opportunities for growth in both new and existing markets.

Table of Contents

We believe that our customers desire authentic merchandise and fashion that is rooted in the action sports lifestyle and reflects their individuality. We strive to keep our merchandising mix fresh by continuously introducing new brands, styles and categories of product. Our focus on a diverse collection of brands allows us to quickly adjust to changing fashion trends. We believe that our strategic mix of apparel, footwear, accessories and hardgoods, including skateboards, snowboards, bindings, components and other equipment, allows us to strengthen the potential of the brands we sell and helps to affirm our credibility with our customers. In addition, we supplement our merchandise mix with a select offering of private label apparel and products as a value proposition that we believe complements our overall merchandise selection.

Over our 36-year history, we have developed a corporate culture based on a passion for the action sports lifestyle. Our management philosophy emphasizes an integrated combination of results measurement, training and incentive programs, all designed to drive sales productivity at the individual store associate level. We have increased our store count from 377 as of the end of fiscal 2009 to 603 as of the end of fiscal 2014, representing a compound annual growth rate of 9.8%; increased net sales from \$407.6 million in fiscal 2009 to \$811.6 million in fiscal 2014, representing a compound annual growth rate of 14.8%; and been profitable in every fiscal year of our 36-year history.

Competitive Strengths

We believe that the following competitive strengths differentiate us from our competitors and are critical to our continuing success.

Attractive Lifestyle Retailing Concept. We target a large population of young men and women, many of whom we believe are attracted to the action sports lifestyle and desire to promote their personal independence and style through the apparel, footwear and accessories they wear and the equipment they use. We believe that action sports is a permanent aspect of youth culture, reaching not only consumers that actually participate in action sports, but also those who seek brands and styles that fit a desired image. We believe we have developed a brand image that our customers view as consistent with their attitudes, fashion tastes and identity that should allow us to benefit and differentiates us in our market.

Differentiated Merchandising Strategy. We have created a highly differentiated retailing concept by offering an extensive selection of current and relevant action sports brands encompassing apparel, footwear, accessories and hardgoods. The breadth of merchandise offered through our sales channels exceeds that offered by many other action sports specialty stores and includes some brands and products that are available only at our stores within many malls or shopping areas. The action sports lifestyle includes activities that are popular at different times throughout the year, providing us the opportunity to shift our merchandise selection seasonally. Many of our customers desire to update their wardrobes and equipment as fashion trends evolve or the action sports season dictates. We believe that our ability to quickly recognize changing brand and style preferences and transition our merchandise offerings allows us to continually provide a compelling offering to our customers.

Deep-rooted Culture. We believe our culture and brand image enable us to successfully attract and retain high quality employees who are passionate and knowledgeable about the products we sell. We place great emphasis on customer service and satisfaction, and we have made this a defining feature of our corporate culture. To preserve our culture, we strive to promote from within and we provide our employees with the knowledge and tools to succeed through our comprehensive training programs and the empowerment to manage their stores to meet localized customer demand.

Distinctive Customer Experience. We strive to provide a convenient shopping environment that is appealing and clearly communicates our distinct brand image. We seek to attract knowledgeable store associates who identify with the action sports lifestyle and are able to offer superior customer service, advice and product expertise. We believe that our distinctive store environment and ecommerce experience enhances our image as a leading source for apparel and equipment for the action sports lifestyle.

Table of Contents

Disciplined Operating Philosophy. We have an experienced senior management team. Our management team has built a strong operating foundation based on sound retail principles that underlie our unique culture. Our philosophy emphasizes an integrated combination of results measurement, training and incentive programs, all designed to drive sales productivity to the individual store associate level. Our comprehensive training programs are designed to provide our employees with enhanced product knowledge, selling skills and operational expertise. We believe that our merchandising teams' immersion in the action sports lifestyle, supplemented with feedback from our customers, store associates and omni-channel leadership, allows us to consistently identify and react to emerging fashion trends. We believe that this, combined with our inventory planning and allocation processes and systems, helps us better manage markdown and fashion risk.

High-Impact, Integrated Marketing Approach. We seek to build relationships with our customers through a multi-faceted marketing approach that is designed to integrate our brand images with the action sports lifestyle. Our marketing efforts focus on reaching our customers in their environment and feature extensive grassroots marketing events. Our marketing efforts also incorporate local sporting and music event promotions, advertising in magazines popular with our target market, interactive contest sponsorships that actively involve our customers with our brands and products and various social network channels. Events and activities such as these provide opportunities for our customers to develop a strong identity with our culture and brands. We believe that our immersion in the action sports lifestyle allows us to build credibility with our customers and gather valuable feedback on evolving customer preferences.

Growth Strategy

We intend to expand our presence as a leading action sports lifestyle retailer by:

Opening New Store Locations. We believe that the action sports lifestyle has appeal that provides store expansion opportunities throughout the U.S. and internationally. During the last three fiscal years, we have opened or acquired 174 new stores consisting of 56 stores in fiscal 2014, 59 stores in fiscal 2013 and 59 stores in fiscal 2012. We have successfully opened stores in diverse markets throughout the U.S. and internationally, which we believe demonstrates the portability and growth potential of our concepts. To take advantage of what we believe to be a compelling economic store model, we plan to open approximately 57 new stores in fiscal 2015, including stores in our existing markets and in new markets domestically and internationally. The number of anticipated store openings may increase or decrease due to market conditions and other factors.

Continuing to Generate Sales Growth through Existing Channels. We seek to maximize our comparable sales by maintaining consistent store-level execution and offering our customers a broad and relevant selection of action sports brands and products. We seek to continue to grow our ecommerce sales with a continued focus on enhancing and integrating the unique Zumiez and Blue Tomato brand experiences through this channel.

Enhancing our Brand Awareness through Continued Marketing and Promotion. We believe that a key component of our success is the brand exposure that we receive from our marketing events, promotions and activities that embody the action sports lifestyle. These are designed to assist us in increasing brand awareness in our existing markets and expanding into new markets by strengthening our connection with our target customer base. We believe that our marketing efforts have also been successful in generating and promoting interest in our product offerings. In addition, we use our ecommerce presence, designed to convey our passion for the action sports lifestyle, to increase our brand awareness. We plan to continue to expand our integrated marketing efforts by promoting more events and activities in our existing and new markets. We also benefit from branded vendors' marketing.

Merchandising and Purchasing

Our goal is to be viewed by our customers as the definitive source of merchandise for the action sports lifestyle across all channels in which we operate. We believe that the breadth of merchandise that we offer, which includes apparel, footwear, accessories and hardgoods, exceeds that offered by many other action sports specialty stores at a single location, and makes us a single-stop purchase destination for our target customers.

Table of Contents

We seek to identify action sports oriented fashion trends as they develop and to respond in a timely manner with a relevant product assortment. We strive to keep our merchandising mix fresh by continuously introducing new brands or styles in response to the evolving desires of our customers. We also take advantage of the change in action sports seasons during the year to maintain an updated product selection. Our merchandise mix may vary by region and country, reflecting the specific action sports preferences and seasons in each market.

We believe that offering an extensive selection of current and relevant brands used and sometimes developed by professional action sports athletes is integral to our overall success. No single brand, including private label, accounted for more than 8.7%, 7.6% and 9.0% of our net sales in fiscal 2014, 2013 and 2012. We believe that our strategic mix of apparel, footwear, accessories and hardgoods allows us to strengthen the potential of the brands we sell and affirms our credibility with our customers.

We believe that our ability to maintain an image consistent with the action sports lifestyle is important to our key vendors. Given our scale and market position, we believe that many of our key vendors view us as an important retail partner. This position helps ensure our ability to procure a relevant product assortment and quickly respond to the changing fashion interests of our customers. Additionally, we believe we are presented with a greater variety of products and styles by some of our vendors, as well as certain specially designed items that we exclusively distribute. We supplement our merchandise assortment with a select offering of private label products across many of our product categories. Our private label products complement the branded products we sell, and some of our private label brands allow us to cater to the more value-oriented customer. For fiscal 2014, 2013 and 2012, our private label merchandise represented 19.9%, 17.7% and 16.9% of our net sales.

We have developed a disciplined approach to buying and a dynamic inventory planning and allocation process to support our merchandise strategy. We utilize a broad vendor base that allows us to shift our merchandise purchases as required to react quickly to changing consumer demands and market conditions. We manage the purchasing and allocation process by reviewing branded merchandise lines from new and existing vendors, identifying emerging fashion trends and selecting branded merchandise styles in quantities, colors and sizes to meet inventory levels established by management. We also coordinate inventory levels in connection with individual stores' sales strength, our promotions and seasonality.

Our merchandising staff remains in tune with the action sports culture by participating in action sports, attending relevant events and concerts, watching action sports related programming and reading action sports publications and relevant social network channels. In order to identify evolving trends and fashion preferences, our staff spends considerable time analyzing sales data, gathering feedback from our stores and customers, shopping in key markets and soliciting input from our vendors.

We source our private label merchandise from primarily foreign manufacturers around the world. We have cultivated our private label sources with a view towards high quality merchandise, production reliability and consistency of fit. We believe that our knowledge of fabric and production costs combined with a flexible sourcing base enables us to source high-quality private label goods at favorable costs.

Table of Contents**Stores**

Store Locations. At January 31, 2015, we operated 603 stores in the following locations:

United States and Puerto Rico - 550 Stores

Alabama	1	Indiana	10	New Hampshire	6	South Carolina	3
Alaska	3	Iowa	4	New Jersey	20	South Dakota	2
Arizona	13	Kansas	3	New Mexico	5	Tennessee	6
Arkansas	2	Kentucky	2	New York	32	Texas	50
California	85	Louisiana	6	Nevada	9	Utah	14
Colorado	19	Maine	3	North Carolina	10	Vermont	1
Connecticut	9	Maryland	10	North Dakota	1	Virginia	13
Delaware	4	Massachusetts	11	Ohio	9	Washington	25
Florida	27	Michigan	9	Oklahoma	6	West Virginia	2
Georgia	9	Minnesota	11	Oregon	13	Wisconsin	14
Hawaii	6	Missouri	7	Pennsylvania	19	Wyoming	2
Idaho	6	Montana	5	Puerto Rico	1		
Illinois	18	Nebraska	2	Rhode Island	2		

Canada - 35 Stores

Alberta	5	New Brunswick	1
British Columbia	9	Nova Scotia	2
Manitoba	2	Ontario	16

Europe - 18 Stores

Austria	9
Germany	9

The following table shows the number of stores (excluding temporary stores that we operate from time to time for special or seasonal events) opened, acquired and closed in each of our last three fiscal years:

Fiscal Year	Stores	Stores	Stores	Total Number of Stores End of Year
	Opened	Acquired	Closed	
2014	56	0	4	603
2013	59	0	6	551
2012	53	6	5	498

Store Design and Environment. We design our stores to create a distinctive and engaging shopping environment that we believe resonates with our customers. Our stores feature an industrial look, dense merchandise displays, action sports lifestyle focused posters and signage and popular music, all of which are consistent with the look and feel of an independent action sports specialty shop. Our stores are designed to encourage our customers to shop for longer periods of time, to interact with each other and our store associates and to visit our stores more frequently. Our stores are constructed and finished to allow us to efficiently shift merchandise displays throughout the year as the action sports season dictates. We believe that our store atmosphere enhances our image as a leading provider of action sports lifestyle merchandise.

At January 31, 2015, our stores averaged approximately 2,936 square feet. All references in this Annual Report on Form 10-K to square footage of our stores refers to gross square footage, including retail selling, storage and back-office space. In fiscal 2015, we plan on opening new stores with square footage similar to this average.

Table of Contents

Expansion Opportunities and Site Selection. In selecting a location for a new store, we target high-traffic locations with suitable demographics and favorable lease terms. For mall locations, we seek locations near busy areas of the mall such as food courts, movie theaters, game stores and other popular teen retailers. We generally locate our stores in malls in which other teen-oriented retailers have performed well. We also focus on evaluating the market and mall-specific competitive environment for potential new store locations. We seek to diversify our store locations regionally and by caliber of mall.

Store Management, Operations and Training. We believe that our success is dependent in part on our ability to attract, train, retain and motivate qualified employees at all levels of our organization. We have developed a corporate culture that we believe empowers the individual store managers to make store-level business decisions and consistently rewards their success. We are committed to improving the skills and careers of our workforce and providing advancement opportunities for employees.

We believe we provide our managers with the knowledge and tools to succeed through our comprehensive training programs and the flexibility to manage their stores to meet customer demands. While general guidelines for our merchandise assortments, store layouts and in-store visuals are provided by our home offices, we give our managers substantial discretion to tailor their stores to the individual market and empower them to make store-level business decisions. We design group training programs for our managers to improve both operational expertise and supervisory skills.

Our store associates generally have an interest in the action sports lifestyle and are knowledgeable about our products. Through our training, evaluation and incentive programs, we seek to enhance the productivity of our store associates. These programs are designed to promote a competitive, yet fun, culture that is consistent with the action sports lifestyle we seek to promote.

Marketing and Advertising

We seek to reach our target customer audience through a multi-faceted marketing approach that is designed to integrate our brand image with the action sports lifestyle. Our marketing efforts focus on reaching our customers in their environment, and feature extensive grassroots marketing events, which give our customers an opportunity to experience and participate in the action sports lifestyle. Our grassroots marketing events are built around the demographics of our customer base and offer an opportunity for our customers to develop a strong identity with our brands and culture.

Our marketing efforts also incorporate local sporting and music event promotions, advertising in magazines popular with our target market, interactive contest sponsorships that actively involve our customers with our brands and products, the Zumiez Stash, which is our customer loyalty program, catalogs and various social network channels. We believe that our immersion in the action sports lifestyle allows us to build credibility with our target audience and gather valuable feedback on evolving customer preferences.

Distribution and Fulfillment

Timely and efficient distribution of merchandise to our stores is an important component of our overall business strategy. Domestically, our distribution center is located in Corona, California. At this facility, merchandise is inspected, allocated to stores, ticketed when necessary and distributed to our stores. Each store is typically shipped merchandise five times a week, providing our stores with a steady flow of new merchandise.

During fiscal 2012, we relocated our domestic ecommerce fulfillment center from Everett, Washington to Edwardsville, Kansas to provide the additional capacity needed to support the continued growth of our domestic ecommerce operations, while also increasing the speed at which we get product to our customers. Additionally, we utilize our domestic store network to provide fulfillment services for certain customer purchases.

Table of Contents

Internationally, we operate a combined distribution and ecommerce fulfillment center located in Graz, Austria that supports our Blue Tomato ecommerce and store operations in Europe and we operate a distribution center located in Delta, British Columbia, Canada to distribute merchandise to our Canadian stores.

Management Information Systems

Our management information systems provide integration of store, merchandising, distribution, financial and human resources functions. The systems include applications related to point-of-sale, inventory management, supply chain, planning, sourcing, merchandising and financial reporting. We continue to invest in technology to align our systems with our business requirements and to support our continuing growth.

Competition

The teenage and young adult retail apparel, hardgoods, footwear and accessories industry is highly competitive. We compete with other retailers for vendors, customers, suitable store locations and qualified store associates and management personnel. In the softgoods market, which includes apparel, footwear and accessories, we currently compete with other teenage and young adult focused retailers. In addition, in the softgoods markets we compete with independent specialty shops, department stores and direct marketers that sell similar lines of merchandise and target customers through catalogs and ecommerce. In the hardgoods markets, which includes skateboards, snowboards, bindings, components and other equipment, we compete directly or indirectly with the following categories of companies: other specialty retailers that compete with us across a significant portion of our merchandising categories, such as local snowboard and skate shops; large-format sporting goods stores and chains and ecommerce retailers.

Competition in our sector is based on, among other things, merchandise offerings, store location, price and the ability to identify with the customer. We believe that our ability to compete favorably with many of our competitors is due to our differentiated merchandising strategy, compelling store environment and deep-rooted culture.

Seasonality

Historically, our operations have been seasonal, with the largest portion of net sales and net income occurring in the third and fourth fiscal quarters, reflecting increased demand during the back-to-school and winter holiday selling seasons. During fiscal 2014, approximately 58% of our net sales occurred in the third and fourth quarters combined, similar to previous years. As a result of this seasonality, any factors negatively affecting us during the last half of the year, including unfavorable economic conditions, adverse weather or our ability to acquire seasonal merchandise inventory, could have a material adverse effect on our financial condition and results of operations for the entire year. Our quarterly results of operations may also fluctuate based upon such factors as the timing of certain holiday seasons, the popularity of seasonal merchandise offered, the timing and amount of markdowns, competitive influences and the number and timing of new store openings, remodels and closings.

Trademarks

The Zumiez and Blue Tomato trademarks and certain other trademarks, have been registered, or are the subject of pending trademark applications, with the U.S. Patent and Trademark Office and with the registries of certain foreign countries. We regard our trademarks as valuable and intend to maintain such marks and any related registrations and vigorously protect our trademarks. We also own numerous domain names, which have been registered with the Corporation for Assigned Names and Numbers.

Employees

At January 31, 2015, we employed approximately 2,100 full-time and approximately 4,400 part-time employees globally. However, the number of part-time employees fluctuates depending on our seasonal needs and generally increases during peak selling seasons, particularly the back-to-school and the winter holiday seasons. None of our employees are represented by a labor union and we believe that our relationship with our employees is good.

Table of Contents

Financial Information about Segments

See Note 17, Segment Reporting, in the Notes to Consolidated Financial Statements found in Part IV Item 15 of this Form 10-K, for information regarding our segments, product categories and certain geographical information.

Available Information

Our principal website address is www.zumiez.com. We make available, free of charge, our proxy statement, annual report to shareholders, annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (SEC) at <http://ir.zumiez.com>. Information available on our website is not incorporated by reference in, and is not deemed a part of, this Form 10-K. The SEC maintains a website that contains electronic filings by Zumiez and other issuers at www.sec.gov. In addition, the public may read and copy any materials Zumiez files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Item 1A. RISK FACTORS

Investing in our securities involves a high degree of risk. The following risk factors, issues and uncertainties should be considered in evaluating our future prospects. In particular, keep these risk factors in mind when you read forward-looking statements elsewhere in this report. Forward-looking statements relate to our expectations for future events and time periods. Generally, the words anticipates, expects, intends, may, should, plans, believes, predicts, potential, continue and similar expressions identify forward-looking statements. Forward-looking statements involve risks and uncertainties, and future events and circumstances could differ significantly from those anticipated in the forward-looking statements. Any of the following risks could harm our business, operating results or financial condition and could result in a complete loss of your investment. Additional risks and uncertainties that are not yet identified or that we currently think are immaterial may also harm our business and financial condition in the future.

Our ability to attract customers to our stores depends heavily on the success of the shopping malls in which many of our stores are located; any decrease in customer traffic in those malls could cause our sales to be less than expected.

In order to generate customer traffic we depend heavily on locating many of our stores in prominent locations within successful shopping malls. Sales at these stores are derived, in part, from the volume of traffic in those malls. Our stores benefit from the ability of a mall's other tenants to generate consumer traffic in the vicinity of our stores and the continuing popularity of malls as shopping destinations. Our sales volume and mall traffic generally may be adversely affected by, among other things, economic downturns in a particular area, competition from ecommerce retailers, non-mall retailers and other malls, increases in gasoline prices and the closing or decline in popularity of other stores in the malls in which we are located. An uncertain economic outlook could curtail new shopping mall development, decrease shopping mall traffic, reduce the number of hours that shopping mall operators keep their shopping malls open or force them to cease operations entirely. A reduction in mall traffic as a result of these or any other factors could have a material adverse effect on our business, results of operations and financial condition.

Our growth strategy depends on our ability to open and operate new stores each year, which could strain our resources and cause the performance of our existing stores to suffer.

Our growth largely depends on our ability to open and operate new stores successfully. However, our ability to open new stores is subject to a variety of risks and uncertainties, and we may be unable to open new stores as planned, and any failure to successfully open and operate new stores could have a material adverse effect on our

Table of Contents

results of operations. We intend to continue to open new stores in future years while remodeling a portion of our existing store base annually. In addition, our proposed expansion will place increased demands on our operational, managerial and administrative resources. These increased demands could cause us to operate our business less effectively, which in turn could cause deterioration in the financial performance of our individual stores and our overall business. To the extent our new store openings are in markets where we already have stores, we may experience reduced net sales in existing stores in those markets. In addition, successful execution of our growth strategy may require that we obtain additional financing, and we cannot assure you that we will be able to obtain that financing on acceptable terms or at all.

In addition, we plan to open new stores in regions of the U.S. or international locations in which we currently have few, or no, stores. The expansion into these markets may present competitive, merchandising, hiring and distribution challenges that are different from those currently encountered in our existing markets. Any of these challenges could adversely affect our business and results of operations.

Failure to successfully integrate any businesses or stores that we acquire could have an adverse impact on our results of operations and financial performance.

We may, from time to time, acquire other retail stores or businesses, such as our acquisition of Blue Tomato, a leading European multi-channel retailer for board sports and related apparel and footwear, which was completed in fiscal 2012. We may experience difficulties in integrating any stores or businesses we may acquire, including their facilities, personnel, financial systems, distribution, operations and general operating procedures, and any such acquisitions may also result in the diversion of our capital and our management's attention from other business issues and opportunities. If we experience difficulties in integrating acquisitions or if such acquisitions do not provide the benefits that we expect to receive, we could experience increased costs and other operating inefficiencies, which could have an adverse effect on our results of operations and overall financial performance.

Our plans for international expansion include risks that could have a negative impact on our results of operations.

