

MARVELL TECHNOLOGY GROUP LTD
Form DEF 14A
May 19, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

MARVELL TECHNOLOGY GROUP LTD.

(Name of Registrant as Specified In Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(3) Filing Party:

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MARVELL TECHNOLOGY GROUP LTD.

May 19, 2011

Dear Fellow Shareholders:

You are cordially invited to attend the 2011 annual general meeting of shareholders of Marvell Technology Group Ltd., a Bermuda company, scheduled to be held at the Hyatt Regency Hotel, Santa Clara Convention Center, 5101 Great America Parkway, Santa Clara, California 95054, on Tuesday, June 28, 2011 at 5:30 p.m. Pacific time.

As described in the accompanying notice of annual general meeting of shareholders and proxy statement, shareholders will be asked to (1) vote on the election of three directors, each for a term of one year; (2) conduct an advisory (non-binding) vote on executive compensation; (3) conduct an advisory (non-binding) vote on the frequency of holding an advisory shareholder vote on executive compensation; (4) approve the reduction of our share premium account by transferring \$3.1 billion to our contributed surplus account; (5) approve an amendment and restatement of the 2007 Director Stock Incentive Plan to change the vesting schedule of full-value awards and require prior shareholder approval of an exchange program or a buyout; and (6) re-appoint PricewaterhouseCoopers LLP as our auditors and independent registered public accounting firm, and authorize the audit committee, acting on behalf of our board of directors, to fix the remuneration of the auditors and independent registered public accounting firm, in both cases for our fiscal year ending January 28, 2012. Directors and executive officers will be present at the annual general meeting to respond to any questions that our shareholders may have regarding the business to be transacted.

In accordance with rules adopted by the U.S. Securities and Exchange Commission, we are pleased to furnish these proxy materials to shareholders over the Internet rather than in paper form. We believe these rules allow us to provide our shareholders with expedited and convenient access to the information they need, while helping to conserve natural resources and lower the costs of printing and our carbon footprint.

Your vote is very important, regardless of the number of shares you own. Whether or not you plan to attend the annual general meeting, please submit your proxy as soon as possible. On or about May 19, 2011, we mailed our shareholders a notice containing instructions on how to access our proxy materials and submit their proxy electronically over the Internet. The notice also included instructions on how you can receive a paper copy of your proxy materials, including the notice of the annual general meeting, proxy statement and proxy card. If you received your proxy materials by mail, the notice of the annual general meeting, proxy statement and proxy card from our board of directors were enclosed. If you received your proxy materials via e-mail, the e-mail contained voting instructions and links to our proxy materials on the Internet.

All shareholders of record on May 10, 2011 are invited to attend the annual general meeting. Only shareholders and persons holding proxies from shareholders may attend the meeting. If you are a shareholder of record, please bring a form of personal identification to be admitted to the meeting. If your shares are held in the name of your broker, bank or other nominee and you plan to attend the meeting, you must present proof of your beneficial ownership of those shares as of the record date, such as a bank or brokerage account statement or letter, together with a form of personal identification, to be admitted to the meeting.

On behalf of our board of directors and all of our employees, I wish to thank you for your continued support.

Sincerely,

/s/ Dr. Sehat Sutardja

DR. SEHAT SUTARDJA

Chairman of the Board,

President and Chief Executive Officer

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MARVELL TECHNOLOGY GROUP LTD.

Canon s Court

22 Victoria Street

Hamilton HM 12

Bermuda

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

To Be Held On June 28, 2011

The 2011 annual general meeting of shareholders of Marvell Technology Group Ltd., a Bermuda company, is scheduled to be held on June 28, 2011, at 5:30 p.m. Pacific time. The annual general meeting of shareholders (the annual general meeting) will take place at Hyatt Regency Hotel, Santa Clara Convention Center, 5101 Great America Parkway, Santa Clara, California 95054.

The purposes of the annual general meeting are:

1. To elect three directors, who will hold office for a one-year term until the 2012 annual general meeting of shareholders or until their respective successors are duly elected;
2. To conduct an advisory (non-binding) vote on executive compensation;
3. To conduct an advisory (non-binding) vote on the frequency of holding an advisory shareholder vote on executive compensation;
4. To approve the reduction of our share premium account by transferring \$3.1 billion to our contributed surplus account;
5. To approve an amendment and restatement of the 2007 Director Stock Incentive Plan to change the vesting schedule of full-value awards and require prior shareholder approval of an exchange program or a buyout; and
6. To re-appoint PricewaterhouseCoopers LLP as our auditors and independent registered public accounting firm, and authorize the audit committee, acting on behalf of our board of directors, to fix the remuneration of the auditors and independent registered public accounting firm, in both cases for our fiscal year ending January 28, 2012.

If any other matters properly come before the annual general meeting or any adjournment or postponement thereof, the persons named in the proxy card will vote the shares represented by all properly executed proxies in their discretion.

We will also lay before the meeting our audited financial statements for the fiscal year ended January 29, 2011 pursuant to the provisions of the Companies Act 1981 of Bermuda, as amended, and our Third Amended and Restated Bye-Laws.

The foregoing items of business are more fully described in the proxy statement accompanying this notice of annual general meeting. None of the proposals requires the approval of any other proposal to become effective.

We have established the close of business on May 10, 2011 as the record date for determining those shareholders entitled to notice of and to vote at the annual general meeting or any adjournment or postponement thereof. Only holders of common shares, par value \$0.002 per share, as of the record date are entitled to notice of and to vote at the annual general meeting and any adjournment or postponement thereof. Execution of a proxy will not in any way affect your right to attend the annual general meeting and vote in person, and any person giving a proxy has the right to revoke it at any time before it is exercised. If you attend the annual general meeting and desire to vote in person, your proxy will not be used.

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Your attention is directed to the accompanying proxy statement. Whether or not you plan to attend the annual general meeting in person, it is important that your shares be represented and voted at the annual general meeting. For specific voting instructions, please refer to the information provided in the following proxy statement, together with your proxy card or the voting instructions you receive by mail, e-mail or that are provided via the Internet.

This notice incorporates the accompanying proxy statement.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Dr. Sehat Sutardja

DR. SEHAT SUTARDJA

Chairman of the Board of Directors,

President and Chief Executive Officer

Santa Clara, California

May 19, 2011

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MARVELL TECHNOLOGY GROUP LTD.

Canon s Court

22 Victoria Street

Hamilton HM 12

Bermuda

PROXY STATEMENT

FOR

ANNUAL GENERAL MEETING OF SHAREHOLDERS

June 28, 2011

INTRODUCTION

These proxy materials are furnished in connection with the solicitation by the board of directors of Marvell Technology Group Ltd., a Bermuda company, of proxies for use at our 2011 annual general meeting of shareholders (referred to herein as the annual general meeting or the meeting) scheduled to be held at 5:30 p.m. Pacific time on June 28, 2011 at the Hyatt Regency Hotel, Santa Clara Convention Center, 5101 Great America Parkway, Santa Clara, California 95054.

INFORMATION REGARDING THE ANNUAL GENERAL MEETING

General

This proxy statement has information about the meeting and was prepared by our management for the board of directors of Marvell Technology Group Ltd. This proxy statement is being made available on or about May 19, 2011. Each member of our board of directors supports each action for which your vote is solicited.

Your board of directors asks you to appoint Sehat Sutardja, Ph.D., our Chairman, President and Chief Executive Officer, and Clyde R. Hosein, our Chief Financial Officer and Secretary, as your proxy holders to vote your shares at the meeting. You make this appointment by properly completing the enclosed proxy as described below. If appointed by you, your shares represented by a properly completed proxy received by us will be voted at the meeting in the manner specified therein or, if no instructions are marked on the proxy, your shares will be voted as described below. Although management does not know of any other matter to be acted upon at the meeting, unless contrary instructions are given, shares represented by valid proxies will be voted by the persons named on the accompanying proxy card in the manner the proxy holders deem appropriate for any other matters that may properly come before the meeting.

We maintain our registered office in Bermuda at Canon s Court, 22 Victoria Street, Hamilton HM 12, Bermuda. Our telephone number in Bermuda is (441) 296-6395. The mailing address of our business offices in Bermuda is Argyle House, 41A Cedar Avenue, Hamilton, HM 12, Bermuda.

Record Date and Shares Outstanding

The record date for the annual general meeting has been set as the close of business on May 10, 2011. Only shareholders of record as of such date will be entitled to notice of and to vote at the meeting. On the record date, there were 611,317,758 issued common shares, par value \$0.002 per share (common shares or shares). Each issued common share is entitled to one vote on the proposals to be voted on at the meeting. Shares held as of the record date include common shares that are held directly in your name as the shareholder of record and those shares held for you as a beneficial owner through a broker, bank or other nominee.

In this proxy statement, we sometimes refer to our group holding company, Marvell Technology Group Ltd., as we, us, our or Marvell. In this proxy statement, we refer to the fiscal year ended February 2, 2008 as fiscal 2008, the fiscal year ended January 31, 2009 as fiscal 2009, the fiscal year ended January 30, 2010 as fiscal 2010, the fiscal year ended January 29, 2011 as fiscal 2011 and the fiscal year ending January 28, 2012 as fiscal 2012.

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QUESTIONS AND ANSWERS ABOUT OUR ANNUAL GENERAL MEETING

Q: Why am I receiving these materials?

A: We have made these materials available to you on the Internet or, upon your request, have delivered printed versions of these materials to you by mail, in connection with our solicitation of proxies for use at the 2011 annual general meeting of shareholders to be held at 5:30 p.m. Pacific time on June 28, 2011. These materials were first sent or given to shareholders on or about May 19, 2011. You are invited to attend the annual general meeting and are requested to vote on the proposals described in this proxy statement.

Q: What is included in these proxy materials?

A: These proxy materials include:

Our proxy statement for the annual general meeting of shareholders

A Shareholder Letter from our Chairman

Our Annual Report on Form 10-K for the year ended January 29, 2011, dated March 25, 2011 and as filed with the U.S. Securities and Exchange Commission (SEC)

If you requested printed versions of these materials by mail, these materials also include the proxy card or voting instruction form for the annual general meeting.

Q: What proposals will be considered at the meeting?

A: The specific proposals to be considered and acted upon at the annual general meeting are summarized in the accompanying Notice of Annual General Meeting of Shareholders and include (1) the election of three directors, who will hold office for a one-year term until the 2012 annual general meeting of shareholders or until their successors are duly elected (see Proposal No. 1: Election of Directors at page 9 of this proxy statement); (2) an advisory (non-binding) vote to approve compensation of our named executive officers (see Proposal No. 2: Advisory Vote on Executive Compensation at page 58 of this proxy statement); (3) an advisory (non-binding) vote on the frequency of holding an advisory shareholder vote on executive compensation (see Proposal No. 3: Advisory Vote on the Frequency of Holding an Advisory Vote on Executive Compensation at page 60 of this proxy statement); (4) the approval of the reduction of our share premium account by transferring \$3.1 billion to our contributed surplus account (see Proposal No. 4: Reduction of our Share Premium Account by Transferring \$3.1 Billion to our Contributed Surplus Account at page 61 of this proxy statement); (5) the approval of an amendment and restatement of the 2007 Director Stock Incentive Plan (the 2007 Director Plan) to change the vesting schedule of full-value awards and require prior shareholder approval of an exchange program or a buyout (see Proposal No. 5: Amendment and Restatement of the 2007 Director Stock Incentive Plan at page 63 of this proxy statement); and (6) the re-appointment of PricewaterhouseCoopers LLP (PricewaterhouseCoopers) as our auditors and independent registered public accounting firm, and authorization of the audit committee, acting on behalf of our board of directors, to fix the remuneration of the auditors and independent registered public accounting firm, in both cases for our fiscal year ending January 28, 2012 (see Proposal No. 6: Re-appointment of Auditors and Independent Registered Public Accounting Firm, and Authorization of the Audit Committee to Fix Remuneration at page 70 of this proxy statement).

If any other matters properly come before the meeting or any adjournment or postponement of the meeting, the persons named in the proxy card will vote the shares represented by all properly executed proxies in their discretion.

In addition, in accordance with Section 84 of the Companies Act 1981 of Bermuda, as amended (the Companies Act) and Bye-Law 73 of the Third Amended and Restated Bye-Laws (the Bye-Laws), our audited financial statements for the fiscal year ended January 29, 2011 will be presented at the annual general

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meeting. These statements have been approved by our board of directors. There is no requirement under Bermuda law that these statements be approved by shareholders, and no such approval will be sought at the meeting.

Q: How does the board of directors recommend that I vote on the proposals?

A: At the annual general meeting, our board of directors unanimously recommends our shareholders vote:

1. FOR the election of three director nominees listed in Proposal No. 1, who will hold office for a one-year term until the 2012 annual general meeting of shareholders or until their respective successors are duly elected (see Proposal No. 1);
2. FOR the approval, on an advisory and non-binding basis, of executive compensation, as disclosed in this proxy statement pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, the compensation tables and narrative disclosures (see Proposal No. 2);
3. FOR the approval, on an advisory and non-binding basis, of the option of once every year as the frequency of holding an advisory shareholder vote on executive compensation (see Proposal No. 3);
4. FOR the approval of the reduction of our share premium account by transferring \$3.1 billion to our contributed surplus account (see Proposal No. 4);
5. FOR the approval of an amendment and restatement of the 2007 Director Plan to change the vesting schedule of full-value awards and require prior shareholder approval of an exchange program or a buyout (see Proposal No. 5); and
6. FOR the re-appointment of PricewaterhouseCoopers as our auditors and independent registered public accounting firm, and authorization of the audit committee, acting on behalf of our board of directors, to fix the remuneration of the auditors and independent registered public accounting firm, in both cases for our fiscal year ending January 28, 2012 (see Proposal No. 6).

If any other matters properly come before the annual general meeting or any adjournment or postponement thereof, the persons named in the proxy card will vote the shares represented by all properly executed proxies in their discretion.

Q: Why did I receive a one-page notice in the mail regarding Internet availability of proxy materials instead of a paper copy of proxy materials?

A: The SEC has adopted rules to allow proxy materials to be posted on the Internet and to provide only a Notice of Internet Availability of Proxy Materials to shareholders. We have elected to provide access to our proxy materials over the Internet. Accordingly, we are sending a Notice of Internet Availability of Proxy Materials (the Notice) to our shareholders of record and beneficial owners. All shareholders receiving the Notice will have the ability to access the proxy materials over the Internet and request to receive a paper copy of the proxy materials by mail. Instructions on how to access the proxy materials over the Internet or to request a paper copy may be found in the Notice. In addition, the Notice contains instructions on how you may request access to proxy materials in printed form by mail or electronically on an ongoing basis. The Notice also instructs you on how to submit your proxy electronically over the Internet or by mail.

Q: How can I get electronic access to the proxy materials?

A: The Notice will provide you with instructions regarding how to:

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View the proxy materials for the annual general meeting on the Internet; and

Instruct us to send future proxy materials to you by email.

Our proxy materials are also available on our website at the investor relations page of our website at www.marvell.com or by going to www.marvellproxy.com.

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Choosing to receive future proxy materials by email will save us the cost of printing and mailing documents to you and will reduce the impact of our annual general meetings on the environment. If you choose to receive future proxy materials by email, you will receive an email message next year with instructions containing a link to those materials and a link to the proxy voting website. Your election to receive proxy materials by email will remain in effect until you terminate it.

Q: Who can vote?

A: The record date for the annual general meeting has been set as the close of business on May 10, 2011. Only shareholders of record as of such date will be entitled to notice of and to vote at the meeting. On the record date, there were 611,317,758 common shares outstanding. Each share outstanding is entitled to one vote on the proposals to be voted on at the meeting. There is no cumulative voting in the election of directors. Shares held as of the record date include shares that are held directly in your name as the shareholder of record and those shares held for you as a beneficial owner through a broker, bank or other nominee.

Q: What should I do now to vote?

A: You may vote your shares either by voting in person at the meeting or by submitting a completed proxy. The meeting will take place on June 28, 2011. After carefully reading and considering the information contained in this proxy statement including the documents attached hereto, please follow the instructions as summarized below depending on whether you are a shareholder of record or the beneficial owner of shares held in street name. Most of our shareholders hold their shares through a broker, bank or other nominee in street name rather than directly in their own name. As summarized below, there are some distinctions between the procedures for voting shares held of record and those owned beneficially.

Q: If I am a shareholder of record, how do I vote my shares?

A: If your shares are registered directly in your name with our transfer agent, American Stock Transfer & Trust Company, you are considered the shareholder of record with respect to those shares and the Notice was sent directly to you. There are four ways to vote:

In person. If you are a shareholder of record, you may vote in person at the annual general meeting. We will provide you a ballot when you arrive.

Via the Internet. You may submit your proxy via the Internet by following the instructions provided in the Notice.

By Telephone. You may submit your proxy by calling the toll free number found on the proxy card.

By Mail. If you request printed copies of the proxy materials by mail, you may submit your proxy by filling out the proxy card and sending it back in the envelope provided.

Please be aware that if you issue a proxy or give voting instructions over the Internet or by telephone, you may incur costs such as Internet access and telephone charges for which you will be responsible.

Q: If my shares are held in street name by my broker, bank or other nominee, how do I vote my shares?

A: If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name, and the Notice will either be forwarded to you by your broker, bank or other nominee who is considered, with respect to those shares, the shareholder of record. As the beneficial owner, you must direct your broker, bank or other nominee on how to vote. Please follow the voting instructions in the materials sent to you.

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Q: What happens if I do not cast a vote?

A: Many of our shareholders hold their shares through a broker, bank or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Shareholders of record If you are a shareholder of record and you do not cast your vote or submit a proxy, no votes will be cast on your behalf on any of the items of business at the annual general meeting. However, if you sign and return the proxy card with no further instructions, the proxy holders will vote your shares in the manner recommended by our board of directors on all matters presented in this proxy statement and as the proxy holders may determine in their discretion with respect to any other matters properly presented for a vote at the annual general meeting. With regard to Proposals No. 1 through Proposal No. 6, a shareholder may also abstain from voting. An abstention occurs when a shareholder sends in a proxy with explicit instructions to decline to vote regarding a particular matter. Abstention votes have the same effect as an against vote with respect to the election of directors (Proposal No. 1). Abstentions will have no effect on the outcome of the vote for all other proposals.

Beneficial owners If you hold your shares in street name it is critical that you cast your vote if you want it to count in the election of directors (Proposal No. 1), approval of executive compensation (Proposal No. 2) and approval of frequency of executive compensation votes (Proposal No. 3). The term broker non-vote refers to shares held by a broker or other nominee (for the benefit of its client) that are represented at the meeting, but with respect to which such broker or nominee is not instructed to vote on a particular proposal and does not have discretionary authority to vote on that proposal. Brokers and nominees do not have discretionary voting authority on certain non-routine matters and accordingly may not vote on such matters absent instructions from the beneficial holder.

In the past, if you held your shares in street name and you did not indicate how you wanted your shares voted in the election of directors, your broker, bank or other nominee was allowed to vote those shares on your behalf in the election of directors as they felt appropriate. Beginning with last year's meeting, regulations changed to take away the ability of your broker, bank or other nominee to vote your uninstructed shares in the election of directors on a discretionary basis or on matters pertaining to executive compensation. Thus, if you hold your shares in street name and you do not instruct your broker, bank or other nominee how to vote in the election of directors (Proposal No. 1) or with respect to votes related to executive compensation (Proposal Nos. 2 and 3), no votes will be cast on your behalf.

The proposals at the annual general meeting to approve a reduction of our share premium account (Proposal No. 4), to approve an amendment and restatement of the 2007 Director Plan (Proposal No. 5) and to appoint PricewaterhouseCoopers as our auditors and independent registered public accounting firm, and authorize the audit committee, acting on behalf of our board of directors, to fix the remuneration of the auditors and independent registered public accounting firm, in both cases for our fiscal year ending January 28, 2012 (Proposal No. 6) are considered routine matters for which brokerage firms may vote unvoted shares. The election of directors (Proposal No. 1), proposals to approve on an advisory basis executive compensation (Proposal No. 2) and to recommend the frequency of executive compensation votes (Proposal No. 3) are not considered routine matters for which brokerage firms may vote unvoted shares and it is important to us that you affirmatively vote for Proposal No. 1 through Proposal No. 3.

