

Teavana Holdings Inc
Form 10-K
April 13, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended January 29, 2012

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

for the transition period from to

Commission File Number 001-35248

Teavana Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

Incorporation or Organization)

3630 Peachtree Rd. NE, Suite 1480

20-1946316
(I.R.S. Employer

Identification No.)

30326

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Atlanta, Georgia
(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

(404) 995-8200

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

Common Stock, par value \$0.00003 per share
(Title of class)

New York Stock Exchange
(Name of each exchange where registered)

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 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 past 90 days. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of common stock held by nonaffiliates of the registrant as of July 29, 2011, the last business day of the registrant's most recently completed second fiscal quarter, was zero as such date was prior to the closing of the registrant's initial public offering (the Offering) on August 2, 2011.

The number of shares of the registrant's common stock outstanding as of April 9, 2012 was 38,306,996.

Documents Incorporated by Reference

Portions of the registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on June 1, 2012 (hereinafter referred to as the Proxy Statement) are incorporated by reference into Part III.

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Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than those that are purely historical are forward-looking statements. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as anticipate, estimate, expect, project, plan, intend, believe, may, will, should, can have, likely, terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. For example, all statements we make relating to our estimated and projected earnings, revenues, costs, expenditures, cash flows, growth rates and financial results, our plans and objectives for future operations, growth or initiatives, strategies, or the expected outcome or impact of pending or threatened litigation are forward-looking statements. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected, including, but not limited to the following:

our failure to execute successfully our growth strategy;

economic conditions, and their effect on the financial and capital markets, our vendors and business partners, employment levels, consumer demand, spending patterns, inflation and the cost of goods;

our loss of key personnel or our inability to hire additional personnel;

disruptions in our supply chain and our single distribution center;

our failure to identify and respond to new and changing customer tastes, buying and economic trends;

the impact of governmental laws and regulations and the outcomes of legal proceedings;

our failure to maintain comparable levels of same-store sales;

risks and challenges in connection with sourcing merchandise from third party suppliers, including the risk that current or prospective suppliers may be unable or unwilling to supply us with adequate quantities of their teas or merchandise in a timely manner or at acceptable quality or prices, including risks related to natural or manmade causes outside of our control;

the risk of a cyber-security incident or other technological disruption; and

other factors discussed in other reports or filings filed by us with the Securities and Exchange Commission (the SEC).

For a discussion of the risks, uncertainties and assumptions that could affect our future events, developments or results, you should carefully review the Risk Factors described under that heading below, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations under that heading below.

Any forward-looking statement made by us in this Annual Report on Form 10-K speaks only as of the date on which we make it. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or

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otherwise, except as may be required by any applicable securities laws. You are advised, however, to consult any further disclosures we may make in our future reports to the SEC, on our website, or otherwise.

Investors should also be aware that while we do, from time to time, communicate with securities analysts and others, it is against our policy to selectively disclose to them any material nonpublic information or other confidential commercial information. Accordingly, stockholders should not assume that we agree with any statement or report issued by any analyst regardless of the content of the statement or report, as we have a policy against confirming information issued by others. Thus, to the extent that reports issued by securities analysts contain any financial projections, forecasts or opinions, such reports are not our responsibility.

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Teavana Holdings, Inc.

2011 Annual Report on Form 10-K

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Part I

Item 1. Business.
Our Company

Teavana is a specialty retailer of premium loose-leaf teas, authentic artisanal tea wares and other tea-related merchandise. We offer our products through 200 company-owned stores in 39 states, including one store in Canada, and 18 franchised stores primarily in Mexico, as well as through our website, www.teavana.com.

Our mission is to establish Teavana as the most recognized and respected brand in the specialty tea industry by expanding the culture of tea across the world. We have developed a distinctive strategy that we believe will continue to drive category growth, enhance our brand awareness and encourage product sampling and customer loyalty. Key elements of our business strategy are to:

develop, source and offer our customers the world's finest assortment of premium loose-leaf teas and tea-related merchandise;

create a Heaven of Tea retail experience in which our passionate and knowledgeable teaologists engage and educate customers about the ritual and enjoyment of tea; and

locate our stores in high traffic locations within malls, lifestyle centers and other high-sales-volume retail venues.

Teavana was founded in 1997 by our Chairman and Chief Executive Officer, Andrew Mack, and his wife, Nancy Mack, who were inspired by their international travels and passion for tea. Their vision was to introduce consumers to the global tea lifestyle, highlighting the aromas, textures, tastes and healthful qualities of loose-leaf teas, while enlightening them on the origin of each tea. To further realize the vision, in 2004, we partnered with Parallel Investment Partners (Parallel) to obtain equity capital, strategic advice and other resources to support our accelerated growth plans, and on August 2, 2011, we completed our Offering of 8,214,287 shares of common stock at a price of \$17.00 per share. Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol TEA.

We operate on a fiscal calendar widely used in the retail industry that results in a given fiscal year consisting of a 52- or 53-week period ending on the Sunday closest to January 31 of the following year. For example, references to fiscal 2011 refer to the fiscal year ended January 29, 2012. Fiscal 2011, 2010 and 2009 all contain 52 weeks.

Our Competitive Strengths

We believe that the following strengths differentiate Teavana and create the foundation for continued rapid sales and profit growth:

Market Defining Brand Driving Category Growth. We believe we are one of the world's largest branded multi-channel specialty tea retailers. We believe our leading national presence and focus on educating consumers about the many attractive qualities of loose-leaf tea positions Teavana to drive the continued growth of the loose-leaf tea category in the United States and Canada.

Heaven of Tea Retail Experience. We have created a unique Heaven of Tea retail environment that provides a highly interactive, informative and immersive customer experience and believe this engaging retail experience introduces new customers to the tea lifestyle, encourages product trial and supports repeat visits and strong customer loyalty. This experience is cultivated by a deep rooted passion for tea, extensive training, career development and individual enrichment. To ensure the continuity of our culture and to reward our high performing team members, we typically promote from within our organization. We believe our culture helps build and support a consistent and motivated group of team members that are passionate about providing the Heaven of Tea, retail experience to our customers.

High-Quality Teas and Tea-Related Merchandise. We offer a unique selection of premium loose-leaf teas, authentic artisanal tea wares and other tea-related merchandise in our stores and through our website. Our differentiated offering provides a foundation for our strong brand and will continue to reinforce our market-leading position.

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Powerful and Consistent Store Economics. We have a proven and highly profitable store model that has produced consistent financial results and returns. In the United States, our current store base is balanced across all of our four geographic regions, with each region producing results in line with the company average. We believe our powerful store model, deep-rooted tea enthusiast culture, highly developed store operations and a rigorous store selection process drive our consistent store financial results.

Proven and Experienced Senior Management Team. Since founding our company, Andrew Mack, our Chairman and Chief Executive Officer, has set the vision and strategic direction for Teavana and continues to drive our growth and culture. Since 2004, Mr. Mack has assembled a proven and experienced senior management team that has demonstrated its capabilities at executing our long-term growth plans. In 2005, we hired Daniel Glennon, our Executive Vice President and Chief Financial Officer, and Peter Luckhurst, our Executive Vice President of Operations. We believe our senior management team is a key driver of our success and is well-positioned to execute our strategy.

Our Growth Strategy

We are pursuing several strategies to continue our growth, including:

Expand Our Store Base. We believe there is a significant opportunity to expand our store base in the United States and Canada from 200 locations to at least 500 stores by fiscal 2015, having already identified the malls, lifestyle centers and other high-sales-volume retail venues that are suitable locations in which to open new Teavana stores. We plan to open approximately 60 stores during fiscal 2012.