In fiscal 2011, we opened our first store locations in Canada and we plan to continue to open new stores in Canada. During fiscal 2012, we acquired Blue Tomato, which operates primarily in the European market, and we plan to open new stores in Europe in the future. We may continue to expand internationally, either organically, or through additional acquisitions. International markets may have different competitive conditions, consumer tastes and discretionary spending patterns than our existing U.S. market. As a result, operations in international markets may be less successful than our operations in the U.S. Additionally, consumers in international markets may not be familiar with us and the brands we sell, and we may need to build brand awareness in the markets. Furthermore, we have limited experience with the legal and regulatory environments and market practices outside of the U.S. and cannot guarantee that we will be able to penetrate or successfully operate in international markets. We also expect to incur additional costs in complying with applicable foreign laws and regulations as they pertain to both our products and our operations.

Additionally, the results of operations of our international subsidiaries are exposed to foreign exchange rate fluctuations. Upon translation, operating results may differ materially from expectations. As we expand our international operations, our exposure to exchange rate fluctuations will increase.

Our business is dependent upon our being able to anticipate, identify and respond to changing fashion trends, customer preferences and other fashion-related factors; failure to do so could have a material adverse effect on us.

Customer tastes and fashion trends in the action sports lifestyle market are volatile and tend to change rapidly. Our success depends on our ability to effectively anticipate, identify and respond to changing fashion tastes and consumer preferences, and to translate market trends into appropriate, saleable product offerings in a

Table of Contents

timely manner. If we are unable to successfully anticipate, identify or respond to changing styles or trends and misjudge the market for our products or any new product lines, our sales may be lower than predicted and we may be faced with a substantial amount of unsold inventory or missed opportunities. In response to such a situation, we may be forced to rely on markdowns or promotional sales to dispose of excess or slow-moving inventory, which could have a material adverse effect on our results of operations.

The current uncertainty surrounding the U.S. and global economies, including the European economy, coupled with cyclical economic trends in action sports retailing could have a material adverse effect on our results of operations.

The action sports retail industry historically has been subject to substantial cyclical. As the U.S. and global economic conditions change, the trends in discretionary consumer spending become unpredictable and discretionary consumer spending could be reduced due to uncertainties about the future. When discretionary consumer spending is reduced, purchases of action sports apparel and related products may decline. The current uncertainty in the U.S. and global economies and increased government debt may have a material adverse impact on our results of operations and financial position.

Because of this cycle, we believe the value message has become more important to consumers. As a retailer that sells approximately 80% to 85% branded merchandise, this trend may negatively affect our business, as we generally will have to charge more than vertically integrated private label retailers.

Our sales and inventory levels fluctuate on a seasonal basis, leaving our operating results particularly susceptible to changes in back-to-school and winter holiday shopping patterns. Accordingly, our quarterly results of operations are volatile and may fluctuate significantly.

Our quarterly results of operations have fluctuated significantly in the past and can be expected to continue to fluctuate significantly in the future. Our sales and profitability are typically disproportionately higher in the third and fourth fiscal quarters of each fiscal year due to increased sales during the back-to-school and winter holiday shopping seasons. Sales during these periods cannot be used as an accurate indicator of annual results. As a result of this seasonality, any factors negatively affecting us during the last half of the year, including unfavorable economic conditions, adverse weather or our ability to acquire seasonal merchandise inventory, could have a material adverse effect on our financial condition and results of operations for the entire year. In addition, in order to prepare for the back-to-school and winter holiday shopping seasons, we must order and keep in stock significantly more merchandise than we carry during other times of the year. Any unanticipated decrease in demand for our products during these peak shopping seasons could require us to sell excess inventory at a substantial markdown, which could have a material adverse effect on our business, results of operations and financial condition.

Our quarterly results of operations are affected by a variety of other factors, including:

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

whether we are able to successfully integrate any new stores that we acquire and the presence of any unanticipated liabilities in connection therewith;

fashion trends and changes in consumer preferences;

calendar shifts of holiday or seasonal periods;

changes in our merchandise mix;

timing of promotional events;

Edgar Filing: Zumiez Inc - Form 10-K

general economic conditions and, in particular, the retail sales environment;

actions by competitors or mall anchor tenants;

weather conditions;

the level of pre-opening expenses associated with our new stores; and

inventory shrinkage beyond our historical average rates.

Table of Contents

Significant fluctuations and volatility in the price of cotton, foreign labor costs and other raw materials used in the production of our merchandise may have a material adverse effect on our business, results of operations and financial conditions.

Increases in the cost of cotton, other raw materials, foreign labor costs and transportation costs used in the production of our merchandise can result in higher costs in the price we pay for this merchandise. The costs for cotton are affected by weather, consumer demand, speculation on the commodities market and other factors that are generally unpredictable and beyond our control. Our gross profit and results of operations could be adversely affected to the extent that the selling prices of our products do not increase proportionately with the increases in the costs of cotton or other materials. Increasing labor costs and oil-related product costs, such as manufacturing and transportation costs, could also adversely impact gross profit. Additionally, significant changes in the relationship between carrier capacity and shipper demand could increase transportation costs, which could also adversely impact gross profit.

Most of our merchandise is produced by foreign manufacturers; therefore, the availability and costs of these products may be negatively affected by risks associated with international trade and other international conditions.

Most of our merchandise is produced by manufacturers around the world. Some of these facilities are located in regions that may be affected by natural disasters, political instability or other conditions that could cause a disruption in trade. Trade restrictions such as increased tariffs or quotas, or both, could also increase the cost and reduce the supply of merchandise available to us. Any reduction in merchandise available to us or any increase in its cost due to tariffs, quotas or local issues that disrupt trade could have a material adverse effect on our results of operations. Our business could be adversely affected by disruptions in the supply chain, such as strikes, work stoppages, or port closures. Although the prices charged by vendors for the merchandise we purchase are primarily denominated in U.S. dollars, a decline in the relative value of the U.S. dollar to foreign currencies could lead to increased merchandise costs, which could negatively affect our competitive position and our results of operations.

The regulatory requirements regarding conflict minerals could have a negative impact on our results of operations.

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC promulgated final rules regarding disclosure of the use of certain minerals (tantalum, tin, gold and tungsten) known as conflict minerals, which are mined from the Democratic Republic of the Congo and adjoining countries, as well as procedures regarding a manufacturer's efforts to prevent the sourcing of such minerals and metals produced from those minerals. We conducted required due diligence activities for the 2013 calendar year and filed our first Form SD report with the SEC in June 2014. While the conflict minerals rule continues in effect as adopted, there remains uncertainty regarding how the conflict minerals rule, and our compliance obligations, will be affected in the future. Specifically, the Court of Appeals for the D.C. Circuit largely upheld the conflict minerals rule in April 2014, but in November 2014, it granted the SEC's and Amnesty International's petitions for rehearing regarding certain disclosure requirements of the rule. Additional requirements under the rule could affect sourcing at competitive prices and availability in sufficient quantities of certain of the conflict minerals used in the manufacture of our products, which could have a material adverse effect on our ability to purchase these products in the future. The costs of compliance, including those related to supply chain research, the limited number of suppliers and possible changes in the sourcing of these minerals, could have a material adverse effect on our results of operations or cash flow.

Our business is susceptible to weather conditions that are out of our control, including the potential risks of unpredictable weather patterns and any weather patterns associated with naturally occurring global climate change, and the resultant unseasonable weather could have a negative impact on our results of operations.

Our business is susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season (including

Table of Contents

any weather patterns associated with global warming and cooling) could render a portion of our inventory incompatible with those unseasonable conditions. These prolonged unseasonable weather conditions could have a material adverse effect on our business and results of operations.

We may be unable to compete favorably in the highly competitive retail industry, and if we lose customers to our competitors, our sales could decrease.

The teenage and young adult retail apparel, footwear, accessories and hardgoods industry is highly competitive. We compete with other retailers for vendors, teenage and young adult customers, suitable store locations, qualified store associates and management personnel. Some of our competitors are larger than we are and have substantially greater financial, marketing, including advanced ecommerce marketing capabilities, and other resources than we do. Additionally, some of our competitors may offer more options for free and/or expedited shipping for ecommerce sales. Direct competition with these and other retailers may increase significantly in the future, which could require us, among other things, to lower our prices and could result in the loss of our customers. Current and increased competition could have a material adverse effect on our business, results of operations and financial condition.

If we fail to maintain good relationships with vendors or if a vendor is otherwise unable or unwilling to supply us with adequate quantities of their products at acceptable prices, our business and financial performance could suffer.

Our business is dependent on continued good relations with our vendors. In particular, we believe that we generally are able to obtain attractive pricing and other terms from vendors because we are perceived as a desirable customer, and deterioration in our relationship with our vendors could have a material adverse effect on our business. There can be no assurance that our vendors will provide us with an adequate supply or quality of products or acceptable pricing. Our vendors could discontinue selling to us, raise the prices they charge at any time or allow their merchandise to be discounted by other retailers. 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. In addition, certain of our vendors sell their products directly to the retail market and therefore compete with us directly and other vendors may decide to do so in the future. There can be no assurance that such vendors will not decide to discontinue supplying their products to us, supply us only less popular or lower quality items, raise the prices they charge us or focus on selling their products directly. In addition, a number of our vendors are smaller, less capitalized companies and are more likely to be impacted by unfavorable general economic and market conditions than larger and better capitalized companies. These smaller vendors may not have sufficient liquidity during economic downturns to properly fund their businesses and their ability to supply their products to us could be negatively impacted. Any inability to acquire suitable merchandise at acceptable prices, or the loss of one or more key vendors, could have a material adverse effect on our business, results of operations and financial condition.

Our ecommerce operations subject us to numerous risks that could have an adverse effect on our results of operations.

Our ecommerce operations subject us to certain risks that could have an adverse effect on our operational results, including:

rapid technological change;

liability for online content; and

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

In addition, risks beyond our control, such as governmental regulation of ecommerce, entry of our vendors in the ecommerce business in competition with us, online security breaches and general economic conditions specific to ecommerce could have an adverse effect on our results of operations.

Table of Contents

If we lose key executives or are unable to attract and retain the talent required for our business, our financial performance could suffer.

Our performance depends largely on the efforts and abilities of our key executives. If we lose the services of one or more of our key executives, we may not be able to successfully manage our business or achieve our growth objectives. As our business grows, we will need to attract and retain additional qualified personnel in a timely manner and we may not be able to do so.

Our failure to meet our staffing needs could adversely affect our ability to implement our growth strategy and could have a material impact on our results of operations.

Our success depends in part upon our ability to attract, motivate and retain a sufficient number of qualified employees who understand and appreciate our culture based on a passion for the action sports lifestyle and are able to adequately represent this culture to our customers. Qualified individuals of the requisite caliber, skills and number needed to fill these positions may be in short supply in some areas, and the employee turnover rate in the retail industry is high. Competition for qualified employees could require us to pay higher wages to attract a sufficient number of suitable employees. If we are unable to hire and retain store managers and store associates capable of consistently providing a high level of customer service, as demonstrated by their enthusiasm for our culture and knowledge of our merchandise, our ability to open new stores may be impaired and the performance of our existing and new stores could be materially adversely affected. We are also dependent upon temporary personnel to adequately staff our stores and distribution and ecommerce fulfillment centers particularly during busy periods such as the back-to-school and winter holiday seasons. There can be no assurance that we will receive adequate assistance from our temporary personnel, or that there will be sufficient sources of temporary personnel. Although none of our employees are currently covered by collective bargaining agreements, we cannot guarantee that our employees will not elect to be represented by labor unions in the future, which could increase our labor costs and could subject us to the risk of work stoppages and strikes. Any such failure to meet our staffing needs, any material increases in employee turnover rates, any increases in labor costs or any work stoppages, interruptions or strikes could have a material adverse effect on our business or results of operations.

Our business could suffer with the closure or disruption of our home office or our distribution or ecommerce fulfillment centers.

Domestically, we rely on a single distribution center located in Corona, California to receive, store and distribute the vast majority of our merchandise to our domestic stores and we primarily rely on a single ecommerce fulfillment center located in Edwardsville, Kansas to ship merchandise purchased on the www.zumiez.com website. Internationally, we operate a combined distribution and ecommerce fulfillment center located in Graz, Austria that support our Blue Tomato ecommerce and store operations in Europe and we operate a distribution center located in Delta, British Columbia, Canada to distribute our merchandise to our Canadian stores. Additionally, we are headquartered in Lynnwood, Washington. As a result, a natural disaster or other catastrophic event that affects one of the regions where we operate these centers could significantly disrupt our operations and have a material adverse effect on our business, results of operations and financial condition.

We are required to make substantial rental payments under our operating leases and any failure to make these lease payments when due could have a material adverse effect on our business and growth plans.

Payments under operating leases account for a significant portion of our operating expenses and has historically been our third largest expense behind cost of sales and our employee related costs. Total rent expense, including contingent rent based on sales of some of our stores, was \$72.5 million, \$53.4 million and \$50.0 million for fiscal 2014, 2013 and 2012. Total rent expense amounts do not include real estate taxes, insurance, common area maintenance charges and other executory costs, which were \$39.6 million, \$32.0 million and \$28.0 million for fiscal 2014, 2013 and 2012.

At January 31, 2015, we were committed to property owners for minimum lease payments of \$423.8 million. In addition to minimum lease payments, substantially all of our store leases provide for contingent rent payments

Table of Contents

based on sales of the respective stores, as well as real estate taxes, insurance, common area maintenance charges and other executory costs. These amounts generally escalate each year. We expect that any new stores we open will also be leased by us under operating leases, which will further increase our operating lease expenses and obligations.

Our substantial operating lease obligations could have significant negative consequences, including:

increasing our vulnerability to general adverse economic and industry conditions;

limiting our ability to obtain additional financing;

requiring that a substantial portion of our available cash be applied to pay our rental obligations, thus reducing cash available for other purposes; and

limiting our flexibility in planning for or reacting to changes in our business or in the industry in which we compete, and placing us at a disadvantage with respect to some of our competitors.

We depend on cash flow from operations to pay our lease expenses and to fulfill our other cash needs. If our business does not generate sufficient cash flow from operating activities, and sufficient funds are not otherwise available to us from borrowings under bank loans or from other sources, we may not be able to service our operating lease expenses, grow our business, respond to competitive challenges or fund our other liquidity and capital needs, which could have a material adverse effect on our business.

The terms of our primary credit facility impose operating and financial restrictions on us that may impair our ability to respond to changing business and economic conditions. These restrictions could have a significant adverse impact on our business. Additionally, our business could suffer if our ability to acquire financing is reduced or eliminated.

We maintain a secured credit agreement with Wells Fargo Bank, N.A., which provides us with a secured revolving credit facility until September 1, 2016 of up to \$25.0 million, which, pursuant to an accordion feature, may be increased to \$35.0 million at our discretion. The credit agreement contains a number of restrictions and covenants that generally limit our ability to, among other things, (1) incur additional debt, (2) undergo a change in ownership and (3) enter into certain transactions. The credit agreement also contains financial covenants that require us to meet certain specified financial tests and ratios, including, a maximum net income after taxes of not less than one dollar on a trailing four-quarter basis provided, that, there shall be added to net income all charges for impairment of goodwill and other intangibles and up to an aggregate of \$5.0 million of store asset impairment, and a minimum quick ratio of 1.25. The quick ratio is defined as our cash and near cash equivalents plus certain defined receivables divided by the borrowings outstanding. Our accounts receivable, general intangibles, inventory and equipment have been pledged to secure our obligations under the credit agreement. We must also provide financial information and statements to our lender. We were in compliance with all such covenants at January 31, 2015. There were no borrowings outstanding under the secured revolving credit facility at January 31, 2015 and February 1, 2014. We had open commercial letters of credit outstanding under our secured revolving credit facility of \$0.3 million at January 31, 2015 and February 1, 2014.

A breach of any of these restrictive covenants or our inability to comply with the required financial tests and ratios could result in a default under the credit agreement. If a default occurs, the lender may elect to declare all borrowings outstanding, together with accrued interest and other fees, to be immediately due and payable. If we are unable to repay borrowings outstanding when due, whether at their maturity or if declared due and payable by the lender following a default, the lender has the right to proceed against the collateral granted to it to secure the indebtedness. As a result, any breach of these covenants or failure to comply with these tests and ratios could have a material adverse effect on us. There can be no assurance that we will not breach the covenants or fail to comply with the tests and ratios in our credit agreement or any other debt agreements we may enter into in the future and, if a breach occurs, there can be no assurance that we will be able to obtain necessary waivers or amendments from the lenders.

Table of Contents

The restrictions contained in our credit agreement could: (1) limit our ability to plan for or react to market conditions or meet capital needs or otherwise restrict our activities or business plans; and (2) adversely affect our ability to finance our operations, strategic acquisitions, investments or other capital needs or to engage in other business activities that would be in our interest.

Additionally, in the current economic environment, we cannot be assured that our borrowing relationship with our lenders will continue or that our lenders will remain able to support their commitments to us in the future. If our lenders fail to do so, then we may not be able to secure alternative financing on commercially reasonable terms, or at all.

Our business could suffer if a manufacturer fails to use acceptable labor practices.

We do not control our vendors or the manufacturers that produce the products we buy from them, nor do we control the labor practices of our vendors and these manufacturers. The violation of labor or other laws by any of our vendors or these manufacturers, or the divergence of the labor practices followed by any of our vendors or these manufacturers from those generally accepted as ethical in the U.S., could interrupt, or otherwise disrupt, the shipment of finished products to us or damage our reputation. Any of these, in turn, could have a material adverse effect on our financial condition and results of operations. In that regard, most of the products we sell are manufactured overseas, primarily in Asia and Central America, which may increase the risk that the labor practices followed by the manufacturers of these products may differ from those considered acceptable in the U.S.

Additionally, our products are subject to regulation of and regulatory standards set by various governmental authorities with respect to quality and safety. Regulations and standards in this area are currently in place. These regulations and standards may change from time to time. Our inability to comply on a timely basis with regulatory requirements could result in significant fines or penalties, which could adversely affect our reputation and sales. Issues with the quality and safety of merchandise we sell, regardless of our culpability, or customer concerns about such issues, could result in damage to our reputation, lost sales, uninsured product liability claims or losses, merchandise recalls and increased costs.

Our failure to adequately anticipate a correct mix of private label merchandise may have a material adverse effect on our business.

Sales from private label merchandise account for approximately 15% to 20% of our net sales and generally carry higher gross margins than our other merchandise. We may take steps to increase the percentage of net sales of private label merchandise in the future, although there can be no assurance that we will be able to achieve increases in private label merchandise sales as a percentage of net sales. Our failure to anticipate, identify and react in a timely manner to fashion trends with our private label merchandise, could have a material adverse effect on our comparable sales, financial condition and results of operations.

If our information systems hardware or software fails to function effectively or does not scale to keep pace with our planned growth, our operations could be disrupted and our financial results could be harmed.

We are continuing to make investments to improve our information systems infrastructure. If our information systems and software do not work effectively, this could adversely impact the promptness and accuracy of our transaction processing, financial accounting and reporting and our ability to manage our business and properly forecast operating results and cash requirements. Additionally, we rely on third-party service providers for certain information systems functions. If a service provider fails to provide the data quality, communications capacity or services we require, the failure could interrupt our services and could have a material adverse effect on our business, financial condition and results of operations. To manage the anticipated growth of our operations and personnel, we may need to continue to improve our operational and financial systems, transaction processing, procedures and controls, and in doing so could incur substantial additional expenses that could impact our financial results.

Table of Contents

The security of our databases that contain personal information of our retail customers could be breached, which could subject us to adverse publicity, litigation and expenses. In addition, if we are unable to comply with security standards created by the credit card industry, our operations could be adversely affected.

Database privacy, network security and identity theft are matters of growing public concern. In an attempt to prevent unauthorized access to our network and databases containing confidential, third-party information, we have installed privacy protection systems, devices and activity monitoring on our networks. Nevertheless, if unauthorized parties gain access to our networks or databases, they may be able to steal, publish, delete or modify our private and sensitive third-party information. In such circumstances, we could be held liable to our customers or other parties or be subject to regulatory or other actions for breaching privacy rules and we may be exposed to reputation damage and loss of customers' trust and business. This could result in costly investigations and litigation, civil or criminal penalties and adverse publicity that could adversely affect our financial condition, results of operations and reputation. Further, if we are unable to comply with the security standards established by banks and the credit card industry, we may be subject to fines, restrictions and expulsion from card acceptance programs, which could adversely affect our retail operations.

Our inability or failure to protect our intellectual property or our infringement of other's intellectual property could have a negative impact on our operating results.

We believe that our trademarks and domain names are valuable assets that are critical to our success. The unauthorized use or other misappropriation of our trademarks or domain names could diminish the value of the Zumiez or Blue Tomato brands, our store concepts, our private label brands or our goodwill and cause a decline in our net sales. Although we have secured or are in the process of securing protection for our trademarks and domain names in a number of countries outside of the U.S., there are certain countries where we do not currently have or where we do not currently intend to apply for protection for certain trademarks or at all. Also, the efforts we have taken to protect our trademarks may not be sufficient or effective. Therefore, we may not be able to prevent other persons from using our trademarks or domain names outside of the U.S., which also could adversely affect our business. We are also subject to the risk that we may infringe on the intellectual property rights of third parties. Any infringement or other intellectual property claim made against us, whether or not it has merit, could be time-consuming, result in costly litigation, cause product delays or require us to pay royalties or license fees. As a result, any such claim could have a material adverse effect on our operating results.

The effects of war or acts of terrorism, or other types of mall violence, could adversely affect our business.

