

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended: January 28, 2023

OR

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

Commission File Number: 000-51300

ZUMIEZ INC.

(Exact name of Registrant as specified in its charter)

Washington
(State or other jurisdiction of
incorporation or organization)
4001 204th Street SW
Lynnwood, Washington
(Address of principal executive offices)

91-1040022
(IRS Employer
Identification No.)

98036
(Zip Code)

(425) 551-1500
(Registrant's telephone number, including area code)

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

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

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	ZUMZ	Nasdaq Global Select

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 30, 2022, was \$410,960,446. At March 12, 2023, there were 19,489,583 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 31, 2023, 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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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 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. 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 2023 will be the 53 week period ending February 3, 2024. Fiscal 2022 was the 52 week period ending January 28, 2023. Fiscal 2021 was the 52 week period ending January 29, 2022. Fiscal 2020 was the 52 week period ending January 30, 2021. Fiscal 2019 was the 52 week period ending February 1, 2020. Fiscal 2018 was the 52 week period ending February 2, 2019.

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

Item 1. BUSINESS

Zumiez Inc., including its wholly-owned subsidiaries, is a leading specialty retailer of apparel, footwear, accessories and hardgoods for young men and women who want to express their individuality through the fashion, music, art and culture of action sports, streetwear and other unique lifestyles. Zumiez Inc. was formed in August 1978 and is a Washington State corporation.

We operate under the names Zumiez, Blue Tomato and Fast Times. We operate ecommerce websites at zumiez.com, zumiez.ca, blue-tomato.com and fasttimes.com.au. At January 28, 2023, we operated 758 stores; 608 in the United States (“U.S.”), 51 in Canada, 78 in Europe and 21 in Australia.

We acquired Blue Tomato in fiscal 2012. Blue Tomato is one of the leading European specialty retailers of apparel, footwear, accessories and hardgoods. We acquired Fast Times Skateboarding (“Fast Times”) in fiscal 2016. Fast Times is an Australian leading specialty retailer of hardgoods, accessories, apparel and footwear.

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

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

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 action sports, streetwear and other unique lifestyles and desire to express their personal independence and style through the apparel, footwear and accessories they wear and the equipment they use. We believe we have developed a brand image that our customers view as consistent with their attitudes, fashion tastes and identity and differentiates us in our market.

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

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

Distinctive Customer Experience. We strive to provide a convenient shopping environment that is appealing and clearly communicates our distinct brand image. We seek to integrate our store and digital shopping experiences to serve our customers whenever, wherever and however they choose to engage with us. We seek to attract knowledgeable sale associates who identify with our brand and are able to offer superior customer service, advice and product expertise. We believe that our distinctive shopping experience enhances our image as a leading source for apparel and equipment for action sports, streetwear and other unique lifestyles.

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 the knowledge and tools to develop leadership, communication, sales, and operational expertise. We believe that our merchandising team immersion in the lifestyles we represent, supplemented with feedback from our customers, store associates, and omnichannel 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 lifestyles we represent. Our marketing efforts focus on reaching our customers in their environment and feature extensive grassroots digital and physical marketing events, as well as the Zumiez STASH loyalty program. Our marketing efforts incorporate local sporting and music event promotions, 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. Our STASH loyalty program allows us to learn more about our customer and serve their needs better. We believe that our ability to interact with our customer, and our immersion in the lifestyles we represent, 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 global specialty retailer of action sports, streetwear, and other unique lifestyles by:

Continuing to Generate Sales Growth through Existing Channels. We seek to maximize our comparable sales through our integrated store and online shopping experiences and offering our customers a broad and relevant selection of brands and products, including a unique customer experience through each interaction with our brand. We believe in driving to the optimum store count in each physical geography that we operate in and optimizing comparable sales within these markets between physical and digital to drive total trade area sales growth.

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 unique lifestyles of our customers. 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 also use our STASH loyalty program to increase brand engagement and enhance brand credibility. 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 to further 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.

Opening or Acquiring New Store Locations. We believe our brand has appeal that provides select store expansion opportunities, particularly within our international markets. During the last three fiscal years, we have opened 67 new stores consisting of 32 stores in fiscal 2022, 23 stores in fiscal 2021 and 12 stores in fiscal 2020. 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 23 new stores in fiscal 2023, including stores in our existing markets and in new markets internationally. The number of anticipated store openings may increase or decrease due to market conditions and other factors. Our goal in opening stores is to not have one more store than needed to serve all our customers within a trade area.

Merchandising and Purchasing

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

We seek to identify fashion trends as they develop and to respond in a timely manner with a relevant product assortment. We strive to keep our merchandising mix fresh by continuously introducing new brands or styles in response to the evolving desires of our customers. Our merchandise mix may vary by region, country and season, reflecting the preferences and seasons in each market.

We believe that offering an extensive selection of current and relevant brands in sports, fashion, music and art is integral to our overall success. No single third-party brand that we carry accounted for more than 6.3%, 7.9% and 9.4% of our net sales in fiscal 2022, 2021 and 2020, respectively. We believe that our strategic mix of apparel, footwear, accessories and hardgoods allows us to strengthen the potential of the brands we sell and affirms our credibility with our customers.

We believe that our ability to maintain an image consistent with the unique lifestyles of our customers is important to our key vendors. Given our scale and market position, we believe that many of our key vendors view us as an important retail partner. This position helps ensure our ability to procure a relevant product assortment and quickly respond to the changing fashion interests of our customers. Additionally, we believe we are presented with a greater variety of products and styles by some of our vendors, as well as certain specially designed items that we exclusively distribute. We supplement our merchandise assortment with a select offering of private label products across many of our product categories. Our private label products complement the branded products we sell, and some of our private label brands allow us to cater to the more value-oriented customer. For fiscal 2022, 2021 and 2020, our private label merchandise represented 18.4%, 13.3%, and 11.4% of our net sales, respectively.

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 coordinate inventory levels in connection with individual stores' sales strength, our promotions and seasonality. We utilize a localized fulfillment strategy to fulfill the vast majority of our ecommerce orders through our stores to enhance customer experience, maximize inventory productivity and reduce shipping time.

Our merchandising staff remains in tune with the fashion, music, art and culture of action sports, streetwear and other unique lifestyles by participating in lifestyles we support, attending relevant events and concerts, watching related programming and reading relevant publications and social network channels. In order to identify evolving trends and fashion preferences, our staff spends considerable time analyzing sales data, gathering feedback from our stores and customers, shopping in key markets and soliciting input from our vendors. With a global footprint, we are able to identify trends that emerge all over the world.

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

Stores

Store Locations. At January 28, 2023, we operated 758 stores in the following locations:

United States and Puerto Rico - 608 Stores

Alabama	4	Indiana	10	Nebraska	3	Rhode Island	2
Alaska	3	Iowa	4	New Hampshire	6	South Carolina	6
Arizona	11	Kansas	3	New Jersey	19	South Dakota	2
Arkansas	2	Kentucky	4	New Mexico	5	Tennessee	9
California	92	Louisiana	6	New York	31	Texas	48
Colorado	19	Maine	3	Nevada	10	Utah	14
Connecticut	9	Maryland	11	North Carolina	14	Vermont	1
Delaware	4	Massachusetts	10	North Dakota	4	Virginia	14
Florida	38	Michigan	14	Ohio	14	Washington	22
Georgia	17	Minnesota	11	Oklahoma	6	West Virginia	2
Hawaii	7	Mississippi	4	Oregon	13	Wisconsin	13
Idaho	6	Missouri	7	Pennsylvania	22	Wyoming	2
Illinois	17	Montana	5	Puerto Rico	5		

Canada - 51 Stores

Alberta	8	New Brunswick	1	Saskatchewan	2
British Columbia	12	Nova Scotia	2		
Manitoba	2	Ontario	24		

Europe - 78 Stores

Austria	18	Netherlands	4	Switzerland	12
Finland	7	Norway	3		
Germany	32	Sweden	2		

Australia - 21 Stores

New South Wales	4
Queensland	6
South Australia	2
Victoria	9

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

Fiscal Year	Stores Opened	Stores Closed (1)	Total Number of Stores End of Year
2022	32	13	758
2021	23	5	739
2020	12	9	721

(1) Store closures above do not include short-term closures due to the impact of the novel coronavirus ("COVID-19") pandemic.

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, lifestyle focused posters and signage and popular music, all of which are consistent with the look and feel of an independent 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 season dictates. At January 28, 2023, our stores averaged approximately 2,914 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.

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. We generally locate our stores in areas in which other teen and young adult-oriented retailers have performed well. We focus on evaluating the market specific competitive environment for potential new store locations. We seek to diversify our store locations regionally and by caliber of mall or shopping area. For mall locations, we seek locations near busy areas of the mall such as food courts, movie theaters, game stores and other popular teen and young adult retailers.

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 fashion, music, art and culture of the lifestyle we support 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 unique lifestyles 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 lifestyles we represent. Our marketing efforts focus on reaching our customers in their environment, and feature extensive physical and digital grassroots marketing events, which give our customers an opportunity to experience and participate in the lifestyles we offer. 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.

We have a customer loyalty program, the Zumiez STASH, which allows members to earn points for purchases or performance of certain activities. The points can be redeemed for a broad range of rewards, including product and experiential rewards. 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, catalogs and various social network channels. We believe that our immersion in action sports, streetwear and other unique lifestyles allows us to build credibility with our target audience and gather valuable feedback on evolving customer preferences.

Distribution and Fulfillment

Timely and efficient distribution of merchandise to our stores is an important component of our overall business strategy. Domestically, our distribution center is located in Corona, California. At this facility, merchandise is inspected, allocated to stores and distributed to our stores and customers. Each store is typically shipped merchandise five times a week, providing our stores with a steady flow of new merchandise. We utilize a localized fulfillment strategy in which we use our domestic store network to provide fulfillment services for the vast majority of online customer purchases.

Internationally, we operate distribution centers located in Delta, Canada, Graz, Austria, and Melbourne, Australia to support our operations in Canada, Europe and Australia, respectively. Each of our international entities are progressing toward full localized fulfillment and are in various states of implementation.

Management Information Systems

Our management information systems provide integration of store, online, 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 these systems with our business requirements and to support our continuing growth.

Competition

The teenage and young adult retail apparel, hardgoods, footwear and accessories industry is highly competitive. We compete with other retailers for vendors, customers, suitable store locations and qualified store associates, management personnel, online marketing content, social media engagement and ecommerce traffic. 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 market we compete with independent specialty shops, department stores, vendors that sell their products directly to the retail market, non-mall retailers and ecommerce retailers. In the hardgoods market, which includes skateboards, snowboards, bindings, components and other equipment, we compete directly or indirectly with the following categories of companies: other specialty retailers, such as local snowboard and skate shops, large-format sporting goods stores and chains, vendors who sell their products directly to the retail market and ecommerce retailers.

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

Seasonality

Historically, our operations have been seasonal, with the largest portion of net sales and net income occurring in the third and fourth fiscal quarters, reflecting increased demand during the back-to-school and winter holiday selling seasons. During fiscal 2022, approximately 54% of our net sales occurred in the third and fourth quarters combined. As a result of this seasonality, any factors negatively affecting us during the last half of the year, including unfavorable economic conditions, adverse weather or our ability to acquire seasonal merchandise inventory, could have a material adverse effect on our financial condition and results of operations for the entire year. Our quarterly results of operations may also fluctuate based upon such factors as the timing of certain holiday seasons, the popularity of seasonal merchandise offered, the timing and amount of markdowns, competitive influences and the number and timing of new store openings, remodels and closings.

Trademarks

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

Employees

At January 28, 2023, we employed approximately 2,600 full-time and approximately 6,800 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 positive.

We believe in delivering quality employment experiences at all levels within the Company. In that regard, every year we create thousands of career opportunities in our stores for individuals who are just beginning their professional careers and who are driven to develop new skills in an environment centered around teaching and learning. Many of these opportunities are provided to our part-time sales associates, who on average are approximately 19 years of age, and are often furthering their career through concurrent education and/or additional employment opportunities.

The Zumiez culture is built on a set of shared values that have been in place since the inception of the business. These shared values include empowered managers, teaching and learning, competition, recognition, and fairness and honesty. Our culture strives to integrate quality teaching and learning experiences throughout the organization. We do this through a comprehensive training program, which primarily focuses on sales, management and customer service training in our stores and is more focused on professional development in our home office. Our training programs have been developed internally and are almost exclusively taught internally by Zumiez employees to Zumiez employees. The training programs have been developed to empower our employees to make good business decisions.

We believe Zumiez is a place where people have a voice, will be heard, and have bias-free opportunities. Accordingly, our work place is built upon the foundation of inclusion and equity where its people are diverse in their backgrounds, communities, and points of view, yet all share the same core cultural values of working hard, giving back and empowering others. In this regard, we strive for our employees within a trade area to be reflective of the communities they serve. Pay equity, meaning pay parity between employees performing similar job duties, without regard for race or gender, is a base line component of this focus on inclusion and equity and something we evaluate as part of our pay practice procedures.

Financial Information about Segments

See Note 18, “Segment Reporting,” in the Notes to Consolidated Financial Statements found in Part IV Item 15 of this Form 10-K, for information regarding our segments, product categories and certain geographical information.

Available Information

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

Item 1A. RISK FACTORS

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

U.S. and global economic and political uncertainty, coupled with cyclical economic trends in retailing, could have a material adverse effect on our results of operations.

Our retail market historically has been subject to substantial cyclical volatility. As the U.S. and global economic and political conditions change, the trends in discretionary consumer spending become unpredictable and discretionary consumer spending could be reduced due to uncertainties about the future. Economic and consumer confidence can also be affected by a variety of factors, including housing prices, unemployment rates and inflation. When disposable income decreases or discretionary consumer spending is reduced due to a decline in consumer confidence, purchases of apparel and related products may decline. A deterioration in macroeconomic conditions or consumer confidence or uncertainty in the U.S. and global economies and political environment could have a material adverse impact on our results of operations and financial position.

In times when there is a decline in disposable income and consumer confidence, there could be a trend to consumers seeking more inexpensive or value-oriented merchandise. As a retailer that sells a substantial majority of branded merchandise, this could disproportionately impact us more than vertically integrated private label retailers or we may be forced to rely on promotional sales to compete in our market which could have a material adverse effect on our financial position.

The novel coronavirus (COVID-19) global pandemic could continue to have a material impact on our business.

Since being declared a pandemic by the World Health Organization in March 2020, COVID-19 has negatively impacted global economies, disrupted consumer spending and global supply chains, and created significant volatility and disruption of financial markets. The COVID-19 global pandemic could continue to have a material impact on our business, including our results of operations, financial condition and liquidity. The duration and severity of the COVID-19 pandemic will determine its ongoing impact on our business, including our ability to execute business strategies and initiatives in their expected time frame, the effect on our suppliers and disruptions to the global supply chain, and the ability of our customers to pay for our services and products.

A resurgence in the spread of COVID-19, or its variants, could force the closure of our retail stores globally, as we saw in the first quarter of 2020. We could also experience store closures on a regional basis, like we have seen in 2020 and 2021. We may face long term store closure requirements and other operational restrictions with respect to some or all of our physical locations for prolonged periods of time due to, among other factors, evolving and increasingly stringent governmental restrictions, public health directives, quarantine policies, or social distancing measures, resulting in a materially adverse impact to our financial results.

With store closures notwithstanding, consumer fears about becoming ill with the virus may persist, adversely affecting traffic to our stores. Consumer spending may also be negatively impacted by general economic downturn and decreased consumer confidence resulting from the COVID-19 global pandemic. This may negatively impact sales in our stores and our ecommerce channel. The potential reduction in consumer visits to our stores, caused by COVID-19, and any decreased spending at retail stores or online caused by a lack of consumer confidence and spending following the pandemic, could result in a loss of sales and profits.

A rise in the spread of COVID-19 also has the potential to significantly impact our supply chain if manufacturers of our products, distribution centers where we manage our inventory, or operations of our logistics and other service providers are disrupted, temporarily closed or experience worker shortages.

Due to the seasonality of our business, widespread closures during peak shopping periods could disproportionately impact financial results. The inability to effectively adapt to changes in consumer behavior could result in excess inventory and adversely impact financial results. We may experience adverse effects of prolonged operating restrictions related to in-person marketing and training events.

The COVID-19 pandemic's impact on macroeconomic conditions could alter the functioning of financial and capital markets, foreign currency exchange rates, commodity prices, and interest rates. After the COVID-19 global pandemic has settled, we may continue to experience adverse impacts to our business as a result of evolving macroeconomic factors, including general economic uncertainty, unemployment rates, high inflation, recessionary pressures and any actual economic recession that has occurred or may occur in the future.

