Zumiez Inc
Form 10-K
March 18, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: February 2, 2019

OR

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

ZUMIEZ INC.

(Exact name of Registrant as specified in its charter)

Washington (State or other jurisdiction of incorporation or organization)	91-1040022 (IRS Employer Identification No.)
4001 204th Street SW Lynnwood, Washington (Address of principal executive offices)	98036 (Zip Code)

(425) 551-1500

(Registrant’s telephone number, including area code)

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

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

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

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

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant as of the last business day of the second fiscal quarter, August 3, 2018, was $456,572,006. At March 11, 2019, there were 25,520,923 shares outstanding of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this report is incorporated by reference from the Registrant's definitive proxy statement, relating to the Annual Meeting of Shareholders scheduled to be held June 5, 2019, which definitive proxy statement will be filed not later than 120 days after the end of the fiscal year to which this report relates.

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ZUMIEZ INC.

FORM 10-K

PART I.

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

We use a fiscal calendar widely used by the retail industry that results in a fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to January 31. Each fiscal year consists of four 13-week quarters, with an extra week added to the fourth quarter every five or six years. Fiscal 2019 will be the 52 week period ending February 1, 2020. Fiscal 2018 was the 52 week period ending February 2, 2019. Fiscal 2017 was the 53 week period ending February 3, 2018. Fiscal 2016 was the 52 week period ending January 28, 2017. Fiscal 2015 was the 52 week period ending January 30, 2016. Fiscal 2014 was the 52 week period ending January 31, 2015.

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

Item 1. BUSINESS

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

At February 2, 2019, we operated 707 stores; 608 in the United States (“U.S.”), 50 in Canada, 41 in Europe and 8 in Australia. We operate under the names Zumiez, Blue Tomato and Fast Times. Additionally, we operate ecommerce websites at zumiez.com, zumiez.ca, blue-tomato.com and fasttimes.com.au.

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

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

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

Over our 40-year history, we have developed a corporate culture based on a passion for serving our customers through the lens of action sports, streetwear and other unique lifestyles. We have increased our store count from 551 as of the end of fiscal 2013 to 707 as of the end of fiscal 2018, representing a compound annual growth rate of 5.1%; increased net sales from $724.3 million in fiscal 2013 to $978.6 million in fiscal 2018, representing a compound annual growth rate of 6.2%; and been profitable in every fiscal year of our 40-year history.

Competitive Strengths

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

Attractive Lifestyle Retailing Concept. We target a large population of young men and women, many of whom we believe are attracted to action sports, streetwear and other unique lifestyles and desire to express their personal independence and style through the apparel, footwear and accessories they wear and the equipment they use. We believe we have developed a brand image that our customers view as consistent with their attitudes, fashion tastes and identity that should allow us to benefit and differentiates us in our market.

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

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

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

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

High-Impact, Integrated Marketing Approach. We seek to build relationships with our customers through a multi-faceted marketing approach that is designed to integrate our brand images with the lifestyles we represent. Our marketing efforts focus on reaching our customers in their environment and feature extensive grassroots marketing events, as well as the Zumiez STASH loyalty program. Our marketing efforts incorporate local sporting and music event promotions, interactive contest sponsorships that actively involve our customers with our brands and products and various social network channels. Events and activities such as these provide opportunities for our customers to develop a strong identity with our culture and brands. Our STASH loyalty program allows us to learn more about our customer and serve their needs better. We believe that our ability to interact with our customer through STASH, and our immersion in the lifestyles we represent, allows us to build credibility with our customers and gather valuable feedback on evolving customer preferences.

Growth Strategy

We intend to expand our presence as a leading specialty retailer of action sports, streetwear, and other unique lifestyles by:

Continuing to Generate Sales Growth through Existing Channels. We seek to maximize our comparable sales by continuing to integrate our store and online shopping experiences and offering our customers a broad and relevant selection of brands and products, including a unique customer experience through each interaction with our brand.

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

Opening or Acquiring New Store Locations. We believe our brand has appeal that provides select store expansion opportunities throughout the U.S. and Canada, as well as greater ability to expand in Europe and Australia. During the last three fiscal years, we have opened or acquired 65 new stores consisting of 13 stores in fiscal 2018, 19 stores in fiscal 2017 and 33 stores in fiscal 2016. We have successfully opened or acquired stores in diverse markets throughout the U.S. and internationally, which we believe demonstrates the portability and growth potential of our concepts. To take advantage of what we believe to be a compelling economic store model, we plan to open approximately 13 new stores in fiscal 2019, including stores in our existing markets and in new markets internationally. The number of anticipated store openings may increase or decrease due to market conditions and other factors.

Merchandising and Purchasing

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

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

We believe that offering an extensive selection of current and relevant brands in sports, fashion, music and art is integral to our overall success. No single third-party brand that we carry accounted for more than 12.4%, 8.5% and 7.3% of our net sales in fiscal 2018, 2017 and 2016. We believe that our strategic mix of apparel, footwear, accessories and hardgoods allows us to strengthen the potential of the brands we sell and affirms our credibility with our customers.

We believe that our ability to maintain an image consistent with the unique lifestyles of our customers is important to our key vendors. Given our scale and market position, we believe that many of our key vendors view us as an important retail partner. This position helps ensure our ability to procure a relevant product assortment and quickly respond to the changing fashion interests of our customers. Additionally, we believe we are presented with a greater variety of products and styles by some of our vendors, as well as certain specially designed items that we exclusively distribute. We supplement our merchandise assortment with a select offering of private label products across many of our product categories. Our private label products complement the branded products we sell, and some of our private label brands allow us to cater to the more value-oriented customer. For fiscal 2018, 2017 and 2016, our private label merchandise represented 13.1%, 16.8% and 20.2% of our net sales.

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

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

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

Stores

Store Locations. At February 2, 2019, we operated 707 stores in the following locations:

United States and Puerto Rico - 608 Stores

Alabama	4	Indiana	10	Nebraska	3	Rhode Island	2
Alaska	3	Iowa	4	New Hampshire	6	South Carolina	4
Arizona	12	Kansas	3	New Jersey	19	South Dakota	2
Arkansas	3	Kentucky	4	New Mexico	5	Tennessee	9
California	90	Louisiana	6	New York	33	Texas	51
Colorado	19	Maine	3	Nevada	9	Utah	14
Connecticut	9	Maryland	11	North Carolina	13	Vermont	1
Delaware	4	Massachusetts	11	North Dakota	4	Virginia	14
Florida	35	Michigan	13	Ohio	13	Washington	26
Georgia	13	Minnesota	11	Oklahoma	6	West Virginia	2
Hawaii	7	Mississippi	4	Oregon	13	Wisconsin	14
Idaho	6	Missouri	7	Pennsylvania	22	Wyoming	2
Illinois	19	Montana	5	Puerto Rico	5		

Canada - 50 Stores

Alberta	8	New Brunswick	1	Saskatchewan	2
British Columbia	11	Nova Scotia	2		
Manitoba	2	Ontario	24		

Europe - 41 Stores

Austria	14
Germany	19
Switzerland	7
Netherlands	1

Australia - 8 Stores

Victoria	6
Queensland	1
South Australia	1

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

Fiscal Year	Stores Opened	Stores Acquired	Stores Closed	Total Number of Stores End of Year
2018	13	—	4	707

2017	19	—	6	698
2016	28	5	6	685

Store Design and Environment. We design our stores to create a distinctive and engaging shopping environment that we believe resonates with our customers. Our stores feature an industrial look, dense merchandise displays, lifestyle focused posters and signage and popular music, all of which are consistent with the look and feel of an independent specialty shop. Our stores are designed to encourage our customers to shop for longer periods of time, to interact with each other and our store associates and to visit our stores more frequently. Our stores are constructed and finished to allow us to efficiently shift merchandise displays throughout the year as the season dictates. At February 2, 2019, our stores averaged approximately 2,931 square feet. All references in this Annual Report on Form 10-K to square footage of our stores refers to gross square footage, including retail selling, storage and back-office space.

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

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

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

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

Marketing and Advertising

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

We have a customer loyalty program, the Zumiez STASH, which allows members to earn points for purchases or performance of certain activities. The points can be redeemed for a broad range of rewards, including product and experiential rewards. Our marketing efforts also incorporate local sporting and music event promotions, advertising in magazines popular with our target market, interactive contest sponsorships that actively involve our customers with our brands and products, the Zumiez STASH, catalogs and various social network channels. We believe that our immersion in action sports, streetwear and other unique lifestyles allows us to build credibility with our target audience and gather valuable feedback on evolving customer preferences.

Distribution and Fulfillment

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

Internationally, we operate a distribution center located in Delta, British Columbia, Canada to distribute merchandise to our Canadian stores. We operate a distribution and ecommerce fulfillment center located in Graz, Austria that supports our Blue Tomato operations in Europe. We also operate a distribution and ecommerce fulfillment center located in Melbourne, Australia to support our Fast Times operations in Australia.

Management Information Systems

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

Competition

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

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

Seasonality

Historically, our operations have been seasonal, with the largest portion of net sales and net income occurring in the third and fourth fiscal quarters, reflecting increased demand during the back-to-school and winter holiday selling seasons. During fiscal 2018, approximately 57% of our net sales occurred in the third and fourth quarters combined. As a result of this seasonality, any factors negatively affecting us during the last half of the year, including unfavorable economic conditions, adverse weather or our ability to acquire seasonal merchandise inventory, could have a material adverse effect on our financial condition and results of operations for the entire year. Our quarterly results of operations may also fluctuate based upon such factors as the timing of certain holiday seasons, the popularity of seasonal merchandise offered, the timing and amount of markdowns, competitive influences and the number and timing of new store openings, remodels and closings.

Trademarks

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

Employees

At February 2, 2019, we employed approximately 2,500 full-time and approximately 6,600 part-time employees globally. However, the number of part-time employees fluctuates depending on our seasonal needs and generally increases during peak selling seasons, particularly the back-to-school and the winter holiday seasons. None of our employees are represented by a labor union and we believe that our relationship with our employees is positive.

Financial Information about Segments

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

Available Information

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

Item 1A. RISK FACTORS

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

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

Customer tastes and fashion trends in our market are volatile and tend to change rapidly. Our success depends on our ability to effectively anticipate, identify and respond to changing fashion tastes and consumer preferences, and to translate market trends into appropriate, saleable product offerings in a timely manner. If we are unable to successfully anticipate, identify or respond to changing styles or trends and misjudge the market for our products or any new product lines, including adequately anticipating the correct mix and trends of our private label merchandise, our sales may be lower than predicted and we may be faced with a substantial amount of unsold inventory or missed opportunities. In response to such a situation, we may be forced to rely on markdowns or promotional sales to dispose of excess or slow-moving inventory, which could have a material adverse effect on our results of operations.

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

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

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

Our retail market historically has been subject to substantial cyclicality. As the U.S. and global economic and political conditions change, the trends in discretionary consumer spending become unpredictable and discretionary consumer spending could be reduced due to uncertainties about the future. When disposable income decreases or discretionary consumer spending is reduced due to a decline in consumer confidence, purchases of apparel and related products may decline. Uncertainty in the U.S. and global economies and political environment could have a material adverse impact on our results of operations and financial position.

In response to a decline in disposable income and consumer confidence, we believe the "value" message has become more important to consumers. As a retailer that sells approximately 85% branded merchandise, this trend may negatively affect our business, as we generally will have to charge more than vertically integrated private label retailers or we may be forced to rely on promotional sales to compete in our market which could have a material adverse effect on our financial position.

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

We depend heavily on generating customer traffic to our stores and websites. This includes locating many of our stores in prominent locations within successful shopping malls. Sales at these stores are derived, in part, from the volume of traffic in those malls. Our stores benefit from the ability of a mall's "anchor" tenants, generally large department stores and other area attractions, to generate consumer traffic in the vicinity of our stores and the continuing popularity of malls as shopping destinations. In addition, some malls that were in prominent locations when we opened our stores may cease to be viewed as prominent. If this trend continues or if the popularity of mall shopping continues to decline generally among our customers, our sales may decline, which would impact our results of operations. Furthermore, we depend on generating increased traffic to our ecommerce business and converting that traffic into sales. This requires us to achieve expected results from our marketing and social media campaigns, accuracy of data analytics, reliability of our website, network and transaction processing and a high-quality online customer experience. Our sales volume and customer traffic in our stores and on our websites generally could be adversely affected by, among other things, economic downturns, competition from other ecommerce retailers, non-mall retailers and other malls, increases in gasoline prices, fluctuations in exchange rates in border or tourism-oriented locations and the closing or decline in popularity of other stores in the malls in which we are located. An uncertain economic outlook could curtail new shopping mall development, decrease shopping mall and ecommerce traffic, reduce the number of hours that shopping mall operators keep their shopping malls open or force them to cease operations entirely. A reduction in consumer traffic to our stores or websites could have a material adverse effect on our business, results of operations and financial condition.

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

Our growth largely depends on our ability to optimize our customer engagement in our current trade areas and operate successfully in new geographic markets. However, our ability to open stores in new geographic markets, including international locations, is subject to a variety of risks and uncertainties, and we may be unable to open new stores as planned or have access to desirable lease space, and any failure to successfully open and operate in new markets could have a material adverse effect on our results of operations. We intend to continue to open new stores in future years, while remodeling a portion of our existing store base such that we have the optimum number of stores in any given trade area. The expansion into new markets may present competitive, merchandising, hiring and distribution challenges that are different from those currently encountered in our existing markets. In addition, our proposed expansion will place increased demands on our operational, managerial and administrative resources. These increased demands could cause us to operate our business less effectively, which in turn could cause deterioration in the financial performance of our individual stores and our overall business. In addition, successful execution of our growth strategy may require that we obtain additional financing, and we may not be able to obtain that financing on acceptable terms or at all.

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

We may, from time to time, acquire businesses, such as our acquisition of Blue Tomato and Fast Times. We may experience difficulties in integrating any businesses we may acquire, including their stores, websites, facilities, personnel, financial systems, distribution, operations and general operating procedures, and any such acquisitions may also result in the diversion of our capital and our management's attention from other business issues and opportunities. If we experience difficulties in integrating acquisitions or if such acquisitions do not provide the benefits that we expect to receive, we could experience increased costs and other operating inefficiencies, which could have an adverse effect on our results of operations and overall financial performance.

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

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

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

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

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

- the timing of new store openings and the relative proportion of our new stores to mature stores;
- whether we are able to successfully integrate any new stores that we acquire and the presence of any unanticipated liabilities in connection therewith;
- fashion trends and changes in consumer preferences;
- calendar shifts of holiday or seasonal periods;
- changes in our merchandise mix;
- timing of promotional events;
- general economic conditions and, in particular, the retail sales environment;
- actions by competitors or mall anchor tenants;
- weather conditions;
- the level of pre-opening expenses associated with our new stores; and
- inventory shrinkage beyond our historical average rates.

If our information systems fail to function effectively our operations could be disrupted and our financial results could be harmed.

If our information systems 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. Further, we may suffer loss of critical data and interruptions or delays in our operations. Additionally, we rely on third-party service providers for certain information systems functions. If a service provider fails to provide the data quality, communications capacity, security or services we require, the failure could interrupt our services and could have a material adverse effect on our business, financial condition and results of operations.

If the security of our data is breached we may be subjected to adverse publicity, litigation and significant expenses.

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

Significant fluctuations and volatility in the cost of raw materials, global labor, shipping and other costs related to the production of our merchandise may have a material adverse effect on our business, results of operations and financial conditions.

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

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

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

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

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

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

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

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

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

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

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

Our business is dependent on developing and maintaining good relationships with a large number of vendors to provide our customers with an extensive selection of current and relevant brands. In addition to maintaining our large number of current vendor relationships, each year we are identifying, attracting and launching new vendors to provide a diverse and unique product assortment. We believe that we generally are able to obtain attractive pricing and terms from vendors because we are perceived as a desirable customer, and deterioration in our relationship with our vendors could have a material adverse effect on our business.

However, there can be no assurance that our current vendors or new vendors will provide us with an adequate supply or quality of products or acceptable pricing. Our vendors could discontinue selling to us, raise the prices they charge, sell through direct channels or allow their merchandise to be discounted by other retailers. There can be no assurance that we will be able to acquire desired merchandise in sufficient quantities on terms acceptable to us in the future. In addition, certain vendors sell their products directly to the retail market and therefore compete with us directly and other vendors may decide to do so in the future. There can be no assurance that such vendors will not decide to discontinue supplying their products to us, supply us only less popular or lower quality items, raise the prices they charge us or focus on selling their products directly.

In addition, a number of our vendors are smaller, less capitalized companies and are more likely to be impacted by unfavorable general economic and market conditions than larger and better capitalized companies. These smaller vendors may not have sufficient liquidity during economic downturns to properly fund their businesses and their ability to supply their products to us could be negatively impacted. Any inability to acquire suitable merchandise at acceptable prices, or the loss of one or more key vendors, could have a material adverse effect on our business, results of operations and financial condition.

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

Our business is susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season (including any weather patterns associated with global warming and cooling) could render a portion of our inventory incompatible with those unseasonable conditions. These prolonged unseasonable weather conditions could have a material adverse effect on our business and results of operations.

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

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

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

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

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

Our success depends in part upon our ability to attract, motivate and retain a sufficient number of qualified employees who understand and appreciate our culture and brand and are able to adequately represent this culture. Qualified individuals of the requisite caliber, skills and number needed to fill these positions may be in short supply in some areas and the employee turnover rate in the retail industry is high. Our business depends on the ability to hire and retain qualified technical and support roles for procurement, distribution, ecommerce and back office functions. Competition for qualified employees in these areas could require us to pay higher wages to attract a sufficient number of suitable employees.

If we are unable to hire and retain store managers and store associates capable of consistently providing a high level of customer service, as demonstrated by their enthusiasm for our culture and knowledge of our merchandise, our ability to open new stores may be impaired and the performance of our existing and new stores could be materially adversely affected. We are also dependent upon temporary personnel to adequately staff our operations particularly during busy periods such as the back-to-school and winter holiday seasons. There can be no assurance that we will receive adequate assistance from our temporary personnel, or that there will be sufficient sources of temporary personnel. If we are unable to hire qualified temporary personnel, our results of operations could be adversely impacted.