Q: How are votes counted?

A: Each share will be entitled to one vote. There is no cumulative voting in the election of directors. All votes will be tabulated by the inspector of elections appointed for the meeting, who will count the votes, determine the existence of a quorum, validity of proxies and ballots, and certify the results of the voting.

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Q: What if I plan to attend the meeting in person?

A: To help ensure your shares are voted, we recommend that you submit your proxy or voting instruction form anyway. If you are a shareholder of record, please bring a form of personal identification to be admitted to the meeting. If your shares are held in the name of your broker, bank or other nominee and you plan to attend the meeting, you must present proof of your beneficial ownership of those shares as of the record date, such as a bank or brokerage account statement or letter, together with a form of personal identification, to be admitted to the meeting.

Q: How can I change my instructions after I have submitted a proxy?

A: Subject to any rules your broker, bank or other nominee may have, you may change your proxy instructions at any time before your proxy is voted at the annual general meeting. You may submit another proxy on a later date via the Internet or by telephone (only your latest Internet or telephone proxy submitted prior to the annual general meeting will be counted), by signing and returning a new proxy card or vote instruction form with a later date, or by attending the annual general meeting and voting in person.

Q: What if other matters come up at the meeting?

A: The matters described in this proxy statement are the only matters that we know will be voted on at the meeting. If any other matters properly come before the annual general meeting or any adjournment or postponement thereof, the persons named in the proxy card will vote the shares represented by all properly executed proxies in their discretion.

Q: What quorum is required for action at the meeting?

A: The presence, in person or by proxy, of two or more persons holding a majority of the voting power of the shares issued and entitled to vote is necessary to constitute a quorum at the meeting. Abstentions and broker non-votes are counted for the purpose of determining the presence or absence of a quorum for the transaction of business. In the event there are not sufficient shares present for a quorum at the time of the annual general meeting, the meeting will stand adjourned for one week or otherwise as may be determined by our board of directors in accordance with our Bye-Laws in order to permit the further solicitation of proxies.

Q: What vote is required to approve each proposal?

A: Proposal No. 1: The nominees for director receiving the affirmative vote of a simple majority of the votes cast in person or by proxy at the annual general meeting will be elected as directors to serve until the next annual general meeting of shareholders and/or until their successors are duly elected. Abstention votes have the same effect as an against vote with respect to the election of directors and broker non-votes will be entirely excluded from the vote and will have no effect on the outcome of this proposal.

Proposal No. 2: Our shareholders will have an advisory (non-binding) vote on executive compensation as described in this proxy statement, which requires the affirmative vote of a simple majority of the votes cast in person or by proxy at the annual general meeting in order to be approved. Abstentions and broker non-votes will be entirely excluded from the vote and will have no effect on the outcome of this proposal. The vote is advisory and therefore not binding on our board of directors; however, the board of directors and the executive compensation committee will consider the result of the vote when making future decisions regarding our executive compensation policies and practices.

Proposal No. 3: Our shareholders will have an advisory (non-binding) vote on the frequency of future advisory votes on executive compensation. Shareholders may vote for such advisory votes to occur every one, two or three years, or may abstain from voting. Abstentions and broker non-votes will be entirely excluded from the vote and will have no effect on the outcome of this proposal. The advisory vote on the frequency of holding

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an advisory vote on executive compensation receiving the greatest number of votes cast will be considered the frequency selected by shareholders. The vote is advisory and therefore not binding on our board of directors; however, the board of directors and the executive compensation committee will consider the result of the vote in determining the frequency of future advisory votes on executive compensation.

Proposal No. 4: Approval of the reduction of our share premium account by transferring \$3.1 billion to our contributed surplus account requires the affirmative vote of a simple majority of the votes cast in person or by proxy at the annual general meeting in order to be approved. Abstentions and broker non-votes will be entirely excluded from the vote and will have no effect on the outcome of this proposal.

Proposal No. 5: Approval of the amendment and restatement of the 2007 Director Plan requires the affirmative vote of a simple majority of the votes cast in person or by proxy at the annual general meeting in order to be approved. Abstentions and broker non-votes will be entirely excluded from the vote and will have no effect on the outcome of this proposal.

Proposal No. 6: Appointment of PricewaterhouseCoopers as our auditors and independent registered public accounting firm, and authorization of the audit committee, acting on behalf of our board of directors, to fix the remuneration of the auditors and independent registered public accounting firm, in both cases for our fiscal year ending January 28, 2012, requires the affirmative vote of a simple majority of the votes cast in person or by proxy at the annual general meeting in order to be approved. Abstentions and broker non-votes will be entirely excluded from the vote and will have no effect on the outcome of this proposal.

Q: Does any shareholder own a majority of our shares?

A: No.

Q: What does it mean if I receive more than one notice or e-mail about the Internet availability of the proxy materials or more than one paper copy of the proxy materials?

A: If you receive more than one Notice, more than one e-mail or more than one paper copy of the proxy materials, it means that you have multiple accounts with brokers or our transfer agent (the Transfer Agent). Please vote all of these shares. To instruct for all of your shares to be voted by proxy, you must complete, sign, date and return each proxy card and voting instruction card that you receive and do so for all shares represented by each Notice and e-mail that you receive (unless you have requested and received a proxy card or voting instruction card for the shares represented by one or more of those notices or e-mails). We encourage you to have all your shares registered in the same name and address. You may do this by contacting your broker or the Transfer Agent.

Q: May shareholders ask questions at the annual general meeting?

A: Yes. Representatives of Marvell will answer shareholders' questions of general interest following the formal agenda of the annual general meeting. In order to give a greater number of shareholders an opportunity to ask questions, individuals or groups will be allowed to ask only one question and no repetitive or follow-up questions will be permitted.

Q: Who is making and paying for this proxy solicitation?

A: This proxy is solicited on behalf of our board of directors. We will pay the cost of distributing this proxy statement and related materials. We have hired Georgeson, Inc. to assist in the distribution of proxy materials and the solicitation of proxies for an initial fee estimated at \$7,000, plus an additional fee per shareholder for shareholder solicitations. We will bear the cost of soliciting proxies. We will also reimburse brokers for their reasonable out-of-pocket expenses for forwarding proxy materials to beneficial owners of shares or other persons.

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for whom they hold shares. To the extent necessary in order to ensure sufficient representation at the meeting, we or our proxy solicitor may solicit the return of proxies by personal interview, mail, telephone, facsimile, Internet or other means of electronic transmission. The extent to which this will be necessary depends upon how promptly proxies are returned. We urge you to send in your proxy without delay.

Q: How can I find out the results of the voting at the annual general meeting?

A: Preliminary voting results will be announced at the meeting. Final voting results will be published in our Current Report on Form 8-K filed with the SEC within four business days of the meeting. If the final voting results are not available within four business days after the meeting, we will provide the preliminary results in the Form 8-K and the final results in an amendment to the Form 8-K within four business days after the final voting results are known to us.

Q: Whom should I call if I have questions about the annual general meeting?

A: You should contact either of the following:

Sukhi Nagesh

Vice President, Investor Relations

Marvell Semiconductor, Inc.

5488 Marvell Lane

Santa Clara, CA 95054

Fax: (408) 222-1917

Phone: (408) 222-8373

or

The proxy solicitor:

Georgeson, Inc.

199 Water Street, 26th Floor

New York, NY 10038

Fax: (212) 440-9009

Phone: (212) 440-9800

or toll-free (within the United States) (888) 505-9118

PRESENTATION OF FINANCIAL STATEMENTS

In accordance with Section 84 of the Companies Act and Bye-Law 73 of the Bye-Laws, our audited financial statements for the fiscal year ended January 29, 2011 will be presented at the annual general meeting. These statements have been approved by our board of directors. There is no requirement under Bermuda law that these statements be approved by shareholders, and no such approval will be sought at the meeting.

Table of Contents**PROPOSAL NO. 1:****ELECTION OF DIRECTORS****Nominees**

The Bye-Laws provide for not less than two directors or such number in excess thereof as our board of directors may determine. The number of directors is currently fixed at seven and there are currently seven members serving on our board of directors.

At our 2010 annual general meeting of shareholders, our shareholders approved a proposal to declassify the board of directors effective for the 2011 annual general meeting of shareholders, which will be phased-in for current members as their current terms expire. Each director elected at and after this annual general meeting will serve a one year term and will be required to stand for reelection at each annual general meeting of the shareholders thereafter. Previously, our board of directors was divided into three classes and served staggered three year terms. Continuing directors elected prior to this annual general meeting will serve the remainder of their staggered terms. Assuming that each of the current directors remains on our board of directors, the following table sets forth when each current director will be required to stand for reelection:

2011 Annual General Meeting Kuo Wei (Herbert) Chang	2012 Annual General Meeting Kuo Wei (Herbert) Chang	2013 Annual General Meeting and thereafter Kuo Wei (Herbert) Chang
Dr. Juergen Gromer	Dr. Juergen Gromer	Dr. Juergen Gromer
Arturo Krueger	Arturo Krueger	Dr. Ta-lin Hsu
	Dr. Pantas Sutardja	Dr. John G. Kassakian
	Dr. Sehat Sutardja	Arturo Krueger
		Dr. Pantas Sutardja
		Dr. Sehat Sutardja

Our director nominees for the 2011 annual general meeting are Kuo Wei (Herbert) Chang, Dr. Juergen Gromer and Arturo Krueger. Biographical information for the nominees can be found beginning on page 10 of this proxy statement. We have been advised that each of our nominees and continuing directors are willing to be named as such herein and each of the nominees is willing to serve as a director if elected. However, if one or more of Mr. Chang, Dr. Gromer or Mr. Krueger should be unable to serve as director, the proxy holders may vote for a substitute nominee recommended by the nominating and governance committee and approved by our board of directors.

Board Recommendation and Required Vote

Our board of directors unanimously recommends that you vote FOR the nominees for director identified above.

Unless authority to do so is withheld, the proxy holders named in the proxy card will vote the shares represented thereby FOR the election of each such nominee. Assuming the presence of a quorum, the required vote is the affirmative vote of a simple majority of votes cast and entitled to vote at the annual general meeting. Abstentions are included in the calculation of votes cast and will have the same effect as an against vote with respect to the election of such director. Broker non-votes will be entirely excluded from the vote and will have no effect on the outcome. If the proposal for the appointment of a director nominee does not receive the required affirmative vote of a simple majority of the votes cast, then the director will not be appointed and the position on our board of directors that would have been filled by the director nominee will become vacant. Our board of directors has the ability to fill the vacancy upon the recommendation of the nominating and governance committee, in accordance with the Bye-Laws, with that director subject to election by our shareholders at the next following annual general meeting of shareholders.

Table of Contents**BOARD OF DIRECTORS AND COMMITTEES OF THE BOARD****Directors and Nominees**

The following table sets forth information with respect to our directors, including each of our nominees, as of April 29, 2011. In addition to the information presented below regarding each nominee's specific experience, qualifications, attributes and skills that led our board of directors to the conclusion that he should serve as a director, we also believe that all of our director nominees have a reputation for integrity, honesty and adherence to high ethical standards. They each have demonstrated business acumen and an ability to exercise sound judgment, as well as a commitment of service to us and our board of directors. Finally, we value their significant experience on other public company boards of directors and board committees.

Name of Director or Nominee	Age	Term Expires	Background
Sehat Sutardja, Ph.D.	49	2012	Dr. Sehat Sutardja, one of our co-founders, has served as the President, Chief Executive Officer and Co-Chairman of our board of directors since our inception in 1995, and Chairman of our board of directors since 2003. Dr. Sehat Sutardja holds one private company directorship. Dr. Sehat Sutardja is widely regarded as one of the pioneers of the modern semiconductor age. His breakthrough designs and guiding vision have helped transform numerous industry segments, from data storage to the high performance, low power chips now driving the growing global markets for mobile computing and telephony. His lifetime passion for electronics began early; he became a certified radio repair technician at age 13 and electronics have been a major part of his life ever since. Dr. Sehat Sutardja has been deeply involved in the daily challenges of running a global growth company for many years and participates heavily in our engineering and marketing efforts across analog, video processor and microprocessor design, while offering input across all of our other product lines. It is this understanding of our employees and products that have positioned him well to serve as our Chairman, President and Chief Executive Officer and as a director.
Pantas Sutardja, Ph.D.	48	2012	Dr. Sehat Sutardja holds a BS from Iowa State University, and a MS and Ph.D. in Electrical Engineering and Computer Science from the University of California at Berkeley. Dr. Sehat Sutardja was elected as a Fellow to the IEEE in 2007 and holds over 150 U.S. patents. Dr. Sehat Sutardja is the brother of Dr. Pantas Sutardja. Dr. Pantas Sutardja, one of our co-founders, has served as Vice President and a director since our inception 1995. Dr. Pantas Sutardja was appointed Chief Technology Officer in 2000 and Chief Research and Development Officer in August 2007. Dr. Pantas Sutardja served as our Acting Chief Operating Officer from September 2007 until June 2008. Dr. Pantas Sutardja has served as a director and executive officer of Marvell since our inception. Dr. Pantas Sutardja has over two decades of experience in the semiconductor industry and continues to be a valuable contributor to our board of directors. Dr. Pantas Sutardja holds a BS, MS and Ph.D. in Electrical Engineering and Computer Science from the University of California at Berkeley. Dr. Pantas Sutardja is the brother of Dr. Sehat Sutardja.

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Name of Director or Nominee	Age	Term Expires	Background
Kuo Wei (Herbert) Chang(1)(3)*	49	2011	<p>Kuo Wei (Herbert) Chang has served as a director since November 1996. Mr. Chang has served as a venture fund manager for more than 15 years and has been the President of InveStar Capital, Inc. since April 1996 and Chief Executive Officer of C Squared Management Corporation since April 2004, and is currently a Managing Member of Growstar Associates, Ltd., which is the General Partner and the Fund Manager of VCFA Growth Partners, L.P. The companies with which Mr. Chang is involved focus on investing in companies in the semiconductor, telecommunications and networking, software, and/or Internet industries. Mr. Chang's leadership roles at both large and startup technology companies make him an important member of our board of directors. In addition, Mr. Chang has served as a member of our board of directors for 14 years, which allows him to draw on many years of experience in dealing with our business and technology-related issues. Mr. Chang serves as a director for Monolithic Power Systems, Inc., a semiconductor company, BCD Semiconductor Manufacturing Limited, a semiconductor company, and a number of private companies.</p> <p>Mr. Chang received a BS in geology from National Taiwan University and an MBA from National Chiao Tung University in Taiwan.</p>
Juergen Gromer, Ph.D. (1)(2)(3)*	66	2011	<p>Dr. Juergen Gromer has served as a director since October 2007. Dr. Gromer is the retired President of Tyco Electronics Ltd. (Tyco), an electronics company, a position which he held from April 1999 until December 31, 2007. Dr. Gromer formerly held senior management positions from 1983 to 1998 at AMP Incorporated (acquired by Tyco in April 1999) including Senior Vice President of Worldwide Sales and Services, President of the Global Automotive Division, Vice President of Central and Eastern Europe and General Manager of AMP. Dr. Gromer has over 20 years of AMP and Tyco experience, serving in a wide variety of regional and global assignments, which allows Dr. Gromer to provide important perspectives on issues facing a technology company. Dr. Gromer is also Chairman of the Board of the Society of Economic Development of the District Bergstrasse/Hessen, a member of the Advisory Board of Commerzbank and a director of the Board and Vice President of the American Chamber of Commerce in Germany. Dr. Gromer also brings considerable directorial, financial and governance experience to our board of directors, as he is currently serving on the boards of Tyco and WABCO Holdings Inc, and has served as a director of RWE Rhein Ruhr from 2000 to 2009.</p> <p>Dr. Gromer received his undergraduate degree and Ph.D. in Physics from the University of Stuttgart, Germany.</p>

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Name of Director or Nominee	Age	Term Expires	Background
Ta-lin Hsu, Ph.D.(2)(3)	68	2013	<p>Dr. Hsu has served as a director since November 2009. Dr. Hsu joined Hambrecht & Quist, an investment banking firm, as a general partner in 1985 and founded H&Q Asia Pacific, a private equity firm, in that same year. Before Hambrecht & Quist, Dr. Hsu worked at International Business Machines Corporation for 12 years. In his last position in senior management, Dr. Hsu held corporate responsibility for all of IBM's advanced research in mass storage systems and technology. Dr. Hsu plays an active role in developing investment and technology relationships between the U.S. and Asia, and holds numerous advisory positions with governmental and industry organizations. Dr. Hsu was a founding member of the Technology Review Board, which was founded to advise the Executive Yuan of Taiwan on technology matters. Dr. Hsu currently serves on the board of directors of Advanced Semiconductor Engineering, Inc., a semiconductor packaging and testing company, and Fabrinet, an optical, electro-mechanical and electronic manufacturing services company. Dr. Hsu previously served as a director of Semiconductor Manufacturing International Corporation, a semiconductor manufacturing company, from 2001 to 2008. Dr. Hsu also serves as a member of the Council on Foreign Relations and as the Chairman of the Board of Trustees of Give2Asia. Dr. Hsu brings to our board of directors years of service in the high technology and semiconductor industries, as well as executive leadership and management experience gained from his roles at H&Q Asia Pacific, Hambrecht & Quist and IBM.</p> <p>Dr. Hsu received his undergraduate degree in Physics from National Taiwan University and his Ph.D. in Electrical Engineering from the University of California at Berkeley.</p>
John G. Kassakian, Sc.D. (1)(2)	68	2013	<p>Dr. John G. Kassakian has served as a director since July 2008. Dr. Kassakian has been a member of the faculty of Electrical Engineering at the Massachusetts Institute of Technology (MIT) since 1973 and has served as Director of the MIT Laboratory for Electromagnetic and Electronic Systems from 1991 to 2009. Dr. Kassakian is the founding President of the IEEE Power Electronics Society, and is the recipient of the IEEE Centennial Medal, the IEEE William E. Newell Award, the IEEE Power Electronics Society's Distinguished Service Award and the IEEE Millennium Medal. Dr. Kassakian's expertise in the semiconductor field and academic experience related to the technology sector make Dr. Kassakian a valuable contributor to our board of directors.</p> <p>Dr. Kassakian is a member of the National Academy of Engineering. Dr. Kassakian holds S.B., S.M., E.E. and Sc.D. degrees from MIT.</p>

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Name of Director or Nominee	Age	Term Expires	Background
Arturo Krueger(1)(2)(3)*	71	2011	<p>Arturo Krueger has served as a director since August 2005. Mr. Krueger has more than 40 years of experience in the international semiconductor industry and acquired a wealth of experience in complex systems architecture, semiconductor design and development, operations, and international marketing, as well as general management of a large company. Since his retirement in February 2001, Mr. Krueger has been a consultant to automobile manufacturers and to semiconductor companies serving the automotive and telecommunication markets and is serving on several advisory boards. Mr. Krueger joined Motorola in 1996 as a systems engineer and last served prior to his retirement as Corporate Vice President and General Manager of Motorola Corporation's Semiconductor Products Sector for Europe, Middle East and Africa from January 1998 until February 2001. During his time at Motorola, Mr. Krueger served as the director of the Advanced Architectural and Design Automation Lab. Mr. Krueger brings a deep understanding of the modern semiconductor industry, the complex world of microelectronic systems design and architectures, and the financial aspects of running a large company. Mr. Krueger remains very active serving on several advisory boards, as well as in different industrial associations. Mr. Krueger also brings considerable directorial and governance experience to our board of directors, as he is currently serving on the board of QuickLogic Corporation, a semiconductor company.</p>

Mr. Krueger holds a MS in Electrical Engineering from the Institute of Technology in Switzerland and has studied Advanced Computer Science at the University of Minnesota.

* Nominee for election.

- (1) Member of the nominating and governance committee.
- (2) Member of the executive compensation committee.
- (3) Member of the audit committee.