The extent of the impact of the COVID-19 global pandemic on our business remains uncertain and difficult to predict, given the innumerable unknowns regarding the duration and severity of the pandemic.

Failure to anticipate, identify and respond to changing fashion trends, customer preferences and other fashion-related factors could have a material adverse effect on us.

Customer tastes and fashion trends in our 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, including adequately anticipating the correct mix and trends of our private label merchandise, 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.

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, management personnel, online marketing content, social media engagement and ecommerce traffic. Some of our competitors are larger than we are and have substantially greater financial and marketing resources, including advanced ecommerce market capabilities. 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.

Most of our merchandise is produced by foreign manufacturers; therefore, the availability, quality and costs of our merchandise 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, public health concerns, or emergencies, such as COVID-19 and other communicable diseases or viruses, political instability or other conditions that could cause a disruption in trade. Trade restrictions such as increased tariffs or quotas, or both, could also increase the cost and reduce the supply of merchandise available to us. Any reduction in merchandise available to us or any increase in its cost due to tariffs, quotas or local issues that disrupt trade could have a material adverse effect on our results of operations. This includes costs to comply with regulatory developments regarding the use of "conflict minerals," certain minerals originating from the Democratic Republic of Congo and adjoining countries, which may affect the sourcing and availability of raw materials used by manufacturers and subject us to increased costs associated with our products, processes or sources of our inputs. Our business could be adversely affected by disruptions in the supply chain, such as strikes, work stoppages, or port closures.

A decrease in consumer traffic could cause our sales to be less than expected.

We depend heavily on generating customer traffic to our stores and websites. This includes 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 "anchor" tenants, generally large department stores and other area attractions, to generate consumer traffic in the vicinity of our stores and the continuing popularity of malls as shopping destinations. In addition, some malls that were in prominent locations when we opened our stores may cease to be viewed as prominent. If this trend continues or if the popularity of mall shopping continues to decline generally among our customers, our sales may decline, which would impact our results of operations. Additionally, we may experience other risks associated with operating leases, such as lease termination or impairment of operating lease right-of-use assets. These risks may include circumstances that are not within our control, such as changes in fair market rent. Furthermore, we depend on generating increased traffic to our ecommerce business and converting that traffic into sales. This requires us to achieve expected results from our marketing and social media campaigns, accuracy of data analytics, reliability of our website, network, and transaction processing and a high-quality online customer experience. Our sales volume and customer traffic in our stores and on our websites generally could be adversely affected by, among other things, economic downturns, competition from other ecommerce retailers, non-mall retailers and other malls, increases in gasoline prices, fluctuations in exchange rates in border or tourism-oriented locations and the closing or decline in popularity of other stores in the malls in which we are located. Also, geopolitical events, including the threat of terrorism, or widespread health emergencies, such as COVID-19 and other communicable diseases, viruses, or pandemics, could cause people to avoid our stores in shopping malls and alter consumer trends. An uncertain economic outlook or continued bankruptcies of mall-based retailers could curtail new shopping mall development, decrease shopping mall and ecommerce 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 consumer traffic to our stores or websites could have a material adverse effect on our business, results of operations and financial condition.

Our growth strategy depends on our ability to grow customer engagement in our current markets and expand into new markets, which could strain our resources and cause the performance of our existing business to suffer.

Our growth largely depends on our ability to optimize our customer engagement in our current trade areas and operate successfully in new geographic markets. However, our ability to open stores in new geographic markets, including international locations, is subject to a variety of risks and uncertainties, and we may be unable to open new stores as planned or have access to desirable lease space, and any failure to successfully open and operate in new markets 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 such that we have the optimum number of stores in any given trade area. The expansion into new markets may present competitive, merchandising, hiring and distribution challenges that are different from those currently encountered in our existing markets. 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. In addition, successful execution of our growth strategy may require that we obtain additional financing, and we may not be able to obtain that financing on acceptable terms or at all.

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

We may, from time to time, acquire businesses, such as our acquisition of Blue Tomato and Fast Times. We may experience difficulties in integrating any businesses we may acquire, including their stores, websites, 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.

We plan to continue to open new stores in the Canadian, European and Australian markets. We may continue to expand internationally into other markets, either organically or through additional acquisitions. International markets may have different competitive conditions, consumer tastes and discretionary spending patterns than our existing U.S. market. As a result, operations in international markets may be less successful than our operations in the U.S. Additionally, consumers in international markets may not be familiar with us or the brands we sell, and we may need to build brand awareness in the markets. Furthermore, we have limited experience with the legal and regulatory environments and market practices in new international markets and cannot guarantee that we will be able to penetrate or successfully operate in these new 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. Accordingly, for the reasons noted above, our plans for international expansion include risks that could have a negative impact on our results of operations.

Our sales and inventory levels fluctuate on a seasonal basis. Accordingly, our quarterly results of operations are volatile and may fluctuate significantly.

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

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

- the timing of new store openings and the relative proportion of our new stores to mature stores;
- whether we are able to successfully integrate any new stores that we acquire and the presence of any unanticipated liabilities in connection therewith;
- fashion trends and changes in consumer preferences;
- calendar shifts of holiday or seasonal periods;
- changes in our merchandise mix;
- timing of promotional events;
- 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.

If our information systems fail to function effectively, or do 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, including hardware 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.

If we fail to meet the requirements to adequately maintain the privacy and security of personal data and business information, we may be subjected to adverse publicity, litigation and significant expenses.

Information systems are susceptible to an increasing threat of continually evolving cybersecurity risks. If we fail to maintain or adequately maintain security systems, devices and activity monitoring to prevent unauthorized access to our network, systems and databases containing confidential, proprietary and personally identifiable information, we may be subject to additional risk of adverse publicity, litigation or significant expense. Nevertheless, if unauthorized parties gain access to our networks, systems or databases, they may be able to steal, publish, delete or modify confidential information. In such circumstances, we could be held liable to our customers or other parties or be subject to regulatory or other actions for breaching privacy rules and we may be exposed to reputation damage and loss of customers' trust and business. This could result in costly investigations and litigation, civil or criminal penalties and adverse publicity that could adversely affect our financial condition, results of operations and reputation. Actual or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional resources, train employees and engage third-parties. Further, the regulatory environment surrounding information security, cybersecurity and privacy is increasingly demanding. If we are unable to comply with the new and changing security standards, we may be subject to fines, restrictions and financial exposure, which could adversely affect our retail operations.

Significant fluctuations and volatility in the cost of raw materials, global labor, shipping and other costs related to 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 raw materials, global labor costs, freight costs and other shipping costs in the production and transportation of our merchandise can result in higher costs for this merchandise. The costs for these products are affected by weather, consumer demand, government regulation, speculation on the commodities market and other factors that are generally unpredictable and beyond our control. Our gross profit and results of operations could be adversely affected to the extent that the selling prices of our products do not increase proportionately with the increases in the costs of raw 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.

Fluctuations in foreign currency exchange rates could impact our financial condition and results of operations.

We are exposed to foreign currency exchange rate risk with respect to our sales, profits, assets and liabilities denominated in currencies other than the U.S. dollar. As a result, the fluctuation in the value of the U.S. dollar against other currencies could have a material adverse effect on our results of operations, financial condition and cash flows. Upon translation, operating results may differ materially from expectations. As we continue to expand our international operations, our exposure to exchange rate fluctuations will increase. Tourism spending may be affected by changes in currency exchange rates, and as a result, sales at stores with higher tourism traffic may be adversely impacted by fluctuations in currency exchange rates. Further, although the prices charged by vendors for the merchandise we purchase are primarily denominated in U.S. dollars, a decline in the relative value of the U.S. dollar to foreign currencies could lead to increased merchandise costs, which could negatively affect our competitive position and our results of operations.

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

Labor is one of the primary components in the cost of operating our business. Increased labor costs, whether due to competition, unionization, increased minimum wage, state unemployment rates, health care, mandated safety protocols, or other employee benefits costs may adversely impact our operating profit. A considerable amount of our store team members are paid at rates related to the federal or state minimum wage and any changes to the minimum wage rate may increase our operating expenses. Furthermore, inconsistent increases in state and or city minimum wage requirements limit our ability to increase prices across all markets and channels. Additionally, we are self-insured with respect to our health care coverage in the U.S. and do not purchase third party insurance for the health insurance benefits provided to employees with the exception of pre-defined stop loss coverage, which helps limit the cost of large claims. There is no assurance that future health care legislation will not adversely impact our results or operations.

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

We do not control our vendors or the manufacturers that produce the products we buy from them, nor do we control the labor and environmental practices of our vendors and these manufacturers. The violation of labor, safety, environmental and/or other laws and standards by any of our vendors or these manufacturers, or the divergence of the labor and environmental 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 reputation, financial condition and results of operations. In that regard, most of the products we sell are manufactured internationally, primarily in Asia, Mexico and Central America, which may increase the risk that the labor and environmental 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. 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.

If we fail to develop and 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 developing and maintaining good relationships with a large number of vendors to provide our customers with an extensive selection of current and relevant brands. In addition to maintaining our large number of current vendor relationships, each year we are identifying, attracting and launching new vendors to provide a diverse and unique product assortment. We believe that we generally are able to obtain attractive pricing and 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.

However, there can be no assurance that our current vendors or new 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, sell through direct channels 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 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 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.

Our omni-channel strategy may not have the return we anticipate, which could have an adverse effect on our results of operations.

We are executing an omni-channel strategy to enable our customers to shop wherever, whenever and however they choose to engage with us. Our omni-channel strategy may not deliver the results we anticipate or may not adequately anticipate changing consumer trends, preferences and expectations. We will continue to develop additional ways to execute our superior omni-channel experience and interact with our customers, which requires significant investments in IT systems and changes in operational strategy, including localization, online and in-store point of sale systems, order management system, and transportation management system. If we fail to effectively integrate our store and ecommerce shopping experiences, effectively scale our IT structure or we do not realize the return on our investments that we anticipate our operating results could be adversely affected. Our competitors are also investing in omni-channel initiatives. If our competitors are able to be more effective in their strategy, it could have an adverse effect on our results of operations. If we our omni-channel strategy fails to meet customer expectations related to functionality, timely delivery, or customer experience, our business and results of operations may be adversely affected. Additionally, to manage the anticipated growth of our operations and personnel, we will 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.

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. Furthermore, 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.

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 and brand and are able to adequately represent this culture. 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. Our business depends on the ability to hire and retain qualified technical and support roles for procurement, distribution, ecommerce and back office functions. Competition for qualified employees in these areas 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 operations 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. If we are unable to hire qualified temporary personnel, our results of operations could be adversely impacted.

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.

A decline in cash flows from operations could have a material adverse effect on our business and growth plans.

We depend on cash flow from operations to fund our current operations and our growth strategy, including the payment of our operating leases, wages, store operation costs and 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 our credit facility or from other sources, we may not be able to pay 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 secured credit agreement impose certain restrictions on us that may impair our ability to respond to changing business and economic conditions, which 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 senior secured credit facility (“credit facility”) of up to \$25.0 million through December 1, 2023, and up to \$35.0 million after December 1, 2023 and through December 1, 2024. The credit facility contains various representations, warranties and restrictive covenants that, among other things and subject to specified circumstances and exceptions, restrict our ability to incur indebtedness (including guarantees), grant liens, make investments, pay dividends or distributions with respect to capital stock, make prepayments on other indebtedness, engage in mergers, dispose of certain assets or change the nature of their business. The credit facility contains certain financial maintenance covenants that generally require us to have net income after taxes of at least \$5.0 million on a trailing four-quarter basis and a quick ratio of 1.25:1.0 at the end of each fiscal quarter. These restrictions 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.

The credit facility contains certain affirmative covenants, including reporting requirements such as delivery of financial statements, certificates and notices of certain events, maintaining insurance, and providing additional guarantees and collateral in certain circumstances. The credit facility includes customary events of default including non-payment of principal, interest or fees, violation of covenants, inaccuracy of representations or warranties, cross-default to other material indebtedness, bankruptcy and insolvency events, invalidity or impairment of guarantees or security interests, material judgments and change of control. Additionally, 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 with the closure or disruption of our home office or our distribution centers.

In the U.S., 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. Internationally, we operate a combined distribution and ecommerce fulfillment center located in Graz, Austria that supports our Blue Tomato ecommerce and store operations in Europe. We operate a distribution center located in Delta, British Columbia, Canada to distribute our merchandise to our Canadian stores. We operate a distribution and ecommerce fulfillment center located in Melbourne, Australia to distribute our merchandise to our Australian stores. Additionally, we are headquartered in Lynnwood, Washington. As a result, unforeseen events, including war, terrorism, other political instability or conflicts, riots, public health issues (including widespread/pandemic illnesses such as coronavirus and other communicable diseases or viruses), a natural disaster or other catastrophic event that affects one of the regions where we operate these centers or our home office could significantly disrupt our operations and have a material adverse effect on our business, results of operations and financial condition.

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

Most of our stores are located in shopping malls. Any threat of terrorist attacks or actual terrorist events, or other types of mall violence, such as shootings or riots, could lead to lower consumer 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 consumer traffic due to security concerns, could result in decreased sales. Additionally, the threat, escalation or commencement of war or other armed conflict elsewhere, could significantly diminish consumer spending, and result in decreased sales. Decreased sales could have a material adverse effect on our business, financial condition and results of 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, Blue Tomato, or Fast Times 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. 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.

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 provide assurance that such litigation will not disrupt our business or impact our financial results.

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.

Failure to comply with federal, state, local or foreign laws and regulations, or changes in these laws and regulations, 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 including those related to employment, trade, consumer protection, transportation, occupancy laws, health care, wage laws, employee health and safety, taxes, privacy, health information privacy, identify theft, customs, truth-in-advertising, securities laws, unsolicited commercial communication and environmental issues. Our policies, procedures and internal controls are designed to comply with foreign and domestic laws and regulations, such as those required by the Sarbanes-Oxley Act of 2002 and the U.S. Foreign Corrupt Practices Act. Although we have policies and procedures aimed at ensuring legal and regulatory compliance, our employees or vendors could take actions that violate these laws and regulations. Any violations of such laws or regulations could have an adverse effect on our reputation, results of operations, financial condition and cash flows. Furthermore, changes in the regulations, the imposition of additional regulations, or the enactment of any new legislation, particularly in the U.S. and Europe, could adversely affect our results of operations or financial condition.

Fluctuations in our tax obligations and effective tax rate may result in volatility in our operating results.

We are subject to income taxes in many domestic and foreign jurisdictions. In addition, our products are subject to import and excise duties and/or sales, consumption or value-added taxes in many jurisdictions. We record tax expense based on our estimates of future payments, which include reserves for estimates of probable settlements of domestic and foreign tax audits. At any one time, many tax years are subject to audit by various taxing jurisdictions. There can be no assurance as to the outcome of these audits which may have an adverse effect to our business. In addition, our effective tax rate may be materially impacted by changes in tax rates and duties, the mix and level of earnings or losses by taxing jurisdictions, or by changes to existing accounting rules or regulations. Changes to foreign or domestic tax laws could have a material impact on our financial condition, results of operations or cash flows.

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.

The reduction of total outstanding shares through the execution of a share repurchase program of common stock may increase the risk that a group of shareholders could form a group to become a controlling shareholder.

A share repurchase program may be conducted from time to time under authorization made by our Board of Directors. We do not have a controlling shareholder, nor are we aware of any shareholders that have formed a "group" (defined as when two or more persons agree to act together for the purposes of acquiring, holding, voting or otherwise disposing of the equity securities of an issuer). The reduction of total outstanding shares through the execution of a share repurchase program of common stock may increase the risk that a group of shareholders could form a group to become a controlling shareholder.

A controlling shareholder would have significant influence over, and may have the ability to control, matters requiring approval by our shareholders, including the election of directors and approval of mergers, consolidations, sales of assets, recapitalizations and amendments to our articles of incorporation. Furthermore, a controlling shareholder may take actions with which other shareholders do not agree, including actions that delay, defer or prevent a change of control of the company and that could cause the price that investors are willing to pay for the company's stock to decline.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

All of our stores are occupied under operating leases and encompassed approximately 2.2 million total square feet at January 28, 2023.

We own approximately 356,000 square feet of land in Lynnwood, Washington on which we own a 63,071 square foot home office. Additionally, we lease 14,208 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 17,168 square feet of a distribution facility in Delta, British Columbia, Canada that supports our store operations in Canada. We lease 112,112 square feet to serve as a distribution and ecommerce fulfillment center and office space in Graz, Austria that supports our Blue Tomato ecommerce and store operations in Europe. We lease a 21,754 square feet building that serves as a distribution and ecommerce fulfillment center and office space in Melbourne, Australia that supports our Fast Times ecommerce and store operations in Australia.

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," 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.