Although none of our employees are currently covered by collective bargaining agreements, we cannot guarantee that our employees will not elect to be represented by labor unions in the future, which could increase our labor costs and could subject us to the risk of work stoppages and strikes. Any such failure to meet our staffing needs, any material increases in employee turnover rates, any increases in labor costs or any work stoppages, interruptions or strikes could have a material adverse effect on our business or results of operations.

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

We depend on cash flow from operations to fund our current operations and our growth strategy, including the payment of our operating leases, wages, store operation costs and other cash needs. If our business does not generate sufficient cash flow from operating activities, and sufficient funds are not otherwise available to us from borrowings under our credit facility or from other sources, we may not be able to pay our operating lease expenses, grow our business, respond to competitive challenges or fund our other liquidity and capital needs, which could have a material adverse effect on our business.

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

We maintain a secured credit agreement with Wells Fargo Bank, N.A., which provided us with a senior secured credit facility (“credit facility”) of up to $35.0 million. The credit facility contains various representations, warranties and restrictive covenants that, among other things and subject to specified circumstances and exceptions, restrict our ability to incur indebtedness (including guarantees), grant liens, make investments, pay dividends or distributions with respect to capital stock, make prepayments on other indebtedness, engage in mergers, dispose of certain assets or change the nature of their business. The credit facility contains certain financial maintenance covenants that generally require us to have net income after taxes of at least $5.0 million on a trailing four-quarter basis and a quick ratio of 1.25:1.0 at the end of each fiscal quarter. These restrictions could (1) limit our ability to plan for or react to market conditions or meet capital needs or otherwise restrict our activities or business plans; and (2) adversely affect our ability to finance our operations, strategic acquisitions, investments or other capital needs or to engage in other business activities that would be in our interest.

The credit facility contains certain affirmative covenants, including reporting requirements such as delivery of financial statements, certificates and notices of certain events, maintaining insurance, and providing additional guarantees and collateral in certain circumstances. The credit facility includes customary events of default including non-payment of principal, interest or fees, violation of covenants, inaccuracy of representations or warranties, cross-default to other material indebtedness, bankruptcy and insolvency events, invalidity or impairment of guarantees or security interests, material judgments and change of control. Additionally, we cannot be assured that our borrowing relationship with our lenders will continue or that our lenders will remain able to support their commitments to us in the future. If our lenders fail to do so, then we may not be able to secure alternative financing on commercially reasonable terms, or at all.

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

In the U.S., we rely on a single distribution center located in Corona, California to receive, store and distribute the vast majority of our merchandise to our domestic stores. Internationally, we operate a combined distribution and ecommerce fulfillment center located in Graz, Austria that supports our Blue Tomato ecommerce and store operations in Europe. We operate a distribution center located in Delta, British Columbia, Canada to distribute our merchandise to our Canadian stores. We operate a distribution and fulfillment center located in Melbourne, Australia to distribute our merchandise to our Australian stores. Additionally, we are headquartered in Lynnwood, Washington. As a result, a natural disaster or other catastrophic event that affects one of the regions where we operate these centers or our home office could significantly disrupt our operations and have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

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

We are involved, from time to time, in litigation incidental to our business including complaints filed by investors. This litigation could result in substantial costs, and could divert management's attention and resources, which could harm our business. Risks associated with legal liability are often difficult to assess or quantify, and their existence and magnitude can remain unknown for significant periods of time.

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

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

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

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

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

Our common stock is traded publicly and various securities analysts follow our financial results and issue reports on us. These reports include information about our historical financial results as well as the analysts' estimates of our future performance. The analysts' estimates are based upon their own independent opinions and can be different from our estimates or expectations. If our operating results are below the estimates or expectations of public market analysts and investors, our stock price could decline.

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

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

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

Item 1B. UNRESOLVED STAFF COMMENTS
None.

Item 2. PROPERTIES
All of our stores are occupied under operating leases and encompassed approximately 2.1 million total square feet at February 2, 2019.

We own approximately 356,000 square feet of land in Lynnwood, Washington on which we own a 63,071 square foot home office. Additionally, we lease 14,208 square feet of office space in Schladming, Austria for our European home office.

We own a 168,450 square foot building in Corona, California that serves as our domestic warehouse and distribution center.

We lease 17,168 square feet of a distribution facility in Delta, British Columbia, Canada that supports our store operations in Canada. We lease a 90,826 square feet distribution and ecommerce fulfillment center in Graz, Austria that supports our Blue Tomato ecommerce and store operations in Europe. We lease a 10,010 square feet distribution and ecommerce fulfillment center in Melbourne, Australia that supports our Fast Times ecommerce and store operations in Australia.

Item 3. LEGAL PROCEEDINGS
We are involved from time to time in litigation incidental to our business. We believe that the outcome of current litigation is not expected to have a material adverse effect on our results of operations or financial condition.

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

Item 4. MINE SAFETY DISCLOSURES
Not applicable.

PART II

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

Market Information

Our common stock is traded on the Nasdaq Global Select Market under the symbol "ZUMZ." At February 2, 2019, there were 25,521,082 shares of common stock outstanding. The following table sets forth the high and low sales prices for our common stock on the Nasdaq Global Select Market.

Fiscal 2018	High	Low
First Fiscal Quarter (February 4, 2018—May 5, 2018)	$26.30	$18.55
Second Fiscal Quarter (May 6, 2018—August 4, 2018)	$31.55	$20.25
Third Fiscal Quarter (August 5, 2018—November 3, 2018)	$32.70	$21.16
Fourth Fiscal Quarter (November 4, 2018—February 2, 2019)	$25.67	$17.57

Fiscal 2017	High	Low
First Fiscal Quarter (January 29, 2017—April 29, 2017)	$21.75	$15.90
Second Fiscal Quarter (April 30, 2017—July 29, 2017)	$18.60	$11.60
Third Fiscal Quarter (July 30, 2017—October 28, 2017)	$20.10	$11.43
Fourth Fiscal Quarter (October 29, 2017—February 3, 2018)	$24.45	$16.90

Performance Measurement Comparison

The following graph shows a comparison for total cumulative returns for Zumiez, the Nasdaq Composite Index and the Nasdaq Retail Trade Index during the period commencing on February 1, 2014 and ending on February 2, 2019. The comparison assumes $100 was invested on February 1, 2014 in each of Zumiez, the Nasdaq Composite Index and the Nasdaq Retail Trade Index, and assumes the reinvestment of all dividends, if any. The comparison in the following graph and table is required by the SEC and is not intended to be a forecast or to be indicative of future Company common stock performance.

	2/1/14	1/31/15	1/30/16	1/28/17	2/3/18	2/2/19
Zumiez	100.00	173.28	84.15	87.59	95.49	116.82
NASDAQ Composite	100.00	114.30	115.10	141.84	189.26	187.97
NASDAQ Retail Trade	100.00	112.78	142.83	174.47	261.97	289.77

Holders of the Company’s Capital Stock

We had approximately 12 shareholders of record as of March 11, 2019.

Dividends

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

Recent Sales of Unregistered Securities

None

Issuer Purchases of Equity Securities

The following table presents information of our common stock made during the thirteen weeks ended February 2, 2019 (in thousands, except average price paid per share):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Dollar Value of Shares that May Yet be Repurchased Under the Plans or Programs (1)
November 4, 2018—December 1, 2018	—	$ —	—	$ —
December 2, 2018—January 5, 2019 (2)	2	19.02	—	—
January 6, 2019—February 2, 2019	—	—	—	—
Total	2		—	

(1) The share repurchase program is conducted under authorizations made from time to time by our Board of Directors. In December 2018, our Board of Directors authorized us to repurchase up to $75.0 million of our common stock. This program is expected to continue through February 1, 2020, unless the time period is extended or shortened by the Board of Directors. At February 3, 2019, there remains $75.0 million available for share repurchase under the current share repurchase program.

(2) During the thirteen weeks ended February 2, 2019, 1,703 shares were purchased by us in order to satisfy employee tax withholding obligations upon the vesting of restricted stock. These shares were not acquired pursuant to any publicly announced purchase plan or program.

Item 6. SELECTED FINANCIAL DATA

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

	Fiscal 2018 (1)	Fiscal 2017 (2)	Fiscal 2016	Fiscal 2015 (3)	Fiscal 2014 (4)
Statement of Operations Data (in thousands, except per share data):					
Net sales	$978,617	$927,401	$836,268	$804,183	$811,551
Cost of goods sold	642,681	617,527	561,266	535,559	524,468
Gross profit	335,936	309,874	275,002	268,624	287,083
Selling, general and administrative expenses	274,858	261,114	235,259	222,459	215,512
Operating profit	61,078	48,760	39,743	46,165	71,571
Interest income, net	1,692	495	32	529	637
Other (expense) income, net	(440)	(852)	449	(833)	(557)
Earnings before income taxes	62,330	48,403	40,224	45,861	71,651
Provision for income taxes	17,125	21,601	14,320	17,076	28,459
Net income	$45,205	$26,802	$25,904	$28,785	$43,192
Earnings per share:					
Basic	$1.81	$1.09	$1.05	$1.05	$1.50
Diluted	$1.79	$1.08	$1.04	$1.04	$1.47
Weighted average shares outstanding:					
Basic	24,936	24,679	24,727	27,497	28,871
Diluted	25,212	24,878	24,908	27,673	29,288
Balance Sheet Data (in thousands):					
Cash, cash equivalents and current marketable securities	$165,334	$121,905	$78,826	$75,554	$154,644
Working capital	234,067	179,916	137,766	129,755	191,351
Total assets	534,190	499,510	426,683	414,695	493,705
Total long-term liabilities	40,626	44,348	46,035	48,596	52,734
Total shareholders' equity	400,456	355,915	307,051	296,957	359,524
Other Financial Data (in thousands, except gross margin and operating margin):					
Gross profit	34.3%	33.4%	32.9%	33.4%	35.4%
Operating margin	6.2%	5.2%	4.8%	5.7%	8.8%
Capital expenditures	$21,028	$24,062	$20,400	$34,834	$35,758
Depreciation, amortization and accretion	$27,316	$27,288	$27,916	$30,410	$29,167

Company Data:					
Number of stores open at end of period	707	698	685	658	603
Comparable sales increase (decrease) (5)	5.6 %	5.9 %	(0.2%)	(5.3%)	4.6 %
Net sales per store (6) (in thousands)	$1,385	$ 1,333	$ 1,235	$ 1,256	$ 1,390
Total store square footage (7) (in thousands)	2,072	2,041	2,009	1,935	1,770
Average square footage per store (8)	2,931	2,924	2,932	2,941	2,936
Net sales per square foot (9)	$474	$ 456	$ 420	$ 427	$ 473

(1) Fiscal 2018 was a 52-week period. Included in the results for fiscal 2018 is $8.7 million in benefit from the impact of U.S. federal tax legislation.

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(2) Fiscal 2017 was a 53-week period. All other fiscal year presented are 52-week periods. Included in the results for fiscal 2017 is $10.3 million of net sales related to the additional week in the 53-week fiscal year, $3.8 million in net sales related to the recognition of deferred revenue due to changes in our STASH loyalty program estimated redemption rate and $3.4 million in our provision for income taxes due to a valuation allowance against our deferred tax assets in Austria.

(3) Included in the results for fiscal 2015 is $1.2 million for the exit costs associated with the closure of our Kansas fulfillment center, $0.6 million for the expense associated with the incentive payments in conjunction with our acquisition of Blue Tomato and an expense of $0.9 million of amortization of intangible assets.

(4) Included in the results for fiscal 2014 is $6.4 million for the expense associated with the incentive payments in conjunction with our acquisition of Blue Tomato and an expense of $2.3 million of amortization of intangible assets.

(5) See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—General” for more information about how we compute comparable sales.

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

(7) Total store square footage includes retail selling, storage and back office space at the end of the fiscal year.

(8) Average square footage per store is calculated based on the total store square footage at the end of the fiscal year, including retail selling, storage and back office space, of all stores open at the end of the fiscal year.

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

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

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

Fiscal 2018—A Review of This Past Year

In fiscal 2018, we continued to see strong sales results and have now seen positive comparable sales for ten consecutive quarters driven by key brands and fashion trends in the market, as well as our unique brand experience. Our focus remains centered on the customer; including launching over 100 new brands during fiscal 2018 and each of the preceding 5 years. Consistently providing our customers with new choices and uniqueness in our product offering is essential to our success and provides us with growth drivers for the future. The full year comparable sales for fiscal 2018 increased 5.6% on top of comparable sales growth of 5.9% in fiscal 2017. Total net sales growth was 5.5%, despite the benefit of the 53rd week in the prior year. Operating margins increased from the prior year due primarily to leverage of our occupancy costs, reduction in inventory shrinkage and product margin improvements. We added 5 new stores in North America in fiscal 2018, which was down from 12 new stores added in fiscal 2017, as we get closer to our target store count. During fiscal 2018 we also added 7 new Blue Tomato stores in Europe and 1 new Fast Times store in Australia and continue to have meaningful expansion opportunities in these areas.

As a leading lifestyle retailer, we continue to differentiate ourselves through our distinctive brand offering and diverse product selection, as well as the unique customer experience across all of our platforms. We have made investments over several years to integrate the digital and physical channels creating a seamless shopping experience for our customer, which we believe is critical for our long-term financial performance. We are continuing to deliver our online orders in North America from our stores, which has provided significant improvements in the speed of delivery to our customers and the overall experience. In-store fulfillment is a key part of strategy that we believe will drive long term market share by leveraging the strengths of our store sales team, providing better and faster service to customers, improving product margins, providing additional selling opportunities, and utilizing one cost structure to serve the customer.

The following table shows net sales, operating profit, operating margin and diluted earnings per share for fiscal 2018 compared to fiscal 2017. Fiscal 2018 diluted earnings per share results include $8.7 million in benefit from the impact of U.S. federal tax legislation or $0.35 per share. Fiscal 2017 results include $10.3 million of net sales related to the additional week in the 53-week period, $3.8 million in net sales related to the recognition of deferred revenue due to changes in our STASH loyalty program estimated redemption rate, and $3.4 million in our provision for income taxes due to a valuation allowance against our deferred tax assets in Austria.

	Fiscal 2018 (1)	Fiscal 2017	% Change
Net sales (in thousands)	$978,617	$927,401	5.5 %
Operating profit (in thousands)	$61,078	$48,760	25.3 %
Operating margin	6.2 %	5.2 %	
Diluted earnings per share	$1.79	$1.08	65.7 %

(1) Fiscal 2018 was a 52-week period and fiscal 2017 was a 53-week period.

The increase in net sales was driven primarily by a 5.6% comparable sales increase and the net addition of 9 stores (13 new stores offset by 4 store closures). The increase in comparable sales was driven by an increase in transactions and an increase in dollars per transaction. Dollars per transaction increased due to an increase in average unit retail, partially offset by a decrease in units per transaction. Operating margin increased in fiscal 2018 compared to fiscal 2017 primarily as a result of gross margin improvements.

Fiscal 2019—A Look At the Upcoming Year

We are entering 2019 with ten consecutive quarters of positive comparable sales growth behind us and strong brand and fashion trends in the business. In 2019, our focus will be on continued execution of our core culture and brand strategies as well as strategic investments centered on long-term quality growth. These investments will be largely focused on enhancing the customer experience and creating operational efficiencies to drive operating margin expansion. As we reach our targeted number of stores in North America, we expect that total store count growth in fiscal 2019 in the region will continue to moderate. In Europe and Australia, however, we continue to believe we have growth opportunities and we are planning 8 new stores in fiscal 2019, consistent with fiscal 2018.

In fiscal 2019, we expect our cost structure will grow at a slower rate than 2018, primarily tied to the leveraging of our store costs and expense initiatives across the organization. We anticipate inventory levels per square foot will grow roughly in-line with sales growth. Excluding any possible share buy-backs, we expect cash, short-term investments and working capital to increase, and do not anticipate any new long-term borrowings during the year. Long-term, we aim to grow sales annually and grow operating profit at a faster rate than sales by focusing on the changing consumer environment while managing our cost structure.

General

Net sales constitute gross sales, net of actual and estimated returns and deductions for promotions, and shipping revenue. Net sales include our store sales and our ecommerce sales. We record the sale of gift cards as a current liability and recognize revenue when a customer redeems a gift card. Additionally, the portion of gift cards that will not be redeemed ("gift card breakage") is recognized based on our historical redemption rate in proportion to the pattern of rights exercised by the customer.

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

Cost of goods sold consists of branded merchandise costs and our private label merchandise costs including design, sourcing, importing and inbound freight costs. Our cost of goods sold also includes shrinkage, buying, occupancy, ecommerce fulfillment, distribution and warehousing costs (including associated depreciation) and freight costs for store merchandise transfers. This may not be comparable to the way in which our competitors or other retailers compute their cost of goods sold. Cash consideration received from vendors is reported as a reduction of cost of goods sold if the inventory has sold, a reduction of the carrying value of the inventory if the inventory is still on hand, or a reduction of selling, general and administrative expense if the amounts are reimbursements of specific, incremental and identifiable costs of selling the vendors' products.

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

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

Key Performance Indicators

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

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

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

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

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

Results of Operations

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

	Fiscal 2018		Fiscal 2017		Fiscal 2016	
Net sales	100.0	%	100.0	%	100.0	%
Cost of goods sold	65.7	%	66.6	%	67.1	%
Gross profit	34.3	%	33.4	%	32.9	%
Selling, general and administrative expenses	28.1	%	28.2	%	28.1	%
Operating profit	6.2	%	5.2	%	4.8	%
Interest and other income (expense), net	0.2	%	0.0	%	0.0	%
Earnings before income taxes	6.4	%	5.2	%	4.8	%
Provision for income taxes	1.8	%	2.3	%	1.7	%
Net income	4.6	%	2.9	%	3.1	%

Fiscal 2018 Results Compared With Fiscal 2017

Net Sales

Fiscal 2018 was a 52-week period and fiscal 2017 was a 53-week period. Net sales for fiscal 2017 include an additional week of sales, whereas comparable sales are calculated using the comparable sales for the comparable 52-week period.