Except as noted above, there are no family relationships among any of our directors and executive officers.

Corporate Governance Guidelines and Practices, Board Leadership Structure, Risk Management, Meetings, Independence and Compensation of our Board of Directors

Corporate Governance Guidelines and Practices

Our board of directors has adopted a set of corporate governance guidelines and practices to establish a framework within which it will conduct its business; We depend on cash flow from operations to pay our lease expenses and to fulfill our other cash needs. If our business does not generate sufficient cash flow from operating activities, and sufficient funds are not otherwise available to us from borrowings under bank loans or from other sources, we may not be able to service our operating lease expenses, grow our business, respond to competitive challenges or to fund our other liquidity and capital needs, which would have a material adverse effect on us.

The terms of our revolving credit facility impose operating and financial restrictions on us that may impair our ability to respond to changing business and economic conditions. This impairment could have a significant adverse impact on our business.

We have a \$25 million revolving credit facility with Wells Fargo HSBC Trade Bank, N.A., maturing in August 2009, that contains a number of significant restrictions and covenants that generally limit our ability to, among other things, (1) incur additional indebtedness, (2) enter into certain transactions and (3) undergo a change in ownership. In addition, all of our personal property, including our inventory, equipment and fixtures, secure our obligations under the revolving credit agreement. Our credit agreement also contains financial covenants that require us to meet specified financial tests and ratios, including a minimum net income after taxes greater than \$1.00 for any trailing twelve month period, a minimum total liabilities divided by tangible net worth not greater than 1.15 and a minimum quick asset ratio not less than 1.0. Our two most restrictive covenants are our quick asset ratio that essentially precludes us from borrowing to the extent we were to have no cash,

marketable securities or accounts receivable and our net income covenant that requires us make at least \$1.00 in net income after taxes for any trailing twelve month period. Our ability to comply with these ratios may be affected by events beyond our control.

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

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

Our business could suffer as a result of small parcel delivery services such as United Parcel Service or Federal Express being unable to distribute our merchandise.

We rely upon small parcel delivery services for our product shipments, including shipments to, from and between our stores. Accordingly, we are subject to risks, including employee strikes and inclement weather, which may affect their ability to meet our shipping needs. Among other things, any circumstances that require us to use other delivery services for all or a portion of our shipments could result in increased costs and delayed deliveries and could harm our business materially. In addition, although we have contracts with small parcel delivery services, we have the right to terminate these contracts upon 30 days written notice. Although the contracts with these small parcel delivery services provide certain discounts from the shipment rates in effect at the time of shipment, the contracts do not limit their ability to raise the shipment rates at any time. Accordingly, we are subject to the risk that small parcel delivery services may increase the rates they charge, that they may terminate their contracts with us, that they may decrease the rate discounts provided to us when an existing contract is renewed or that we may be unable to agree on the terms of a new contract with them, any of which could materially adversely affect our operating results.

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

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

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

Sales from private label merchandise accounted for 15.0% of our net sales in fiscal 2008. We may take steps to increase the percentage of net sales of private label merchandise in the future, although there can be no assurance that we will be able to achieve increases in private label merchandise sales

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as a percentage of net sales. Because our private label merchandise generally carries higher gross margins than other merchandise, our failure to anticipate, identify and react in a timely manner to fashion trends with our private label merchandise, would likely have a material adverse effect on our comparable store sales, financial condition and results of operations.

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

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

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

Over the past several years, we have made improvements to our infrastructure and existing hardware and software systems, as well as implemented new systems. If these or any other information systems and software do not work effectively, this could adversely impact the promptness and accuracy of our transaction processing, financial accounting and reporting and our ability to manage our business and properly forecast operating results and cash requirements. 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.

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 brand, our store concept, 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 United States, there are certain countries where we do not currently have or where we do not currently intend to apply for protection for certain trademarks or at all. Also, the efforts we have taken to protect our trademarks may not be sufficient or effective. Therefore, we may not be able to prevent other persons from using our trademarks or domain names outside of the United States, 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.

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The effects of war or acts of terrorism could adversely affect our business.

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

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

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

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 and state laws and regulations relating to employment. This creates a risk of potential claims that we have violated laws related to discrimination and harassment, health and safety, wage and hour laws, criminal activity, personal injury and other claims. We are also subject to other types of claims in the ordinary course of our business. Some or all of these claims may give rise to litigation, which could be time-consuming for our management team, costly and harmful to our business.

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

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

Although ecommerce sales constitute a small portion of our overall sales, our ecommerce operations subject us to certain risks that could have an adverse effect on our operational results, including:

diversion of traffic and sales from our stores;

liability for online content; and

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

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

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

We completed our initial public offering in May 2005 and we have incurred and will continue to incur significant legal, accounting, insurance and other expenses as a result of being a public company. The Sarbanes-Oxley Act of 2002, as well as related rules implemented by the SEC and The NASDAQ Global Select Market, has required changes in corporate governance practices of public companies. Compliance with these laws, rules and regulations, including compliance with Section 404 of the Sarbanes-Oxley Act as discussed in the following risk factor, have caused and will continue to cause us to incur significant costs and expenses, including legal and accounting costs, and have made and will continue to make some activities more time-consuming and costly. These laws, rules and regulations have made it more expensive for us to obtain director and officer liability insurance, and we have been required to accept reduced policy limits and coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as officers. As a result of the foregoing, we have incurred and we expect to incur significant legal, accounting, insurance and certain other expenses on an ongoing basis, which will negatively impact our financial performance and could have a material adverse effect on our results of operations and financial condition.

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

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

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

Database privacy, network security, and identity theft are matters of growing public concern. In an attempt to prevent unauthorized access to our network and databases containing confidential, third-

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

The current uncertainty surrounding the United States economy coupled with cyclical economic trends in action sports retailing could have a material adverse effect on our results of operations.

The action sports retail industry historically has been subject to substantial cyclicality. As economic conditions in the United States change, the trends in discretionary consumer spending become unpredictable and discretionary consumer spending could be reduced due to uncertainties about the future. When discretionary consumer spending is reduced, purchases of action sports apparel and related products may decline. A recession in the general economy or continued uncertainties regarding future economic prospects could have a material adverse effect on our results of operations.

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 opinions and are often different from our estimates or expectations. If our operating results are below the estimates or expectations of public market analysts and investors, our stock price could decline. In December 2007, a securities class action litigation was brought against us and such actions are frequently brought against other companies following a decline in the market price of their securities. If our stock price is volatile, we may become involved in this type of litigation in the future. Any litigation could result in substantial costs and a diversion of management's attention and resources that are needed to successfully run our business.

The trading price of our investment in marketable securities may fluctuate.

We have our excess cash invested in diversified high credit money market accounts, US treasuries, certificates of deposit, municipal bonds and auction rate securities. The investments have historically been considered very safe investments with very minimal default rates. However, the recent uncertainties in the credit markets have prevented us and other investors from liquidating holdings of auction rate securities in recent auctions for these securities because the amount of securities submitted for sale has exceeded the amount of purchase orders. We reduced our holdings of auction rate securities during fiscal 2007 through the auction process. As of January 31, 2009, we had \$1.8 million, net of \$0.2 million temporary impairment, invested in auction rate securities that are classified as long-term marketable securities on our consolidated balance sheet. For the year ended January 31, 2009, we incurred a temporary impairment charge on these investments of approximately \$0.2 million recorded in other comprehensive income. If market liquidity issues continue, we may incur additional impairment charges on these investments.

A decline in the market price of our stock and performance of our Company may trigger an impairment of the goodwill recorded on our balance sheet.

Goodwill and other intangible assets with indefinite lives must be tested for impairment at least once a year or more frequently if management believes indicators of impairment exist. The Company

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evaluates the recoverability of goodwill annually based on a two-step impairment test. The first step compares the fair value of each reporting unit with its carrying amount, including goodwill. If the carrying amount exceeds fair value, then the second step of the impairment test is performed to measure the amount of any impairment loss. Any reduction in the carrying value of our goodwill as a result of our impairment analysis could result in a non-cash goodwill impairment charge to our statement of operations. A goodwill impairment charge could have a significant impact on earnings and potentially result in a violation of our financial covenants, thereby limiting our ability to secure short term financing.

Changes to estimates related to our property and equipment, or operating results that are lower than our current estimates at certain store locations, may cause us to incur non-cash impairment charges.

We make certain estimates and projections in connection with impairment analyses for certain of our store locations and other property and equipment in accordance with "Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets." For example, we review for impairment all stores for which current cash flows from operations are either negative or nominal. Recoverability of store assets is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount is higher, impairment loss is measured by the amount, if any, by which the carrying amount of the assets exceeds their fair value based on the present value of estimated expected future cash flows. These calculations require us to make a number of estimates and projections of future results. If these estimates or projections change or prove incorrect, we may be and have been, required to record impairment charges on certain store locations and other property and equipment. If these impairment charges are significant, our operating results would be adversely affected and our bank covenants may be violated.

Our business could suffer if our ability to acquire financing is reduced or eliminated.

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

In early February 2005, we completed our move from the 49,000 square foot combined home office and distribution center that we occupied since 1994 to a new 87,350 square foot combined home office and distribution center, both in Everett, Washington. In October, 2006 we entered into a new lease agreement whereby we agreed to expand our existing lease of 87,350 square feet of home office and distribution center space by 37,350 square feet, bringing the aggregate square footage leased to 124,700 square feet effective January 1, 2007. The new lease agreement terminated and replaced the original February 2005 lease with the landlord. The new lease agreement provides for an initial lease term of 126 months within which we have an option to extend the lease term for an additional period of five years.

All of our stores, encompassing approximately 1,005,000 total square feet as of January 31, 2009 are occupied under operating leases. The store leases range for a term of five to ten years and we are generally responsible for payment of property taxes and utilities, common area maintenance and marketing fees.

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

See Note 10 to the Notes to Consolidated Financial Statements found in Item 8 of Part II of this Form 10-K (listed under "Litigation" under Commitments and Contingencies).

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter ended January 31, 2009.

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

Our common stock has traded on the NASDAQ Global Select Market under the symbol "ZUMZ." As of January 31, 2009 there were 29,533,067 shares of common stock issued. We began trading on the NASDAQ Stock Market on May 6, 2005. Accordingly, no information prior to this date is available. The following table sets forth the April 20, 2006 stock split adjusted high and low last reported sales prices for our common stock on the NASDAQ Global Select Market for the fiscal years ended February 2, 2008 and January 31, 2009.

Fiscal 2007	High	Low
First Fiscal Quarter (February 4, 2007 - May 5, 2007)	\$42.00	\$31.57
Second Fiscal Quarter (May 6, 2007 - August 4, 2007)	\$41.80	\$35.77
Third Fiscal Quarter (August 5, 2007 - November 3, 2007)	\$51.25	\$37.96
Fourth Fiscal Quarter (November 4, 2007 - February 2, 2008)	\$39.45	\$15.59

Fiscal 2008	High	Low
First Fiscal Quarter (February 3, 2008 - May 3, 2008)	\$22.76	\$13.84
Second Fiscal Quarter (May 4, 2008 - August 2, 2008)	\$22.33	\$12.29
Third Fiscal Quarter (August 3, 2008 - November 1, 2008)	\$18.25	\$ 8.72
Fourth Fiscal Quarter (November 2, 2008 - January 31, 2009)	\$ 9.72	\$ 6.12

b) Holders of the Corporation's Capital Stock

We had approximately 182 shareholders of record as of March 19, 2009.

c) 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 and if a dividend were paid, it would be subject to covenants of our lending facility, which may have the effect of restricting our ability to pay dividends.

d) Recent Sales of Unregistered Securities

None

Table of Contentse) **Issuer Purchases of Equity Securities**

None

Item 6. SELECTED FINANCIAL INFORMATION

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

Each fiscal year consists of four 13-week quarters, with an extra week added to the fourth quarter every five or six years. Our fiscal years ended, January 29, 2005, January 28, 2006, and February 2, 2008 and January 31, 2009 each consisted of 52 weeks. Our fiscal year ended February 3, 2007 consisted of 53 weeks. In this document, we refer to the fiscal year ended January 29, 2005 as "fiscal 2004", to the fiscal year ended January 28, 2006 as "fiscal 2005", to the fiscal year ended February 3, 2007 as "fiscal 2006", the fiscal year ended February 2, 2008 as "fiscal 2007" and the fiscal year ended January 31, 2009 as "fiscal 2008".

The selected statement of operations data for fiscal 2006, fiscal 2007 and fiscal 2008 and the selected balance sheet data as of February 2, 2008 and January 31, 2009 are derived from our audited consolidated financial statements, which are included elsewhere in this document. The selected consolidated statement of operations data for fiscal 2004 and fiscal 2005 are derived from our audited financial statements not included in this document.

	January 29, 2005	January 28, 2006	Fiscal Year Ended February 3, 2007	February 2, 2008	January 31, 2009
(in thousands, except share and per share data)					
Statement of Operations					
Data:					
Net sales	\$ 153,583	\$ 205,589	\$ 298,177	\$ 381,416	\$ 408,669
Cost of goods sold	103,297	133,047	189,959	244,429	274,134
Gross profit	50,286	72,542	108,218	136,987	134,535
Selling, general and administrative expenses	38,277	52,494	75,774	98,042	109,927
Operating profit	12,009	20,048	32,444	38,945	24,608
Interest income (expense)	(250)	648	1,178	1,722	2,059
Other income (expense)	8	(1)	(16)	3	36
Earnings before income taxes	11,767	20,695	33,606	40,670	26,703
Provision for income taxes	4,500	7,844	12,750	15,344	9,499
Net income	\$ 7,267	\$ 12,851	\$ 20,856	\$ 25,326	\$ 17,204
Net income per share:					
Basic (1)	\$ 0.32	\$ 0.50	\$ 0.76	\$ 0.89	\$ 0.59
Diluted (1)	\$ 0.28	\$ 0.47	\$ 0.73	\$ 0.86	\$ 0.58
Weighted average shares outstanding:					
Basic (1)	22,610,522	25,879,675	27,542,891	28,608,818	29,126,889
Diluted (1)	25,877,716	27,376,684	28,703,037	29,322,337	29,694,112

(1)

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Fiscal 2004 and fiscal 2005 have been restated to reflect the 2 for 1 stock split that occurred in fiscal 2006 in the form of a share dividend.

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	Fiscal Year Ended				
	January 29, 2005	January 28, 2006	February 3, 2007	February 2, 2008	January 31, 2009
(in thousands)					
Balance Sheet Data:					
Cash, cash equivalents and current marketable securities	\$ 1,026	\$ 43,001	\$ 51,977	\$ 76,532	\$ 78,582
Working capital	4,756	47,357	54,929	92,161	112,092
Total assets	54,811	114,411	167,294	216,095	233,349
Total long term obligations	5,576	9,129	12,910	18,097	24,177
Total shareholders' equity	25,799	73,684	104,812	154,602	177,951

	Fiscal Year Ended				
	January 29, 2005	January 28, 2006	February 3, 2007	February 2, 2008	January 31, 2009
(in thousands, except square footage & sales per square foot)					
Other Financial Data:					
Gross margin percentage (1)	32.7%	35.3%	36.3%	35.9%	32.9%
Capital expenditures	\$ 12,754	\$ 16,453	\$ 22,160	\$ 30,722	\$ 28,349
Depreciation and Amortization	\$ 5,857	\$ 7,535	\$ 10,499	\$ 14,762	\$ 19,470
Store Data:					
Number of stores open at end of period	140	174	235	285	343
Comparable store sales increase (decrease) (2) (3)	9.6%	14.2%	14.5%	9.2%	(6.5%)
Net sales per store (4)	\$ 1,183	\$ 1,299	\$ 1,389	\$ 1,405	\$ 1,240
Total square footage at end of period (5)	371,864	475,646	667,337	829,021	1,004,868
Average square footage per store at end of period (6)	2,656	2,718	2,840	2,909	2,930
Net sales per square foot (7) (8)	\$ 452	\$ 483	\$ 499	\$ 488	\$ 424

- (1) Gross margin percentage represents gross profit divided by net sales.
- (2) Comparable store sales percentage changes are calculated by comparing comparable store sales for the applicable fiscal year to comparable store sales for the prior fiscal year. Comparable store sales are based on net sales, and stores are considered comparable beginning on the first anniversary of their first day of operation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - General" for more information about how we compute comparable store sales. Comparable stores sales for fiscal years ended January 31, 2009, February 2, 2008, January 28, 2006 and January 29, 2005 consisted of 52 weeks and February 3, 2004 consisted of 53 weeks, resulting in an extra week of sales in fiscal 2006.
- (3) Comparable store sales, and net sales per store include our in-store sales and our ecommerce sales. Fiscal 2006 included an extra week of sales due to the addition of a 53rd week.
- (4) Net sales per store represents net sales for the period divided by the average number of stores open during the period. For purposes of this calculation, the average number of stores open during the period is equal to the sum of the number of stores open as of the end of each month during the period divided by the number of months in the period. Fiscal 2006 included an extra week of sales due to the addition of a 53rd week.
- (5) Total square footage at end of period includes retail selling, storage and back office space.
- (6) Average square footage per store at end of period is calculated on the basis of the total square footage at end of period, including retail selling, storage and back office space, of all stores open

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at the end of the period. Average square footage per store does not include our ecommerce square footage.

(7) Net sales per square foot represents net sales, excluding ecommerce sales, for the period divided by the average square footage of stores open during the period. For purposes of this calculation, the average square footage of stores open during the period is equal to the sum of the total square footage of the stores open as of the end of each month during the period divided by the number of months in the period. This calculation excludes our ecommerce sales.

(8) The fiscal years ended January 29, 2005, January 28, 2006, February 3, 2007 and February 2, 2008 have been restated to exclude sales related to our ecommerce sales.

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

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

Overview

We are a mall based specialty retailer of action sports related apparel, footwear, equipment and accessories operating under the Zumiez brand name. As of January 31, 2009 we operated 343 stores primarily located in shopping malls, giving us a presence in 31 states. Our stores cater to young men and women between the ages of 12 and 24 who seek popular brands representing a lifestyle centered on activities that include skateboarding, surfing, snowboarding, BMX and motocross. We support the action sports lifestyle and promote our brand through a multi-faceted marketing approach that is designed to integrate our brand image with our customers' activities and interests. This approach, combined with our differentiated merchandising strategy, store design, comprehensive training programs and passionate employees, allows us to provide an experience for our customers that we believe is consistent with their attitudes, fashion tastes and identities and is otherwise unavailable in most malls.

Fiscal 2008 A Review of This Past Year

Fiscal 2008 was a difficult year for Zumiez. While the first half of the year was challenging, the second half of the year saw a marked deterioration in the U.S. economy that negatively impacted our sales and financial results. Historically, we have made the majority of our profits in the second half of the year due to the seasonal nature of our business, so as the recession became more severe in the second half of fiscal 2008, our sales and profits were proportionally worse. As the economy worsened, we saw declines in traffic in our stores and more promotional activity from our competitors. Through the first six months of fiscal 2008, our same store sales decreased 1.3% and our diluted earnings per share declined \$0.02 or 12.5%. The second half of fiscal 2008, the six months ended January 31, 2009, our same store sales declined 10.0% and our diluted earnings per share declined \$0.26 or 37.1%.

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Fiscal 2009 A Look At the Upcoming Year

We expect the upcoming fiscal year to be very challenging and believe it is difficult to predict the effects the unprecedented global financial and economic crises will have on our financial performance. As mentioned above our results worsened as fiscal 2008 progressed and we believe our results will continue to be below those obtained in fiscal 2008 for at least the first six months of fiscal 2009. We are planning our business conservatively for fiscal 2009, which includes lower purchases of inventory based on anticipated continued soft sales demand, lower capital expenditures due to fewer new stores and controlled selling, general and administrative expenditures. Our current forecast projects sustained working capital similar to previous years, adequate cash and investments, no borrowings on our credit facility and positive cash flow from operations. We believe our earnings will be below fiscal 2008 if our same store sales decline.