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

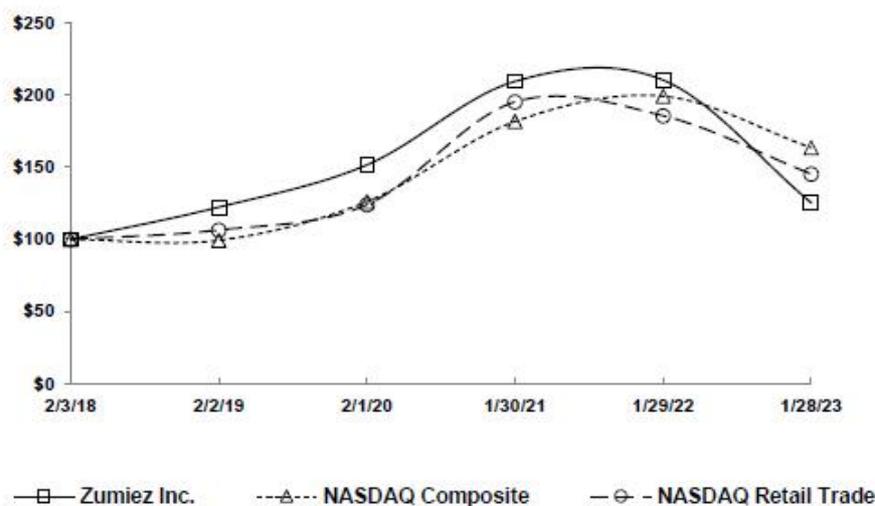
Our common stock is traded on the Nasdaq Global Select Market under the symbol "ZUMZ." At January 28, 2023, there were 19,488,709 shares of common stock outstanding.

Performance Measurement Comparison

The following graph shows a comparison for total cumulative returns for Zumiez, the Nasdaq Composite Index and the Nasdaq Retail Trade Index during the period commencing on February 3, 2018 and ending on January 28, 2023. The comparison assumes \$100 was invested on February 3, 2018 in each of Zumiez, the Nasdaq Composite Index and the Nasdaq Retail Trade Index, and assumes the reinvestment of all dividends, if any. The comparison in the following graph and table is required by the SEC and is not intended to be a forecast or to be indicative of future Company common stock performance.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Zumiez Inc., the NASDAQ Composite Index and the NASDAQ Retail Trade Index



*\$100 invested on 2/3/18 in stock or 1/31/18 in index, including reinvestment of dividends. Indexes calculated on month-end basis.

	2/3/18	2/2/19	2/1/20	1/30/21	1/29/22	1/28/23
Zumiez	100.00	122.34	151.68	209.64	210.46	125.30
NASDAQ Composite	100.00	99.32	126.17	181.79	199.33	163.55
NASDAQ Retail Trade	100.00	106.44	124.08	195.39	185.75	145.31

Holders of the Company's Capital Stock

We had approximately 12 shareholders of record as of March 12, 2023. The number of shareholders of record is based upon the actual number of shareholders registered at such date and does not include holders of shares in "street names" or persons, partnerships, associates, corporations or other entities identified in security position listings maintained by depositories such as the Depository Trust Company.

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.

Recent Sales of Unregistered Securities

None

Issuer Purchases of Equity Securities

The following table presents information of our common stock made during the thirteen weeks ended January 28, 2023 (in thousands, except average price paid per share):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Dollar Value of Shares that May Yet be Repurchased Under the Plans or Programs (1)
October 30, 2022—November 26, 2022	—	\$ —	—	\$ —
November 27, 2022—December 31, 2022 (2)	426	21.15	—	—
January 1, 2023—January 28, 2023	—	—	—	—
Total	<u>426</u>		<u>—</u>	

(1) The share repurchase program is conducted under authorizations made from time to time by our Board of Directors. There was no authorized share repurchase program during the thirteen weeks ended January 28, 2023.

(2) During the thirteen weeks ended January 28, 2023, 426 shares were purchased by us in order to satisfy employee tax withholding obligations upon the vesting of restricted stock. These shares were not acquired pursuant to any publicly announced purchase plan or program.

Item 6. [Reserved]

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

MD&A is provided as a supplement to, and 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.

The following Management's Discussion and Analysis of Financial Condition and Result of Operations ("MD&A") is intended to help the reader understand the financial condition, results of operations, and the certainty of cash flows of Zumiez Inc. and its wholly-owned subsidiaries. This discussion focuses on known material events and uncertainties that are reasonably likely to cause reported financial information not to be necessarily indicative of future operating results or of future financial condition. This includes descriptions and amounts of matters that have had a material impact on reported operations, as well as matters that are reasonably likely, based on our assessment, to have a material impact on future operations.

Fiscal 2022—A Review of This Past Year

After a record year of sales and earnings in fiscal 2021 fueled by domestic government stimulus yielding 19.5% growth in net sales and 61.6% growth in diluted earnings per share, fiscal 2022 was much more challenging. During the front half of fiscal 2022 we were facing difficult year-over-year sales comparisons from the record US government stimulus in early fiscal 2021. In addition, there was significant inflationary pressure on discretionary spending in our customer base and more competition for discretionary dollars from categories such as travel and entertainment. This resulted in a 19% decrease in net sales for the full year fiscal 2022. The lower sales level combined with inflation in our cost structure resulted in a decrease in earnings per diluted share of 77.7%.

After six straight years of product margin gains, fiscal 2022 Product margin decreased 50 basis points from the prior year driven primarily by the difficult sales environment during the back-to-school and holiday peaks necessitating discounting to maintain a healthy inventory position at year end. Regardless of this decrease, fiscal 2022 product margin is at the second highest level in our history and we believe current levels represent structural gains rather than short-term, pandemic related improvements. In a more normalized sales environment, we anticipate that we can recover what was lost in fiscal 2022 and continue to grow product margins through existing initiatives in the business over time. Total gross margin decreased by 470 basis points in fiscal 2022. Beyond the product margin impact discussed above, the 19.0% decrease in net sales created deleverage of significant fixed costs included in gross margin such as occupancy, distribution center, and merchandising expenses. While we were able to reduce total selling, general and administrative expenses in 2022, these costs deleveraged due to the sales decline. Our earnings per diluted share of \$1.08 in fiscal 2022 was down from an all-time high in fiscal 2021 of \$4.85. We added 32 new stores in fiscal 2022 including 16 in North America, 12 new Blue Tomato stores in Europe and 4 new Fast Times store in Australia. We believe that we still have meaningful expansion opportunities internationally in both existing and new markets.

As a leading global lifestyle retailer, we continue to differentiate ourselves through our distinctive brand offering and diverse product selection, as well as the unique customer experience across all of our platforms. We remain committed to serving the customer through introducing newness in our product offering launching over 100 new brands in 2022. We made investments over several years to integrate the digital and physical channels creating a seamless shopping experience for our customer. We are continuing to deliver our online orders in North America from our stores, which has provided substantial improvements in the speed of delivery to our customers, eliminated the need to manage two pools of inventory separately for digital and physical demand, and created one cost structure for execution of both physical and digital sales. Internationally we continue to see deeper penetration of localized fulfillment and are in various stages of roll-out in different countries. In-store fulfillment is a key part of strategy that we believe will drive long term market share by leveraging the strengths of our store sales team, providing better and faster service to customers, improving product margins, maximizing the productivity of inventory, providing additional selling opportunities, and utilizing one cost structure to serve the customer.

The following table shows net sales, operating profit, operating margin and diluted earnings per share for fiscal 2022 compared to fiscal 2021:

	Fiscal 2022	Fiscal 2021	% Change
Net sales (in thousands) (1)	\$ 958,380	\$ 1,183,867	-19.0%
Operating profit (in thousands)	\$ 31,100	\$ 157,810	-80.3%
Operating margin	3.2%	13.3%	
Diluted earnings per share	\$ 1.08	\$ 4.85	-77.7%

- (1) The decrease in net sales was primarily driven by continued inflationary pressures on the consumer and the benefits from domestic stimulus in the prior year when consumers were less likely to spend on travel and in-person entertainment due to COVID-19. The decrease in net sales was driven by a decrease in transactions and a decrease in dollars per transaction. The decrease in dollars per transaction was driven by a decrease in units per transaction, partially offset by an increase in average unit retail. For the year, the men's category was our largest declining category followed by hardgoods, accessories, women's and footwear.

Fiscal 2023—A Look At the Upcoming Year

In fiscal 2023, our focus remains on serving the customer with strategic investments largely tied to enhancing the customer experience while increasing market share and creating operational efficiencies to drive long-term operating margin back to historical levels. Though 2022 was a highly challenging year, the balance sheet remains strong with \$173.5 million in cash and marketable securities at the end of fiscal 2022 and a current asset level that is much larger than current liabilities. This gives us the security to manage through potential difficulties while also investing in important strategic initiatives to drive shareholder value over the long-term.

Exiting a difficult year for sales and earnings in fiscal 2022, the macro-economic environment in 2023 remains unclear. Inflation remains high compared to historical levels and this continues to weigh on the discretionary income of our customer base. Economic indicators show that our customers savings levels are decreasing and credit card levels are increasing. While current conditions appear difficult for consumers, we remain focused on our long-term initiatives that will help us capitalize on opportunities as these circumstances improve. These include concepts like; continued globalization of the brand to enhance our ability to reach consumers in each geography that we operate, an intense focus with our brand partners to bring forth relevant product with the speed expected by our customers, aggressively managing inventory levels, continuing to rethink how the customer interacts with the brand, and actively managing how we optimize the trade areas in which we serve our customers.

General

Net sales constitute gross sales, net of actual and estimated returns and deductions for promotions, and shipping revenue. Net sales include our store sales and our ecommerce sales. 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 based on our historical redemption rate in proportion to the pattern of rights exercised by the customer.

We report “comparable sales” based on net sales beginning on the first anniversary of the first day of operation of a new store or ecommerce business. We operate a sales strategy that integrates our stores with our ecommerce platform. There is significant interaction between our store sales and our ecommerce sales channels and we believe that they are utilized in tandem to serve our customers. Therefore, our comparable sales also include our ecommerce sales. Changes in our comparable sales between two periods are based on net sales of store or ecommerce business which were in operation during both of the two periods being compared and, if a store or ecommerce business is included in the calculation of comparable sales for only a portion of one of the two periods being compared, then that store or ecommerce business is included in the calculation for only the comparable portion of the other period. Any increase or decrease less than 25% in square footage of an existing comparable store, including remodels and relocations within the same mall, or temporary closures less than seven days does not eliminate that store from inclusion in the calculation of comparable sales. Any store or ecommerce business that we acquire will be included in the calculation of comparable sales after the first anniversary of the acquisition date. Current year foreign exchange rates are applied to both current year and prior year comparable sales to achieve a consistent basis for comparison. Stores closed due the impacts of COVID-19 are excluded from our comparable sales calculation if they were closed for longer than seven days. Our ecommerce business has remained open during the COVID-19 pandemic and therefore remains reported in our comparable sales calculation. There may be variations in the way in which some of our competitors and other apparel retailers calculate comparable sales. As a result, data herein regarding our comparable sales may not be comparable to similar data made available by our competitors or other retailers.

Cost of goods sold consists of branded merchandise costs and our private label merchandise costs including design, sourcing, importing and inbound freight costs. 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, training expenses and 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.

Key Performance Indicators

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

Net sales. Net sales constitute gross sales, net of sales returns and deductions for promotions, and shipping revenue. Net sales includes comparable sales and new store sales for all our store and ecommerce businesses. We consider net sales to be an important indicator of our current performance. Net sales results are important to achieve leveraging of our costs, including store payroll and store occupancy. Net sales also have a direct impact on our operating profit, cash and working capital.

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

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

Diluted earnings per share. Diluted earnings per share is based on the weighted average number of common shares and common share equivalents outstanding during the period. We view diluted earnings per share as a key indicator of our success in increasing shareholder value.

Trends and Uncertainties Affecting Our Results and Comparability

We have been, and we expect to continue to be affected by a number of factors that may cause actual results to differ from our historical results or current expectations. These factors include the impact of the COVID-19 pandemic on our operations and financial results; foreign currency rates; changes in laws, including U.S. tax law changes; fluctuations in variable costs, and changes in general economic conditions in the markets in which we operate. Additionally, we have experienced increased costs during 2021 and 2022 that are expected to continue into 2023. Our ability to raise our selling prices depends on market conditions and there may be periods during which we are unable to fully recover increases in our costs or experience an adverse impact on demand due to pricing actions. We believe higher consumer price inflation has resulted in reduced consumer confidence and consumer spending which negatively impacted our sales during fiscal 2022.

These and other factors can affect our operations and net earnings for any period and may cause such results not to be comparable to the same period in previous years and the results presented in this report are not necessarily indicative of future operating results.

Results of Operations

In December 2019, a novel strain of coronavirus (COVID-19) was first identified, and in

2020, the World Health Organization categorized COVID-19 as a pandemic. In the best interest of our customers and employees and in line with governmental regulations, all stores were closed by March 19, 2020. We began gradually re-opening physical stores at the end of the first fiscal quarter and into the second fiscal quarter, with the majority of our stores open through the third and fourth quarter. In certain regions, COVID-19 related short-term closures continued into fiscal 2021, primarily in Europe, Canada, and Australia. Due to the COVID-19 pandemic, our stores were open, on an aggregate basis, approximately 100%, 97% and 78% of the possible days during fiscal 2022, fiscal 2021, and fiscal 2020, respectively.

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

	<u>Fiscal 2022</u>	<u>Fiscal 2021</u>	<u>Fiscal 2020</u>
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	66.1%	61.4%	64.7%
Gross profit	33.9%	38.6%	35.3%
Selling, general and administrative expenses	30.7%	25.3%	25.5%
Operating profit	3.2%	13.3%	9.8%
Interest and other income, net	0.2%	0.3%	0.5%
Earnings before income taxes	3.4%	13.6%	10.3%
Provision for income taxes	1.2%	3.5%	2.6%
Net income	<u>2.2%</u>	<u>10.1%</u>	<u>7.7%</u>

Fiscal 2022 Results Compared With Fiscal 2021

Net Sales

Net sales were \$958.4 million for fiscal 2022 compared to \$1,183.9 million for fiscal 2021, a decrease of \$225.5 million or 19.0%. The decrease in sales was primarily driven by continued inflationary pressures on the consumer, foreign exchange rate fluctuation, and the benefits from domestic stimulus in the prior year when consumers were less likely to spend on travel and in-person entertainment due to COVID-19.

The decrease in net sales was driven by a decrease in transactions and a decrease in dollars per transaction. The decrease in dollars per transaction was driven by a decrease in units per transaction, partially offset by an increase in average unit retail. For the year, the men's category was our largest declining category followed by hardgoods, accessories, women's, and footwear.

By region, North America sales decreased \$228.3 million or 22.2% and other international sales increased \$2.8 million or 1.8% during fiscal 2022 compared to fiscal 2021. Net sales for the year ended January 28, 2023 included a \$17.7 million decrease due to the change in foreign exchange rates, which consisted of \$13.7 million in Europe, \$2.2 million in Canada, and \$1.8 million in Australia. Excluding the impact of changes in foreign exchange rates, North America sales decreased \$226.1 million or 21.9% and other international sales increased \$18.4 million or 12.0% during fiscal 2022 compared to fiscal 2021.

Gross Profit

Gross profit was \$324.7 million for fiscal 2022 compared to \$456.7 million for fiscal 2021, a decrease of \$132.1 million, or 28.9%. As a percentage of net sales, gross profit decreased 470 basis points in fiscal 2022 to 33.9%, as we saw significant deleverage on lower sales across our fixed costs as well as rate increases in numerous areas. The decrease was primarily driven by a 240 basis point deleverage in store occupancy costs, a 90 basis point increase in web shipping costs, a 70 basis point deleverage in distribution center costs, a 50 basis point decrease in product margin, a 40 basis point deleverage in buying and private label costs, and a 30 basis point increase in inventory shrinkage. These increases were partially offset by a 30 basis point decrease in annual incentive compensation.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were \$293.6 million for fiscal 2022 compared to \$298.9 million for fiscal 2021, a decrease of \$5.3 million, or 1.8%. SG&A expenses as a percent of net sales increased 540 basis points in fiscal 2022 to 30.7%. The increase was primarily driven by 260 basis points due to store wages tied to both deleverage on lower sales as well as rate increase that we could not offset by management of hours, 140 basis points due to store costs not tied to wages primarily impacted by deleverage on lower sales, 100 basis points in non-store wages, 70 basis points in corporate costs and 70 basis points in our training events as we got back to our normal cadence. These increases were partially offset by a 70 basis point decrease in annual incentive compensation and a 30 basis points decrease due to an increase in government subsidies related to a one-time German government subsidy received in the first quarter of fiscal 2022.