Net sales were $978.6 million for fiscal 2018 compared to $927.4 million for fiscal 2017, an increase of $51.2 million or 5.5%. The increase reflected a $50.4 million increase due to comparable sales and a $12.3 million increase due to the net addition of 9 stores (made up of 5 new stores in North America, 7 new stores in Europe, and 1 new store in Australia offset by 4 store closures), partially offset by a decrease of $9.1 million related to the additional week in the 53-week period and calendar shift in fiscal 2017. By region, North America sales increased $41.6 million or 5.0% and other international sales increased $9.6 million or 9.7% during fiscal 2018 compared to fiscal 2017.

The 5.6% increase in comparable sales was primarily driven by an increase in comparable transactions and an increase in dollars per transaction. Dollars per transaction increased due to an increase in average unit retail, partially offset by a decrease in units per transaction. Comparable sales were primarily driven by an increase in men's apparel followed by footwear, women's apparel, and accessories partially offset by a decrease in hardgoods. For information as to how we define comparable sales, see "General" above.

Gross Profit

Gross profit was $335.9 million for fiscal 2018 compared to $309.9 million for fiscal 2017, an increase of $26.1 million, or 8.4%. As a percentage of net sales, gross profit increased 90 basis points in fiscal 2018 to 34.3%. The increase was primarily driven by 50 basis points of leverage in our store occupancy costs, 40 basis points due to lower inventory shrinkage, and 20 basis points due to higher product margin, partially offset by 20 basis points in higher shipping costs.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were $274.9 million for fiscal 2018 compared to $261.1 million for fiscal 2017, an increase of $13.7 million, or 5.3%. SG&A expenses as a percent of net sales decreased 10 basis points in fiscal 2018 to 28.1%. The decrease was primarily driven by 40 basis points impact of leverage in our store costs partially offset by 20 basis points in corporate costs.

Net Income

Net income for fiscal 2018 was $45.2 million, or $1.79 per diluted share, compared with net income of $26.8 million, or $1.08 per diluted share, for fiscal 2017. Our effective income tax rate for fiscal 2018 was 27.5% compared to 44.6% for fiscal 2017. The decrease in the effective tax rate for fiscal 2018 compared to fiscal 2017 was primarily related to a decrease of $8.7 million related to the changes in U.S. federal tax legislation that decreased the U.S. federal statutory rate from 35.0% to 21.0% effective January 1, 2018, as well as fiscal 2017 included an additional $3.4 million or 7.0% related to the valuation allowance against our deferred tax assets in Austria.

Fiscal 2017 Results Compared With Fiscal 2016

Net Sales

Fiscal 2017 was a 53-week period and fiscal 2016 was a 52-week period. Net sales for fiscal 2017 include an additional week and comparable sales are calculated using the comparable sales for the comparable 53-week period.

Net sales were $927.4 million for fiscal 2017 compared to $836.3 million for fiscal 2016, an increase of $91.1 million or 10.9%. The increase reflected a $48.6 million increase due to comparable sales and a $23.6 million increase due to the net addition of 13 stores (made up of 12 new stores in North America, 5 new stores in Europe, and 2 new stores in Australia offset by 6 store closures). Net sales include $10.3 million related to the additional week in the 53-week period and a $6.3 million increase due to changes in foreign currency rates. By region, North America sales increased $73.9 million or 9.8% and other international sales increased $17.2 million or 20.8% during fiscal 2017 compared to fiscal 2016.

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The 5.9% increase in comparable sales was primarily driven by an increase in comparable transactions partially offset by a decrease in dollars per transaction. Dollars per transaction decreased due to a decrease in units per transaction partially offset by an increase in average unit retail. Comparable sales were primarily driven by an increase in men's apparel followed by women's apparel. These increases were partially offset by decreases in comparable sales primarily in accessories followed by hardgoods and then footwear. For information as to how we define comparable sales, see "General" above.

Gross Profit

Gross profit was $309.9 million for fiscal 2017 compared to $275.0 million for fiscal 2016, an increase of $34.9 million, or 12.7%. As a percentage of net sales, gross profit increased 50 basis points in fiscal 2017 to 33.4%. The increase was primarily driven by an 80 basis point impact due to leveraging of our store occupancy costs, 30 basis points related to the recognition of deferred revenue due to changes in our STASH loyalty program estimated redemption rate and 20 basis points on product margin. These were partially offset by 60 basis points in higher inventory shrinkage and 10 basis points due to higher annual incentive compensation.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were $261.1 million for fiscal 2017 compared to $235.3 million for fiscal 2016, an increase of $25.9 million, or 11.0%. SG&A expenses as a percent of net sales increased by 10 basis points in fiscal 2017 to 28.2%. The increase was primarily driven by 60 basis points from higher annual incentive compensation partially offset by 50 basis points due to the leverage of store costs.

Net Income

Net income for fiscal 2017 was $26.8 million, or $1.08 per diluted share, compared with net income of $25.9 million, or $1.04 per diluted share, for fiscal 2016. Our effective income tax rate for fiscal 2017 was 44.6% compared to 35.6% for fiscal 2016. The increase in the effective tax rate for fiscal 2017 compared to fiscal 2016 was primarily related to $3.4 million or 7.0% from the valuation allowance against our deferred tax assets in Austria.

Seasonality and Quarterly Results

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

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

	Fiscal 2018			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except stores and per share data)			
Net sales	$206,287	$218,971	$248,795	$304,564
Gross profit	$62,587	$72,535	$86,873	$113,941
Operating (loss) profit	$(1,709)	$6,698	$18,394	$37,695
Net (loss) income	$(2,607)	$4,377	$13,823	$29,612
Basic (loss) earnings per share	$(0.10)	$0.18	$0.55	$1.19
Diluted (loss) earnings per share	$(0.10)	$0.17	$0.55	$1.18
Number of stores open at the end of the period	700	703	703	707
Comparable sales increase	8.3 %	6.3 %	4.8 %	3.9 %

	Fiscal 2017			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except stores and per share data)			
Net sales	$181,155	$192,245	$245,756	$308,245
Gross profit	$52,049	$59,796	$83,367	$114,662
Operating (loss) profit	$(6,234)	$(762)	$18,808	$36,948
Net (loss) income	$(4,448)	$(608)	$11,922	$19,936
Basic (loss) earnings per share	$(0.18)	$(0.02)	$0.48	$0.81
Diluted (loss) earnings per share	$(0.18)	$(0.02)	$0.48	$0.80
Number of stores open at the end of the period	688	692	694	698
Comparable sales increase	1.8 %	4.7 %	7.9 %	7.5 %

Liquidity and Capital Resources

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

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

At February 2, 2019 and February 3, 2018, cash, cash equivalents and current marketable securities were $165.3 million and $121.9 million. Working capital, the excess of current assets over current liabilities, was $234.1 million at the end of fiscal 2018, an increase of 30.1% from $179.9 million at the end of fiscal 2017. The increase in cash, cash equivalents and current marketable securities in fiscal 2018 was due primarily to cash provided by operating activities of $65.3 million, partially offset by $21.0 million of capital expenditures primarily related to the opening of 9 new stores and 23 remodels and relocations.

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

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Total cash provided by (used in)			
Operating activities	$65,319	$65,514	$48,458
Investing activities	(36,398)	(63,970)	(51,515)
Financing activities	120	1,273	(20,077)
Effect of exchange rate changes on cash and cash equivalents	(660)	977	218
Increase (decrease) in cash and cash equivalents	$28,381	$3,794	$(22,916)

Operating Activities

Net cash provided by operating activities decreased by $0.2 million in fiscal 2018 to $65.3 million from $65.5 million in fiscal 2017. Net cash provided by operating activities increased by $17.0 million in fiscal 2017 to $65.5 million from $48.5 million in fiscal 2016. Our operating cash flows result primarily from cash received from our customers, offset by cash payments we make for inventory, employee compensation, store occupancy expenses and other operational expenditures. Cash received from our customers generally corresponds to our net sales. Because our customers primarily use credit cards or cash to buy from us, our receivables from customers settle quickly. Changes to our operating cash flows have historically been driven primarily by changes in operating income, which is impacted by changes to non-cash items such as depreciation, amortization and accretion, deferred taxes, and changes to the components of working capital.

Investing Activities

Net cash used in investing activities was $36.4 million in fiscal 2018 related to $21.0 million of capital expenditures primarily for new store openings and existing store remodels or relocations and $15.4 million in net purchases of marketable securities. Net cash used in investing activities was $64.0 million in fiscal 2017 related to $39.9 million in net purchases of marketable securities and $24.1 million of capital expenditures primarily for new store openings and existing store remodels or relocations. Net cash used in investing activities was $51.5 million in fiscal 2016 related to $25.7 million in net purchases of marketable securities, $20.4 million of capital expenditures primarily for new store openings and existing store remodels or relocations and $5.4 million for the acquisition of Fast Times (net of cash acquired).

Financing Activities

Net cash provided by financing activities in fiscal 2018 was $0.1 million related to $0.9 million in proceeds from issuance of stock-based awards partially offset by $0.2 million in payments on tax withholding obligation upon vesting of restricted stock and $0.5 million of net payments on revolving credit facilities. Net cash provided by financing activities in fiscal 2017 was $1.3 million related to $0.8 million of net proceeds on revolving credit facilities and $0.7 million in proceeds from issuance of stock-based awards partially offset by $0.2 million in payments on tax withholding obligation upon vesting of restricted stock. Net cash used in financing activities in fiscal 2016 was $20.1 million related to $21.6 million cash paid for repurchase of common stock and $0.2 million in payments on tax withholding obligation upon vesting of restricted stock partially offset by $1.0 million in proceeds from issuance and exercises of stock-based award and $0.6 million of net proceeds on revolving credit facilities.

Sources of Liquidity

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

As of February 2, 2019, we maintained a secured credit agreement with Wells Fargo Bank, N.A., which provided us with a senior secured credit facility ("credit facility") of up to $35.0 million. The credit facility is available for working capital and other general corporate purposes. The credit facility provides for the issuance of standby letters of credit in an amount not to exceed $17.5 million outstanding at any time and with a term not to exceed 365 days. The commercial line of credit provides for the issuance of commercial letters of credit in an amount not to exceed $10.0 million and with terms not to exceed 120 days. The credit facility will mature on December 7, 2021. The credit facility is secured by a first-priority security interest in substantially all of the personal property (but not the real property) of the borrowers and guarantors. Amounts borrowed under the credit facility bear interest at an adjusted LIBOR rate plus a margin of 1.25% per annum. There were no borrowings or open commercial letters of credit outstanding under the secured credit facility at February 2, 2019.

Capital Expenditures

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

During fiscal 2018, we spent $21.0 million on capital expenditures, which consisted of $15.6 million of costs related to investment in 9 new stores and 23 remodeled or relocated stores, $2.5 million associated with improvements to our websites and the Customer Engagement Suite and $2.9 million in other improvements.

During fiscal 2017, we spent $24.1 million on capital expenditures, which consisted of $18.3 million of costs related to investment in 19 new stores and 20 remodeled or relocated stores, $3.2 million associated with improvements to our websites and the Customer Engagement Suite and $2.6 million in other improvements.

During fiscal 2016, we spent $20.4 million on capital expenditures, which consisted of $16.1 million of costs related to investment in 28 new stores and 14 remodeled or relocated stores, $2.3 million associated with improvements to our websites and the Customer Engagement Suite and $2.0 million in other improvements.

In fiscal 2019, we expect to spend approximately $21 million to $23 million on capital expenditures, a majority of which will relate to leasehold improvements and fixtures for the approximately 14 new stores we plan to open in fiscal 2019 and remodels or relocations of existing stores, as well as improvements to our websites and the Customer Engagement Suite. There can be no assurance that the number of stores that we actually open in fiscal 2019 will not be different from the number of stores we plan to open, or that actual fiscal 2019 capital expenditures will not differ from this expected amount.

Critical Accounting Estimates

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

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

Description	Judgments and Uncertainties	Effect If Actual Results Differ From Assumptions
Valuation of Merchandise Inventories		
We value our inventory at the lower of average cost or net realizable value through the establishment of write-down and inventory loss reserves. Our write-down reserve represents the excess of the carrying value over the amount we expect to realize from the ultimate sales or other disposal of the inventory. Write-downs establish a new cost basis for our inventory. Subsequent changes in facts or circumstances do not result in the restoration of previously recorded write-downs or an increase in that newly established cost basis. Our inventory loss reserve represents anticipated physical inventory losses ("shrinkage reserve") that have occurred since the last physical inventory.	Our write-down reserve contains uncertainties because the calculation requires management to make assumptions based on the current rate of sales, the age and profitability of inventory and other factors. Our shrinkage reserve contains uncertainties because the calculation requires management to make assumptions and to apply judgment regarding a number of factors, including historical percentages that can be affected by changes in merchandise mix and changes in actual shrinkage trends.	We have not made any material changes in the accounting methodology used to calculate our write-down and shrinkage reserves in the past three fiscal years. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates we use to calculate our inventory reserves. However, if actual results are not consistent with our estimates, we may be exposed to losses or gains that could be material. A 10% decrease in the sales price of our inventory at February 2, 2019 would have decreased net income by $0.1 million in fiscal 2018. A 10% increase in actual physical inventory shrinkage rate at February 2, 2019 would have decreased net income by $0.4 million in fiscal 2018.
Valuation of Long-Lived Assets		
We review the carrying value of our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such asset or asset group may not be recoverable.	Events that may result in an impairment include the decision to close a store or facility or a significant decrease in the operating performance of a long-lived asset group. Our impairment calculations contain uncertainties because they require management to make assumptions and to apply judgment to estimate future cash flows and asset fair values, including	We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate long-lived asset impairment losses. However, if actual results are not consistent with our estimates and assumptions, our operating results could be adversely affected. Declines in projected cash flow of the assets could result in

Recoverability of assets to be held and used is determined by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment recognized is measured by comparing the projected discounted cash flow of the asset to the asset carrying value.

The actual economic lives of our fixed assets may be different from our estimated useful lives, thereby resulting in a different carrying value. These evaluations could result in a change in the depreciable lives of these assets and therefore our depreciation expense in future periods.

forecasting future sales, gross profit and operating expenses. In addition to historical results, current trends and initiatives, and long-term macro-economic and industry factors are qualitatively considered. Additionally, management seeks input from store operations related to local economic conditions, including the impact of closures of selected co-tenants who occupy the mall.

Our fixed assets accounting methodology contains uncertainties because it requires management to make estimates with respect to the useful lives of our fixed assets that we believe are reasonable.

impairment.

Although management believes that the current useful life estimates assigned to our fixed assets are reasonable, factors could cause us to change our estimates, thus affecting the future calculation of depreciation.

Description	Judgments and Uncertainties	Effect If Actual Results Differ From Assumptions
Revenue Recognition		
Revenue is recognized upon purchase at our retail store locations. For our ecommerce sales, revenue is recognized upon shipment to the customer. Revenue is recorded net of sales returns and deductions for promotions. Revenue is not recorded on the sale of gift cards. We record the sale of gift cards as a current liability and recognize revenue when a customer redeems a gift card. Additionally, the portion of gift cards that will not be redeemed ("gift card breakage") is recognized in proportion of the patterns used by the customer based on our historical redemption patterns.	Our revenue recognition accounting methodology contains uncertainties because it requires management to make assumptions regarding future sales returns and the amount and timing of gift cards projected to be redeemed by gift card recipients. Our estimate of the amount and timing of sales returns and gift cards to be redeemed is based primarily on historical experience.	We have not made any material changes in the accounting methodology used to measure future sales returns in the past three fiscal years. The adoption of ASC 606 resulted in a change in methodology for our gift card breakage for fiscal 2018. This change in methodology did not have a material impact on the financial statements. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to recognize revenue. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material. A 10% increase in our sales return reserve at February 2, 2019 would have decreased net income by $0.2 million in fiscal 2018.
Accounting for Income Taxes		
As part of the process of preparing the consolidated financial statements, income taxes are estimated for each of the jurisdictions in which we operate. This process involves estimating actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included on the consolidated balance sheets. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.	Significant judgment is required in evaluating our tax positions and determining our provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. For example, our effective tax rates could be adversely affected by earnings being lower than anticipated in jurisdictions where we have lower statutory rates and higher than anticipated in jurisdictions	Although management believes that the income tax related judgments and estimates are reasonable, actual results could differ and we may be exposed to losses or gains that could be material. At February 2, 2019 and February 3, 2018, we had valuation allowances on our deferred tax assets of $5.2 million and $3.6 million, respectively. Significant changes in performance or estimated taxable income may result in a change to our valuation allowance.

We regularly evaluate the likelihood of realizing the benefit for income tax positions we have taken in various federal, state and foreign filings by considering all relevant facts, circumstances and information available to us. If we believe it is more likely than not that our position will be sustained, we recognize a benefit at the largest amount that we believe is cumulatively greater than 50% likely to be realized.	where we have higher statutory rates. The assessment of whether we will realize the value of our deferred tax assets requires estimates and judgments related to amount and timing of future taxable income. Actual results may differ from those estimates. Additionally, changes in the relevant tax, accounting and other laws, regulations, principles and interpretations may adversely affect financial results.	Upon income tax audit, any unfavorable tax settlement generally would require use of our cash and may result in an increase in our effective income tax rate in the period of resolution. A favorable tax settlement may be recognized as a reduction in our effective income tax rate in the period of resolution.

