

Zumiez Inc  
Form 10-K  
March 19, 2013  
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**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: February 2, 2013

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

91-1040022

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(State or other jurisdiction of

(IRS Employer

incorporation or organization)

Identification No.)

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

98036  
(Zip Code)

(425) 551-1500

(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, July 27, 2012, was \$851,643,956.

At March 8, 2013, there were 29,989,450 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 22, 2013, which definitive proxy statement will be filed not later than 120 days after the end of the fiscal year to which this report relates.



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**ZUMIEZ INC.**

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**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 2013 will be 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 Inc. is a leading multi-channel specialty retailer of action sports related apparel, footwear, accessories and hardgoods, focusing on skateboarding, snowboarding, surfing, motocross and bicycle motocross ( BMX ) for young men and women. The Company was formed in August 1978 and is a Washington State corporation.

At February 2, 2013, we operated 500 stores; 472 in the United States ( U.S. ), 20 in Canada and eight in Europe. We operate under the names Zumiez and Blue Tomato. Additionally, we operate ecommerce websites at [www.zumiez.com](http://www.zumiez.com) and [www.blue-tomato.com](http://www.blue-tomato.com).

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

Our stores 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 stores to appeal to teenagers and young adults and to serve as a destination for our customers. We believe that our distinctive store concepts and compelling store economics will provide continued opportunities for growth in both new and existing markets.

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

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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 stores with a select offering of private label apparel and products as a value proposition that we believe complements our overall merchandise selection.

Over our 34-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 285 as of the end of fiscal 2007 to 500 as of the end of fiscal 2012, representing a compound annual growth rate of 11.9%;

increased net sales from \$381.4 million in fiscal 2007 to \$669.4 million in fiscal 2012, representing a compound annual growth rate of 11.9%;

been profitable in every fiscal year of our 34-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 action sports 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 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 at our stores exceeds that offered by many other action sports specialty stores and includes some brands and products that are available within many malls or shopping areas only at our stores. 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.* 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 flexibility to manage their stores to meet localized customer demand.

*Distinctive Store 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 enhances our image as a leading source for apparel and equipment for the action sports lifestyle.

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*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 store 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 ending with fiscal 2012, we have opened or acquired 133 new stores consisting of 61 stores in fiscal 2012, 45 stores in fiscal 2011 and 27 stores in fiscal 2010. 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 60 new stores in fiscal 2013, 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 Improved Store Level Productivity and Continued Ecommerce Sales Growth.* We seek to maximize our comparable store sales, including sales from our ecommerce businesses, and net sales per square foot 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. In fiscal 2012, 2011 and 2010, ecommerce sales represented 11.2%, 7.3% and 4.7% of our total net sales.

*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.

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***Merchandising and Purchasing***

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

We seek to identify action sports oriented fashion trends as they develop and to respond in a timely manner with a relevant in-store 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 9.0%, 6.3% and 6.5% of our net sales in fiscal 2012, 2011 and 2010. We believe that our strategic mix of both 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 are exclusively distributed to our stores. 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 2012, 2011 and 2010 our private label merchandise represented 16.9%, 17.7% and 18.0% of our net sales.

Our purchasing approach focuses on quality, speed and cost in order to provide timely delivery of merchandise to our stores. 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 store 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. 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 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.

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*Store Locations.* At February 2, 2013, we operated 500 stores in the following locations.

**United States - 472 Stores**

Alaska	3	Illinois	17	Montana	4	Pennsylvania	18
Arizona	13	Indiana	10	New Hampshire	6	Rhode Island	1
California	80	Iowa	3	New Jersey	18	South Dakota	2
Colorado	18	Kansas	3	Nevada	9	Tennessee	4
Connecticut	8	Maine	3	New Mexico	5	Texas	47
Delaware	3	Maryland	10	New York	32	Utah	14
Florida	19	Massachusetts	8	North Carolina	7	Virginia	9
Georgia	4	Michigan	8	Ohio	2	Washington	24
Hawaii	3	Minnesota	11	Oklahoma	6	Wisconsin	14
Idaho	6	Missouri	5	Oregon	13	Wyoming	2

**Canada - 20 Stores**

Alberta	3
British Columbia	6
Ontario	11

**Europe - 8 Stores**

Austria	5
Germany	3

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

	Stores	Stores	Stores	Total Number of
Fiscal Year	Opened	Acquired	Closed	Stores End of Year
2012	53	8	5	500
2011	45	0	1	444
2010	27	0	4	400

*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 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 February 2, 2013, our stores averaged approximately 3,000 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 2013, we plan on opening new stores with square footage similar to this average.

*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

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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. For example, the Zumiez Couch Tour is a series of entertainment events that includes skateboarding demonstrations from top professionals, autograph sessions, competitions and live music, and has featured some of today's most popular personalities in action sports and music. The Zumiez Couch Tour provides a high-impact platform where customers can interact with some of their favorite action sports athletes and vendors can showcase new products.

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, 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. During fiscal 2010, we relocated our domestic distribution center from Everett, Washington to Corona, California to reduce distribution costs, expand capacity and increase speed of merchandise delivery to our customers. At our Corona, California facility, merchandise is inspected, allocated to stores, ticketed when necessary and boxed for distribution to our stores. Each store is typically shipped merchandise five times a week, providing our stores with a steady flow of new merchandise. We currently use United Parcel Service to ship the majority of our merchandise to our domestic stores.

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

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ecommerce operations, while also increasing the speed at which we get product to our customers and lowering the freight and distribution costs once the Edwardsville, Kansas fulfillment center is running effectively and at full capacity.

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 use a third-party distribution center located in Kamloops, British Columbia to distribute our 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 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 we compete favorably with many of our competitors based on 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 2012, approximately 60% 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, the number and timing of new store openings and store 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.

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### ***Employees***

At February 2, 2013, we employed approximately 1,700 full-time and approximately 3,600 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.

### ***Financial Information about Geographic Areas***

See Note 21, Segment Reporting, in the Notes to Consolidated Financial Statements found in Part IV Item 15 of this Form 10-K, for information regarding net sales and long-lived assets related to domestic and foreign operations.

### ***Available Information***

Our principal website address is [www.zumiez.com](http://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.

## **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.

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***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 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.

***If we fail to effectively execute our expansion strategy, we may not be able to successfully open new store locations in a timely manner, if at all, which could have an adverse affect on our net sales and results of operations.***

Our ability to open and operate new stores successfully depends on many factors, including, among others, our ability to:

identify suitable store locations, the availability of which is outside of our control;

negotiate acceptable lease terms, including desired tenant improvement allowances;

source sufficient levels of inventory at acceptable costs to meet the needs of new stores;

hire, train and retain qualified store personnel;

successfully integrate new stores into our existing operations; and

identify and satisfy the merchandise preferences of new geographic areas.

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 the second quarter of 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.***

## Edgar Filing: Zumiez Inc - Form 10-K

In fiscal 2011, we opened our first store locations in Canada and we plan to continue to open new stores in Canada. During the second quarter of fiscal 2012, we acquired Blue Tomato, which operates primarily in the

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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 our brands, 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 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 cyclicality. 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,

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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;

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.

***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 earnings per share 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 affect the importation of merchandise generally and 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. Although the prices charged by vendors for the merchandise we purchase are primarily denominated in U.S. dollars, a continued 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.

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***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 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:

diversion of traffic and sales from our stores;

rapid technological change;

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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.

***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 any of 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 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 use a third-party distribution center located in Kamloops, British Columbia to distribute our merchandise to our Canadian stores. 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.

Additionally, we relocated our ecommerce fulfillment center to Edwardsville, Kansas during the second quarter of fiscal 2012. As a result, events may occur during the operating periods subsequent to the relocation

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that 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 (or percentage rent ) based on sales of some of our stores, real estate taxes, insurance and common area maintenance charges, was \$78.0 million, \$68.8 million and \$61.8 million for fiscal 2012, 2011 and 2010. At February 2, 2013, we were committed to property owners for minimum operating leases obligations for \$485.6 million. In addition, substantially all of our store leases provide for contingent rent payments based on sales of the respective stores, as well as real estate taxes, insurance and common area maintenance charges. 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.

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, 2013 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 loss not to exceed \$10.0 million after taxes on a trailing four-quarter basis provided, that, there shall be added to net income all charges for impairment of goodwill and store assets not to exceed \$5.0 million in aggregate, 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 outstanding borrowings. 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 February 2, 2013. There were no outstanding borrowings under the secured revolving credit facility at February 2, 2013 and January 28, 2012. We had open commercial letters of credit outstanding under our secured revolving credit facility of \$0.2 million at February 2, 2013 and \$0.9 million at January 28, 2012.

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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 outstanding borrowings 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.

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 store sales, financial condition and results of operations.

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***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.***

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.

***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. 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 could adversely affect our business.***

Most of our stores are located in shopping malls. Any threat of terrorist attacks or actual terrorist events, 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.

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***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.

***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.

***Enacted federal health care legislation could increase our expenses.***

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 2014. We are evaluating 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 could raise our labor costs. While the majority of these costs will begin in fiscal 2014, 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

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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.

***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 was 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.

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***The value of our investments may fluctuate.***

We have our excess cash primarily invested in state and local municipal securities, corporate debt securities and variable-rate demand notes. These investments have historically been considered very safe investments with minimal default rates. At February 2, 2013, we had \$87.6 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.

***A decline in the market price of our stock and 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. An impairment charge could have a significant impact on earnings and potentially result in a violation of our financial covenants, thereby limiting our ability to secure short-term financing.

***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 1,480,000 total square feet at February 2, 2013.

We own approximately 356,000 square feet of developable land in Lynnwood, Washington, and completed construction of our new 63,071 square foot global home office in fiscal 2012. Additionally, we lease 12,917 square feet of office space in Schladming, Austria for our European home office.