Net Income

Net income for fiscal 2022 was \$21.0 million, or \$1.08 per diluted share, compared with net income of \$119.3 million, or \$4.85 per diluted share, for fiscal 2021. Our effective income tax rate for fiscal 2022 was 35.2% compared to 25.7% for fiscal 2021. The increase in effective income tax rate for fiscal 2022 compared to fiscal 2021 was primarily related to an increase in foreign losses in certain jurisdictions, which are subject to a valuation allowance. Due to cumulative and ongoing foreign losses in such jurisdictions, the realization of such deferred tax assets is uncertain and thus subject to a valuation allowance. The increase in the valuation allowance in fiscal 2022 resulted in \$3.0 million of income tax expense or 9.3% when compared to fiscal 2021 of \$2.2 million or 1.4%.

Fiscal 2021 Results Compared With Fiscal 2020

Net Sales

Net sales were \$1,183.9 million for fiscal 2021 compared to \$990.7 million for fiscal 2020, an increase of \$193.2 million or 19.5%. The increase in sales was primarily driven by the re-opening of stores compared to the wide spread short-term store closures related to the COVID-19 pandemic in the prior year, our ability to capitalize on current trends and the impact of domestic economic stimulus on the business during the year. For the year, our stores were open approximately 97.0% of the possible days compared to 78.4% of the possible days during fiscal 2020.

The increase in net sales was driven by an increase in transactions and an increase in dollars per transaction. Dollars per transaction increased due to an increase in average unit retail partially offset by a decrease in units per transaction. For the year, the men's category was our largest growth category followed by accessories, footwear, and women's. Our only negative category for the year was hardgoods.

By region, North America sales increased \$165.1 million or 19.1% and other international sales increased \$28.1 million or 22.5% during fiscal 2021 compared to fiscal 2020. Net sales for the year ended January 29, 2022 included a \$4.2 million increase due to the change in foreign exchange rates, which consisted of \$3.0 million in Canada, \$1.0 million in Australia, and \$0.3 million in Europe. Excluding the impact of changes in foreign exchange rates, North America sales increased \$162.2 million or 18.7% and other international sales increased \$26.8 million or 21.4% during fiscal 2021 compared to fiscal 2020.

Gross Profit

Gross profit was \$456.7 million for fiscal 2021 compared to \$350.0 million for fiscal 2020, an increase of \$106.7 million, or 30.5%. As a percentage of net sales, gross profit increased 330 basis points in fiscal 2021 to 38.6%, as we leverage meaningfully across the fixed cost structures compared to the period of COVID-19 related closures in the prior year. The increase was primarily driven by a 140 basis point leverage in our store occupancy costs when compared to the prior year, which included the continuation of rent charges without associated sales during COVID-19 related closures in fiscal 2020. In addition, there was a 110 basis point increase in product margin and a 100 basis point decrease in web fulfillment and web shipping costs due to leverage of distribution fixed costs and decreased total web sales activity compared to the prior year which increased as a result of COVID-19 related short-term closures.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were \$298.9 million for fiscal 2021 compared to \$253.1 million for fiscal 2020, an increase of \$45.8 million, or 18.1%. SG&A expenses as a percent of net sales decreased 20 basis points in fiscal 2021 to 25.3% as we leveraged meaningfully across our fixed costs compared to the period of COVID-19 related closures in the prior year. The decrease was primarily driven by 90 basis points of leverage in non-wage store operating costs partially offset by a 50 basis point unfavorable impact related to fewer government subsidies received in fiscal 2021.

Net Income

Net income for fiscal 2021 was \$119.3 million, or \$4.85 per diluted share, compared with net income of \$76.2 million, or \$3.00 per diluted share, for fiscal 2020. Our effective income tax rate for fiscal 2021 was 25.7% compared to 25.6% for fiscal 2020.

Liquidity and Capital Resources

Our cash requirements are subject to change as business conditions warrant and opportunities arise. Our primary uses of cash are for operational expenditures, inventory purchases, common stock repurchases and capital investments, including new stores, store remodels, store relocations, store fixtures and ongoing infrastructure improvements. Historically, our main source of liquidity has been cash flows from operations.

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

At January 28, 2023 and January 29, 2022, cash, cash equivalents and current marketable securities were \$173.5 million and \$294.5 million. Working capital, the excess of current assets over current liabilities, was \$194.4 million at the end of fiscal 2022, a decrease of 26.2% from \$263.2 million at the end of fiscal 2021. The decrease in cash, cash equivalents and current marketable securities in fiscal 2022 was due to repurchases of common stock of \$87.9 million and \$25.6 million of capital expenditures primarily related to the opening of 32 new stores and 2 remodels and relocations.

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

	<u>Fiscal 2022</u>	<u>Fiscal 2021</u>	<u>Fiscal 2020</u>
Total cash (used in) provided by			
Operating activities	\$ (379)	\$ 134,950	\$ 138,412
Investing activities	54,209	101,643	(110,541)
Financing activities	(87,257)	(191,409)	(9,694)
Effect of exchange rate changes on cash and cash equivalents	(2,172)	(1,822)	3,522
Net (decrease) increase in cash, cash equivalents, and restricted cash	<u>\$ (35,599)</u>	<u>\$ 43,362</u>	<u>\$ 21,699</u>

Operating Activities

Net cash provided by operating activities decreased by \$135.3 million in fiscal 2022 to \$0.4 million cash used in operating activities from \$135.0 million cash provided by operating activities in fiscal 2021. Net cash provided by operating activities decreased by \$3.5 million in fiscal 2021 to \$135.0 million from \$138.4 million in fiscal 2020. Our operating cash flows result primarily from cash received from our customers, offset by cash payments we make for inventory, employee compensation, store occupancy expenses and other operational expenditures. Cash received from our customers generally corresponds to our net sales. Because our customers primarily use credit cards or cash to buy from us, our receivables from customers settle quickly. Changes to our operating cash flows have historically been driven primarily by changes in operating income, which is impacted by changes to non-cash items such as depreciation, amortization and accretion, deferred taxes, and changes to the components of working capital.

Investing Activities

Net cash provided by investing activities was \$54.2 million in fiscal 2022 related to \$79.8 million in net sales of marketable securities and \$25.6 million of capital expenditures primarily for new store openings and existing store remodels or relocations. Net cash provided by investing activities was \$101.6 million in fiscal 2021 related to \$117.4 million in net sales of marketable securities and \$15.7 million of capital expenditures primarily for new store openings and existing store remodels or relocations. Net cash used in investing activities was \$110.5 million in fiscal 2020 related to \$101.4 million in net purchases of marketable securities and \$9.1 million of capital expenditures primarily for new store openings and existing store remodels or relocations.

Financing Activities

Net cash used in financing activities in fiscal 2022 was \$87.3 million related to \$87.9 million used in the repurchase of common stock and \$0.5 million in payments for tax withholding obligations upon vesting of restricted stock partially offset by \$1.1 million in proceeds from the issuance and exercise of stock-based awards. Net cash used in financing activities in fiscal 2021 was \$191.4 million related to \$193.8 million used in the repurchase of common stock and \$0.6 million in payments on tax withholding obligation upon vesting of restricted stock partially offset by \$3.0 million in proceeds from the issuance and exercise of stock-based awards. Net cash used in financing activities in fiscal 2020 was \$9.7 million related to \$13.4 million used in the repurchase of common stock and \$0.2 million in payments on tax withholding obligation upon vesting of restricted stock partially offset by \$3.9 million in proceeds from the issuance and exercise of stock-based awards.

Capital Expenditures

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

During fiscal 2022, we spent \$25.6 million on capital expenditures which consisted of \$13.8 million of costs related to investment in 32 new stores and 2 remodeled or relocated stores, \$6.6 million associated with improvements to our websites and \$5.2 million in other improvements.

During fiscal 2021, we spent \$15.7 million on capital expenditures which consisted of \$11.5 million of costs related to investment in 23 new stores and 3 remodeled or relocated stores, \$1.1 million associated with improvements to our websites and \$3.1 million in other improvements.

During fiscal 2020, we spent \$9.1 million on capital expenditures, which consisted of \$6.6 million of costs related to investment in 12 new stores and 3 remodeled or relocated stores, \$2.1 million associated with improvements to our websites and \$0.4 million in other improvements.

In fiscal 2023, we expect to spend approximately \$21 million to \$23 million on capital expenditures, a majority of which will relate to leasehold improvements and fixtures for the approximately 23 new stores we plan to open in fiscal 2023 and remodels or relocations of existing stores. There can be no assurance that the number of stores that we actually open in fiscal 2023 will not be different from the number of stores we plan to open, or that actual fiscal 2023 capital expenditures will not differ from this expected amount.

Other Material Cash Requirements

Our material cash requirements include the following contractual and other obligations: (1) purchase obligations (for additional information, see Note 11 to the Consolidated Financial Statements); (2) supply and service arrangements entered in the normal course of business; (3) operating lease payments (for additional information, see Note 10 to the Consolidated Financial Statements); and (4) employee wages, benefits, and incentives; (5) commitments for capital expenditures; and (6) tax payables. Moreover, we may be subject to additional material cash requirements that are contingent upon the occurrence of certain events, e.g., legal contingencies, uncertain tax positions, and other matters.

At January 28, 2023, we did not have any “off-balance sheet arrangements,” as defined in relevant SEC regulations that are reasonably likely to have a current or future effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Sources of Liquidity

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

As of January 28, 2023, we maintained a secured credit agreement with Wells Fargo Bank, N.A., which provided us with a senior secured credit facility (“credit facility”) of up to \$25.0 million through December 1, 2023, and up to \$35.0 million after December 1, 2023 and through December 1, 2024. The credit facility is available for working capital and other general corporate purposes. The credit facility provides for the issuance of standby letters of credit in an amount not to exceed \$17.5 million outstanding at any time and with a term not to exceed 365 days. The commercial line of credit provides for the issuance of commercial letters of credit in an amount not to exceed \$10.0 million and with terms not to exceed 120 days. The credit facility will mature on December 1, 2024. The credit facility is secured by a first-priority security interest in substantially all of the personal property (but not the real property) of the borrowers and guarantors. Amounts borrowed under the credit facility bear interest at a daily simple SOFR rate plus a margin of 1.35% per annum. There were no borrowings or open commercial letters of credit outstanding under the secured credit facility at January 28, 2023. We had \$0.6 million in issued, but undrawn, standby letters of credit at January 28, 2023.

Additionally, on October 12, 2020, we entered into a credit facility with UBS Switzerland AG of up to 15.0 million Euro. The credit facility bore interest at 1.25%. This credit facility was closed on December 30, 2022.

Critical Accounting Estimates

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

Our significant accounting policies are discussed in Note 2, “Summary of Significant Accounting Policies,” in the Notes to Consolidated Financial Statements found in Part IV Item 15 of this Form 10-K. We believe that the following accounting estimates involve a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact on our consolidated financial statements.

Description	Judgments and Uncertainties	Effect If Actual Results Differ From Assumptions
Valuation of Merchandise Inventories		
<p>We value our inventory at the lower of average cost or net realizable 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 we use to calculate our inventory reserves. However, if actual results are not consistent with our estimates, we may be exposed to losses or gains that could be material. Our inventory reserves have decreased by \$0.8 million in fiscal 2022.</p>
<p>Our write-down reserve represents the excess of the carrying value over the amount we expect to realize from the ultimate sales or other disposal of the inventory. Write-downs establish a new cost basis for our inventory. Subsequent changes in facts or circumstances do not result in the restoration of previously recorded write-downs or an increase in that newly established cost basis.</p>	<p>Our shrinkage reserve contains uncertainties because the calculation requires management to make assumptions and to apply judgment regarding a number of factors, including historical percentages that can be affected by changes in merchandise mix and changes in actual shrinkage trends.</p>	<p>A 10% decrease in the sales price of our inventory at January 28, 2023 would have decreased net income by \$0.6 million in fiscal 2022.</p>
<p>Our inventory loss reserve represents anticipated physical inventory losses (“shrinkage reserve”) that have occurred since the last physical inventory.</p>		<p>A 10% increase in actual physical inventory shrinkage rate at January 28, 2023 would have decreased net income by less than \$0.1 million in fiscal 2022.</p>
Valuation of Long-Lived Assets		
<p>We review the carrying value of our long-lived assets, including fixed assets and operating lease right-of-use assets, for impairment whenever events or changes in circumstances indicate that the carrying value of such asset or asset group may not be recoverable.</p>	<p>Events that may result in an impairment include the decision to close a store or facility or a significant decrease in the operating performance of a long-lived asset group. Our impairment 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, operating expenses, or sublease income. In addition to historical results, current trends and initiatives, and long-term macro-economic and industry factors are qualitatively considered. Additionally, management seeks input from store operations related to local economic conditions, including the impact of closures of selected co-tenants who occupy the mall.</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 long-lived asset impairment losses. However, if actual results are not consistent with our estimates and assumptions, our operating results could be adversely affected. Declines in projected cash flow of the assets could result in impairment. We recognized impairment losses of \$2.1 million related to long-lived assets in fiscal 2022.</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 fair value of the asset to the asset carrying value. The fair value of the asset is based on the future discounted cash flow of current market rents that we could receive as sublease income.</p>		<p>A 10 basis point decrease in forecasted sales assumptions would have resulted in an additional impairment charge of \$0.1 million in fiscal 2022.</p>

Description	Judgments and Uncertainties	Effect If Actual Results Differ From Assumptions
<i>Right-of-use Assets and Lease Liabilities</i>		
<p>We determine if a contract contains a lease at inception. Our operating leases primarily consist of retail store locations, distribution centers and corporate office space. We do not have any material leases, individually or in the aggregate, classified as a finance leasing arrangement.</p>	<p>Significant judgment is required in determining our incremental borrowing rate and the expected lease term, both of which impact the determination of lease classification and the present value of lease payments. Generally, our lease contracts do not provide a readily determinable implicit rate and, therefore, we use an estimated incremental borrowing rate as of the lease commencement date in determining the present value of lease payments. The estimated incremental borrowing rate reflects considerations such as market rates for our outstanding collateralized debt and interpolations of rates for leases with terms that differ from our outstanding debt.</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 right-of-use assets and lease liabilities. Given the significant operating lease assets and liabilities recorded, changes in the estimates made by management or the underlying assumptions could have a material impact on our consolidated financial statements.</p>
<p>Operating lease right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term, net of lease incentives received and initial direct costs paid. Our retail store leases are generally for an initial period of 5-10 years, with some of our international leases structured to include renewal options at our election. We include renewal options that we are reasonably certain to exercise in the measurement our lease liabilities and right-of-use assets.</p>	<p>Our lease terms include option periods to extend or terminate the lease when it is reasonably certain that those options will be exercised, which is generally through an initial period of 5-10 years.</p>	<p>Total undiscounted future payments for lease liabilities were \$272.8 million at January 28, 2023. If the incremental borrowing rate increased 10 basis points from the rate in effect at January 28, 2023, the lease liability balance would decrease by \$0.3 million.</p>
<i>Revenue Recognition</i>		
<p>Revenue is recognized upon purchase at our retail store locations. For our ecommerce sales, revenue is recognized upon shipment to the customer. Revenue is recorded net of sales returns and deductions for promotions.</p>	<p>Our revenue recognition accounting methodology contains uncertainties because it requires management to make assumptions regarding future sales returns and the amount and timing of gift cards projected to be redeemed by gift card recipients. Our estimate of the amount and timing of sales returns and gift cards to be redeemed is based primarily on historical experience.</p>	<p>We have not made any material changes in the accounting methodology used to measure future sales returns or gift card breakage in the past three fiscal years.</p>
<p>Revenue is not recorded on the sale of gift cards. We record the sale of gift cards as a current liability and recognize revenue when a customer redeems a gift card. Additionally, the portion of gift cards that will not be redeemed (“gift card breakage”) is recognized in proportion of the patterns used by the customer based on our historical redemption patterns.</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 recognize revenue. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material.</p>
		<p>Our sales return reserve has decreased by \$0.4 million in fiscal 2022. A 10% increase in our sales return reserve at January 28, 2023 would have decreased net income by \$0.3 million in fiscal 2022.</p>
		<p>Our gift card breakage reserve has increased by \$1.8 million in fiscal 2022. A 1% increase in the estimated gift card redemption rate would have decreased net income by \$0.1 million in fiscal 2022.</p>

Accounting for Income Taxes

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 are established when necessary to reduce deferred tax assets to the amount expected to be realized.

We regularly evaluate the likelihood of realizing the benefit for income tax positions we have taken in various federal, state and foreign filings by considering all relevant facts, circumstances and information available to us. If we believe it is more likely than not that our position will be sustained, we recognize a benefit at the largest amount that we believe is cumulatively greater than 50% likely to be realized.

Accounting for 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.

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.