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Description	Judgments and Uncertainties	Effect If Actual Results Differ From Assumptions
Accounting for Contingencies		
We are subject to various claims and contingencies related to lawsuits, insurance, regulatory and other matters arising out of the normal course of business. We accrue a liability if the likelihood of an adverse outcome is probable and the amount is estimable. If the likelihood of an adverse outcome is only reasonably possible (as opposed to probable), or if an estimate is not determinable, we provide disclosure of a material claim or contingency.	Significant judgment is required in evaluating our claims and contingencies, including determining the probability that a liability has been incurred and whether such liability is reasonably estimable. The estimated accruals for claims and contingencies are made based on the best information available, which can be highly subjective.	Although management believes that the contingency related judgments and estimates are reasonable, our accrual for claims and contingencies could fluctuate as additional information becomes known, thereby creating variability in our results of operations from period to period. Additionally, actual results could differ and we may be exposed to losses or gains that could be material.
Goodwill and Indefinite-lived Intangible Assets		
We assess goodwill and indefinite-lived intangible assets for impairment on an annual basis or more frequently if indicators of impairment arise. We perform this analysis at the reporting unit level. We have an option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we choose not to perform the qualitative test or we determine that it is more likely than not that the fair value of the reporting unit is less than the carrying amount, we perform a quantitative two-step impairment test. The first step compares the carrying value of the reporting unit to its estimated fair value, which is based on the perspective of a market-participant. If the fair value of the reporting unit is lower than the carrying value, then a second	The goodwill and indefinite-lived intangible assets impairment tests require management to make assumptions and judgments. Our quantitative goodwill analysis of fair value is determined using a combination of the income and market approaches. Key assumptions in the income approach include estimating future cash flows, long-term growth rates and weighted average cost of capital. Our ability to realize the future cash flows used in our fair value calculations is affected by factors such as changes in economic conditions, operating performance and our business strategies. Key assumptions in the market approach include identifying companies and transactions	Based on the results of our annual impairment test for goodwill and indefinite-lived intangible assets, no impairment was recorded. As of November 4, 2018, the most recent impairment assessment date, the estimated fair value of our Blue Tomato reporting unit exceeded the carrying value by 9.7%. As of February 2, 2019, the Blue Tomato reporting unit had $43.2 million of goodwill. The remaining reporting units had a fair value substantially in excess of the carrying value. If actual results are not consistent with our estimates or assumptions, or there are significant changes in any of these estimates, projections and assumptions, could have a material effect of the fair value of these assets in future measurement periods and result in an impairment, which could materially affect our results of operations.

step is performed to quantify the amount of the impairment.	with comparable business factors, such as earnings growth, profitability, business and financial risk.
We test our indefinite-lived intangible assets by comparing the carry value to the estimated fair value. An impairment loss is recorded for the amount in which the carrying value exceeds the estimated fair value.	The fair value of the trade names and trademarks is determined using the relief from royalty method, which requires assumptions including forecasting future sales, discount rates and royalty rates.

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Contractual Obligations and Commercial Commitments

There were no material changes outside the ordinary course of business in our contractual obligations during fiscal 2018. The following table summarizes the total amount of future payments due under our contractual obligations at February 2, 2019 (in thousands):

	Total	Fiscal 2019	Fiscal 2020 and Fiscal 2021	Fiscal 2022 and Fiscal 2023	Thereafter
Operating lease obligations (1)	$391,301	$69,293	$ 127,326	$ 100,658	$ 94,024
Purchase obligations (2)	216,587	214,866	1,721	—	—
Total	$607,888	$284,159	$ 129,047	$ 100,658	$ 94,024

(1) Amounts do not include contingent rent and real estate taxes, insurance, common area maintenance charges and other executory costs obligations. See Note 10, "Commitments and Contingencies," in the Notes to Consolidated Financial Statements found in Part IV Item 15 of the Form 10-K, for additional information related to our operating leases.

(2) We have an option to cancel these commitments with no notice prior to shipment, except for certain private label, packaging supplies and international purchase orders in which we are obligated to repay contractual amounts upon cancellation.

Off-Balance Sheet Arrangements

At February 2, 2019, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

Impact of Inflation/Deflation

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

Recent Accounting Pronouncements

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

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our earnings are affected by changes in market interest rates as a result of our short-term and long-term marketable securities, which are primarily invested in state and local municipal securities and variable-rate demand notes, which have long-term nominal maturity dates but feature variable interest rates that reset at short-term intervals. If our current portfolio average yield rate decreased by 10% in fiscal 2018, our net income would have decreased by $0.2 million. This amount is determined by considering the impact of the hypothetical yield rates on our cash, cash equivalents, short-term marketable securities and assumes no changes in our investment structure.

During different times of the year, due to the seasonality of our business, we may borrow under our revolving credit facility. To the extent we borrow under this revolving credit facility, we are exposed to the market risk related to changes in interest rates. At February 2, 2019, we had no borrowings outstanding under the secured revolving credit facility.

Foreign Exchange Rate Risk

Our international subsidiaries operate with functional currencies other than the U.S. dollar, including the Canadian dollar, Euro, Australian dollar and Swiss franc. Therefore, we must translate revenues, expenses, assets and liabilities from functional currencies into U.S. dollars at exchange rates in effect during, or at the end of, the reporting period. As a result, the fluctuation in the value of the U.S. dollar against other currencies affects the reported amounts of revenues, expenses, assets and liabilities. Assuming a 10% change in foreign exchange rates in fiscal 2018 our net income would have decreased or increased by $0.7 million. As we expand our international operations, our exposure to exchange rate fluctuations will continue to increase. To date, we have not used derivatives to manage foreign currency exchange risk.

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

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Securities Exchange Act Rule 13a-15(e)). Based on this evaluation, our CEO and CFO concluded that, as of February 2, 2019, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting. There has been no change in our internal control over financial reporting (as defined in Securities Exchange Act Rule 13a-15(f)) during the quarter ended February 2, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

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

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The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of February 2, 2019. Management's assessment was based on criteria described in the Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of February 2, 2019.

The effectiveness of the Company's internal control over financial reporting as of February 2, 2019 has been audited by Moss Adams LLP, the Company's independent registered public accounting firm, as stated in their report, which is included below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of

Zumiez Inc.

Opinion on Internal Control over Financial Reporting

We have audited Zumiez Inc.'s (the "Company") internal control over financial reporting as of February 2, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 2, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of Zumiez Inc. as of February 2, 2019 and February 3, 2018, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended February 2, 2019, and the related notes (collectively referred to as the "consolidated financial statements") and our report dated March 18, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

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 included in Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Moss Adams LLP

Seattle, Washington

March 18, 2019

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 2019 Annual Meeting of Shareholders (the “Proxy Statement”) that will be filed within 120 days after our fiscal year ended February 2, 2019 and is incorporated herein by this reference thereto. Information concerning our executive officers is set forth under the heading “Executive Officers” in our Proxy Statement, and is incorporated herein by reference thereto. Information regarding compliance with Section 16(a) of the Exchange Act, our code of conduct and ethics and certain information related to the Company’s Audit Committee, Compensation Committee and Governance Committee is set forth under the heading “Corporate Governance” in our Proxy Statement, and is incorporated herein by reference thereto.

Item 11. EXECUTIVE COMPENSATION

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

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

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

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

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

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning principal accounting fees and services is presented under the heading “Fees Paid to Independent Registered Public Accounting Firm for Fiscal 2018 and 2017” in our Proxy Statement, and is incorporated herein by this reference thereto.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1) Consolidated Financial Statements

(2) Consolidated Financial Statement Schedules:

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

(3) Exhibits included or incorporated herein:

See Exhibit Index.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of

Zumiez Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Zumiez Inc. (the "Company") as of February 2, 2019 and February 3, 2018, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended February 2, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of February 2, 2019, and the consolidated results of its operations and its cash flows for each of the three years in the period ended February 2, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of February 2, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 18, 2019 expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Moss Adams LLP

Seattle, Washington

March 18, 2019

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

ZUMIEZ INC.

CONSOLIDATED BALANCE SHEETS

(In thousands)

	February 2, 2019	February 3, 2018
Assets		
Current assets		
Cash and cash equivalents	$52,422	$24,041
Marketable securities	112,912	97,864
Receivables	17,776	17,027
Inventories	129,268	125,826
Prepaid expenses and other current assets	14,797	14,405
Total current assets	327,175	279,163
Fixed assets, net	120,503	128,852
Goodwill	58,813	62,912
Intangible assets, net	15,260	16,696
Deferred tax assets, net	5,259	4,174
Other long-term assets	7,180	7,713
Total long-term assets	207,015	220,347
Total assets	$534,190	$499,510
Liabilities and Shareholders' Equity		
Current liabilities		
Trade accounts payable	$35,293	$37,861
Accrued payroll and payroll taxes	21,015	20,650
Income taxes payable	5,817	5,796
Deferred rent and tenant allowances	7,489	8,073
Other liabilities	23,494	26,867
Total current liabilities	93,108	99,247
Long-term deferred rent and tenant allowances	37,076	39,275
Other long-term liabilities	3,550	5,073
Total long-term liabilities	40,626	44,348
Total liabilities	133,734	143,595
Commitments and contingencies (Note 10)		
Shareholders' equity		
Preferred stock, no par value, 20,000 shares authorized; none issued and outstanding	—	—
Common stock, no par value, 50,000 shares authorized; 25,521 shares issued and outstanding at February 2, 2019 and 25,249 shares issued and outstanding at February 3, 2018	153,066	146,523
Accumulated other comprehensive (loss) income	(9,224)	35
Retained earnings	256,614	209,357
Total shareholders' equity	400,456	355,915

Total liabilities and shareholders' equity	$534,190	$499,510

See accompanying notes to consolidated financial statements

ZUMIEZ INC.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

	Fiscal Year Ended February 2, 2019	February 3, 2018	January 28, 2017
Net sales	$ 978,617	927,401	$ 836,268
Cost of goods sold	642,681	617,527	561,266
Gross profit	335,936	309,874	275,002
Selling, general and administrative expenses	274,858	261,114	235,259
Operating profit	61,078	48,760	39,743
Interest income, net	1,692	495	32
Other (expense) income, net	(440)	(852)	449
Earnings before income taxes	62,330	48,403	40,224
Provision for income taxes	17,125	21,601	14,320
Net income	$ 45,205	26,802	$ 25,904
Basic earnings per share	$ 1.81	$ 1.09	$ 1.05
Diluted earnings per share	$ 1.79	$ 1.08	$ 1.04
Weighted average shares used in computation of earnings per share:			
Basic	24,936	24,679	24,727
Diluted	25,212	24,878	24,908

See accompanying notes to consolidated financial statements

ZUMIEZ INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Fiscal Year Ended		
	February 2, 2019	February 3, 2018	January 28, 2017
Net income	$45,205	$26,802	$25,904
Other comprehensive (loss) income, net of tax and reclassification adjustments:			

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk relates principally to changes in interest rates and fuel prices. Our interest rate exposure relates principally to changes in interest rates for borrowings under our credit facility. The credit facility, for which no balance was outstanding at or during December 31, 2014 bears interest at variable rates. However, assuming the entire credit facility had been outstanding for 2014, a hypothetical increase in our credit facility borrowing rate of 150 basis points, or an increase in the total effective interest rate from 1.3% to 2.8%, would increase our annual interest expense by approximately $2.3 million and would have decreased our annual cash flow from operations by approximately $2.3 million.

Our only other debt is capital lease obligations totaling $1.5 million. These lease obligations all bear interest at a fixed rate. Accordingly, there is no exposure to market risk related to these capital lease obligations.

We are exposed to the effects of changes in the price and availability of diesel fuel, as more fully discussed in Item 1A, “Risk Factors.”

Our cash and cash equivalents are also subject to market risk, primarily interest-rate and credit risk.

Item 8. Financial Statements and Supplementary Data

The response to this item is submitted as a separate section of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our management, including our principal executive and principal financial officers, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2014. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in this annual report on Form 10-K has been appropriately recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, to allow timely decisions regarding required disclosure. Based on that evaluation, our principal executive and principal financial officers have concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

Management’s Report on Internal Control over Financial Reporting

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Management is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance to management and the Board of Directors regarding the preparation and fair presentation of financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. In making this assessment, management used the framework set forth by the Committee on Sponsoring Organizations of the Treadway Commission in Internal Control — Integrated Framework (1992 Framework). Based on our assessment, we have concluded, as of December 31, 2014, that our internal control over financial reporting was effective based on those criteria.

The SEC's general guidance permits the exclusion of an assessment of the effectiveness of a registrant's disclosure controls and procedures as they relate to its internal controls over financial reporting for an acquired business during the first year following such acquisition, if among other circumstances and factors there is not adequate time between the acquisition date and the date of assessment. As previously disclosed, the Company completed its acquisition of Central States Trucking Co. and Central States Logistics, Inc. (collectively referred to as “CST”) on February 2, 2014. CST represents approximately 20.4% and 20.8% of the Company's total and net assets, respectively, as of December 31, 2014 and 9.3% and 7.5% of revenues and net income, respectively, for the year then ended. Management's assessment and conclusion on the effectiveness of the Company's disclosure controls and procedures as of December 31, 2014 excluded an assessment of the internal control over financial reporting of CST.

Ernst & Young LLP, the independent registered public accounting firm that audited the Company’s consolidated financial statements for the year ended December 31, 2014, has issued an attestation report on the Company’s internal control over financial reporting.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth quarter of 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Forward Air Corporation,

We have audited Forward Air Corporation's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Forward Air Corporation'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 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, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and 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.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Central States Trucking Co. and Central States Logistics, Inc., which are included in the 2014 consolidated financial statements of Forward Air Corporation and constituted $110.5 million and $96.6 million of total and net assets, respectively, as of December 31, 2014 and $72.3 million and $4.6 million of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of Forward Air Corporation also did not include an evaluation of the internal control over financial reporting of Central States Trucking Co. and Central States Logistics, Inc.

In our opinion, Forward Air Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, 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 as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2014 of Forward Air Corporation and our report dated February 20, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee
February 20, 2015

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Item 9B. Other Information

Not applicable.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Executive Officers of the Registrant

Pursuant to Instruction 3 to Item 401(b) of Regulation S-K of the Securities Act and General Instruction G(3) to Form 10-K, the following information is included in Part I of this report. The ages listed below are as of December 31, 2014.

The following are our executive officers:

Name	Age	Position
Bruce A. Campbell	63	Chairman, President and Chief Executive Officer
Rodney L. Bell	52	Chief Financial Officer, Senior Vice President and Treasurer
Craig A. Drum	59	Senior Vice President, Sales
Michael L. Hance	43	Senior Vice President, Chief Legal Officer & Secretary
Matthew J. Jewell	48	Executive Vice President, Intermodal Services & Chief Strategy Officer
Michael P. McLean	41	Chief Accounting Officer, Vice President & Controller
Chris C. Ruble	52	Executive Vice President, Operations

There are no family relationships between any of our executive officers. All officers hold office at the pleasure of the Board of Directors.

Bruce A. Campbell has served as a director since April 1993, as President since August 1998, as Chief Executive Officer since October 2003 and as Chairman of the Board since May 2007. Mr. Campbell was Chief Operating Officer from April 1990 until October 2003 and Executive Vice President from April 1990 until August 1998. Prior to joining us, Mr. Campbell served as Vice President of Ryder-Temperature Controlled Carriage in Nashville, Tennessee from September 1985 until December 1989.

Rodney L. Bell began serving as Chief Financial Officer, Senior Vice President and Treasurer in June 2006. Mr. Bell, who is a Certified Public Accountant (inactive), was appointed Chief Accounting Officer in February 2006 and continued to serve as Vice President and Controller, positions held since October 2000 and February 1995, respectively. Mr. Bell joined the Company in March 1992 as Assistant Controller after serving as a senior manager with the accounting firm of Adams and Plucker in Greeneville, Tennessee.

Craig A. Drum has served as Senior Vice President, Sales since July 2001 after joining us in January 2000 as Vice President, Sales for one of our subsidiaries. In February 2001, Mr. Drum was promoted to Vice President of National Accounts. Prior to January 2000, Mr. Drum spent most of his 24-year career in air freight with Delta Air Lines, Inc., most recently as the Director of Sales and Marketing - Cargo.

Michael L. Hance has served as Senior Vice President, Chief Legal Officer and Secretary since May 2014. From May 2010 until May 2014, he served as Senior Vice President of Human Resources and General Counsel. From January 2008 until May 2010, he served as Senior Vice President and General Counsel, and from August 2006 until January 2008, he served as Vice President and Staff Counsel. Before joining us, Mr. Hance practiced law with the law firms of Baker, Donelson, Bearman, Caldwell and Berkowitz, P.C. from October 2003 until August 2006 and with Bass, Berry

& Sims, PLC from September 1999 to September 2003.

Matthew J. Jewell has served as Executive Vice President, Intermodal Services & Chief Strategy Officer since May 2014. From January 2008 until May 2014, he served as Executive Vice President and Chief Legal Officer. From July 2002 until January 2008, he served as Senior Vice President and General Counsel. In October 2002, he was also appointed Secretary. From July 2002 until May 2004, Mr. Jewell was also the Senior Vice President, General Counsel and Secretary of Landair Corporation. From January 2000 until joining us in July 2002, Mr. Jewell was a partner with the law firm of Austin & Sparks, P.C. Mr. Jewell was an associate at Dennis, Corry & Porter, L.L.P. from July 1991 to December 1998 and a partner from January 1999 to January 2000.

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Michael P. McLean began serving as Chief Accounting Officer, Vice President and Controller in February 2008. From June 2006 until February 2008, Mr. McLean, who is a Certified Public Accountant, served as Vice President of Accounting and Controller. Mr. McLean joined the Company as Vice President, Accounting in February 2006 and served in that position until May 2006. Prior to joining us in February 2006, Mr. McLean served as Director of Financial Reporting at CTI Molecular Imaging, Inc., a publicly-traded medical technology company since February 2003. From July 2001 until January 2003, Mr. McLean was an audit manager with the accounting firm of Coulter & Justus, PC in Knoxville, Tennessee.

Chris C. Ruble has served as Executive Vice President, Operations since August 2007. From October 2001 until August 2007, he served as Senior Vice President, Operations. He was a Regional Vice President from September 1997 to October 2001 and a regional manager from February 1997 to September 1997, after starting with us as a terminal manager in January 1996. From June 1986 to August 1995, Mr. Ruble served in various management capacities at Roadway Package System, Inc.

Other information required by this item with respect to our directors is incorporated herein by reference to our proxy statement for the 2014 Annual Meeting of Shareholders (the "2015 Proxy Statement"). The 2015 Proxy Statement will be filed with the SEC not later than 120 days subsequent to December 31, 2014.

Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to the 2015 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information required by this item is incorporated herein by reference to the 2015 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the 2015 Proxy Statement.