Most of our stores are located in shopping malls. Any threat of terrorist attacks or actual terrorist events, or other types of mall violence, such as shootings in malls, particularly in public areas, could lead to lower customer traffic in shopping malls. In addition, local authorities or mall management could close shopping malls in response to security concerns. Mall closures, as well as lower customer traffic due to security concerns, could result in decreased sales. Additionally, the armed conflicts in the Middle East, or the threat, escalation or commencement of war or other armed conflict elsewhere, could significantly diminish consumer spending, and result in decreased sales for us. Decreased sales could have a material adverse effect on our business, financial condition and results of operations.

The outcome of litigation could have a material adverse effect on our business, and may result in substantial costs and could divert management's attention.

We are involved, from time to time, in litigation incidental to our business including complaints filed by investors. This litigation could result in substantial costs, and could divert management's attention and resources, which could harm our business. Risks associated with legal liability are often difficult to assess or quantify, and their existence and magnitude can remain unknown for significant periods of time. There can be no assurance that the actual outcome of pending or future litigation will not have a material adverse effect on our results of operations or financial condition. Additionally, while we maintain director and officer liability insurance for litigation surrounding investor lawsuits, the amount of insurance coverage may not be sufficient to cover a claim and the continued availability of this insurance cannot be assured.

Table of Contents

Our operations expose us to the risk of litigation, which could lead to significant potential liability and costs that could harm our business, financial condition or results of operations.

We employ a substantial number of full-time and part-time employees, a majority of whom are employed at our store locations. As a result, we are subject to a large number of federal, state and foreign laws and regulations relating to employment. This creates a risk of potential claims that we have violated laws related to discrimination and harassment, health and safety, wage and hour laws, criminal activity, personal injury and other claims. We are also subject to other types of claims in the ordinary course of our business. Some or all of these claims may give rise to litigation, which could be time-consuming for our management team, costly and harmful to our business.

In addition, we are exposed to the risk of class action litigation. The costs of defense and the risk of loss in connection with class action suits are greater than in single-party litigation claims. Due to the costs of defending against such litigation, the size of judgments that may be awarded against us, and the loss of significant management time devoted to such litigation, we cannot assure you that such litigation will not disrupt our business or impact our financial results.

Our failure to comply with federal, state, local or foreign laws, or changes in these laws, could have an adverse impact on our results of operations and financial performance.

Our business is subject to a wide array of laws and regulations. Changes in the regulations, the imposition of additional regulations, or the enactment of any new legislation including those related to health care, taxes, privacy, environmental issues and trade, could adversely affect our results of operations or financial condition.

Our business could be adversely affected by increased labor costs, including costs related to an increase in the minimum wage and new health care laws.

Labor is a primary component in the cost of operating our business. Increased labor costs, whether due to competition, unionization, increased minimum wage, state unemployment rates, employee benefits costs or otherwise, may adversely impact our operating expenses. A considerable amount of our store team members are paid at rates related to the federal or state minimum wage and any changes to the minimum wage rate may increase our operating expenses. Additionally, we are self-insured with respect to our health care coverage in the U.S. and do not purchase third party insurance for the health insurance benefits provided to employees with the exception of pre-defined stop loss coverage, which helps limit the cost of large claims. In March 2010, The Patient Protection and Affordable Care Act was enacted requiring employers such as us to provide health insurance for all qualifying employees or pay penalties for not providing coverage. The most significant increases in cost will occur in fiscal 2015 and fiscal 2016. We evaluated the impact the new law will have on us, and although we cannot predict with certainty the financial and operational impacts the new law will have, we expect to be required to provide health benefits to more employees than we currently do, which we expect to raise our labor costs. While the majority of these costs will begin in fiscal 2015 and fiscal 2016, there is no assurance that we will be able to absorb and/or pass through the costs of such legislation in a manner that will not adversely impact our results or operations.

We have incurred and will continue to incur significant expenses as a result of being a public company, which will negatively impact our financial performance.

We completed our initial public offering in May 2005 and we have incurred and could continue to incur significant legal, accounting, insurance and other expenses as a result of being a public company. Rules and regulations implemented by Congress, the SEC and the Nasdaq Global Select Market have required changes in corporate governance practices of public companies. Compliance with these laws could cause us to incur significant costs and expenses, including legal and accounting costs, and could make some compliance activities more time-consuming and negatively impact our financial performance. Additionally, these rules and regulations may make it more expensive for us to obtain director and officer liability insurance. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as officers.

Table of Contents

Failure to maintain adequate financial and management processes and controls could lead to errors in our financial reporting and could harm our ability to manage our expenses.

Reporting obligations as a public company and our anticipated growth, both domestically and internationally, are likely to place a considerable strain on our financial and management systems, processes and controls, as well as on our personnel. In addition, we are required to document and test our internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 so that our management can certify as to the effectiveness of our internal controls and our independent registered public accounting firm can render an opinion on the effectiveness of our internal control over financial reporting on an annual basis. This process requires us to document our internal controls over financial reporting and to potentially make significant changes thereto, if applicable. As a result, we have incurred and expect to continue to incur substantial expenses to test our financial controls and systems, and we have been and in the future may be required to improve our financial and managerial controls, reporting systems and procedures, to incur substantial expenses to make such improvements and to hire additional personnel. If our management is ever unable to certify the effectiveness of our internal controls or if our independent registered public accounting firm cannot render an opinion on the effectiveness of our internal control over financial reporting, or if material weaknesses in our internal controls are ever identified, we could be subject to regulatory scrutiny and a loss of public confidence, which could have a material adverse effect on our business and our stock price. In addition, if we do not maintain adequate financial and management personnel, processes and controls, we may not be able to accurately report our financial performance on a timely basis, which could cause a decline in our stock price and adversely affect our ability to raise capital.

Changes to accounting rules or regulations could significantly affect our financial results.

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). New accounting rules or regulations and changes to existing accounting rules or regulations have occurred and may occur in the future. Future changes to accounting rules or regulations, such as changes to lease accounting guidance or a requirement to convert to international financial reporting standards, could negatively affect our results of operations and financial condition through increased cost of compliance.

We may fail to meet analyst expectations, which could cause the price of our stock to decline.

Our common stock is traded publicly and various securities analysts follow our financial results and issue reports on us. These reports include information about our historical financial results as well as the analysts' estimates of our future performance. The analysts' estimates are based upon their own independent opinions and can be different from our estimates or expectations. If our operating results are below the estimates or expectations of public market analysts and investors, our stock price could decline. In December 2007, a securities class action litigation and associated derivative lawsuits were brought against us and such actions are frequently brought against other companies following a decline in the market price of their securities. These lawsuits were dismissed with prejudice in March 2009. If our stock price is volatile, we may become involved in this type of litigation in the future. Any litigation could result in substantial costs and a diversion of management's attention and resources that are needed to successfully run our business.

The value of our investments may fluctuate.

We have our excess cash primarily invested in state and local municipal securities and variable-rate demand notes. These investments have historically been considered very safe investments with minimal default rates. At January 31, 2015, we had \$138.2 million of investments in state and local government securities and variable-rate demand notes. These securities are not guaranteed by the U.S. government and are subject to additional credit risk based upon each local municipality's tax revenues and financial stability. As a result, we may experience a reduction in value or loss of liquidity of our investments, which may have a negative adverse effect on our results of operations, liquidity and financial condition.

Table of Contents

A decline in the market price of our stock and/or our performance may trigger an impairment of the goodwill and other indefinite-lived intangible assets recorded on the consolidated balance sheets.

Goodwill and other indefinite-lived intangible assets are required to be tested for impairment at least annually or more frequently if management believes indicators of impairment exist. Any reduction in the carrying value of our goodwill or other indefinite-lived intangible assets as a result of our impairment analysis could result in a non-cash impairment charge, which could have a significant impact on our results of operations.

Reduced operating results and cash flows may cause us to incur impairment charges.

We review the carrying value of our fixed assets for impairment whenever events or changes in circumstances indicate that the carrying value of such asset may not be recoverable. The review could result in a non-cash impairment charge related to underperforming stores, which could impact our results of operations.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

All of our stores are occupied under operating leases and encompassed approximately 1.8 million total square feet at January 31, 2015.

We own approximately 356,000 square feet of land in Lynnwood, Washington, and completed construction of a 63,071 square foot global home office in fiscal 2012. Additionally, we lease 14,208 square feet of office space in Schladming, Austria for our European home office. This lease is set to expire in 2017.

We own a 168,450 square foot building in Corona, California that serves as our domestic warehouse and distribution center. We lease 123,761 square feet of a facility in Edwardsville, Kansas that serves as our zumiez.com ecommerce fulfillment center. This lease is set to expire in 2022.

We lease a 82,064 square feet combined distribution and ecommerce fulfillment center in Graz, Austria that supports our Blue Tomato ecommerce and store operations in Europe. This lease is set to expire in 2019. We lease 17,168 square feet of a distribution facility in Delta, British Columbia, Canada that supports our store operations in Canada. This lease is set to expire in 2018.

Item 3. LEGAL PROCEEDINGS

We are involved from time to time in litigation incidental to our business. We believe that the outcome of current litigation is not expected to have a material adverse effect on our results of operations or financial condition.

See Note 10, Commitments and Contingencies, in the Notes to Consolidated Financial Statements found in Part IV Item 15 of this Form 10-K, for additional information related to legal proceedings.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents**PART II****Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

Our common stock is traded on the Nasdaq Global Select Market under the symbol ZUMZ. At January 31, 2015, there were 29,417,712 shares of common stock outstanding. The following table sets forth the high and low sales prices for our common stock on the Nasdaq Global Select Market.

Fiscal 2014	High	Low
First Fiscal Quarter (February 2, 2014 - May 3, 2014)	\$ 26.50	\$ 20.68
Second Fiscal Quarter (May 4, 2014 - August 2, 2014)	\$ 30.75	\$ 24.25
Third Fiscal Quarter (August 3, 2014 - November 1, 2014)	\$ 34.64	\$ 27.21
Fourth Fiscal Quarter (November 2, 2013 - January 31, 2015)	\$ 41.81	\$ 32.68
Fiscal 2013	High	Low
First Fiscal Quarter (February 3, 2013 - May 4, 2013)	\$ 30.32	\$ 20.47
Second Fiscal Quarter (May 5, 2013 - August 3, 2013)	\$ 33.50	\$ 26.67
Third Fiscal Quarter (August 4, 2013 - November 2, 2013)	\$ 30.18	\$ 23.93
Fourth Fiscal Quarter (November 3, 2013 - February 1, 2014)	\$ 30.90	\$ 21.01

Table of Contents**Performance Measurement Comparison**

The following graph shows a comparison for total cumulative returns for Zumiez, the Nasdaq Composite Index and the Nasdaq Retail Trade Index during the period commencing on January 30, 2010 and ending on January 31, 2015. The comparison assumes \$100 was invested on January 30, 2010 in each of Zumiez, the Nasdaq Composite Index and the Nasdaq Retail Trade Index, and assumes the reinvestment of all dividends, if any. The comparison in the following graph and table is required by the SEC and is not intended to be a forecast or to be indicative of future Company common stock performance.

	1/30/10	1/29/11	1/28/12	2/2/13	2/1/14	1/31/15
Zumiez	100.00	175.26	222.55	165.83	169.05	292.93
NASDAQ Composite	100.00	126.90	134.50	152.96	204.19	231.72
NASDAQ Retail Trade	100.00	128.20	143.05	176.27	219.05	232.39

Holder s Capital Stock

We had 360 shareholders of record as of February 27, 2015.

Dividends

No cash dividends have been declared on our common stock to date nor have any decisions been made to pay a dividend in the foreseeable future. Payment of dividends is evaluated on a periodic basis.

Table of Contents

Recent Sales of Unregistered Securities

None

Issuer Purchases of Equity Securities

The share repurchase program is conducted under authorizations made from time to time by our Board of Directors. In November 2012, we publicly announced that our Board of Directors authorized us to repurchase \$22.0 million of our common stock. This repurchase program was completed in December 2012. In December 2012, we publicly announced that our Board of Directors authorized us to repurchase up to an additional \$20.0 million of our common stock. On December 4, 2013, our Board of Directors superseded and replaced this program with a new \$30.0 million share repurchase program that is expected to continue through January 31, 2015, unless the time period is extended or shortened by the Board of Directors. On December 10, 2014 our Board of Directors superseded and replaced this program with a new \$30.0 million share repurchase program that is expected to continue through January 30, 2016, unless the time period is extended or shortened by the Board of Directors. There were no purchases with respect to our common stock made during the thirteen weeks ended January 31, 2015.

Table of Contents**Item 6. SELECTED FINANCIAL DATA**

The following selected consolidated financial information has been derived from our audited Consolidated Financial Statements. The data should be read in conjunction with our Consolidated Financial Statements and the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein.

	Fiscal 2014 (1)	Fiscal 2013 (2)	Fiscal 2012 (3)	Fiscal 2011	Fiscal 2010 (4)
Statement of Operations Data (in thousands, except per share data):					
Net sales	\$ 811,551	\$ 724,337	\$ 669,393	\$ 555,874	\$ 478,849
Cost of goods sold	524,468	462,577	428,109	354,198	311,028
Gross profit	287,083	261,760	241,284	201,676	167,821
Selling, general and administrative expenses	215,512	188,918	172,742	141,444	130,454
Operating profit	71,571	72,842	68,542	60,232	37,367
Interest income, net	637	711	1,410	1,836	1,496
Other (expense) income, net	(557)	(1,589)	327	(379)	(8)
Earnings before income taxes	71,651	71,964	70,279	61,689	38,855
Provision for income taxes	28,459	26,016	28,115	24,338	14,652
Net income	\$ 43,192	\$ 45,948	\$ 42,164	\$ 37,351	\$ 24,203
Earnings per share:					
Basic	\$ 1.50	\$ 1.54	\$ 1.37	\$ 1.22	\$ 0.81
Diluted	\$ 1.47	\$ 1.52	\$ 1.35	\$ 1.20	\$ 0.79
Weighted average shares outstanding:					
Basic	28,871	29,810	30,742	30,527	29,971
Diluted	29,288	30,206	31,273	31,119	30,794
Balance Sheet Data (in thousands):					
Cash, cash equivalents and current marketable securities	\$ 154,644	\$ 117,155	\$ 103,172	\$ 172,798	\$ 128,801
Working capital (5)	198,316	168,472	146,115	197,927	155,400
Total assets	493,705	443,403	409,098	362,157	301,631
Total long-term liabilities	52,734	46,375	48,478	34,304	29,435
Total shareholders' equity	359,524	335,654	303,421	272,277	226,735
Other Financial Data (in thousands, except gross margin and operating margin):					
Gross margin (6)	35.4%	36.1%	36.0%	36.3%	35.0%
Operating margin (7)	8.8%	10.1%	10.2%	10.8%	7.8%
Capital expenditures	\$ 35,758	\$ 35,969	\$ 41,070	\$ 25,508	\$ 29,124
Depreciation, amortization and accretion	\$ 29,167	\$ 26,596	\$ 22,957	\$ 19,744	\$ 17,923
Company Data:					
Number of stores open at end of period	603	551	498	444	400
Comparable sales increase (decrease) (8)	4.6%	(0.3%)	5.0%	8.7%	11.9%
Net sales per store (9) (in thousands)	\$ 1,390	\$ 1,366	\$ 1,403	\$ 1,303	\$ 1,221
Total store square footage (10) (in thousands)	1,770	1,624	1,480	1,308	1,174
Average square footage per store (11)	2,936	2,947	2,961	2,945	2,935
Net sales per square foot (12)	\$ 473	\$ 462	\$ 475	\$ 443	\$ 416

Table of Contents

- (1) Included in the results for fiscal 2014 is a charge of \$6.4 million for the expense associated with the estimated future incentive payments to be paid in conjunction with our acquisition of Blue Tomato and an expense of \$2.3 million of amortization of intangible assets.
- (2) Included in the results for fiscal 2013 are the following charges: a) a benefit of \$2.7 million representing the correction of an error related to our calculation to account for rent expense on a straight-line basis, b) a benefit of \$2.6 million for the reversal of the previously recorded expense associated with the future incentive payments to be paid in conjunction with our acquisition of Blue Tomato, c) an expense of \$2.3 million for the amortization of intangible assets, d) an expense of \$1.3 million for a litigation settlement and e) a benefit of \$0.4 million for the release of a valuation allowance to net operating losses in foreign subsidiaries.
- (3) Fiscal 2012 consisted of 53 weeks. All other fiscal years presented consisted of 52 weeks. In fiscal 2012, we acquired Blue Tomato for cash consideration of 59.5 million Euros (\$74.8 million). Additionally, included in the results for fiscal 2012 are the following charges: a) an expense of \$2.3 million associated with the future incentive payments to be paid in conjunction with our acquisition of Blue Tomato, b) an expense of \$2.2 million related to a step-up in inventory to estimated fair value in conjunction with our acquisition of Blue Tomato, c) an expense of \$2.1 million associated with the relocation of our ecommerce fulfillment center and home office, d) an expense of \$1.9 million in transaction costs incurred in conjunction with our acquisition of Blue Tomato and e) an expense of \$1.3 million for the amortization of intangible assets.
- (4) Included in the results of fiscal 2010 are the following charges: a) an expense of \$2.4 million associated with the relocation of our distribution center and b) an expense of \$2.1 million for a litigation settlement. Additionally, we changed our estimate of the useful lives of our leasehold improvements and the effect of this change reduced depreciation expense by \$4.2 million.
- (5) Working capital is defined as current assets minus current liabilities.
- (6) Gross margin represents gross profit divided by net sales.
- (7) Operating margin represents operating profit divided by net sales.
- (8) See Management's Discussion and Analysis of Financial Condition and Results of Operations - General for more information about how we compute comparable sales.
- (9) Net sales per store represents net sales, including ecommerce sales, for the period divided by the average number of stores open during the period. For purposes of this calculation, the average number of stores open during the period is equal to the sum of the number of stores open as of the end of each month during the fiscal year divided by the number of months in the fiscal year.
- (10) Total store square footage includes retail selling, storage and back office space at the end of the fiscal year.
- (11) Average square footage per store is calculated based on the total store square footage at the end of the fiscal year, including retail selling, storage and back office space, of all stores open at the end of the fiscal year.
- (12)

Edgar Filing: Zumiez Inc - Form 10-K

Net sales per square foot represents net sales, including ecommerce sales, for the period divided by the average square footage of stores open during the period. For purposes of this calculation, the average square footage of stores open during the period is equal to the sum of the total square footage of the stores open as of the end of each month during the fiscal year divided by the number of months in the fiscal year.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this document. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those discussed in Item 1A Risk Factors. See the cautionary note regarding forward-looking statements set forth at the beginning of Part I of the Annual Report on Form 10-K.

Table of Contents**Fiscal 2014 A Review of This Past Year**

Teen retail in general began fiscal 2014 in a challenging sales environment, with many mall based teen retailers seeing significant sales and earnings declines over the past couple of years. As the year progressed some signs of a stronger retail landscape began to appear, culminating with a considerably stronger fourth quarter. Coming into fiscal 2014 our sales performance continued to be lower than historical results and in the first quarter of the year we saw some margin erosion as we successfully cleaned up our inventory position following a tough Holiday season in the prior fiscal year. Comparable sales trends improved as the year progressed, particularly in the important fourth quarter, and for the year we achieved a comparable sales increase of 4.6%. As a leading lifestyle retailer we continue to differentiate ourselves through our distinctive brand offering and diverse product selection, as well as the unique customer experience our sales associates provide. In addition, the investments and efforts we have made toward expanding our North America footprint, establishing a progressive omni-channel platform and international expansion are enhancing our sales results.

In 2014 we continued to fund our growth initiatives with a focus on long-term returns. These investments included continued expansion of our stores in North America, technology enhancements, fortifying our commerce platform through further upgrades to our digital infrastructure, and the ongoing build out of our European operations. In North America we opened 50 stores made up of 43 in the U.S. and 7 in Canada, and in Europe we opened 6 stores bringing our total stores count to 603. Additionally we made further progress across our omni-channel initiatives, enhancing our customers sales experience by serving them better whenever and wherever they want to interact with us.

The following table shows net sales, operating profit and margin and diluted earnings per share for fiscal 2014 compared to fiscal 2013. The fiscal 2014 results include \$8.7 million of charges associated with the acquisition of Blue Tomato made up of \$6.4 million for future incentive payments related to the transaction and \$2.3 million for the amortization of intangible assets. The fiscal 2013 results include a \$2.7 million benefit for the correction of a prior year error related to our calculation to account for rent expense on a straight-line basis, a \$1.3 million expense for a litigation settlement, and charges associated with the acquisition of Blue Tomato netting to a benefit of \$0.1 million primarily related to a \$2.6 million benefit for the reversal of the previously recorded expense associated with future incentive payments related to the transaction, offset by \$2.3 million for the amortization of intangible assets.

	Fiscal 2014	Fiscal 2013	% Change
Net sales (in thousands)	\$ 811,551	\$ 724,337	12%
Operating profit (in thousands)	\$ 71,571	\$ 72,842	-2%
Operating margin	8.8%	10.1%	
Diluted earnings per share	\$ 1.47	\$ 1.52	-3%

The increase in net sales was primarily driven by the net addition of 52 stores (56 new stores offset by four store closures) and a 4.6% comparable sales increase. The increase in comparable sales was driven by an increase in transactions and an increase in dollars per transaction. Dollars per transaction increased primarily due to an increase in units per transaction and a slight increase in average unit retail. Operating margin was down in fiscal 2014 compared to fiscal 2013 primarily as a result of the charges discussed above and a slight decrease in product margin for the year offset slightly by leveraging operating costs on a 12.0% sales increase.