The assessment of whether we will realize the value of our deferred tax assets requires estimates and judgments related to amount and timing of future taxable income. Actual results may differ from those estimates.

Additionally, changes in the relevant tax, accounting and other laws, regulations, principles and interpretations may adversely affect financial results.

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.

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.

At January 28, 2023 and January 29, 2022, we had valuation allowances on our deferred tax assets of \$12.8 million and \$10.0 million, respectively. Significant changes in performance or estimated taxable income may result in a change in our assessment of the valuation allowance.

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.

Although management believes that the contingency related judgments and estimates are reasonable, our accrual for claims and contingencies could fluctuate as additional information becomes known, thereby creating variability in our results of operations from period to period. Additionally, actual results could differ and we may be exposed to losses or gains that could be material. See Note 11, "Commitments and Contingencies," in the Notes to the consolidated financial statements found in Part IV Item 15 of this Form 10-K.

Goodwill and Indefinite-lived Intangible Assets

We assess goodwill and indefinite-lived intangible assets for impairment on an annual basis or more frequently if indicators of impairment arise. We perform this analysis at the reporting unit level.

We have an option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we choose not to perform the qualitative test or we determine that it is more likely than not that the fair value of the reporting unit is less than the carrying amount, we compare the carrying value of the reporting unit to its estimated fair value, which is based on the perspective of a market-participant. If the fair value of the reporting unit is lower than the carrying value, an impairment loss is recorded for the amount in which the carrying value exceeds the estimated fair value.

The goodwill and indefinite-lived intangible assets impairment tests require management to make assumptions and judgments.

Our quantitative goodwill analysis of fair value is determined using a combination of the income and market approaches. Key assumptions in the income approach include estimating future cash flows, long-term growth rates and weighted average cost of capital. Our ability to realize the future cash flows used in our fair value calculations is affected by factors such as changes in economic conditions, operating performance and our business strategies. Key assumptions in the market approach include identifying companies and transactions with comparable business factors, such as earnings growth, profitability, business and financial risk.

The fair value of the trade names and trademarks is determined using the relief from royalty method, which requires assumptions including forecasting future sales, discount rates and royalty rates.

Based on the results of our annual impairment test for goodwill and indefinite-lived intangible assets, no impairment was recorded. All reporting units had a fair value in excess of the carrying value. If actual results are not consistent with our estimates or assumptions, or there are significant changes in any of these estimates, projections and assumptions, could have a material effect of the fair value of these assets in future measurement periods and result in an impairment, which could materially affect our results of operations.

A goodwill impairment analysis was performed for each of our reporting units as of November 1, 2022. Based on this analysis the implied fair value of each of our reporting units was in excess of its carrying value. A 10% decrease in the estimated fair value of the Blue Tomato reporting unit based on a future cash flow valuation model, would not have resulted in a different conclusion.

Recent Accounting Pronouncements

See 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.

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

Our earnings are affected by changes in market interest rates as a result of our short-term and long-term marketable securities, which are primarily invested in state and local municipal securities and variable-rate demand notes, which have long-term nominal maturity dates but feature variable interest rates that reset at short-term intervals. If our current portfolio average yield rate decreased by 10% in fiscal 2022, our net income would have decreased by \$0.2 million. This amount is determined by considering the impact of the hypothetical yield rates on our cash, cash equivalents, short-term marketable securities 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 this revolving credit facility, we are exposed to the market risk related to changes in interest rates. At January 28, 2023, we had no borrowings outstanding under the secured revolving credit facility.

Foreign Exchange Rate Risk

Our international subsidiaries operate with functional currencies other than the U.S. Dollar, including the Canadian Dollar, Euro, Australian Dollar, Norwegian Krone, Swedish Krona, and Swiss Franc. 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. As a result, the fluctuation in the value of the U.S. dollar against other currencies affects the reported amounts of revenues, expenses, assets and liabilities. Assuming a 10% change in foreign exchange rates in fiscal 2022 our net income would have decreased or increased by \$1.0 million. As we expand our international operations, our exposure to exchange rate fluctuations will continue to increase. To date, we have not used derivatives to manage foreign currency exchange risk.

We import merchandise from foreign countries. As a result, any significant or sudden change in the financial, banking or currency policies and practices of these countries could have a material adverse impact on our financial position, results of operations and cash flows.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Securities Exchange Act Rule 13a-15(e)). Based on this evaluation, our CEO and CFO concluded that, as of January 28, 2023, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting. There has been no change in our internal control over financial reporting (as defined in Securities Exchange Act Rule 13a-15(f)) during the quarter ended January 28, 2023 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 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 January 28, 2023. Management's assessment was based on criteria described in the Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of January 28, 2023.

The effectiveness of the Company's internal control over financial reporting as of January 28, 2023 has been audited by Moss Adams LLP, the Company's independent registered public accounting firm, as stated in their report, appearing herein under the heading "Report of Independent Registered Public Accounting Firm."

Item 9B. OTHER INFORMATION

None.

Item 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

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 2023 Annual Meeting of Shareholders (the “Proxy Statement”) that will be filed within 120 days after our fiscal year ended January 28, 2023 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

The Company’s independent registered public accounting firm is Moss Adams LLP, Seattle, WA, PCAOB ID: 659.

Information concerning principal accounting fees and services is presented under the heading “Fees Paid to Independent Registered Public Accounting Firm for Fiscal 2022 and 2021” in our Proxy Statement, and is incorporated herein by this reference thereto.

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Consolidated Financial Statements

(2) Consolidated Financial Statement Schedules:

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

(3) Exhibits included or incorporated herein:

See Exhibit Index.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of
Zumiez Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Zumiez Inc. (the “Company”) as of January 28, 2023 and January 29, 2022, the related consolidated statements of income, comprehensive income, changes in shareholders’ equity and cash flows for each of the three years in the period ended January 28, 2023, and the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of January 28, 2023, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of January 28, 2023 and January 29, 2022, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 28, 2023, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 28, 2023, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, 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 Report on Internal Control over Financial Reporting included in Item 9A. Our responsibility is to express an opinion on the Company’s consolidated financial statements and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting 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 audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

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.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which they relate.

Goodwill and Intangible Asset Impairment

As described in Notes 2 and 7 to the consolidated financial statements, the Company's consolidated goodwill and intangible asset balances were \$56.6 million and \$14.4 million, respectively, at January 28, 2023. For the year ended January 28, 2023, there was no impairment of goodwill and the impairment of intangible assets recognized by the Company was immaterial. The Company has an option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If management chooses not to perform the qualitative test or determines that it is more likely than not that the fair value of the reporting unit is less than the carrying amount, the Company's evaluation of impairment of goodwill and intangible assets requires a comparison of the reporting unit's and intangible asset's fair value to their carrying value. If the fair value of the reporting unit or intangible asset is lower than the carrying value, then the Company records an impairment in the amount equal to the excess, not to exceed the carrying value.

The determination of the fair value of the reporting unit and intangible assets requires management to make significant estimates, complex judgments, and assumptions. These assumptions include forecasts of future cash flows, long-term growth rates, weighted average cost of capital, valuation ratios derived from market transactions of similar companies, and royalty rates.

Given the Company's evaluation of impairment of goodwill and intangible assets requires management to make significant assumptions, performing audit procedures to evaluate whether management appropriately determined the fair value of the reporting unit and intangible assets required a high degree of auditor judgment. In addition, our audit effort included the use of professionals with specialized skill and knowledge to assist in performing these procedures and evaluating the audit evidence obtained.

The primary procedures we performed to address this critical audit matter included:

- Testing the effectiveness of controls relating to management's goodwill and intangible asset impairment tests, including controls over the determination of the fair value of the Europe reporting unit and related intangible assets.

- Testing management’s process for determining the fair value of the Europe reporting unit and related intangible assets. We evaluated the reasonableness of management’s forecasts of future cashflows and long-term growth rates by comparing these forecasts to historical operating results of the Company as well as a retrospective review of the accuracy of management’s prior forecasts.
- Utilizing a valuation specialist to assist in testing the management’s income and market approach models for the Europe reporting unit and relief from royalty method for intangible assets and certain related significant assumptions.
- Evaluating whether the assumptions used were reasonable by considering the past performance of the reporting unit and third-party market data, and whether such assumptions were consistent with evidence obtained in other areas of the audit.

Store Asset Impairment

As described in Notes 2 and 6 to the consolidated financial statements, the Company’s consolidated fixed assets, net balance was \$93.7 million and operating lease right-of-use asset was \$222.2 million as of January 28, 2023. For the year ended January 28, 2023, the Company recognized store asset impairment losses of \$2.1 million, as disclosed in Note 12, which consists of impairment charges for fixed assets of \$1.7 million and impairment charges for operating right-of-use assets of \$0.4 million. The Company evaluates the carrying value of long-lived assets or asset groups (defined as a store, corporate facility or distribution center) for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. Events that result in a store asset impairment review include plans to close a store or facility or a significant decrease in the operating performance of a store. When such an indicator occurs, the Company evaluates the store assets for impairment by comparing the undiscounted future cash flows expected to be generated by the store to its carrying amount. If the carrying amount exceeds the estimated undiscounted future cash flows, an analysis is performed to estimate the fair value of the asset. An impairment is recorded if the fair value of the store’s assets is less than the carrying amount.

The evaluation of store assets for possible indications of impairment and the determination of the fair value of a store requires management to make significant estimates, complex judgments, and assumptions. These assumptions include estimated future cashflows, sublease income, and discount rate.

Given the Company’s evaluation of impairment of store assets requires management to make significant assumptions, performing audit procedures to evaluate whether management appropriately identified events or changes in circumstances indicating that the carrying amounts of store assets may not be recoverable and determine store fair value required a high degree of auditor judgment. In addition, our audit effort included the use of professionals with specialized skill and knowledge to assist in performing these procedures and evaluating the audit evidence obtained.

The primary procedures we performed to address this critical audit matter included:

- Testing the effectiveness of controls relating to management’s identification of indicators of impairment, the assessment of the projected undiscounted cash flows to be generated by stores with indicators of impairment, the determination of the fair value of the stores, and the measurement of any resulting impairment.
- Evaluating management’s store asset impairment analysis including inspecting the Company’s analysis of historical results by store to determine if contrary evidence existed as to the completeness of the population of potentially impaired stores.
- Testing management’s process for determining the projected undiscounted cash flows to be generated by the stores. We evaluated the reasonableness of management’s assumptions used to forecast future cash flows including forecasted growth rate by comparing these forecasts to historical operating results of the Company.
- Evaluating management’s assumptions used to estimate fair value of the stores by performing a sensitivity analysis to evaluate the changes in the fair value of the individual stores that would result from changes in the underlying assumptions.

- Utilizing a valuation specialist to assist in our evaluation of the current market rents and market participant real estate data and related assumptions used to estimate store fair value.

/s/ Moss Adams LLP

Seattle, Washington
March 20, 2023

We have served as the Company's auditor since 2006.

ZUMIEZ INC.
CONSOLIDATED BALANCE SHEETS
(In thousands)

	January 28, 2023	January 29, 2022
Assets		
Current assets		
Cash and cash equivalents	\$ 81,503	\$ 117,223
Marketable securities	91,986	177,260
Receivables	20,613	14,427
Inventories	134,824	128,728
Prepaid expenses and other current assets	11,252	10,011
Total current assets	<u>340,178</u>	<u>447,649</u>
Fixed assets, net	93,746	91,451
Operating lease right-of-use assets	222,240	230,187
Goodwill	56,566	57,560
Intangible assets, net	14,443	14,698
Deferred tax assets, net	8,205	8,659
Other long-term assets	12,525	11,808
Total long-term assets	<u>407,725</u>	<u>414,363</u>
Total assets	<u>\$ 747,903</u>	<u>\$ 862,012</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Trade accounts payable	\$ 40,379	\$ 55,638
Accrued payroll and payroll taxes	16,321	31,209
Operating lease liabilities	65,460	63,577
Other liabilities	23,649	34,015
Total current liabilities	<u>145,809</u>	<u>184,439</u>
Long-term operating lease liabilities	188,835	204,309
Other long-term liabilities	5,931	4,946
Total long-term liabilities	<u>194,766</u>	<u>209,255</u>
Total liabilities	<u>340,575</u>	<u>393,694</u>
Commitments and contingencies (Note 11)		
Shareholders' equity		
Preferred stock, no par value, 20,000 shares authorized; none issued and outstanding	—	—
Common stock, no par value, 50,000 shares authorized; 19,489 shares issued and outstanding at January 28, 2023 and 21,215 shares issued and outstanding at January 29, 2022	188,418	180,824
Accumulated other comprehensive loss	(19,793)	(13,463)
Retained earnings	238,703	300,957
Total shareholders' equity	<u>407,328</u>	<u>468,318</u>
Total liabilities and shareholders' equity	<u>\$ 747,903</u>	<u>\$ 862,012</u>

See accompanying notes to consolidated financial statements

ZUMIEZ INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)

	Fiscal Year Ended		
	January 28, 2023	January 29, 2022	January 30, 2021
Net sales	\$ 958,380	\$ 1,183,867	\$ 990,652
Cost of goods sold	633,702	727,137	640,637
Gross profit	324,678	456,730	350,015
Selling, general and administrative expenses	293,578	298,920	253,077
Operating profit	31,100	157,810	96,938
Interest income, net	1,924	3,592	3,518
Other (expense) income, net	(557)	(891)	2,001
Earnings before income taxes	32,467	160,511	102,457
Provision for income taxes	11,433	41,222	26,230
Net income	\$ 21,034	\$ 119,289	\$ 76,227
Basic earnings per share	\$ 1.10	\$ 4.93	\$ 3.06
Diluted earnings per share	\$ 1.08	\$ 4.85	\$ 3.00
Weighted average shares used in computation of earnings per share:			
Basic	19,208	24,187	24,942
Diluted	19,428	24,593	25,398

See accompanying notes to consolidated financial statements

ZUMIEZ INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Fiscal Year Ended		
	January 28, 2023	January 29, 2022	January 30, 2021
Net income	\$ 21,034	\$ 119,289	\$ 76,227
Other comprehensive (loss) income, net of tax and reclassification adjustments:			
Foreign currency translation	(2,596)	(11,098)	12,289
Net change in unrealized (loss) gain on available-for-sale debt securities	(3,734)	(3,304)	1,241
Other comprehensive (loss) income, net	(6,330)	(14,402)	13,530
Comprehensive income	\$ 14,704	\$ 104,887	\$ 89,757

See accompanying notes to consolidated financial statements

ZUMIEZ INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands)

	Common Stock		Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total
	Shares	Amount			
Balance at February 1, 2020	25,828	\$ 161,458	\$ (12,591)	\$ 317,219	\$ 466,086
Net income	—	—	—	76,227	76,227
Other comprehensive income, net	—	—	13,530	—	13,530
Issuance and exercise of stock-based awards	465	3,722	—	—	3,722
Stock-based compensation expense	—	6,448	—	—	6,448
Repurchase of common stock	(694)	—	—	(13,417)	(13,417)
Balance at January 30, 2021	25,599	171,628	939	380,029	552,596
Net income	—	—	—	119,289	119,289
Other comprehensive loss, net	—	—	(14,402)	—	(14,402)
Issuance and exercise of stock-based awards	197	2,380	—	—	2,380
Stock-based compensation expense	—	6,816	—	—	6,816
Repurchase of common stock	(4,581)	—	—	(198,361)	(198,361)
Balance at January 29, 2022	21,215	180,824	(13,463)	300,957	468,318
Net income	—	—	—	21,034	21,034
Other comprehensive loss, net	—	—	(6,330)	—	(6,330)
Issuance and exercise of stock-based awards	188	603	—	—	603
Stock-based compensation expense	—	6,991	—	—	6,991
Repurchase of common stock	(1,914)	—	—	(83,288)	(83,288)
Balance at January 28, 2023	19,489	\$ 188,418	\$ (19,793)	\$ 238,703	\$ 407,328

See accompanying notes to consolidated financial statements

ZUMIEZ INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Fiscal Year Ended		
	January 28, 2023	January 29, 2022	January 30, 2021
Cash flows from operating activities:			
Net income	\$ 21,034	\$ 119,289	\$ 76,227
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation, amortization and accretion	21,626	22,930	24,059
Noncash lease expense	67,394	64,466	61,694
Deferred taxes	2,485	2,374	(3,890)
Stock-based compensation expense	6,991	6,816	6,448
Impairment of long-lived assets	2,081	2,229	4,803
Other	1,176	2,728	(570)
Changes in operating assets and liabilities:			
Receivables	(1,716)	2,884	928
Inventories	(5,279)	2,587	3,946
Prepaid expenses and other assets	(1,082)	(2,824)	1,010
Trade accounts payable	(15,484)	(14,060)	20,797
Accrued payroll and payroll taxes	(14,895)	3,649	3,841
Income taxes payable	(2,320)	(5,101)	1,602
Operating lease liabilities	(76,605)	(77,657)	(65,479)
Other liabilities	(5,785)	4,640	2,996
Net cash (used in) provided by operating activities	(379)	134,950	138,412
Cash flows from investing activities:			
Additions to fixed assets	(25,627)	(15,749)	(9,057)
Purchases of marketable securities and other investments	(1,914)	(160,328)	(222,785)
Sales and maturities of marketable securities and other investments	81,750	277,720	121,301
Net cash provided by (used in) investing activities	54,209	101,643	(110,541)
Cash flows from financing activities:			
Proceeds from revolving credit facilities	3,979	—	—
Payments on revolving credit facilities	(3,979)	—	—
Proceeds from issuance and exercise of stock-based awards	1,111	3,001	3,877
Payments for tax withholdings on equity awards	(508)	(621)	(154)
Common stock repurchased	(87,860)	(193,789)	(13,417)
Net cash used in financing activities	(87,257)	(191,409)	(9,694)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(2,172)	(1,822)	3,522
Net (decrease) increase in cash, cash equivalents, and restricted cash	(35,599)	43,362	21,699
Cash, cash equivalents, and restricted cash, beginning of period	124,052	80,690	58,991
Cash, cash equivalents, and restricted cash, end of period	\$ 88,453	\$ 124,052	\$ 80,690
Supplemental disclosure on cash flow information:			
Cash paid during the period for income taxes	\$ 11,309	\$ 42,767	\$ 27,598
Accrual for repurchase of common stock	—	4,572	—
Accrual for purchases of fixed assets	1,433	984	231

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business and Basis of Presentation

Nature of Business—Zumiez Inc., including its wholly-owned subsidiaries, (“Zumiez”, the “Company,” “we,” “us,” “its” and “our”) is a global leading specialty retailer of apparel, footwear, accessories and hardgoods for young men and women who want to express their individuality through the fashion, music, art and culture of action sports, streetwear and other unique lifestyles. We operate under the names Zumiez, Blue Tomato and Fast Times. We operate ecommerce websites at zumiez.com, zumiez.ca, blue-tomato.com and fasttimes.com.au. At January 28, 2023, we operated 758 stores; 608 in the United States (“U.S.”), 51 in Canada, 78 in Europe and 21 in Australia.