Item 14. Principle Accounting Fees and Services

The information required by this item is incorporated herein by reference to the 2015 Proxy Statement.

Part IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) and (2) List of Financial Statements and Financial Statement Schedules.

The response to this portion of Item 15 is submitted as a separate section of this report.

(a)(3) List of Exhibits.

The response to this portion of Item 15 is submitted as a separate section of this report.

(b) Exhibits.

The response to this portion of Item 15 is submitted as a separate section of this report.

(c) Financial Statement Schedules.

The response to this portion of Item 15 is submitted as a separate section of this report.

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SIGNATURES

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

Forward Air Corporation

Date: February 20, 2015

By: /s/ Rodney L. Bell

Rodney L. Bell
Chief Financial Officer, Senior Vice President
and Treasurer (Principal Financial Officer)

By: /s/ Michael P. McLean

Michael P. McLean
Chief Accounting Officer, Vice President
and Controller (Principal Accounting Officer)

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

Signature	Title	Date
/s/ Bruce A. Campbell Bruce A. Campbell	Chairman, President and Chief Executive Officer (Principal Executive Officer)	February 20, 2015
/s/ Rodney L. Bell Rodney L. Bell	Chief Financial Officer, Senior Vice President and Treasurer (Principal Financial Officer)	February 20, 2015
/s/ Michael P. McLean Michael P. McLean	Chief Accounting Officer, Vice President and Controller (Principal Accounting Officer)	February 20, 2015
/s/ C. Robert Campbell C. Robert Campbell	Lead Director	February 20, 2015
/s/ Ronald W. Allen Ronald W. Allen	Director	February 20, 2015
/s/ C. John Langley, Jr. C. John Langley, Jr.	Director	February 20, 2015
/s/ Tracy A. Leinbach Tracy A. Leinbach	Director	February 20, 2015
/s/ Larry D. Leinweber Larry D. Leinweber	Director	February 20, 2015
/s/ G. Michael Lynch G. Michael Lynch	Director	February 20, 2015
/s/ Ray A. Mundy Ray A. Mundy	Director	February 20, 2015
/s/ Gary L. Paxton Gary L. Paxton	Director	February 20, 2015

Annual Report on Form 10-K

Item 8, Item 15(a)(1) and (2), (a)(3), (b) and (c)

List of Financial Statements and Financial Statement Schedule

Financial Statements and Supplementary Data

Certain Exhibits

Financial Statement Schedule

Year Ended December 31, 2014

Forward Air Corporation

Greeneville, Tennessee

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Forward Air Corporation

Form 10-K — Item 8 and Item 15(a)(1) and (2)

Index to Financial Statements and Financial Statement Schedule

The following consolidated financial statements of Forward Air Corporation are included as a separate section of this report:

	Page No.
Report of Ernst & Young LLP, Independent Registered Public Accounting Firm	F-3
Consolidated Balance Sheets — December 31, 2014 and 2013	F-4
Consolidated Statements of Comprehensive Income — Years Ended December 31, 2014, 2013 and 2012	F-6
Consolidated Statements of Shareholders' Equity — Years Ended December 31, 2014, 2013 and 2012	F-7
Consolidated Statements of Cash Flows — Years Ended December 31, 2014, 2013 and 2012	F-8
Notes to Consolidated Financial Statements — December 31, 2014	F-9

The following financial statement schedule of Forward Air Corporation is included as a separate section of this report.

Schedule II - Valuation and Qualifying Accounts	S-1

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Forward Air Corporation

We have audited the accompanying consolidated balance sheets of Forward Air Corporation as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Forward Air Corporation at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Forward Air Corporation's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 20, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee
February 20, 2015

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Forward Air Corporation
Consolidated Balance Sheets
(Dollars in thousands)

	December 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$41,429	$127,367
Accounts receivable, less allowance of $2,563 in 2014 and $1,919 in 2013	95,326	76,500
Inventories	1,056	1,052
Prepaid expenses and other current assets	9,648	14,296
Deferred income taxes	2,496	1,145
Total current assets	149,955	220,360
Property and equipment:		
Land	16,998	16,998
Buildings	66,477	66,474
Equipment	212,216	178,752
Leasehold improvements	7,957	6,263
Construction in progress	1,540	2,563
Total property and equipment	305,188	271,050
Less accumulated depreciation and amortization	132,699	116,287
Net property and equipment	172,489	154,763
Goodwill and other acquired intangibles:		
Goodwill	144,412	88,496
Other acquired intangibles, net of accumulated amortization of $40,307 in 2014 and $31,790 in 2013	72,705	40,110
Total net goodwill and other acquired intangibles	217,117	128,606
Other assets	2,244	2,540
Total assets	$541,805	$506,269

The accompanying notes are an integral part of the consolidated financial statements.

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Forward Air Corporation
Consolidated Balance Sheets (Continued)
(Dollars in thousands)

	December 31, 2014	December 31, 2013
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$20,572	$16,267
Accrued payroll and related items	8,122	6,325
Insurance and claims accruals	6,042	5,105
Payables to owner-operators	4,182	4,710
Collections on behalf of customers	374	416
Other accrued expenses	2,571	1,719
Income taxes payable	1,292	—
Current portion of capital lease obligations	276	69
Total current liabilities	43,431	34,611
Capital lease obligations, less current portion	1,275	3
Other long-term liabilities	8,356	8,940
Deferred income taxes	25,180	26,850
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Preferred stock, $0.01 par value: Authorized shares - 5,000,000; no shares issued	—	—
Common stock, $0.01 par value: Authorized shares - 50,000,000; issued and outstanding shares - 30,255,182 in 2014 and 30,522,079 in 2013	303	305
Additional paid-in capital	130,107	107,726
Retained earnings	333,153	327,834
Total shareholders' equity	463,563	435,865
Total liabilities and shareholders' equity	$541,805	$506,269

The accompanying notes are an integral part of the consolidated financial statements.

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Forward Air Corporation
Consolidated Statements of Comprehensive Income
(In thousands, except per share data)

	Year ended December 31, 2014	December 31, 2013	December 31, 2012
Operating revenue	$780,959	$652,481	$584,446
Operating expenses:			
Purchased transportation	334,576	285,690	252,720
Salaries, wages and employee benefits	182,105	151,097	135,006
Operating leases	33,994	29,310	27,989
Depreciation and amortization	31,133	23,579	21,021
Insurance and claims	15,736	12,619	11,309
Fuel expense	20,148	15,145	10,038
Other operating expenses	66,861	50,686	42,831
Total operating expenses	684,553	568,126	500,914
Income from operations	96,406	84,355	83,532
Other income (expense):			
Interest expense	(610)	(532)	(391)
Other, net	289	99	14
Total other expense	(321)	(433)	(377)
Income before income taxes	96,085	83,922	83,155
Income taxes	34,916	29,455	30,487
Net income and comprehensive income	$61,169	$54,467	$52,668
Net income per share:			
Basic	$1.99	$1.81	$1.82
Diluted	$1.96	$1.77	$1.78
Dividends per share:	$0.48	$0.40	$0.34

The accompanying notes are an integral part of the consolidated financial statements.

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Forward Air Corporation
Consolidated Statements of Shareholders' Equity
(In thousands, except per share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Shareholders' Equity
	Shares	Amount			
Balance at December 31, 2011	28,553	$285	$42,212	$244,405	$286,902
Net income and comprehensive income for 2012	—	—	—	52,668	52,668
Exercise of stock options	582	6	15,734	—	15,740
Common stock issued under employee stock purchase plan	9	—	259	—	259
Share-based compensation	—	—	6,050	—	6,050
Dividends ($0.34 per share)	—	—	5	(9,952)	(9,947)
Cash settlement of share-based awards for minimum tax withholdings	(11)	—	——	(386)	(386)
Share repurchases	—	—	—	—	—
Vesting of previously non-vested shares	62	1	(1)	—	—
Income tax benefit from stock options exercised	—	—	385	—	385
Balance at December 31, 2012	29,195	292	64,644	286,735	351,671
Net income and comprehensive income for 2013	—	—	—	54,467	54,467
Exercise of stock options	1,263	12	32,990	—	33,002
Common stock issued under employee stock purchase plan	9	—	296	—	296
Share-based compensation	—	—	6,178	—	6,178
Dividends ($0.40 per share)	—	—	7	(12,148)	(12,141)
Cash settlement of share-based awards for minimum tax withholdings	(23)	—	——	(866)	(866)
Share repurchases	(9)	—	—	(354)	(354)
Vesting of previously non-vested shares	87	1	(1)	—	—
Income tax benefit from stock options exercised	—	—	3,612	—	3,612
Balance at December 31, 2013	30,522	305	107,726	327,834	435,865
Net income and comprehensive income for 2014	—	—	—	61,169	61,169
Exercise of stock options	469	5	13,230	—	13,235
Common stock issued under employee stock purchase plan	9	—	354	—	354
Share-based compensation	—	—	6,681	—	6,681
Dividends ($0.48 per share)	—	—	9	(14,804)	(14,795)
Cash settlement of share-based awards for minimum tax withholdings	(25)	—	——	(1,083)	(1,083)
Share repurchases	(882)	(9)	—	(39,963)	(39,972)
Vesting of previously non-vested shares	162	2	(2)	—	—
Income tax benefit from stock options exercised	—	—	2,109	—	2,109
Balance at December 31, 2014	30,255	$303	$130,107	$333,153	$463,563

The accompanying notes are an integral part of the consolidated financial statements.

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Forward Air Corporation
Consolidated Statements of Cash Flows
(In thousands)

	Year ended December 31, 2014	December 31, 2013	December 31, 2012
Operating activities:			
Net income	$61,169	$54,467	$52,668
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	31,133	23,579	21,021
Gain on change in fair value of earn-out liability	—	(615)	—
Share-based compensation	6,681	6,178	6,050
(Gain) loss on disposal of property and equipment	(383)	(454)	318
Provision for loss on receivables	241	423	199
Provision for revenue adjustments	2,465	2,531	2,003
Deferred income taxes	(3,021)	4,856	2,043
Tax benefit for stock options exercised	(2,109)	(3,707)	(385)
Changes in operating assets and liabilities, net of acquisition of business			
Accounts receivable	(12,193)	1,447	(6,542)
Prepaid expenses and other current assets	(280)	(215)	(1,331)
Accounts payable and accrued expenses	(199)	2,588	(3,477)
Income taxes	8,156	(239)	(3,981)
Net cash provided by operating activities	91,660	90,839	68,586
Investing activities:			
Proceeds from disposal of property and equipment	1,947	1,973	911
Purchases of property and equipment	(39,487)	(35,439)	(21,353)
Acquisition of business, net of cash acquired	(90,172)	(45,328)	—
Other	2	(129)	(263)
Net cash used in investing activities	(127,710)	(78,923)	(20,705)
Financing activities:			
Payments of debt and capital lease obligations	(9,736)	(20,375)	(551)
Payments on line of credit	—	—	—
Proceeds from exercise of stock options	13,235	33,002	15,740
Payments of cash dividends	(14,795)	(12,141)	(9,947)
Repurchase of common stock (repurchase program)	(39,972)	(354)	—
Common stock issued under employee stock purchase plan	354	296	259
Cash settlement of share-based awards for minimum tax withholdings	(1,083)	(866)	(386)
Tax benefit for stock options exercised	2,109	3,707	385
Net cash (used in) provided by financing activities	(49,888)	3,269	5,500
Net (decrease) increase in cash	(85,938)	15,185	53,381
Cash at beginning of year	127,367	112,182	58,801
Cash at end of year	$41,429	$127,367	$112,182

The accompanying notes are an integral part of the consolidated financial statements

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FORWARD AIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014
(In thousands, except share and per share data)

1. Accounting Policies

Basis of Presentation and Principles of Consolidation

Forward Air Corporation's (“the Company”) services can be classified into three principal reporting segments: Forward Air, Forward Air Solutions (“FASI”) and Total Quality ("TQI").

Through the Forward Air segment, the Company provide time-definite transportation and related logistics services to the North American deferred air freight market and its activities can be classified into three categories of service: airport-to-airport, logistics, and other. Forward Air’s airport-to-airport service operates a comprehensive national network for the time-definite surface transportation of expedited ground freight. The airport-to-airport service offers customers local pick-up and delivery and scheduled surface transportation of cargo as a cost effective, reliable alternative to air transportation. Forward Air’s logistics services provide expedited truckload brokerage, intermodal drayage and dedicated fleet services. Forward Air’s other services include shipment consolidation and deconsolidation, warehousing, customs brokerage, and other handling. The Forward Air segment primarily provides its transportation services through a network of terminals located at or near airports in the United States and Canada.

FASI provides pool distribution services throughout the Mid-Atlantic, Southeast, Midwest and Southwest continental United States. Pool distribution involves managing high-frequency handling and distribution of time-sensitive product to numerous destinations in specific geographic regions. FASI’s primary customers for this service are regional and nationwide distributors and retailers, such as mall, strip mall and outlet based retail chains.

TQI is a provider of maximum security and temperature-controlled logistics services, primarily truckload services, to the life sciences sector (pharmaceutical and biotechnology products). In addition to core pharmaceutical services and other cold chain services, TQI provides truckload and less-than-truckload brokerage transportation services.

The accompanying consolidated financial statements of the Company include Forward Air Corporation and its subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Significant areas requiring management estimates include the following key financial areas:

Allowance for Doubtful Accounts

The Company evaluates the collectability of its accounts receivable based on a combination of factors. In circumstances in which the Company is aware of a specific customer’s inability to meet its financial obligations to the Company (for example, bankruptcy filings, accounts turned over for collection or litigation), the Company records a specific reserve for these bad debts against amounts due to reduce the net recognized receivable to the amount the Company reasonably believes will be collected. For all other customers, the Company recognizes reserves for these bad debts based on the length of time the receivables are past due. Specifically, amounts that are 90 days or more past due are reserved at 50.0% for Forward Air's airport-to-airport and TLX operations, 10.0% for Forward Air's intermodal drayage operations, 25.0% for FASI and 10.0% for TQI's pharmaceutical operations and 50.0% for TQI's non-pharmaceutical operations. If circumstances change (i.e., the Company experiences higher than expected defaults or an unexpected material adverse change in a customer's ability to meet its financial obligations to the Company), the estimates of the recoverability of amounts due to the Company could be changed by a material amount. Accounts are written off after all means of collection, including legal action, have been exhausted.

Allowance for Revenue Adjustments

The Company's allowance for revenue adjustments consists of amounts reserved for billing rate changes that are not captured upon load initiation. These adjustments generally arise: (1) when the sales department contemporaneously grants small rate changes ("spot quotes") to customers that differ from the standard rates in the system; (2) when freight requires dimensionalization or is reweighed resulting in a different required rate; (3) when billing errors occur; and (4) when data entry errors occur. When appropriate, permanent rate changes are initiated and reflected in the system. The Company monitors the manual revenue adjustments closely through the employment of various controls that are in place to ensure that revenue recognition is not compromised and that fraud does not occur. During 2014, average revenue adjustments per month were approximately $205 on average revenue per month of approximately $65,080 (0.3% of monthly revenue). In order to estimate the allowance for revenue adjustments related to ending accounts receivable, the Company prepares an analysis that considers average monthly revenue adjustments and the average lag for identifying and quantifying these revenue adjustments. Based on this analysis, the Company establishes an allowance covering approximately 45-100 days (dependent upon experience in the last twelve months) of average revenue adjustments, adjusted for rebates and billing errors. The lag is periodically adjusted based on actual historical experience. Additionally, the average amount of revenue adjustments per month can vary in relation to the level of sales or based on other factors (such as personnel issues that could result in excessive manual errors or in excessive spot quotes being granted). Both of these significant assumptions are continually evaluated for validity.

Self-Insurance Loss Reserves

Given the nature of the Company’s operating environment, the Company is subject to vehicle and general liability, workers’ compensation and employee health insurance claims. To mitigate a portion of these risks, the Company maintains insurance for individual vehicle and general liability claims exceeding $500 and workers’ compensation claims and employee health insurance claims exceeding $250, except in Ohio, where for workers’ compensation we are a qualified self-insured entity with a $500 self-insured retention. The amount of self-insurance loss reserves and loss adjustment expenses is determined based on an estimation process that uses information obtained from both company-specific and industry data, as well as general economic information. The estimation process for self-insurance loss exposure requires management to continuously monitor and evaluate the life cycle of claims. Using data obtained from this monitoring and the Company’s assumptions about the emerging trends, management develops information about the size of ultimate claims based on its historical experience and other available market information. The most significant assumptions used in the estimation process include determining the trend in loss costs, the expected consistency in the frequency and severity of claims incurred but not yet reported, changes in the timing of the reporting of losses from the loss date to the notification date, and expected costs to settle unpaid claims. The Company utilizes a semi-annual actuarial analyses to evaluate open claims and estimate the ongoing development exposure.

Revenue Recognition

Operating revenue and related costs are recognized as of the date shipments are completed. The transportation rates the Company charges its customers consist of base transportation rates and fuel surcharge rates. The revenues earned and related direct freight expenses incurred from the Company’s base transportation services are recognized on a gross basis in revenue and in purchased transportation. Transportation revenue is recognized on a gross basis as the Company is the primary obligor. The fuel surcharges billed to customers and paid to owner-operators and third party transportation providers are recorded on a net basis as the Company is not the primary obligor with regards to the fuel surcharges.

Cash and Cash Equivalents

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

Inventories

Inventories of tires, replacement parts, supplies, and fuel for equipment are stated at the lower of cost or market utilizing the FIFO (first-in, first-out) method of determining cost. Inventories of tires and replacement parts are not material in the aggregate. Replacement parts are expensed when placed in service, while tires are capitalized and amortized over their expected life. Replacement parts and tires are included as a component of other operating expenses in the consolidated statements of comprehensive income.

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(In thousands, except share and per share data)

Property and Equipment

Property and equipment are stated at cost. Expenditures for normal repair and maintenance are expensed as incurred. Depreciation of property and equipment is calculated based upon the cost of the asset, reduced by its estimated salvage value, using the straight-line method over the estimated useful lives as follows:

Buildings	30-40 years
Equipment	3-10 years
Leasehold improvements	Lesser of Useful Life or Initial Lease Term

Depreciation expense for each of the three years ended December 31, 2014, 2013 and 2012 was $22,616, $17,817 and $16,455 respectively.