Fiscal 2015 A Look At the Upcoming Year

We enter fiscal 2015 with some sales momentum, having achieved an 8.3% comparable sales increase in fiscal fourth quarter 2014. While we are encouraged with the improved performance, there is not enough evidence to suggest this is the beginning of a sustained retail trend. As such we remain cautious on our expectations for fiscal 2015 although we do believe sales, including comparable sales, and earnings will increase for the year. Our focus will be on continued execution of our proven strategies as well as investments centered on long-term quality growth. These investments will largely be focused on continued store growth, both domestic and international, and further enhancements across the business to support our omni-channel capabilities. In fiscal 2015, excluding costs associated with the acquisition of Blue Tomato, we expect our cost structure will grow at a similar rate to fiscal 2014.

Table of Contents

Long-term we aim to grow sales annually and grow operating profit at a faster rate than sales by focusing on our growth initiatives while managing our cost structure. Our primary growth vehicles in both our domestic and international markets are:

1. Initiatives that drive comparable sales gains;
2. Opening high return new stores;
3. Ecommerce penetration; and
4. Omni-channel initiatives.

In fiscal 2015, we are expecting total sales to increase driven in part by an increase in comparable sales, recognizing that our performance can be impacted by a variety of factors including external influences. We are also planning sales growth from the opening of approximately 57 new stores, including approximately six stores in Europe. It is our goal to run quality sales gains and expect gross margins to have some fluctuation quarter to quarter but generally remain in-line with fiscal 2014. We will make further investments in people and infrastructure and expect earnings to increase. We anticipate inventory levels per square foot to be flat or grow slightly. We expect our cash, short-term investments and working capital to increase, and do not anticipate any new borrowings during the year.

General

Net sales constitute gross sales (net of actual and estimated returns and deductions for promotions) and shipping revenue. Net sales include our store sales and our ecommerce sales. Net sales are allocated between store and ecommerce based on the location where the sale is fulfilled, which does not always represent where the customer originated the sale. We record the sale of gift cards as a current liability and recognize revenue when a customer redeems a gift card. Additionally, the portion of gift cards that will not be redeemed (gift card breakage) is recognized in net sales after 24 months, at which time the likelihood of redemption is considered remote based on our historical redemption data.

We report comparable sales based on net sales beginning on the first anniversary of the first day of operation of a new store or ecommerce business. We operate a sales strategy that integrates our stores with our ecommerce platform. There is significant interaction between our store sales and our ecommerce sales channels and we believe that they are utilized in tandem to serve our customers. Therefore, our comparable sales also include our ecommerce sales. Changes in our comparable sales between two periods are based on net sales of store or ecommerce businesses which were in operation during both of the two periods being compared and, if a store or ecommerce business is included in the calculation of comparable sales for only a portion of one of the two periods being compared, then that store or ecommerce business is included in the calculation for only the comparable portion of the other period. Any change in square footage of an existing comparable store, including remodels and relocations, does not eliminate that store from inclusion in the calculation of comparable sales. Any store or ecommerce business that we acquire will be included in the calculation of comparable sales after the first anniversary of the acquisition date. Current year foreign exchange rates are applied to both current year and prior year comparable sales to achieve a consistent basis for comparison. There may be variations in the way in which some of our competitors and other apparel retailers calculate comparable sales. As a result, data herein regarding our comparable sales may not be comparable to similar data made available by our competitors or other retailers.

Cost of goods sold consists of branded merchandise costs and our private label merchandise costs including design, sourcing, importing and inbound freight costs. This may not be comparable to the way in which our competitors or other retailers compute their cost of goods sold. Cash consideration received from vendors is reported as a reduction of cost of goods sold if the inventory has sold, a reduction of the carrying value of the inventory if the inventory is still on hand, or a reduction of selling, general and administrative expense if the amounts are reimbursements of specific, incremental and identifiable costs of selling the vendors' products.

With respect to the freight component of our ecommerce sales, amounts billed to our customers are included in net sales and the related freight cost is charged to cost of goods sold.

Table of Contents

Selling, general and administrative expenses consist primarily of store personnel wages and benefits, administrative staff and infrastructure expenses, freight costs for merchandise shipments from the distribution centers to the stores, store supplies, depreciation on fixed assets at our home office and stores, facility expenses, training expenses and advertising and marketing costs. Credit card fees, insurance, public company expenses, legal expenses, amortization of intangibles, future incentive payments, and other miscellaneous operating costs are also included in selling, general and administrative expenses. This may not be comparable to the way in which our competitors or other retailers compute their selling, general and administrative expenses.

Key Performance Indicators

Our management evaluates the following items, which we consider key performance indicators, in assessing our performance:

Comparable sales. As previously described in detail under the caption General, comparable sales provide a measure of sales growth for stores and ecommerce businesses open at least one year over the comparable prior year period.

We consider comparable sales to be an important indicator of our current performance. Comparable sales results are important to achieve leveraging of our costs, including store payroll and store occupancy. Comparable sales also have a direct impact on our total net sales, operating profit, cash and working capital.

Gross profit. Gross profit measures whether we are optimizing the price and inventory levels of our merchandise. Gross profit is the difference between net sales and cost of goods sold. Any inability to obtain acceptable levels of initial markups or any significant increase in our use of markdowns could have an adverse effect on our gross profit and results of operations.

Operating profit. We view operating profit as a key indicator of our success. Operating profit is the difference between gross profit and selling, general and administrative expenses. The key drivers of operating profit are comparable sales, gross profit, our ability to control selling, general and administrative expenses and our level of capital expenditures affecting depreciation expense.

Results of Operations

The following table presents selected items on the consolidated statements of income as a percent of net sales:

	Fiscal 2014	Fiscal 2013	Fiscal 2012
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	64.6%	63.9%	64.0%
Gross profit	35.4%	36.1%	36.0%
Selling, general and administrative expenses	26.6%	26.0%	25.8%
Operating profit	8.8%	10.1%	10.2%
Interest and other (expenses)/income, net	0.0%	(0.2%)	0.3%
Earnings before income taxes	8.8%	9.9%	10.5%
Provision for income taxes	3.5%	3.6%	4.2%
Net income	5.3%	6.3%	6.3%

Table of Contents

Fiscal 2014 Results Compared With Fiscal 2013

Net Sales

Net sales were \$811.6 million for fiscal 2014 compared to \$724.3 million for fiscal 2013, an increase of \$87.2 million or 12.0%. The increase reflected the net addition of 52 stores (made up of 50 new stores in North America and six new stores in Europe offset by four store closures in North America) and a \$33.2 million increase due to comparable sales for fiscal 2014. By region, North America sales increased \$71.5 million or 10.6% and European sales increased \$15.7 million or 32.4% during fiscal 2014 compared to fiscal 2013.

The 4.6% increase in comparable sales was primarily driven by an increase in comparable transactions and dollars per transaction. Dollars per transaction increased due to an increase in units per transaction and an increase in average unit retail. Comparable sales increases in hardgoods, accessories, junior s apparel, and men s apparel were partially offset by a comparable sales decrease in footwear. For information as to how we define comparable sales, see General above.

Gross Profit

Gross profit was \$287.1 million for fiscal 2014 compared to \$261.8 million for fiscal 2013, an increase of \$25.3 million, or 9.7%. As a percentage of net sales, gross profit decreased 70 basis points in fiscal 2014 to 35.4%. The decrease was primarily driven by a 40 basis points benefit from the correction of an error in our calculation to account for rent expense recorded in fiscal 2013, 30 basis point decrease in product margin, 10 basis point impact due to deleveraging of our store occupancy costs, and 10 basis points impact of the increase in ecommerce related costs due to growth in ecommerce sales as a percentage of total sales. These decreases were partially offset by 20 basis points impact due to distribution center efficiencies.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were \$215.5 million for fiscal 2014 compared to \$188.9 million for fiscal 2013, an increase of \$26.6 million, or 14.0%. SG&A expenses as a percent of net sales increased by 60 basis points in fiscal 2014 to 26.6%. The increase was primarily driven by a 110 basis points impact from the expense associated with the estimated future incentive payments to be paid in conjunction with our acquisition of Blue Tomato and 10 basis point impact due to an increase in incentive compensation. These increases were partially offset by a 40 basis point impact due to corporate costs savings, and 20 basis points impact due to a litigation settlement charge incurred in fiscal 2013. See Note 3, Business Combination, in the Notes to Consolidated Financial Statements found in Part IV Item 15 of the Form 10-K, for additional information related to our future incentive payments.

Net Income

Net income for fiscal 2014 was \$43.2 million, or \$1.47 per diluted share, compared with net income of \$45.9 million, or \$1.52 per diluted share, for fiscal 2013. Our effective income tax rate for fiscal 2014 was 39.7% compared to 36.1% for fiscal 2013. The increase in the effective tax rate for fiscal 2014 compared to fiscal 2013 was primarily due to the tax impact on the estimated future incentive payments in fiscal 2013 and 2014 and the release of valuation allowance related to net operating losses and other deferred tax assets of foreign subsidiaries in fiscal 2013.

Fiscal 2013 Results Compared With Fiscal 2012

Net Sales

Fiscal 2013 had 52 weeks versus 53 weeks in fiscal 2012. Net sales numbers for fiscal 2012 include an additional week and fiscal 2013 comparable sales are compared to the comparable sales for the 52 weeks ended February 2, 2013. Net sales were \$724.3 million for fiscal 2013 compared to \$669.4 million for fiscal 2012, an

Table of Contents

increase of \$54.9 million or 8.2%. The increase reflected the net addition of 53 stores (made up of 53 new stores in North America and six new stores in Europe offset by six store closures in North America) and Blue Tomato sales during fiscal 2013 that were not comparable to the prior year, partially offset by a \$9.3 million decrease due to the impact of the 53rd week included in fiscal 2012 results and a \$1.7 million decrease due to comparable sales for fiscal 2013. By region, North America sales increased \$35.2 million and European sales increased \$19.7 million during fiscal 2013 compared to fiscal 2012.

The 0.3% decrease in comparable sales was primarily driven by increasing due to Blue Tomato ecommerce sales that were not comparable to the prior year and the growth in comparable ecommerce sales mentioned above. The decrease in comparable sales was primarily driven by a decline in comparable transactions, partially offset by an increase in dollars per transaction. Dollars per transaction increased due to an increase in units per transaction, partially offset by a decrease in average unit retail due to changes in sales product mix. Comparable sales decreases in men's apparel, footwear and boy's apparel were partially offset by comparable sales increases in junior's apparel, hardgoods and accessories. For information as to how we define comparable sales, see "General" above.

Gross Profit

Gross profit was \$261.8 million for fiscal 2013 compared to \$241.3 million for fiscal 2012, an increase of \$20.5 million, or 8.5%. As a percentage of net sales, gross profit increased 10 basis points in fiscal 2013 to 36.1%. The increase was primarily driven by a 40 basis points benefit due to prior year costs related to a step-up in inventory to estimated fair value in conjunction with our acquisition of Blue Tomato and a 40 basis points impact of the correction of an error related to our calculation to account for rent expense on a straight-line basis. These increases were partially offset by a 50 basis points impact due to the deleveraging of our store occupancy costs and a 50 basis points impact of the increase in ecommerce related costs due to ecommerce sales increasing as a percent of total sales.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were \$188.9 million for fiscal 2013 compared to \$172.7 million for fiscal 2012, an increase of \$16.2 million, or 9.4%. SG&A expenses as a percent of net sales increased by 20 basis points in fiscal 2013 to 26.0%. The increase was primarily driven by a 60 basis points impact of the increase in ecommerce corporate costs due to the growth and investments in our ecommerce business as a percent of total sales, a 40 basis points impact due to the deleveraging of our store operating expenses, a 20 basis points impact due to the deleveraging of our corporate costs and a 20 basis points impact of a litigation settlement charge incurred in fiscal 2013. These increases were partially offset by a 70 basis points impact of the reversal of the previously recorded expense associated with the future incentive payments to be paid in conjunction with our acquisition of Blue Tomato, a 30 basis points benefit due to prior year costs related to transaction costs incurred in conjunction with our acquisition of Blue Tomato and a 20 basis point impact due to a decrease in incentive compensation. See Note 3, "Business Combination," in the Notes to Consolidated Financial Statements found in Part IV Item 15 of the Form 10-K, for additional information related to our future incentive payments.

Net Income

Net income for fiscal 2013 was \$45.9 million, or \$1.52 per diluted share, compared with net income of \$42.2 million, or \$1.35 per diluted share, for fiscal 2012. Our effective income tax rate for fiscal 2013 was 36.1% compared to 40.0% for fiscal 2012. The decrease in the effective tax rate for fiscal 2013 compared to fiscal 2012 was primarily due to the impact of non-taxable acquisition related expenses incurred in fiscal 2012, the release of valuation allowance related to net operating losses and other deferred tax assets of foreign subsidiaries and a reduction of state and local income taxes.

Table of Contents

Seasonality and Quarterly Results

As is the case with many retailers of apparel and related merchandise, our business is subject to seasonal influences. As a result, we have historically experienced, and expect to continue to experience, seasonal and quarterly fluctuations in our net sales and operating results. Our net sales and operating results are typically lower in the first and second quarters of our fiscal year, while the back-to-school and winter holiday periods in our third and fourth fiscal quarters historically have accounted for the largest percentage of our annual net sales. Quarterly results of operations may also fluctuate significantly as a result of a variety of factors, including the timing of store openings and the relative proportion of our new stores to mature stores, fashion trends and changes in consumer preferences, calendar shifts of holiday or seasonal periods, changes in merchandise mix, timing of promotional events, general economic conditions, competition and weather conditions.

The following table sets forth selected unaudited quarterly consolidated statements of income data. The unaudited quarterly information has been prepared on a basis consistent with the audited consolidated financial statements included elsewhere herein and includes all adjustments that we consider necessary for a fair presentation of the information shown. This information should be read in conjunction with our audited consolidated financial statements and the notes thereto. The operating results for any fiscal quarter are not indicative of the operating results for a full fiscal year or for any future period and there can be no assurance that any trend reflected in such results will continue in the future.

	Fiscal 2014			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter (1)
	<i>(in thousands, except stores and per share data)</i>			
Net sales	\$ 162,932	\$ 176,709	\$ 213,341	\$ 258,569
Gross profit	\$ 50,533	\$ 60,912	\$ 77,860	\$ 97,778
Operating profit	\$ 3,713	\$ 11,605	\$ 24,975	\$ 31,278
Net income	\$ 2,496	\$ 7,456	\$ 15,727	\$ 17,513
Basic earnings per share	\$ 0.09	\$ 0.26	\$ 0.54	\$ 0.60
Diluted earnings per share	\$ 0.09	\$ 0.26	\$ 0.54	\$ 0.60
Number of stores open at the end of the period	558	582	602	603
Comparable sales increase (decrease)	1.8%	3.4%	3.7%	8.3%

	Fiscal 2013			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter (2)
	<i>(in thousands, except stores and per share data)</i>			
Net sales	\$ 148,496	\$ 157,858	\$ 191,145	\$ 226,838
Gross profit	\$ 47,972	\$ 55,120	\$ 70,789	\$ 87,879
Operating profit	\$ 4,029	\$ 7,835	\$ 20,678	\$ 40,300
Net income	\$ 2,498	\$ 4,739	\$ 11,860	\$ 26,851
Basic earnings per share	\$ 0.08	\$ 0.16	\$ 0.40	\$ 0.90
Diluted earnings per share	\$ 0.08	\$ 0.16	\$ 0.39	\$ 0.89
Number of stores open at the end of the period	503	529	548	551
Comparable sales (decrease) increase	(0.7%)	0.9%	1.5%	(2.2%)

- (1) Included in the results for the fourth quarter of fiscal 2014 is \$6.4 million expense associated with the estimated future incentive payments to be paid in conjunction with our acquisition of Blue Tomato.
- (2) Included in the results for the fourth quarter of fiscal 2013 are the following: a) a benefit of \$5.8 million, of which \$2.6 million related to prior fiscal years, for the reversal of the previously recorded expense associated with the future incentive payments to be paid in conjunction with our acquisition of Blue Tomato and b) a benefit of \$3.3 million, of which \$2.7 million related to prior fiscal years, representing the correction of an error related to our calculation to account for rent expense on a straight-line basis.

Table of Contents**Liquidity and Capital Resources**

Our primary uses of cash are for operational expenditures, inventory purchases and capital investments, including new stores, store remodels, store relocations, store fixtures and ongoing infrastructure improvements. Additionally, we may use cash for the repurchase of our common stock. Historically, our main source of liquidity has been cash flows from operations.

The significant components of our working capital are inventories and liquid assets such as cash, cash equivalents, current marketable securities and receivables, reduced by accounts payable and accrued expenses. Our working capital position benefits from the fact that we generally collect cash from sales to customers the same day or within several days of the related sale, while we typically have longer payment terms with our vendors.

At January 31, 2015 and February 1, 2014, cash, cash equivalents and current marketable securities were \$154.6 million and \$117.2 million. Working capital, the excess of current assets over current liabilities, was \$198.3 million at the end of fiscal 2014, an increase of 17.7% from \$168.5 million at the end of fiscal 2013. The increase in cash, cash equivalents and current marketable securities in fiscal 2014 were due primarily to cash provided by operating activities of \$89.9 million, partially offset by capital expenditures of \$35.8 million due primarily to the opening of 56 new stores in fiscal 2014 and the \$19.6 million repurchase of common stock.

The following table summarizes our cash flows from operating, investing and financing activities (in thousands):

Operating Activities

	Fiscal 2014	Fiscal 2013	Fiscal 2012
Total cash provided by (used in)			
Operating activities	\$ 89,937	\$ 66,894	\$ 66,225
Investing activities	(73,873)	(49,619)	(41,079)
Financing activities	(13,933)	(15,233)	(22,519)
Effect of exchange rate changes on cash and cash equivalents	(903)	13	173
Increase in cash and cash equivalents	\$ 1,228	\$ 2,055	\$ 2,800

Net cash provided by operating activities increased by \$23.0 million in fiscal 2014 to \$89.9 million from \$66.9 million in fiscal 2013. Net cash provided by operating activities increased by \$0.7 million in fiscal 2013 to \$66.9 million from \$66.2 million in fiscal 2012. Our operating cash flows result primarily from cash received from our customers, offset by cash payments we make for inventory, employee compensation, store occupancy expenses and other operational expenditures. Cash received from our customers generally corresponds to our net sales. Because our customers primarily use credit cards or cash to buy from us, our receivables from customers settle quickly. Changes to our operating cash flows have historically been driven primarily by changes in operating income, which is impacted by changes to non-cash items such as depreciation, amortization and accretion, deferred taxes and excess tax benefit from stock-based compensation, and changes to the components of working capital.

Investing Activities

Net cash used in investing activities was \$73.9 million in fiscal 2014 related to \$35.8 of capital expenditures primarily for new store openings and existing store remodels or relocations and \$38.1 million in net purchases of marketable securities. Net cash used in investing activities was \$49.6 million in fiscal 2013 related to \$36.0 million of capital expenditures primarily for new store openings and existing store remodels or relocations and \$13.6 million in net purchases of marketable securities and other investments. Net cash used in investing

Table of Contents

activities was \$41.1 million in fiscal 2012 primarily related to \$69.7 million cash paid (net of cash acquired) for the acquisition of Blue Tomato and \$41.1 million of capital expenditures primarily for new store openings, existing store remodels or relocations and the construction of our new home office building in Lynnwood, Washington, partially offset by \$70.7 million in net sales of marketable securities.

Financing Activities

Net cash used in financing activities in fiscal 2014 was \$13.9 million, related to \$19.6 million cash paid for repurchase of common stock and \$2.1 million of net payments on long term debt, revolving credit facilities, and other liabilities, partially offset by proceeds from stock-based compensation exercises and related tax benefits of \$7.7 million. Net cash used in financing activities in fiscal 2013 was \$15.2 million, primarily related to \$17.6 million cash paid for repurchase of common stock, partially offset by proceeds from stock-based compensation exercises and related tax benefits of \$2.6 million. Net cash used in financing activities in fiscal 2012 was \$22.5 million, primarily related to \$25.2 million cash paid for the repurchase of common stock, partially offset by proceeds from stock-based compensation exercises and related tax benefits of \$3.0 million.

Sources of Liquidity

Our most significant sources of liquidity continue to be funds generated by operating activities and available cash, cash equivalents and current marketable securities. We expect these sources of liquidity and available borrowings under our revolving credit facility will be sufficient to meet our foreseeable cash requirements for operations and planned capital expenditures for at least the next twelve months. Beyond this time frame, if cash flows from operations are not sufficient to meet our capital requirements, then we will be required to obtain additional equity or debt financing in the future. However, there can be no assurance that equity or debt financing will be available to us when we need it or, if available, that the terms will be satisfactory to us and not dilutive to our then-current shareholders.

We maintain a secured credit agreement with Wells Fargo Bank, N.A., which provides us with a secured revolving credit facility until September 1, 2016 of up to \$25.0 million, which, pursuant to an accordion feature, may be increased to \$35.0 million at our discretion. The secured revolving credit facility provides for the issuance of a standby letter of credit in an amount not to exceed \$5.0 million outstanding at any time and with a term not to exceed 365 days. The commercial line of credit provides for the issuance of a commercial letter of credit in an amount not to exceed \$10.0 million and with terms not to exceed 120 days. The amount of borrowings available at any time under our secured revolving credit facility is reduced by the amount of standby and commercial letters of credit outstanding at that time. There were no borrowings outstanding under the secured revolving credit facility at January 31, 2015 and February 1, 2014. We had open commercial letters of credit outstanding under our secured revolving credit facility of \$0.3 million at January 31, 2015 and February 1, 2014. The secured revolving credit facility bears interest at the Daily Three Month LIBOR rate plus 1.00%.