We own a 168,450 square foot building in Corona, California that serves as our domestic warehouse and distribution center. We lease 94,428 square feet of a facility in Edwardsville, Kansas that serves as our domestic ecommerce fulfillment center. This lease expires in 2022 and we have the option to lease up to 153,095 square feet of the facility under this lease agreement.

We lease a 51,667 square feet combined distribution and ecommerce fulfillment center in Graz, Austria that supports our Blue Tomato ecommerce and store operations in Europe.

Additionally, we are under lease for a 59,972 square foot location in Everett, Washington that was previously used for a portion of our combined home office and ecommerce fulfillment center. This lease expires in 2017. See Note 19, Exit and Disposal Activities, in the Notes to Consolidated Financial Statements found in Part IV Item 15 of this Form 10-K, for additional information related to this location.

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**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 11, Commitments and Contingencies, and Note 22, Subsequent Event, 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 February 2, 2013, there were 30,113,878 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 for fiscal 2012 and fiscal 2011.

<b>Fiscal 2012</b>	<b>High</b>	<b>Low</b>
First Fiscal Quarter (January 29, 2012 - April 28, 2012)	\$ 38.79	\$ 27.66
Second Fiscal Quarter (April 29, 2012 - July 28, 2012)	\$ 41.96	\$ 31.65
Third Fiscal Quarter (July 29, 2012 - October 27, 2012)	\$ 38.57	\$ 24.60
Fourth Fiscal Quarter (October 28, 2012 - February 2, 2013)	\$ 26.94	\$ 17.93
<b>Fiscal 2011</b>	<b>High</b>	<b>Low</b>
First Fiscal Quarter (January 30, 2011 - April 30, 2011)	\$ 29.88	\$ 22.13
Second Fiscal Quarter (May 1, 2011 - July 30, 2011)	\$ 30.90	\$ 21.91
Third Fiscal Quarter (July 31, 2011 - October 29, 2011)	\$ 27.23	\$ 15.85
Fourth Fiscal Quarter (October 30, 2011 - January 28, 2012)	\$ 32.49	\$ 20.74

**Table of Contents****Performance Measurement Comparison**

The following graph shows a comparison for total cumulative returns for Zumiez Inc., the Nasdaq Composite Index and the Nasdaq Retail Trade Index during the period commencing on February 2, 2008 and ending on February 2, 2013. The comparison assumes \$100 was invested on February 2, 2008 in each 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.

	2/2/08	1/3/09	1/30/10	1/29/11	1/28/12	2/2/13
<b>Zumiez Inc.</b>	<b>\$ 100.00</b>	<b>\$ 35.68</b>	<b>\$ 63.52</b>	<b>\$ 111.33</b>	<b>\$ 141.37</b>	<b>\$ 105.34</b>
<b>Nasdaq Composite</b>	<b>100.00</b>	<b>60.26</b>	<b>84.82</b>	<b>110.53</b>	<b>114.46</b>	<b>128.46</b>
<b>Nasdaq Retail Trade</b>	<b>100.00</b>	<b>68.37</b>	<b>115.76</b>	<b>153.63</b>	<b>178.14</b>	<b>221.93</b>

**Holders of the Company's Capital Stock**

We had 326 shareholders of record as of March 1, 2013.

**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 following table presents information with respect to purchases of our common stock made during the fourteen weeks ended February 2, 2013 (in thousands, except average price paid per share):

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)</b>	<b>Dollar Value of Shares that May Yet be Repurchased Under the Plans or Programs (1)</b>
October 28, 2012 - November 24, 2012		\$		\$ 22,000
November 25, 2012 - December 29, 2012	1,081	20.36	1,081	20,000
December 30, 2012 - February 2, 2013	184	20.86	184	16,155
<b>Total</b>	<b>1,265</b>		<b>1,265</b>	

- (1) 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 up to \$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. The repurchase program is expected to continue through fiscal 2013 that will end on February 1, 2014, unless the time period is extended or shortened by the Board of Directors.

**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 Year Ended				
	February 2, 2013 (1)	January 28, 2012	January 29, 2011	January 30, 2010	January 31, 2009
<b>Statement of Operations Data (in thousands, except per share data):</b>					
Net sales	\$ 669,393	\$ 555,874	\$ 478,849	\$ 407,603	\$ 408,669
Cost of goods sold	428,109	354,198	311,028	274,396	274,134
Gross profit	241,284	201,676	167,821	133,207	134,535
Selling, general and administrative expenses	172,742	141,444	130,454	120,472	109,927
Operating profit	68,542	60,232	37,367	12,735	24,608
Interest income, net	1,410	1,836	1,496	1,176	2,059
Other income (expense), net	327	(379)	(8)	96	36
Earnings before income taxes	70,279	61,689	38,855	14,007	26,703
Provision for income taxes	28,115	24,338	14,652	4,876	9,499
Net income	\$ 42,164	\$ 37,351	\$ 24,203	\$ 9,131	\$ 17,204
Earnings per share:					
Basic	\$ 1.37	\$ 1.22	\$ 0.81	\$ 0.31	\$ 0.59
Diluted	\$ 1.35	\$ 1.20	\$ 0.79	\$ 0.30	\$ 0.58
Weighted average shares outstanding:					
Basic	30,742	30,527	29,971	29,499	29,127
Diluted	31,273	31,119	30,794	30,133	29,694
<b>Other Financial Data (in thousands, except gross margin and operating margin):</b>					
Gross margin (2)	36.0%	36.3%	35.0%	32.7%	32.9%
Operating margin (3)	10.2%	10.8%	7.8%	3.1%	6.0%
Capital expenditures	\$ 41,070	\$ 25,508	\$ 29,124	\$ 16,004	\$ 28,349
Depreciation, amortization and accretion	\$ 22,957	\$ 19,744	\$ 17,923	\$ 22,092	\$ 19,470
<b>Store Data:</b>					
Number of stores open at end of period	500	444	400	377	343
Comparable store sales increase (decrease) (4)	5.0%	8.7%	11.9%	(10.0%)	(6.5%)
Net sales per store (5) (in thousands)	\$ 1,240	\$ 1,210	\$ 1,162	\$ 1,081	\$ 1,240
Total store square footage (6) (in thousands)	1,480	1,308	1,174	1,107	1,005
Average square footage per store (7)	2,961	2,945	2,935	2,937	2,930
Net sales per square foot (8)	\$ 421	\$ 411	\$ 396	\$ 367	\$ 424

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	February 2, 2013	January 28, 2012	January 29, 2011	January 30, 2010	January 31, 2009
<b>Balance Sheet Data (in thousands):</b>					
Cash, cash equivalents and current marketable securities	\$ 103,172	\$ 172,798	\$ 128,801	\$ 108,051	\$ 78,582
Working capital (9)	146,115	197,927	155,400	133,927	112,092
Total assets	409,098	362,157	301,631	260,265	233,349
Total long-term liabilities	48,478	34,304	29,435	27,802	24,177
Total shareholders' equity	303,421	272,277	226,735	192,676	177,951

- (1) The fiscal year ended February 2, 2013 consisted of 53 weeks. All other fiscal years presented consisted of 52 weeks. Additionally, in July 2012, we acquired Blue Tomato for cash consideration of 59.5 million Euros (\$74.8 million).
- (2) Gross margin represents gross profit divided by net sales.
- (3) Operating margin represents operating profit divided by net sales.
- (4) Comparable store sales percentage changes are calculated by comparing comparable store sales for the applicable fiscal year to comparable store sales for the prior fiscal year. See Management's Discussion and Analysis of Financial Condition and Results of Operations General for more information about how we compute comparable store sales.
- (5) Net sales per store represents net sales, excluding 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.
- (6) Total store square footage includes retail selling, storage and back office space at the end of the fiscal year.
- (7) 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.
- (8) Net sales per square foot represents net sales, excluding 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.
- (9) Working capital is defined as current assets minus current liabilities.

**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.*

**Fiscal 2012 A Review of This Past Year**

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In fiscal 2012, Zumiez achieved record sales and earnings levels and continued to build on the momentum we had seen in fiscal 2011. During the year, we continued to make strategic investments that we believe will reap long-term benefits focused on enhancing the customer experience across multiple sales channels, domestic and international growth and on our people and infrastructure aimed at improving decision making and product speed to market. In July 2012, we completed the acquisition of Blue Tomato. Blue Tomato is a multi-channel retailer

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for board sports and related apparel and footwear in the European marketplace. The Blue Tomato acquisition represents a presence in the European action sports market with an established brand identity and operational philosophies that are strategically aligned with Zumiez.

The following table shows net sales, operating profit and margin and diluted earnings per share growth for fiscal 2012 compared to fiscal 2011. The fiscal 2012 results include \$7.3 million in costs associated with the acquisition of Blue Tomato, including one-time acquisition costs, amortization of intangible assets and the costs associated with the future incentive payments related to the transaction as well as \$2.1 million in charges for the relocation of our home office and ecommerce fulfillment center:

	February 2, 2013 (1)	Fiscal Year Ended January 28, 2012	% Change
Net sales (in thousands)	\$ 669,393	\$ 555,874	20%
Operating profit (in thousands)	\$ 68,542	\$ 60,232	14%
Operating margin	10.2%	10.8%	
Diluted earnings per share	\$ 1.35	\$ 1.20	13%

(1) The fiscal year ended February 2, 2013 consisted of 53 weeks versus 52 weeks in the fiscal year ended January 28, 2012. The increase in net sales reflected a comparable store sales increase of 5.0% for fiscal 2012 as well as the net addition of 56 stores (61 new or acquired stores offset by five store closures), which includes the acquisition of Blue Tomato during the second quarter of fiscal 2012. The increase in comparable stores sales was primarily driven by an increase in dollars per transaction partially offset by a decrease in comparable store transactions. Dollars per transaction increased primarily due to an increase in average unit retail, partially offset by a decline in units per transaction. These sales results were achieved with record product margins, demonstrating the strength of our distinctive product offering and the unique customer experience our store associates provide. As a result of our continued focus on managing our cost structure, these sales results translated into strong operating profit and diluted earnings per share growth despite the impact of charges related to the acquisition costs associated with Blue Tomato and relocation of our home office and ecommerce fulfillment center.