Drive Comparable Store Sales. We strive to drive our comparable store sales by increasing the size and frequency of purchases by our existing customers and attracting new customers. Our Heaven of Tea retail experience allows us to introduce the benefits and enjoyment of our teas and tea-related merchandise to new customers while encouraging our existing customers to transition to our higher-grade teas and higher-end tea-related merchandise.

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Expand Our Online Presence. Our online platform is an extension of our brand and retail stores, serving as an educational resource and complementary sales channel for our customers.

Selectively Pursue International Expansion. As described under *International* below, given the worldwide popularity of tea, we believe international expansion represents a compelling opportunity for additional growth over the long term.

Our Retail Platform

We currently offer our premium loose-leaf teas and tea-related merchandise through our retail store base in the United States and Canada, online platform, and international and domestic franchised stores.

Our Stores

As of January 29, 2012, we operated 200 stores in 39 states, including one store in Canada. We focus on high traffic locations in malls and lifestyle centers with top-tier co-tenants, and our store base is balanced geographically across the United States. During fiscal 2011, our average store size was approximately 921 square feet; our comparable stores averaged net sales of approximately \$913,000, and our stores averaged sales per gross square foot of \$980.

We have pursued new store growth, having more than tripled our store base from 59 to 200 stores from fiscal 2007 to fiscal 2011. The following table shows the growth in our network of stores from fiscal 2009 through fiscal 2011:

	Fiscal Year		
	2011	2010	2009
Stores open at beginning of year	146	108	87
Stores opened	54	38	21
Stores closed			
Stores open at end of year	200	146	108
Gross square footage (in thousands)	184	130	95

Additionally, we have two franchised stores in the United States and 16 franchised stores in Mexico. Unless otherwise approved by us, our franchisees are required to sell only products purchased from us. Opening new franchise stores in the United States and Canada is not currently a significant part of our future strategy.

Distinctive Store Experience

Our stores offer a unique *Heaven of Tea* retail environment that provides a highly interactive, informative and immersive customer experience. We utilize a consistent store design to create our warm, relaxing ambiance featuring elegant blonde wood fixtures, ceramic tiled floors, soft lighting and soothing Asian music. Our store atmosphere is meant to encourage customers to slow down and interact with our tealogists around the pleasures of tea and enjoy their retail experience.

Site Selection and Expansion

We seek to open stores in locations that reinforce the premium image of our brand and support the consistent execution of our strategy, targeting high traffic locations within malls, lifestyle centers and other high-sales-volume retail venues.

We employ a rigorous analytical process to identify new store locations. We target locations based on market characteristics, mall productivity, demographic characteristics, including income and education levels, the presence of key anchor stores and co-tenants, population density and other key characteristics. We have built a proprietary retail mall database, which we use for comparison purposes and employ a proprietary regression model to evaluate projected store sales and profitability based on a number of critical inputs incorporating trade area demographics, mall tenant productivity and total anchor sales. Members of our real estate team spend considerable time evaluating prospective sites before bringing a proposal to our real estate committee. Our real estate committee, which includes our Chief Executive Officer, our two Executive Vice Presidents and our Vice President of Real Estate, approves all of our locations before a lease is signed.

Store Staffing and Operations

Each of our stores is managed by a general manager, an assistant manager and two team leads who oversee an average of eight to ten team members in each store. Each general manager is responsible for the day-to-day operations of his or her store, including the unit's operating results, maintaining a clean and appealing store environment and the hiring, training and development of personnel. We also employ area managers, who are responsible for overseeing the operations of several stores, and regional directors, who are each responsible for overseeing several area managers and the operation of multiple stores.

We are guided by a philosophy that recognizes performance, allowing us to identify and reward team members who meet our high performance standards. We provide our store general managers with a number of analytical tools to support our store operations and assist them in attaining optimum store performance. These tools include production tools and labor scheduling programs, all of which seek to ensure that we match staffing levels to sales volume. We provide incentive bonuses to team members, assistant managers, general managers and area managers. Bonuses for store personnel, store managers and area managers are based upon achieving specified operating and financial performance goals.

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Our Online Platform

Our online platform is primarily comprised of our website, www.teavana.com, through which we provide educational resources for tea consumers and the ability to purchase the full range of our teas and tea-related merchandise. We established our current online platform in fiscal 2007, and during fiscal 2011, online sales represented 7.6% of net sales.

To replicate our Heaven of Tea retail experience online, our website features our full assortment of premium loose-leaf teas, tea-related merchandise and tea gift sets. Online customers can view our virtual Wall of Tea that allows them to select teas from our assortment and read about the ingredients and healthful qualities that pertain to the tea they have selected. In addition to being able to purchase our premium teas on a one-time basis, our customers can also establish automatic purchase and delivery of their favorite teas through our online replenishment program. To drive increased sales through our online platform, we utilize online-specific marketing and promotional programs. We also utilize various social media and mobile applications as part of our online platform, including a mobile website, iPhone, iPad and Android applications, a Facebook fan page and a presence on Twitter. In addition, we employ banner advertisements, search engine optimization and pay-per-click arrangements to help drive traffic to our website.

Through our online platform, we can target a broader audience of customers and tea enthusiasts who may not live near one of our retail locations. We believe our online platform and our stores are complementary, as our online platform provides our store customers an additional channel through which to purchase our teas and tea-related merchandise while also helping drive awareness of and traffic to our stores.

International

We currently have 16 franchised stores in Mexico through an international development agreement with Casa Internacional del Te, S.A. de C.V. (Casa Internacional). The agreement with Casa Internacional grants the exclusive right to open franchised Teavana locations in that country for a term of 15 years. We also operate one company-owned store in Canada as of January 29, 2012 and on September 2, 2011 entered into an international development agreement with the Alshaya Group to open Teavana-branded stores in the Middle East. We expect to continue to selectively expand our global presence through additional company-owned stores, franchise arrangements and/or acquisition.

Our Culture

We have developed a distinctive culture that inspires in our team members a passion for tea and the tea lifestyle. Our culture is also focused on extensive training, career development and individual enrichment. We seek to attract passionate and motivated team members who are driven to succeed and share our vision of creating in our stores a Heaven of Tea experience for our customers.

To support the tea culture globally, we donate approximately 1% of annual net profits to the Cooperative for Assistance and Relief Everywhere, Inc., or CARE, through our Teavana Equatrade program. CARE seeks to overcome poverty by funding programs supporting dignity, tolerance and social justice. We believe that giving back to tea-growing regions worldwide helps the global tea community thrive.

Our Teas and Tea-Related Merchandise

We offer in our stores and through our website more than 100 varieties of premium loose-leaf teas, tea wares such as handcrafted cast-iron, clay and ceramic tea pots, and other tea-related merchandise. We also offer a selection of fresh-brewed teas. Tea, tea-related merchandise and beverages accounted for 55%, 41% and 4% of total consolidated net sales, respectively, in fiscal 2011.

Teas

We provide our customers a diverse selection of over 100 loose-leaf teas from around the world. Our overall tea selection is comprised of approximately 20% single-estate teas and 80% specially blended teas. Our offering is comprised of teas from the following three main groups:

Single-estate teas. Our single-estate teas, which are the teas that originate wholly from an individual tea plantation, estate or garden, are produced from the *Camellia Sinensis* bush. We offer four types of single-estate teas – white, green, oolong, and black – each with its own distinctive characteristics arising from the climate, soil, altitude, growing conditions, when and how the tea is harvested, and the processing method used.

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Single-estate blended teas. We offer blends that combine our single-estate teas with spices, herbs, flower petals, essential oils of fruits and other flavorings. We work in close collaboration with third-party blenders to develop our specially blended teas, and spend significant amounts of time perfecting the balance of flavors, aromas and colors to create unique teas that we believe will appeal to our customers.