Our net sales increased from approximately \$117.9 million in fiscal 2003 to approximately \$408.7 million in fiscal 2008, a compound annual growth rate of 28.2%. Net sales for fiscal 2008 increased by \$27.3 million, or 7.1%, over net sales for fiscal 2007. Over the past five fiscal years ended January 31, 2009 we increased our store base from 113 to 343 and our comparable store net sales increased an average of 7.9% per fiscal year. As of January 31, 2009 we operated 343 stores that averaged approximately 2,900 square feet per store.

We intend to expand our presence as a leading action sports lifestyle retailer by opening new stores and continuing to generate sales growth through improved store level productivity. We have successfully and consistently implemented our store concept across a variety of mall classifications and geographic locations, and our strategy is to continue to open stores in both new and existing markets. We plan to open approximately 37 new stores in fiscal 2009 and to continue to open a significant number of new stores in future years. Unlike previous years, the number of anticipated store openings in fiscal 2009 may increase or decrease due to market conditions. We have opened or acquired, on average, approximately twenty-five percent new stores over each of the last five years. As we look to fiscal 2009 and beyond, we will likely slow this rate of growth until we see the macroeconomic environment improve. Through our merchandising and marketing efforts, we have historically been successful in increasing the level of net sales in our existing stores and we will seek to continue such increases going forward.

We believe that we have developed an economically compelling store model. Our new stores opened during fiscal 2007, generated average net sales of approximately \$1.0 million during their first full year of operations. On average, our net capital investment to open these stores, was approximately \$330,000 per store, which includes capital expenditures, net of landlord contributions. However, net sales and other operating results for stores that we open or have opened subsequent to the end of fiscal 2007, as well as our net capital investment to open those stores, may differ substantially from net sales and other operating results and our net capital investment for stores we opened in fiscal 2007. See "Business Stores." However our capital investment, net of landlord contributions, to open new stores and net sales generated by new stores vary significantly and depend on a number of factors, including the geographic location, type of mall and size of those stores. Accordingly, net sales and other operating results for stores that we open or have opened subsequent to the end of fiscal 2008, as well as our net capital investment to open those stores, may differ substantially from net sales and other operating results and our net capital investment for the stores we opened in prior years. We opened 58 new stores in fiscal 2008 with an average net capital investment of approximately \$311,000 per store, which includes capital expenditures, net of landlord contributions. In addition to capital investments, we make working capital investments consisting primarily of merchandise inventory.

In any given period, our overall gross margin may be impacted by changes in the margins of the various products we offer as well as changes in the relative mix of revenues from the different categories of apparel and hardgood products that we sell. Over the past five fiscal years, our annual

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gross margin as a percentage of our net sales has ranged from a low of 32.7% to a high of 36.3%. A number of other factors may positively or negatively impact our gross margins and results of operations, including, but not limited to:

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

actions by competitors or mall anchor tenants;

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 or absence of any unanticipated liabilities in connection therewith;

fashion trends and changes in consumer preferences;

calendar shifts of holiday or seasonal periods;

timing of promotional events;

weather conditions;

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

inventory shrinkage beyond our historical average rates;

General

Net sales constitute gross sales net of returns. Net sales include our in-store sales and our ecommerce sales, ecommerce shipping revenue and, accordingly, information in this report with respect to comparable store sales, includes our ecommerce sales. For fiscal 2003 through fiscal 2007, ecommerce sales represented approximately 1% of our net sales and 1.5% of net sales for fiscal 2008. We record the sale of gift cards as a current liability and recognize a sale when a customer redeems a gift card. The amount of the gift card liability is determined taking into account our estimate of the portion of gift cards that will not be redeemed or recovered ("gift card breakage"). Gift card breakage is recognized as revenue after 24 months, at which time the likelihood of redemption is considered remote based on our historical redemption data.

We report "comparable store sales" based on net sales, and stores are included in our comparable store sales beginning on the first anniversary of their first day of operation. Changes in our comparable store sales between two periods are based on net sales of stores which were in operation during both of the two periods being compared and, if a store is included in the calculation of comparable store sales for only a portion of one of the two periods being compared, then that store is included in the calculation for only the comparable portion of the other period. When additional square footage is added to a store that is included in comparable store sales, that store remains in comparable store sales. There may be variations in the way in which some of our competitors and other apparel retailers calculate comparable or same store sales. As a result, data herein regarding our comparable store sales may not be comparable to similar data made available by our competitors or other retailers.

Cost of goods sold consists of the cost of merchandise sold to customers, inbound shipping costs, ecommerce shipping costs, distribution costs, depreciation on leasehold improvements at the distribution center, buying and merchandising costs and store occupancy costs. This may

not be comparable to the way in which our competitors or other retailers compute their cost of goods sold.

Selling, general and administrative expenses consist primarily of store personnel wages and benefits, administrative staff and infrastructure expenses, store supplies, depreciation on leasehold improvements at our home office and stores, facility expenses, and training, advertising and marketing costs. Credit card fees, insurance, public company expenses, Sarbanes Oxley compliance expenses, stock based compensation and other miscellaneous operating costs are also included in selling, general and

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administrative expenses. This may not be comparable to the way in which our competitors or other retailers compute their selling, general and administrative expenses. We expect that our selling, general and administrative expenses will, as described below, increase in future periods due in part to increased expenses associated with opening new stores.

Our success is largely dependent upon our ability to anticipate, identify and respond to the fashion tastes of our customers and to provide merchandise that satisfies customer demands. Any inability to provide appropriate merchandise in sufficient quantities in a timely manner could have a material adverse effect on our business, operating results and financial condition.

Key Performance Indicators

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

Comparable store sales. Comparable store sales provide a measure of sales growth for stores open at least one year over the comparable prior year period.

Our management considers comparable store sales to be an important indicator of our current performance. Comparable store sales results are important to achieve leveraging of our costs, including store payroll, store supplies and rent. Comparable store sales also have a direct impact on our total net sales, 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 sales. Cost of sales consists of branded merchandise costs, and our private label merchandise including design, sourcing, importing and inbound freight costs. Our cost of sales also includes markdowns, shrinkage, certain promotional costs and buying, store occupancy and warehousing costs. 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 income. We view operating income as a key indicator of our success. The key drivers of operating income are comparable store sales, gross profit, our ability to control selling, general and administrative expenses, and our level of capital expenditures affecting depreciation expense.

Store productivity. Store productivity, including net sales per average square foot, average unit retail price, the number of transactions per store, the number of units sold per store and the number of units per transaction, is evaluated by our management in assessing our operational performance. In addition, we review our stores operating income as a measure of their profitability.

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

	Fiscal Year Ended		
	February 3, 2007	February 2, 2008	January 31, 2009
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	63.7%	64.1%	67.1%
Gross margin	36.3%	35.9%	32.9%
Selling, general and administrative expenses	25.4%	25.7%	26.9%
Operating profit	10.9%	10.2%	6.0%
Interest income (expense)	0.4%	0.4%	0.5%
Earnings before income taxes	11.3%	10.6%	6.5%
Provision for income taxes	4.3%	4.0%	2.3%
Net income	7.0%	6.6%	4.2%

Fiscal (2008) Year Ended January 31, 2009 Compared with Fiscal (2007) Year Ended February 2, 2008*Net Sales*

Net sales increased to \$408.7 million for fiscal 2008 from \$381.4 million for fiscal 2007, an increase of \$27.3 million, or 7.1%.

Comparable store net sales decreased by 6.5% in the 52 week period ended January 31, 2009 compared to the 52 week period ended February 2, 2008. Geographically our stores west of Texas, which account for 58% of our comparable store sales, declined by 11%. This decrease in comparable store sales was primarily due to lower net sales of men's and women's apparel, snow and skate hardgoods and accessories, partially offset by an increase in net sales of footwear. For information as to how we define comparable stores, see "General" above.

The increase in total net sales was due to an increase in net sales from non-comparable stores of approximately \$52.2 million partially offset by a decline in comparable store sales of approximately \$24.9 million. The increase in non-comparable store net sales was primarily due to the opening of 58 new stores in fiscal 2008.

Gross Profit

Gross profit for fiscal 2008 was \$134.5 million compared with \$137.0 million for fiscal 2007, a decrease of \$2.5 million, or 1.8%. As a percentage of net sales, gross profit decreased 3 full percentage points to 32.9% in fiscal 2008 from 35.9% in fiscal 2007. The decrease in gross profit as a percentage of net sales was driven primarily by store occupancy costs growing at a faster rate than sales (worth 1.4 percentage points), and lower product margins of 1.6 percentage points primarily due to apparel which is about 50% of our sales.

Selling, General and Administrative Expenses

Selling, general and administrative, or "SG&A," expenses in fiscal 2008 were \$109.9 million compared with \$98.0 million in fiscal 2007, an increase of \$11.9 million, or 12.1%. This increase was primarily the result of costs associated with operating new stores as well as increases in infrastructure and administrative staff to support our growth partially offset by a decrease in stock-based and incentive compensation expenses. As a percentage of net sales, SG&A expenses increased

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1.2 percentage points to 26.9% in fiscal 2008 from 25.7% in fiscal 2007. The increase in SG&A expenses as a percentage of net sales was primarily attributable to additional new store depreciation and store wages and benefits relative to the growth in net sales and increased shipping cost to stores, somewhat offset by a decrease in stock-based compensation and incentive compensation expenses.

Operating Profit

As a result of the above factors, operating profit decreased to \$24.6 million for fiscal 2008, compared with \$38.9 million in fiscal 2007 a decrease of \$14.3 million or 36.8%. As a percentage of net sales, operating profit was 6.0% in fiscal 2008 compared with 10.2% in fiscal 2007.

Provision for Income Taxes

Provision for income taxes was \$9.5 million for fiscal 2008 compared with \$15.3 million for fiscal 2007. The effective tax rate was 35.6% for fiscal 2008 and 37.7% for fiscal 2007. The lower effective tax rate was primarily due to higher interest income from tax exempt municipal bonds.

Net Income

Net income decreased to \$17.2 million, in fiscal 2008 from \$25.3 million in fiscal 2007 a decrease of \$8.1 million, or 32.1%. As a percentage of net sales, net income was 4.2% in fiscal 2008 compared with 6.6% in fiscal 2007.

Fiscal (2007) Year Ended February 2, 2008 Compared with Fiscal (2006) Year Ended February 3, 2007

Net Sales

Net sales increased to \$381.4 million for fiscal 2007 from \$298.2 million for fiscal 2006, an increase of \$83.2 million, or 27.9%.

Comparable store net sales increased by 9.2% in the 52 week period ended February 2, 2008 compared to the 52 week period ended February 3, 2007. This increase in comparable store sales was primarily due to higher net sales of men's and women's apparel, and skate hardgoods. For information as to how we define comparable stores, see "General" above.

The increase in total net sales was due to an increase in comparable store net sales of approximately \$23.6 million and an increase in net sales from non-comparable stores of approximately \$59.6 million. The increase in non-comparable store net sales was primarily due to the opening of 50 new stores in fiscal 2007.

Gross Profit

Gross profit for fiscal 2007 was \$137.0 million compared with \$108.2 million for fiscal 2006, an increase of \$28.8 million, or 26.6%. As a percentage of net sales, gross profit decreased to 35.9% in fiscal 2007 from 36.3% in fiscal 2006. The decrease in gross profit as a percentage of net sales was due primarily to higher shrinkage, store occupancy costs, and distribution costs partially offset by higher product margins due to improved product management.

Selling, General and Administrative Expenses

Selling, general and administrative, or "SG&A," expenses in fiscal 2007 were \$98.0 million compared with \$75.8 million in fiscal 2006, an increase of \$22.2 million, or 29.4%. This increase was primarily the result of costs associated with operating new stores as well as increases in infrastructure and administrative staff to support our growth. As a percentage of net sales, SG&A expenses increased to 25.7% in fiscal 2007 from 25.4% in fiscal 2006. The increase in SG&A expenses as a percentage of

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net sales was primarily attributable to the increased stock based compensation of \$2.5 million and increased depreciation expense of \$3.9 million, partially offset by lower growth in store wages and benefits relative to the growth in net sales and lower incentive compensation expense.

Operating Profit

As a result of the above factors, operating profit increased to \$38.9 million for fiscal 2007, compared with \$32.4 million in fiscal 2006 an increase of \$6.5 million or 20.0%. As a percentage of net sales, operating profit was 10.2% in fiscal 2007 compared with 10.9% in fiscal 2006.

Provision for Income Taxes

Provision for income taxes was \$15.3 million for fiscal 2007 compared with \$12.8 million for fiscal 2006. The effective tax rate was 37.7% for fiscal 2007 and 37.9% for fiscal 2006. The lower effective tax rate was due to higher interest income from tax exempt municipal bonds.

Net Income

Net income increased to \$25.3 million, in fiscal 2007 from \$20.9 million in fiscal 2006 an increase of \$4.4 million, or 21.4%. As a percentage of net sales, net income was 6.6% in fiscal 2007 compared with 7.0% in fiscal 2006.

Seasonality and Quarterly Results

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

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

	Fiscal Year Ended February 2, 2008				Fiscal Year Ended January 31, 2009			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except per share data)							
Net sales	\$68,791	\$81,974	\$104,045	\$126,606	\$78,702	\$92,258	\$112,245	\$125,464
Gross profit (1)	\$21,721	\$28,191	\$38,508	\$48,567	\$24,560	\$30,103	\$39,263	\$40,609
Operating profit	\$2,183	\$4,702	\$12,722	\$19,338	\$1,626	\$3,912	\$10,384	\$8,686
Net income	\$1,617	\$3,118	\$8,149	\$12,442	\$1,362	\$2,727	\$6,818	\$6,297
Basic net income per share	\$0.06	\$0.11	\$0.28	\$0.43	\$0.05	\$0.09	\$0.23	\$0.22
Dilute net income per share	\$0.06	\$0.11	\$0.28	\$0.42	\$0.05	\$0.09	\$0.23	\$0.21
Number of stores open end of period	254	266	283	285	306	324	340	343
Comparable store sales increase (decrease)	11.3%	11.6%	13.2%	4.0%	(0.8%)	(1.7%)	(5.8%)	(13.4%)

(1)

See Note 2 to the Consolidated Financial Statements for a discussion of the reclassification of shipping costs in Significant Accounting Policies for "Cost of Goods Sold" reclassification of shipping costs.

Comparable store sales percentage changes are calculated by comparing comparable store sales for the applicable fiscal quarter to comparable store sales for the same fiscal quarter in the prior fiscal year. Comparable store sales are based on net sales and stores are considered comparable beginning on the first anniversary of the first day of operations. See "General" above for more information about how we compute comparable store sales.

Liquidity and Capital Resources

Our primary uses of cash are for capital investments, inventory, store remodeling, store fixtures and ongoing infrastructure improvements such as technology enhancements and distribution capabilities. Historically, our main sources of liquidity have been cash flows from operations.

The significant components of our working capital are inventory and liquid assets such as cash, marketable securities and receivables, reduced by short-term debt, 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 payment terms with our vendors.

As of January 31, 2009, we held two \$1.0 million Auction Rate Securities valued at \$1.8 million, net of approximately \$0.2 million temporary impairment charge. One of these \$1.0 million securities failed to sell at its scheduled auction in March 2008. In May 2008, the remaining \$1.0 million security failed to sell at its scheduled auction. The interest rates for these securities reset to a prescribed "failure" tax-free rate of 6.55% and 3.20%, respectively. We currently do not intend to hold these securities beyond their next auction date and will try to sell these securities when their auction dates come up in March 2009 and May 2009. However, uncertainties in the credit markets this fiscal year

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have prevented us and other investors from liquidating holdings of auction rate securities in recent auctions for these securities because the amount of securities submitted for sale has exceeded the amount of purchase orders. If the March 2009 and May 2009 auctions fail, we plan to hold these securities until the next auction date and the securities coupon rate will reset to a prescribed "failure" rate. Unsuccessful auctions could result in our holding securities beyond their next scheduled auction reset dates if a secondary market does not develop; therefore, limiting the short-term liquidity of these investments. These securities have been reclassified from "current" to "long term" assets on our consolidated balance sheet as of January 31, 2009.

Our capital requirements include construction and fixture costs related to the opening of new stores and for remodeling 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 2009, we expect to spend approximately \$23.0 million to \$24.0 million on capital expenditures, a majority of which will relate to leasehold improvements and fixtures for the 37 new stores we plan to open in fiscal 2009, and a smaller amount will relate to equipment, systems and improvements for our distribution center and support infrastructure. However, there can be no assurance that the number of stores that we actually open in fiscal 2009 will not be different from the number of stores we plan to open, or that actual fiscal 2009 capital expenditures will not differ from this expected amount.

We expect cash flows from operations and available borrowings under our revolving credit facility will be sufficient to meet our foreseeable cash requirements for operations and planned capital expenditures for at least the next twelve months. Beyond this time frame, if cash flows from operations, and borrowings under our revolving credit facility are not sufficient to meet our capital requirements, then we will be required to obtain additional equity or debt financing in the future. 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.

Net cash provided by operating activities increased by 4.0 million from \$38.3 million in fiscal 2008 compared to \$34.3 million in fiscal 2007. The increase was primarily due to the change in the effect of the tax benefit from stock option exercises from 2007 to 2008, partially offset by a decrease in net income. Net cash provided by operating activities for fiscal 2007 was \$34.3 million compared to \$34.2 million for fiscal 2006. The change was primarily due to an increase in net income, offset by an increase in inventory needed to support 50 new stores and a decrease in trade accounts payable due to the timing of inventory receipts and associated payment in the fourth quarter. In addition, fiscal 2006 cash flow provided by operating activities benefited due to parts of Washington being declared a federal disaster area due to severe weather in the fourth quarter of fiscal 2006. In accordance with the Presidential Disaster Area tax relief, we deferred our federal income tax payment of \$2.5 million from January 2007 to February 2007. This positively impacted fiscal 2006's cash flow provided by operations and negatively impacted fiscal 2007's cash flow provided by operations.

Net cash used in investing activities was \$11.9 million in fiscal 2008 primarily related to capital expenditures for new store openings and existing store renovations of \$28.3 million partially offset by net sales of marketable securities of \$16.4 million. Net cash used in investing activities was \$51.2 million in fiscal 2007 primarily related to capital expenditures for new store openings and existing store renovations of \$30.7 million and net purchases of marketable securities of \$20.5 million. Net cash used in investing activities was \$44.4 million in fiscal 2006, primarily related to capital expenditures for new store openings and existing store renovations of \$22.2, the acquisition of the Fast Forward stores for \$16.5 million and net purchases of marketable securities of \$5.7 million.

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Net cash used by financing activities in fiscal 2008 was \$5.3 million primarily related to short term use of bank funds partially offset by proceeds from stock option exercise and associated tax benefits. Net cash provided by financing activities in the fiscal 2007 was \$20.7 million, primarily related to proceeds from stock option exercise and associated tax benefits. Net cash provided by financing activities in fiscal 2006 was \$13.6 million, primarily related to proceeds from stock option exercise and the associated tax benefit and short term use of bank funds.

We have a credit agreement with Wells Fargo HSBC Trade Bank, N.A. The credit agreement provides us with a secured revolving credit facility until August 30, 2009 of up to \$25.0 million. The secured revolving credit facility provides for the issuance of standby commercial letters of credit in an amount not to exceed \$5.0 million outstanding at any time and with a term not to exceed 365 days, although the amount of borrowings available at any time under our secured revolving credit facility is reduced by the amount of standby letters of credit outstanding at that time. There were no outstanding borrowings under the secured revolving credit facility at January 31, 2009 or February 2, 2008. The Company had open letters of credit outstanding under our secured revolving credit facility of \$0.3 million at January 31, 2009 and approximately \$0.5 million at February 2, 2008. The secured revolving credit facility bears interest at floating rates based on the lower of the prime rate (3.25% at January 31, 2009) minus 0.50% or the LIBOR rate (2.00% at January 31, 2009), plus 1% for advances over \$500,000 for a minimum of 30 days and a maximum of 180 days. The credit agreement contains a number of restrictions and covenants that generally limit our ability to, among other things, (1) incur additional debt, (2) undergo a change in ownership and (3) enter into certain transactions. The credit agreement also contains financial covenants that require us to meet certain specified financial tests and ratios, including, a minimum net income after taxes of \$1.00 for any trailing twelve month period, a maximum total liabilities divided by tangible net worth of 1.15 and a minimum quick asset ratio of 1.0. Our two most restrictive covenants are our quick asset ratio that essentially precludes us from borrowing to the extent we were to have no cash, marketable securities or accounts receivable and our net income covenant that requires us make at least \$1.00 in net income after taxes for any trailing twelve month period. All of our personal property, including, among other things, our inventory, equipment and fixtures, has been pledged to secure our obligations under the credit agreement. We must also provide financial information and statements to our lender. We were in compliance with all such covenants at January 31, 2009.