While the results of fiscal 2012 were positive, the back half of the year trended downward, particularly in the fourth quarter when same store sales decreased 1.0%. Contributing to these results were category challenges as we faced headwinds, such as footwear and snow hardgoods and outerwear.

**Fiscal 2013 A Look At the Upcoming Year**

As we enter fiscal 2013, we continue to face some of the challenges we encountered during the second half of fiscal 2012. In addition, we believe that consumers continue to face challenging economic conditions and uncertainty both domestically and globally that cause concern in the retail environment and lead us to be cautious in our outlook for the coming year. However, regardless of the macro economic landscape, we believe that we are well positioned to perform well relative to other retailers by staying true to what makes us unique while continuing to make return based investments.

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 are:

1. Initiatives that drive comparable store sales gains;
2. Opening high return stores;
3. Ecommerce penetration; and
4. International growth

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In fiscal 2013, we expect total sales to increase driven by an increase in comparable store sales, the opening of approximately 60 new stores, including approximately 15 stores through international expansion in Canada and Europe, increased sales from our ecommerce channel and a full year of sales attributed to the Blue Tomato acquisition. If we achieve our sales projections, we expect earnings will increase. We will make further investments in people and infrastructure in fiscal 2013, building on the progress we have made through fiscal 2012, primarily focused on the development of our omni-channel sales strategies and our international growth. We anticipate inventory levels per square foot to 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, deductions for promotions and shipping revenue. Net sales include our in-store sales and our ecommerce sales. 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 store 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 in-store sales and our ecommerce sales channels and we believe that they are utilized in tandem to serve our customers. Therefore, our comparable store sales also include our ecommerce sales. Changes in our comparable store sales between two periods are based on net sales of in-store or ecommerce businesses which were in operation during both of the two periods being compared and, if a in-store or ecommerce business is included in the calculation of comparable store sales for only a portion of one of the two periods being compared, then that in-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 store sales. Any store or ecommerce business that we acquire will be included in the calculation of comparable store sales after the first anniversary of the acquisition date. As such, Blue Tomato results will not be included in the calculation of comparable store sales until July 2013. There may be variations in the way in which some of our competitors and other apparel retailers calculate comparable or same store sales. As a result, data herein regarding our comparable store 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. 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. 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.

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 and training, advertising and marketing costs. Credit card fees, insurance, public company expenses, legal expenses, amortization of intangibles 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.

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### **Key Performance Indicators**

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

*Comparable store sales.* As previously described in detail under the caption General, comparable store 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 store sales to be an important indicator of our current performance. Comparable store sales results are important to achieve leveraging of our costs, including store payroll and store occupancy. Comparable store 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. The key drivers of operating profit are comparable store sales, gross profit, our ability to control selling, general and administrative expenses and our level of capital expenditures affecting depreciation expense.

### **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 management believes 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.

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<b>Description</b>	<b>Judgments and Uncertainties</b>	<b>Effect If Actual Results Differ From Assumptions</b>
<b><i>Valuation of Merchandise Inventories</i></b>		
<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 ultimate sales price at February 2, 2013 would have decreased net income by \$0.1 million in fiscal 2012.</p>
<p>Our inventory loss reserve represents anticipated physical inventory losses ( shrinkage reserve ) that have occurred since the last physical inventory dates.</p>		<p>A 10% increase in actual physical inventory shrinkage reserved at February 2, 2013 would have decreased net income by \$0.2 million in fiscal 2012.</p>
<b><i>Fixed Assets</i></b>		
<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 lives 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>		

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<b>Description</b>	<b>Judgments and Uncertainties</b>	<b>Effect If Actual Results Differ From Assumptions</b>
<b><i>Revenue Recognition</i></b>	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.	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.
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.  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, an estimate of the portion of gift cards that is not expected to 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.		A 10% increase in our sales return reserve at February 2, 2013 would have decreased net income by \$0.1 million in fiscal 2012.
<b><i>Stock-Based Compensation</i></b>	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.	A 10% increase in our unredeemed gift card breakage life at February 2, 2013 would have decreased net income by \$0.3 million in fiscal 2012.
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.		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.

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Description	Judgments and Uncertainties	Effect If Actual Results Differ
<p><b>Accounting for Income Taxes</b></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>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>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><b>Accounting for Contingencies</b></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 contingencies 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>

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<b>Description</b>	<b>Judgments and Uncertainties</b>	<b>Effect If Actual Results Differ</b>
<b><i>Goodwill and Other Indefinite-lived Intangible Assets</i></b>	<b>From Assumptions</b>	
<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. 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 and other indefinite-lived intangible assets. 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 it could have a material effect on 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 qualitative 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 chose not to perform the quantitative 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>		
<b><i>Future Incentive Payments</i></b>		
<p>In conjunction with our acquisition of Blue Tomato in July 2012, there is the possibility of future incentive payments to the sellers of Blue Tomato in an aggregate amount of up to 22.1 million Euros (\$30.1 million, using the exchange rate as of February 2, 2013) to the extent that certain financial metrics are met for the fiscal year ending April 30, 2015 and the sellers remain employed with Blue Tomato through April 30, 2015. Of the 22.1 million Euros future incentive payments, 17.1 million Euros (\$23.3 million) is payable in cash, while 5.0 million Euros (\$6.8 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>Although management believes that the judgments and estimates related to the future incentive payments are reasonable, actual results could differ and we may be exposed to losses or gains that could be material.</p>

**Table of Contents****Results of Operations**

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

	February 2, 2013	Fiscal Year Ended January 28, 2012	January 29, 2011
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	64.0%	63.7%	65.0%
Gross profit	36.0%	36.3%	35.0%
Selling, general and administrative expenses	25.8%	25.5%	27.2%
Operating profit	10.2%	10.8%	7.8%
Interest and other income, net	0.3%	0.3%	0.3%
Earnings before income taxes	10.5%	11.1%	8.1%
Provision for income taxes	4.2%	4.4%	3.0%
Net income	6.3%	6.7%	5.1%

**Fiscal 2012 Results Compared With Fiscal 2011****Net Sales**

Fiscal 2012 had 53 weeks versus 52 weeks in fiscal 2011. Net sales numbers for the year include this additional week and fiscal 2012 comparable stores sales are compared to the comparable store sales for the 53 weeks ended February 4, 2012. Net sales were \$669.4 million for fiscal 2012 compared to \$555.9 million for fiscal 2011, an increase of \$113.5 million or 20.4%. The increase reflected a comparable store sales increase of 5.0% for fiscal 2012 as well as the net addition of 56 stores (61 new or acquired stores offset by five store closures), which includes the acquisition of Blue Tomato during the second quarter of fiscal 2012. Included in the results for fiscal 2012 were \$28.3 million in net sales of Blue Tomato.

The 5.0% increase in comparable store sales was a result of a 2.9% increase for our comparable in-store sales and a 31.8% increase for our comparable ecommerce sales. Total ecommerce sales represented 11.2% of sales for fiscal 2012, compared to 7.3% of sales for fiscal 2011, and this increase was driven by the growth in comparable ecommerce sales mentioned above and our Blue Tomato acquisition. The increase in comparable stores sales was primarily driven by an increase in dollars per transaction, partially offset by a decline in comparable store transactions. Dollars per transaction increased due to an increase in average unit retail, partially offset by a decrease in units per transaction. Comparable store sales increases in men's apparel, junior's apparel, footwear and hardgoods were partially offset by comparable store sales decreases in accessories and boy's apparel. For information as to how we define comparable store sales, see General above.

**Gross Profit**

Gross profit was \$241.3 million for fiscal 2012 compared to \$201.7 million for fiscal 2011, an increase of \$39.6 million, or 19.6%. As a percentage of net sales, gross profit decreased 30 basis points in fiscal 2012 to 36.0%. The decrease was primarily due to an 80 basis points increase in ecommerce fulfillment and ecommerce shipping expenses due to ecommerce sales increasing as a percentage of total sales and a 30 basis points impact of a \$2.2 million charge recorded during fiscal 2012 related to a step-up in inventory to estimated fair value in conjunction with our acquisition of Blue Tomato. These decreases were partially offset by a 70 basis points impact from leveraging our store occupancy costs on a 20.4% net sales increase and 30 basis points in distribution center efficiencies.

**Selling, General and Administrative Expenses**

Selling, general and administrative (SG&A) expenses were \$172.7 million for fiscal 2012 compared to \$141.4 million for fiscal 2011, an increase of \$31.3 million, or 22.1%. SG&A expenses as a percent of sales



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increased by 30 basis points in fiscal 2012 to 25.8%. The increase was primarily due to a 60 basis points increase in ecommerce corporate costs due to the growth in our ecommerce business, a 30 basis points impact of a \$2.3 million charge incurred during fiscal 2012 related to the estimated future incentive payments to be paid in conjunction with our acquisition of Blue Tomato, a 30 basis points impact of the \$1.9 million in transaction costs incurred during fiscal 2012 in conjunction with our acquisition of Blue Tomato and a 20 basis points impact of \$1.3 million in amortization of intangible assets acquired as part of our Blue Tomato acquisition. These increases were partially offset by 90 basis points in store operating efficiencies and a 30 basis points decrease in incentive compensation.