Herbal blended teas. Herbal teas are not technically teas, as they are not produced from the *Camellia Sinensis* bush, but are herbal infusions generally made from other sources such as the Rooibos bush and Honeybush from South Africa, the Maté shrub from Argentina and other ingredients including dried fruits, herbs and even flowers. Herbal teas, aside from Maté, are generally caffeine-free and can be brewed individually or blended with other types of tea to create an aromatic and flavorful beverage.

Tea-Related Merchandise

We offer in our stores and through our website a carefully selected assortment of artisanal tea wares and other tea-related merchandise that provide our customers the ability to brew and consume our premium loose-leaf teas and more broadly experience tea cultures from around the globe. The majority of our tea-related merchandise is Teavana-branded. We also offer a selection of our teas and tea-related merchandise in the form of prepackaged gift sets.

Our tea wares and other tea-related merchandise are grouped into five main categories: (1) teapots, (2) tea cups and mugs, (3) tea accessories, (4) tea décor and media and (5) tea foods.

Beverages

We offer made-to-order fresh-brewed teas in each of our stores. Our customers may select any of the varieties of loose-leaf single-estate and blended teas that we offer. Customers can choose to have their beverage served hot or cold.

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Product Selection, Development and Sourcing

We select and develop an extensive offering of premium loose-leaf teas, authentic artisanal tea wares and other tea-related merchandise. Our merchandising team travels across global tea regions seeking superior teas and high quality traditional tea merchandise. Our product offering reflects tea communities in Japan, China, India, South Korea and Europe, and we often explore different tea cultures from which to introduce new teas and tea-related merchandise to our customers. We also work with our supplier partners to develop special tea blends and innovative products that we sell on an exclusive basis.

Teas

Our merchandising team selects the highest grades of single-estate teas sourced from tea gardens and brokers in tea-producing regions around the world. Although most tea trades in the commodity market, premium loose-leaf teas of the quality we seek trade on a negotiated basis at a substantial premium to commodity tea prices. Tea supply and price can be affected by multiple factors, including weather, political and economic conditions, and currency fluctuations. Our merchandising team also focuses on the creation of our special tea blends using multiple varieties of single-estate teas and herbal teas, which are combined with spices, herbs, flower petals, essential oils of fruits and other natural flavorings. We have long-standing collaborative relationships with tea blenders from across the globe with which we collaborate to develop our blends. Our team spends significant amounts of time tasting, or cupping, blends under development to perfect the balance of flavors, aromas and colors. To provide our customers a fresh tea selection over time, we introduce new teas usually two to three times per year, and seek to replace 10-20% of our Wall of Tea selections every year.

Tea-Related Merchandise

Our merchandising team seeks to select high quality tea-related merchandise to enhance the enjoyment and experience of tea for our customers. We travel throughout the world seeking out what we believe is the finest tea-related merchandise available.

Quality Control

As part of our quality control, we test our teas and tea-related merchandise to ensure compliance with our stringent quality standards. We perform extensive sampling of teas during the buying process. In addition, our teas undergo rigorous testing based on food safety specifications established by European Union regulations for the presence of pesticides. We use a third-party testing program that samples each batch of teas received at our distribution center. We also have strict quality control around the manufacture of our tea-related merchandise.

Sourcing

We do not own or operate any tea estates, blending operations or manufacturing facilities; instead, we source our products from over 100 vendors across the globe. During fiscal 2011, our two largest vendors represented approximately 24% and 16%, respectively, of our total purchases of inventory goods. Approximately 95% of our purchases are paid for in US dollars, with the balance being denominated primarily in Euros and Japanese yen.

Distribution

We distribute our loose-leaf teas and tea-related merchandise to our stores and our e-commerce customers from our distribution center in Stratford, Connecticut. Our products are typically shipped to our stores via a third-party national transportation provider multiple times per week.

We have identified the need to expand our distribution center in order to support our near-term growth. We have signed commitments to expand our distribution center, for a modest capital outlay, during fiscal 2012 to support our growing operations through the first quarter of fiscal 2013. We are continuing to evaluate our long-term distribution needs.

Marketing and Advertising

Our marketing strategy currently emphasizes utilization of our website and social media and mobile applications to create a community of tea enthusiasts, build customer loyalty and promote our brand awareness. For example, we provide updates on teas, tea news, tea-making, tea gift ideas and related topics via our Heaven of Tea blog on our website, our Facebook page and our presence on Twitter. We have introduced our PerfecTea® Touch application, which can be downloaded free of charge on the Apple iPhone and iPad and in the Android market. This

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application enables customers to shop our teas and tea-related merchandise, locate a store and obtain information on blending our teas, and provides them with built-in music-accompanied timers to help brew the perfect cup of tea. Additionally, we utilize banner advertisements, search engine optimization and pay-per-click arrangements to help drive traffic to our website.

Information Technology Systems

Our information technology systems provide a full range of business process support to our stores, our store operations and store support center teams. We utilize a combination of industry standard and customized software systems to provide various functions related to:

point of sale;

inventory management;

warehouse management; and

accounting and financial reporting.

Through our point of sale system, we are able to facilitate the operations of our stores, and through our warehouse management systems, we can efficiently manage our inventory of loose-leaf teas and tea-related merchandise from our store support center.

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Competition

The US tea market is highly fragmented. We compete directly with a large number of relatively small independently-owned tea retailers. Additionally, relatively low barriers to entry in the tea and beverage retail market may encourage other tea and beverage retailers who may have greater financial, marketing and operating resources than we do to enter the specialty tea retail market. As we continue to expand geographically, we expect to encounter additional regional and local competitors. We also compete indirectly with other vendors of loose-leaf, bagged and ready-to-drink teas, such as supermarkets, club stores, wholesalers and internet suppliers, as well as with houseware retailers and suppliers that offer tea wares and related accessories.

In addition, we compete with numerous other mall-based retailers for retail real estate locations for our stores.

Trademarks and Other Intellectual Property

We regard intellectual property and other proprietary rights as important to our success. We own several trademarks and service marks that have been registered with the US Patent and Trademark Office, including Teavana®, Heaven of Tea®, Wall of Tea® and the names of most of the varieties of single-estate teas and specially blended teas that we sell. We have also registered trademarks on our stylized logos. We have applications pending with the US Patent and Trademark Office for a number of additional marks, including additional varieties of our single-estate teas and blended teas. We also own domain names, including www.teavana.com, for our primary trademarks and own unregistered copyright rights in our website content. In addition, we have registered or made application to register one or more of our marks in a number of foreign countries and expect to continue to do so in the future as we expand internationally. There can be no assurance that we can obtain the registration for the marks in every country where registration has been sought or may be sought in the future.

We also rely upon trade secrets and know-how to develop and maintain our competitive position. We protect our intellectual property rights through a variety of methods including trademark and trade secret laws, as well as confidentiality agreements and proprietary information agreements with vendors, team members, consultants and others who have access to our proprietary information.

We must constantly protect against any infringement by competitors. If a competitor infringes on our trademark rights, we may have to litigate to protect our rights, in which case, we may incur significant expenses and divert significant attention from our business operations.

Government Regulation

We are subject to labor and employment laws, laws governing advertising, privacy laws, safety regulations and other laws, including consumer protection regulations that regulate retailers and/or govern the promotion and sale of merchandise and the operation of stores and warehouse facilities. We monitor changes in these laws and believe that we are in material compliance with applicable laws.

Insurance

We use a combination of insurance and self-insurance for a number of risk management activities including workers' compensation, general liability, automobile liability and employee-related health care benefits. We believe that we have adequately reserved for our self-insurance liability related to medical coverage of our team members. We evaluate our insurance requirements on an ongoing basis to ensure we maintain adequate levels of coverage.