Additionally, we have revolving lines of credit of up to 9.0 million Euros and other long-term debt, the proceeds of which are used to fund certain international operations. There were no borrowings outstanding under these revolving lines of credit at January 31, 2015 and February 1, 2014. There were no borrowings under the other long-term debt at January 31, 2015 and \$1.9 million at February 1, 2014.

Capital Expenditures

Our capital requirements include construction and fixture costs related to the opening of new stores and remodel and relocation expenditures for existing stores. Future capital requirements will depend on many factors, including the pace of new store openings, the availability of suitable locations for new stores and the nature of arrangements negotiated with landlords. In that regard, our net investment to open a new store has varied significantly in the past due to a number of factors, including the geographic location and size of the new store, and is likely to vary significantly in the future.

Table of Contents

During fiscal 2014, we spent \$35.8 million on capital expenditures, which consisted of \$31.5 million of costs related to investment in 56 new stores and 19 remodeled or relocated stores, \$1.7 million associated with improvements to our websites and \$2.6 million in other improvements.

During fiscal 2013, we spent \$36.0 million on capital expenditures, which consisted of \$30.2 million of costs related to investment in 59 new stores and 13 remodeled or relocated stores, \$3.1 million associated with improvements to our websites and \$2.7 million in other improvements.

During fiscal 2012, we spent \$41.1 million on capital expenditures, which consisted of \$28.7 million of costs related to investment in 53 new stores and 19 remodeled or relocated stores, \$9.8 million of costs associated with the construction of our new home office building in Lynnwood, Washington and \$2.6 million in other improvements.

In fiscal 2015, we expect to spend approximately \$39 million to \$41 million on capital expenditures, a majority of which will relate to leasehold improvements and fixtures for the approximately 57 new stores we plan to open in fiscal 2015 and remodels or relocations of existing stores. There can be no assurance that the number of stores that we actually open in fiscal 2015 will not be different from the number of stores we plan to open, or that actual fiscal 2015 capital expenditures will not differ from this expected amount.

Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP. In connection with the preparation of our consolidated financial statements, we are required to make assumptions and estimates about future events, and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that we believe to be relevant at the time our consolidated financial statements are prepared. On a regular basis, we review the accounting policies, assumptions, estimates and judgments to ensure that our consolidated financial statements are presented fairly and in accordance with U.S. GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

Our significant accounting policies are discussed in Note 2, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements found in Part IV Item 15 of this Form 10-K. We believe that the following accounting estimates are the most critical to aid in fully understanding and evaluating our reported financial results, and they require our most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain.

Table of Contents

Description	Judgments and Uncertainties	Effect If Actual Results Differ From Assumptions
<i>Valuation of Merchandise Inventories</i>		
<p>We value our inventory at the lower of cost or fair market value through the establishment of write-down and inventory loss reserves.</p>	<p>Our write-down reserve contains uncertainties because the calculation requires management to make assumptions based on the current rate of sales, the age and profitability of inventory and other factors.</p>	<p>We have not made any material changes in the accounting methodology used to calculate our write-down and shrinkage reserves in the past three fiscal years. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate our inventory reserves. However, if actual results are not consistent with our estimates and assumptions, we may be exposed to losses or gains that could be material.</p>
<p>Our write-down reserve represents the excess of the carrying value over the amount we expect to realize from the ultimate sales or other disposal of the inventory. Write-downs establish a new cost basis for our inventory. Subsequent changes in facts or circumstances do not result in the restoration of previously recorded write-downs or an increase in that newly established cost basis.</p>	<p>Our shrinkage reserve contains uncertainties because the calculation requires management to make assumptions and to apply judgment regarding a number of factors, including historical percentages that can be affected by changes in merchandise mix and changes in actual shrinkage trends.</p>	<p>A 10% decrease in the sales price of our inventory at January 31, 2015 would have decreased net income by \$0.1 million in fiscal 2014.</p>
<p>Our inventory loss reserve represents anticipated physical inventory losses (shrinkage reserve) that have occurred since the last physical inventory.</p>		<p>A 10% increase in actual physical inventory shrinkage rate at January 31, 2015 would have decreased net income by \$0.2 million in fiscal 2014.</p>
<i>Fixed Assets</i>		
<p>We review the carrying value of our fixed assets for impairment whenever events or changes in circumstances indicate that the carrying value of such asset may not be recoverable.</p>	<p>Our impairment loss calculations contain uncertainties because they require management to make assumptions and to apply judgment to estimate future cash flows and asset fair values, including forecasting future sales, gross profit and operating expenses.</p>	<p>We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate fixed asset impairment losses. However, if actual results are not consistent with our estimates and assumptions, our operating results could be adversely affected.</p>
<p>Recoverability of assets to be held and used is determined by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment recognized is measured by comparing the projected discounted cash flow of the asset to the asset carrying value. Declines in projected cash flow of the assets could result in impairment.</p>	<p>Our fixed assets accounting methodology contains uncertainties because it requires management to make estimates with respect to the useful lives of our fixed assets that we believe are reasonable.</p>	<p>Although management believes that the current useful life estimates assigned to our fixed assets are reasonable, factors could cause us to change our estimates, thus affecting the future calculation of depreciation.</p>
<p>The actual economic lives of our fixed assets may be different from our estimated useful lives, thereby resulting in a different carrying value. These evaluations could result in a change in the depreciable lives of these assets and therefore our depreciation expense in future periods.</p>		

Table of Contents

Description	Judgments and Uncertainties	Effect If Actual Results Differ From Assumptions
Revenue Recognition		
<p>Revenue is recognized upon purchase at our retail store locations. For our ecommerce sales, revenue is recognized upon estimated delivery to the customer. Revenue is recorded net of estimated and actual sales returns and deductions for promotions.</p>	<p>Our revenue recognition accounting methodology contains uncertainties because it requires management to make assumptions regarding future sales returns and the amount and timing of gift cards projected to be redeemed by gift card recipients. Our estimate of the amount and timing of sales returns and gift cards to be redeemed is based primarily on historical transaction experience.</p>	<p>We have not made any material changes in the accounting methodology used to measure future sales returns or recognize revenue for our gift card program in the past three fiscal years. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to recognize revenue. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material.</p>
<p>Revenue is not recorded on the sale of gift cards. We record the sale of gift cards as a current liability and recognize revenue when a customer redeems a gift card. Additionally, the portion of gift cards that will not be redeemed (gift card breakage) is recognized in net sales after 24 months, at which time the likelihood of redemption is considered remote based on our historical redemption data.</p>		<p>A 10% increase in our sales return reserve at January 31, 2015 would have decreased net income by \$0.1 million in fiscal 2014.</p>
		<p>A 10% increase in our unredeemed gift card breakage life at January 31, 2015 would have decreased net income by \$0.3 million in fiscal 2014.</p>
Stock-Based Compensation		
<p>We grant restricted stock and non-qualified stock options to employees and non-employee directors.</p>	<p>The calculation of stock-based compensation expense requires management to make assumptions and to apply judgment to estimate the number of stock awards that will ultimately vest and to determine the fair value of our stock option awards. These assumptions and judgments include estimating future employee turnover rates and the inputs to the Black-Scholes option pricing model, including expected term. Changes in these assumptions can materially affect our stock-based compensation expense.</p>	<p>We do not believe there is a reasonable likelihood there will be a material change in the future estimates or assumptions we use to determine stock-based compensation expense. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to changes in stock-based compensation expense that could be material.</p>
<p>We determine the fair value of our restricted stock awards based on the closing market price of our stock on the grant date. In determining the fair value of our stock options, we use the Black-Scholes option pricing model. The estimated fair value of stock-based awards is recognized as compensation expense over the vesting period, net of estimated forfeitures.</p>		

Table of Contents

Description	Judgments and Uncertainties	Effect If Actual Results Differ From Assumptions
<p><i>Accounting for Income Taxes</i></p> <p>As part of the process of preparing the consolidated financial statements, income taxes are estimated for each of the jurisdictions in which we operate. This process involves estimating actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included on the consolidated balance sheets. Valuation allowances may be established when necessary to reduce deferred tax assets to the amount expected to be realized.</p> <p>We regularly evaluate the likelihood of realizing the benefit for income tax positions we have taken in various federal, state and foreign filings by considering all relevant facts, circumstances and information available to us. If we believe it is more likely than not that our position will be sustained, we recognize a benefit at the largest amount that we believe is cumulatively greater than 50% likely to be realized.</p>	<p>Significant judgment is required in evaluating our tax positions and determining our provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. For example, our effective tax rates could be adversely affected by earnings being lower than anticipated in jurisdictions where we have lower statutory rates and higher than anticipated in jurisdictions where we have higher statutory rates, by changes in the valuation of our deferred tax assets and liabilities or by changes in the relevant tax, accounting and other laws, regulations, principles and interpretations.</p> <p>Unrecognized tax benefits require significant management judgment regarding applicable statutes and their related interpretation and our particular facts and circumstances.</p>	<p>Although management believes that the income tax related judgments and estimates are reasonable, actual results could differ and we may be exposed to losses or gains that could be material.</p> <p>Upon income tax audit, any unfavorable tax settlement generally would require use of our cash and may result in an increase in our effective income tax rate in the period of resolution. A favorable tax settlement may be recognized as a reduction in our effective income tax rate in the period of resolution.</p>
<p><i>Accounting for Contingencies</i></p> <p>We are subject to various claims and contingencies related to lawsuits, insurance, regulatory and other matters arising out of the normal course of business. We accrue a liability if the likelihood of an adverse outcome is probable and the amount is estimable. If the likelihood of an adverse outcome is only reasonably possible (as opposed to probable), or if an estimate is not determinable, we provide disclosure of a material claim or contingency in the Notes to the Consolidated Financial Statements.</p>	<p>Significant judgment is required in evaluating our claims and contingencies, including determining the probability that a liability has been incurred and whether such liability is reasonably estimable. The estimated accruals for claims and contingencies are made based on the best information available, which can be highly subjective.</p>	<p>Although management believes that the contingency related judgments and estimates are reasonable, our accrual for claims and contingencies could fluctuate as additional information becomes known, thereby creating variability in our results of operations from period to period. Additionally, actual results could differ and we may be exposed to losses or gains that could be material.</p>

Table of Contents

Description	Judgments and Uncertainties	Effect If Actual Results Differ From Assumptions
<i>Goodwill and Other Indefinite-lived Intangible Assets</i>		
<p>We test goodwill and other indefinite-lived intangible assets for impairment on an annual basis, or as indicators of impairment are present.</p>	<p>Our goodwill and other indefinite-lived intangible assets impairment loss calculations contain uncertainties because they require management to make assumptions in the qualitative assessment of relevant events and circumstances and estimating the fair value of our reporting units and indefinite-lived intangible assets, including estimating future cash flows and other inputs. These calculations contain uncertainties because they require management to make assumptions and to apply judgment to estimate economic factors and the profitability of future business operations and if necessary, the fair value of a reporting units' assets and liabilities. Further, our ability to realize the future cash flows used in our fair value calculations is affected by factors such as changes in economic conditions, changes in our operating performance and changes in our business strategies.</p>	<p>We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to test for impairment losses on goodwill. Based on the results of our annual impairment test for goodwill and other indefinite-lived intangible assets, no impairment was recorded. We believe based on our assessment discussed above our goodwill and other indefinite-lived intangible assets are not at risk of impairment. However, if actual results are not consistent with our estimates or assumptions or there are significant changes in any of these estimates, projections and assumptions could have a material effect of the fair value of these assets in future measurement periods and result in an impairment which could materially affect our results of operations.</p>
<p>We have an option to first assess qualitative factors for our goodwill impairment analysis to determine whether it is necessary to perform the quantitative test based on whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we choose not to perform the qualitative test, or we determine that it is more likely than not that the fair value of the reporting unit is less than the carrying amount, we perform a quantitative two-step impairment test.</p>		
<p>We test our indefinite-lived assets by estimating the fair value of the asset and comparing that to the carrying value, an impairment loss is recorded for the amount that carrying value exceeds the estimated fair value. The fair value of the trade names and trademarks is determined using the relief from royalty method, which requires management to make assumptions and to apply judgment, including forecasting future sales, expenses, discount rates and royalty rates.</p>		
<i>Future Incentive Payments</i>		
<p>In conjunction with our acquisition of Blue Tomato in fiscal 2012, there is the possibility of future incentive payments to the sellers and certain employees of Blue Tomato in an aggregate amount of up to 22.1 million Euros (\$25.0 million, using the exchange rate as of January 31, 2015) to the extent that certain financial metrics are met for the fiscal year ending April 30, 2015 and the sellers and certain employees remain employed with Blue Tomato through April 30, 2015. Of the 22.1 million Euros (\$25.0 million) future incentive payments, 17.1 million Euros (\$19.4 million) is payable in cash, while 5.0 million Euros (\$5.7 million) is payable in shares of our common stock. We estimate future incentive payments based on internal projections of future Blue Tomato financial performance.</p>	<p>Our future incentive payments calculation contains uncertainties because it requires management to make assumptions and to apply judgment to estimate future Blue Tomato performance, including forecasting future sales, gross profit, operating expenses, number of new stores and capital expenditures.</p>	<p>At January 31, 2015, we estimated that we will be obligated for future incentive payments of 6.0 million Euros (\$6.8 million) of which 3.0 million (\$3.4 million) is payable in cash and 3.0 million (\$3.4 million) is payable in shares of common stock. Although management believes that the judgments and estimates related to the future incentive payments are probable at January 31, 2015, actual results through the end of the performance period could differ and we may be exposed to losses or gains related to the future incentive payments.</p>

Table of Contents**Contractual Obligations and Commercial Commitments**

There were no material changes outside the ordinary course of business in our contractual obligations during fiscal 2014. The following table summarizes the total amount of future payments due under our contractual obligations at January 31, 2015 (in thousands):

	Total	Fiscal 2015	Fiscal 2016 and Fiscal 2017	Fiscal 2018 and Fiscal 2019	Thereafter
Operating lease obligations (1)	\$ 423,764	\$ 61,452	\$ 116,311	\$ 94,528	\$ 151,473
Purchase obligations (2)	192,949	192,949			
Total (3)	\$ 616,713	\$ 254,401	\$ 116,311	\$ 94,528	\$ 151,473

- (1) Amounts do not include contingent rent and real estate taxes, insurance, common area maintenance charges and other executory costs obligations. See Note 10, Commitments and Contingencies, in the Notes to Consolidated Financial Statements found in Part IV Item 15 of the Form 10-K, for additional information related to our operating leases.
- (2) We have an option to cancel these commitments with no notice prior to shipment, except for certain private label purchase orders in which we are obligated to repay contractual amounts upon cancellation.
- (3) The table above excludes the potential future incentive payments to the sellers and certain employees of Blue Tomato in an aggregate amount of up to 22.1 million Euros (\$25.0 million, using the exchange rate as of January 31, 2015) to the extent that certain financial metrics are met and the sellers and certain employees remain employed with Blue Tomato through April 2015. At January 31, 2015, we estimated that we will be obligated for future incentive payments of 6.0 million (\$6.8 million) of which 3.0 million (\$3.4 million) to be paid in cash and 3.0 million (\$3.4 million) to be paid in common stock. See Note 3, Business Combination, in the Notes to Consolidated Financial Statements found in Part IV Item 15 of the Form 10-K, for additional information related to the future incentive payments. Also excluded from the table above are unrecognized tax benefits of \$0.5 million, as we are unable to reasonably estimate the timing of future cash payments, if any, for these liabilities.

Off-Balance Sheet Arrangements

At January 31, 2015, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

Impact of Inflation/Deflation

We do not believe that inflation has had a material impact on our net sales or operating results for the past three fiscal years. However, substantial increases in costs, including the price of raw materials, labor, energy and other inputs used in the production of our merchandise, could have a significant impact on our business and the industry in the future. Additionally, while deflation could positively impact our merchandise costs, it could have an adverse effect on our average unit retail price, resulting in lower sales and operating results.

Recent Accounting Pronouncements

See Note 2, Significant Accounting Policies, in the Notes to Consolidated Financial Statements found in Part IV Item 15 of this Form 10-K.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**Interest Rate Risk**

Our earnings are affected by changes in market interest rates as a result of our short-term and long-term marketable securities, which are primarily invested in state and local municipal securities and variable-rate demand notes, which have long-term nominal maturity dates but feature variable interest rates that reset at short-

Table of Contents

term intervals. If our current portfolio average yield rate decreased by 10% in fiscal 2014, our net income would have decreased by \$0.1 million. This amount is determined by considering the impact of the hypothetical yield rates on our cash, cash equivalents, short-term and long-term marketable securities balances and assumes no changes in our investment structure.

During different times of the year, due to the seasonality of our business, we may borrow under our revolving credit lines. To the extent we borrow under this revolving credit lines, we are exposed to the market risk related to changes in interest rates. At January 31, 2015, we had no borrowings outstanding under revolving lines of credit and other long-term debt.

Foreign Exchange Rate Risk

Our international subsidiaries operate with functional currencies other than the U.S. dollar. Therefore, we must translate revenues, expenses, assets and liabilities from functional currencies into U.S. dollars at exchange rates in effect during, or at the end of, the reporting period. The fluctuation in the value of the U.S. dollar against other currencies affects the reported amounts of revenues, expenses, assets and liabilities. As we expand our international operations, our exposure to exchange rate fluctuations will increase.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information with respect to this item is set forth in Index to the Consolidated Financial Statements, found in Part IV Item 15 of this Form 10-K.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Securities Exchange Act Rule 13a-15(e)). Based on this evaluation, our CEO and CFO concluded that, as of January 31, 2015, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting. There has been no change in our internal control over financial reporting (as defined in Securities Exchange Act Rule 13a-15(f)) during the quarter ended January 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting. The management of Zumiez Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

This process includes policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only

Table of Contents

in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements, and can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Furthermore, because of changes in conditions, the effectiveness of internal control may vary over time.

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of January 31, 2015. Management's assessment was based on criteria described in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of January 31, 2015.

The effectiveness of the Company's internal control over financial reporting as of January 31, 2015 has been audited by Moss Adams LLP, the Company's independent registered public accounting firm, as stated in their report, which is included below.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Zumiez Inc.

We have audited Zumiez Inc.'s (the Company) internal control over financial reporting as of January 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Zumiez Inc. maintained, in all material respects, effective internal control over financial reporting as of January 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Zumiez Inc. as of January 31, 2015 and February 1, 2014, and the consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended January 31, 2015, and our report dated March 17, 2015, expressed an unqualified opinion on those consolidated financial statements.

/s/ Moss Adams LLP

Seattle, Washington

March 17, 2015

Table of Contents

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding our directors and nominees for directorship is presented under the headings Election of Directors, in our definitive proxy statement for use in connection with our 2015 Annual Meeting of Shareholders (the Proxy Statement) that will be filed within 120 days after our fiscal year ended January 31, 2015 and is incorporated herein by this reference thereto. Information concerning our executive officers is set forth under the heading Executive Officers in our Proxy Statement, and is incorporated herein by reference thereto. Information regarding compliance with Section 16(a) of the Exchange Act, our code of conduct and ethics and certain information related to the Company s Audit Committee, Compensation Committee and Governance Committee is set forth under the heading Corporate Governance in our Proxy Statement, and is incorporated herein by reference thereto.

Item 11. EXECUTIVE COMPENSATION

Information regarding the compensation of our directors and executive officers and certain information related to the Company s Compensation Committee is set forth under the headings Executive Compensation, Director Compensation, Compensation Discussion and Analysis, Report of the Compensation Committee of the Board of Directors and Compensation Committee Interlocks and Insider Participation in our Proxy Statement, and is incorporated herein by this reference thereto.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Information with respect to security ownership of certain beneficial owners and management is set forth under the headings Security Ownership of Certain Beneficial Owners and Management and Equity Compensation Plan Information in our Proxy Statement, and is incorporated herein by this reference thereto.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions and director independence is presented under the heading Corporate Governance in our Proxy Statement, and is incorporated herein by this reference thereto.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning principal accounting fees and services is presented under the heading Fees Paid to Independent Registered Public Accounting Firm for Fiscal 2014 and 2013 in our Proxy Statement, and is incorporated herein by this reference thereto.

Table of Contents

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Consolidated Financial Statements

(2) Consolidated Financial Statement Schedules:

All financial statement schedules are omitted because the required information is presented either in the consolidated financial statements or notes thereto, or is not applicable, required or material.

(3) Exhibits included or incorporated herein:

See Exhibit Index.

45

Table of Contents

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

<u>Report of Independent Registered Public Accounting Firm</u>	47
<u>Consolidated Balance Sheets</u>	48
<u>Consolidated Statements of Income</u>	49
<u>Consolidated Statements of Comprehensive Income</u>	50
<u>Consolidated Statements of Changes in Shareholders' Equity</u>	51
<u>Consolidated Statements of Cash Flows</u>	52
<u>Notes to Consolidated Financial Statements</u>	53

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Zumiez Inc.

We have audited the accompanying consolidated balance sheets of Zumiez Inc. (the Company) as of January 31, 2015 and February 1, 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended January 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Zumiez Inc. as of January 31, 2015 and February 1, 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 31, 2015, in conformity with generally accepted accounting principles in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Zumiez Inc.'s internal control over financial reporting as of January 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 17, 2015 expressed an unqualified opinion thereon.