### ***Net Income***

Net income for fiscal 2012 was \$42.2 million, or \$1.35 per diluted share, compared with net income of \$37.4 million, or \$1.20 per diluted share, for fiscal 2011. Our effective income tax rate for fiscal 2012 was 40.0% compared to 39.5% for fiscal 2011. Our effective tax rate for fiscal 2012 was adversely impacted by the tax effects of the acquisition of Blue Tomato.

### **Fiscal 2011 Results Compared With Fiscal 2010**

#### ***Net Sales***

Net sales were \$555.9 million for fiscal 2011 compared to \$478.8 million for fiscal 2010, an increase of \$77.1 million or 16.1%. The increase reflected a comparable store sales increase of 8.7% for fiscal 2011 as well as the net addition of 44 stores (45 new stores offset by one store closure) in fiscal 2011.

The 8.7% increase in comparable store sales was a result of a 5.3% increase for our comparable in-store sales and an 80.1% increase for our comparable ecommerce sales. Total ecommerce sales represented 7.3% of sales for fiscal 2011, compared to 4.7% of sales for fiscal 2010, and this increase was driven by the growth in comparable ecommerce sales mentioned above. The increase in comparable store sales was primarily driven by an increase in dollars per transaction, partially offset by a decline in comparable store transactions. Dollars per transaction increased due to an increase in average unit retail, partially offset by a decrease in units per transaction. Comparable store sales increases in footwear, men's apparel, accessories and junior's apparel were partially offset by comparable store sales decreases in hardgoods and boy's apparel. For information as to how we define comparable store sales, see General above.

#### ***Gross Profit***

Gross profit was \$201.7 million for fiscal 2011 compared to \$167.8 million for fiscal 2010, an increase of \$33.9 million, or 20.2%. As a percentage of net sales, gross profit increased 130 basis points in fiscal 2011 to 36.3%. The increase was primarily due to a 50 basis points impact of the exit costs and other charges of \$2.4 million incurred in fiscal 2010 related to the relocation of our distribution center, 50 basis points due to leveraging our store occupancy costs on a 16.1% net sales increase, 30 basis points in distribution center efficiencies and product margin improvement of 20 basis points, partially offset by a 30 basis points increase in ecommerce shipping costs due to the growth of the ecommerce business.

#### ***Selling, General and Administrative Expenses***

SG&A expenses were \$141.4 million for fiscal 2011 compared to \$130.5 million for fiscal 2010, an increase of \$10.9 million, or 8.4%. SG&A expenses as a percent of sales decreased by 170 basis points in fiscal 2011 to 25.5%. The primary contributors to this decrease were 120 basis points due to store operating expense efficiencies, a 40 basis points impact of a litigation settlement charge of \$2.1 million incurred in fiscal 2010 and a 60 basis points decrease in corporate costs, partially offset by an increase in ecommerce operating expenses as a percent of total sales of 30 basis points due to the growth of the ecommerce business.

**Table of Contents****Net Income**

Net income for fiscal 2011 was \$37.4 million, or \$1.20 per diluted share, compared with net income of \$24.2 million, or \$0.79 per diluted share, for fiscal 2010. Our effective income tax rate for fiscal 2011 was 39.5% compared to 37.7% for fiscal 2010.

**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 for the last two fiscal years. 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.

	<b>Fiscal Year Ended February 2, 2013 (1)</b>			
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
	<i>(in thousands, except stores and per share data)</i>			
Net sales	\$ 129,899	\$ 135,066	\$ 180,023	\$ 224,405
Gross profit	\$ 42,101	\$ 46,425	\$ 67,075	\$ 85,683
Operating profit	\$ 7,262	\$ 3,778	\$ 21,401	\$ 36,101
Net income	\$ 4,527	\$ 2,086	\$ 12,667	\$ 22,884
Basic earnings per share	\$ 0.15	\$ 0.07	\$ 0.41	\$ 0.75
Diluted earnings per share	\$ 0.14	\$ 0.07	\$ 0.40	\$ 0.74
Number of stores open at the end of the period	455	479	495	500
Comparable store sales increase (decrease)	12.9%	9.5%	3.7%	(1.0%)

	<b>Fiscal Year Ended January 28, 2012 (2)</b>			
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
	<i>(in thousands, except stores and per share data)</i>			
Net sales	\$ 105,851	\$ 112,213	\$ 153,951	\$ 183,859
Gross profit	\$ 33,190	\$ 37,062	\$ 59,921	\$ 71,503
Operating profit	\$ 2,552	\$ 3,550	\$ 22,817	\$ 31,313
Net income	\$ 1,886	\$ 2,591	\$ 14,137	\$ 18,737
Basic earnings per share	\$ 0.06	\$ 0.08	\$ 0.46	\$ 0.61
Diluted earnings per share	\$ 0.06	\$ 0.08	\$ 0.45	\$ 0.60
Number of stores open at the end of the period	408	424	442	444
Comparable store sales increase	12.6%	7.5%	6.0%	9.7%

- (1) The quarters in the fiscal year ended February 2, 2013 are 13 week periods ended April 28, 2012, July 28, 2012 and October 27, 2012 and a 14 week period ended February 2, 2013.

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- (2) All quarters in the fiscal year ended January 28, 2012 are 13 week periods ended April 30, 2011, July 30, 2011, October 29, 2011 and January 28, 2012.

**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 inventory 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 February 2, 2013 and January 28, 2012, cash, cash equivalents and current marketable securities were \$103.2 million and \$172.8 million. Working capital, the excess of current assets over current liabilities, was \$146.1 million at the end of fiscal 2012, a decrease of 26.2% from \$197.9 million at the end of fiscal 2011. The decrease in cash, cash equivalents and current marketable securities and working capital in fiscal 2012 were due primarily to the costs associated with the acquisition of Blue Tomato for \$69.7 (net of cash acquired), capital expenditures of \$41.1 million due primarily to the opening of 53 new stores in fiscal 2012 and the construction of our new home office building in Lynnwood, Washington and the \$25.2 million repurchase of common stock, partially offset by cash provided by operating activities of \$66.2 million.

The following table summarizes our cash flows from operating, investing and financing activities for each of the past three fiscal years (in thousands):

	Fiscal Year Ended		
	February 2, 2013	January 28, 2012	January 29, 2011
Total cash provided by (used in)			
Operating activities	\$ 66,225	\$ 68,065	\$ 48,455
Investing activities	(41,079)	(68,074)	(43,774)
Financing activities	(22,519)	3,415	5,108
Effect of exchange rate changes on cash and cash equivalents	173	16	
Increase in cash and cash equivalents	\$ 2,800	\$ 3,422	\$ 9,789

**Operating Activities**

Net cash provided by operating activities decreased by \$1.9 million in fiscal 2012 to \$66.2 million from \$68.1 million in fiscal 2011. Net cash provided by operating activities increased by \$19.6 million in fiscal 2011 to \$68.1 million from \$48.5 million in fiscal 2010. 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, excess tax benefit from stock-based compensation and changes to the components of working capital.

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### ***Investing Activities***

Net cash used in investing 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. Net cash used in investing activities was \$68.1 million in fiscal 2011 primarily related to net purchases of marketable securities of \$42.6 million and capital expenditures of \$25.5 million for new store openings and existing store remodels or relocations. Net cash used in investing activities was \$43.8 million in fiscal 2010 primarily related to capital expenditures of \$29.1 million for new store openings, existing store remodels or relocations and the purchase of our new distribution center in Corona, California and net purchases of marketable securities of \$14.7 million.

### ***Financing Activities***

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. Net cash provided by financing activities in fiscal 2011 and 2010 was \$3.4 million and \$5.1 million related to proceeds from stock-based compensation exercises and related tax benefits.

### ***Sources of Liquidity***

Our most significant sources of liquidity continue to be funds generated by operating activities, 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 and borrowings under our revolving credit facility 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, 2013 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 outstanding borrowings under the secured revolving credit facility at February 2, 2013 and January 28, 2012. We had open commercial letters of credit outstanding under our secured revolving credit facility of \$0.2 million at February 2, 2013 and \$0.9 million at January 28, 2012. The secured revolving credit facility bears interest at the Daily One Month LIBOR rate plus 1.00%.

Additionally, in conjunction with our acquisition of Blue Tomato, we assumed \$2.3 million in long-term debt, which relates to amounts borrowed to fund operations. At February 2, 2013, the amount of borrowings under this debt was \$2.3 million.

### ***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

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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.

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.

During fiscal 2011, we spent \$25.5 million on capital expenditures, which consisted of \$21.2 million of costs related to investment in 45 new stores and 11 remodeled or relocated stores, \$2.4 million of costs associated with the construction of our new home office building in Lynnwood, Washington and \$1.9 million in other improvements.

During fiscal 2010, we spent \$29.1 million on capital expenditures, which consisted of \$9.7 million related to investment in 27 new stores and three remodeled or relocated stores, the acquisition and build-out costs of our new distribution center in Corona, California of \$12.9 million, the acquisition costs of \$3.2 million for land for our new home office in Lynnwood, Washington and \$3.3 million in other improvements.

In fiscal 2013, we expect to spend approximately \$42 million to \$44 million on capital expenditures, a majority of which will relate to leasehold improvements and fixtures for the approximately 60 new stores we plan to open in fiscal 2013 and remodels or relocations of existing stores. There can be no assurance that the number of stores that we actually open in fiscal 2013 will not be different from the number of stores we plan to open, or that actual fiscal 2013 capital expenditures will not differ from this expected amount.