Employees

As of January 29, 2012, we employed 473 full-time and 2,179 part-time employees, of whom 2,517 were employed in our retail channel and 135 were employed in corporate, distribution and direct channel support functions. None of our employees are represented by a labor union. We consider our relationship with our employees to be very good.

Properties

We do not own any real property. Our store support center is located in Atlanta, Georgia and is leased under a lease agreement expiring in 2024. The approximately 30,000 square foot space includes a simulated store that provides a forum for training and planning visual and marketing concepts prior to their execution in our stores.

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Our approximately 123,000 square foot distribution center is located in Stratford, Connecticut. Our distribution center is leased under a lease agreement expiring in 2016 and 2020 (as to different portions of the facility).

As of January 29, 2012, we operated 200 company-owned stores in 39 states, including one store in Canada. All of our stores are leased from third parties, and the leases typically have ten-year terms. Some of our leases have early cancellation clauses, which permit the lease to be terminated by us or the landlord if certain sales levels are not met in specific periods or if a shopping center does not meet specified occupancy standards. In addition to future minimum lease payments, some of our store leases provide for additional rental payments based on a percentage of net sales if sales at the respective stores exceed specified levels, as well as the payment of common area maintenance charges, real property insurance and real estate taxes. Many of our lease agreements have defined escalating rent provisions over the initial term and any extensions.

Seasonality

Our business is seasonal and, historically, we have realized a higher portion of our net sales, net income and operating cash flows in the fourth fiscal quarter, due to the impact of the holiday selling season.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports and the Proxy Statement are made available, free of charge, on our corporate web site, www.teavana.com, as soon as reasonably practicable after such reports have been filed with or furnished to the SEC. We intend to use our website as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Such disclosures will be included on our website in the Investor Relations sections. Accordingly, investors should monitor such portions of our website, in addition to following our press releases, SEC filings and public conference calls and webcasts.

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Our Code of Business Conduct and Ethics (the Code) and Board of Directors Committee Charters (for each of our Audit, Compensation and Corporate Governance and Nominating Committees) are also available on our website. The Committee Charters and the Code can be found at www.teavana.com, under the Investor Relations, Corporate Governance tab. Any amendments and waivers to the Code will also be available on our website.

All of these documents are available in print to any stockholder who requests them via our website or by writing to Teavana Holdings, Inc., c/o General Counsel, 3630 Peachtree Rd NE, Suite 1480, Atlanta, Georgia 30326.

The public may also read and copy any materials that we have filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. In addition, these materials may be obtained at the web site maintained by the SEC at www.sec.gov. The public may obtain information on the operation of the SEC's Public Reference room by calling the SEC at 1-800-SEC-0330.

The content of our web site (www.teavana.com) is not intended to be incorporated by reference in this Annual Report on Form 10-K.

Item 1A. Risk Factors.

We may not be able to implement successfully our growth strategy on a timely basis or at all, which could harm our results of operations.

Our continued growth depends, in large part, on our ability to open new stores and to operate those stores successfully. We believe there is a significant opportunity to expand our store base in the United States and Canada from 200 locations as of January 29, 2012 to at least 500 stores by the end of fiscal 2015. We plan to open approximately 60 stores in fiscal 2012.

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

the identification and availability of suitable sites for store locations, primarily in high-traffic shopping malls;

the negotiation of acceptable lease terms;

the maintenance of adequate distribution capacity, information technology systems and other operational system capabilities;

the hiring, training and retention of store management and other qualified personnel;

the effective management of inventory to meet the needs of our stores on a timely basis; and

the availability of sufficient levels of cash flow and financing to support our expansion.

In addition, on a selective basis, we will continue to seek franchisees to operate stores under the Teavana brand in international markets. However, if we are unable to identify suitable franchisees, or if our franchisees fail to operate their stores successfully or consistent with our brand image, our international franchising strategy may not enhance our results of operations. New stores contemplated under our existing international development agreement or any future such agreements may not open on the anticipated development schedule or at all.

Accordingly, we cannot assure you that we will achieve our planned growth or, even if we are able to grow our store base as planned, that any new stores will perform as planned. If we fail to successfully implement our growth strategy, we will not be able to sustain the rapid growth in sales and profits growth that we expect, which would likely have an adverse impact on the price of our common stock.

The planned addition of a significant number of new stores each year will require us to expand and improve our operations and could strain our operational, managerial and administrative resources, which may adversely affect our business.

Our growth strategy calls for the opening of a significant number of new stores each year. Our planned expansion will place increased demands on our operational, managerial, administrative and other resources, which may be inadequate to support our expansion. Our senior management team has limited experience opening the number of new stores annually that we contemplate opening in fiscal 2012 and beyond, and may be unable to effectively address challenges involved with such expansion. Managing our growth effectively will require us to continue to enhance our store management systems, financial and management controls and information technology systems and to hire, train and retain regional directors, area managers, store general managers and other personnel. Our planned near-term store growth will also require expansion of and improvement to our current distribution center. Implementing new systems, controls and procedures and these additions to our infrastructure and any changes to our existing operational, managerial, administrative and other resources could negatively impact our results of operations and financial condition.

As we expand our store base we may not experience the same sales per square foot, increases in comparable store sales or profitability that we have experienced in the past.

As we continue to expand our store base, it may become more difficult to identify additional suitable sites for new stores, and we will target an increasing number of shopping malls with lower average sales per square foot than the malls in which we are currently located. The sales per square foot and net sales from such new locations will likely be lower than our existing stores. While our average sales-per-comparable-store is currently \$913,000 for fiscal 2011, our new store model projects average first year sales per store of \$600,000 to \$700,000. Additionally, new stores generally have lower gross margins and higher operating expenses, as a percentage of sales, than our more mature stores. New stores may not achieve sustained sales and operating levels consistent with our mature store base on a timely basis or at all. There may be a negative impact on our results from a lower level of gross margin contribution by our new stores, along with the impact of related pre-opening costs. Any failure to open and operate successfully new stores in the time frames and at the sales, cost and gross margin levels estimated by us could result in a decline in our operating results and therefore have an adverse impact on the price of our common stock.

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Further, given that we (1) forecast the number of stores that we open each year to become a smaller percentage of our existing store base, (2) first-year sales for new stores to be lower than we have historically experienced, and (3) comparable store sales to grow at less than historical rates, we anticipate that our future sales growth will be at less than historical levels. If our future comparable store sales or average sales per square foot decline or fail to meet market expectations, the price of our common stock could decline. A variety of factors affect comparable store sales and average sales per square foot, including current national and regional economic conditions, pricing, inflation and weather conditions. Many retailers have been unable to sustain high levels of comparable store sales growth during and after periods of substantial expansion.

Any decrease in customer traffic in the shopping malls or other locations in which our stores are located could cause our sales to be less than expected.

Our stores are located primarily in enclosed shopping malls and other shopping centers. Net sales at these stores are derived, to a significant degree, from the volume of traffic in those shopping malls and centers and in the surrounding area. Our stores benefit from the current popularity of shopping malls and centers as shopping destinations and their ability to generate consumer traffic in the vicinity of our stores. Our sales volume and traffic may be adversely affected by, among other things:

economic downturns nationally or regionally;

high fuel prices;

changes in consumer demographics;

a decrease in popularity of shopping malls or of higher-end retail concepts in the shopping malls and centers in which our stores are located;

the closing of a shopping mall's anchor stores or other key tenants; or

deterioration in the financial condition of shopping mall and center operators or developers which could, for example, limit their ability to maintain and improve their facilities.

A reduction in consumer traffic as a result of these or any other factors could have a material adverse effect on us.