Fiscal Year—We use a fiscal calendar widely used by the retail industry that results in a fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to January 31. Each fiscal year consists of four 13-week quarters, with an extra week added to the fourth quarter every five or six years. The fiscal years ended January 28, 2023, January 29, 2022 and January 30, 2021 were 52-week periods.

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.

COVID-19—In December 2019, a novel strain of coronavirus (“COVID-19”) was first identified, and in March 2020, the World Health Organization categorized COVID-19 as a pandemic. To help control the spread of the virus and protect the health and safety of our employees and customers, we began closing our retail stores across all markets that we operate in mid-March 2020. We began gradually re-opening stores at the end of the first fiscal quarter and into the second fiscal quarter of fiscal 2020, with the majority of our stores open through the third and fourth quarter of fiscal 2020. Changes in our operations due to COVID-19 resulted in material fluctuations to our results of operations during fiscal 2020 and in certain geographies in 2021. By quarter, our stores were open, on an aggregate basis, approximately 50.2%, 73.4%, 94.7% and 93.6%, respectively, of the possible days during each fiscal quarter in fiscal 2020, approximately 93.4%, 96.3%, 98.6% and 99.4%, respectively, of the possible days during each fiscal quarter in fiscal 2021, and approximately 100% of the possible days during each fiscal quarter in fiscal 2022.

On April 1, 2022, we received 3.2 million Euro (\$3.6 million) as a taxable subsidy from the German government related to our European business for costs incurred during fiscal 2020 and fiscal 2021 related to the COVID-19 pandemic. The subsidy was granted free of future obligations to repay and was accounted for using *IAS 20, Accounting for Government Grants and Disclosure of Government Assistance* by analogy. The amount was recorded as a reduction to expense in selling, general and administrative expenses on the consolidated statement of operations in the first quarter of fiscal 2022.

2. Summary of Significant Accounting Policies

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

Fair Value of Financial Instruments—We disclose the estimated fair value of our financial instruments. Financial instruments are generally defined as cash, evidence of ownership interest in an entity or a contractual obligation that both conveys to one entity a right to receive cash or other financial instruments from another entity and imposes on the other entity the obligation to deliver cash or other financial instruments to the first entity. Our financial instruments, other than those presented in Note 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. Our policy is to present transfers into and transfers out of hierarchy levels as of the actual date of the event or change in circumstances that caused the transfer.

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 corporate debt securities. Deposits in these financial institutions may exceed the amount of federal deposit insurance provided on such deposits.

Restricted Cash—Cash and cash equivalents that are restricted as to withdrawal or use under the terms of certain contractual agreements are recorded as restricted cash in other long-term assets on our consolidated balance sheets.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statement of cash flows (in thousands):

	<u>January 28, 2023</u>	<u>January 29, 2022</u>	<u>January 30, 2021</u>
Cash and cash equivalents	\$ 81,503	\$ 117,223	\$ 73,622
Restricted cash included in other long-term assets	6,950	6,829	7,068
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 88,453</u>	<u>\$ 124,052</u>	<u>\$ 80,690</u>

Restricted cash included in other long-term assets represents amounts held as insurance collateral and collateral for bank guarantees on certain store operating leases.

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

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

Inventories—Merchandise inventories are valued at the lower of cost or net realizable 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. The inventory related to this reserve is not marked up in subsequent periods. Inventory is at net realizable value which factors in a reserve for inventory whose selling price is below cost and an estimate for inventory shrinkage. Shrinkage refers to a reduction in inventory due to shoplifting, employee theft and other matters. We estimate an inventory shrinkage reserve for anticipated losses and a write down for our merchandise inventories at January 28, 2023 and January 29, 2022 in the amounts of \$2.5 million and \$3.3 million, respectively.

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
Buildings, land, and building and land improvements	15 to 39 years
Computer equipment, software, store equipment & other	3 to 5 years

The cost and related accumulated depreciation of assets sold or otherwise disposed of is removed from fixed assets and the related gain or loss is recorded in selling, general and administrative expenses 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 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 January 28, 2023 and January 29, 2022 was \$3.4 million and \$3.2 million and is recorded in other liabilities and other long-term 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.

Valuation of Long-Lived Assets—We review the carrying value of long-lived assets or asset groups (generally defined as a store, corporate facility or distribution center) for impairment when events or changes in 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 or asset group 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 fair value of the assets or asset group to the carrying values. The estimation of future cash flows from operating activities requires significant judgments of factors that include forecasting future sales, gross profit and operating expenses. In addition to historical results, current trends and initiatives, long-term macro-economic and industry factors are qualitatively considered. Additionally, management seeks input from store operations related to local economic conditions. Impairment charges for operating lease right-of-use assets are included in cost of goods sold and impairment charges for fixed assets are included in selling, general and administrative expenses on the consolidated statements of income.

Goodwill—Goodwill represents the excess of purchase price over the fair value of acquired tangible and identifiable intangible net assets. We test goodwill for impairment on an annual basis or more frequently if indicators of impairment are present. We perform our annual impairment measurement test on the first day of the fourth quarter. Events that may trigger an early impairment review include significant changes in the current business climate, future expectations of economic conditions, declines in our operating results of our reporting units, or an expectation that the carrying amount may not be recoverable.

We have an option to test goodwill for impairment by first performing a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than the carrying amount. If we choose not to perform the qualitative test or we determine that it is more likely than not that the fair value of the reporting unit is less than the carrying amount, we compare the carrying value of the reporting unit to its estimated fair value, which is based on the perspective of a market-participant. If the carrying amount of the reporting unit's goodwill exceeds the estimated fair value, we recognize an impairment loss in an amount equal to the excess, not to exceed the carrying amount.

We generally determine the fair value of each of our reporting units based on a combination of the income approach and the market valuation approaches. Key assumptions in the income approach include estimating future cash flows, long-term growth rates and weighted average cost of capital. Our ability to realize the future cash flows used in our fair value calculations is affected by factors such as changes in economic conditions, operating performance and our business strategies. Key assumptions in the market approaches include identifying companies and transactions with comparable business factors, such as earnings growth, profitability, business and financial risk.

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

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

Leases – We determine at inception if a contract is or contains a lease. The lease classification is determined at the commencement date. The majority of our leases are operating leases for our retail store locations. We do not have any material leases, individually or in the aggregate, classified as a finance leasing arrangement. Upon modification of a contract, we reassess if a contract is or contains a lease. For contracts that contain both lease and non-lease components, such as common area maintenance, we allocate the consideration to the components based on the relative standalone price. At the commencement date of a lease, we recognize (1) a right-of-use asset representing our right to use the underlying asset during the lease term and (2) a lease liability for the present value of the lease payments not yet made.

The lease term includes the options to extend the lease, only to the extent it is reasonably certain that we will exercise such extension options and not exercise such early termination options, respectively. The majority of our store operating leases include ongoing co-tenancy requirements or early termination option that reduce lease payments, permit lease termination, or both, in the event that co-tenants cease to operate for specific periods or if stated sales levels are not met in specific periods. As the rate implicit in the lease is not readily determinable for our leases, we discount our lease payments using our incremental borrowing rate. Our incremental borrowing rate is based on information available at commencement date and represents the rate of interest we would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment.

The right-of-use asset is measured at the present value of fixed lease payments not yet made with adjustments for initial direct costs, lease prepayments and lease incentives received. The right-of-use asset is reduced over time by the recognition of straight-line expense less the accretion of the lease liability under the effective interest method. The lease liability is measured at the present value of fixed lease payments not yet made. We evaluate the carrying value of right-of-use assets for indicators of impairment and perform an analysis of the recoverability of the related asset group. If the carrying value of the asset group is determined to be in excess of the estimated fair value, we record an impairment loss in our consolidated statements of income. Additionally, we review the carrying value of the right-of-use assets for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable, require reassessment of the leases, and remeasurement if needed.

Our store operating leases may include fixed minimum lease payments, as contractually stated in the lease agreement or variable lease payments, which are generally based on a percentage of the store's net sales in excess of a specified threshold or are dependent on changes in an index. Operating lease expense relating to fixed lease payments is recognized on a straight-line basis over the lease term and lease expense relating to variable payments is expensed as incurred. Operating lease expense is recorded in the cost of goods sold expenses on the consolidated statements of income.

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.

Revenue Recognition—Revenue is recognized upon purchase at our retail store locations. For our ecommerce sales, revenue is recognized when control passes to the customer upon shipment. Taxes collected from our customers are recorded on a net basis. We accrue for estimated sales returns by customers based on historical return experience. The allowance for sales returns at January 28, 2023 and January 29, 2022 was \$3.1 million and \$3.5 million, respectively. We record the sale of gift cards as a current liability and recognize revenue when a customer redeems a gift card. The current liability for gift cards was \$4.9 million at January 28, 2023 and \$5.6 million at January 29, 2022. Additionally, the portion of gift cards that will not be redeemed (“gift card breakage”) is recognized in proportion of the patterns used by the customer based on our historical redemption patterns. For the fiscal years ended January 28, 2023, January 29, 2022 and January 30, 2021, we recorded net sales related to gift card breakage income of \$1.9 million, \$1.7 million and \$1.5 million, respectively.

Loyalty Program— We have a customer loyalty program, the Zumiez STASH, which allows members to earn points for purchases or performance of certain activities. The points can be redeemed for a broad range of rewards, including product and experiential rewards. Points earned for purchases are recorded as a current liability and a reduction of net sales based on the relative fair value of the points at the time the points are earned and estimated redemption rates. Revenue is recognized upon redemption of points for rewards. Points earned for the performance of activities are recorded as a current liability based on the estimated cost of the points and as marketing expense when redeemed. The deferred revenue related to our customer loyalty program at January 28, 2023 and January 29, 2022 was \$1.2 million and \$1.0 million, respectively.

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

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

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

Advertising—We expense advertising costs as incurred, except for catalog costs, which are expensed once the catalog is mailed. Advertising expenses are net of sponsorships and vendor reimbursements. Advertising expense was \$10.4 million, \$13.5 million and \$11.9 million for the fiscal years ended January 28, 2023, January 29, 2022 and January 30, 2021, respectively.

Stock-Based Compensation—We account for stock-based compensation by recording the estimated fair value of stock-based awards granted as compensation expense over the vesting period, net of estimated forfeitures. Stock-based compensation expense is attributed using the straight-line method. We estimate forfeitures of stock-based awards based on historical experience and expected future activity. The fair value of restricted stock awards and units is measured based on the closing price of our common stock on the date of grant. The fair value of stock option grants is estimated on the date of grant using the Black-Scholes option pricing model.

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

Income Taxes—We use the asset and liability method of accounting for income taxes. Using this method, deferred tax assets and liabilities are recorded based on the differences between the financial reporting and tax basis of assets and liabilities. The deferred tax assets and liabilities are calculated using the enacted tax rates and laws that we expect to be in effect when the differences are expected to reverse. We routinely evaluate the likelihood of realizing the benefit of our deferred tax assets and may record a valuation allowance if, based on all available evidence, it is determined that it is more likely than not that all or some portion of the deferred tax benefit will not be realized. The valuation allowance on our deferred tax assets at January 28, 2023 and January 29, 2022 was \$12.8 million and \$10.0 million, respectively.

We regularly evaluate the likelihood of realizing the benefit of income tax positions that we have taken in various federal, state and foreign filings by considering all relevant facts, circumstances and information available. If we believe it is more likely than not that our position will be sustained, we recognize a benefit at the largest amount that we believe is cumulatively greater than 50% likely to be realized. Interest and penalties related to income tax matters are classified as a component of income tax expense. Unrecognized tax benefits of \$2.5 million and \$1.7 million are recorded in other long-term liabilities on the consolidated balance sheets at January 28, 2023 and January 29, 2022, respectively.

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

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

Foreign Currency Translation—Our international subsidiaries operate with functional currencies other than the U.S. Dollar, including the Canadian Dollar, Australian Dollar, Euro, Norwegian Krone, Swedish Krona, and Swiss Franc. Assets and liabilities denominated in foreign currencies are 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 are translated into U.S. dollars at the monthly average exchange rate for the period and the translation adjustments are reported as an element of accumulated other comprehensive loss on the consolidated balance sheets.

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

Recent Accounting Standards—In November 2021, the Financial Accounting Standards Board (“FASB”) issued ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities About Government Assistance*, which requires entities to provide disclosures on material government assistance transactions for annual reporting periods. The disclosures include information around the nature of the assistance, the related accounting policies used to account for government assistance, the effect of government assistance on the entity’s financial statements, and any significant terms and conditions on the agreements, including commitments and contingencies. We adopted this standard prospectively for the fiscal year ending January 28, 2023 and the adoption did not have a material impact on our financial statement disclosure.

3. Revenue

The following table disaggregates net sales by geographic region (in thousands):

	Fiscal Year Ended		
	January 28, 2023	January 29, 2022	January 30, 2021
United States	\$ 753,761	\$ 978,438	\$ 812,825
Canada	48,610	52,244	52,736
Europe	132,216	134,988	110,345
Australia	23,793	18,197	14,746
Net sales	<u>\$ 958,380</u>	<u>\$ 1,183,867</u>	<u>\$ 990,652</u>

Net sales for the year ended January 28, 2023 included a \$17.7 million decrease due to the change in foreign exchange rates, which consisted of \$13.7 million in Europe, \$2.2 million in Canada, and \$1.8 in Australia.

4. Cash, Cash Equivalents and Marketable Securities

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

	January 28, 2023			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	\$ 30,587	\$ —	\$ —	\$ 30,587
Money market funds	22,121	—	—	22,121
Corporate debt securities	28,802	—	(7)	28,795
Total cash and cash equivalents	81,510	—	(7)	81,503
Marketable securities:				
U.S. treasury and government agency securities	20,973	—	(2,891)	18,082
Corporate debt securities	60,832	—	(2,848)	57,984
State and local government securities	16,490	—	(570)	15,920
Total marketable securities	\$ 98,295	\$ —	\$ (6,309)	\$ 91,986

	January 29, 2022			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	\$ 99,333	\$ —	\$ —	\$ 99,333
Money market funds	17,890	—	—	17,890
Total cash and cash equivalents	117,223	—	—	117,223
Marketable securities:				
U.S. treasury and government agency securities	29,218	33	(819)	28,432
Corporate debt securities	123,611	436	(851)	123,196
State and local government securities	25,722	62	(152)	25,632
Total marketable securities	\$ 178,551	\$ 531	\$ (1,822)	\$ 177,260

All of our available-for-sale debt securities have an effective maturity date of five years or less and may be liquidated, at our discretion, prior to maturity.