**Contractual Obligations and Commercial Commitments**

There were no material changes outside the ordinary course of business in our contractual obligations during the fiscal year ended February 2, 2013, with the exception of the long-term debt that we assumed in conjunction with the acquisition of Blue Tomato. The following table summarizes the total amount of future payments due under our contractual obligations at February 2, 2013 (in thousands):

	Total	Fiscal 2013	Fiscal 2014 and Fiscal 2015	Fiscal 2016 and Fiscal 2017	Thereafter
Operating lease obligations (1)	\$ 485,627	\$ 65,932	\$ 132,031	\$ 117,391	\$ 170,273
Purchase obligations (2)	120,353	120,353			
Debt obligations (3)	2,421	358	716	532	815
Total (4)	\$ 608,401	\$ 186,643	\$ 132,747	\$ 117,923	\$ 171,088

- (1) Amounts do not include percentage rent, real estate taxes, insurance or common area maintenance charges unless these costs are fixed and determinable.
- (2) We have an option to cancel these commitments with no notice prior to shipment, except for private label purchase orders in which we are obligated to repay certain contractual amounts upon cancellation.
- (3) Amounts include debt principal and scheduled interest payments on our long-term debt assumed in conjunction with our acquisition of Blue Tomato.
- (4) The table above excludes the potential future incentive payments to the sellers of Blue Tomato in an aggregate amount of up to 22.1 million Euros (\$30.1 million, using the exchange rate as of February 2, 2013) to the extent that certain financial metrics are met and the sellers remain employed with Blue Tomato through April 2015. At February 2, 2013, we estimated that we will be obligated for future incentive payments of 9.0 million Euros (\$12.3 million). See Note 4, Business Combinations, 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.

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**Off-Balance Sheet Obligations**

At February 2, 2013, 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 3, Recent Accounting Pronouncements, 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, corporate debt securities and variable-rate demand notes, which have long-term nominal maturity dates but feature variable interest rates that reset at short-term intervals. If our current portfolio average yield rate decreased by 10% in fiscal 2012, 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 facility. To the extent we borrow under our revolving credit facility, which bears interest at the Daily One Month LIBOR rate plus 1.00%, we are exposed to market risk related to changes in interest rates. At February 2, 2013, we had no borrowings outstanding under our secured revolving credit facility. At February 2, 2013, we had a long-term debt obligation of \$2.3 million, which we assumed in conjunction with our acquisition of Blue Tomato.

**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. CONSOLIDATED 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.

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**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 February 2, 2013, 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 February 2, 2013 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 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 February 2, 2013. Management's assessment was based on criteria described in the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). On July 4, 2012, the Company completed the acquisition of Snowboard Dachstein Tauern GmbH and Blue Tomato Graz Handel GmbH (collectively, Blue Tomato ). As permitted by applicable guidelines established by the Securities and Exchange Commission, the Company's management excluded Blue Tomato's operations from its assessment of internal control over financial reporting as of February 2, 2013. Blue Tomato's operations represented 7% of the Company's consolidated total assets, excluding goodwill and intangible assets, net, and 4% of the Company's consolidated net sales as of and for the year ended February 2, 2013. Based on management's assessment and those criteria, the Company's management concluded that the Company's internal control over financial reporting was effective as of February 2, 2013.

The effectiveness of the Company's internal control over financial reporting as of February 2, 2013 has been audited by Moss Adams LLP, the Company's independent registered public accounting firm, as stated in their report, which appears herein.

**Item 9B. OTHER INFORMATION**

None.

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**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 2013 Annual Meeting of Shareholders (the Proxy Statement ) that will be filed within 120 days after our fiscal year ended February 2, 2013 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 Years 2012 and 2011 in our Proxy Statement, and is incorporated herein by this reference thereto.

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**PART IV**

**Item 15. EXHIBITS AND CONSOLIDATED FINANCIAL STATEMENTS**

(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.

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**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders

Zumiez Inc.

We have audited Zumiez Inc.'s (the Company) internal control over financial reporting as of February 2, 2013, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As discussed in Management's Annual Report on Internal Control Over Financial Reporting, on July 4, 2012, the Company acquired Snowboard Dachstein Tauern GmbH and Blue Tomato Graz Handel GmbH (collectively, Blue Tomato). For the purposes of assessing internal control over financial reporting, management excluded Blue Tomato, whose financial statements constitute 7% of the Company's consolidated total assets (excluding \$71.7 million of goodwill and intangible assets, which were integrated into the Company's control environment) and 4% of consolidated net sales as of and for the year ended February 2, 2013. Accordingly, our audit did not include the internal control over financial reporting of Blue Tomato. 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 February 2, 2013, based on criteria established in Internal Control - Integrated Framework 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 February 2, 2013 and January 28, 2012, and the consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the three fiscal years in the period ended February 2, 2013, and our report dated March 19, 2013 expressed an unqualified opinion on those consolidated financial statements.

/s/ Moss Adams LLP

Seattle, Washington

March 19, 2013

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**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 February 2, 2013 and January 28, 2012, 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 February 2, 2013. 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 February 2, 2013 and January 28, 2012 and the consolidated results of its operations and its cash flows for each of the three years in the period ended February 2, 2013, 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 February 2, 2013, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 19, 2013 expressed an unqualified opinion thereon.

/s/ Moss Adams LLP

Seattle, Washington

March 19, 2013

**Table of Contents****ZUMIEZ INC.****CONSOLIDATED BALANCE SHEETS****(In thousands)**

	February 2, 2013	January 28, 2012
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 17,579	\$ 14,779
Marketable securities	85,593	158,019
Receivables	9,467	6,284
Inventories	77,598	65,037
Prepaid expenses and other	9,192	7,907
Deferred tax assets	3,885	1,477
<b>Total current assets</b>	<b>203,314</b>	<b>253,503</b>
Fixed assets, net	115,474	89,478
Goodwill	64,576	13,154
Intangible assets, net	20,480	
Long-term other assets	5,254	6,022
<b>Total long-term assets</b>	<b>205,784</b>	<b>108,654</b>
<b>Total assets</b>	<b>\$ 409,098</b>	<b>\$ 362,157</b>
<b>Liabilities and Shareholders Equity</b>		
<b>Current liabilities</b>		
Trade accounts payable	\$ 16,052	\$ 21,743
Accrued payroll and payroll taxes	11,057	9,062
Income taxes payable	6,957	5,835
Deferred rent and tenant allowances	4,901	4,230
Other liabilities	18,232	14,706
<b>Total current liabilities</b>	<b>57,199</b>	<b>55,576</b>
Long-term deferred rent and tenant allowances	36,928	32,321
Long-term deferred tax liabilities	5,544	
Long-term debt and other liabilities	6,006	1,983
<b>Total long-term liabilities</b>	<b>48,478</b>	<b>34,304</b>
<b>Total liabilities</b>	<b>105,677</b>	<b>89,880</b>
Commitments and contingencies (Note 11)		
<b>Shareholders equity</b>		
Preferred stock, no par value, 20,000 shares authorized; none issued and outstanding		
Common stock, no par value, 50,000 shares authorized; 30,114 shares issued and outstanding at February 2, 2013 and 31,170 shares issued and outstanding at January 28, 2012	108,360	99,412
Accumulated other comprehensive income	6,010	135
Retained earnings	189,051	172,730
<b>Total shareholders equity</b>	<b>303,421</b>	<b>272,277</b>

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**Total liabilities and shareholders equity**

\$ 409,098

\$ 362,157

See accompanying notes to consolidated financial statements

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

(In thousands, except per share amounts)

	<b>February 2, 2013</b>	<b>Fiscal Year Ended January 28, 2012</b>	<b>January 29, 2011</b>
Net sales	\$ 669,393	\$ 555,874	\$ 478,849
Cost of goods sold	428,109	354,198	311,028
<b>Gross profit</b>	<b>241,284</b>	<b>201,676</b>	<b>167,821</b>
Selling, general and administrative expenses	172,742	141,444	130,454
<b>Operating profit</b>	<b>68,542</b>	<b>60,232</b>	<b>37,367</b>
Interest income, net	1,410	1,836	1,496
Other income (expense), net	327	(379)	(8)
<b>Earnings before income taxes</b>	<b>70,279</b>	<b>61,689</b>	<b>38,855</b>
Provision for income taxes	28,115	24,338	14,652
<b>Net income</b>	<b>\$ 42,164</b>	<b>\$ 37,351</b>	<b>\$ 24,203</b>
Basic earnings per share	\$ 1.37	\$ 1.22	\$ 0.81
Diluted earnings per share	\$ 1.35	\$ 1.20	\$ 0.79
<b>Weighted average shares used in computation of earnings per share:</b>			
Basic	30,742	30,527	29,971
Diluted	31,273	31,119	30,794

See accompanying notes to consolidated financial statements

**Table of Contents****ZUMIEZ INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(In thousands)**

	<b>February 2, 2013</b>	<b>Fiscal Year Ended January 28, 2012</b>	<b>January 29, 2011</b>
Net income	\$ 42,164	\$ 37,351	\$ 24,203
Other comprehensive income (loss), net of tax and reclassification adjustments:			
Foreign currency translation	6,040	(19)	
Net change in unrealized (loss) gain on available-for-sale investments	(165)	171	(118)
Other comprehensive income (loss), net	5,875	152	(118)
<b>Comprehensive income</b>	<b>\$ 48,039</b>	<b>\$ 37,503</b>	<b>\$ 24,085</b>

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 Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	Amount			
<b>Balance at January 30, 2010</b>	30,251	\$ 81,399	\$ 101	\$ 111,176	\$ 192,676
Net income				24,203	24,203
Other comprehensive loss, net			(118)		(118)
Issuance and exercise of stock-based compensation, including tax benefit of \$3,248	584	5,108			5,108
Stock-based compensation expense		4,866			4,866
<b>Balance at January 29, 2011</b>	30,835	91,373	(17)	135,379	226,735
Net income				37,351	37,351
Other comprehensive income, net			152		152
Issuance and exercise of stock-based compensation, including tax benefit of \$1,826	335	2,736			2,736
Stock-based compensation expense		5,303			5,303
<b>Balance at January 28, 2012</b>	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 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)
<b>Balance at February 2, 2013</b>	30,114	\$ 108,360	\$ 6,010	\$ 189,051	\$ 303,421