In addition, severe weather conditions and other catastrophic occurrences in areas in which we have stores may have a material adverse effect on our results of operations. Such conditions may result in physical damage to our stores, loss of inventory, closure of one or more of our stores or an insufficient labor pool in our markets. Any of these factors may disrupt our business and have a material adverse effect on our financial condition and results of operations.

Our success depends substantially upon the continued retention of our senior management and other key personnel.

Our future success is substantially dependent on the continued service of certain members of our senior management, including Andrew Mack, our founder and Chief Executive Officer, Daniel Glennon, our Executive Vice President and Chief Financial Officer, and Peter Luckhurst, our Executive Vice President of Operations. These executives and other key personnel have been primarily responsible for determining the strategic direction of our business and for executing our growth strategy and are integral to our brand and culture and the positive business reputation we enjoy with our customers and vendors. The loss of the services of any of these executives or other key personnel could have a material adverse effect on our business and prospects, as we may not be able to find suitable individuals to replace them on a timely basis, if at all. In addition, any such departure could be viewed in a negative light by investors and analysts, which could cause the price of our common stock to decline. Additionally, if we are unable to continue to attract or retain highly qualified personnel, the development, growth and future success of our business could be adversely affected.

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If we are unable to attract, assimilate and retain team members that embody our culture, including store personnel and store and area managers and regional directors, we may not be able to grow or successfully operate our business.

Our success depends in part upon our ability to attract, train, assimilate and retain a sufficient number of team members, including store personnel, store managers, area managers and regional directors, who understand and appreciate our culture and are able to represent our brand effectively and establish credibility with our customers. We have historically promoted substantially all of our store managers, area managers and regional directors from our pool of existing team members and expect to continue to rely heavily upon such talent pool to support our growth plans. If we are unable to hire and retain store personnel capable of consistently providing a high level of customer service, as demonstrated by their enthusiasm for our culture, understanding of our customers and knowledge of the loose-leaf tea and tea-related merchandise we offer, our ability to open new stores may be impaired, the performance of our existing and new stores could be materially adversely affected and our brand image may be negatively impacted. Any failure to meet our staffing needs or any material increases in team member turnover rates could have a material adverse effect on our business or results of operations.

We have only one distribution center, and if we encounter difficulties associated with such facility or if it were forced to shut down for any reason, we could face shortages of inventory that would have a material adverse effect on our business operations.

Our only distribution center is located in Stratford, Connecticut. This single distribution center currently supports our entire business. Substantially all of our teas and tea-related merchandise are shipped to the distribution center from our vendors, and then shipped from our distribution center to our stores and e-commerce customers. Our success depends on the timely and frequent receipt of merchandise by our stores, often multiple times per week. The efficient flow of such merchandise requires that we have adequate capacity in our distribution center to support our current level of operations and the anticipated increased levels that may follow from our growth plans. If the operation of our distribution center were to be disrupted or if it were to shut down for any reason or its contents were to be destroyed or damaged, due to fire, severe weather or other natural disaster, we could face shortages of inventory, resulting in out-of-stock conditions in our stores, and would incur additional cost to replace any destroyed or damaged product. Such an event may negatively impact our sales and may cause us to incur significantly higher costs and longer lead times associated with delivering products to our stores and e-commerce customers. This could have a material adverse effect on our business and harm our reputation.

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Any failure to expand our distribution center's capacity on a timely basis would have an adverse effect on our growth strategy and results of operations.

We have identified the need to expand our current distribution center and/or open a second distribution center in order to support our growth. If we are unable to successfully implement our planned near-term and long-term expansion of our distribution capability, the efficient flow of our merchandise could be disrupted, which could materially hurt our business. Our long-term need for increased distribution capacity may require us to obtain additional financing. Appropriate locations or financing for the construction or lease of such additional real estate may not be available at reasonable costs or at all. Our failure to secure additional distribution capacity when necessary could impede our growth plans, as a result of which our financial condition and operating results could be adversely affected.

Because our business is highly concentrated on a single, discretionary product category, premium loose-leaf teas and tea-related merchandise, we are vulnerable to changes in consumer preferences and in economic conditions affecting disposable income that could harm our financial results.

Our business is not diversified and consists primarily of developing, sourcing, marketing and selling premium loose-leaf teas and tea-related merchandise. Consumer preferences often change rapidly and without warning, moving from one trend to another among many retail concepts. Therefore, our business is substantially dependent on our ability to educate consumers on the many positive attributes of tea, anticipate shifts in consumer tastes and help drive growth of the overall tea market. Any future shifts in consumer preferences away from the consumption of beverages brewed from premium loose-leaf teas would also have a material adverse effect on our results of operations.

Consumer purchases of specialty retail products, including our products, are historically affected by economic conditions such as changes in employment, salary and wage levels, the availability of consumer credit, inflation, interest rates, tax rates, fuel prices and the level of consumer confidence in prevailing and future economic conditions. These discretionary consumer purchases may decline during recessionary periods or at other times when disposable income is lower. In addition, increases in utility, fuel, commodity price and corporate income tax levels could affect our cost of doing business, including transportation costs of our third-party service providers, causing our suppliers and such service providers to seek to recover these increases through increased prices charged to us. Our financial performance may become susceptible to economic and other conditions in regions or states where we have a significant number of stores. Our continued success will depend, in part, on our ability to anticipate, identify and respond quickly to changing consumer preferences and economic conditions.

Our success depends, in part, on our ability to source, develop and market new varieties of loose-leaf teas and tea-related merchandise that meet our high standards and customer preferences.

We currently offer more than 100 varieties of loose-leaf teas and a wide assortment of tea-related merchandise. Our success depends in part on our ability to continually innovate, develop, source and market new varieties of loose-leaf teas and tea-related merchandise that both meet our standards for quality and appeal to customers' preferences. Failure to innovate, develop, source, market and price new varieties of tea and tea-related merchandise that consumers want to buy could lead to a decrease in our sales and profitability.

We may experience negative effects to our brand and reputation from real or perceived quality or health issues with our teas and tea-related merchandise, which could have an adverse effect on our operating results.

We believe our customers rely on us to provide them with premium loose-leaf teas and high-quality tea-related merchandise. Concerns regarding the safety of our teas and tea-related merchandise or the safety and quality of our supply chain could cause shoppers to avoid purchasing certain products from us or to seek alternative sources of tea, even if the basis for the concern has been addressed or is outside of our control. Adverse publicity about these concerns, whether or not ultimately based on fact, and whether or not involving teas or tea-related merchandise sold at our stores, could discourage consumers from buying our teas and tea-related merchandise and have an adverse effect on our brand, reputation and operating results.

Furthermore, the sale of tea entails a risk of product liability claims and the resulting negative publicity. Tea supplied to us may contain contaminants that, if not detected by us, could result in illness or death upon their consumption. We cannot assure you that product liability claims will not be asserted against us or that we will not be obligated to perform product recalls in the future.

We may also be subject to involuntary product recalls or may voluntarily conduct a product recall, such as the 2011 voluntary recall of our organic peppermint loose-leaf tea following notification by one of our suppliers of possible contamination of its product by *Salmonella*. The costs associated with any future product recall could, individually and in the aggregate, be significant in any given fiscal year. In addition, any product recall, regardless of direct costs of the recall, may harm consumer perceptions of our teas and tea-related merchandise and have a negative impact on our future sales and results of operations.

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Any loss of confidence on the part of our customers in the safety and quality of our teas and tea-related merchandise would be difficult and costly to overcome. Any such adverse effect could be exacerbated by our position in the market as a purveyor of premium loose-leaf teas and high-quality tea-related merchandise and could significantly reduce our brand value. Issues regarding the safety of any teas or tea-related merchandise sold by us, regardless of the cause, could have a substantial and adverse effect on our sales and operating results.