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

	January 28, 2023					
	Less Than Twelve Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Cash and cash equivalents:						
Corporate debt securities	\$ 27,099	\$ (7)	\$ —	\$ —	\$ 27,099	\$ (7)
Total cash and cash equivalents	<u>\$ 27,099</u>	<u>\$ (7)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 27,099</u>	<u>\$ (7)</u>
Marketable securities:						
U.S. treasury and government agency securities	\$ 3,682	\$ (229)	\$ 14,399	\$ (2,662)	\$ 18,081	\$ (2,891)
Corporate debt securities	12,044	(604)	45,940	(2,244)	57,984	(2,848)
State and local government securities	2,434	(50)	13,487	(520)	15,921	(570)
Total marketable securities	<u>\$ 18,160</u>	<u>\$ (883)</u>	<u>\$ 73,826</u>	<u>\$ (5,426)</u>	<u>\$ 91,986</u>	<u>\$ (6,309)</u>

	January 29, 2022					
	Less Than Twelve Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable securities:						
U.S. treasury and government agency securities	\$ 20,683	\$ (785)	\$ 1,622	\$ (34)	\$ 22,305	\$ (819)
Corporate debt securities	63,887	(849)	69	(2)	63,956	(851)
State and local government securities	15,639	(152)	-	-	15,639	(152)
Total marketable securities	<u>\$ 100,209</u>	<u>\$ (1,786)</u>	<u>\$ 1,691</u>	<u>\$ (36)</u>	<u>\$ 101,900</u>	<u>\$ (1,822)</u>

We did not record a realized loss for other-than-temporary impairments during the fiscal years ended January 28, 2023, January 29, 2022 and January 30, 2021.

5. Receivables

Receivables consisted of the following (in thousands):

	January 28, 2023	January 29, 2022
Credit cards receivable	\$ 7,840	\$ 7,964
Vendor receivable	6,345	3,415
Tax-related receivable	3,727	448
Other receivables	1,686	1,116
Tenant allowances receivable	688	967
Interest receivable	327	517
Receivables	<u>\$ 20,613</u>	<u>\$ 14,427</u>

6. Fixed Assets

Fixed assets consisted of the following (in thousands):

	January 28, 2023	January 29, 2022
Leasehold improvements	\$ 205,850	\$ 198,538
Fixtures	91,954	89,422
Buildings, land, and building and land improvements	28,179	28,179
Computer equipment, software, store equipment and other	56,707	48,356
Fixed assets, at cost	382,690	364,495
Less: Accumulated depreciation	(288,944)	(273,044)
Fixed assets, net	<u>\$ 93,746</u>	<u>\$ 91,451</u>

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

	Fiscal Year Ended		
	January 28, 2023	January 29, 2022	January 30, 2021
Cost of goods sold	\$ 1,670	\$ 1,203	\$ 1,213
Selling, general and administrative expenses	19,649	20,226	22,237
Depreciation expense	<u>\$ 21,319</u>	<u>\$ 21,429</u>	<u>\$ 23,450</u>

Impairment of Fixed Assets—We recorded \$1.7 million, \$0.1 million and \$1.4 million of impairment of fixed assets in selling, general and administrative expenses on the consolidated statements of income for the years ended January 28, 2023, January 29, 2022 and January 30, 2021.

7. Goodwill and Intangible Assets

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

Balance as of January 30, 2021	\$ 61,470
Effects of foreign currency translation	(3,910)
Balance as of January 29, 2022	57,560
Effects of foreign currency translation	(994)
Balance as of January 28, 2023	<u>\$ 56,566</u>

There was no impairment of goodwill for the fiscal years ended January 28, 2023, January 29, 2022 and January 30, 2021.

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

	January 28, 2023		
	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net
Intangible assets not subject to amortization:			
Trade names and trademarks	\$ 14,443	\$ —	\$ 14,443
Intangible assets subject to amortization:			
Developed technology	3,262	3,262	—
Customer relationships	2,417	2,417	—
Non-compete agreements	213	213	—
Total intangible assets	<u>\$ 20,335</u>	<u>\$ 5,892</u>	<u>\$ 14,443</u>

	January 29, 2022		
	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net
Intangible assets not subject to amortization:			
Trade names and trademarks	\$ 14,698	\$ —	\$ 14,698
Intangible assets subject to amortization:			
Developed technology	3,344	3,344	—
Customer relationships	2,477	2,477	—
Non-compete agreements	210	210	—
Total intangible assets	<u>\$ 20,729</u>	<u>\$ 6,031</u>	<u>\$ 14,698</u>

There was no impairment of intangible assets for the fiscal years ended January 28, 2023, January 29, 2022 and January 30, 2021. All amounts in the tables above are denominated in a foreign currency and subject to foreign exchange fluctuation.

We recorded no amortization expense for intangible assets for the year ended January 28, 2023. We recorded \$0.1 million of amortization expense for intangible assets for the years ended January 29, 2022 and January 30, 2021. Amortization expense of intangible assets is recorded in selling, general and administrative expense on the consolidated statements of income.

8. Other Liabilities

Other liabilities consisted of the following (in thousands):

	January 28, 2023	January 29, 2022
Accrued payables	\$ 6,499	\$ 6,482
Accrued indirect taxes	5,210	6,451
Unredeemed gift cards	4,916	5,593
Allowance for sales returns	3,089	3,521
Other current liabilities	1,667	2,377
Deferred revenue	1,231	1,047
Income taxes payable	1,037	1,137
Accrual for repurchase of common stock	—	4,573
Accrued legal settlement	—	2,834
Other liabilities	<u>\$ 23,649</u>	<u>\$ 34,015</u>

9. Revolving Credit Facilities and Debt

On October 14, 2021, we amended our credit agreement with Wells Fargo Bank, N.A. (previously entered into December 7, 2018), which provided us with a senior secured credit facility (“credit facility”) of up to \$25.0 million through December 1, 2023, and up to \$35.0 million after December 1, 2023 and through December 1, 2024. The secured revolving credit facility is available for working capital and other general corporate purposes. The senior secured credit facility provides for the issuance of standby letters of credit in an amount not to exceed \$17.5 million outstanding at any time and with a term not to exceed 365 days. The commercial line of credit provides for the issuance of commercial letters 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 credit facility is reduced by the amount of standby and commercial letters of credit outstanding at that time. The credit facility will mature on December 1, 2024. All obligations under the credit facility are joint and several with Zumiez Services and guaranteed by certain of our subsidiaries. The credit facility is secured by a first-priority security interest in substantially all of the personal property (but not the real property) of the borrowers and guarantors. Amounts borrowed under the credit facility bear interest at a daily simple SOFR rate plus a margin of 1.35% per annum.

The credit facility contains various representations, warranties and restrictive covenants that, among other things and subject to specified circumstances and exceptions, restrict our ability to incur indebtedness (including guarantees), grant liens, make investments, pay dividends or distributions with respect to capital stock, make prepayments on other indebtedness, engage in mergers, dispose of certain assets or change the nature of their business. The credit facility contains certain financial maintenance covenants that generally require the Registrant to have net income after taxes of at least \$5.0 million on a trailing four-quarter basis and a quick ratio of 1.25:1.0 at the end of each fiscal quarter. The credit facility contains certain affirmative covenants, including reporting requirements such as delivery of financial statements, certificates and notices of certain events, maintaining insurance, and providing additional guarantees and collateral in certain circumstances. The credit facility includes customary events of default including non-payment of principal, interest or fees, violation of covenants, inaccuracy of representations or warranties, cross-default to other material indebtedness, bankruptcy and insolvency events, invalidity or impairment of guarantees or security interests, material judgments and change of control.

There were no borrowings outstanding under the credit facility at January 28, 2023 or January 29, 2022. We had no open commercial letters of credit outstanding under our secured revolving credit facility at January 28, 2023 or January 29, 2022. We had \$0.6 million in issued, but undrawn, standby letters of credit at January 28, 2023 and no issued standby letters of credit at January 29, 2022.

Additionally, on October 12, 2020, we entered into a credit facility with UBS Switzerland AG of up to 15.0 million Euro. The credit facility bore interest at 1.25%. This credit facility was closed on December 30, 2022.

10. Leases

At January 28, 2023, we had operating leases for our retail stores, certain distribution and fulfillment facilities, vehicles and equipment. Our remaining lease terms vary from one month to eleven years, with varying renewal and termination options. At January 28, 2023 and January 29, 2022, the weighted-average of the remaining lease term was 5.0 years and the weighted-average operating lease discount rate was 2.5% and 2.7%, respectively.

The following table presents components of lease expense (in thousands):

	Year Ended	
	January 28, 2023	January 29, 2022
Operating lease expense	\$ 74,316	\$ 73,519
Variable lease expense	7,882	10,367
Total lease expense (1)	<u>\$ 82,198</u>	<u>\$ 83,886</u>

(1) Total lease expense does not include common area maintenance charges and other non-lease components.

Supplemental cash flow information related to leases is as follows (in thousands):

	January 28, 2023	January 29, 2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ (76,605)	\$ (77,657)
Right-of-use assets obtained in exchange for new operating lease liabilities	61,371	37,268

At January 28, 2023, the maturities of our operating leases liabilities are as follows (in thousands):

Fiscal 2023	\$	70,735
Fiscal 2024		60,712
Fiscal 2025		43,134
Fiscal 2026		30,464
Fiscal 2027		23,379
Thereafter		40,581
Total minimum lease payments		269,005
Less: interest		(14,710)
Present value of lease obligations		254,295
Less: current portion		(65,460)
Long-term lease obligations (2)	\$	188,835

(2) Amounts in the table do not include contingent rent, common area maintenance charges and other non-lease components.

At January 28, 2023, we have excluded from the table above \$5.4 million of operating leases that were contractually executed, but have not yet commenced. These operating leases are expected to commence in fiscal 2023.

11. Commitments and Contingencies

Purchase Commitments—At January 28, 2023 and January 29, 2022, we had outstanding purchase orders to acquire merchandise from vendors of \$174.3 million and \$254.6 million, respectively. We have an option to cancel these commitments with no notice prior to shipment, except for certain private label, packaging supplies and international 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 our shareholders.

A putative class action, Alexia Herrera, on behalf of herself and all other similarly situated, v. Zumiez Inc., was filed against us in the Eastern District Court of California, Sacramento Division under case number 2:16-cv-01802-SB in August 2016. Alexandra Bernal filed the initial complaint and then in October 2016 added Alexia Herrera as a named plaintiff and Alexandra Bernal left the case. The putative class action lawsuit against us alleges, among other things, various violations of California’s wage and hour laws, including alleged violations of failure to pay reporting time. After several years of procedural motions and appeals related thereto, the parties held mediation with a private mediator on June 23, 2021. The parties reached a resolution in principle for all class claims, which was submitted for the court’s approval. The settlement of \$2.8 million is included in other liabilities on the consolidated balance sheet as of January 29, 2022, and was recorded in selling, general and administrative expenses on the consolidated statement of operations for the year ended January 29, 2022. Final approval of the settlement was granted per the court’s order issued on July 26, 2022 and the settlement was paid to the claims administrator for disbursement on August 19, 2022.

On October 14, 2022, former employee Seana Neihart filed a representative action under California’s Private Attorneys General Act, California Labor Code section 2698 et seq (“PAGA”), against us. An answer to the complaint was filed on December 8, 2022. A first amended complaint was filed on February 8, 2023 adding Jessica King as a plaintiff. The lawsuit alleges a series of wage and hour violations under California’s Labor Code. A responsive pleading to the first amended complaint has not yet been filed. We are in the process of investigating the claims and we intend to vigorously defend ourselves.

Insurance Reserves—We use a combination of third-party insurance and self-insurance for a number of risk management activities including workers' compensation, general liability and employee-related health care benefits. We maintain reserves for our self-insured losses, which are estimated based on actuarial based analysis of historical claims experience. The self-insurance reserve for fiscal years ended January 28, 2023 and January 29, 2022 was \$2.8 million and \$2.0 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 (in thousands):

	January 28, 2023		
	Level 1	Level 2	Level 3
Cash equivalents:			
Money market funds	\$ 22,121	\$ —	\$ —
Corporate debt securities	—	28,795	—
Marketable securities:			
U.S. treasury and government agency securities	—	18,082	—
Corporate debt securities	—	57,984	—
State and local government securities	—	15,920	—
Long-term other assets:			
Money market funds	6,950	—	—
Total	<u>\$ 29,071</u>	<u>\$ 120,781</u>	<u>\$ —</u>
	January 29, 2022		
	Level 1	Level 2	Level 3
Cash equivalents:			
Money market funds	\$ 17,890	\$ —	\$ —
Marketable securities:			
U.S. treasury and government agency securities	—	28,432	—
Corporate debt securities	—	123,196	—
State and local government securities	—	25,632	—
Long-term other assets:			
Money market funds	6,829	—	—
Total	<u>\$ 24,719</u>	<u>\$ 177,260</u>	<u>\$ —</u>

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

Assets and liabilities recognized or disclosed at fair value on the consolidated financial statements on a nonrecurring basis include items such as fixed assets, operating lease right-of-use-assets, goodwill, other intangible assets and other assets. These assets are measured at fair value if determined to be impaired. We recorded impairment charges for operating lease right-of-use assets of \$0.4 million in cost of sales and impairment charges for fixed assets of \$1.7 million in selling, general and administrative expenses on the consolidated statement of income for the year ended January 28, 2023. We recorded impairment charges for operating right-of-use assets of \$2.1 million in costs of sales and impairment charges for fixed assets of \$0.1 million in selling, general and administrative expenses on the consolidated statement of income for the year ended January 29, 2022.

13. Stockholders' Equity

Share Repurchase— In December 2021, our Board of Directors approved the repurchase of up to an aggregate of \$150 million of common stock. This repurchase program superseded all previously approved and authorized stock repurchase programs. The December 2021 stock repurchase program was completed in March 2022.

The following table summarizes common stock repurchase activity (in thousands, except per share amounts):

	Fiscal Year Ended		
	January 28, 2023	January 29, 2022	January 30, 2021
Number of shares repurchased	1,914	4,581	694
Average price per share of repurchased shares (with commission)	\$ 43.51	\$ 43.30	\$ 19.31
Total cost of shares repurchased	\$ 83,288	\$ 198,361	\$ 13,417

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

	Foreign currency translation adjustments (4)	Net unrealized gains (losses) on available-for- sale investments	Accumulated other comprehensive (loss) income
Balance at February 1, 2020	\$ (13,696)	\$ 1,105	\$ (12,591)
Other comprehensive income, net (3)	12,289	1,241	13,530
Balance at January 30, 2021	\$ (1,407)	\$ 2,346	\$ 939
Other comprehensive loss, net (2)	(11,098)	(3,304)	(14,402)
Balance at January 29, 2022	\$ (12,505)	\$ (958)	\$ (13,463)
Other comprehensive loss, net (1)	(2,596)	(3,734)	(6,330)
Balance at January 28, 2023	\$ (15,101)	\$ (4,692)	\$ (19,793)

- (1) Other comprehensive loss before reclassifications was \$3.8 million, net of taxes for net unrealized losses on available-for-sale investments for the fiscal year ended January 28, 2023. There were \$0.1 million net unrealized losses, net of taxes reclassified from accumulated other comprehensive loss for the year ended January 28, 2023.
- (2) Other comprehensive loss before reclassification was \$4.4 million, net of taxes for net unrealized losses on available-for-sale securities for the fiscal year ended January 29, 2022. There were \$1.1 million net unrealized losses, net of taxes reclassified from accumulated other comprehensive loss for the year ended January 29, 2022.
- (3) Other comprehensive income before reclassifications was \$1.7 million, net of taxes for net unrealized gains on available-for-sale investments for the fiscal year ended January 30, 2021. There were \$0.5 million net unrealized gains, net of taxes reclassified from accumulated other comprehensive income for the fiscal year ended January 30, 2021.
- (4) Foreign currency translation adjustments are not adjusted for income taxes as they relate to permanent investments in our international securities.

14. Equity Awards

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

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

	Fiscal Year Ended		
	January 28, 2023	January 29, 2022	January 30, 2021
Cost of goods sold	\$ 1,464	\$ 1,451	\$ 1,339
Selling, general and administrative expenses	5,527	5,365	5,109
Total stock-based compensation expense	<u>\$ 6,991</u>	<u>\$ 6,816</u>	<u>\$ 6,448</u>

At January 28, 2023, there was \$8.9 million of total unrecognized compensation cost related to unvested stock options and restricted stock. This cost has a weighted-average recognition period of 1.1 years.