See accompanying notes to consolidated financial statements

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

(In thousands)

	February 2, 2013	Fiscal Year Ended January 28, 2012	January 29, 2011
<b>Cash flows from operating activities:</b>			
Net income	\$ 42,164	\$ 37,351	\$ 24,203
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion	22,957	19,744	17,923
Deferred taxes	(1,630)	3,441	537
Stock-based compensation expense	5,996	5,303	4,866
Excess tax benefit from stock-based compensation	(2,094)	(1,826)	(3,248)
Lease termination costs	1,397		
Other	389	608	458
Changes in operating assets and liabilities:			
Receivables	(2,568)	(671)	(998)
Inventories	(2,987)	(8,833)	(5,387)
Prepaid expenses and other	(1,125)	(607)	(1,137)
Trade accounts payable	(5,626)	4,295	(52)
Accrued payroll and payroll taxes	1,207	1,485	987
Income taxes payable	1,843	2,868	3,350
Deferred rent and tenant allowances	5,469	5,334	1,838
Other liabilities	833	(427)	5,115
<b>Net cash provided by operating activities</b>	<b>66,225</b>	<b>68,065</b>	<b>48,455</b>
<b>Cash flows from investing activities:</b>			
Additions to fixed assets	(41,070)	(25,508)	(29,124)
Acquisitions, net of cash acquired	(70,711)		
Purchases of marketable securities and other investments	(121,003)	(194,531)	(179,611)
Sales and maturities of marketable securities and other investments	191,705	151,965	164,961
<b>Net cash used in investing activities</b>	<b>(41,079)</b>	<b>(68,074)</b>	<b>(43,774)</b>
<b>Cash flows from financing activities:</b>			
Payments on long-term debt	(258)		
Repurchase of common stock	(25,213)		
Proceeds from exercise of stock-based compensation, net of withholding tax payments	858	1,589	1,860
Excess tax benefit from stock-based compensation	2,094	1,826	3,248
<b>Net cash (used in) provided by financing activities</b>	<b>(22,519)</b>	<b>3,415</b>	<b>5,108</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>173</b>	<b>16</b>	
<b>Net increase in cash and cash equivalents</b>	<b>2,800</b>	<b>3,422</b>	<b>9,789</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>14,779</b>	<b>11,357</b>	<b>1,568</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 17,579</b>	<b>\$ 14,779</b>	<b>\$ 11,357</b>
<b>Supplemental disclosure on cash flow information:</b>			
Cash paid during the period for income taxes	\$ 27,840	\$ 18,014	\$ 10,789

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Accrual for purchases of fixed assets	1,942	3,083	469
Accrual for repurchase of common stock	630		

See accompanying notes to consolidated financial statements

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Nature of Business and Basis of Presentation**

**Nature of Business** Zumiez Inc. (the Company, we, us, its and our ) is a leading multi-channel specialty retailer of action sports related apparel, footwear, accessories and hardgoods, focusing on skateboarding, snowboarding, surfing, motocross and bicycle motocross ( BMX ) for young men and women. At February 2, 2013, we operated 500 stores; 472 in the United States ( U.S. ), 20 in Canada and eight 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 the fiscal year ended February 2, 2013. Blue Tomato is a multi-channel retailer for board sports and related apparel and footwear that operates primarily in the European marketplace.

**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. Fiscal 2012 was a 53-week period ending February 2, 2013. Fiscal 2011 was a 52-week period ending January 28, 2012. Fiscal 2010 was a 52-week period ended January 29, 2011.

**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.

**2. Summary of Significant Accounting Policies**

**Use of Estimates** The preparation of consolidated 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 12, 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.

**Marketable Securities** Our marketable securities primarily consist of state and local municipal securities, corporate debt securities and variable-rate demand notes. Variable-rate demand notes are considered highly

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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.

Generally accepted accounting principles require recording an investment impairment charge at the point we believe an investment has experienced a decline in value that is other-than-temporary. In determining whether an other-than-temporary impairment has occurred, we review information about the underlying investment that is publicly available such as analyst reports, applicable industry data and other pertinent information and assess our intent to hold the security and whether it is more likely than not we will be required to sell any investment before recovery of its amortized cost basis. The investment would be written down to its current market value at the time the impairment is deemed to have occurred. 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.

We use the specific identification method to determine any realized gains or losses from the sale of our marketable securities classified as available-for-sale. Realized gains or losses from the sale of our marketable securities classified as available-for-sale are recorded in other income (expense), net on the consolidated statements of income.

**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. Actual final sales prices to customers may be higher or lower than our estimated sales prices and could result in a fluctuation in gross profit. Historically, any additional write-downs have not been significant. We have reserved for inventory at February 2, 2013 and January 28, 2012 in the amounts of \$3.3 million and \$3.2 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 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 reported on the consolidated statements of income.

**Asset Retirement Obligations** An asset retirement obligation ( ARO ) represents a legal obligation associated with the retirement of a tangible long-lived asset that is incurred upon the acquisition, construction, development or normal operation of that long-lived asset. Our AROs are primarily associated with leasehold improvements that, at the end of a lease, we are contractually obligated to remove in order to comply with certain lease agreements. The ARO balance at February 2, 2013 and January 28, 2012 is \$1.9 million and \$1.7 million and is recorded in other liabilities and long-term debt and other liabilities on the consolidated balance sheets and will be subsequently adjusted for changes in fair value. The associated estimated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over its useful life.

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**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. Impairment charges were immaterial for the fiscal years ended February 2, 2013, January 28, 2012 and January 29, 2011.

**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 indicators of impairment are present. We perform our annual impairment measurement test in the fourth quarter. Events that result in an 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. The qualitative assessment may include, but is not limited to, weighing the relative impact of factors specific to the reporting units as well as industry and macroeconomic factors. Reporting unit specific factors considered, include the results of the most recent impairment test, as well as financial performance and changes to the reporting units' carrying amounts since the most recent impairment test. After assessing those various factors, if it is determined that it is more likely than not that the fair value of the reporting unit is greater than the carrying amount, further testing of goodwill impairment is not required to be performed. If it is more likely than not that the fair value of the reporting unit is less than the carrying amount or if we chose 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 fair valuing all 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. The fair value of each of our reporting units is the price a willing buyer would pay for the reporting unit and is typically calculated using a discounted cash flow model and market multiples of current earnings. Key assumptions used in this calculation include revenue growth, operating expenses 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. The discount rate is calculated using a weighted average cost of capital. 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. In July 2012, the FASB issued guidance that would allow us to test our indefinite-lived intangible asset for impairment by performing a qualitative assessment to determine whether it is more likely than not that the fair value of the asset is less than the carrying amount. We did not early adopt this guidance and it will be effective for us for the fiscal year ending February 1, 2014. 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. Definite-lived intangible assets, which consist of developed technology and customer

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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. An impairment loss in our definite-lived intangible assets would be recognized when the estimated fair value of the definite-lived asset is less than its carrying value. We determine the estimated fair value of our definite-lived asset where we take 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. 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 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. Most of the lease agreements have defined escalating rent provisions, which are straight-lined over the term of the related lease, including any lease renewals deemed to be probable. 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, an estimate of the portion of gift cards that is not expected to 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. For the fiscal years ended February 2, 2013, January 28, 2012 and January 29, 2011, we recorded net sales related to gift card breakage income of \$0.7 million, \$0.6 million and \$0.6 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 February 2, 2013 and January 28, 2012 was \$1.2 million and \$0.9 million.

**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. 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.

**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. For fiscal years ended February 2, 2013, January 28, 2012 and January 29, 2011, we incurred shipping costs related to ecommerce sales of \$8.0 million, \$4.4 million and \$2.6 million.

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**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 and training, 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. This may not be comparable to the way in which our competitors or other retailers compute their selling, general and administrative expenses.

**Advertising** We expense advertising costs as incurred. Advertising expenses are net of sponsorships and vendor reimbursements. Advertising expense was \$6.0 million, \$2.5 million and \$1.3 million for the fiscal years ended February 2, 2013, January 28, 2012 and January 29, 2011.

**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 of Blue Tomato in an aggregate amount of up to 22.1 million Euros (\$30.1 million, using the exchange rate as of February 2, 2013) to the extent that certain financial metrics are met and the sellers 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 recognized using an accelerated method for stock options and a straight-line basis 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 fair market value of the Company's common stock on the date of grant. The fair value of stock option grants are estimated on the date of grant using the Black-Scholes option pricing method based on the following subjective 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. An increase in the expected volatility will increase compensation expense.

*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. An increase in the risk-free interest rate will increase compensation expense.

*Expected term* The expected term was calculated using the simplified method as allowed by the Securities and Exchange Commission. 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. An increase in the expected term will increase compensation expense.

*Dividend yield* We do not have plans to pay dividends in the foreseeable future. An increase in the dividend yield will decrease compensation expense.

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The fair value of stock option grants are estimated on the date of grant using the Black-Scholes option pricing method with the following weighted-average assumptions used for stock option grants issued for the fiscal years ended February 2, 2013, January 28, 2012 and January 29, 2011:

	Fiscal Year Ended		
	February 2, 2013	January 28, 2012	January 29, 2011
Dividend yield	0.0%	0.0%	0.0%
Volatility rate	66.7%	65.0%	67.5%
Weighted-average expected life (in years)	6.25	6.25	6.50
Weighted-average risk-free interest rate	1.1%	1.1%	2.4%
Weighted-average fair value per share of stock options granted	\$ 19.40	\$ 13.35	\$ 12.24

**Common Stock Share Repurchases** We may repurchase shares of the Company's 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** Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their respective tax bases. Valuation allowances may be established when necessary to reduce deferred tax assets to the amount expected to be realized.