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is recognized on assets classified as held and used when the sum of undiscounted estimated cash flows expected to result from the use of the asset is less than the carrying value. If such measurement indicates a possible impairment, the estimated fair value of the asset is compared to its net book value to measure the impairment charge, if any. When the criteria have been met for long-lived assets to be classified as held for sale, the assets are recorded at the lower of carrying value or fair market value (less selling costs).

Operating Leases

Certain operating leases include rent increases during the initial lease term. For these leases, the Company recognizes the related rental expenses on a straight-line basis over the term of the lease, which includes any rent holiday period, and records the difference between the amounts charged to operations and amount paid as rent as a rent liability.

Goodwill and Other Intangible Assets

Goodwill is recorded at cost based on the excess of purchase price over the fair value of net assets acquired. Goodwill and intangible assets with indefinite lives are not amortized but the Company conducts an annual (or more frequently if circumstances indicate possible impairment) impairment test of goodwill for each reportable segment at June 30 of each year. Other intangible assets are amortized over their useful lives. Results of impairment testing are described in Note 2, Acquisition, Goodwill and Other Long-Lived Assets.

Acquisitions are accounted for using the purchase method. The definite-lived intangible assets of the Company resulting from acquisition activity and the related amortization are described in Note 2, Acquisition, Goodwill and Other Long-Lived Assets.

Software Development

Costs related to software developed or acquired for internal use are expensed or capitalized based on the applicable stage of software development and any capitalized costs are amortized over their estimated useful life. The Company typically uses a five-year straight line amortization for the capitalized amounts of software development costs. At December 31, 2014 and 2013 the Company had $13,246 and $11,763, respectively, of capitalized software development costs included in property and equipment. Accumulated amortization on these assets was $9,065 and

$7,644 at December 31, 2014 and 2013, respectively. Included in depreciation expense is amortization of capitalized software development costs. Amortization of capitalized software development for the years ended December 31, 2014, 2013 and 2012 was $1,464, $1,228 and $1,100 respectively. As of December 31, 2014 the estimated amortization expense for the next five years of capitalized software development costs is as follows:

(In thousands, except share and per share data)

2015	$1,374
2016	1,080
2017	767
2018	509
2019	211
Total	$3,941

Income Taxes

The Company accounts for income taxes using the liability method, whereby deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to be recovered or settled. We report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. We recognize interest and penalties, if any, related to unrecognized tax benefits in interest expense and operating expenses, respectively.

Net Income Per Share

The Company calculates net income per share in accordance with the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, Earnings per Share (the “FASB Codification 260”). Under the FASB Codification 260, basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. The Company's non-vested shares contain non-forfeitable rights to dividends and are therefore considered participating securities for purposes of computing net income per share pursuant to the two-class method. Net income allocated to participating securities was $404 in 2014. Net losses are not allocated to participating securities in periods in which the Company incurs a net loss. Diluted net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding after considering the additional dilution from any dilutive non-participating securities. The Company's non-participating securities include options and performance shares.

Share-Based Payments

The Company’s general practice has been to make a single annual grant of share-based compensation to key employees and to generally make other grants only in connection with new employment or promotions. In addition, the Company makes annual grants to non-employee directors in conjunction with their annual election to our Board of Directors or at the time of their appointment to the Board of Directors. For employees, the Company has granted stock options, non-vested shares and performance shares. For non-employee directors, the Company issued non-vested shares during the years ended December 31, 2014, 2013 and 2012.

Stock options typically expire seven years from the grant date and vest ratably over a three-year period. The share-based compensation for stock options is recognized, net of estimated forfeitures, ratably over the requisite service period, or vesting period. Based on the Company’s historical experience, forfeitures have been estimated. The Company uses the Black-Scholes option-pricing model to estimate the grant-date fair value of options granted. The following table contains the weighted-average assumptions used to estimate the fair value of options granted. These assumptions are highly subjective and changes in these assumptions can materially affect the fair value estimate.

	December 31, 2014		December 31, 2013		December 31, 2012	
Expected dividend yield	1.2	%	1.2	%	0.9	%
Expected stock price volatility	38.5	%	43.7	%	46.6	%
Weighted average risk-free interest rate	1.6	%	0.9	%	0.8	%
Expected life of options (years)	5.3		5.2		4.2	

The fair value of non-vested shares issued were estimated using the closing market prices for the business day of the grant. The share-based compensation for the non-vested shares is recognized, net of estimated forfeitures, ratably over the requisite service period or vesting period. Forfeitures are estimated based on our historical experience, but will be adjusted for future changes in forfeiture experience.

(In thousands, except share and per share data)

The fair value of the performance shares was estimated using a Monte Carlo simulation. The share-based compensation for performance shares are recognized, net of estimated forfeitures, ratably over the requisite service period, or vesting period. The following table contains the weighted-average assumptions used to estimate the fair value of performance shares granted. These assumptions are highly subjective and changes in these assumptions can materially affect the fair value estimate.

	Year ended		
	December 31, 2014	December 31, 2013	December 31, 2012
Expected stock price volatility	32.5 %	34.5 %	40.8 %
Weighted average risk-free interest rate	0.7 %	0.4 %	0.4 %

Under the 2005 Employee Stock Purchase Plan (the "ESPP"), which has been approved by shareholders, the Company is authorized to issue shares of Common Stock to eligible employees. These shares may be issued at a price equal to 90% of the lesser of the market value on the first day or the last day of each six-month purchase period. Common Stock purchases are paid for through periodic payroll deductions and/or up to two large lump sum contributions. We recognize share-based compensation on the date of purchase based on the difference between the purchase date fair market value and the employee purchase price.

Recent Accounting Pronouncements

In May 2014, the FASB issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The guidance is effective for the interim and annual periods beginning on or after December 15, 2016 (early adoption is not permitted). The guidance permits the use of either a retrospective or cumulative effect transition method. The Company has not yet selected a transition method and is currently evaluating the impact of the amended guidance on our consolidated financial position, results of operations and related disclosures.

2. Acquisitions, Goodwill and Other Long-Lived Assets

Acquisition of CST

On February 2, 2014, the Company acquired all of the outstanding capital stock of Central States Trucking Co. and Central States Logistics, Inc. (collectively referred to as "CST"). Pursuant to the terms of the Agreement and concurrently with the execution of the Agreement, the Company acquired all of the outstanding capital stock of CST in exchange for $82,998 in net cash and $11,215 in assumed debt. With the exception of capital leases, the assumed debt was immediately paid in full after funding of the acquisition. The acquisition and settlement of the assumed debt were funded using the Company's cash on hand. Under the purchase agreement, $10,000 of the purchase price was paid into an escrow account to protect the Company against potential unknown liabilities. The amount held in escrow will be remitted to the sellers on February 2, 2015.

CST provides industry leading container and intermodal drayage services primarily within the Midwest region of the United States. CST also provides dedicated contract and Container Freight Station (“CFS”) warehouse and handling services. The acquisition of CST provides us with a scalable platform for which to enter the intermodal drayage space and thereby continuing to expand and diversify our service offerings. As part of our strategy to scale CST's operations, in September 2014, CST acquired certain assets of Recob Great Lakes Express, Inc. ("RGL") for $1,350 and in November 2014, acquired Multi-Modal Trucking, Inc. and Multi-Modal Services, Inc. (together referred to as "MMT") for approximately $5,825 in cash and $1,000 in available earn out. The MMT earn out is based on acquired operations exceeding 2015 earnings goals, and the earn out was fully accrued as of December 31, 2014. The acquisition of RGL and MMT's assets provided an opportunity for CST to expand into additional Midwest markets.

The Company incurred total transaction costs related to the acquisitions of approximately $900, which were expensed during the nine months ended September 30, 2014, in accordance with U.S. GAAP. These transaction costs were primarily included in "Other operating expenses" in the consolidated statements of comprehensive income.

The assets, liabilities, and operating results of CST, RGL and MMT ("CST acquisitions") have been included in the Company's consolidated financial statements from the dates of acquisition and have been assigned to the Forward Air reportable segment. The results of CST, RGL and MMT operations are reflected in the Company's consolidated statements of comprehensive income for the year ended December 31, 2014 from the dates of acquisition are as follows (in thousands, except per share data):

	Dates of Acquisition to December 31, 2014
Logistics revenue	$ 52,061
Other revenues	20,253
Operating income	7,525
Net income	4,586
Net income per share	
Basic	$ 0.15
Diluted	$ 0.15

Acquisition of TQI

On March 4, 2013, the Company entered into a Stock Purchase Agreement ("Agreement") with all of the shareholders of TQI to acquire 100% of the outstanding stock. Pursuant to the terms of the Agreement and concurrently with the execution of the Agreement, the Company acquired all of the outstanding capital stock of TQI in exchange for $45,328 in net cash, $20,113 in assumed debt and an available earn-out of up to $5,000. The assumed debt was immediately paid in full after funding of the acquisition. The acquisition and settlement of the assumed debt were funded using the Company's cash on hand. Under the purchase agreement, $4,500 of the purchase price was paid into an escrow account to protect the Company against potential unknown liabilities. The amount held in escrow was remitted to the sellers in September 2014.

Pursuant to the terms of the Agreement, the Company could pay the former shareholders of TQI additional cash consideration from $0 to $5,000 if certain earnings before interest, taxes, depreciation and amortization ("EBITDA") goals are exceeded. The ultimate payout is based on the level by which TQI operating results exceed specified thresholds as defined by the Agreement in both 2013 and 2014. At the time of acquisition the Company recognized an estimated earn-out liability of $615. The fair value of the earn-out liability (level 3) was estimated using an income approach based on the present value of probability-weighted amounts payable under a range of performance scenarios for 2013 and 2014 and a discount rate of 10.9%. However, based on the most probable outcomes the estimated earn-out liability was reduced to $0 and recognized as a gain in our results from operations during the fourth quarter of 2013. TQI's 2014 EBITDA performance did not exceed the goals established by the Agreement and therefore no earn out payments were required.

The Company incurred total transaction costs related to the acquisition of approximately $943, which was expensed during the year ended December 31, 2013, in accordance with U.S. GAAP. These transaction costs were primarily included in "Other operating expenses" expense in the consolidated statements of comprehensive income.

The acquisition allows the Company to expand and diversify its complimentary truckload operations while maintaining its goal of offering high-value added services.

Included in the assumed liabilities of TQI is a liability for unrecognized tax benefits for $1,120. The liability is attributable to TQI not filing income tax returns in all jurisdictions in which it operated. The $1,120 consists of unrecognized tax benefits of $853 and related penalties and interest of $174 and $93, respectively. In accordance with the Agreement, the former shareholders of TQI have indemnified the Company against this tax exposure. As a result, the Company also recognized an offsetting receivable net of the estimated federal tax benefit for $728.

The assets, liabilities, and operating results of TQI have been included in the Company's consolidated financial statements from the date of acquisition and have been assigned to a new TQI reportable segment. The results of TQI reflected in the Company's consolidated statements of comprehensive income are as follows (in thousands, except per share data):

	March 4, 2013 to December 31, 2013
Logistics revenue	$41,842
Operating income	3,600
Net income	1,961
Net income per share	
Basic	$0.07
Diluted	$0.06

Allocations of Purchase Prices

The following table presents the allocations of the CST acquisitions and TQI purchase prices to the assets acquired and liabilities assumed based on their estimated fair values and resulting residual goodwill (in thousands):

	CST	RGL & MMT	TQI
	February 2, 2014	September & November 2014	March 4, 2013
Tangible assets:			
Accounts receivable	$ 9,339	$ —	$ 5,639
Prepaid expenses and other current assets	101	—	1,093
Property and equipment	2,132	287	5,103
Other assets	35	—	728
Deferred income taxes	—	—	947
Total tangible assets	11,607	287	13,510
Intangible assets:			
Non-compete agreements	930	92	470
Trade name	500	—	1,000
Customer relationships	36,000	3,590	22,300
Goodwill	51,710	4,206	45,164
Total intangible assets	89,140	7,888	68,934
Total assets acquired	100,747	8,175	82,444
Liabilities assumed:			
Current liabilities	6,535	1,000	4,725
Other liabilities	—	—	1,735
Debt and capital lease obligations	11,215	—	20,113
Deferred income taxes	—	—	10,543
Total liabilities assumed	17,750	1,000	37,116
Net assets acquired	$ 82,997	$ 7,175	$ 45,328

The acquired definite-live intangible assets have the following useful lives:

	Useful Lives		
	CST	RGL & MMT	TQI
Customer relationships	15 years	15 years	15 years
Non-competes	5 years	5 years	5 years
Trade names	2 years	-	5 years

The fair value of the non-compete agreements, trade name and customer relationship assets were estimated using an income approach (level 3). Under this method, an intangible asset's fair value is equal to the present value of the incremental after-tax cash flows (excess earnings) attributable solely to the intangible asset over its remaining useful life. To calculate fair value, the Company used cash flows discounted at rates considered appropriate given the inherent risks associated with each type of asset. The Company believes that the level and timing of cash flows appropriately reflect market participant assumptions. The fair value of the TQI and CST trades names were estimated using an income approach, specifically known as the relief from royalty method. The relief from royalty method is based on a hypothetical royalty stream that would be paid if the Company did not own the TQI name and had to license the trade name. The Company derived the hypothetical royalty income from the projected revenues of TQI. Cash flows were assumed to extend through the remaining economic useful life of each class of intangible asset.

The following unaudited pro forma information presents a summary of the Company's consolidated results of operations as if the CST acquisitions and TQI acquisition occurred as of January 1, 2013 (in thousands, except per share data).

	Year ended December 31, 2014	December 31, 2013
Operating revenue	$786,048	$710,107
Income from operations	96,596	91,215
Net income	61,286	58,713
Net income per share		
Basic	$2.00	$1.95
Diluted	$1.97	$1.91

See note 12 for discussion of subsequent events related to acquisitions.

Goodwill

The following is a summary of the changes in goodwill for the year ended December 31, 2014. All goodwill, except the goodwill assigned to TQI, is deductible for tax purposes.

	Forward Air		FASI		TQI		Total
	Goodwill	Accumulated Impairment	Goodwill	Accumulated Impairment	Goodwill	Accumulated Impairment	Net
Beginning balance, December 31, 2013	$37,926	$—	$12,359	$(6,953)	$45,164	$—	$88,496
CST acquisitions	55,916	—	—	—	—	—	55,916
Ending balance, December 31, 2014	$93,842	$—	$12,359	$(6,953)	$45,164	$—	$144,412

The Company conducted its annual impairment assessments and tests of goodwill for each reporting unit as of June 30, 2014 and no impairment charges were required. The Company conducts an annual (or more frequently if circumstances indicate possible impairment) impairment test of goodwill for each reporting unit at June 30 of each year. The first step of the goodwill impairment test is the Company assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than the reporting unit's carrying amount, including goodwill. When performing the qualitative assessment, the Company considers the impact of factors including, but not limited to, macroeconomic and industry conditions, overall financial performance of each reporting unit, litigation and new legislation. If based on the qualitative assessments, the Company believes it more likely than not that the fair value of a reporting unit is less than the reporting unit's carrying amount, or periodically as deemed appropriate by management, the Company will prepare an estimation of the respective reporting unit's fair value utilizing a quantitative approach. If a quantitative fair value estimation is required, the Company calculates the fair value of the applicable reportable units, using a combination of discounted projected cash flows and market valuations for comparable companies as of the valuation date. The Company's inputs into the fair value calculations for goodwill are classified within level 3 of the fair value hierarchy as defined in the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (“the FASB Codification”). If this estimation of fair value indicates that impairment potentially exists, the Company will then measure the amount of the impairment, if any. Goodwill impairment exists when the calculated implied fair value of goodwill is less than its carrying value. Changes in strategy or market conditions could significantly impact these fair value estimates and require adjustments to recorded asset balances.

(In thousands, except share and per share data)

Through acquisitions between 2005 and 2014, including TQI and CST, the Company acquired customer relationships, non-compete agreements and trade names of $108,240, $3,272 and $1,500, respectively, having weighted-average useful lives of 13.5, 5.3 and 4.0 years, respectively. Amortization expense on acquired customer relationships, non-compete agreements and trade names for each of the three years ended December 31, 2014, 2013 and 2012 was $8,517, $5,762 and $4,566, respectively.

The estimated amortization expense for the next five years on definite-lived intangible assets as of December 31, 2014 is as follows:

	2015	2016	2017	2018	2019
Customer relationships	$7,387	$6,856	$6,741	$5,236	$5,156
Non-compete agreements	318	318	310	220	30
Trade name	450	221	200	33	—
Total	$8,155	$7,395	$7,251	$5,489	$5,186

Additionally, the Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is recognized on assets classified as held and used when the sum of undiscounted estimated cash flows expected to result from the use of the asset is less than the carrying value. If such measurement indicates a possible impairment, the estimated fair value of the asset is compared to its net book value to measure the impairment charge, if any.

3. Debt and Capital Lease Obligations

Credit Facilities

In February 2012, the Company entered into a new $150,000 credit facility. This facility has a term of five years and matures in February 2017. Interest rates for advances under the facility are LIBOR plus 1.1% based upon covenants related to total indebtedness to earnings (1.3% at December 31, 2014). The agreement contains certain covenants and restrictions related to new indebtedness, investment types and dispositions of property. None of the covenants are expected to significantly affect the Company's operations or ability to pay dividends. No assets are pledged as collateral against the credit facility. As of December 31, 2014, the Company had no borrowings outstanding under the credit facility. At December 31, 2014, the Company had utilized $9,749 of availability for outstanding letters of credit and had $140,251 of available borrowing capacity outstanding under the credit facility. See note 12 for discussion of subsequent events related to the credit facility.

Capital Leases

Through acquisitions, the Company assumed several equipment leases that met the criteria for classification as a capital lease. The leased equipment is being amortized over the shorter of the lease term or useful life.