A shortage in the supply, a decrease in quality or an increase in the price of teas and tea-related merchandise as a result of weather conditions, earthquakes, crop disease, pests or other natural or manmade causes outside of our control could impose significant costs and losses on our business.

The supply and price of tea is subject to fluctuation, depending on demand and other factors outside of our control. The supply, quality and price of our teas and tea-related merchandise can be affected by multiple factors in tea-producing countries, including political and economic

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conditions, civil and labor unrest, adverse weather conditions, including floods, drought and temperature extremes, earthquakes, tsunamis, and other natural disasters and related occurrences. This risk is particularly true with respect to regions or countries from which we source a significant percentage of our products. In extreme cases, entire tea harvests may be lost or production of tea-related merchandise may be negatively impacted in some geographic areas. These factors can increase costs and decrease sales, which may have a material adverse effect on our business, results of operations and financial condition.

Tea may be vulnerable to crop disease and pests, which may vary in severity and effect. The costs to control disease and pest damage vary depending on the severity of the damage and the extent of the plantings affected. Moreover, there can be no assurance that available technologies to control such conditions will continue to be effective. These conditions can increase costs and decrease sales, which may have a material adverse effect on our business, results of operations and financial condition.

Because we rely on a limited number of third-party suppliers and manufacturers to produce the majority of our teas and tea-related merchandise, we may not be able to obtain quality products on a timely basis or in sufficient quantities.

We rely on a limited number of vendors to supply us with single-estate and specially blended teas and tea-related merchandise on a continuous basis. Our financial performance depends in large part on our ability to purchase tea in sufficient quantities at competitive prices from these vendors. We do not have long-term purchase contracts or other contractual assurances of continued supply, pricing or exclusive access to products from these vendors.

Any of our suppliers or manufacturers could discontinue supplying us with loose-leaf tea or tea-related merchandise in sufficient quantities for a variety of reasons. The benefits we currently experience from our supplier and manufacturer relationships could be adversely affected if they:

raise the prices they charge us;

discontinue selling products to us;

sell similar or identical products to our competitors; or

enter into arrangements with competitors that could impair our ability to sell our suppliers' products, including by giving our competitors exclusive licensing arrangements or exclusive access to tea blends and other products or limiting our access to such arrangements or blends or other products.

During fiscal 2011, our two largest vendors represented approximately 24% and 16%, respectively, of our total inventory purchases. Any disruption to either of these relationships would have a material adverse effect on our business.

Events that adversely affect our vendors could impair our ability to obtain inventory in the quantities that we desire. Such events include difficulties or problems with our vendors' businesses, finances, labor relations, ability to import raw materials, costs, production, insurance and reputation, as well as natural disasters or other catastrophic occurrences.

If we experience significant increased demand for our teas and tea-related merchandise, or need to replace an existing vendor, there can be no assurance that additional supplies or additional manufacturing capacity will be available when required on terms that are acceptable to us, or at all, or that any vendor would allocate sufficient capacity to us in order to meet our requirements, fill our orders in a timely manner or meet our strict quality requirements. Even if our existing vendors are able to expand their capacity to meet our needs or we are able to find new sources of supply, we may encounter delays in production, inconsistencies in quality and added costs as a result of the time it takes to train our suppliers and manufacturers in our methods, products and quality control standards. Any delays, interruption or increased costs in the supply of loose-leaf teas or the manufacture of our tea-related merchandise could have an adverse effect on our ability to meet customer demand for our products and result in lower net sales and profitability both in the short and long term.

We may face increased competition from other tea and beverage retailers, which could adversely affect us and our growth plans.

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As we continue to drive growth in the loose-leaf tea category in the United States and Canada, our success, combined with relatively low barriers to entry, may encourage new competitors to enter the market. The financial, marketing and operating resources of some of these new market entrants may be greater than our own. We must spend significant resources to differentiate our customer experience, which is defined by a wide selection of premium loose-leaf teas, high quality tea-related merchandise and superior customer service from experienced and knowledgeable teaologists who are passionate about tea. Despite these efforts, our competitors may still be successful in attracting our customers.

We rely significantly on information technology systems and any failure, inadequacy, interruption or security failure of those systems could harm our ability to operate our business effectively.

We rely on our information technology systems to effectively manage our business data, communications, point-of-sale, supply chain, order entry and fulfillment, inventory and warehouse management and other business processes. The failure of our systems to perform as we anticipate could disrupt our business and result in transaction errors, processing inefficiencies and the loss of sales, causing our business to suffer. In addition, our information technology systems may be vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, systems failures, viruses and cyber security breaches, including breaches of our transaction processing or other systems that could result in the compromise of confidential customer data. Any such damage or interruption could have a material adverse effect on our business, cause us to face significant fines, customer notice obligations or costly litigation, harm our reputation with our customers, require us to expend significant time and expense developing, maintaining or upgrading our information technology systems or prevent us from paying our vendors or team members, receiving payments from our customers or performing other information technology, administrative or outsourcing services on a timely basis. Recently, data security breaches suffered by well-known companies and institutions have attracted a substantial

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amount of media attention, prompting new federal and state laws and legislative proposals addressing data privacy and security, as well as increased data protection obligations imposed on merchants by credit card issuers. As a result, we may become subject to more extensive requirements to protect the customer information that we process in connection with the purchase of our products.

In addition, we sell merchandise over the Internet through our website, www.teavana.com. Our website operations may be affected by our reliance on third-party hardware and software providers, technology changes, risks related to the failure of computer systems through which we conduct our website operations, telecommunications failures, electronic break-ins and similar disruptions. Furthermore, our ability to conduct our website operations may be affected by liability for on-line content and state and federal privacy laws.

Fluctuations in our results of operations for the fourth fiscal quarter would have a disproportionate effect on our overall financial condition and results of operations.

Our business is seasonal, and historically, we have realized a higher portion of our net sales, net income and operating cash flows in the fourth fiscal quarter, due to the impact of the holiday selling season and colder weather. Any factors that harm our fourth fiscal quarter operating results, including disruptions in our supply chain, adverse weather or unfavorable economic conditions, could have a disproportionate effect on our results of operations for the entire fiscal year.

In order to prepare for our peak shopping season, we must order and maintain higher quantities of inventory than we would carry at other times of the year. As a result, our working capital requirements also fluctuate during the year, increasing in the second and third fiscal quarters in anticipation of the fourth fiscal quarter. Any unanticipated decline in demand for our loose-leaf teas and tea-related merchandise during our peak shopping season could require us to sell excess inventory at a substantial markdown, which could diminish our brand and reduce our net sales and gross profit.

Our quarterly results of operations may also fluctuate significantly as a result of a variety of other factors, including the timing of new store openings and the sales contributed by new stores. As a result, historical period-to-period comparisons of our sales and operating results are not necessarily indicative of future period-to-period results. You should not rely on the results of a single fiscal quarter, particularly the fourth fiscal quarter holiday season, as an indication of our annual results or our future performance.

Third-party failure to deliver merchandise from our distribution center to our stores and e-commerce customers could result in lost sales or reduced demand for our teas and tea-related merchandise.

We currently rely upon a national third-party transportation provider for substantially all of our product shipments from our distribution center to our stores and e-commerce customers. Our utilization of its delivery services for shipments, or those of any other shipping companies we may elect to use, is subject to risks, including increases in fuel prices, which would increase our shipping costs, and employee strikes and inclement weather, which may impact the provider's ability to provide delivery services that adequately meet our shipping needs. If we change shipping companies, we could face logistical difficulties that could adversely affect deliveries, and we would incur costs and expend resources in connection with such change. Moreover, we may not be able to obtain terms as favorable as those we receive from the national third-party transportation provider that we currently use, which in turn would increase our costs and thereby adversely affect our operating results.