We recognize uncertain tax benefits only if it is more likely than not that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. Interest and penalties related to uncertain tax positions, if any, are included in provision for income taxes on the consolidated statements of income.

**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 the Company's 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. Gains or losses resulting from foreign currency transactions are included in other income (expense), net on the consolidated statements of income, whereas, translation adjustments are reported as an element of accumulated other comprehensive income on the consolidated balance sheets.

**3. Recent Accounting Pronouncements**

**Recently Adopted Accounting Standards** In June 2011, the Financial Accounting Standards Board ( FASB ) issued guidance that requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. This guidance is effective for interim and annual reporting periods beginning after December 15, 2011,

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with early adoption permitted. We adopted this guidance in the three months ended April 28, 2012. As this guidance only amends the presentation of the components of comprehensive income, the adoption did not have an impact on our financial position, results of operations or cash flows.

In May 2011, the FASB issued guidance that amends certain accounting and disclosure requirements related to fair value measurements. This guidance is effective for interim and annual reporting periods beginning after December 15, 2011. We adopted this guidance in the three months ended April 28, 2012. The adoption did not have a material impact on our financial position, results of operations or cash flows.

**Recently Issued Accounting Standards** In February 2013, the FASB issued guidance that requires an entity to present information about reclassification adjustments from accumulated other comprehensive income in their financial statements or footnotes. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2012. We will adopt this guidance for the fiscal quarter ended May 4, 2013 and we do not expect the adoption will have a material impact on our consolidated financial statements.

In July 2012, the FASB issued guidance that will allow an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test for indefinite-lived intangible assets. If entities determine, based on qualitative factors, the fair value of the asset is more likely than not less than the carrying value, the two-step impairment test would be required. This guidance is effective for fiscal years beginning after September 15, 2012, with early adoption permitted. We will adopt this guidance for the fiscal year ending February 1, 2014 and we do not expect the adoption will have a material impact on our financial position, results of operations or cash flows.

## **4. Business Combinations**

**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 of Blue Tomato in an aggregate amount of up to 22.1 million Euros (\$30.1 million, using the exchange rate as of February 2, 2013) to the extent that certain financial metrics are met for the fiscal year ending April 30, 2015 and the sellers remain employed with Blue Tomato through April 30, 2015. Of the 22.1 million Euros future incentive payments, 17.1 million Euros (\$23.3 million) is payable in cash, while 5.0 million Euros (\$6.8 million) is payable in shares of our common stock. We account for the estimated future incentive payments as compensation expense and recognize this amount ratably over the term of service through April 2015. At February 2, 2013, we estimated that we will be obligated for future incentive payments of 9.0 million Euros (\$12.3 million) and for the fiscal year ended February 2, 2013, we recorded \$2.3 million of this amount, which is included in selling, general and administrative expense on the consolidated statements of income.

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The business combination was accounted for using the acquisition method of accounting, which requires an acquirer to recognize assets acquired and liabilities assumed at the acquisition date fair values. The following table summarizes the fair value at the date of acquisition (in thousands):

Cash and cash equivalents	\$ 5,106
Inventories	7,942
Other current assets	1,573
Property, plant and equipment	4,964
Other long-term assets	232
Intangible assets	19,987
Current liabilities assumed	(4,877)
Deferred tax liabilities	(5,420)
Long-term debt and other liabilities assumed	(2,125)
Net assets acquired	27,382
Goodwill	47,412
Total consideration transferred	\$ 74,794

Inventories acquired were written up by \$2.2 million to their estimated fair value, which we have recognized as cost of goods sold during the fiscal year ended February 2, 2013.

The following table summarizes the identifiable intangible assets acquired that will not be subject to amortization (in thousands):

	Intangible Asset Amount
Trade names and trademarks	\$ 13,576

The following table summarizes the identifiable intangible assets acquired that will be subject to amortization and their weighted-average amortization period:

	Intangible Asset Amount (in Thousands)	Weighted-Average Amortization Period (in Years)
Developed technology	\$ 3,771	3.0
Customer relationships	2,640	3.0
Total intangible assets subject to amortization	\$ 6,411	3.0

The remaining consideration transferred, after adjusting for identified intangible assets and the net assets recorded at fair value, was \$47.4 million, which was allocated to goodwill. The goodwill is attributed to Blue Tomato's workforce expertise and expected synergies. Of the goodwill recognized, approximately \$34.9 million is expected to be deductible for income tax purposes, in accordance with Austrian tax laws.

Transaction costs, such as investment advisory, legal and accounting fees, associated with the Blue Tomato acquisition were \$1.9 million for the fiscal year ended February 2, 2013. These expenses are recorded in selling, general and administrative expense on the consolidated statements of income.

The foreign currency transaction net gain for the fiscal year ended February 2, 2013 was \$0.5 million, which primarily related to foreign currency fluctuations associated with the acquisition of Blue Tomato. Foreign currency transaction gains and losses were not material for the

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fiscal years ended January 28, 2012 and January 29, 2011.

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The activity of Blue Tomato that was included in our consolidated statements of income from the acquisition date to February 2, 2013 was net sales of \$28.3 million and net income of \$0.1 million. The net income amount excludes the transaction costs associated with the acquisition and the future incentive payments discussed above. The net income amount includes the charge recorded for the step-up in inventory to estimated fair value in conjunction with the acquisition discussed above and amortization of intangible assets disclosed in Note 5, Goodwill and Intangible Assets.

**Pro Forma Financial Information** The following unaudited pro forma financial information shows the results of operations for the fiscal years ended February 2, 2013 and January 28, 2012 (in thousands), as though the acquisition of Blue Tomato had occurred on January 30, 2011. These amounts were calculated after conversion to U.S. GAAP, conforming to our accounting policies and adjusting Blue Tomato results to reflect: (i) the depreciation and amortization that would have been charged as a results of the fair value adjustments to property, plant and equipment and intangible assets and (ii) the compensation expense associated with the estimated future incentive payments to the sellers of Blue Tomato. The adjustments also reflect the income tax effect of the pro forma adjustments.

The amounts also reflect the removal of the following non-recurring, transaction related costs and related income tax effect from the fiscal year ended February 2, 2013 pro forma results: (i) the transaction costs of \$1.9 million associated with the Blue Tomato acquisition, (ii) the charge related to the fair value adjustment to acquisition date inventory of \$2.2 million and (iii) the foreign currency transaction gain of \$0.5 million associated with the foreign currency fluctuations associated with the acquisition of Blue Tomato. These amounts are assumed to be included in the fiscal year ended January 28, 2012 pro forma amounts.

The pro forma financial information below is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have been achieved had the acquisition been completed as of the date indicated above or the results that may be obtained in the future.

	Fiscal Year Ended	
	February 2, 2013	January 28, 2012
Net sales	\$ 680,524	\$ 591,961
Net income	\$ 41,430	\$ 32,853

**Other Acquisitions** We acquired an additional business during the fiscal year ended February 2, 2013 for an amount that is not material to our business. This business has been consolidated into our consolidated financial statements since the acquisition date. Pro forma results of operations have not been presented because the effect of this business combination is not material to our consolidated results of operations.

**5. Goodwill and Intangible Assets**

The following tables summarize the changes in the carrying amount of goodwill for the fiscal years ended February 2, 2013 and January 28, 2012 (in thousands):

Balance at January 28, 2012 and January 29, 2011	\$ 13,154
Goodwill acquired	47,413
Effects of foreign currency translation	4,009
Balance as of February 2, 2013	\$ 64,576

There was no impairment of goodwill for the fiscal years ended February 2, 2013, January 28, 2012 and January 29, 2011.

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The following table summarizes the gross carrying amount, accumulated amortization and the net carrying amount of intangible assets at February 2, 2013 (in thousands):

	Gross Carrying Amount	February 2, 2013 Accumulated Amortization	Intangible Assets, Net
<b>Intangible assets not subject to amortization:</b>			
Trade names and trademarks	\$ 14,724	\$	\$ 14,724
<b>Intangible assets subject to amortization:</b>			
Developed technology	4,090	795	3,295
Customer relationships	3,031	570	2,461
<b>Total intangible assets</b>	<b>\$ 21,845</b>	<b>\$ 1,365</b>	<b>\$ 20,480</b>

There was no impairment of intangible assets for the fiscal years ended February 2, 2013, January 28, 2012 and January 29, 2011.

Amortization expense of intangible assets for the fiscal year ended February 2, 2013 was \$1.3 million. We did not record amortization expense of intangible assets for the fiscal years ended January 28, 2012 and January 29, 2011. Amortization expense of intangible assets is recorded in selling, general and administrative expense on the consolidated statements of income. At February 2, 2013, estimated future amortization expense for intangible assets is as follows (in thousands):

Fiscal 2013	\$ 2,374
Fiscal 2014	2,374
Fiscal 2015	1,008
Thereafter	
<b>Total</b>	<b>\$ 5,756</b>

**6. Cash, Cash Equivalents and Marketable Securities**

The following tables summarize the estimated fair value of cash, cash equivalents and marketable securities and the gross unrealized holding gains and losses at February 2, 2013 and January 28, 2012 (in thousands):

	Amortized Cost	February 2, 2013 Gross Unrealized Holding Gains	February 2, 2013 Gross Unrealized Holding Losses	Estimated Fair Value
<b>Cash and cash equivalents:</b>				
Cash	\$ 6,271	\$	\$	\$ 6,271
Money market funds	8,305			8,305
State and local government securities	3,003			3,003
<b>Total cash and cash equivalents</b>	<b>17,579</b>			<b>17,579</b>
<b>Marketable securities:</b>				
Corporate debt securities	1,745	65		1,810
State and local government securities	82,911	95	(179)	82,827
Variable-rate demand notes	1,800			1,800

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Total marketable securities	\$ 86,456	\$ 160	\$ (179)	\$ 86,437
Less: Long-term marketable securities (1)				(844)
Total current marketable securities				\$ 85,593

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	January 28, 2012			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
<b>Cash and cash equivalents:</b>				
Cash	\$ 6,343	\$	\$	\$ 6,343
Money market funds	5,139			5,139
State and local government securities	3,297			3,297
<b>Total cash and cash equivalents</b>	<b>14,779</b>			<b>14,779</b>
<b>Marketable securities:</b>				
Corporate debt securities	2,016	30		2,046
State and local government securities	126,047	335	(111)	126,271
Variable-rate demand notes	30,610			30,610
<b>Total marketable securities</b>	<b>\$ 158,673</b>	<b>\$ 365</b>	<b>\$ (111)</b>	<b>\$ 158,927</b>
<b>Less: Long-term marketable securities (1)</b>				<b>(908)</b>
<b>Total current marketable securities</b>				<b>\$ 158,019</b>

(1) At February 2, 2013 and January 28, 2012, 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. For the fiscal years ended February 2, 2013, January 28, 2012 and January 29, 2011, realized gains and losses on sales of available-for-sale marketable securities were not material.