Property and equipment include the following amounts for assets under capital leases:

	December 31, 2014	December 31, 2013
Equipment	$793	$685

Accumulated amortization	(253)	(680)
	$540	$5

Amortization of assets under capital leases is included in depreciation and amortization expense.

Future minimum payments, by year and in the aggregate, under non-cancelable capital leases with initial or remaining terms of one year or more consist of the following at December 31, 2014:

(In thousands, except share and per share data)

2015	$349
2016	347
2017	347
2018	347
2019	320
Thereafter	55
Total	1,765
Less amounts representing interest	214
Present value of net minimum lease payments (including current portion of $276)	$1,551

Interest Payments

Interest payments during 2014, 2013 and 2012 were $495, $482 and $365, respectively. No interest was capitalized during the years ended December 31, 2014, 2013 and 2012.

4. Shareholders' Equity, Stock Options and Net Income per Share

Preferred Stock

There are 5,000,000 shares of preferred stock with a par value of $0.01 authorized, but no shares have been issued to date.

Cash Dividends

During each quarter of 2014 , the Company’s Board of Directors declared a cash dividend of $0.12 per share of Common Stock. During each quarter of 2013 and the third and fourth quarter of 2012, the Company's Board of Directors declared a cash dividend of $0.10 per share of Common Stock. During the first and second quarter of 2012, the Company's Board of Directors declared a cash dividend of $0.07 per share of Common Stock. On February 10, 2015, the Company’s Board of Directors declared a $0.12 per share dividend that will be paid in the first quarter of 2015. The Company expects to continue to pay regular quarterly cash dividends, though each subsequent quarterly dividend is subject to review and approval by the Board of Directors.

Repurchase of Common Stock

In July 2007, our Board of Directors approved a stock repurchase program (“Repurchase Plan”) for up to 2,000,000 shares of our common stock. During the year ended December 31, 2013, we repurchased 8,675 shares of common stock under the Repurchase Plan for $354, or $40.84 per share. No shares were repurchased during the year ended December 31, 2012.

Also, on February 7, 2014, our Board of Directors approved a stock repurchase authorization for up to 2,000,000 shares of the Company’s common stock. In connection with this action, the board cancelled the Company’s Repurchase Plan. During the year ended December 31, 2014, we repurchased 881,979 shares of common stock for $39,972, or $45.32 per share. As of December 31, 2014, 1,118,021 shares remain that may be repurchased.

Share-Based Compensation

The Company had previously reserved for issuance 4,500,000 common shares under the 1999 Stock Option and Incentive Plan (the “1999 Plan”). Options issued under the 1999 Plan have seven to ten-year terms and vested over a one to five year period.

In May 2008, with the approval of shareholders, the Company amended and restated the 1999 Stock Option and Incentive Plan (the “1999 Amended Plan”) to reserve for issuance an additional 3,000,000 common shares, increasing the total number of reserved common shares under the 1999 Amended Plan to 7,500,000. As of December 31, 2014, there were approximately 746,000 shares remaining available for grant.

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Employee Activity - Options

The following tables summarize the Company’s employee stock option activity and related information for the years ended December 31, 2014, 2013 and 2012:

	2014		2013		2012	
	Options (000)	Weighted-Average Exercise Price	Options (000)	Weighted-Average Exercise Price	Options (000)	Weighted-Average Exercise Price
Outstanding at beginning of year	1,732	$27	2,874	$26	3,363	$26
Granted	106	43	118	38	94	37
Exercised	(450)	28	(1,260)	26	(570)	27
Forfeited	(25)	37	—	—	(13)	29
Outstanding at end of year	1,363	$28	1,732	$27	2,874	$26
Exercisable at end of year	1,160	$26	1,514	$26	2,487	$26
Weighted-average fair value of options granted during the year	$14		$14		$13	
Aggregate intrinsic value for options exercised	$7,259		$15,477		$3,924	
Average aggregate intrinsic value for options outstanding	$24,425					
Average aggregate intrinsic value for exercisable options	$23,274					

Range of Exercise Price	Number Outstanding (000)	Weighted-Average Remaining Contractual Life	Outstanding Weighted-Average Exercise Price	Number Exercisable (000)	Exercisable Weighted-Average Exercise Price
$22.47 - 24.98	672	1.7	$22.66	672	$22.66
28.61 - 29.44	401	0.9	28.95	401	28.95
36.55 - 41.80	184	4.7	37.03	87	36.90
42.48 - 45.97	106	6.2	43.17	—	—
$22.47 - 45.97	1,363	2.2	$28.05	1,160	$25.91

	Year ended December 31, 2014	December 31, 2013	December 31, 2012
Shared-based compensation for options	$1,302	$1,410	$2,585
Tax benefit for option compensation	$497	$508	$713
	$1,632		

Unrecognized compensation cost for options, net of estimated forfeitures

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Employee Activity – Non-vested shares

Non-vested share grants to employees vest ratably over a three-year period. The following tables summarize the Company's employee non-vested share activity and related information:

	Year ended 2014		2013		2012	
	Non-vested Shares (000)	Weighted-Average Grant Date Fair Value	Non-vested Shares (000)	Weighted-Average Grant Date Fair Value	Non-vested Shares (000)	Weighted-Average Grant Date Fair Value
Outstanding and non-vested at beginning of year	186	$35	168	$33	108	$29
Granted	99	42	98	37	103	37
Vested	(94)	43	(68)	37	(36)	29
Forfeited	(1)	37	(12)	36	(7)	33
Outstanding and non-vested at end of year	190	$40	186	$35	168	$33
Aggregate grant date fair value	$7,585		$6,588		$5,579	
Total fair value of shares vested during the year	$4,008		$2,503		$1,249	

	Year ended December 31, 2014	December 31, 2013	December 31, 2012
Shared-based compensation for non-vested shares	$3,626	$3,058	$2,039
Tax benefit for non-vested share compensation	$1,385	$1,165	$785
Unrecognized compensation cost for non-vested shares, net of estimated forfeitures	$4,325		

Employee Activity – Performance shares

In 2014, 2013 and 2012, the Company granted performance shares to key employees. Under the terms of the performance share agreements, on the third anniversary of the grant date, the Company will issue to the employees a calculated number of common stock shares based on the three year performance of the Company's common stock share price as compared to the share price performance of a selected peer group. No shares may be issued if the Company share price performance outperforms 30% or less of the peer group, but the number of shares issued may be doubled if the Company share price performs better than 90% of the peer group.

The following tables summarize the Company's employee performance share activity, assuming median share awards, and related information:

	Year ended 2014		2013		2012	
	Non-vested Shares (000)	Weighted-Average Grant Date Fair Value	Non-vested Shares (000)	Weighted-Average Grant Date Fair Value	Non-vested Shares (000)	Weighted-Average Grant Date Fair Value
Outstanding and non-vested at beginning of year	88	$ 37	62	$ 36	38	$ 30
Granted	23	48	26	40	24	45
Additional shares awarded based on performance	19	30	—	—	—	—
Vested	(56)	30	—	—	—	—
Forfeited	—	—	—	—	—	—
Outstanding and non-vested at end of year	74	$ 44	88	$ 37	62	$ 36
Aggregate grant date fair value	$ 3,279		$ 3,278		$ 2,205	

	Year ended December 31, 2014	December 31, 2013	December 31, 2012
Shared-based compensation for performance shares	$ 1,098	$ 1,055	$ 699
Tax benefit for performance share compensation	$ 419	$ 402	$ 269
Unrecognized compensation cost for performance shares, net of estimated forfeitures	$ 1,225		

Employee Activity – Employee Stock Purchase Plan

Under the ESPP at December 31, 2014, the Company is authorized to issue up to a remaining 403,792 shares of Common Stock to employees of the Company. For the years ended December 31, 2014, 2013 and 2012, participants under the plan purchased 8,530, 8,800, and 8,846 shares, respectively, at an average price of $41.51, $33.68, and $29.26 per share, respectively. The weighted-average fair value of each purchase right under the ESPP granted for the years ended December 31, 2014, 2013 and 2012, which is equal to the discount from the market value of the Common Stock at the end of each six month purchase period, was $7.74, $7.52, and $4.47 per share, respectively. Share-based compensation expense of $66, $66, and $40 was recognized in salaries, wages and employee benefits, during the years ended December 31, 2014, 2013 and 2012, respectively.

Non-employee Directors – Non-vested shares

On May 23, 2006, the Company's shareholders approved the Company's 2006 Non-Employee Director Stock Plan (the "2006 Plan"). The Company's shareholders then approved the Company's Amended and Restated Non-Employee Director Stock Plan (the "Amended Plan") on May 22, 2007. The Amended Plan was then further amended and restated on December 17, 2008. Under the Amended Plan, on the first business day after each Annual Meeting of Shareholders, each non-employee director will automatically be granted an award (the "Annual Grant"), in such form and size as the Board determines from year to year. Unless otherwise determined by the Board, Annual Grants will become vested and nonforfeitable one year after the date of grant so long as the non-employee director's service with the Company does not earlier terminate. Each director may elect to defer receipt of the shares under a non-vested share award until the director terminates service on the Board of Directors. If a director elects to defer receipt, the Company will issue deferred stock units to the director, which do not represent actual ownership in shares and the director will not have voting rights or other incidents of ownership until the shares are issued. However, the Company will credit the director with dividend equivalent payments in the form of additional deferred stock units for each cash dividend payment made by the Company.

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The following tables summarize the Company's non-employee non-vested share activity and related information:

	Year ended 2014 Non-vested Shares and Deferred Stock Units (000)	Weighted-Average Grant Date Fair Value	2013 Non-vested Shares and Deferred Stock Units (000)	Weighted-Average Grant Date Fair Value	2012 Non-vested Shares and Deferred Stock Units (000)	Weighted-Average Grant Date Fair Value
Outstanding and non-vested at beginning of year	15	$38	20	$32	24	$33
Granted	15	44	15	38	20	32
Vested	(15)	38	(20)	32	(24)	32
Forfeited	—	—	—	—	—	—
Outstanding and non-vested at end of year	15	$44	15	$38	20	$32
Aggregate grant date fair value	$650		$560		$640	
Total fair value of shares vested during the year	$632		$762		$752	

	Year ended December 31, 2014	December 31, 2013	December 31, 2012
Shared-based compensation for non-vested shares	$589	$589	$687
Tax benefit for non-vested share compensation	$225	$225	$264
Unrecognized compensation cost for non-vested shares, net of estimated forfeitures	$256		

Non-employee Directors - Options

In addition to the above activity, each May from 1995 to 2005, options were granted to the non-employee directors of the Company. The options have terms of ten years and are fully exercisable. The following table summarizes the Company's non-employee stock option activity and related information for the years ended December 31, 2014, 2013 and 2012:

	2014		2013		2012	
	Options (000)	Weighted-Average Exercise Price	Options (000)	Weighted-Average Exercise Price	Options (000)	Weighted-Average Exercise Price
Outstanding at beginning of year	26	$23	29	$23	41	$21
Granted	—	—	—	—	—	—
Exercised	(18)	22	(3)	20	(12)	16
Forfeited	—	—	—	—	—	—
Outstanding and exercisable at end of year	8	$26	26	$23	29	$23
Aggregate intrinsic value for options exercised	$412		$54		$207	
Average aggregate intrinsic value for options outstanding and exercisable	$151					

At December 31, 2014, weighted average remaining contractual term for these options was 0.4 years.

Net Income per Share

The following table sets forth the computation of net income per basic and diluted share:

	2014	2013	2012
Numerator:			
Net income and comprehensive income	$61,169	$54,467	$52,668
Income allocated to participating securities	(404)	—	—
Numerator for net income and comprehensive income to common shareholders	60,765	54,467	52,668
Denominator:			
Denominator for basic net income per share - weighted-average shares (in thousands)	30,599	30,135	28,967
Effect of dilutive stock options (in thousands)	431	615	528
Effect of dilutive performance shares (in thousands)	42	12	41
Denominator for diluted net income per share - adjusted weighted-average shares (in thousands)	31,072	30,762	29,536
Basic net income per share	$1.99	$1.81	$1.82
Diluted net income per share	$1.96	$1.77	$1.78

The number of instruments that could potentially dilute net income per basic share in the future, but that were not included in the computation of net income per diluted share because to do so would have been anti-dilutive for the periods presented, are as follows:

2014	2013	2012

Anti-dilutive stock options (in thousands)	99	192	226
Anti-dilutive performance shares (in thousands)	—	—	22
Total anti-dilutive shares (in thousands)	99	192	248

(In thousands, except share and per share data)

5. Income Taxes

The provision for income taxes consists of the following:

	2014	2013	2012
Current:			
Federal	$33,631	$22,466	$24,981
State	4,306	2,133	3,462
	37,937	24,599	28,443
Deferred:			
Federal	(2,102)	4,367	2,452
State	(919)	489	(408)
	(3,021)	4,856	2,044
	$34,916	$29,455	$30,487

The tax benefit associated with the exercise of stock options and the vesting of non-vested shares recorded to additional paid in capital during the years ended December 31, 2014, 2013 and 2012 were $2,109, $3,612 and $385, respectively, and are reflected as an increase in additional paid-in capital in the accompanying consolidated statements of shareholders' equity.

The historical income tax expense differs from the amounts computed by applying the federal statutory rate of 35.0% to income before income taxes as follows:

	2014	2013	2012
Tax expense at the statutory rate	$33,630	$29,373	$29,125
State income taxes, net of federal benefit	1,879	1,876	1,842
Incentive stock options	(96)	(908)	(154)
Meals and entertainment	186	139	172
Deferred tax asset valuation allowance	39	(85)	(39)
Federal income tax credits	(533)	(1,023)	(619)
Other	(189)	83	160
	$34,916	$29,455	$30,487

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows:

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	December 31, 2014	December 31, 2013
Deferred tax assets:		
Accrued expenses	$6,313	$4,287
Allowance for doubtful accounts	1,002	745
Share-based compensation	5,698	6,066
Accruals for income tax contingencies	300	547
Impairment of goodwill and other intangible assets	534	854
Net operating loss carryforwards	280	253
Total deferred tax assets	14,127	12,752
Valuation allowance	(273)	(234)
Total deferred tax assets, net of valuation allowance	13,854	12,518
Deferred tax liabilities:		
Tax over book depreciation	19,222	21,806
Non-compete agreements	3,639	5,149
Prepaid expenses deductible when paid	2,488	2,354
Goodwill	11,189	8,914
Total deferred tax liabilities	36,538	38,223
Net deferred tax liabilities	$(22,684)	$(25,705)

The balance sheet classification of deferred income taxes is as follows:

	December 31, 2014	December 31, 2013
Current assets	$2,496	$1,145
Noncurrent liabilities	(25,180)	(26,850)
	$(22,684)	$(25,705)

Total income tax payments, net of refunds, during fiscal years 2014, 2013 and 2012 were $30,087, $25,168 and $32,214, respectively.

At December 31, 2014 and 2013, the Company had state net operating loss carryforwards of $6,500 and $5,468, respectively, that will expire between 2015 and 2029. The use of these state net operating losses is limited to the future taxable income of separate legal entities. Based on expectations of future taxable income, management believes that it is more likely than not that the results of operations for these separate legal entities will not generate sufficient taxable income to realize these net operating loss benefits for state loss carryforwards. As a result, a valuation allowance has been provided for most of these state loss carryforwards. The valuation allowance on these state loss carryforwards increased $39 during 2013 but decreased $85 during 2012.

Income Tax Contingencies

The Company, or one of its subsidiaries, files income tax returns in the U.S. federal jurisdiction, various states and Canada. With a few exceptions, the Company is no longer subject to U.S. federal, state and local, or Canadian examinations by tax authorities for years before 2010.

(In thousands, except share and per share data)

A reconciliation of the beginning and ending amount of unrecognized tax benefit is as follows:

	Liability for Unrecognized Tax Benefits
Balance at December 31, 2011	481
Reductions for settlement with state taxing authorities	(204)
Balance at December 31, 2012	277
Additions for tax positions of current year	209
Additions for tax positions of prior years - TQI	853
Balance at December 31, 2013	1,339
Reductions for settlement with state taxing authorities	(697)
Additions for tax positions of prior years - TQI	63
Additions for tax positions of current year	66
Balance at December 31, 2014	$771

Included in the liability for unrecognized tax benefits at December 31, 2014 and December 31, 2013 are tax positions of $771 and $1,339, respectively, which represents tax positions where the realization of the ultimate benefit is uncertain and the disallowance of which would affect the Company's annual effective income tax rate.

Included in the liability for unrecognized tax benefits at December 31, 2014 and December 31, 2013, are accrued penalties of $170 and $277, respectively. The liability for unrecognized tax benefits at December 31, 2014 and December 31, 2013 also included accrued interest of $414 and $299, respectively.

6. Operating Leases

The Company leases certain facilities under noncancellable operating leases that expire in various years through 2020. Certain leases may be renewed for periods varying from one to ten years. Primarily, through acquisitions, the Company assumed several operating leases for tractors, straight trucks and trailers with original lease terms between three and six years. These leases expire in various years through 2021 and may not be renewed beyond the original term.

Sublease rental income, was $980, $914 and $813 in 2014, 2013 and 2012, respectively. In 2015, the Company expects to receive aggregate future minimum rental payments under noncancellable subleases of approximately $74. Noncancellable subleases expire between 2015 and 2017.

Future minimum rental payments under noncancellable operating leases with initial or remaining terms in excess of one year consisted of the following at December 31, 2014:

2015	$22,295
2016	16,909
2017	11,452

2018	7,563
2019	3,827
Thereafter	2,470
Total	$64,516

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7. Commitments and Contingencies

From time to time, the Company is party to ordinary, routine litigation incidental to and arising in the normal course of business. The Company does not believe that any of these pending actions, individually or in the aggregate, will have a material adverse effect on its financial condition, results of operations or cash flows.

The primary claims in the Company's business relate to workers' compensation, property damage, vehicle liability and employee medical benefits. Most of the Company's insurance coverage provides for self-insurance levels with primary and excess coverage which management believes is sufficient to adequately protect the Company from catastrophic claims. Such insurance coverage above the applicable self-insurance levels continues to be an important part of the Company's risk management process.
In the opinion of management, adequate provision has been made for all incurred claims up to the self-insured limits, including provision for estimated claims incurred but not reported.