Our ability to source our teas and tea-related merchandise profitably or at all could be hurt if new trade restrictions are imposed or existing trade restrictions become more burdensome.

All of our loose-leaf teas are currently grown, and a substantial majority of our tea-related merchandise is currently manufactured, outside of the United States. The United States and the countries in which our products are produced or sold internationally have imposed and may impose additional quotas, duties, tariffs, or other restrictions or regulations, or may adversely adjust prevailing quota, duty or tariff levels. Countries impose, modify and remove tariffs and other trade restrictions in response to a diverse array of factors, including global and national economic and political conditions, which make it impossible for us to predict future developments regarding tariffs and other trade restrictions. Trade restrictions, including tariffs, quotas, embargoes, safeguards and customs restrictions, could increase the cost or reduce the supply of teas and tea-related merchandise available to us or may require us to modify our supply chain organization or other current business practices, any of which could harm our business, financial condition and results of operations.

Fluctuations in foreign currency exchange rates may affect our price negotiations with our third-party suppliers and manufacturers.

Substantially all of our suppliers and manufacturers are located outside of the United States, and changes in the exchange rates between the US dollar and the Euro, Japanese yen and Chinese Renminbi may have a significant, and potentially adverse, effect on our price negotiations with such parties. If the US dollar weakens against any such currencies, our suppliers and manufacturers may attempt to renegotiate the terms of their

arrangements with us, which may have a negative effect on our operating results.

Our international expansion and operations in foreign markets expose us to risks associated with international sales and operations.

We intend to continue to expand internationally and operate in select foreign markets. Managing a global organization is difficult, time consuming and expensive. Our inexperience in operating our business globally increases the risk that any future international expansion efforts that we may undertake will not be successful. In addition, conducting international operations subjects us to risks such as the lack of familiarity with and unexpected changes in foreign regulatory requirements; difficulties in managing and staffing international operations; fluctuations in currency exchange rates; potentially adverse tax consequences, including foreign value added tax systems, and restrictions on repatriation of earnings; the burdens of complying with a wide variety of foreign laws and legal standards; increased financial accounting and reporting burdens and complexities; and political, social and economic instability abroad. Operating in international markets also requires significant management attention and financial resources. The investment and additional resources required to establish operations and manage growth in other countries may not produce desired levels of revenue or profitability.

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We may not be able to protect our intellectual property adequately, which could harm the value of our brand and adversely affect our business.

We believe that our intellectual property has substantial value and has contributed significantly to the success of our business. In particular, our trademarks, including our registered Teavana and Teavana logo design trademarks and the names of most of the varieties of specially blended teas that we sell, are valuable assets that reinforce the distinctiveness of our brand and our customers' favorable perception of our stores.

From time to time, third parties have used names similar to ours, have applied to register trademarks similar to ours and, we believe, have infringed or misappropriated our intellectual property rights. Third parties have also, from time to time, opposed our trademarks and challenged our intellectual property rights. We respond to these actions on a case-by-case basis, including where appropriate by commencing litigation.

We cannot assure you that the steps we have taken to protect our intellectual property rights are adequate, that our intellectual property rights can be successfully defended and asserted in the future or that third parties will not infringe upon or misappropriate any such rights. Our trademark rights and related registrations may continue to be challenged in the future and could be canceled or narrowed. Our failure to protect our trademarks could prevent us in the future from challenging third parties who use names and logos similar to our trademarks, which may in turn cause customer confusion, negatively affect customers' perception of our brand, stores and products, and adversely affect our sales and profitability. Moreover, intellectual property proceedings and infringement claims could result in a significant distraction for management and have a negative impact on our business.

In addition, although we have also taken steps to protect our intellectual property rights internationally, the laws of certain foreign countries may not protect intellectual property to the same extent as do the laws of the United States. Other entities may have rights to trademarks that contain portions of our marks or may have registered similar or competing marks in foreign countries. There may also be other prior registrations in other foreign countries of which we are not aware. We may need to expend additional resources to defend our trademarks in these countries, and the inability to defend such trademarks could impair our brand or significantly adversely affect the growth of our business internationally.

We are subject to the risks associated with leasing substantial amounts of space and are required to make substantial lease payments under our operating leases. Any failure to make these lease payments when due would likely harm our business, profitability and results of operations.

We do not own any real estate. Instead, we lease all of our company-owned store locations, our store support center in Atlanta, Georgia and our distribution center in Stratford, Connecticut. Our store leases typically have ten-year terms and generally require us to pay relatively high total rent per square foot that is reflective of our small average store square footage and premium locations within the mall or center. Many of our lease agreements have defined escalating rent provisions over the initial term and any extensions. As our stores mature and as we expand our store base, our lease expense and our cash outlays for rent under our lease agreements will increase. Our substantial operating lease obligations could have significant negative consequences, including:

requiring that an increased portion of our cash from operations and available cash be applied to pay our lease obligations, thus reducing liquidity available for other purposes;

increasing our vulnerability to adverse general economic and industry conditions;

limiting our flexibility to plan for or react to changes in our business or in the industry in which we compete; and

limiting our ability to obtain additional financing.

We depend on cash flow from operations to pay our lease expenses, finance our growth capital requirements and fulfill our other cash needs. If our business does not generate sufficient cash flow from operating activities to fund these requirements, we may not be able to achieve our growth plans, fund our other liquidity and capital needs or ultimately service our lease expenses, which would harm our business.

If an existing or future store is not profitable, and we decide to close it, we may nonetheless remain committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. Moreover, even if a lease has an early

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cancellation clause, we may not satisfy the contractual requirements for early cancellation under that lease. In addition, as our leases expire, we may fail to negotiate renewals on commercially acceptable terms or at all, which could cause us to close stores in desirable locations. Even if we are able to renew existing leases, the terms of such renewal may not be as attractive as the expiring lease, which would materially and adversely affect our results of operations. Of our 200 company-owned stores as of January 29, 2012, two leases expire in fiscal 2012. Our inability to enter into new leases or renew existing leases on terms acceptable to us or be released from our obligations under leases for stores that we close could materially adversely affect us.

Our franchisees may take actions that could harm our business or brand, and franchise regulations and contracts limit our ability to terminate or replace under-performing franchises.

As of January 29, 2012 we had two franchised stores in the United States and 16 franchised stores in Mexico. We also have an international development agreement with the Alshaya Group to open stores in the Middle East that we entered into on September 2, 2011. Franchisees are independent business operators and are not our employees or agents, and we do not exercise control over the day-to-day operations of their retail stores. We provide training and support to franchisees and set and monitor operational standards, but the quality of franchise store operations may fluctuate or decline due to various factors beyond our control. For example, franchisees may not operate stores in a manner consistent with our standards and requirements, or may not hire and train qualified employees, which could harm their sales and, as a result, harm our results of operations or our brand image.

Franchisees, as independent business operators, may from time to time disagree with us and our strategies regarding the business or our interpretation of our respective rights and obligations under applicable franchise agreements. This may lead to disputes with our franchisees from time to time, regarding the collection of royalty payments or other matters related to the franchisee's operation of the franchise store. Such disputes could divert the attention of our management from our operations, which could cause our business, financial condition, results of operations or cash flows to suffer.

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In addition, as a franchisor, we are subject to US federal, US state and foreign laws regulating the offer and sale of franchises. These laws impose registration and extensive disclosure requirements on the offer and sale of franchises, frequently apply substantive standards to the relationship between franchisor and franchisee and limit the ability of a franchisor to terminate or refuse to renew a franchise. We may therefore be required to retain an underperforming franchise and may be unable to replace the franchisee, which could harm our results of operations or our brand image. We cannot predict the nature and effect of any future legislation or regulation or any changes to existing legislation or regulation on our franchise operations.