The following tables summarize the gross unrealized holding losses and fair value for investments in an unrealized loss position at February 2, 2013 and January 28, 2012, and the length of time that individual securities have been in a continuous loss position (in thousands):

	February 2, 2013					
	Less Than Twelve Months Unrealized		12 Months or Greater Unrealized		Total	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Unrealized Losses
<b>Marketable securities:</b>						
State and local government securities	\$ 23,300	\$ (23)	\$ 844	\$ (156)	\$ 24,144	\$ (179)
<b>Total marketable securities</b>	<b>\$ 23,300</b>	<b>\$ (23)</b>	<b>\$ 844</b>	<b>\$ (156)</b>	<b>\$ 24,144</b>	<b>\$ (179)</b>

	January 28, 2012					
	Less Than Twelve Months Unrealized		12 Months or Greater Unrealized		Total	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Unrealized Losses
<b>Marketable securities:</b>						
State and local government securities	\$ 20,900	\$ (19)	\$ 1,408	\$ (92)	\$ 22,308	\$ (111)
<b>Total marketable securities</b>	<b>\$ 20,900</b>	<b>\$ (19)</b>	<b>\$ 1,408</b>	<b>\$ (92)</b>	<b>\$ 22,308</b>	<b>\$ (111)</b>

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We did not record a realized loss for other-than-temporary impairments during the fiscal years ended February 2, 2013, January 28, 2012 and January 29, 2011. At February 2, 2013 and January 28, 2012, we had

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recorded a temporary impairment charge of \$0.2 million and \$0.1 million related to our \$1.0 million par value auction rate security. We do not intend to sell this security and it is more likely than not that we will be able to hold the investment until the market improves.

**7. Receivables**

At February 2, 2013 and January 28, 2012, receivables on the consolidated balance sheets consisted of the following (in thousands):

	February 2, 2013	January 28, 2012
Credit cards receivable	\$ 6,020	\$ 2,941
Tenant allowances receivable	1,006	1,158
Interest receivable	506	1,155
Other receivables	1,935	1,030
	\$ 9,467	\$ 6,284

**8. Fixed Assets**

At February 2, 2013 and January 28, 2012, fixed assets on the consolidated balance sheets consisted of the following (in thousands):

	February 2, 2013	January 28, 2012
Leasehold improvements	\$ 116,946	\$ 102,486
Fixtures	70,907	56,122
Land, building and building improvements	26,731	19,310
Computer equipment, software, store equipment and other	22,671	17,622
Fixed assets, at cost	237,255	195,540
Less: Accumulated depreciation	(121,781)	(106,062)
Fixed assets, net of accumulated depreciation	\$ 115,474	\$ 89,478

Depreciation expense on fixed assets was \$19.4 million, \$17.4 million, and \$16.4 million for fiscal years ended February 2, 2013, January 28, 2012 and January 29, 2011.

**9. Other Liabilities**

At February 2, 2013 and January 28, 2012, other liabilities on the consolidated balance sheets consisted of the following (in thousands):

	February 2, 2013	January 28, 2012
Accrued payables	\$ 6,355	\$ 5,177
Unredeemed gift cards	4,268	3,460
Accrued excise taxes	3,852	4,224
Allowance for sales returns	1,227	937
Other current liabilities	2,530	908
	\$ 18,232	\$ 14,706



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We maintain a secured credit agreement with Wells Fargo Bank, N.A., which provides us with a secured revolving credit facility until September 1, 2013 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 outstanding borrowings under the secured revolving credit facility at February 2, 2013 and January 28, 2012. We had open commercial letters of credit outstanding under our secured revolving credit facility of \$0.2 million at February 2, 2013 and \$0.9 million at January 28, 2012. The secured revolving credit facility bears interest at the Daily One 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 loss not to exceed \$10.0 million after taxes on a trailing four-quarter basis provided, that, there shall be added to net income all charges for impairment of goodwill and store assets not to exceed \$5.0 million in aggregate, 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 outstanding borrowings. 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 February 2, 2013.

Additionally, in conjunction with our acquisition of Blue Tomato, we assumed \$2.3 million in long-term debt, which relates to amounts borrowed to fund operations. This long-term debt had a weighted average interest rate of 1.7% and has maturities through 2021. Long-term debt obligations at February 2, 2013 are as follows (in thousands):

	<b>February 2, 2013</b>
Debt obligations	\$ 2,270
Less: Current portion of debt obligations (1)	(322)
<b>Total long-term debt obligations (2)</b>	<b>\$ 1,948</b>

(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.

Future principal payments for long-term debt at February 2, 2013 are as follows (in thousands):

Fiscal 2013	\$ 322
Fiscal 2014	327
Fiscal 2015	333
Fiscal 2016	262
Fiscal 2017	234
Thereafter	792
<b>Total</b>	<b>\$ 2,270</b>

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**Operating Leases** Total rent expense, base rent expense and contingent and other rent expense for the fiscal years ended February 2, 2013, January 28, 2012 and January 29, 2011 is as follows (in thousands):

	February 2, 2013	Fiscal Year Ended January 28, 2012	January 29, 2011
Base rent expense	\$ 47,280	\$ 41,566	\$ 37,140
Contingent and other rent expense (1)	30,721	27,214	24,660
<b>Total rent expense</b>	<b>\$ 78,001</b>	<b>\$ 68,780</b>	<b>\$ 61,800</b>

(1) Included in other rent expense are payments of real estate taxes, insurance and common area maintenance costs.

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 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. Amounts in the table below do not include contingent rent, real estate taxes, insurance or common area maintenance costs unless these costs are fixed and determinable. Future minimum commitments on all leases at February 2, 2013 are as follows (in thousands):

Fiscal 2013	\$ 65,932
Fiscal 2014	67,080
Fiscal 2015	64,951
Fiscal 2016	61,948
Fiscal 2017	55,443
Thereafter	170,273
<b>Total</b>	<b>\$ 485,627</b>

**Purchase Commitments** At February 2, 2013 and January 28, 2012, we had outstanding purchase orders to acquire merchandise from vendors of \$120.4 million and \$87.2 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 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 the Company's shareholders.

A putative class action, *Chandra Berg et al. v. Zumiez Inc.*, was filed against the Company in the Los Angeles Superior Court on February 25, 2009. On September 1, 2010, the Company announced that it had reached an agreement to settle. The settlement agreement was \$2.1 million, which includes settlement awards to class members, incentive payments to the two plaintiffs, attorneys' fees and costs and claims administration costs. The settlement was recorded in selling, general and administrative expenses on the consolidated statements of income for the fiscal year ended January 29, 2011 and was paid out on March 10, 2011.

**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



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benefits. We maintain reserves for our self-insured losses, which are estimated based on historical claims experience and actuarial and other assumptions. The insurance reserve at February 2, 2013 and January 28, 2012 was \$1.2 million and \$0.5 million.

**12. 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 at February 2, 2013 and January 28, 2012 (in thousands):

	February 2, 2013		
	Level 1	Level 2	Level 3
Cash equivalents:			
Money market funds	\$ 8,305	\$	\$
State and local government securities		3,003	
Marketable securities:			
Corporate debt securities		1,810	
State and local government securities		81,983	
Variable-rate demand notes		1,800	
Long-term other assets:			
State and local government securities			844
Equity investments			1,059
<b>Total</b>	<b>\$ 8,305</b>	<b>\$ 88,596</b>	<b>\$ 1,903</b>

	January 28, 2012		
	Level 1	Level 2	Level 3
Cash equivalents:			
Money market funds	\$ 5,139	\$	\$
State and local government securities		3,297	
Marketable securities:			
Corporate debt securities		2,046	
State and local government securities		125,363	
Variable-rate demand notes		30,610	
Long-term other assets:			
State and local government securities			908
Equity investments			1,472
<b>Total</b>	<b>\$ 5,139</b>	<b>\$ 161,316</b>	<b>\$ 2,380</b>

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.



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The Level 2 marketable securities primarily include state and local municipal securities, corporate debt 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.

The Level 3 state and local government securities represent one auction rate security. Our valuation method for the auction rate security is based on numerous assumptions including assessments of the underlying security, expected cash flows, credit ratings, liquidity and other relevant factors.

The Level 3 equity investments primarily represent our 14.3% interest in a manufacturer of apparel and hard goods. The equity investment is valued using comparative market multiples adjusted by an estimated discount factor. We have elected to apply fair value accounting for this investment, which would otherwise be accounted for under the equity method of accounting. We have elected fair value accounting, as we believe the terms of the contract are more properly reflected through the fa