/s/ Moss Adams LLP

Seattle, Washington

March 17, 2015

Table of Contents**ZUMIEZ INC.****CONSOLIDATED BALANCE SHEETS**

(In thousands)

	January 31, 2015	February 1, 2014
Assets		
Current assets		
Cash and cash equivalents	\$ 20,862	\$ 19,634
Marketable securities	133,782	97,521
Receivables	12,653	10,294
Inventories	93,850	87,182
Prepaid expenses and other	11,651	10,021
Deferred tax assets	6,965	5,194
Total current assets	279,763	229,846
Fixed assets, net	135,642	127,343
Goodwill	55,852	64,195
Intangible assets, net	13,062	17,970
Long-term other assets	9,386	4,049
Total long-term assets	213,942	213,557
Total assets	\$ 493,705	\$ 443,403
Liabilities and Shareholders Equity		
Current liabilities		
Trade accounts payable	\$ 32,094	\$ 18,343
Accrued payroll and payroll taxes	13,047	10,581
Income taxes payable	4,651	4,696
Deferred rent and tenant allowances	7,083	6,478
Other liabilities	24,572	21,276
Total current liabilities	81,447	61,374
Long-term deferred rent and tenant allowances	42,553	37,658
Long-term deferred tax liabilities	5,738	4,649
Long-term debt and other liabilities	4,443	4,068
Total long-term liabilities	52,734	46,375
Total liabilities	134,181	107,749
Commitments and contingencies (Note 10)		
Shareholders equity		
Preferred stock, no par value, 20,000 shares authorized; none issued and outstanding		
Common stock, no par value, 50,000 shares authorized; 29,418 shares issued and outstanding at January 31, 2015 and 29,619 shares issued and outstanding at February 1, 2014	129,094	114,983
Accumulated other comprehensive income	(11,278)	4,710
Retained earnings	241,708	215,961
Total shareholders equity	359,524	335,654

Edgar Filing: Zumiez Inc - Form 10-K

Total liabilities and shareholders equity

\$ 493,705

\$ 443,403

See accompanying notes to consolidated financial statements

Table of Contents**ZUMIEZ INC.****CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except per share amounts)

	January 31, 2015	Fiscal Year Ended February 1, 2014	February 2, 2013
Net sales	\$ 811,551	\$ 724,337	\$ 669,393
Cost of goods sold	524,468	462,577	428,109
Gross profit	287,083	261,760	241,284
Selling, general and administrative expenses	215,512	188,918	172,742
Operating profit	71,571	72,842	68,542
Interest income, net	637	711	1,410
Other (expense) income, net	(557)	(1,589)	327
Earnings before income taxes	71,651	71,964	70,279
Provision for income taxes	28,459	26,016	28,115
Net income	\$ 43,192	\$ 45,948	\$ 42,164
Basic earnings per share	\$ 1.50	\$ 1.54	\$ 1.37
Diluted earnings per share	\$ 1.47	\$ 1.52	\$ 1.35
Weighted average shares used in computation of earnings per share:			
Basic	28,871	29,810	30,742
Diluted	29,288	30,206	31,273

See accompanying notes to consolidated financial statements

Table of Contents

ZUMIEZ INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	January 31, 2015	Fiscal Year Ended February 1, 2014	February 2, 2013
Net income	\$ 43,192	\$ 45,948	\$ 42,164
Other comprehensive (loss) income, net of tax and reclassification adjustments:			
Foreign currency translation	(15,995)	(1,231)	6,040
Net change in unrealized gain/loss on available-for-sale investments	7	(69)	(165)
Other comprehensive (loss) income, net	(15,988)	(1,300)	5,875
Comprehensive income	\$ 27,204	\$ 44,648	\$ 48,039

See accompanying notes to consolidated financial statements

Table of Contents**ZUMIEZ INC.****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(In thousands)

	Common Stock		Accumulated Other	Retained	Total
	Shares	Amount	Comprehensive Income (Loss)	Earnings	
Balance at January 28, 2012	31,170	\$ 99,412	\$ 135	\$ 172,730	\$ 272,277
Net income				42,164	42,164
Other comprehensive income, net			5,875		5,875
Issuance and exercise of stock-based compensation, including net tax benefit of \$2,094	209	2,952			2,952
Stock-based compensation expense		5,996			5,996
Repurchase of common stock	(1,265)			(25,843)	(25,843)
Balance at February 2, 2013	30,114	\$ 108,360	\$ 6,010	\$ 189,051	\$ 303,421
Net income				45,948	45,948
Other comprehensive income, net			(1,300)		(1,300)
Issuance and exercise of stock-based compensation, including net tax benefit of \$1,232	344	2,529			2,529
Stock-based compensation expense		4,094			4,094
Repurchase of common stock	(839)			(19,038)	(19,038)
Balance at February 1, 2014	29,619	\$ 114,983	\$ 4,710	\$ 215,961	\$ 335,654
Net income				43,192	43,192
Other comprehensive loss, net			(15,988)		(15,988)
Issuance and exercise of stock-based compensation, including net tax benefit of \$1,355	557	6,591			6,591
Stock-based compensation expense		7,520			7,520
Repurchase of common stock	(758)			(17,445)	(17,445)
Balance at January 31, 2015	29,418	\$ 129,094	\$ (11,278)	\$ 241,708	\$ 359,524

See accompanying notes to consolidated financial statements

Table of Contents**ZUMIEZ INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

	January 31, 2015	Fiscal Year Ended February 1, 2014	February 2, 2013
Cash flows from operating activities:			
Net income	\$ 43,192	\$ 45,948	\$ 42,164
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion	29,167	26,596	22,957
Deferred taxes	(610)	(978)	(1,630)
Stock-based compensation expense	7,520	4,094	5,996
Excess tax benefit from stock-based compensation	(1,355)	(1,232)	(2,094)
Lease termination costs	(55)	405	1,397
Other	1,164	1,842	389
Changes in operating assets and liabilities:			
Receivables	(2,990)	(739)	(2,568)
Inventories	(10,850)	(9,968)	(2,987)
Prepaid expenses and other	(4,702)	(1,789)	(1,125)
Trade accounts payable	14,744	1,714	(5,626)
Accrued payroll and payroll taxes	2,718	(426)	1,207
Income taxes payable	(23)	(1,484)	1,843
Deferred rent and tenant allowances	5,937	2,367	5,469
Other liabilities	6,080	544	833
Net cash provided by operating activities	89,937	66,894	66,225
Cash flows from investing activities:			
Additions to fixed assets	(35,758)	(35,969)	(41,070)
Acquisitions, net of cash acquired			(70,711)
Purchases of marketable securities and other investments	(125,971)	(124,129)	(121,003)
Sales and maturities of marketable securities and other investments	87,856	110,479	191,705
Net cash used in investing activities	(73,873)	(49,619)	(41,079)
Cash flows from financing activities:			
Proceeds from long-term debt and revolving credit facilities	6,943	4,182	
Payments on long-term debt, revolving credit facilities, and other liabilities	(9,009)	(4,488)	(258)
Repurchase of common stock	(19,557)	(17,556)	(25,213)
Proceeds from exercise of stock-based compensation, net of withholding tax payments	6,335	1,397	858
Excess tax benefit from stock-based compensation	1,355	1,232	2,094
Net cash used in financing activities	(13,933)	(15,233)	(22,519)
Effect of exchange rate changes on cash and cash equivalents	(903)	13	173
Net increase in cash and cash equivalents	1,228	2,055	2,800
Cash and cash equivalents, beginning of period	19,634	17,579	14,779
Cash and cash equivalents, end of period	\$ 20,862	\$ 19,634	\$ 17,579

Supplemental disclosure on cash flow information:

Edgar Filing: Zumiez Inc - Form 10-K

Cash paid during the period for income taxes	\$ 28,770	\$ 28,105	\$ 27,840
Accrual for purchases of fixed assets	2,372	1,491	1,942
Accrual for repurchase of common stock		2,112	630
See accompanying notes to consolidated financial statements			

Table of Contents

ZUMIEZ INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business and Basis of Presentation

Nature of Business Zumiez Inc., including its wholly-owned subsidiaries, (the Company, we, us, its and our) is a leading multi-channel sportswear retailer of apparel, footwear, accessories and hardgoods rooted in youth culture as expressed through music, art, fashion and action sports lifestyle for young men and women. At January 31, 2015, we operated 603 stores; 550 in the United States (U.S.), 35 in Canada and 18 in Europe. We operate under the names Zumiez and Blue Tomato. Additionally, we operate ecommerce websites at www.zumiez.com and www.blue-tomato.com.

Fiscal Year We use a fiscal calendar widely used by the retail industry that results in a fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to January 31. Each fiscal year consists of four 13-week quarters, with an extra week added to the fourth quarter every five or six years. The fiscal years ended January 31, 2015 and February 1, 2013 were 52-week periods. The fiscal year ended February 2, 2013 was a 53-week period.

Basis of Presentation The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The consolidated financial statements include the accounts of Zumiez Inc. and its wholly-owned subsidiaries. All significant intercompany transactions and balances are eliminated in consolidation.

Correction of an Error Included in cost of goods sold for the fiscal year ended February 1, 2014 was a \$2.7 million benefit representing the correction of an error in prior periods related to our calculation to account for rent expense on a straight-line basis. The correction was not material to any previously reported financial period or to the fiscal year ended February 1, 2014.

2. Summary of Significant Accounting Policies

Use of Estimates The preparation of financial statements in conformity with U.S. GAAP requires estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements as well as the reported amounts of revenues and expenses during the reporting period. These estimates can also affect supplemental information disclosed by us, including information about contingencies, risk and financial condition. Actual results could differ from these estimates and assumptions.

Fair Value of Financial Instruments We disclose the estimated fair value of our financial instruments. Financial instruments are generally defined as cash, evidence of ownership interest in an entity or a contractual obligation that both conveys to one entity a right to receive cash or other financial instruments from another entity and imposes on the other entity the obligation to deliver cash or other financial instruments to the first entity. Our financial instruments, other than those presented in Note 11, Fair Value Measurements, include cash and cash equivalents, receivables, payables and other liabilities. The carrying amounts of cash and cash equivalents, receivables, payables and other liabilities approximate fair value because of the short-term nature of these instruments.

Cash and Cash Equivalents We consider all highly liquid investments with original maturity of three months or less when purchased to be cash equivalents.

Concentration of Risk We maintain our cash and cash equivalents in accounts with major financial institutions in the form of demand deposits, money market accounts and state and local municipal securities. Deposits in these financial institutions may exceed the amount of federal deposit insurance provided on such deposits. We have not experienced any losses on our deposits of cash and cash equivalents.

Table of Contents

Marketable Securities Our marketable securities primarily consist of state and local municipal securities and variable-rate demand notes. Variable-rate demand notes are considered highly liquid. Although the variable-rate demand notes have long-term nominal maturity dates, the interest rates generally reset weekly. Despite the long-term nature of the underlying securities of the variable-rate demand notes, we have the ability to quickly liquidate these securities, which have an embedded put option that allows the bondholder to sell the security at par plus accrued interest.

Investments are considered to be impaired when a decline in fair value is determined to be other-than-temporary. If the cost of an investment exceeds its fair value, we evaluate information about the underlying investment that is publicly available such as analyst reports, applicable industry data and other pertinent information and assess our intent and ability to hold the security. For fixed-income securities, we also evaluate whether we have plans to sell the security or it is more likely than not we will be required to sell the security before recovery. The investment would be written down to its fair value at the time the impairment is deemed to have occurred and a new cost basis is established. Future adverse changes in market conditions, continued poor operating results of underlying investments or other factors could result in further losses that may not be reflected in an investment's current carrying value, possibly requiring an additional impairment charge in the future.

Inventories Merchandise inventories are valued at the lower of cost or fair market value. The cost of merchandise inventories are based upon an average cost methodology. Merchandise inventories may include items that have been written down to our best estimate of their net realizable value. Our decisions to write-down our merchandise inventories are based on their current rate of sale, the age of the inventory, the profitability of the inventory and other factors. We have reserved for inventory at January 31, 2015 and February 1, 2014 in the amounts of \$3.7 million and \$2.9 million. The inventory reserve includes inventory whose estimated market value is below cost and an estimate for inventory shrinkage. We estimate an inventory shrinkage reserve for anticipated losses for the period. Shrinkage refers to a reduction in inventory due to shoplifting, employee theft and other matters. The inventory related to these reserves is not marked up in subsequent periods.

Fixed Assets Fixed assets primarily consist of leasehold improvements, fixtures, land, buildings, computer equipment, software and store equipment. Fixed assets are stated at cost less accumulated depreciation utilizing the straight-line method over the assets' estimated useful lives. The useful lives of our major classes of fixed assets are as follows:

Leasehold improvements	Lesser of 10 years or the term of the lease
Fixtures	3 to 7 years
Computer equipment, software, store equipment & other	3 to 5 years
Buildings and building and land improvements	15 to 39 years

The cost and related accumulated depreciation of assets sold or otherwise disposed of is removed from the accounts and the related gain or loss is recorded in selling, general and administrative expenses on the consolidated statements of income.

Valuation of Long-Lived Assets We review the carrying value of long-lived assets for impairment when factors and circumstances indicate that the carrying values may not be recoverable. Recoverability of assets to be held and used is determined by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment recognized is measured by comparing projected discounted cash flow of the asset to the asset carrying values. The estimation of future cash flows from operating activities requires significant judgments of factors that include future sales, gross profit and operating expenses. Impairment charges are included in selling, general and administrative expenses on the consolidated statements of income.

Goodwill Goodwill represents the excess of purchase price over the fair value of acquired tangible and identifiable intangible net assets. We test goodwill for impairment on an annual basis or more frequently if

Table of Contents

indicators of impairment are present. We perform our annual impairment measurement test on the first day of the fourth quarter. Events that may trigger an early impairment review include significant changes in the current business climate, future expectations of economic conditions, declines in our operating results of our reporting units, or an expectation that the carrying amount may not be recoverable.

We have an option to test goodwill for impairment by first performing a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than the carrying amount. If it is more likely than not that the fair value of the reporting unit is less than the carrying amount or if we choose not to perform the qualitative assessment, we perform a quantitative two-step impairment test. The first step compares the fair value of the reporting unit with its carrying amount of net assets, including goodwill. If the carrying amount exceeds fair value, then the second step of the impairment test is performed to measure the amount of impairment loss, if any. The second step includes estimating the fair value of the reporting unit by taking all of the tangible and intangible assets of the reporting unit as if the reporting unit had been acquired in a business combination. Then, the implied fair value of the reporting unit's goodwill is compared to the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, we recognize an impairment loss in an amount equal to the excess, not to exceed the carrying amount.

We generally determine the fair value of each of our reporting units based on a blended analysis of the present value of future discounted cash flows and market valuation approach using a multiple of an average annual earnings. Key assumptions used in this calculation include revenue growth, operating expenses, long-term rate of growth and the probability of the reporting unit, working capital impacts and a discount rate that we believe a buyer would assume when determining a purchase price for the reporting unit. Estimates of revenue growth and operating expenses are based on internal projections considering a reporting unit's past performance and forecasted growth, local market economics and the local business environment impacting the reporting unit's performance. These estimates are highly subjective judgments and can be significantly impacted by changes in the business or economic conditions.

Intangible Assets Our intangible assets consist of trade names and trademarks with indefinite lives and certain definite-lived intangible assets. We test our indefinite-lived intangible assets for impairment on an annual basis, or more frequently if indicators of impairment are present. We test our indefinite-lived assets by estimating the fair value of the asset and comparing that to the carrying value, an impairment loss is recorded for the amount that carrying value exceeds the estimated fair value. The fair value of the trade names and trademarks is determined using the relief from royalty method. This method assumes that the trade name and trademarks have value to the extent that their owner is relieved of the obligation to pay royalties for the benefits received from them. The assumptions used in this method requires management judgment and estimates in forecasting future sales, expenses, discount rates, and royalty rates.

Definite-lived intangible assets, which consist of developed technology and customer relationships, are amortized using the straight-line method over their estimated useful lives. Additionally, we test the definite-lived intangible assets when facts and circumstances indicate that the carrying values may not be recoverable. We first assess the recoverability of our definite-lived intangible assets by comparing the undiscounted cash flows of the definite-lived asset less its carrying value. If the undiscounted cash flows are less than the carrying value, we then determine the estimated fair value of our definite-lived asset by taking the estimated future operating cash flows derived from the operation to which the asset relates over its remaining useful life, using a discounted cash flow analysis and comparing it to the carrying value. Any impairment would be measured as the difference between the carrying amount and the estimated fair value. Changes in any of these estimates, projections and assumptions could have a material effect of the fair value of these assets in future measurement periods and result in an impairment which could materially affect our results of operations.

Deferred Rent, Rent Expense and Tenant Allowances We lease our stores and certain corporate and other operating facilities under operating leases. A majority of our leases provide for ongoing co-tenancy requirements or early cancellation clauses that would further lower rental rates, or permit lease terminations, or

Table of Contents

both, in the event that co-tenants cease to operate for specific periods or if certain sales levels are not met in specific periods. Most of the store leases require payment of a specified minimum rent and a contingent rent based on a percentage of the store's net sales in excess of a specified threshold, as well as real estate taxes, insurance, common area maintenance charges and other executory costs. Most of the lease agreements have defined escalating rent provisions, which are straight-lined over the term of the related lease. We recognize rent expense over the term of the lease, plus the construction period prior to occupancy of the retail location. For certain locations, we receive tenant allowances and report these amounts as a liability, which is amortized as a reduction to rent expense over the term of the lease.

Claims and Contingencies We are subject to various claims and contingencies related to lawsuits, insurance, regulatory and other matters arising out of the normal course of business. We accrue a liability if the likelihood of an adverse outcome is probable and the amount is estimable. If the likelihood of an adverse outcome is only reasonably possible (as opposed to probable), or if an estimate is not determinable, we provide disclosure of a material claim or contingency in the Notes to the Consolidated Financial Statements.

Revenue Recognition Sales are recognized upon purchase at our retail store locations. For our ecommerce sales, revenue is recognized upon estimated delivery to the customer. Taxes collected from our customers are recorded on a net basis. We record the sale of gift cards as a current liability and recognize revenue when a customer redeems a gift card. Additionally, the portion of gift cards that will not be redeemed (gift card breakage) is recognized in net sales after 24 months, at which time the likelihood of redemption is considered remote based on our historical redemption patterns. For the fiscal years ended January 31, 2015, February 1, 2014 and February 2, 2013, we recorded net sales related to gift card breakage income of \$0.9 million, \$0.8 million and \$0.7 million. Revenue is recorded net of estimated and actual sales returns and deductions for promotions. We accrue for estimated sales returns by customers based on historical sales return results. The allowance for sales returns at January 31, 2015 and February 1, 2014 was \$2.0 million and \$1.6 million.

We have a customer loyalty program, the Zumiez Stash, which allows members to earn points for purchases or performance of certain activities. The points can be redeemed for a broad range of rewards, including product and experiential rewards. Points earned for purchases are recorded as a reduction of net sales based on the fair value of the points at the time the points are earned and the revenue is recognized upon redemption of points for rewards. Points earned for the performance of activities are recorded as marketing expense based on the estimated cost of the points.

Cost of Goods Sold Cost of goods sold consists of branded merchandise costs and our private label merchandise costs including design, sourcing, importing and inbound freight costs. Our cost of goods sold also includes shrinkage, buying, occupancy, ecommerce fulfillment, distribution and warehousing costs (including associated depreciation) and freight costs for store merchandise transfers. Cash consideration received from vendors is reported as a reduction of cost of goods sold if the inventory has sold, a reduction of the carrying value of the inventory if the inventory is still on hand, or a reduction of selling, general and administrative expense if the amounts are reimbursements of specific, incremental and identifiable costs of selling the vendors' products.

Shipping Revenue and Costs We include shipping revenue related to ecommerce sales in net sales and the related freight cost is charged to cost of goods sold.

Selling, General and Administrative Expense Selling, general and administrative expenses consist primarily of store personnel wages and benefits, administrative staff and infrastructure expenses, freight costs for merchandise shipments from the distribution centers to the stores, store supplies, depreciation on fixed assets at the home office and stores, facility expenses, training expenses and advertising and marketing costs. Credit card fees, insurance, public company expenses, legal expenses, amortization of intangibles assets and other miscellaneous operating costs are also included in selling, general and administrative expenses.

Advertising We expense advertising costs as incurred, except for catalog costs, which are expensed once the catalog is mailed. Advertising expenses are net of sponsorships and vendor reimbursements. Advertising expense was \$9.4 million, \$8.7 million and \$6.0 million for the fiscal years ended January 31, 2015, February 1, 2014 and February 2, 2013.

Table of Contents

Future Incentive Payments In conjunction with our acquisition of Blue Tomato during the fiscal year ended February 2, 2013, there is the possibility of future incentive payments to the sellers and certain employees of Blue Tomato in an aggregate amount of up to 22.1 million Euros (\$25.0 million, using the exchange rate as of January 31, 2015) to the extent that certain financial metrics are met and the sellers and certain employees remain employed with Blue Tomato through April 2015. We estimate future incentive payments based on internal projections of future Blue Tomato financial performance.

Stock-Based Compensation We account for stock-based compensation by recording the estimated fair value of stock-based awards granted as compensation expense over the vesting period, net of estimated forfeitures. Stock-based compensation expense is attributed to earnings using an accelerated method for stock options and a straight-line method for restricted stock. We estimate forfeitures of stock-based awards based on historical experience and expected future activity.