The Company estimates its self-insurance loss exposure by evaluating the merits and circumstances surrounding individual known claims and by performing hindsight and actuarial analysis to determine an estimate of probable losses on claims incurred but not reported. Such losses could be realized immediately as the events underlying the claims have already occurred as of the balance sheet dates.

Because of the uncertainty of the ultimate resolution of outstanding claims, as well as uncertainty regarding claims incurred but not reported, it is possible that management's provision for these losses could change materially in the near term. However, no estimate can currently be made of the range of additional loss that is at least reasonably possible.

As of December 31, 2014, the Company had commitments to purchase various trailers, vehicles and forklifts for approximately $5,708 during 2015.

8. Employee Benefit Plan

The Company has a retirement savings plan (the "401(k) Plan"). The 401(k) Plan is a defined contribution plan whereby employees who have completed 90 days of service, a minimum of 1,000 hours of service and are age 21 or older are eligible to participate. The 401(k) Plan allows eligible employees to make contributions of 2.0% to 80.0% of their annual compensation. For all periods presented, employer contributions were made at 25.0% of the employee's contribution up to a maximum of 6.0% of total annual compensation, except where government limitations prohibit.

Employer contributions vest 20.0% after two years of service and continue vesting 20.0% per year until fully vested. The Company's matching contributions expensed in 2014, 2013 and 2012 were approximately $895, $823 and $675, respectively.

9. Financial Instruments

Off Balance Sheet Risk

At December 31, 2014, the Company had letters of credit outstanding totaling $9,749.

Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Accounts receivable and accounts payable: The carrying amounts reported in the balance sheet for accounts receivable and accounts payable approximate their fair value based on their short-term nature.

The Company's credit facility at December 31, 2014 bore interest at LIBOR plus 1.1% based upon covenants related to total indebtedness to earnings. Using interest rate quotes currently available in the market and remaining cash flows on these arrangements, the Company estimated the fair value of its outstanding capital lease obligations as follows:

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	December 31, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Capital lease obligations	$1,551	$1,578	$72	$99

The Company's fair value calculations for the above financial instruments are classified within level 3 of the fair value hierarchy as defined in the FASB Codification.

10. Segment Reporting

The Company operates in three reportable segments based on information available to and used by the chief operating decision maker. Forward Air, which includes our Forward Air and CST operating segments, provides time-definite transportation and logistics services including expedited truckload and intermodal drayage. FASI provides pool distribution services primarily to regional and national distributors and retailers. TQI is a provider of maximum security and temperature-controlled logistics services, primarily truckload services, to the life sciences sector (pharmaceutical and biotechnology products).

The accounting policies of the segments are the same as those described in the summary of significant accounting policies disclosed in Note 1 to the Consolidated Financial Statements. Segment data includes intersegment revenues. Assets and costs of the corporate headquarters are allocated to the segments based on usage. The Company evaluates the performance of its segments based on net income (loss). The Company’s business is conducted in the U.S. and Canada.

The following tables summarize segment information about net income and assets used by the chief operating decision maker of the Company in making decisions regarding allocation of assets and resources as of and for the years ended December 31, 2014, 2013 and 2012.

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Year ended December 31, 2014	Forward Air	FASI	TQI	Eliminations	Consolidated
External revenues	$608,118	$124,382	$48,459	$—	$780,959
Intersegment revenues	4,219	831	365	(5,415)	—
Depreciation and amortization	21,721	5,811	3,601	—	31,133
Share-based compensation expense	6,470	176	35	—	6,681
Interest expense	602	2	6	—	610
Interest income	8	—	—	—	8
Income tax expense	31,792	2,203	921	—	34,916
Net income	53,985	3,790	3,394	—	61,169
Total assets	607,765	47,516	88,781	(202,257)	541,805
Capital expenditures	26,170	7,133	6,184	—	39,487

Year ended December 31, 2013	Forward Air	FASI	TQI	Eliminations	Consolidated
External revenues	$497,993	$112,766	$41,722	$—	$652,481
Intersegment revenues	3,075	645	120	(3,840)	—
Depreciation and amortization	16,222	4,945	2,412	—	23,579
Share-based compensation expense	5,959	140	79	—	6,178
Interest expense	513	8	11	—	532
Interest income	36	—	1	—	37
Income tax expense	26,981	846	1,628	—	29,455
Net income	51,251	1,255	1,961	—	54,467
Total assets	478,790	42,049	85,490	(100,060)	506,269
Capital expenditures	25,017	6,901	3,521	—	35,439

Year ended December 31, 2012	Forward Air	FASI	TQI	Eliminations	Consolidated
External revenues	$500,621	$83,825	$—	$—	$584,446
Intersegment revenues	1,116	1,152	—	(2,268)	—
Depreciation and amortization	16,356	4,665	—	—	21,021
Share-based compensation expense	5,857	193	—	—	6,050
Interest expense	369	22	—	—	391
Interest income	41	—	—	—	41
Income tax expense	30,053	434	—	—	30,487
Net income	51,127	1,541	—	—	52,668
Total assets	395,936	37,135	—	(33,884)	399,187
Capital expenditures	15,910	5,443	—	—	21,353

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11. Quarterly Results of Operations (Unaudited)

The following is a summary of the quarterly results of operations for the years ended December 31, 2014 and 2013:

	2014			
	March 31	June 30	September 30	December 31
Operating revenue	$171,569	$193,852	$201,477	$214,061
Income from operations	16,271	27,595	26,906	25,634
Net income	10,202	17,178	16,744	17,045
Net income per share:				
Basic	$0.33	$0.56	$0.55	$0.56
Diluted	$0.33	$0.55	$0.54	$0.55

	2013			
	March 31	June 30	September 30	December 31
Operating revenue	$141,560	$159,804	$170,033	$181,084
Income from operations	15,790	22,505	22,857	23,203
Net income	10,855	13,831	14,197	15,584
Net income per share:				
Basic	$0.37	$0.46	$0.47	$0.51
Diluted	$0.36	$0.45	$0.46	$0.50

12. Subsequent Event

Pending Acquisition

On February 4, 2015, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) to acquire CLP Towne Inc. (“Towne”). Upon completion of the Merger, Towne will be an indirect, wholly-owned subsidiary of the Company. The acquisition is expected to close in the first quarter of 2015, subject to the satisfaction of closing conditions, including among others the continuing accuracy of representations and warranties, compliance with covenants and agreements in the Merger Agreement and the execution of restrictive covenants agreements by certain equity holders.

The Company will pay aggregate cash consideration of approximately $125,000. The purchase price may be increased or reduced based upon Towne’s net working capital as of the closing date. The Merger Agreement also provides that $16,500 of the $125,000 purchase price will be placed into an escrow account, with $2,000 of such amount being available to settle any shortfall in Towne’s net working capital and with $14,500 of such amount being available for a period of time to settle certain possible claims against Towne’s common stockholders for indemnification. To the extent the escrow fund is insufficient, certain equity holders have agreed to indemnify the Company, subject to certain limitations set forth in the Merger Agreement, as a result of inaccuracies in or breaches of certain of Towne’s representations, warranties, covenants and agreements and other matters. The Company intends to finance the Merger with borrowings under its credit facility.

New Credit Facility

On February 4, 2015, the Company entered into a five-year senior, unsecured credit facility (the “Facility”) with a maximum aggregate principal amount of $275,000, including a revolving credit facility of $150,000 with a sublimit of $25,000 for letters of credit and a sublimit of $15,000 for swing line loans. The Facility also includes a term loan facility of $125,000, which is available for ninety (90) days following closing, and which, if drawn, is payable in quarterly installments of 11.1% of the original principal amount of the term loan plus accrued and unpaid interest, and which matures in March 2017. The revolving credit facility is scheduled to expire in February 2020 and may be used to refinance existing indebtedness of the Company and for working capital, capital expenditures and other general corporate purposes. The Facility replaced the Company’s prior existing $150,000 unsecured revolving credit facility. Unless the Company elects otherwise under the credit agreement, interest on borrowings under the Facility are based on the highest of (a) the federal funds rate plus 0.5%, (b) the administrative agent's prime rate and (c) the LIBOR Rate plus 1.0%, in each case plus a margin that can range from 0.1% to 0.6% with respect to the term loan facility and from 0.3% to 0.8% with respect to the revolving credit facility depending on the Company’s ratio of consolidated funded indebtedness to earnings as set forth in the credit agreement. The Facility contains financial covenants and other covenants that, among other things, restrict the ability of the Company, without the approval of the lenders, to engage in certain mergers, consolidations, asset sales, investments, transactions or to incur liens or indebtedness, as set forth in the credit agreement.

Forward Air Corporation
Schedule II — Valuation and Qualifying Accounts
(In thousands)

Col. A		Col. B	Col. C		Col. D		Col. E
		Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts Described	Deductions -Describe		Balance at End of Period
Year ended December 31, 2014							
Allowance for doubtful accounts		$1,583	$241	$—	$(331)	(2)	$2,155
Allowance for revenue adjustments	(1)	336	2,465	—	2,393	(3)	408
Income tax valuation		234	39	—	—		273
		2,153	2,745	—	2,062		2,836
Year ended December 31, 2013							
Allowance for doubtful accounts		$1,149	$423	$—	$(11)	(2)	$1,583
Allowance for revenue adjustments	(1)	295	2,531	—	2,490	(3)	336
Income tax valuation		319	(85)	—	—		234
		1,763	2,869	—	2,479		2,153
Year ended December 31, 2012							
Allowance for doubtful accounts		$1,219	$199	$—	$269	(2)	$1,149
Allowance for revenue adjustments	(1)	284	2,003	—	1,992	(3)	295
Income tax valuation		348	(29)	—	—		319
		1,851	2,173	—	2,261		1,763

(1) Represents an allowance for adjustments to accounts receivable due to disputed rates, accessorial charges and other aspects of previously billed shipments.
(2) Represents uncollectible accounts written off, net of recoveries
(3) Represents adjustments to billed accounts receivable

EXHIBIT INDEX

No.		Exhibit
3.1		Restated Charter of the registrant (incorporated herein by reference to Exhibit 3 to the registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 28, 1999 (File No. 0-22490))
3.2		Amended and Restated Bylaws of the registrant (incorporated herein by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 6, 2009 (File No. 0-22490))
4.1		Form of Forward Air Corporation Common Stock Certificate (incorporated herein by reference to Exhibit 4.1 to the registrant’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998 filed with the Securities and Exchange Commission on November 16, 1998 (File No. 0-22490))
10.1	*	Forward Air Corporation 2005 Employee Stock Purchase Plan (incorporated herein by reference to the registrant's Proxy Statement filed with the Securities and Exchange Commission on April 20, 2005 (File No. 0-22490))
10.2		Lease Agreement, dated as of June 1, 2006, between the Greeneville-Greene County Airport Authority and the registrant (incorporated herein by reference to Exhibit 10.3 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 filed with the Securities and Exchange Commission on February 27, 2007 (File No. 0-22490))
10.3		Air Carrier Certificate, effective August 28, 2003 (incorporated herein by reference to Exhibit 10.5 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 filed with the Securities and Exchange Commission on March 11, 2004 (File No. 0-22490))
10.4	*	Amendment to the Non-Employee Director Stock Plan (incorporated herein by reference to Exhibit 10.7 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 filed with the Securities and Exchange Commission on March 11, 2004 (File No. 0-22490))
10.5		Credit Agreement dated February 14, 2012 among the registrant and certain of its subsidiaries and Bank of America, N.A., as administrative agent and other lenders party thereto (incorporated herein by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 21, 2012 (File No. 0-22490))
10.6	*	Employment Agreement dated October 30, 2007, between Forward Air Corporation and Bruce A. Campbell, including Attachment B, Restrictive Covenants Agreement entered into contemporaneously with and as part of the Employment Agreement (incorporated herein by reference to Exhibit 99.1 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 31, 2007 (File No. 0-22490))
10.7	*	Amendment dated December 30, 2008 to Employment Agreement dated October 30, 2007, between Forward Air Corporation and Bruce A. Campbell (incorporated herein by reference to Exhibit 10.9 to the registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 filed with the Securities and Exchange Commission on February 26, 2009 (File No. 0-22490))
10.8	*	Second Amendment dated February 24, 2009 to Employment Agreement dated October 30, 2007, between Forward Air Corporation and Bruce A. Campbell (incorporated herein by reference to Exhibit 10.10 to the registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 filed with the Securities and Exchange Commission on February 26, 2009 (File No. 0-22490))
10.90	*	Third Amendment dated December 15, 2010 to Employment Agreement dated October 30, 2007, between Forward Air Corporation and Bruce A. Campbell (incorporated herein by reference to Exhibit 10.10 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the Securities and Exchange Commission on February 24, 2011 (File No. 0-22490))
10.10	*	Form of Incentive Stock Option Agreement under the registrant's Amended and Restated Stock Option and Incentive Plan, as amended and 1999 Stock Option and Incentive Plan, as amended, for grants prior to February 12, 2006 (incorporated herein by reference to Exhibit 10.12 to the registrant's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2005 filed with the Securities and Exchange Commission on March 22, 2006 (File No. 0-22490))

10.11	*	Form of Non-Qualified Stock Option Agreement under the registrant's Non-Employee Director Stock Option Plan, as amended, for grants prior to February 12, 2006 (incorporated herein by reference to Exhibit 10.13 to the registrant's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2005 filed with the Securities and Exchange Commission on March 22, 2006 (File No. 0-22490))
10.12	*	Forward Air Corporation Amended and Restated Stock Option and Incentive Plan (incorporated herein by reference to Appendix A of the registrant's Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 3, 2008 (File No. 0-22490))

10.13	*	Form of Incentive Stock Option Agreement under the registrant's Amended and Restated Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.19 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 filed with the Securities and Exchange Commission on February 26, 2009 (File No. 0-22490))
10.14	*	Form of Non-Qualified Stock Option Agreement under the registrant's Amended and Restated Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.16 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the Securities and Exchange Commission on February 24, 2011 (File No. 0-22490))
10.15	*	Form of Restricted Stock Agreement for an award of restricted stock under the registrant's 1999 Stock Option and Incentive Plan, as amended, granted during 2006 (incorporated herein by reference to Exhibit 10.19 to the registrant's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2005 filed with the Securities and Exchange Commission on March 22, 2006 (File No. 0-22490))
10.16	*	Form of Restricted Stock Agreement under the registrant's Amended and Restated Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.19 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the Securities and Exchange Commission on February 24, 2011 (File No. 0-22490))
10.17	*	Form of Non-Employee Director Restricted Stock Agreement for an award of restricted stock under the registrant's 2006 Non-Employee Director Stock Plan (incorporated herein by reference to Exhibit 99.2 to the registrant's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on May 19, 2006 (File No. 0-22490))
10.18	*	Form of Performance Share Agreement for performance shares granted in February 2011, under the registrant's Amended and Restated Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, filed with the Securities and Exchange Commission on April 25, 2011 (File No. 0-22490))
10.19	*	Forward Air Corporation Executive Severance and Change in Control Plan, effective as of January 1, 2013 (incorporated herein by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 14, 2012 (File No. 0-22490))
10.20	*	Forward Air Corporation Recoupment Policy, effective as of January 1, 2013 (incorporated herein by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 14, 2012 (File No. 0-22490))
10.21	*	Forward Air Corporation Amended and Restated Stock Option and Incentive Plan, as further amended and restated on February 7, 2013 (incorporated herein by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 13, 2013 (File No. 0-22490))
10.22	*	Form of Performance Share Agreement for performance shares granted in February 2013, under the registrant's Amended and Restated Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013, filed with the Securities and Exchange Commission on April 25, 2013 (File No. 0-22490))
10.23	*	Form of Restricted Stock Agreement for an award granted in February 2013, under the registrant's Amended and Restated Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.3 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013, filed with the Securities and Exchange Commission on April 25, 2013 (File No. 0-22490))
10.24	*	Form on Non-Qualified Stock Option Agreement for an award granted in February 2013, under the registrant's Amended and Restated Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.4 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013, filed with the Securities and Exchange Commission on April 25, 2013 (File No. 0-22490))
10.25	*	Amended and Restated Non-Employee Director Stock Plan, as further amended and restated on February 8, 2013 (incorporated herein by reference to Exhibit 10.5 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013, filed with the Securities and Exchange Commission on April 25, 2013 (File No. 0-22490))

10.26	Stock Purchase Agreement dated March 4, 2013, by and among Forward Air Corporation, TQI Holdings, Inc. and the sellers named therein (incorporated herein by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 4, 2013 (File No. 0-22490))
10.27	Agreement of Purchase and Sale, dated as of July 10, 2006, among AMB Property II, L.P., Headlands Realty Corporation and Forward Air, Inc. (incorporated herein by reference to Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006 filed with the Securities and Exchange Commission on August 4, 2006 (File No. 0-22490))
10.28	Agreement of Purchase and Sale, dated as of September 14, 2006, by and between Headlands Realty Corporation and Forward Air, Inc. (incorporated herein by reference to Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006 filed with the Securities and Exchange Commission on November 3, 2006 (File No. 0-22490))

10.29	Asset Purchase Agreement dated November 26, 2007 by and among Forward Air Corporation, Black Hawk Freight Services, Inc. and the stockholders of Black Hawk Freight Services, Inc. (incorporated herein by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 30, 2007 (File No. 0-22490))
10.30	Stock Purchase Agreement dated January 23, 2014, by and among Forward Air Corporation, Central States Trucking Co., Central States Logistics, Inc., Central States, Inc., and the stockholders of Central States, Inc. (incorporated herein by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 6, 2014 (File No. 0-22490))
10.31	First amendment to the Credit Agreement dated February 14, 2012 by and among the Company, certain of its subsidiaries, the lenders referred to therein and Bank of America, N.A., as administrative agent (incorporated herein by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 21, 2014 (File No. 0-22490))
21.1	Subsidiaries of the registrant
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm
31.1	Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a) (17 CFR 240.13a-14(a))
31.2	Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a) (17 CFR 240.13a-14(a))
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

*Denotes a management contract or compensatory plan or arrangement.