Restricted Equity Awards—The following table summarizes the activity of restricted stock awards and restricted stock units, collectively defined as “restricted equity awards” (in thousands, except grant date weighted-average fair value):

	Restricted Equity Awards	Grant Date Weighted-Average Fair Value	Intrinsic Value
Outstanding at February 1, 2020	541	\$ 22.82	
Granted	321	\$ 19.54	
Vested	(229)	\$ 22.15	
Forfeited	(33)	\$ 21.29	
Outstanding at January 30, 2021	600	\$ 21.41	
Granted	142	\$ 45.24	
Vested	(247)	\$ 21.95	
Forfeited	(52)	\$ 25.30	
Outstanding at January 29, 2022	443	\$ 28.31	
Granted	178	\$ 38.81	
Vested	(198)	\$ 27.01	
Forfeited	(26)	\$ 33.41	
Outstanding at January 28, 2023	<u>397</u>	<u>\$ 33.34</u>	<u>\$ 10,212</u>

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

	Fiscal Year Ended		
	January 28, 2023	January 29, 2022	January 30, 2021
Vest date fair value of restricted stock vested	\$ 8,076	\$ 11,146	\$ 4,761

Stock Options—We had 0.3 million stock options outstanding at January 28, 2023, January 29, 2022, and January 30, 2021 with a grant date weighted average exercise price of \$29.30, \$26.37 and \$22.08, respectively.

Employee Stock Purchase Plan—We offer an Employee Stock Purchase Plan (“ESPP”) for eligible employees to purchase our common stock at a 15% discount of the lesser of fair market value of the stock on the first business day or the last business day of the offering period, subject to maximum contribution thresholds. The number of shares issued under our ESPP was less than 0.1 million for each of the fiscal years ended January 28, 2023, January 29, 2022 and January 30, 2021.

15. Income Taxes

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

	Fiscal Year Ended		
	January 28, 2023	January 29, 2022	January 30, 2021
United States	\$ 40,632	\$ 166,999	\$ 108,412
Foreign	(8,165)	(6,488)	(5,955)
Total earnings before income taxes	<u>\$ 32,467</u>	<u>\$ 160,511</u>	<u>\$ 102,457</u>

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

	Fiscal Year Ended		
	January 28, 2023	January 29, 2022	January 30, 2021
Current:			
Federal	\$ 5,897	\$ 31,231	\$ 22,576
State and local	1,613	6,521	5,946
Foreign	1,508	1,273	1,598
Total current	<u>9,018</u>	<u>39,025</u>	<u>30,120</u>
Deferred:			
Federal	1,663	1,328	(1,198)
State and local	340	873	(808)
Foreign	412	(4)	(1,884)
Total deferred	<u>2,415</u>	<u>2,197</u>	<u>(3,890)</u>
Provision for income taxes	<u>\$ 11,433</u>	<u>\$ 41,222</u>	<u>\$ 26,230</u>

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

	Fiscal Year Ended		
	January 28, 2023	January 29, 2022	January 30, 2021
U.S. federal statutory tax rate	21.0%	21.0%	21.0%
State and local income taxes, net of federal effect	5.5	3.9	3.8
Change in valuation allowance	9.3	1.4	1.1
Foreign earnings, net	3.3	(0.2)	(0.5)
Stock-based compensation	(2.3)	(1.1)	(0.2)
Tax credits	(1.3)	(0.4)	(0.7)
Other	(0.3)	1.1	1.1
Effective tax rate	<u>35.2%</u>	<u>25.7%</u>	<u>25.6%</u>

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

	January 28, 2023	January 29, 2022
Deferred tax assets:		
Lease Liability	\$ 65,237	\$ 66,315
Net operating losses	20,347	19,093
Employee benefits, including stock-based compensation	2,410	2,046
Deferred losses	2,263	813
Accrued liabilities	1,605	2,091
Other	1,282	655
Inventory	884	964
Total deferred tax assets	<u>94,028</u>	<u>91,977</u>
Deferred tax liabilities:		
Right of Use Asset	(55,441)	(55,300)
Goodwill and other intangibles	(10,771)	(10,897)
Property and equipment	(4,699)	(5,429)
Prepaid expenses	(1,131)	(1,026)
Other	(1,031)	(634)
Total deferred tax liabilities	<u>(73,073)</u>	<u>(73,286)</u>
Net valuation allowances	<u>(12,750)</u>	<u>(10,032)</u>
Net deferred tax assets	<u>\$ 8,205</u>	<u>\$ 8,659</u>

At January 28, 2023 and January 29, 2022, we had foreign net operating loss carryovers that could be utilized to reduce future years' tax liabilities of \$88.1 million and \$75.7 million, respectively. The tax-effected foreign net operating loss carryovers were \$20.3 million and \$19.1 million at January 28, 2023 and January 29, 2022, respectively. The net operating loss carryovers have an indefinite carryforward period and currently will not expire.

At January 28, 2023 and January 29, 2022, we had valuation allowances on our deferred tax assets of \$12.8 million and \$10.0 million, respectively, primarily due to the uncertainty of the realization of certain deferred tax assets related to foreign net operating loss carryovers.

The following table summarizes the activity related to our unrecognized tax benefits (in thousands):

	Fiscal Year Ended		
	January 28, 2023	January 29, 2022	January 30, 2021
Beginning unrecognized tax benefits	\$ 1,743	\$ 1,143	\$ 841
Increase related to prior year tax positions	818	—	—
Increase related to current year tax positions	446	796	406
Decrease related to lapsing of statute of limitations	(485)	(196)	(104)
Ending unrecognized tax benefits	<u>\$ 2,522</u>	<u>\$ 1,743</u>	<u>\$ 1,143</u>

At January 28, 2023 we had \$2.5 million of gross unrecognized tax benefits of which \$1.5 million, if recognized, would affect our effective tax rate. We recognized an expense of \$0.1 million of interest and penalties in income tax expense, prior to the benefit of the federal tax deduction, for fiscal 2022, 2021 and 2020, respectively. At January 28, 2023 and January 29, 2022, we had accrued interest and penalties of \$0.3 million and \$0.1 million, respectively, within our consolidated balance sheets.

We file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. Our U.S. federal income tax returns are no longer subject to examination for years before fiscal year 2019 and with few exceptions, we are no longer subject to U.S. state examinations for years before fiscal 2018. We are no longer subject to examination for all foreign income tax returns before fiscal 2016.

16. Earnings per Share, Basic and Diluted

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

	Fiscal Year Ended		
	January 28, 2023	January 29, 2022	January 30, 2021
Net income	\$ 21,034	\$ 119,289	\$ 76,227
Weighted average common shares for basic earnings per share	19,208	24,187	24,942
Dilutive effect of stock options and restricted stock	220	406	456
Weighted average common shares for diluted earnings per share	19,428	24,593	25,398
Basic earnings per share	\$ 1.10	\$ 4.93	\$ 3.06
Diluted earnings per share	\$ 1.08	\$ 4.85	\$ 3.00

Total anti-dilutive common stock options not included in the calculation of diluted earnings per share was 0.1 million for the fiscal year ended January 28, 2023 and less than 0.1 million for fiscal years ended January 29, 2022 and January 30, 2021.

17. Related Party Transactions

The Zumiez Foundation is a charitable based nonprofit organization focused on meeting various needs of the under-privileged. Our Chairman of the Board is also the President of the Zumiez Foundation. We committed charitable contributions to the Zumiez Foundation of \$0.9 million, \$1.6 million and \$1.2 million for the fiscal years ended January 28, 2023, January 29, 2022, and January 30, 2021, respectively. We had accrued charitable contributions payable to the Zumiez Foundation of \$0.5 million and \$1.5 million at January 28, 2023 and January 29, 2022, respectively.

18. Segment Reporting

Our operating segments have been aggregated and are reported as one reportable segment based on the similar nature of products sold, production, merchandising and distribution processes involved, target customers and economic characteristics.

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

	Fiscal Year Ended		
	January 28, 2023	January 29, 2022	January 30, 2021
Men's Apparel	43%	43%	39%
Hardgoods	13%	16%	19%
Accessories	18%	17%	17%
Footwear	15%	13%	13%
Women's Apparel	11%	11%	12%
Total	100%	100%	100%

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

	Fiscal Year Ended		
	January 28, 2023	January 29, 2022	January 30, 2021
Net sales (1):			
United States	\$ 753,761	\$ 978,438	\$ 812,825
Foreign	204,619	205,429	177,827
Total net sales	\$ 958,380	\$ 1,183,867	\$ 990,652

	<u>January 28, 2023</u>	<u>January 29, 2022</u>
Long-lived assets (2):		
United States	\$ 186,433	\$ 199,640
Foreign	129,553	121,998
Total long-lived assets	<u>\$ 315,986</u>	<u>\$ 321,638</u>

- (1) Net sales are allocated based on the location in which the sale was originated. Store sales are allocated based on the location of the store and ecommerce sales are allocated to the U.S. for sales on zumiez.com and to foreign for sales on zumiez.ca, blue-tomato.com and fasttimes.com.au.
- (2) Long-lived assets include fixed assets, net and operating lease right-of-use assets.

EXHIBIT INDEX

- 3.1 [Articles of Incorporation. \[Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 \(file No. 333-122865\)\]](#)
- 3.2 [Bylaws, as amended and restated May 21, 2014 and Amendment No.1, dated as of May 21, 2015, to Bylaws of Zumiez Inc. \(as previously Amended and Restated as of May 21, 2014 \[Incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on May 23, 2014 and Exhibit to the Company's Form 8-K filed on May 22, 2015\]](#)
- 4.1 [Form of Common Stock Certificate of Zumiez Inc. \[Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 \(file No. 333-122865\)\]](#)
- 10.15 [Zumiez Inc. 2005 Equity Incentive Plan, as amended and restated effective May 27, 2009. \[Incorporated by reference from Exhibit 10.15 to the Form 8-K filed by the Company on June 1, 2009\]](#)
- 10.20 [Zumiez Inc. 2014 Equity Incentive Plan. \[Incorporated by reference to Exhibit 10.20 to the Company's Current Report on Form 8-K filed on May 23, 2014\]](#)
- 10.21 [Form of Restricted Stock Award Agreement and Terms and Conditions. \[Incorporated by reference to Exhibit 10.21 to the Company's Current Report on Form 8-K filed on May 23, 2014\]](#)
- 10.22 [Form of Stock Option Award Agreement and Terms and Conditions. \[Incorporated by reference to Exhibit 10.22 to the Company's Current Report on Form 8-K filed on May 23, 2014\]](#)
- 10.23 [Zumiez Inc. 2014 Employee Stock Purchase Plan. \[Incorporated by reference to Exhibit 10.23 to the Company's Current Report on Form 8-K filed on May 23, 2014\]](#)
- 10.24 [Form of Indemnification Agreement. \[Incorporated by reference to Exhibit 10.24 to the Company's Current Report on Form 8-K filed on May 23, 2014\]](#)
- 10.28 [Credit Agreement dated as of December 7, 2018 by and among Zumiez Inc., Zumiez Services Inc. and Wells Fargo Bank, National Association. \[Incorporated by reference to Exhibit 10.28 to the Form 8-K filed by the Company on December 7, 2018\]](#)
- 10.29 [First Amendment to Credit Agreement dated as of October 14, 2021 by and among Zumiez Inc., Zumiez Services Inc. And Wells Fargo Bank, National Association. \[Incorporated by reference to Exhibit 10.29 to the Company's Current Report on Form 8-K filed on October 18, 2021\]](#)
- 21.1 [Subsidiaries of the Company.](#)
- 23.1 [Consent of Moss Adams LLP, Independent Registered Public Accounting Firm.](#)
- 31.1 [Certification of the Principal Executive Officer pursuant to Rule 13a-14\(a\)/15d-14\(a\) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 [Certification of the Principal Financial Officer \(Principal Accounting Officer\) pursuant to Rule 13a-14\(a\)/15d-14\(a\) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1 [Certifications of the Principal Executive Officer and Principal Financial Officer \(Principal Accounting Officer\) pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.](#)

- 101 The following materials from Zumiez Inc.'s Annual Report on Form 10-K for the annual period ended January 28, 2023, formatted in iXBRL (Inline eXtensible Business Reporting Language):
(i) Consolidated Balance Sheets at January 28, 2023 and January 29, 2022; (ii) Consolidated Statements of Income for the fiscal years ended January 28, 2023, January 29, 2022 and January 30, 2021; (iii) Consolidated Statements of Comprehensive Income for the fiscal years ended January 28, 2023, January 29, 2022 and January 30, 2021; (iv) Consolidated Statements of Changes in Shareholders' Equity for the fiscal years ended January 28, 2023, January 29, 2022 and January 30, 2021; (v) Consolidated Statements of Cash Flows for the fiscal years ended January 28, 2023, January 29, 2022 and January 30, 2021; and (vi) Notes to Consolidated Financial Statements.
- 104 Cover Page Interactive Data File (embedded within the Inline XBRL document)

Copies of Exhibits may be obtained upon request directed to the attention of our Chief Legal Officer and Secretary, 4001 204th Street SW, Lynnwood, Washington 98036, and are available at the SEC's website found at www.sec.gov.

SIGNATURES

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

ZUMIEZ INC.

/s/ RICHARD M. BROOKS

March 20, 2023

Signature

Date

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

/s/ CHRISTOPHER C. WORK

March 20, 2023

Signature

Date

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

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

/s/ THOMAS D. CAMPION

March 20, 2023

Signature

Date

Thomas D. Campion, Chairman

/s/ STEVEN P. LOUDEN

March 20, 2023

Signature

Date

Steven P. Louden, Director

/s/ JAMES P. MURPHY

March 20, 2023

Signature

Date

James P. Murphy, Director

/s/ TRAVIS D. SMITH

March 20, 2023

Signature

Date

Travis D. Smith, Director

/s/ CARMEN R. BAUZA

March 20, 2023

Signature

Date

Carmen R. Bauza, Director

/s/ SCOTT A. BAILEY

March 20, 2023

Signature

Date

Scott A. Bailey, Director

/s/ LILIANA GIL VALLETTA

March 20, 2023

Signature

Date

Liliana Gil Valletta, Director

ZUMIEZ INC.
SUBSIDIARIES OF THE REGISTRANT
As of January 28, 2023

<u>Name of Subsidiary</u>	<u>Place of Incorporation or Formation</u>
Zumiez Nevada, LLC	Nevada
ZIC, LLC	Washington
ZIC II, LLC	Washington
Zumiez International, LLC	Washington
Zumiez Services Inc.	Washington
Zumiez Distribution LLC	Washington
Zumiez Canada Holdings Inc.	British Columbia
Zumiez Europe Holding GmbH	Switzerland
Blue Tomato Schweiz GmbH	Switzerland
Zumiez Austria Holding GmbH	Austria
Blue Tomato GmbH	Austria
Blue Tomato Deutschland GmbH	Germany
Blue Tomato Nederland B.V.	Netherlands
Zumiez Puerto Rico LLC	Puerto Rico
Zumiez Australia Holding Pty Ltd	Australia
Black Phoenix One Pty Ltd	Australia
Blue Tomato Finland Oy	Finland
Blue Tomato Norway AS	Norway
Blue Tomato Italy S.r.l	Italy
Blue Tomato Sweden AB	Sweden

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in this Registration Statements on Form S-8 (Nos. 333-125110 and 333- 196347) of Zumiez Inc. (the “Company) of our report dated March 20, 2023, relating to the consolidated financial statements of the Company and the effectiveness of internal control over financial reporting of the Company, appearing in the Annual Report on Form 10-K of the Company for the year ended January 28, 2023.

/s/ Moss Adams LLP

Seattle, Washington
March 20, 2023

**CERTIFICATION PURSUANT TO
RULE 13a-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Richard M. Brooks, certify that:

1. I have reviewed this annual report on Form 10-K of Zumiez Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ RICHARD M. BROOKS

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

Dated March 20, 2023

**CERTIFICATION PURSUANT TO
RULE 13a-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Christopher C. Work, certify that:

1. I have reviewed this annual report on Form 10-K of Zumiez Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ CHRISTOPHER C. WORK

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

Dated March 20, 2023

**CERTIFICATIONS PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the Annual Report of Zumiez Inc., a Washington corporation (the "Company"), on Form 10-K for the fiscal year ending January 28, 2023 as filed with the Securities and Exchange Commission (the "Report"), We, Richard M. Brooks, Principal Executive Officer of the Company, and Christopher C. Work, Principal Financial and Accounting Officer of the Company, certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ RICHARD M. BROOKS

Richard M. Brooks
Chief Executive Officer and Director
(Principal Executive Officer)
March 20, 2023

/s/ CHRISTOPHER C. WORK

Christopher C. Work
Chief Financial Officer
(Principal Financial Officer
and Principal Accounting Officer)
March 20, 2023