It is our intention to enter into a new credit agreement with a financially sound banking institution prior to the expiration of the existing agreement Wells Fargo HSBC Trade Bank, N.A.

Contractual Obligations and Commercial Commitments

There was no material changes outside the ordinary course of business in our contractual obligations during the fiscal year ended January 31, 2009. Our operating lease obligations are not recognized as liabilities in the financial statements. The following table summarizes the total amount of future payments due under certain of our contractual obligations and the amount of those payments due in future periods as of January 31, 2009 (in thousands):

Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating Lease Obligations	\$326,488	\$38,020	\$79,394	\$74,342	\$134,732
Purchase Obligations	40,922	40,922			
Letters of Credit	338	338			
	\$367,748	\$79,280	\$79,394	\$74,342	\$134,732

We occupy our retail stores and combined home office and distribution center under operating leases generally with terms of five to ten years. Some of our leases have early cancellation clauses,

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which permit the lease to be terminated by us if certain sales levels are not met in specific periods. Some leases contain renewal options for periods ranging from one to five years under substantially the same terms and conditions as the original leases. In addition to future minimum lease payments, substantially all of our store leases provide for additional rental payments (or "percentage rent") if sales at the respective stores exceed specified levels, as well as the payment of common area maintenance charges and real estate taxes. Amounts in the above table do not include percentage rent, common area maintenance charges or real estate taxes. Most of our lease agreements have defined escalating rent provisions, which we have straight-lined over the term of the lease, including any lease renewals deemed to be probable. For certain locations, we receive cash tenant allowances and we have reported these amounts as a deferred liability that is amortized to rent expense over the term of the lease, including any lease renewals deemed to be probable. Rent expense, including common area maintenance and other occupancy costs, was \$31.9 million, \$43.5 million and \$52.9 million for fiscal 2006, 2007, and 2008, respectively. At January 31, 2009, we had outstanding purchase orders to acquire merchandise from vendors for approximately \$40.0 million. We have an option to cancel these commitments with no notice prior to shipment. At January 31, 2009, we had approximately \$0.3 million of letters of credit outstanding.

Off-Balance Sheet Obligations

Our only off-balance sheet contractual obligations and commercial commitments as of January 31, 2009 related to operating lease obligations and letters of credit. We have excluded these items from our balance sheet in accordance with generally accepted accounting principles "GAAP." We presently do not have any non-cancelable purchase commitments. At January 31, 2009 we had outstanding purchase orders to acquire merchandise from vendors for approximately \$40.0 million. These purchases are expected to be financed by cash flows from operations and borrowings under our revolving credit facility. We have an option to cancel these commitments with no notice prior to shipment. At January 31, 2009 we had approximately \$0.3 million of letters of credit outstanding under our revolving credit facility.

Impact of Inflation

We do not believe that inflation has had a material impact on our net sales or operating results for the past three fiscal years. There can be no assurance that our business will not be affected by inflation in the future.

Quantitative and Qualitative Disclosures About Market Risk

See discussion in Item 7A "Quantitative and Qualitative Disclosures About Market Risk."

Critical Accounting Policies and Estimates

In preparing financial statements in accordance with GAAP, we are required to make estimates and assumptions that have an impact on the assets, liabilities, revenue and expense amounts reported. These estimates can also affect supplemental information disclosed by us, including information about contingencies, risk, and financial condition. We believe, given current facts and circumstances that our estimates and assumptions are reasonable, adhere to GAAP, and are consistently applied. Inherent in the nature of an estimate or assumption is the fact that actual results may differ from estimates and estimates may vary as new facts and circumstances arise. In preparing the consolidated financial statements, we make routine estimates and judgments in determining the net realizable value of accounts receivable, inventory, fixed assets, prepaid assets, goodwill and certain liabilities. See Note 2 to the Consolidated Financial Statements for a complete discussion of our significant accounting policies. We believe our most critical accounting estimates and assumptions are in the following areas:

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Revenue recognition and sales returns reserve. We recognize revenue upon purchase by customers at our retail store locations or upon shipment for orders placed through our website as both title and risk of loss have transferred. Revenue is not recorded on purchase of gift cards. A current liability is recorded upon purchase, and revenue is recognized when the gift card is redeemed for merchandise.

Revenue is recorded net of estimated and actual sales returns and deductions for coupon redemptions and other promotions. The Company records the sale of gift cards as a current liability and recognizes revenue when a customer redeems a gift card. The amount of the gift card liability is determined taking into account our estimate of the portion of gift cards that will not be redeemed or recovered ("gift card breakage"). Gift card breakage is recognized as revenue after 24 months, at which time the likelihood of redemption is considered remote based on our historical redemption data. We offer a return policy of 30 days and the estimated sales return reserve is based on projected merchandise returns determined through the use of historical average return percentages. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate our sales return reserve. However, if the actual rate of sales returns increases significantly, our operating results could be adversely affected.

Valuation of merchandise inventories. We carry our merchandise inventories at the lower of cost or market. 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 our current rate of sale, the age of the inventory and other factors. Actual final sales prices to our customers may be higher or lower than our estimated sales prices and could result in a fluctuation in gross margin. These write-downs may have a material adverse impact on earnings, depending on the extent and amount of inventory affected.

We estimate an inventory shrinkage reserve for anticipated losses for the period. Shrinkage refers to a reduction in inventory due to shoplifting, employee theft and paperwork errors. The estimate for the shrinkage reserve is calculated based on historical percentages and can be affected by changes in merchandise mix and changes in actual shrinkage trends. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate our inventory shrinkage reserve. However, if actual physical inventory losses differ significantly from our estimate, our operating results could be adversely affected.

Impairment of Leasehold Improvements and Equipment. We review leasehold improvements and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is determined by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment recognized is measured by comparing projected individual store discounted cash flow to the asset carrying values. Declines in projected store cash flow could result in the impairment of assets. In fiscal 2008 we took a charge for leasehold improvement impairment of \$812,000 based on projected performance of five stores. If our sales and margins decline in fiscal 2009 and beyond additional impairment charges could occur. 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 leasehold improvements and equipment impairment losses. However, if actual results are not consistent with our estimates and assumptions, our operating results could be adversely affected.

Other-Than-Temporary Impairment of Investments. We will record an investment impairment charge at the point we believe an investment has experienced a decline in value that is other-than-temporary. In determining whether an other-than-temporary impairment has occurred, we review information about the underlying investment that is publicly available such as analyst reports, applicable industry data and other pertinent information, and assess our ability to hold the security for the foreseeable future. The investment would be written down to its current market value at the time

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the impairment is deemed to have occurred. Future adverse changes in market conditions, continued poor operating results of underlying investments or other factors could result in further losses that may not be reflected in an investment's current carrying value, possibly requiring an additional impairment charge in the future. Any other-than-temporary impairment charge could materially affect our results of operations.

Lease Accounting. The Company occupies its retail stores and combined home office and distribution center under operating leases generally with terms of five to ten years. Some of these leases have early cancellation clauses, which permit the lease to be terminated if certain sales levels are not met in specific periods. Some leases contain renewal options for periods ranging from one to five years under substantially the same terms and conditions as the original leases. Most of the store leases require payment of a specified minimum rent, plus a contingent rent based on a percentage of the store's net sales in excess of a specified threshold. Most of the lease agreements have defined escalating rent provisions, which are straight-lined over the term of the related lease, including any lease renewals deemed to be probable. The Company straight-lines and recognizes its rent expense over the term of the lease, plus the construction period prior to occupancy of the retail location, using a mid-month convention. For certain locations, the Company receives cash tenant allowances and has reported these amounts as a deferred liability which is amortized to rent expense over the term of the lease.

Income Taxes. As part of the process of preparing the financial statements, income taxes are estimated for each of the jurisdictions in which we operate. We calculate income taxes in accordance with SFAS No. 109, Accounting for Income Taxes ("SFAS No. 109"), which requires the use of the asset and liability method and 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 within the balance sheet. The likelihood that deferred tax assets will be recovered from future taxable income is assessed, recognizing that future taxable income may give rise to new deferred tax assets. To the extent that future recovery is not likely, a valuation allowance would be established. To the extent that a valuation allowance is established or increased, an expense will be included within the tax provision in the income statement.

Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against net deferred tax assets. Based on our history of operating earnings, no valuation allowance has been recorded as of January 31, 2009. In the event that actual results differ from these estimates, or these estimates are adjusted in future periods, a valuation allowance may need to be established, which could impact our financial position and results of operations.

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), on January 1, 2007. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return, including a decision whether to file or not to file in a particular jurisdiction. Under FIN 48, a tax benefit from an uncertain position may be recognized only if it is "more likely than not" that the position is sustainable based on its technical merits. Provisions for income taxes are based on numerous factors that are subject to audit by the Internal Revenue Service and the tax authorities in the various jurisdictions in which we do business.

Stock-based compensation. Effective January 29, 2006, we adopted the fair value method of accounting for stock-based compensation arrangements in accordance with FASB Statement No. 123(R), Share-Based Payment ("SFAS No. 123(R)"), under provisions of Staff Accounting Bulletin NO. 107 ("SAB 107") using the modified prospective method of transition. Under the provisions of SFAS No. 123(R), the estimated fair value of share-based awards granted under the 2005 Stock Incentive Plan is recognized as compensation expense over the vesting period.

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To determine the fair value of our share-based issuances, we use the Black-Scholes option pricing model, which requires management to apply judgment and make assumptions to determine the fair value of our awards. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (the "expected term"), the estimated volatility of the price of our common stock over the expected term and an estimate of the number of options that will ultimately be forfeited.

We calculate a weighted-average expected term using the "simplified method" under the provisions of SAB 107. The "simplified method" calculates the expected term as the average of the vesting term and original contractual term of the options. We use a historical volatility as we believe that this is representative of future stock price trends. Estimated forfeitures are calculated based on historical experience. Changes in these assumptions can materially affect the estimate of the fair value of our share-based payments and the related amount recognized in our Consolidated Financial Statements.

We recorded \$4.4 million of total stock-based compensation expense for the year ended January 31, 2009 of which \$0.5 was attributable to the Board of Directors as required by the provisions of SFAS No. 123(R). The stock-based compensation expense is calculated on an accelerated method for stock options and a straight-line basis for restricted stock over the vesting periods of the related equity grant. This charge had no impact on our reported cash flows.

At January 31, 2009 there was \$8.6 million of total unrecognized compensation cost related to unvested stock awards of which \$0.2 was attributable to the Board of Directors. This cost is expected to be recognized on a weighted-average basis over a period of approximately three to eight years.

We account for unvested stock-based employee compensation arrangements granted prior to our initial public offering on the intrinsic value method as allowed by SFAS 123(R).

Goodwill. We evaluate goodwill for impairment annually and when an event occurs or circumstances change to suggest that the carrying value may not be recoverable. We test goodwill for impairment by first comparing the carrying value of net assets to the fair value of the related operations. If the fair value is determined to be less than carrying value, a second step is performed to compute the amount of impairment. We estimate fair value using discounted cash flows of reporting units. Forecasts of future cash flow are based on our best estimate of future net sales and operating expenses. In this process, a fair value for goodwill is estimated and compared to its carrying value. The shortfall of the fair value below carrying value represents the amount of goodwill impairment. Changes in these forecasts could significantly change the amount of impairment recorded, if any.

The financial and credit market volatility directly impacts our fair value measurement through our weighted average cost of capital that we use to determine our discount rate and through our stock price that we use to determine our market capitalization. During times of volatility, significant judgment must be applied to determine whether credit or stock price changes are a short-term swing or a longer-term trend.

Recently Issued Accounting Pronouncements

In February 2008, the Financial Accounting Standards Board ("FASB") issued FSP No. SFAS 157-2, which delays the effective date of SFAS No. 157, "*Fair Value Measurements*," for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Nonfinancial assets and nonfinancial liabilities would include all assets and liabilities other than those meeting the definition of a financial asset or financial liability as defined in paragraph 6 of SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." This FASB Staff Position defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within

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those fiscal years for items within the scope of FSP No. SFAS 157-2. We are currently evaluating the effects, if any, that FSP No. SFAS 157-2 may have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "*Business Combinations*" ("SFAS No. 141(R)"), which replaces SFAS No. 141, "*Business Combinations*" ("SFAS No. 141"). SFAS No. 141(R) retains the underlying concepts of SFAS No. 141 in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting but SFAS No. 141(R) changed the method of applying the acquisition method in a number of significant aspects. Acquisition costs will generally be expensed as incurred; non-controlling interests will be valued at fair value at the acquisition date; in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. SFAS No. 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS No. 141(R) amends SFAS No. 109, "Accounting for Income Taxes," such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS No. 141(R) would also apply the provisions of SFAS No. 141(R). Early adoption is not permitted. The Company does not expect the adoption of SFAS No. 141(R) to have a material effect on its consolidated financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, "*Non-controlling Interests in Consolidated Financial Statements*." SFAS No. 160 amends Accounting Research Bulletin No. 51, "*Consolidated Financial Statements*" and requires (i) classification of non-controlling interests, commonly referred to as minority interests, within stockholders' equity, (ii) net income to include the net income attributable to the non-controlling interest and (iii) enhanced disclosure of activity related to non-controlling interests. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of SFAS No. 160 to have a material effect on the consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position 142-3, "*Determination of the Useful Lives of Intangible Assets*" ("FSP 142-3"), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB No. 142, "*Goodwill and Other Intangible Assets*." The intent of FSP 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) and other U.S. generally accepted accounting principles. FSP No. 142-3 is effective for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of FSP No. 142-3 to have a material effect on the consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, "*The Hierarchy of Generally Accepted Accounting Principles*" ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles. SFAS 162 is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." This statement will not have an impact on the Company's consolidated financial statements.

In October 2008, the FASB issued FSP No. SFAS 157-3 ("FSP 157-3"), "*Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*." FSP 157-3 clarifies the application of

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SFAS No. 157, "Fair Value Measurements," in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP157-3 is effective immediately, including prior periods for which financial statements have not been issued. The Company has adopted FSP 157-3 effective with the financial statements ended November 1, 2008. The adoption of FSP 157-3 had no impact on the Company's consolidated financial statements for the year ended January 31, 2009.

Risk Factors, Issues and Uncertainties

Please refer to the information set forth under Item 1A above for a discussion of risk factors, issues and uncertainties that our business faces.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are susceptible to market value fluctuations with regard to our short-term investments. However, due to the relatively short maturity period of those investments and our intention and ability to hold those investments until maturity, the risk of material market value fluctuations is not expected to be significant.

During different times of the year, due to the seasonality of our business, we may borrow under our revolving credit facility. To the extent we borrow under our revolving credit facility, which bears interests at floating rates based either on the prime rate or LIBOR, we are exposed to market risk related to changes in interest rates. At January 31, 2009 we had no borrowings outstanding under our credit facility. We are not a party to any derivative financial instruments. Fluctuations in interest rates did not have a material effect on the results of operations in fiscal 2008.

Interest Rate Risk

Our earnings are affected by changes in market interest rates as a result of our short-term and long-term investments in tax-exempt U.S. treasuries, municipal bonds, taxable agency bonds, and auction rate securities, which have long-term contractual maturities but feature variable interest rates that reset at short-term intervals. We also invest in long-term agency bonds. If our current portfolio average yield rate decreases by 10% in fiscal 2009, our income before taxes will decrease by approximately \$0.2 million. Our current expectation is that our investment yields will be lower in 2009 due to historically low interest rates. These amounts are determined by considering the impact of the hypothetical yield rates on our cash, short-term and long-term investment balances. These analyses do not consider the effects of the reduced level of overall investments that could happen in such an environment. Further, in the event of a change of such magnitude, management would likely take actions to further mitigate its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in our investments structure.

Item 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information with respect to this item is set forth in "Index to the Consolidated Financial Statements," under "Part IV, Item 15" of this report.

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

None.

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Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Securities Exchange Act Rule 13a-15(e)). Based on this evaluation, our CEO and CFO concluded that, as of January 31, 2009 our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting. There has been no change in our internal control over financial reporting (as defined in Securities Exchange Act Rule 13a-15(f)) during the quarter ended January 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. The effectiveness of Zumiez Inc. internal control over financial reporting as of January 31, 2009 has been audited by Moss Adams LLP, the Company's independent registered public accounting firm, as stated in their report which appears herein.

Management's Report on Internal Control Over Financial Reporting is included in this Form 10-K under Part III, Item 15, "Exhibits and Consolidated Financial Statements."

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding our directors and nominees for directorship is presented under the headings "Election of Directors," in our definitive proxy statement for use in connection with our 2009 Annual Meeting of Shareholders (the "Proxy Statement") that will be filed within 120 days after our fiscal year ended January 31, 2009 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 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," "Compensation Committee Report" 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.

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Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

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

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning principal accounting fees and services is presented under the heading "Fees Paid to Independent Registered Public Accounting Firm for Fiscal Year 2008 and 2007" in our Proxy Statement, and is incorporated herein by this reference thereto.

PART IV

Item 15. EXHIBITS AND CONSOLIDATED FINANCIAL STATEMENTS.

- a)
- Exhibits and Consolidated Financial Statements
 - 1. Management's Annual Report on Internal Control Over Financial Reporting.
 - 2. Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting.
 - 3. Consolidated Financial Statements can be found under Item 8 of Part II of this Form 10-K.
 - 4. Index to Consolidated Financial Statements.
 - 5. Exhibits Index.

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MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

This process includes policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements, and can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Furthermore, because of changes in conditions, the effectiveness of internal control may vary over time.

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of January 31, 2009. Management's assessment was based on criteria described in the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that assessment, the Company's management concluded that the Company's internal control over financial reporting was effective as of January 31, 2009.

The effectiveness of Zumiez Inc. internal control over financial reporting as of January 31, 2009 has been audited by Moss Adams LLP, the Company's independent registered public accounting firm, as stated in their report which appears herein.

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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.

<u>/s/ RICHARD M. BROOKS, Jr.</u>	<u>3/23/09</u>
Signature	Date
By: Richard M. Brooks, Jr., Chief Executive Officer, Director	
<u>/s/ TREVOR S. LANG</u>	<u>3/23/09</u>
Signature	Date
By: Trevor S. Lang, Chief Financial Officer and Secretary (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.

<u>/s/ THOMAS D. CAMPION</u>	<u>3/23/09</u>
Signature	Date
Thomas D. Campion, Chairman	
<u>/s/ DAVID DEMATTEI</u>	<u>3/23/09</u>
Signature	Date
David DeMattei, Director	
<u>/s/ GERALD F. RYLES</u>	<u>3/23/09</u>
Signature	Date
Gerald F. Ryles, Director	
<u>/s/ WILLIAM M. BARNUM, JR.</u>	<u>3/23/09</u>
Signature	Date
William M. Barnum, Jr., Director	
<u>/s/ JIM WEBER</u>	<u>3/23/09</u>
Signature	Date
Jim Weber, Director	
<u>/s/ MATTHEW L. HYDE</u>	<u>3/23/09</u>
Signature	Date
Matthew L. Hyde, Director	

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Zumiez Inc.

We have audited Zumiez Inc.'s internal control over financial reporting as of January 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("the COSO criteria"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Zumiez Inc. maintained effective internal control over financial reporting as of January 31, 2009, in all material respects, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Zumiez Inc. as of January 31, 2009 and February 2, 2008, and the related consolidated statements of operations, shareholders' equity, and cash flows for the periods ended January 31, 2009, February 2, 2008 and February 3, 2007 and our report dated March 20, 2009 expressed an unqualified opinion thereon.