The fair value of restricted stock awards is measured based on the closing price of our common stock on the date of grant. The fair value of stock option grants is estimated on the date of grant using the Black-Scholes option pricing model based on the following assumptions:

Volatility This is a measure of the amount by which a stock price has fluctuated or is expected to fluctuate. We use actual daily historical changes in the market value of our stock equal to the expected term of the option.

Risk-free interest rate This is the U.S. Treasury rate as of the grant date having a term equal to the expected term of the option.

Expected term The expected term was calculated using the simplified method. Under this method, the expected term is equal to the sum of the weighted average vesting term plus the original contractual term divided by two. We have elected this method as we have concluded that we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term due to the limited period of time our equity shares have been publicly traded.

Dividend yield We do not have plans to pay dividends in the foreseeable future.

The following weighted-average assumptions were used to estimate the fair value of stock options granted:

	Fiscal Year Ended		
	January 31, 2015	February 1, 2014	February 2, 2013
Dividend yield	0.0%	0.0%	0.0%
Volatility rate	63.7%	66.4%	66.7%
Weighted-average expected life (in years)	6.25	6.25	6.25
Weighted-average risk-free interest rate	1.9%	1.1%	1.1%
Weighted-average fair value per share of stock options granted	\$ 15.26	\$ 15.07	\$ 19.40

Common Stock Share Repurchases We may repurchase shares of our common stock under authorizations made from time to time by our Board of Directors. Under applicable Washington State law, shares repurchased are retired and not displayed separately as treasury stock on the consolidated financial statements. Instead, the value of repurchased shares is deducted from retained earnings.

Income Taxes We use the asset and liability method of accounting for income taxes. Using this method, deferred tax assets and liabilities are recorded based on the differences between the financial reporting and tax basis of assets and liabilities. The deferred tax assets and liabilities are calculated using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. We routinely evaluate the likelihood of realizing the benefit of our deferred tax assets and may record a valuation allowance if, based on all available evidence, it is determined that it is more likely than not that all or some portion of the deferred tax benefit will not be realized.

Table of Contents

We regularly evaluate the likelihood of realizing the benefit for income tax positions that we have taken in various federal, state and foreign filings by considering all relevant facts, circumstances and information available. If we believe it is more likely than not that our position will be sustained, we recognize a benefit at the largest amount that we believe is cumulatively greater than 50% likely to be realized. Interest and penalties related to income tax matters are classified as a component of income tax expense. Unrecognized tax benefits are recorded in other liabilities and long-term debt and other liabilities on the consolidated balance sheets.

Our tax provision for interim periods is determined using an estimate of our annual effective rate, adjusted for discrete items, if any, that are taken into account in the relevant period. As the fiscal year progresses, we periodically refine our estimate based on actual events and earnings by jurisdiction. This ongoing estimation process can result in changes to our expected effective tax rate for the full fiscal year. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs so that our year-to-date provision equals our expected annual rate.

Earnings per Share Basic earnings per share is based on the weighted average number of common shares outstanding during the period. The dilutive effect of stock options and restricted stock is applicable only in periods of net income. Diluted earnings per share is based on the weighted average number of common shares and common share equivalents outstanding during the period. Common share equivalents included in the computation represent shares issuable upon assumed exercise of outstanding stock options, employee stock purchase plan funds held to acquire stock and non-vested restricted stock. Potentially anti-dilutive securities not included in the calculation of diluted earnings per share are options to purchase common stock where the option exercise price is greater than the average market price of our common stock during the period reported.

Foreign Currency Translation Assets and liabilities denominated in foreign currencies were translated into U.S. dollars, the reporting currency, at the exchange rate prevailing at the balance sheet date. Revenue and expenses denominated in foreign currencies were translated into U.S. dollars at the monthly average exchange rate for the period and the translation adjustments are reported as an element of accumulated other comprehensive income on the consolidated balance sheets.

Segment Reporting We identify our operating segments according to how our business activities are managed and evaluated. Our operating segments have been aggregated and are reported as one reportable segment based on the similar nature of products sold, production, merchandising and distribution processes involved, target customers and economic characteristics.

Recently Adopted Accounting Standards In August 2014, the Financial Accounting Standards Board (FASB) issued new guidance which provides details on when and how to disclose going concern uncertainties. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year and to provide certain footnote disclosures if conditions or events raise substantial doubt about an entity's ability to continue as a going concern. The new standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2016, with early adoption permitted. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

In June 2014, the FASB issued guidance which requires that a performance target that affects vesting and could be achieved after the requisite service period be treated as a performance condition. The guidance allows for a prospective adoption to all awards granted or modified after the effective date or retrospective adoption to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statement and to all new or modified awards thereafter. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015, with early adoption permitted. We early adopted this guidance for the fiscal quarter ended August 2, 2014 and the adoption did not have a material impact on our consolidated financial statements.

Table of Contents

In May 2014, the FASB issued a comprehensive new revenue recognition standard. The new standard allows for a full retrospective approach to transition or a modified retrospective approach. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016. We will adopt this guidance for the fiscal quarter ending April 29, 2017. We are currently evaluating the method of adoption we plan to use and the effect the standard is expected to have on our financial position, results of operations and cash flows.

In April 2014, the FASB issued guidance that changes the criteria for reporting discontinued operations, as well as requiring new disclosures about discontinued operations and disposals of components of an entity that do not qualify for discontinued operations reporting. This guidance is effective for fiscal years beginning after December 15, 2014, with early adoption permitted for disposals that have not been reported in financial statements previously issued. We will adopt this guidance for the fiscal quarter ending May 2, 2015 and we do not expect the adoption will have a material impact on our consolidated financial statements.

3. Business Combination

Blue Tomato On July 4, 2012, we acquired 100% of the outstanding stock of Blue Tomato for cash consideration of 59.5 million Euros (\$74.8 million). Blue Tomato is a leading European multi-channel retailer for board sports and related apparel and footwear and the acquisition allows us to enter into the European marketplace.

In addition, there is the possibility of future incentive payments to the sellers and certain employees of Blue Tomato in an aggregate amount of up to 22.1 million Euros (\$25.0 million, using the exchange rate as of January 31, 2015) to the extent that certain financial metrics are met related to (i) the attainment of certain EBITDA performance of Blue Tomato for the twelve months ending April 30, 2015 and (ii) the opening and performance of certain defined incremental stores in the European market by April 30, 2015. The payout of the financial incentive payments requires that the sellers and certain employees remain employed with Blue Tomato through April 30, 2015. Of the 22.1 million Euros future incentive payments, 17.1 million Euros (\$19.4 million) is payable in cash, while 5.0 million Euros (\$5.7 million) is payable in shares of our common stock. Our future incentive payments calculation requires estimates of future Blue Tomato performance, including forecasting future sales, gross profit, operating expenses, number of new stores and capital expenditures. We account for the estimated future incentive payments as compensation expense, which is included in selling, general and administrative expense on the consolidated statements of income, and recognize this amount ratably over the term of service through April 2015.

At January 31, 2015, we estimated that it was probable that Blue Tomato will achieve the metrics related to the opening and performance of certain defined incremental stores and we will be obligated to pay 6.0 million Euros (\$6.8 million) for future incentive payments of which 3.0 million Euros (\$3.4 million) will be payable in cash and 3.0 million Euros (\$3.4 million) will be payable in shares of our common stock. This was primarily due to strong performance in the European operations, driven by a \$15.7 million or 32.4% increase in net sales during fiscal 2014 compared to fiscal 2013, increased performance of certain incremental stores, and strengthening macro-economic factors. Our Blue Tomato operations are seasonal, with the largest portion of net sales and net income occurring in the fourth fiscal quarter. As a result of strong performance in the fourth quarter of fiscal 2014, driven by sales of winter related goods, we estimated at January 31, 2015 that the Blue Tomato business will achieve the metrics related to the opening and performance of certain defined incremental stores. For the fiscal year ended January 31, 2015, we recorded an expense for future incentive payments of \$6.4 million.

At February 1, 2014, we estimated that we would not be obligated for future incentive payments and reversed \$5.8 million of previously recorded expense associated with the future incentive payments. We determined in the fourth quarter of fiscal 2013 based on the internal projections, which considered historical performance, forecasted store openings and macro-economic factors, that the financial metrics were not expected to be met to achieve the payout of the financial incentive payments. Due to the difficult retail environment in fiscal 2013 and the fiscal 2014 outlook, we did not anticipate we would be obligated to pay a portion of the future incentive payments. For the fiscal year ended February 2, 2013, we recorded an expense for future incentive payments of \$2.3 million.

Table of Contents**4. Goodwill and Intangible Assets**

The following tables summarize the changes in the carrying amount of goodwill (in thousands):

Balance as of February 2, 2013	\$ 64,576
Effects of foreign currency translation	(381)
Balance as of February 1, 2014	64,195
Effects of foreign currency translation	(8,343)
Balance as of January 31, 2015	\$ 55,852

There was no impairment of goodwill for the fiscal years ended January 31, 2015, February 1, 2014 and February 2, 2013.

The following table summarizes the gross carrying amount, accumulated amortization and the net carrying amount of intangible assets (in thousands):

	Gross Carrying Amount	January 31, 2015 Accumulated Amortization	Intangible Assets, Net
Intangible assets not subject to amortization:			
Trade names and trademarks	\$ 12,226	\$	\$ 12,226
Intangible assets subject to amortization:			
Developed technology	3,396	2,925	471
Customer relationships	2,516	2,151	365
Total intangible assets	\$ 18,138	\$ 5,076	\$ 13,062
		February 1, 2014	
	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net
Intangible assets not subject to amortization:			
Trade names and trademarks	\$ 14,615	\$	\$ 14,615
Intangible assets subject to amortization:			
Developed technology	4,060	2,143	1,917
Customer relationships	3,008	1,570	1,438
Total intangible assets	\$ 21,683	\$ 3,713	\$ 17,970

There was no impairment of intangible assets for the fiscal years ended January 31, 2015, February 1, 2014 and February 2, 2013.

Amortization expense of intangible assets for the fiscal years ended January 31, 2015, February 1, 2014 and February 2, 2015 was \$2.3 million, \$2.3 million and \$1.3 million. Amortization expense of intangible assets is recorded in selling, general and administrative expense on the consolidated statements of income. The future amortization expense of intangible assets will be \$0.8 million in fiscal 2015.

Table of Contents**5. Cash, Cash Equivalents and Marketable Securities**

The following tables summarize the estimated fair value of our cash, cash equivalents and marketable securities and the gross unrealized holding gains and losses (in thousands):

	Amortized Cost	January 31, 2015		Estimated Fair Value
		Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	
Cash and cash equivalents:				
Cash	\$ 10,251	\$	\$	\$ 10,251
Money market funds	7,061			7,061
State and local government securities	3,550			3,550
Total cash and cash equivalents	20,862			20,862
Marketable securities:				
State and local government securities	102,888	73	(186)	102,775
Variable-rate demand notes	31,830			31,830
Total marketable securities	\$ 134,718	\$ 73	\$ (186)	\$ 134,605
Less: Long-term marketable securities (1)				(823)
Total current marketable securities				\$ 133,782
	Amortized Cost	February 1, 2014		Estimated Fair Value
		Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	
Cash and cash equivalents:				
Cash	\$ 17,973	\$	\$	\$ 17,973
Money market funds	1,211			1,211
State and local government securities	450			450
Total cash and cash equivalents	19,634			19,634
Marketable securities:				
State and local government securities	72,968	64	(191)	72,841
Variable-rate demand notes	25,505			25,505
Total marketable securities	\$ 98,473	\$ 64	\$ (191)	\$ 98,346
Less: Long-term marketable securities (1)				(825)
Total current marketable securities				\$ 97,521

(1)

Edgar Filing: Zumiez Inc - Form 10-K

At January 31, 2015 and February 1, 2014, we held one auction rate security, classified as available-for-sale marketable securities and included in long-term other assets on the consolidated balance sheets.

All of our available-for-sale securities, excluding our auction rate security, have an effective maturity date of two years or less and may be liquidated, at our discretion, prior to maturity.

Table of Contents

The following tables summarize the gross unrealized holding losses and fair value for investments in an unrealized loss position, and the length of time that individual securities have been in a continuous loss position (in thousands):

	Less Than Twelve Months		January 31, 2015 12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable securities:						
State and local government securities	\$ 27,701	\$ (9)	\$ 823	\$ (177)	\$ 28,524	\$ (186)
Total marketable securities	\$ 27,701	\$ (9)	\$ 823	\$ (177)	\$ 28,524	\$ (186)

	Less Than Twelve Months		February 1, 2014 12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable securities:						
State and local government securities	\$ 26,637	\$ (15)	\$ 2,081	\$ (176)	\$ 28,718	\$ (191)
Total marketable securities	\$ 26,637	\$ (15)	\$ 2,081	\$ (176)	\$ 28,718	\$ (191)

We did not record a realized loss for other-than-temporary impairments during the fiscal years ended January 31, 2015, February 1, 2014 and February 2, 2013.

6. Receivables

Receivables consisted of the following (in thousands):

	January 31, 2015	February 1, 2014
Credit cards receivable	\$ 7,781	\$ 5,299
Tenant allowances receivable	1,555	1,391
Other receivables	3,317	3,604
Receivables	\$ 12,653	\$ 10,294

7. Fixed Assets

Fixed assets consisted of the following (in thousands):

	January 31, 2015	February 1, 2014
Leasehold improvements	\$ 151,703	\$ 136,953
Fixtures	75,683	74,333
Buildings, land and building and land improvements	28,087	27,786
Computer equipment, software, store equipment and other	33,803	27,704
Fixed assets, at cost	289,276	266,776
Less: Accumulated depreciation	(153,634)	(139,433)

Edgar Filing: Zumiez Inc - Form 10-K

Fixed assets, net	\$	135,642	\$	127,343
-------------------	----	---------	----	---------

Table of Contents

Depreciation expense on fixed assets is recognized on our consolidated income statement as follows (in thousands):

	January 31, 2015	Fiscal Year Ended February 1, 2014	February 2, 2013
Cost of goods sold	\$ 1,230	\$ 1,086	\$ 875
Selling, general and administrative expenses	23,513	21,281	18,506
Depreciation expense	\$ 24,743	\$ 22,367	\$ 19,381

8. Other Liabilities

Other liabilities consisted of the following (in thousands):

	January 31, 2015	February 1, 2014
Accrued payables	\$ 4,993	\$ 7,026
Unredeemed gift cards	4,980	4,410
Accrued indirect taxes	4,691	3,592
Deferred revenue	3,632	1,677
Future incentive payments	3,096	
Allowance for sales returns	1,986	1,582
Accrued legal settlement		1,250
Other current liabilities	1,194	1,739
Other liabilities	\$ 24,572	\$ 21,276

9. Revolving Credit Facilities and Debt

We maintain a secured credit agreement with Wells Fargo Bank, N.A., which provides us with a secured revolving credit facility until September 1, 2016 of up to \$25.0 million, which, pursuant to an accordion feature, may be increased to \$35.0 million at our discretion. The secured revolving credit facility provides for the issuance of a standby letter of credit in an amount not to exceed \$5.0 million outstanding at any time and with a term not to exceed 365 days. The commercial line of credit provides for the issuance of a commercial letter of credit in an amount not to exceed \$10.0 million and with terms not to exceed 120 days. The amount of borrowings available at any time under our secured revolving credit facility is reduced by the amount of standby and commercial letters of credit outstanding at that time. The secured revolving credit facility bears interest at the Daily Three Month LIBOR rate plus 1.00%. The credit agreement contains a number of restrictions and covenants that generally limit our ability to, among other things, (1) incur additional debt, (2) undergo a change in ownership and (3) enter into certain transactions. The credit agreement also contains financial covenants that require us to meet certain specified financial tests and ratios, including, a maximum net income after taxes of not less than one dollar on a trailing four-quarter basis provided, that, there shall be added to net income all charges for impairment of goodwill and other intangibles and up to an aggregate of \$5.0 million of store asset impairment, and a minimum quick ratio of 1.25. The quick ratio is defined as our cash and near cash equivalents plus certain defined receivables divided by the borrowings outstanding. Our accounts receivable, general intangibles, inventory and equipment have been pledged to secure our obligations under the credit agreement. We must also provide financial information and statements to our lender. We were in compliance with all such covenants at January 31, 2015. There were no borrowings outstanding under the secured revolving credit facility at January 31, 2015 and February 1, 2014. We had open commercial letters of credit outstanding under our secured revolving credit facility at January 31, 2015 and February 1, 2014 of \$0.3 million.

Table of Contents

Additionally, we have revolving lines of credit of up to 9.0 million Euros and other long-term debt, the proceeds of which are used to fund certain international operations. The revolving lines of credit bears interest at 1.60%-1.65%. There were no borrowings outstanding under these revolving lines of credit at January 31, 2015 and February 1, 2014. Long-term debt obligations are as follows (in thousands):

	January 31, 2015	February 1, 2014
Debt obligations	\$	\$ 1,933
Less: Current portion of debt obligations (1)		(325)
Total long-term debt obligations (2)	\$	\$ 1,608

(1) The current portion of debt obligations is recorded in other liabilities on the consolidated balance sheets.

(2) The long-term portion of debt obligations is recorded in long-term debt and other liabilities on the consolidated balance sheets.

10. Commitments and Contingencies

Operating Leases Total rent expense is as follows (in thousands):

	January 31, 2015	Fiscal Year Ended	
		February 1, 2014	February 2, 2013
Minimum rent expense (1)	\$ 70,268	\$ 51,131	\$ 47,279
Contingent rent expense	2,234	2,312	2,705
Total rent expense (2)	\$ 72,502	\$ 53,443	\$ 49,984

(1) Included in minimum rent expense for the fiscal year ended February 1, 2014 is a benefit of \$2.7 million representing the correction of an error related to our calculation to account for rent expense on a straight-line basis.

(2) Total rent expense does not include real estate taxes, insurance, common area maintenance charges and other executory costs, which were \$39.6 million, \$32.0 million, and \$28.0 million for the fiscal years ended January 31, 2015, February 1, 2014, and February 2, 2013.

Future minimum lease payments at January 31, 2015 are as follows (in thousands):

Fiscal 2015	\$ 61,452
Fiscal 2016	60,191
Fiscal 2017	56,120
Fiscal 2018	50,686
Fiscal 2019	43,842
Thereafter	151,473
Total (1)	\$ 423,764

(1) Amounts in the table do not include contingent rent and real estate taxes, insurance, common area maintenance charges and other executory costs obligations.

Edgar Filing: Zumiez Inc - Form 10-K

Purchase Commitments At January 31, 2015 and February 1, 2014, we had outstanding purchase orders to acquire merchandise from vendors of \$192.9 million and \$132.6 million. We have an option to cancel these commitments with no notice prior to shipment, except for certain private label purchase orders in which we are obligated to repay contractual amounts upon cancellation.

Litigation We are involved from time to time in claims, proceedings and litigation arising in the ordinary course of business. We have made accruals with respect to these matters, where appropriate, which are reflected

Table of Contents

in our consolidated financial statements. For some matters, the amount of liability is not probable or the amount cannot be reasonably estimated and therefore accruals have not been made. We may enter into discussions regarding settlement of these matters, and may enter into settlement agreements, if we believe settlement is in the best interest of our shareholders.

On February 15, 2013, a putative class action lawsuit, Robert Steele v. Zumiez Inc., was filed against the Company in the Superior Court of the State of California, County of San Francisco. The lawsuit purported to be brought on behalf of a class of all persons who are employed, or who have worked as, assistant store managers for the Company in the State of California from February 15, 2009 through the date of certification of the class in the lawsuit. The lawsuit alleged causes of action for failure to pay overtime wages, failure to pay wages for work done off-the-clock, failure to provide meal periods and rest breaks (and to pay meal and rest period premiums), failure to pay terminated employees all wages due at the time of termination, failure to provide employees with accurate itemized wage statements, failure to reimburse employees for business expenses and unfair business practices and declaratory relief. On November 12, 2013, the parties in the Steele case agreed to a conditional settlement in the amount of \$1.3 million. A hearing was held on November 24, 2014 and the settlement was approved by the Court. The settlement was paid in the quarter ended January 31, 2015.

Insurance Reserves We use a combination of third-party insurance and self-insurance for a number of risk management activities including workers compensation, general liability and employee-related health care benefits. We maintain reserves for our self-insured losses, which are estimated based on historical claims experience and actuarial and other assumptions. The self-insurance reserve at January 31, 2015 and February 1, 2014 was \$1.8 million and \$1.7 million.

11. Fair Value Measurements

We apply the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 Quoted prices in active markets for identical assets or liabilities;

Level 2 Quoted prices for similar assets or liabilities in active markets or inputs that are observable; and

Level 3 Inputs that are unobservable.

The following tables summarize assets measured at fair value on a recurring basis (in thousands):

	January 31, 2015		
	Level 1	Level 2	Level 3
Cash equivalents:			
Money market funds	\$ 7,061	\$	\$
State and local government securities		3,550	
Marketable securities:			
State and local government securities		101,952	
Variable-rate demand notes		31,830	
Long-term other assets:			
State and local government securities			823
Equity investments			123
Total	\$ 7,061	\$ 137,332	\$ 946

Table of Contents

	February 1, 2014		
	Level 1	Level 2	Level 3
Cash equivalents:			
Money market funds	\$ 1,211	\$	\$
State and local government securities		450	
Marketable securities:			
State and local government securities		72,016	
Variable-rate demand notes		25,505	
Long-term other assets:			
State and local government securities			825
Equity investments			147
 Total	 \$ 1,211	 \$ 97,971	 \$ 972

Our policy is to recognize transfers into and transfers out of hierarchy levels as of the actual date of the event or change in circumstances that caused the transfer.