/s/ Moss Adams LLP

Seattle, Washington
March 20, 2009

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended February 3, 2007, February 2, 2008, and January 31, 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Zumiez Inc.

We have audited the accompanying consolidated balance sheets of Zumiez Inc. as of January 31, 2009 and February 2, 2008 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the periods ended January 31, 2009, February 2, 2008 and February 3, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Zumiez Inc. as of January 31, 2009 and February 2, 2008 and the results of its operations and its cash flows for the periods ended January 31, 2009, February 2, 2008 and February 3, 2007 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 2 and 5 to the consolidated financial statements, on February 3, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements."

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Zumiez Inc.'s internal control over financial reporting as of January 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 20, 2009 expressed an unqualified opinion.

/s/ Moss Adams LLP

Seattle, Washington
March 20, 2009

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ZUMIEZ INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	February 2, 2008	January 31, 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 11,945	\$ 33,057
Marketable securities	64,587	45,525
Receivables	4,775	4,555
Inventory	48,721	51,974
Prepaid expenses and other	4,440	5,614
Deferred tax assets	1,089	2,588
Total current assets	135,557	143,313
Leasehold improvements and equipment, net	65,937	73,932
Goodwill and other intangibles	13,154	13,236
Marketable securities long term		1,767
Deferred tax assets	1,447	1,101
Total long-term assets	80,538	90,036
Total assets	\$ 216,095	\$ 233,349
Liabilities and Shareholders' Equity		
Current liabilities		
Trade accounts payable	\$ 19,672	\$ 15,909
Book overdraft	7,384	
Accrued payroll and payroll taxes	5,097	4,739
Income taxes payable	47	238
Current portion of deferred rent and tenant allowances	2,136	2,735
Other accrued liabilities	9,060	7,600
Total current liabilities	43,396	31,221
Long-term deferred rent and tenant allowances, less current portion	18,097	24,177
Total liabilities	61,493	55,398
Commitments and contingencies (Note 10)		
Shareholders' equity		
Preferred stock, no par value, 20,000,000 shares authorized; none issued and outstanding		
Common stock, no par value, 50,000,000 shares authorized; 29,002,852 shares issued and outstanding at February 2, 2008, 29,533,067 shares issued and outstanding at January 31, 2009		
	69,297	75,789
Accumulated other comprehensive income	464	117
Retained earnings	84,841	102,045
Total shareholders' equity	154,602	177,951
Total liabilities and shareholders' equity	\$ 216,095	\$ 233,349

See accompanying notes to consolidated financial statements

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

	Fiscal Year Ended		
	February 3, 2007	February 2, 2008	January 31, 2009
Net sales	\$ 298,177	\$ 381,416	\$ 408,669
Cost of goods sold	189,959	244,429	274,134
Gross profit	108,218	136,987	134,535
Selling, general and administrative expenses	75,774	98,042	109,927
Operating profit	32,444	38,945	24,608
Interest income, net	1,178	1,722	2,059
Other income (expense)	(16)	3	36
Earnings before income taxes	33,606	40,670	26,703
Provision for income taxes	12,750	15,344	9,499
Net income	\$ 20,856	\$ 25,326	\$ 17,204
Basic net income per share	\$ 0.76	\$ 0.89	\$ 0.59
Diluted net income per share	\$ 0.73	\$ 0.86	\$ 0.58
Weighted average shares used in computation of earnings per share:			
Basic	27,542,891	28,608,818	29,126,889
Diluted	28,703,037	29,322,337	29,694,112

See accompanying notes to consolidated financial statements

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

	Common Stock		Employee	Other	Retained	Total
	Shares	Amount	Stock	Comprehensive	Earnings	
			Options	Income		
				(Loss)		
Balance at January 28, 2006	27,259	\$34,770	\$ 260	\$ (5)	\$ 38,659	\$ 73,684
Exercise of common stock options, including tax benefit of \$6,822	622	8,228				8,228
Stock based compensation		2,313	(260)			2,053
Unrealized (losses), net				(9)		(9)
Net income					20,856	20,856
Balance at February 3, 2007	27,881	45,311		(14)	59,515	104,812
Exercise of common stock options, including tax benefit of \$16,527	1,122	19,417				19,417
Stock based compensation		4,569				4,569
Unrealized gains, net				478		478
Net income					25,326	25,326
Balance at February 2, 2008	29,003	69,297		464	84,841	154,602
Exercise of common stock options, including tax benefit of \$1,173	530	2,102				2,102
Stock based compensation		4,390				4,390
Unrealized (losses), net of tax of \$213				(347)		(347)
Net income					17,204	17,204
Balance at January 31, 2009	29,533	\$75,789	\$	\$ 117	\$102,045	\$177,951

See accompanying notes to consolidated financial statements

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

	Fiscal Year Ended		
	February 3, 2007	February 2, 2008	January 31, 2009
Cash flows from operating activities:			
Net income	\$ 20,856	\$ 25,326	\$ 17,204
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	10,499	14,762	19,470
Deferred tax expense	(1,306)	(1,826)	(1,221)
Stock-based compensation expense	2,053	4,569	4,390
Loss on disposal of assets	132	119	271
Impairment of long-lived assets			812
Loss (Gain) from sales of marketable securities, net	17	(2)	(36)
Excess tax benefit from stock options	(6,822)	(16,527)	(1,173)
Changes in operating assets and liabilities:			
Receivables	(1,309)	448	220
Inventory	(198)	(6,564)	(3,253)
Prepaid expenses and other	(2,713)	(847)	(1,174)
Trade accounts payable	(3,371)	(4,492)	(3,763)
Accrued payroll and payroll taxes	330	313	(358)
Income taxes payable	10,112	9,976	1,364
Other accrued liabilities	1,506	2,244	(1,460)
Deferred rent and tenant allowances	4,409	6,787	7,044
Net cash provided by operating activities	34,195	34,286	38,337
Cash flows from investing activities:			
Additions to leasehold improvements and equipment	(22,160)	(30,722)	(28,349)
Acquisitions, net of cash acquired	(16,542)		
Purchases of marketable securities	(157,433)	(143,957)	(82,607)
Sales and maturities of marketable securities	151,785	123,459	99,013
Net cash used in investing activities	(44,350)	(51,220)	(11,943)
Cash flows from financing activities:			
Change in book overdraft	6,083	1,301	(7,384)
Payments on revolving credit facility	(732)		
Proceeds from exercise of stock options	1,406	2,890	929
Excess tax benefit from stock options	6,822	16,527	1,173
Net cash provided by (used in) financing activities	13,579	20,718	(5,282)
Net increase in cash and cash equivalents	3,424	3,784	21,112
Cash and cash equivalents, beginning of period	4,737	8,161	11,945
Cash and cash equivalents, end of period	\$ 8,161	\$ 11,945	\$ 33,057
Supplemental disclosure on cash flow information:			
Cash paid during the period for interest	\$	\$ 4	\$ 11
Cash paid during the period for income taxes	4,027	7,324	9,422
Non-cash operating activity disposition of gift card breakage liability		303	

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Non-cash investing activity acquisition costs in other accrued liabilities	250
See accompanying notes to consolidated financial statements	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature and Ownership of Business and Basis of Presentation

Nature of Business Zumiez Inc. (the "Company") is a leading specialty retailer of action sports related apparel, footwear, equipment and accessories operating under the Zumiez brand name. As of January 31, 2009 the Company operated 343 stores primarily located in shopping malls, giving the Company a presence in 31 states. The Company's stores cater to young men and women between the ages of 12 and 24 who seek popular brands representing a lifestyle centered on activities that include skateboarding, surfing, snowboarding, bicycle motocross (or "BMX") and motocross. The Company supports the action sports lifestyle and promotes its brand through a multi-faceted marketing approach that is designed to integrate its brand image with its customers' activities and interests. In addition, the Company operates a website which sells merchandise online and provides content and a community for its target customers. The Company, based in Everett, WA, was formed in August 1978 and operates within one reportable segment.

Fiscal Year The Company uses a fiscal calendar widely used by the retail industry that result 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 2007 and fiscal 2008 were 52-week periods ended February 2, 2008 and January 31, 2009 respectively. Fiscal 2006 was a 53-week period ended February 3, 2007.

Stock Split On March 15, 2006 the Company's Board of Directors approved a two for one stock split of the Company's common stock that was effected by a share dividend and became effective April 19, 2006. All reference to shares in the consolidated financial statements and the accompanying notes, including but not limited to the number of shares and per share amounts, unless otherwise noted, have been adjusted to reflect the stock split on a retroactive basis. Previously awarded stock options in the Company's common stock have been retroactively adjusted to reflect the stock split.

Basis of Presentation The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The consolidated financial statements include the accounts of Zumiez Inc. and its subsidiary, Zumiez Nevada, LLC. All significant intercompany transactions and balances are eliminated in consolidation.

Revision to Previously Issued Statements of Cash Flows Prior to fiscal 2007 the Company classified tenant allowances received from landlords as a reduction of leasehold improvements and equipment in the cash flows from investing activities section of the consolidated statements of cash flows. The appropriate classification is to include tenant allowances in deferred rent, which is included in net cash provided by operating activities. For the fiscal year ended February 3, 2007 we corrected the classification of tenant allowances in the consolidated statement of cash flows. The effect of this adjustment was to increase cash used in investing activities and to increase net cash flow provided by operating activities by \$4.3 million for fiscal 2006. There was no impact on the net increase in cash and cash equivalents on the consolidated statement of cash flows. The Company has determined these adjustments were not material and has properly classified tenant allowances in the statement of cash flows for the fiscal year ended February 3, 2007.

2. Summary of Significant Accounting Policies

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make 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 financial statements as well as the reported amounts of revenues

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

and expenses during the reporting period. These estimates can also affect supplemental information disclosed by the Company, including information about contingencies, risk, and financial condition. In preparing the financial statements, the Company makes routine estimates and judgments in determining the net realizable value of accounts receivable, inventory, fixed assets, and accrued liabilities. Some of the more significant estimates include the allowance for sales returns, the reserve for inventory valuation estimates, medical and dental insurance reserve and the expected useful lives of fixed assets. Actual results could differ from those estimates.

Concentration of Risk The Company maintains its cash and cash equivalents in accounts with major financial institutions in the United States of America, in the form of demand deposits, certificates of deposits and money market accounts. Deposits in this bank may exceed the amounts of federal deposit insurance provided on such deposits. The Company has not experienced any losses on its deposits of cash and cash equivalents. The Company's accounts receivable are substantially comprised of credit card purchases from customers and are typically settled within two to three days.

Restricted Cash At January 31, 2009 the Company had no restricted cash. At February 2, 2008 the Company had \$250,000 of restricted cash held in escrow related to the fiscal 2006 acquisition of twenty stores from Fast Forward.

Marketable Securities At January 31, 2009 and February 2, 2008, marketable securities, classified as available for sale, were \$47.3 million and \$64.6 million, respectively, and consisted of state and local municipal, U.S. treasury reserves and U.S. agency debt instruments with original maturities over 90 days. As of January 31, 2009, we had \$1.8 million invested, net of temporary impairment charge of \$0.2 million, in auction rate securities which are classified as long term available-for-sale marketable securities on our consolidated balance sheet.

Auction rate securities are generally long-term debt instruments that provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined calendar intervals. This mechanism generally allows existing investors to rollover their holdings and to continue to own their respective securities or liquidate their holdings by selling their securities at par value. Prior to February 3, 2008, we invested in these securities for short periods of time as part of our cash management program. However, the uncertainties in the credit markets, that began in early 2008, have prevented us and other investors from liquidating holdings of auction rate securities in recent auctions for these securities because the amount of securities submitted for sale has exceeded the amount of purchase orders. Should the auctions continue to fail, we anticipate we have the ability to hold these securities until the liquidity in the market improves. These investments are fully collateralized by the United States government and are insured against loss of principal and interest by a bond insurer whose credit rating is Baa1 by Moody's Investors Services. Although we are uncertain as to when the liquidity issues relating to these investments will improve, we consider these issues to be only temporary. It is possible that further declines in fair value may occur, and those declines, if any, would be recognized in our consolidated balance sheet as "accumulated other comprehensive income." If we deem these losses to be other than temporary we will realize these losses in our statement of operations. We continue to monitor the market for auction rate securities and consider its impact, if any, on the fair market value of the investments.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Summary of Significant Accounting Policies (Continued)**

Receivables At January 31, 2009 and February 2, 2008, receivables include, tenant allowances receivable, credit cards receivable, interest receivable, employee receivables and other.

	Fiscal Year Ended	
	February 2, 2008	January 31, 2009
Tenant allowances receivable	\$ 1,334	\$ 901
Credit cards receivable	2,108	1,884
Interest receivable	557	418
Employee receivables	257	410
Vendor credits	324	483
Other receivables	175	459
	\$ 4,755	\$ 4,555

The company does not extend credit to its customers except through independent third-party credit cards which are generally collected in several business days.

Merchandise Inventories Merchandise inventories are valued at the lower of cost or market. The cost of merchandise inventories are based upon an average cost methodology. Merchandise inventories may include items that have been written down to the Company's best estimate of their net realizable value. The Company's decisions to write-down its merchandise inventories are based on its current rate of sale, the age of the inventory and other factors. Actual final sales prices to customers may be higher or lower than the Company's estimated sales prices and could result in a fluctuation in gross profit. Historically, any additional write-downs have not been significant to the Company. We have reserved for inventory as of January 31, 2009 and February 2, 2008 in the amounts of approximately \$3.6 million and \$3.0 million, respectively. The inventory reserve includes inventory whose estimated market value is below cost and an estimate for inventory shrinkage. The inventory related to these reserves is not marked up in subsequent periods.

Leasehold Improvements and Equipment Leasehold improvements and equipment 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 assets are as follows:

Leasehold improvements	Lesser of 7 years or the term of the lease
Fixtures	3 to 7 years
Computer equipment, software, store equipment & other	3 - 5 years

The cost and related accumulated depreciation of assets sold or otherwise disposed of is removed from the accounts and the related gain or loss is reported in the consolidated statement of operations.

Valuation of Long-Lived Assets The Company reviews the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Measurement of the impairment loss is based on the fair value of the asset or group of assets. Generally, fair value will be determined using accepted valuation techniques, such as the present value of expected future cash flows.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

During the fourth quarter of fiscal 2008, management performed a review of the carrying value of long-lived assets conducted in accordance with SFAS No. 144 "*Accounting for the Impairment or Disposal of long-Lived Assets.*" The review revealed that five stores were underperforming in fiscal 2008. Accordingly, a non-cash impairment charge of \$812,000 was included in selling, general and administrative expenses for the 2008 fiscal year.

Fair Value of Financial Instruments Statement of Financial Accounting Standards No. 107 "*Disclosures about Fair Value of Financial Instrument*" ("SFAS No. 107"), requires management to disclose the estimated fair value of certain assets and liabilities as financial instruments. Financial instruments are generally defined by SFAS No. 107 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. At January 31, 2009 and February 2, 2008 the carrying amounts of cash and cash equivalents, receivables, payables and other accrued liabilities approximated fair value because of the short maturity of these financial instruments. The carrying value of marketable securities, excluding auction rate securities described below, approximate the fair value because these financial instruments have floating interest rates which reflect current market conditions.

Statement of Financial Accounting Standards No. 157 "*Fair Value Measurements.*" defines fair value, establishes framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. In October 2008, the FASB, issued FSP No. SFAS 157-3 ("FSP 157-3"), "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active." "FSP 157-3 clarifies the application of SFAS No. 157, "Fair Value Measurements," in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. Contractual maturities of investments underlying our available-for-sale securities at January 31, 2009 included \$1.8 million in auction rate securities, net of \$0.2 million temporary impairment. Based on current market conditions, auctions related to these securities may be unsuccessful at the scheduled auctions in fiscal 2009. Unsuccessful auctions could result in our holding securities beyond their next scheduled auction reset dates if a secondary market does not develop; therefore, limiting the short-term liquidity of these investments.

Deferred Rent, Rent Expense and Tenant Allowances The Company occupies its retail stores and combined home office and distribution center under operating leases generally with terms of five to ten years. Some of these leases have early cancellation clauses, which permit the lease to be terminated if certain sales levels are not met in specific periods. Some leases contain renewal options for periods ranging from one to five years under substantially the same terms and conditions as the original leases. Most of the store leases require payment of a specified minimum rent, plus a contingent rent based on a percentage of the store's net sales in excess of a specified threshold. Most of the lease agreements have defined escalating rent provisions, which are straight-lined over the term of the related lease, including any lease renewals deemed to be probable. The Company straight-lines and recognizes its rent expense over the term of the lease, plus the construction period prior to occupancy of the retail location, using a mid-month convention. For certain locations, the Company receives cash tenant allowances and has reported these amounts as a deferred liability which is amortized to rent expense over the term of the lease. Also included in rent expense are payments of real estate taxes, insurance and certain common area and maintenance costs in addition to the future minimum operating lease payments. All other pre-opening costs are expensed as incurred.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Summary of Significant Accounting Policies (Continued)**

Goodwill and Other Intangible Assets In accordance with Statement of Financial Accounting Standards No. 142, "*Accounting for Goodwill and Other Intangible Assets*" ("SFAS No. 142"), the Company does not amortize goodwill derived from purchase business combinations. The Company evaluates the recoverability of goodwill annually based on a two-step impairment test. The first step compares the fair value of each reporting unit with its carrying amount, including goodwill. If the carrying amount exceeds fair value, then the second step of the impairment test is performed to measure the amount of any impairment loss. Additional impairment assessments may be performed on an interim basis if the Company encounters events or changes in circumstances that would indicate that, more likely than not, the book value of goodwill has been impaired. There was no impairment of goodwill in the 2008, 2007 and 2006 fiscal years.

Other Accrued Liabilities At January 31, 2009 and February 2, 2008 other liabilities consisted of the following:

	Fiscal Year Ended	
	February 2, 2008	January 31, 2009
Accrued Payables	\$ 3,475	\$ 2,564
Gift cards payable	3,033	3,061
Accrued sales tax	1,793	1,425
Other current liabilities	759	550
	\$ 9,060	\$ 7,600

Income Taxes The provision for income taxes includes both current and deferred tax expenses. Current tax expense is the amount associated with current operating results. The Company follows the liability method of accounting for income taxes, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of the assets and liabilities. Valuation allowances may be established when necessary to reduce deferred tax assets to the amount expected to be realized.

Comprehensive Income Comprehensive income represents all changes in equity during a period except those resulting from investments by and distributions to shareholders. Comprehensive income for fiscal 2008, 2007 and 2006 was \$17.3 million, \$ 25.8 million and \$20.8 million, respectively comprised of net income plus or (minus) net unrealized gains or (losses) on our available-for-sale securities.

Revenue Recognition Sales are recognized upon purchase at the Company's retail store locations or upon shipment for orders placed through the Company's website as both title and risk of loss have transferred. Taxes collected from the Company's customers are and have been recorded on a net basis. The Company records the sale of gift cards as a current liability and recognizes revenue when a customer redeems a gift card. The amount of the gift card liability is determined taking into account our estimate of the portion of gift cards that will not be redeemed or recovered ("gift card breakage"). Gift card breakage is recognized as revenue after 24 months, at which time the likelihood of redemption is considered remote based on our historical redemption data. The Company reports shipping revenues and costs within sales and cost of goods sold, respectively. The Company accrues for estimated sales returns by customers based on historical sales return results. The allowance for sales returns as of January 31, 2009, February 2, 2008 and February 3, 2007 was approximately \$282,000,

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Summary of Significant Accounting Policies (Continued)**

\$279,000 and \$275,000, respectively. The Company offers a return policy of 30 days. The Company has the right to assess gift card dormancy fees in certain states, but has historically not done so.

The Company entered into an agreement with an independent third party that assumed the unredeemed liability for gift cards that had not yet reached the statutory term for unclaimed property. As a result of the agreement, certain third-party claims on unredeemed gift cards for the State of Delaware have been removed, thus allowing the company to recognize additional revenue of approximately \$303,000 in fiscal 2007.

The Company operates exclusively in the retail apparel industry in which the Company distributes, designs and produces clothing, accessories and related products catering to the teenage/young adult demographic through primarily mall-based retail stores. The Company has identified one operating segment as defined by Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"). The company accounts for its business operation as one reportable segment based on the similar nature of products sold, production, merchandising and distribution processes involved, target customers, and economic characteristics.

The Company presents its merchandise assortment as a percentage of net sales for the following categories: "Men's," which includes men's apparel; "Women's," which includes women's apparel; and "Accessories and Other," which includes all other merchandise (e.g., hardgoods, accessories, footwear, etc.). The percentage of net sales for each of the aforementioned categories for fiscal 2006, fiscal 2007 and fiscal 2008 was as follows:

	Fiscal Year Ended		
	February 3, 2007	February 2, 2008	January 31, 2009
Men's	31.9%	32.4%	30.6%
Women's	15.4%	15.4%	14.2%
Accessories and Other	52.7%	52.2%	55.2%
Total	100.0%	100.0%	100.0%

Cost of Goods Sold Cost of sales consists of branded merchandise costs, and our private label merchandise including design, sourcing, importing and inbound freight costs. Our cost of sales also includes markdowns, shrinkage, certain promotional costs and buying, occupancy and warehousing costs. This may not be comparable to the way in which the Company's competitors or other retailers compute their cost of goods sold. In fiscal 2006 the Company reported shipping costs on ecommerce sales in selling, general and administrative expense. During 2007 the Company reclassified these costs to costs of goods sold. For fiscal 2006 the company reclassified approximately \$349,000 of these costs from selling, general and administrative expense to cost of goods sold to conform to fiscal 2007 presentation. The Company does receive insignificant amounts of cash consideration from vendors which have been reported as a reduction of expenses or inventory on hand as 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, we arrange and pay the freight for our customers and bill them for this service. Such amounts billed are included in revenue and the related freight cost is charged to cost of goods sold. For fiscal years ended January 31, 2009, February 2, 2008, and February 3, 2007, the Company incurred shipping costs related to ecommerce sales of approximately \$799,000, \$534,000 and \$349,000 respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**2. Summary of Significant Accounting Policies (Continued)**

Selling, General and Administrative Expense Selling, general and administrative expenses consist primarily of store personnel wages and benefits, administrative staff and infrastructure expenses, store supplies, depreciation on leasehold improvements at the home office and stores, facility expenses, training, and advertising and marketing costs. Credit card fees, insurance and other miscellaneous operating costs are also included in selling, general and administrative expenses. This may not be comparable to the way in which the Company's competitors or other retailers compute their selling, general and administrative expenses.

Advertising The Company expenses advertising costs as incurred. Advertising expenses are net of sponsorships. Advertising expense was approximately \$763,000, \$748,000 and \$651,000 in fiscal years ended January 31, 2009, February 2, 2008, and February 3, 2007, respectively.

Stock Compensation The Company maintains several stock incentive plans under which non-qualified stock options, incentive stock options and restricted stock have been granted to employees and non-employee directors. The Company accounts for stock-based compensation in accordance with Financial Accounting Standards Board ("FASB") Statement No. 123(R), *Share-Based Payment* ("SFAS No. 123(R)"). Under the provisions of SFAS No. 123(R), the estimated fair value of share-based awards granted under the 2005 Stock Incentive Plan is recognized as compensation expense over the vesting period.

The fair value of stock option grants are estimated on the date of grant using the Black-Scholes option pricing method with the following weighted-average assumptions used for grants issued during the fiscal years ended January 31, 2009, February 2, 2008 and February 3, 2007.

	Fiscal Year Ended		
	February 3, 2007	February 2, 2008	January 31, 2009
Dividend yield	0.0%	0.0%	0.0%
Volatility rate	35.0%	53.4%	55.4%
Average expected life (in year):			
Expected lives Eight years	6.38	6.38	7.25
Expected lives Five years	6.00	6.00	6.50
Average risk-free interest rate	4.77%	4.55%	2.77%

[Table of Contents](#)**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Summary of Significant Accounting Policies (Continued)**

The following table summarizes the Company's stock option activity for the fiscal years ended January 31, 2009, February 2, 2008 and February 3, 2007 (in thousands except weighted-average exercise price):

	Stock Options	Grant Date Weighted Average Exercise Price
Outstanding at January 28, 2006	2,812	\$ 1.95
Granted	517	\$ 27.91
Exercised	(611)	\$ 1.37
Forfeited	(43)	\$ 23.13
Outstanding at February 3, 2007	2,675	\$ 6.76
Granted	515	\$ 36.54
Exercised	(1,095)	\$ 2.05
Forfeited	(137)	\$ 17.55
Outstanding at February 2, 2008	1,958	\$ 16.29
Granted	160	\$ 14.25
Exercised	(211)	\$ 2.46
Forfeited	(114)	\$ 28.20
Outstanding at January 31, 2009	1,793	\$ 17.13
Exercisable at January 31, 2009	712	\$ 11.37

During the fiscal year ended January 31, 2009 the Company granted 160,000 stock options with a Black-Scholes weighted average fair value of \$7.89 and a weighted average exercise price of \$14.25. In connection with these grants of stock options, the Company recognized approximately \$509,400 in stock-based compensation expense during the fiscal year ended January 31, 2009.

The following table summarizes the Company's restricted stock activity for the year ended January 31, 2009, and February 2, 2008 (in thousands except weighted-average exercise price):

	Restricted Stock	Grant Date Weighted Average Exercise Price	Intrinsic Value (1)
Outstanding February 3, 2007			\$
Granted	16	\$ 37.19	
Outstanding at February 2, 2008	16	\$ 37.19	320,640
Granted	333	\$ 14.52	
Vested	(5)	\$ 37.54	
Forfeited	(59)	\$ 14.05	
Outstanding at January 31, 2009	285	\$ 15.49	\$2,034,053

(1)

Intrinsic value for restricted stock awards is defined as the market value on the last business day of the fiscal year. The market value was \$20.04 at February 2, 2008 and \$7.15 at January 31, 2009.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Summary of Significant Accounting Policies (Continued)**

During the year ended January 31, 2009, the Company granted approximately 333,000 shares of restricted stock with a weighted average fair market value on the date of grant of \$14.52 per share. In connection with these grants, the Company recognized approximately \$828,000 in stock-based compensation expense during the year ended January 31, 2009 of which approximately \$155,000 was attributable to the Board of Directors.

During the year ended January 31, 2009, the Company issued 40,000 shares of performance-based restricted stock based upon predetermined earnings milestones. The performance-based milestones were not met, the restricted stock did not vest, and any compensation expense we had recognized to date was reversed.

The Company recorded approximately \$4.4 million, \$4.6 million and \$2.1 million of total stock-based compensation expense for the years ended January 31, 2009, February 2, 2008, and February 3, 2007, of which approximately \$0.5 million, \$0.8 million and \$0.3 million, respectively, was attributable to the Board of Directors. The stock-based compensation expense is calculated on an accelerated method for stock options and a straight-line basis for restricted stock over the vesting periods of the related equity grant. This charge had no impact on the Company's reported cash flows. For the years ended January 31, 2009, February 2, 2008, and February 3, 2007, the Company recorded approximately \$0.2 million each year, respectively, in stock based compensation expense pursuant to APB 25. At January 31, 2009 and February 2, 2008, there was approximately \$8.6 million and \$9.2 million, respectively, of total unrecognized compensation cost related to unvested stock options and restricted stock grants of which approximately \$0.2 million and \$0.5 million respectively, was attributable to the Board of Directors. This cost is expected to be recognized over a weighted-average period of approximately three to eight years.

Net Income per Share Basic net income per share is based on the weighted average number of common shares outstanding during the period. Diluted net income per share is based on the weighted average number of common shares and common share equivalents outstanding during the period. Common share equivalents included in the computation represent shares issuable upon assumed exercise of outstanding stock options and non-vested restricted stock. Potentially anti-dilutive securities not included in the calculation of diluted earnings per share include options to purchase common stock where the option exercise price is greater than the average market price of the Company's common stock during the period reported. Total anti-dilutive common stock options not included in the calculation of diluted earnings per share were approximately 814,000, 130,000 and 40,000 for the fiscal years ended January 31, 2009, February 2, 2008 and February 3, 2007, respectively.

Merchandise Risk The Company's success is largely dependent upon its ability to gauge the fashion tastes of its customers and provide merchandise that satisfies customer demand. Any inability to provide appropriate merchandise in sufficient quantities in a timely manner could have a material adverse effect on the Company's business, operating results and financial condition.

Recent accounting pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "*Business Combinations*" ("SFAS 141No. (R),") which replaces SFAS No. 141, "*Business Combinations*" ("SFAS No. 141"). SFAS No. 141(R) retains the underlying concepts of SFAS 141 in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting but SFAS No. 141(R) changed the method of applying the acquisition method in a number of significant aspects. Acquisition costs will generally be expensed as incurred; non-controlling interests will be valued at fair

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Summary of Significant Accounting Policies (Continued)**

value at the acquisition date; in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. SFAS No. 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS No. 141(R) amends SFAS No. 109, "Accounting for Income Taxes," such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS No. 141(R) would also apply the provisions of SFAS No. 141(R). Early adoption is not permitted. The Company does not expect the adoption of SFAS No. 141(R) to have a material effect on its consolidated financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, "*Non-controlling Interests in Consolidated Financial Statements*." SFAS No. 160 amends Accounting Research Bulletin No. 51, "*Consolidated Financial Statements*" and requires (i) classification of non-controlling interests, commonly referred to as minority interests, within stockholders' equity, (ii) net income to include the net income attributable to the non-controlling interest and (iii) enhanced disclosure of activity related to non-controlling interests. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of SFAS No. 160 will have a material effect on its consolidated financial statements.

In February 2008, the Financial Accounting Standards Board ("FASB") issued FSP No. SFAS 157-2, which delays the effective date of SFAS No. 157, "*Fair Value Measurements*," for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Nonfinancial assets and nonfinancial liabilities would include all assets and liabilities other than those meeting the definition of a financial asset or financial liability as defined in paragraph 6 of SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*." This FASB Staff Position defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of FSP No. SFAS 157-2. We are currently evaluating the effects, if any, that FSP No. SFAS 157-2 may have on our consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position 142-3, "*Determination of the Useful Lives of Intangible Assets*" ("FSP 142-3"), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB No. 142, "*Goodwill and Other Intangible Assets*". The intent of FSP 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) and other U.S. generally accepted accounting principles. FSP No. 142-3 is effective for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of FSP No. 142-3 to have a material effect on the consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, "*The Hierarchy of Generally Accepted Accounting Principles*" ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles. SFAS 162 is

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Summary of Significant Accounting Policies (Continued)**

effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The adoption of this statement will not have an impact on the Company's consolidated financial statements.

In October 2008, the FASB, issued FSP No. SFAS 157-3 ("FSP 157-3"), "*Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active.*" FSP 157-3 clarifies the application of SFAS No. 157, "Fair Value Measurements," in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 is effective immediately, including prior periods for which financial statements have not been issued. The Company has adopted FSP 157-3 effective with the financial statements ended November 1, 2008. The adoption of FSP 157-3 had no impact on the Company's consolidated financial statements.

3. Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturity of three months or less when purchased to be cash equivalents.

The following table summarizes the fair market value of our cash and marketable securities, which are recorded as cash and cash equivalents on the Consolidated Balance Sheets, our short-term investments and our long-term investments:

	January 31, 2009		
	Estimated Fair Value	Unrealized Gains	Unrealized Losses
Cash and cash equivalents:			
Cash	\$33,057	\$	\$
Total cash and cash equivalents	33,057		
Investments with a maturity dates less than twelve months:			
Treasury and agency securities	8,389	38	
State and local government securities	21,384	92	
Total maturities less than twelve months	29,773	130	
Investments with a maturity date greater than twelve months:			
State and local government securities (a)	17,519	157	(170)
Total maturities greater than twelve months	17,519	157	(170)
Total	\$80,349	\$ 287	\$ (170)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Cash and Cash Equivalents (Continued)

	Less Than 12 Months		Greater Than or Equal to 12 Months	
	Net Unrealized Gains	Estimated Fair Value	Net Unrealized Gains (Losses)	Estimated Fair Value
January 31, 2009				
Treasury and agency securities	\$ 38	\$ 8,389	\$	\$
State and local government securities (a)	92	21,384	(13)	17,519
Total	130	29,773	(13)	17,519
February 2, 2008				
State and local government securities	233	47,788	231	16,799
Total	\$ 233	\$ 47,788	\$ 231	\$ 16,799

- (a) There is approximately \$1.8 million of marketable securities, net of \$0.2 million unrealized holding loss, that have been in a continuous loss position for longer than twelve months as of January 31, 2009.

4. Leasehold Improvements and Equipment

Leasehold improvements and equipment consist of the following:

	Fiscal Year Ended	
	February 2, 2008	January 31, 2009
	(In thousands)	
Leasehold improvements	\$ 68,669	\$ 82,167
Fixtures	35,674	43,983
Computer equipment, software, store equipment and other	10,125	11,857
Leasehold improvements and equipment, at cost	114,468	138,007
Less accumulated depreciation	(48,531)	(64,075)
Leasehold improvements and equipment, net	\$ 65,937	\$ 73,932

Depreciation expense on leasehold improvements and equipment was \$18.8 million, \$14.6 million, and \$10.4 million for fiscal years ended January 31, 2009, February 2, 2008, and February 3, 2007, respectively.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. Fair Value Measurements**

Effective February 3, 2008 (the first day of our 2008 fiscal year), the Company adopted SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"), as clarified by FSP FAS No. 157-3 "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active," for financial assets and financial liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements as follows:

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;

Level 3 Inputs that are unobservable.

In October 2008, the FASB issued Staff Position No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active" ("FSP 157-3"). FSP 157-3 clarifies the application of SFAS No. 157 to financial assets for which an active market does not exist. Specifically, FSP 157-3 addresses the following SFAS No. 157 application issues:

How the reporting entity's own assumptions (that is, expected cash flows and appropriately risk-adjusted discount rates) should be considered when measuring fair value when relevant observable inputs do not exist.

How available observable inputs in a market that is not active should be considered when measuring fair value.

How the use of market quotes (for example, broker quotes or pricing services for the same or similar financial assets) should be considered when assessing the relevance of observable and unobservable inputs available to measure fair value

The following table summarizes assets measured at fair value on a recurring basis at January 31, 2009, as required by SFAS 157:

	Level 1	Level 2	Level 3
	(in thousands)		
Marketable securities	\$	\$45,525	\$1,767

The \$1.8 million in Level 3 marketable securities represents two \$1.0 million auction rate securities net of temporary impairment charge of \$0.2 million. One of these \$1.0 million securities failed to sell at its scheduled auction in March 2008. The interest rate of this security reset to a tax-free rate of 6.55%. In May 2008, the remaining \$1.0 million security failed to sell at its scheduled auction. The interest rate of this security was reset to a tax-free rate of 3.20%. The next scheduled auction for these securities is in fiscal 2009. Based on market conditions, the Company changed its valuation methodology for auction rate securities to a valuation method based on numerous assumptions including assessments of the underlying structure of each security, expected cash flows, credit ratings, liquidity and other relevant factors during the first quarter of fiscal 2008. Accordingly, these securities are classified as Level 3 within SFAS 157's valuation hierarchy since the Company's initial adoption of SFAS 157 at February 3, 2008. These assumptions, assessments and the interpretations of relevant market data are subject to uncertainties, are difficult to predict and require significant judgment. The use of different assumptions, applying different judgment to inherently subjective matters and changes in future market conditions could result in significantly different estimates of fair value.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. Fair Value Measurements (Continued)**

As a result of the temporary declines in fair value for the Company's auction rate securities, which the Company attributes to current liquidity issues rather than credit issues, it has recorded an unrealized loss of approximately \$0.2 million to accumulated other comprehensive income in the consolidated balance sheet as of January 31, 2009. The Company believes the current illiquid conditions are temporary in nature and that it has the ability to hold the auction rate securities until liquidity returns to the market. If it is later determined that the fair value of these securities is other than temporarily impaired, the Company will record a loss in the consolidated statement of operations. Due to the Company's belief that the market for these investments may take in excess of twelve months to fully recover, the Company has classified them as noncurrent assets on the accompanying consolidated balance sheet as of January 31, 2009.

The \$45.5 million in Level 2 marketable securities includes high credit money market accounts, US treasuries, US government agency securities, certificates of deposit, and municipal bonds traded in the over-the-counter market. Fair values are based on quoted market prices for similar assets or liabilities or determined using inputs that use as their basis readily observable market data that are actively quoted and can be validated through external sources, including third-party pricing services, brokers, and market transactions.

The following table presents the changes in the Level 3 fair-value category for the year ended January 31, 2009. The Company classifies financial instruments in Level 3 of the fair-value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments may also rely on a number of inputs that are readily observable either directly or indirectly.

	February 2, 2008	Transfers in and/or out of Level 3	Total unrealized loss included in Accumulated Comprehensive Income	January 31, 2009
	(in thousands)			
Marketable securities	\$	\$ 2,000	\$ (233)	\$ 1,767

6. Revolving Credit Facility

We have a credit agreement with Wells Fargo HSBC Trade Bank, N.A. The credit agreement provides us with a secured revolving credit facility until August 30, 2009 of up to \$25.0 million. This facility replaces our \$20.0 million secured revolving credit facility with Bank of America, N.A., which terminated effective August 31, 2006. The secured revolving credit facility provides for the issuance of standby commercial letters of credit in an amount not to exceed \$5.0 million outstanding at any time and with a term not to exceed 365 days, although the amount of borrowings available at any time under our secured revolving credit facility is reduced by the amount of standby letters of credit outstanding at that time. There were no outstanding borrowings under the secured revolving credit facility at January 31, 2009 or February 2, 2008. The Company had open letters of credit outstanding under our secured revolving credit facility of approximately \$0.3 million at January 31, 2009 and approximately \$0.5 million at February 2, 2008. The secured revolving credit facility bears interest at floating rates based on the lower of the prime rate (3.25% at January 31, 2009) minus 0.50% or the LIBOR rate (2.00% at January 31, 2009), plus 1.00% for advances over \$500,000 for a minimum of 30 days and a maximum of 180 days. The credit agreement contains a number of restrictions and covenants that generally limit our ability to, among other things, (1) incur additional debt, (2) undergo

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. Revolving Credit Facility (Continued)**

a change in ownership and (3) enter into certain transactions. The credit agreement also contains financial covenants that require us to meet certain specified financial tests and ratios, including, minimum net income after taxes, maximum total liabilities divided by tangible net worth and minimum quick asset ratio. All of our personal property, including, among other things, our inventory, equipment and fixtures, has been pledged to secure our obligations under the credit agreement. We must also provide financial information and statements to our lender. We were in compliance with all such covenants at January 31, 2009.

7. Income Taxes

During fiscal 2007, we adopted the provisions of FIN No. 48. FIN No. 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN No. 48 states that a tax benefit from an uncertain position may be recognized only if it is "more likely than not" that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. Interest recognized in accordance with this Interpretation may be classified in the financial statements as either income taxes or interest expense, based on the accounting policy election of the enterprise. The Company has elected to classify any interest expense recognized under this Interpretation as income taxes. The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company's U.S. federal income tax returns are no longer subject to examination for years before fiscal 2006.