The Level 2 marketable securities primarily include state and local municipal securities and variable-rate demand notes. Fair values are based on quoted market prices for similar assets or liabilities or determined using inputs that use readily observable market data that are actively quoted and can be validated through external sources, including third-party pricing services, brokers and market transactions. We review the pricing techniques and methodologies of the independent pricing service for Level 2 investments and believe that its policies adequately consider market activity, either based on specific transactions for the security valued or based on modeling of securities with similar credit quality, duration, yield and structure that were recently traded. We monitor security-specific valuation trends and we make inquiries with the pricing service about material changes or the absence of expected changes to understand the underlying factors and inputs and to validate the reasonableness of the pricing.

Assets measured at fair value on a nonrecurring basis include items such as long-lived assets resulting from impairment, if deemed necessary. There were no material assets measured at fair value on a nonrecurring basis for the fiscal years ended January 31, 2015 and February 1, 2014.

12. Stockholders Equity

Share Repurchase In November 2012, we publicly announced that our Board of Directors authorized us to repurchase \$22.0 million of our common stock. This repurchase program was completed in December 2012. In December 2012, our Board of Directors authorized a stock repurchase program that provided for the repurchase of up to an additional \$20.0 million of outstanding common stock and \$7.5 million of outstanding common stock was repurchased under that program. In December 2013, the Board of Directors authorized a stock repurchase program that provides for the repurchase of up to \$30.0 million of outstanding common stock. This stock repurchase program replaces the existing stock repurchase program that was authorized in December 2012, which had \$12.5 million remaining of the authorized amount to repurchase shares under that program and was set to expire on February 1, 2014. On December 10, 2014 our Board of Directors superseded and replaced this program with a new \$30.0 million share repurchase program that is expected to continue through January 30, 2016, unless the time period is extended or shortened by the Board of Directors.

The following table summarizes common stock repurchase activity during the fiscal year ended January 31, 2015 (in thousands except average price per repurchased shares):

Number of shares repurchased	758
Average price per share of repurchased shares (with commission)	\$ 23.03
Total cost of shares repurchased	\$ 17,445

Table of Contents

At January 31, 2015, there remains \$30.0 million available to repurchase shares under the current share repurchase program.

Accumulated Other Comprehensive Income (Loss) The component of accumulated other comprehensive income (loss) and the adjustments to other comprehensive income (loss) for amounts reclassified from accumulated other comprehensive income (loss) into net income is as follows (in thousands):

	Foreign currency translation adjustments	Net unrealized gains (losses) on available- for-sale investments	Accumulated other comprehensive income (loss)
Balance at January 28, 2012	\$ (19)	\$ 154	\$ 135
Other comprehensive income (loss) before reclassifications, net of tax (1)	6,040	(79)	5,961
Reclassifications recorded in:			
Other (expense) income, net		(141)	(141)
Provision for income taxes		55	55
Total reclassifications from accumulated other comprehensive income (loss), net of taxes		(86)	(86)
Other comprehensive income (loss), net	6,040	(165)	5,875
Balance at February 2, 2013	6,021	(11)	6,010
Other comprehensive income (loss) before reclassifications, net of tax (1)	(1,231)	(92)	(1,323)
Reclassifications recorded in:			
Other (expense) income, net		28	28
Provision for income taxes		(5)	(5)
Total reclassifications from accumulated other comprehensive income (loss), net of taxes		23	23
Other comprehensive income (loss), net	(1,231)	(69)	(1,300)
Balance at February 1, 2014	4,790	(80)	4,710
Other comprehensive income (loss) before reclassifications, net of tax (1)	(15,995)	6	(15,989)
Reclassifications recorded in:			
Other (expense) income, net		2	2
Provision for income taxes		(1)	(1)
Total reclassifications from accumulated other comprehensive income (loss), net of taxes		1	1
Other comprehensive income (loss), net	(15,995)	7	(15,988)
Balance at January 31, 2015	\$ (11,205)	\$ (73)	\$ (11,278)

(1)

Edgar Filing: Zumiez Inc - Form 10-K

Other comprehensive income (loss) before reclassifications is net of taxes of less than \$0.1 million for the fiscal year ended January 31, 2015 and \$0.1 million for the fiscal years ended February 1, 2014 and February 2, 2013 for both net unrealized gains (losses) on available-for-sale investments and accumulated other comprehensive income (loss). Foreign currency translation adjustments are not adjusted for income taxes as they relate to permanent investments in our international subsidiaries.

13. Equity Awards

General We maintain several equity incentive plans under which we may grant incentive stock options, nonqualified stock options, stock bonuses, restricted stock awards, restricted stock units and stock appreciation rights to employees (including officers), non-employee directors and consultants.

Table of Contents

Stock-Based Compensation Total stock-based compensation expense is recognized on our consolidated income statements as follows (in thousands):

	January 31, 2015	Fiscal Year Ended February 1, 2014	February 2, 2013
Cost of goods sold	\$ 1,048	\$ 990	\$ 1,033
Selling, general and administrative expenses (1)	6,472	3,104	4,963
Total stock-based compensation expense	\$ 7,520	\$ 4,094	\$ 5,996

(1) Included in stock-based compensation expense recognized in selling, general and administrative expenses is \$3.1 million of expense associated with the estimated future incentive payments payable in shares of our common stock for the fiscal year ended January 31, 2015 and is a \$0.9 million benefit associated with the reversal of the estimated future incentive payments payable in shares of our common stock associated with the Blue Tomato acquisition for the fiscal year ended February 1, 2014.

At January 31, 2015, there was \$6.1 million of total unrecognized compensation cost related to unvested stock options and restricted stock. This cost has a weighted-average recognition period of 1.1 years.

Restricted Stock The following table summarizes restricted stock activity (in thousands, except grant date weighted-average fair value):

	Restricted Stock	Grant Date Weighted- Average Fair Value	Intrinsic Value (1)
Outstanding at January 28, 2012	503	\$ 16.79	
Granted	154	\$ 33.98	
Vested	(236)	\$ 15.21	
Forfeited	(39)	\$ 24.03	
Outstanding at February 2, 2013	382	\$ 23.97	
Granted	198	\$ 25.45	
Vested	(193)	\$ 19.54	
Forfeited	(26)	\$ 27.27	
Outstanding at February 1, 2014	361	\$ 26.91	
Granted	176	\$ 25.76	
Vested	(154)	\$ 26.31	
Forfeited	(40)	\$ 27.14	
Outstanding at January 31, 2015	343	\$ 26.56	\$ 12,783

Edgar Filing: Zumiez Inc - Form 10-K

- (1) Intrinsic value for restricted stock is defined as the market value of the outstanding restricted stock on the last business day of the fiscal year.

Table of Contents

The following table summarizes additional information related to restricted stock activity (in thousands):

	January 31, 2015	Fiscal Year Ended February 1, 2014	February 2, 2013
Vest-date fair value of restricted stock vested	\$ 3,916	\$ 4,981	\$ 8,174

Stock Options The following table summarizes stock option activity (in thousands, except grant date weighted-average exercise price and weighted-average remaining contractual life):

	Stock Options	Grant Date Weighted- Average Exercise Price	Weighted-Average Remaining Contractual Life (in Years)	Intrinsic Value (1)
Outstanding at January 28, 2012	888	\$ 16.18		
Granted	55	\$ 31.79		
Exercised	(74)	\$ 8.53		
Forfeited	(49)	\$ 20.91		
Outstanding at February 2, 2013	820	\$ 17.62		
Granted	47	\$ 24.81		
Exercised	(152)	\$ 6.64		
Forfeited	(24)	\$ 35.96		
Outstanding at February 1, 2014	691	\$ 19.86		
Granted	31	\$ 25.49		
Exercised	(397)	\$ 14.82		
Forfeited	(74)	\$ 32.63		
Outstanding at January 31, 2015	251	\$ 24.76	4.4	\$ 3,154
Exercisable at January 31, 2015	180	\$ 24.14	2.9	\$ 2,387
Vested or expected to vest at January 31, 2015 (2)	220	\$ 24.27	4.0	\$ 3,153

(1) Intrinsic value for stock options is defined as the difference between the market price of our common stock on the last business day of the fiscal year and the weighted average exercise price of in-the-money options outstanding at the end of the fiscal year.

(2) Includes outstanding vested options as well as outstanding, non-vested options after a forfeiture rate is applied.

The following table summarizes additional information related to stock option activity (in thousands):

	January 31, 2015	Fiscal Year Ended February 1, 2014	February 2, 2013
	\$ 6,756	\$ 3,408	\$ 1,655

Edgar Filing: Zumiez Inc - Form 10-K

Aggregate intrinsic value of stock options exercised

Vest-date fair value of stock options	\$ 83	\$ 2,024	\$ 4,881
---------------------------------------	-------	----------	----------

Table of Contents

The following table summarizes outstanding and exercisable options by exercise price at January 31, 2015:

Exercise Price	Options Outstanding		Options Exercisable Number of Options (in thousands)
	Number of Options (in thousands)	Weighted-Average Remaining Contractual Life	
Under \$ 10.00	45	2.9	45
\$ 10.01-\$ 20.00	8	5.2	8
\$ 20.01-\$ 30.00	103	6.7	39
\$ 30.01-\$ 40.00	95	2.5	88
Total	251		180

Employee Stock Purchase Plan We offer an Employee Stock Purchase Plan (the ESPP) for eligible employees to purchase our common stock at a 15% discount of the lesser of fair market value of the stock on the first business day or the last business day of the offering period, subject to maximum contribution thresholds. The number of shares issued under our ESPP was less than 0.1 million for each of the fiscal years ended January 31, 2015, February 1, 2014 and February 2, 2013.

14. Income Taxes

The components of earnings before income taxes are (in thousands):

	Fiscal Year Ended		
	January 31, 2015	February 1, 2014	February 2, 2013
United States	\$ 80,449	\$ 71,288	\$ 75,054
Foreign	(8,798)	676	(4,775)
Total earnings before income taxes	\$ 71,651	\$ 71,964	\$ 70,279

The components of the provision for income taxes are (in thousands):

	Fiscal Year Ended		
	January 31, 2015	February 1, 2014	February 2, 2013
Current:			
Federal	\$ 24,639	\$ 22,925	\$ 24,002
State and local	3,386	3,544	4,689
Foreign	1,044	525	1,054
Total current	29,069	26,994	29,745
Deferred:			
Federal	1,706	629	551
State and local	291	74	(370)
Foreign	(2,607)	(1,681)	(1,811)
Total deferred	(610)	(978)	(1,630)

Edgar Filing: Zumiez Inc - Form 10-K

Provision for income taxes	\$ 28,459	\$	26,016	\$	28,115
----------------------------	-----------	----	--------	----	--------

Table of Contents

The reconciliation of the income tax provision at the U.S. federal statutory rate to our effective income tax rate is as follows:

	January 31, 2015	Fiscal Year Ended February 1, 2014	February 2, 2013
Expected U.S. federal income taxes at statutory rates	35.0%	35.0%	35.0%
State and local income taxes, net of federal effect	3.4	3.3	4.4
Other	1.3	(2.2)	0.6
Effective tax rate	39.7%	36.1%	40.0%

The components of deferred income taxes are (in thousands):

	January 31, 2015	February 1, 2014
Deferred tax assets:		
Deferred rent	\$ 18,832	\$ 16,779
Employee benefits, including stock based compensation	3,595	5,967
Net operating losses	3,053	2,045
Accrued liabilities	1,971	2,507
Inventory	1,351	672
Other	1,508	1,251
Total deferred tax assets	30,310	29,221
Deferred tax liabilities:		
Property and equipment	(21,197)	(19,937)
Goodwill and other intangibles	(6,424)	(7,463)
Other	(693)	(543)
Total deferred tax liabilities	(28,314)	(27,943)
Net deferred tax assets	\$ 1,996	\$ 1,278
Reported as:		
Current deferred tax assets	\$ 6,965	\$ 5,194
Long-term deferred tax assets (included in long-term other assets)	769	733
Current deferred income tax liabilities (included in other liabilities)		
Long-term deferred tax liabilities	(5,738)	(4,649)
Net deferred tax assets	\$ 1,996	\$ 1,278

At January 31, 2015 and February 1, 2014, we had \$12.1 million and \$8.0 million of foreign net operating loss carryovers that could be utilized to reduce future years' tax liabilities. The tax-effective foreign net operating loss carryovers were \$3.0 million and \$2.0 million at January 31, 2015 and February 1, 2014. The net operating loss carryovers have an indefinite carryforward period and currently will not expire.

At each reporting date, we consider new evidence, both positive and negative, that could impact our view with regards to future realization of deferred tax assets. At January 31, 2015, we recorded a valuation allowance of less than \$0.1 million. During the fiscal year ended February 1, 2014, we reversed the valuation allowance previously recorded on the deferred tax assets based on our reassessment of the amount of the deferred tax assets that are more likely than not to be realized. The net change in the total valuation allowance was an increase of less than \$0.1

Edgar Filing: Zumiez Inc - Form 10-K

million and a decrease of \$0.4 million for the fiscal years ended January 31, 2015 and February 1, 2014.

Table of Contents

We file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. Our U.S. federal income tax returns are no longer subject to examination for years before fiscal 2011, with few exceptions, we are no longer subject to U.S. state examinations for years before fiscal 2010 and we are no longer subject to examination for all foreign income tax returns before fiscal 2009.

15. Earnings per Share, Basic and Diluted

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Fiscal Year Ended		
	January 31, 2015	February 1, 2014	February 2, 2013
Net income	\$ 43,192	\$ 45,948	\$ 42,164
Weighted average common shares for basic earnings per share	28,871	29,810	30,742
Dilutive effect of stock options and restricted stock	417	396	531
Weighted average common shares for diluted earnings per share	29,288	30,206	31,273
Basic earnings per share	\$ 1.50	\$ 1.54	\$ 1.37
Diluted earnings per share	\$ 1.47	\$ 1.52	\$ 1.35

Total anti-dilutive common stock options not included in the calculation of diluted earnings per share were 0.1 million, 0.2 million and 0.2 million for the fiscal years ended January 31, 2015, February 1, 2014 and February 2, 2013.

16. Related Party Transactions

The Zumiez Foundation is a charitable based nonprofit organization focused on meeting various needs of the under-privileged. Our Chairman of the Board is also the President of the Zumiez Foundation. We committed charitable contributions to the Zumiez Foundation of \$0.7 million for each of the fiscal years ended January 31, 2015, February 1, 2014 and February 2, 2013. We have accrued charitable contributions payable to the Zumiez Foundation of \$0.6 million at January 31, 2015 and February 1, 2014.

17. Segment Reporting

The following table is a summary of product categories as a percentage of merchandise sales:

	Fiscal Year Ended		
	January 31, 2015	February 1, 2014	February 2, 2013
Men's Apparel	34%	34%	36%
Accessories	20%	19%	19%
Footwear	19%	22%	23%
Hardgoods	14%	13%	11%
Junior's Apparel	13%	12%	11%
Total	100%	100%	100%

Table of Contents

The following tables present summarized geographical information (in thousands):

	January 31, 2015	Fiscal Year Ended February 1, 2014	February 2, 2013
Net sales (1):			
United States	\$ 708,279	\$ 644,362	\$ 618,958
Foreign	103,272	79,975	50,435
Total net sales	\$ 811,551	\$ 724,337	\$ 669,393

	January 31, 2015	February 1, 2014
Long-lived assets:		
United States	\$ 122,003	\$ 111,595
Foreign	23,025	18,092
Total long-lived assets	\$ 145,028	\$ 129,687

- (1) Net sales are allocated based on the location in which the sale was fulfilled. Store sales are allocated based on the location of the store and ecommerce sales are allocated to the U.S. for sales on www.zumiez.com and to foreign for sales on www.blue-tomato.com.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ZUMIEZ INC.

/s/ RICHARD M. BROOKS

Signature

By: Richard M. Brooks Chief Executive Officer and Director (Principal Executive Officer)

March 17, 2015

Date

/s/ CHRISTOPHER C. WORK

Signature

By: Christopher C. Work, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

March 17, 2015

Date

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ THOMAS D. CAMPION

Signature

Thomas D. Campion, Chairman

March 17, 2015

Date

/s/ JAMES M. WEBER

Signature

James M. Weber, Director

March 17, 2015

Date

/s/ MATTHEW L. HYDE

Signature

Matthew L. Hyde, Director

March 17, 2015

Date

/s/ SARAH G. MCCOY

Signature

Sarah G. McCoy, Director

March 17, 2015

Date

/s/ ERNEST R. JOHNSON

Signature

Ernest R. Johnson, Director

March 17, 2015

Date

/s/ TRAVIS D. SMITH

Signature

Travis D. Smith, Director

March 17, 2015

Date

/s/ KALEN F. HOLMES

Signature

Kalen F. Holmes, Director

March 17, 2015

Date

Table of Contents

EXHIBIT INDEX

- 2.1 Share Purchase Agreement, dated June 18, 2012, by and between Gerfried Schuller, Alexander Zezula and Eff zwanzig Beteiligungsverwaltung GmbH [Incorporated by reference to Exhibit 2.1 to the Form 8-K filed by the Company on July 10, 2012]
- 3.1 Articles of Incorporation. [Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (file No. 333-122865)]
- 3.2 Bylaws, as amended and restated May 21, 2014. [Incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on May 23, 2014]
- 4.1 Form of Common Stock Certificate of Zumiez Inc. [Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (file No. 333-122865)]
- 10.8 Zumiez Inc. 2005 Employee Stock Purchase Plan. [Incorporated by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1 (file No. 333-122865)]
- 10.9 Form of Indemnity Agreement between Zumiez Inc. and each of its officers and directors. [Incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1 (file No. 333-122865)]
- 10.10 Limited Liability Company Agreement of Zumiez Holdings LLC. [Incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1 (file No. 333-122865)]
- 10.12 Equity Purchase Agreement with Gerald R. Anderson, Brandon C. Batton, AC Fast Forward LLC and AC Fast Forward Mgt., LLC dated May 16, 2006. [Incorporated by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the period ended July 29, 2006 as filed on September 12, 2006]
- 10.13 Lease Agreement between Merrill Creek Holdings, LLC and Zumiez Inc. dated October 2, 2006. [Incorporated by reference to Exhibit 10.13 to the Company's Form 8-K filed on October 4, 2006]
- 10.15 Zumiez Inc. 2005 Equity Incentive Plan, as amended and restated effective May 27, 2009. [Incorporated by reference from Exhibit 10.15 to the Form 8-K filed by the Company on June 1, 2009]
- 10.17 Purchase and Sale Agreement and Joint Escrow Instructions with Railroad Street Land Holdings, LLC dated February 18, 2010. [Incorporated by reference from Exhibit 10.17 to the Form 8-K filed by the Company on February 22, 2010]
- 10.18 Credit Agreement, including Revolving Line of Credit Note, with Wells Fargo Bank, N.A. dated August 29, 2011. [Incorporated by reference from Exhibit 10.18 to the Form 8-K filed by the Company on August 31, 2011]
- 10.19 Amended Credit Agreement with Wells Fargo Bank, N.A. dated June 14, 2013. [Incorporated by reference from Exhibit 10.19 to the Form 8-K filed by the Company on June 19, 2013]
- 10.20 Zumiez Inc. 2014 Equity Incentive Plan. [Incorporated by reference to Exhibit 10.20 to the Company's Current Report on Form 8-K filed on May 23, 2014]
- 10.21 Form of Restricted Stock Award Agreement and Terms and Conditions. [Incorporated by reference to Exhibit 10.21 to the Company's Current Report on Form 8-K filed on May 23, 2014]
- 10.22 Form of Stock Option Award Agreement and Terms and Conditions. [Incorporated by reference to Exhibit 10.22 to the Company's Current Report on Form 8-K filed on May 23, 2014]
- 10.23 Zumiez Inc. 2014 Employee Stock Purchase Plan. [Incorporated by reference to Exhibit 10.23 to the Company's Current Report on Form 8-K filed on May 23, 2014]
- 10.24 Form of Indemnification Agreement. [Incorporated by reference to Exhibit 10.24 to the Company's Current Report on Form 8-K filed on May 23, 2014]

Table of Contents

10.25	Credit Agreement, including Revolving Line of Credit Note, with Wells Fargo Bank, N.A. dated July 9, 2014. [Incorporated by reference from Exhibit 10.25 to the Form 8-K filed by the Company on July 7, 2014]
21.1	Subsidiaries of the Company.
23.1	Consent of Moss Adams LLP, Independent Registered Public Accounting Firm.
31.1	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Principal Financial Officer (Principal Accounting Officer) pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of the Principal Executive Officer and Principal Financial Officer (Principal Accounting Officer) pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
101	The following materials from Zumiez Inc. s Annual Report on Form 10-K for the annual period ended January 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at January 31, 2015 and February 1, 2014; (ii) Consolidated Statements of Income for the fiscal years ended January 31, 2015, February 1, 2014, and February 2, 2013; (iii) Consolidated Statements of Comprehensive Income for the fiscal years ended January 31, 2015, February 1, 2014, and February 2, 2013; (iv) Consolidated Statements of Changes in Shareholders Equity for the fiscal years ended January 31, 2015, February 1, 2014, and February 2, 2013; (v) Consolidated Statements of Cash Flows for the fiscal years ended January 31, 2015, February 1, 2014, and February 2, 2013; and (vi) Notes to Consolidated Financial Statements.

Copies of Exhibits may be obtained upon request directed to the attention of our Executive Vice President, General Counsel and Secretary, 4001 204th Street SW, Lynnwood, Washington 98036, and are available at the SEC s website found at www.sec.gov.