The components of deferred income taxes are:

	Fiscal Year Ended	
	February 2, 2008	January 31, 2009
	(In thousands)	
Deferred tax assets		
Deferred rent	\$ 7,808	\$ 9,942
Inventory	2,131	2,133
Employee benefits, including stock based compensation	2,742	4,424
Other	456	394
Total deferred tax assets	13,137	16,893
Deferred tax liabilities;		
Property and equipment	(8,016)	(11,642)
Goodwill	(773)	(1,069)
Prepaid expenses	(1,812)	(421)
Other		(72)
Total deferred tax liabilities	(10,601)	(13,204)
Net deferred tax asset	\$ 2,536	\$ 3,689

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. Income Taxes (Continued)**

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

	Fiscal Year Ended		
	February 3, 2007	February 2, 2008	January 31, 2009
	(In thousands)		
Current			
Federal	\$ 11,870	\$ 14,554	\$ 9,164
State	2,195	2,616	1,556
Total current	14,065	17,170	10,720
Deferred			
Federal	(1,110)	(1,550)	(1,147)
State	(205)	(276)	(74)
Total deferred	(1,315)	(1,826)	(1,221)
Provision for income taxes	\$ 12,750	\$ 15,344	\$ 9,499

The reconciliation of the income tax provision at the U.S. federal statutory rate to the Company's effective income tax rate is as follows for the fiscal year ended:

	Fiscal Year Ended		
	February 3, 2007	February 2, 2008	January 31, 2009
Expected U.S. federal income taxes at statutory rates	35.0%	35.0%	35.0%
State and local income taxes, net of federal effect	3.8	3.7	3.6
Permanent differences	(0.7)	(1.1)	(1.9)
Other	(0.2)	0.1	(1.1)
Effective Tax Rate	37.9%	37.7%	35.6%

8. Equity Awards

During fiscal 1997 the Company adopted the 1993 Stock Option Plan (the "1993 Plan") to provide for the granting of nonqualified stock options to executive officers and key employees of the Company as determined by a committee of the Company's board of directors, the 1993 Plan Committee (the "Committee").

The date of grant, option price, vesting period and other terms specific to options granted under the 1993 Plan are determined by the Committee. All stock options granted under the 1993 Plan vest over a fixed period and expire no later than ten years from the date of grant. No additional awards may be granted under the 1993 Plan. Prior to fiscal 2004, the option price for all options granted was equal to the fair market value of the Company's common stock at the date of grant.

During fiscal 2004 the Company adopted the 2004 Stock Option Plan (the "2004 Plan") to provide for the granting of incentive stock options and nonqualified stock options to executive officers and key employees of the Company as determined by the 2004 Plan Committee of the Company's board of directors. The terms of the 2004 Plan are generally the same as the 1993 Plan. The Company has

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Equity Awards (Continued)

authorized 7,365,586 split adjusted shares of common stock for issuance under the 2004 Plan. The Company does not plan on making any new stock option grants under the 2004 Plan.

The Company adopted the 2005 Equity Incentive Plan (the "2005 Plan") on January 24, 2005 and the Company's shareholders approved it on April 27, 2005. Unless sooner terminated by the Board, the 2005 Plan will terminate on the day before the tenth anniversary of the date that the 2005 Plan was approved by the Company's shareholders. The 2005 Incentive Plan provides for the grant of incentive stock options, nonqualified stock options, stock bonuses, restricted stock awards, restricted stock units and stock appreciation rights, which may be granted to the Company's employees (including officers), directors and consultants.

The aggregate number of shares of common stock that may be issued pursuant to awards granted under the 2005 Plan will not exceed 5,850,000 plus (1) the number of shares that are subject to awards under the 2005 Plan, the 1993 Plan or the 2004 Plan that have been forfeited or repurchased by us or that have otherwise expired or terminated, (2) at our option, the number of shares that were reserved for issuance under the 2004 Plan but that were not subject to a grant under such plan at the completion of the Company's initial public offering in May 2005, and (3) an annual increase on the first business day of each fiscal year such that the total number of shares available for issuance under the 2005 Plan shall equal 15% of the total number of shares of common stock outstanding on such business day; provided, that with respect to such annual increase, the board may designate a lesser number of additional shares or no additional shares during such fiscal year. In no event, however, will the aggregate number of shares available for award under the 2005 Plan exceed 8,775,000 split adjusted shares. As a result of this limitation on the aggregate number of shares available for award under the 2005 Plan, and the 6,614,594 split adjusted shares of the Company's common stock that were reserved for issuance under our 2004 Plan but that were not subject to grants under that plan at the completion of the initial public offering, up to 2,925,000 split adjusted shares, may currently be added to the shares of common stock that may be issued pursuant to awards granted under the 2005 Plan pursuant to clause (2) of the first sentence of this paragraph; however, the Company does not currently intend to add any of those shares to the 2005 Plan.

During fiscal 2004 the Company issued stock options to certain employees with exercise prices below the fair market value of the Company's common stock at the date of grant. In accordance with the requirements of APB 25, the Company has recorded stock-based compensation for the difference between the exercise price of the stock options and the fair market value of the Company's stock at the grant date. During fiscal 2008, 2007 and 2006, the Company recorded stock-based compensation of approximately \$0.2 million each year, respectively, related to these options. Stock-based compensation expense is currently recognized over the vesting period of the awards, generally five to eight years. Excluding the impact of the adoption of FAS 123R, future compensation expense to be recognized through fiscal 2013 associated with these grants will be \$0.2 million.

There were 160,000, 515,000 and 517,600 stock options granted during fiscal years 2008, 2007 and 2006, respectively. In addition the Company issued 332,783 shares of restricted stock in fiscal 2008 and 16,000 shares of restricted stock in fiscal 2007. As of January 31, 2009 and February 2, 2008 there were 1,247,658 and 914,100 options to purchase shares of common stock and restricted stock issued and outstanding under the 2005 Plan.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. Equity Awards (Continued)**

The following table summarizes information concerning outstanding and exercisable options at January 31, 2009:

Exercise Price	Options Outstanding		Options
	Number of Options	Weighted Average Remaining Contractual Life	Exercisable Number of Options
\$ 1.09	152,144	0.3	152,144
\$ 1.78	311,094	2.6	203,500
\$ 3.87	366,940	5.6	140,208
\$14.00-18.50	160,000	9.1	
\$24.89-27.31	305,900	7.1	84,567
\$30.52-33.59	50,000	7.4	33,335
\$35.85-39.05	432,275	8.2	96,290
\$41.15-41.86	15,000	8.6	1,875
Total	1,793,353		711,919

9. Related Party Transactions

The Company committed charitable contributions to Zumiez Foundation of approximately \$368,000 in fiscal 2008, \$581,000 in fiscal 2007 and \$537,000 in fiscal 2006. The Company has accrued charitable contributions payable to Zumiez Foundation for the fiscal years ended January 31, 2009, February 2, 2008 and February 3, 2007 of approximately \$250,000, \$738,000 and \$485,000, respectively. Zumiez Foundation is a charitable based nonprofit organization focused on meeting the various needs of the under-privileged in communities where the Company has retail stores. The Company's Chairman of the Board is also the President of Zumiez Foundation.

10. Commitments and Contingencies

Leases The Company is committed under operating leases for all of its retail store locations. In addition to minimum future lease payments, substantially all store leases provide for additional rental payments based on sales, as well as common area maintenance charges. In September 2006 the Company entered into a lease agreement for a combined home office and distribution center and an additional 37,000 square feet of warehouse space. This lease agreement terminated and replaced the original fiscal 2004 lease with the Landlord. The new lease agreement provides for an initial lease term of 126 months within which we have an option to extend the lease term for an additional period of five years. For leases that have fixed escalation clauses, minimum rents are recognized on a straight-line basis over the term of the lease. The Company expenses escalated percentage rent payments in the period they become known.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10. Commitments and Contingencies (Continued)**

Total rent expense, base rent and contingent rent for the three years ended January 31, 2009, February 2, 2008 and February 3, 2007 (in thousands) are as follows:

	Fiscal Year Ended		
	February 3, 2007	February 2, 2008	January 31, 2009
Base Rent Expense	\$ 17,692	\$ 24,931	\$ 31,772
Contingent and Other Rent Expense	14,205	18,548	21,101
Total Rent Expense	\$ 31,897	\$ 43,479	\$ 52,873

Future minimum commitments (in thousands) on all leases at January 31, 2009 are as follows:

	Retail Stores	Home Office	Total
Fiscal 2009	\$ 37,245	\$ 775	\$ 38,020
Fiscal 2010	39,365	795	40,160
Fiscal 2011	38,418	816	39,234
Fiscal 2012	36,690	847	37,537
Fiscal 2013	35,936	869	36,805
Thereafter	131,587	3,145	134,732
	\$ 319,241	\$ 7,247	\$ 326,488

Purchase Commitments The Company had outstanding purchase orders to acquire merchandise from vendors for approximately \$40.0 million and \$59.6 million at January 31, 2009 and February 2, 2008, respectively. These purchases are expected to be financed by cash flows from operations, cash reserves and, if needed, the Company's revolving credit facility. The Company has an option to cancel such commitments with no notice prior to shipment.

Litigation On December 10, 2007, a putative class action complaint was filed in the U.S. District Court for the Western District of Washington against the Company and certain of its current and former directors and officers. The complaint asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated there under. A substantially similar complaint was filed in the same court on December 14, 2007. These cases, which were subsequently consolidated, purport to be brought on behalf of a class of purchasers of the Company's stock during the period March 14, 2007 to November 7, 2007. Plaintiffs filed a consolidated amended complaint on May 5, 2008, extending the class period to January 4, 2008, and alleging that the defendants violated the federal securities laws during this period of time by, among other things, making misrepresentations about the Company's projected financial results in order to artificially inflate the Company's stock price. Plaintiffs are seeking compensatory damages in an unspecified amount, interest, and an award of attorneys' fees and costs.

On July 21, 2008, defendants filed a motion to dismiss the amended complaint. Plaintiffs opposed that motion on September 19, 2008 and defendants filed their reply on October 20, 2008. The motion is fully briefed and oral argument has been requested but not scheduled.

In addition, on December 20, 2007, a shareholder derivative action was filed in the Superior Court of the State of Washington (Snohomish County), allegedly on behalf of and for the benefit of the Company, against certain of the Company's current and former directors and officers. The Company

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**10. Commitments and Contingencies (Continued)**

was named as a nominal defendant. The derivative complaint is based on the same allegations of fact as in the securities class action, and claims that the defendant directors and officers breached fiduciary duties, abused their control, engaged in gross mismanagement, wasted corporate assets, unjustly enriched themselves, and engaged in insider trading. The complaint seeks unspecified damages, restitution, disgorgement of profits, equitable and injunctive relief, attorneys' fees, costs, and expenses. Because the complaint is derivative in nature it does not seek monetary damages from the Company. However, the Company may be required throughout the pendency of the action to advance the legal fees and costs incurred by the defendant directors and officers. Under the terms of its corporate bylaws and related indemnity agreements, the Company is obligated to indemnify all current and former officers and directors involved in civil, criminal, or investigative matters, in connection with their service. The Company is also obligated to advance fees and expenses, but only if the involved officer or director acted in "good faith." There is no limit on the indemnification payments the Company could be required to make under these provisions. At this time, the Company does not believe that any potential fees or expense arising from officer and director indemnification will be material.

On April 28, 2008, Zumiez moved to dismiss the derivative complaint for failure to make a demand on Zumiez's Board of Directors. Plaintiff filed his response on June 27, 2008. Before Zumiez was to file its reply, it agreed with the plaintiff to stay the derivative action pending the outcome of the motion to dismiss in the federal securities action. On August 3, 2008 the court overseeing the derivative litigation approved the stay.

The Company is unable to predict the outcome of these cases. A court determination in any of these actions against the Company could result in significant liability and could have a material adverse effect on the Company's business, results of operations or financial condition.

On March 5, 2008, a former employee commenced an action against the Company in California state court (Evan Johnson v. Zumiez, Inc., et al., Case No. RG08374968, Alameda County Superior Court) alleging that the Company failed to pay all overtime wages owing to him and other employees, failed to provide meal breaks as required by California law, failed to provide employees with proper itemized wage statements (pay stubs) as required by California law, and failed to pay terminated employees waiting time penalties under California Labor Code section 203. On April 28, 2008, plaintiff filed a first amended complaint which adds an additional claim that employees under age 18 worked more hours than permitted by the Labor Code; the first amended complaint also seeks to recover penalties under the Private Attorney General Act for alleged violation of various Labor Code sections. The Company filed an answer to the first amended complaint on May 20, 2008, denying the allegations of the complaint and asserting affirmative defenses. The parties are engaged in discovery. The suit was filed as a putative class action, but no motion requesting certification of the case as a class action has been filed. No trial date has been set. At this early stage of the case, it is not possible to estimate the amount or range of potential loss with any degree of certainty.

Insurance Reserves The Company is responsible for medical and dental insurance claims up to a specified aggregate amount. The Company maintains a reserve for estimated medical and dental insurance claims based on historical claims experience and other estimated assumptions.

Employment Agreement The Company has an employment agreement in place with a key employee. The agreement provides that if the Company terminates the employee's employment without cause or if he terminates his employment for good reason, the employee could be entitled to continue to receive his base salary for a time period not to exceed eighteen months.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Goodwill and Other Intangible Assets

In connection with the acquisition of Action Concepts Fast Forward, Ltd., on June 24, 2006 the Company recorded goodwill in accordance with SFAS No. 141 "*Business Combinations*." The Company had \$250,000 of cash held in escrow that was payable to Action Concepts Fast Forward, Ltd as of February 2, 2008 and no restricted cash held for the year ended January 31, 2009. The Company recorded \$13.2 million of goodwill as the excess of the purchase price of \$15.5 million over the fair value of the net amounts assigned to assets acquired and liabilities assumed. In accordance with SFAS No. 142, "*Goodwill and Other Intangible Assets*," the Company will continue to assess, in accordance with our "goodwill" policy as stated in Note 2, whether goodwill is impaired.

On September 16, 2008 the Company acquired the assets of an Island Snow store from Kodama Incorporated located in Honolulu, Hawaii. In connection with the purchase, the Company entered into a noncompetition agreement for which the Company paid \$100,000, and recorded an intangible asset in accordance with SFAS No. 141 "*Business Combinations*." Under this agreement, Kodama Incorporated agreed not to compete with Zumiez for a period of two years. The Company will amortize the non-compete agreement over the term of the agreement.

12. Employee Benefit Plans

The Zumiez Investment Plan (Z.I.P.) is a qualified plan under Section 401(k) of the Internal Revenue Code. Employees that have been with the Company for a year, work an average of thirty hours a week and are twenty-one or older are eligible to participate in the Z.I.P. The Company's 401(k) matching and profit-sharing contributions are discretionary and are determined annually by the Company. The Company contributed \$250,000 to the plan for each of the fiscal years ended January 31, 2009, February 2, 2008 and February 3, 2007.

The Company offers an Employee Stock Purchase Plan (the "ESPP") for eligible employees to purchase the Company's 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. The ESPP provides for six month offering periods commencing on October 1 and April 1 of each year. Employees can contribute up to 15% of their pay but may not exceed \$25,000 of aggregate stock value in a calendar year. The maximum number of shares an employee may purchase during an offering period is 2,000 shares. Employees are eligible to participate in the ESPP if they work at least 20 hours a week and at least five months in a calendar year.

13. Net Income per Share, Basic and Diluted

Basic net income per share is based on the weighted average number of common shares outstanding during the period. Diluted net income per share is based on the weighted average number of common shares and common share equivalents outstanding during the period. Common share equivalents included in the computation represent shares issuable upon assumed exercise of outstanding stock options, employee stock option funds held to acquire stock and non-vested restricted stock. Potentially anti-dilutive securities not included in the calculation of diluted earnings per share includes options to purchase common stock where the option exercise price is greater than the average market price of the Company's common stock during the period reported. Total common stock options not included in the calculation of diluted earnings per share were 814,175, 130,000, and 40,000 for the years ended January 31, 2009, February 2, 2008, and February 3, 2007, respectively.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Net Income per Share, Basic and Diluted (Continued)**

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

	Fiscal Year ended		
	February 3, 2007	February 2, 2008	January 31, 2009
Net income	\$ 20,856	\$ 25,326	\$ 17,204
Weighted average common shares for basic net income per share	27,542,891	28,608,818	29,126,889
Dilutive effect of stock options and restricted stock	1,160,146	713,519	567,223
Weighted average common shares for diluted net income per share	28,703,037	29,322,337	29,694,112
Basic net income per share	\$ 0.76	\$ 0.89	\$ 0.59
Diluted net income per share	\$ 0.73	\$ 0.86	\$ 0.58

Options to purchase 814,175 shares of common stock with a weighted average value of \$32.54 per share were outstanding at the end of fiscal 2008 but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the \$14.53 average market price for the Company's common shares.

14. Subsequent Event Pending Litigation

A putative class action, *Chandra Berg v. Zumiez Inc.*, was filed against the Company in the Los Angeles Superior Court under case number BC408410 on February 25, 2009. The action alleges causes of action for failure to pay overtime wages to present and former store managers in California, failure to provide meal periods and rest breaks to store managers, failure to reimburse retail employees for clothing required by the Company's dress code, failure to reimburse retail employees for business expenses, failure to provide store managers with accurate itemized wage statements, failure to pay terminated store managers all wages due at the time of termination, unfair business practices and declaratory relief. The case has not yet been served on the Company.

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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. [Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on August 25, 2008]
- 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)]
- 10.1 Business Loan Agreement dated May 29, 2003 between Bank of America, N.A. and Zumiez Inc., as modified by Loan Modification Agreement dated September 30, 2004. [Incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (file No. 333-122865)]
- 10.2 Lease Agreement between Merrill Creek Holdings, LLC and Zumiez Inc. dated August 2, 2004. [Incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (file No. 333-122865)]
- 10.3 Executive Agreement, dated as of November 4, 2002 between Zumiez Inc. and Richard M. Brooks. [Incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 (file No. 333-122865)]
- 10.4 Carrier Agreement between United Parcel Service Inc. and Zumiez Inc. dated July 4, 2005. [Incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the period ended July 30, 2005 as filed on September 13, 2005]
- 10.5 Zumiez Inc. 1993 Stock Option Plan. [Incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1 (file No. 333-122865)]
- 10.6 Zumiez Inc. 2004 Stock Option Plan. [Incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1 (file No. 333-122865)]
- 10.7 Zumiez Inc. 2005 Equity Incentive Plan. [Incorporated by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-1 (file No. 333-122865)]
- 10.8 Zumiez Inc. 2005 Employee Stock Purchase Plan. [Incorporated by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1 (file No. 333-122865)]
- 10.9 Form of Indemnity Agreement between Zumiez Inc. and each of its officers and directors. [Incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1 (file No. 333-122865)]
- 10.10 Limited Liability Company Agreement of Zumiez Holdings LLC. [Incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1 (file No. 333-122865)]
- 10.11 Modification dated May 11, 2005 to Business Loan Agreement dated May 29, 2003 between Bank of America, N.A. and Zumiez Inc., as modified by Loan Modification Agreement dated September 30, 2004. [Incorporated by reference to Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the period ended July 30, 2005 as filed on September 13, 2005]

- 10.12 Equity Purchase Agreement with Gerald R. Anderson, Brandon C. Batton, AC Fast Forward LLC and AC Fast Forward Mgt., LLC dated May 16, 2006. [Incorporated by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the period ended July 29, 2006 as filed on September 12, 2006]

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- 10.13 Lease Agreement between Merrill Creek Holdings, LLC and Zumiez Inc. dated October 2, 2006. [Incorporated by reference to Exhibit 10.13 to the Company's Form 8-K filed on October 4, 2006]
- 10.14 Credit Agreement with Wells Fargo HSBC Trade Bank, N.A. dated September 1, 2006. [Incorporated by reference to Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the period ended October 28, 2006 as filed on December 8, 2006]
- 21.1 Subsidiaries of the Company. [Incorporated by reference to Exhibit 21.1 to the Company's Registration Statement on Form S-1 filed on October 18, 2005 (file No. 333-129101)]
- 23.1 Consent of Moss Adams LLP, Independent Registered Public Accounting Firm.
- 31.1 Certification of the Chief 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

Copies of Exhibits may be obtained upon request directed to the attention of our Chief Financial Officer, 6300 Merrill Creek Parkway, Suite B, Everett, WA 98203, and are available at the SEC's website found at www.sec.gov.