The terms of our revolving credit facility may restrict our current and future operations, which could adversely affect our ability to respond to changes in our business and to manage our operations.

Our revolving credit facility contains, and any additional debt financing we may incur would likely contain, covenants requiring us to maintain or adhere to certain financial ratios or limits and covenants that restrict our operations, including limitations on our ability to grant liens, incur additional debt, pay dividends, redeem our common stock, make certain investments and engage in certain merger, consolidation or asset sale transactions. Complying with these covenants could adversely affect our ability to respond to changes in our business and manage our operations. A failure by us to comply with the financial ratios and restrictive covenants contained in our revolving credit facility and any future debt instruments could result in an event of default. Upon the occurrence of an event of default, the lenders could elect to declare all amounts outstanding to be due and payable and exercise other remedies as set forth in our revolving credit facility and any future debt instruments. If the indebtedness under our revolving credit facility and any future debt instruments were to be accelerated, our future financial condition could be materially adversely affected.

Risks Related to Ownership of Our Common Stock

Our stock price may continue to be volatile or may decline regardless of our operating performance or other factors.

Shares of our common stock were sold in our Offering commencing on July 28, 2011 at a price of \$17.00 per share, and our common stock has subsequently traded as high as \$29.35 and as low as \$14.28 during the period from our initial public offering to January 29, 2012. There have also been significant intra-day price swings, and there can be no assurance that the market price of our common stock will not continue to be volatile. The market price of our common stock may fluctuate substantially in response to a number of factors, many of which we cannot control. These factors include:

market conditions or trends in our industry or the economy as a whole and, in particular, in the specialty retail sales environment;

the timing, performance and successful integration of any new stores that we open;

seasonal fluctuations;

changes in key personnel;

our levels of comparable store sales;

actions by competitors or other shopping mall tenants;

the public's response to press releases or other public announcements by us or third parties, including our filings with the SEC;

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any future guidance we may provide to the public, any changes in such guidance or any difference between our guidance and actual results; and

future sales of our common stock by our officers, directors or significant stockholders.

In addition, the stock markets, including the NYSE, have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many retail companies. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were involved in securities litigation, we could incur substantial costs and our resources, and the attention of management could be diverted from our business.

Future sales of our common stock, or the perception in the public markets that these sales may occur, may depress our stock price.

The market price of our common stock could decline significantly as a result of sales of a large number of shares of our common stock in the market. The sales, or the perception that these sales might occur, could depress the market price. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

As of January 29, 2012, we had 38,281,836 shares of common stock outstanding, which are freely tradable without restriction under the Securities Act of 1933, as amended, except for any shares of common stock held or acquired by our directors, executive officers and other affiliates, the sale of which are restricted under the Securities Act. In addition, shares subject to outstanding options under our 2004 Management Incentive Plan and our 2011 Equity Incentive Plan and shares reserved for future issuance under our 2011 Equity Incentive Plan will become eligible for sale in the public market in the future, subject to certain legal and contractual limitations. If our existing stockholders sell substantial amounts of our common stock in the public market, or if the public perceives that such sales could occur, this could have an adverse impact on the market price of our common stock, even if there is no relationship between such sales and the performance of our business.

Also, in the future, we may issue shares of our common stock in connection with investments or acquisitions. The amount of shares of our common stock issued in connection with an investment or acquisition could constitute a material portion of our then outstanding shares of our common stock.

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Approximately 56.2% of our voting power is controlled by one principal stockholder whose interests may conflict with those of our other stockholders.

As of January 29, 2012, Andrew Mack, our founder and Chief Executive Officer, holds approximately 56.2% of our voting power. So long as Mr. Mack continues to hold, directly or indirectly, shares of common stock representing more than 50% of the voting power of our common stock, he will be able to exercise control over all matters requiring stockholder approval, including the election of directors, amendment of our amended and restated certificate of incorporation and approval of significant corporate transactions and will have significant control over our management and policies. Mr. Mack's control may have the effect of delaying or preventing a change in control of our company or discouraging others from making tender offers for our shares, which could prevent stockholders from receiving a premium for their shares. These actions may be taken even if other stockholders oppose them. The interests of Mr. Mack may not be consistent with your interests as a stockholder.

In addition, a fund advised by Parallel holds approximately 18.1% of our voting power, and has significant influence over our management and policies by virtue of Parallel's managing partner's, Barron Fletcher's, position on our Board of Directors.

Failure to establish and maintain adequate internal controls in accordance with the Sarbanes-Oxley Act of 2002 and other regulations could have a material adverse effect on our business and stock price.

As a public company, we are required to establish and maintain an adequate internal control structure and procedures for financial reporting and to assess the effectiveness of our internal control procedures in order to satisfy the requirements of the Sarbanes-Oxley Act of 2002 (SOX). In addition, for the first time, in fiscal 2012, our independent registered public accounting firm will be required to issue a report that addresses the effectiveness of our internal controls over financial reporting. During the course of assessing our internal controls, we or our independent registered public accounting firm may identify deficiencies that we may not be able to remediate in time to meet our deadline for compliance with SOX. Establishing, maintaining and assessing the effectiveness of our internal controls can divert our management's attention from other matters that are important to the operation of our business. We also expect regulations to continue to increase our legal and financial compliance costs, to make it more difficult to attract and retain qualified officers and members of our Board of Directors, particularly to serve on our audit committee, and to make some activities more difficult, time consuming and costly. We may not be able to conclude on an ongoing basis that we have effective internal controls over financial reporting, or our independent registered public accounting firm may not be able or willing to issue an unqualified report on the effectiveness of our internal controls over financial reporting. If we or our independent registered public accounting firm conclude that our internal controls over financial reporting are not effective, we cannot be certain as to the timing of remediation actions or their effect on our operations because there is presently no precedent available by which to measure compliance adequacy.

If we are unable to conclude that we have effective internal controls over financial reporting, our independent auditors may be unable to provide us with an unqualified report on the effectiveness of our internal controls over financial reporting or we may be required to restate our financial statements or fail to meet our public reporting obligations. As a result, investors could lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock.

In addition, we are subject to compliance with the Payment Card Industry Data Security Standard (PCI DSS) as well as rules for publically traded companies set forth by the New York Stock Exchange. Failure to comply with these regulations could have a material adverse impact on our financial condition or the price of our common stock.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if our operating results do not meet the expectations of the investor community, or one or more of the analysts who cover our company downgrades our stock, our stock price could decline.

We do not expect to pay any cash dividends for the foreseeable future.

For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and we do not anticipate paying any cash dividends on our common stock. Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will depend upon results of operations, financial condition, contractual restrictions, including under our revolving credit facility and other indebtedness we may incur, restrictions imposed by applicable law and other factors our Board of Directors deems relevant. Accordingly, if you purchase shares, realization of a gain on your investment will depend on the appreciation of the price of our common stock,

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which may never occur. Investors seeking cash dividends in the foreseeable future should not purchase our common stock.

Certain provisions of our corporate governing documents and Delaware law could discourage, delay or prevent a merger or acquisition at a premium price.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may make the acquisition of our company more difficult without the approval of our Board of Directors. These include provisions that:

authorize the issuance of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include super voting, special approval, dividend, or other rights or preferences superior to the rights of the holders of common stock;

classify our Board of Directors into three separate classes with staggered terms;

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prohibit stockholders from acting by written consent after Mr. Mack ceases to own more than 50% of the total voting power of our shares, which will then require all stockholder actions to be taken at a meeting of our stockholders after such time;

provide that the Board of Directors is expressly authorized to make, alter, or repeal our amended and restated bylaws; and

establish advance notice requirements for nominations for elections to our Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

In addition, we are governed by Section 203 of the Delaware General Corporation Law, which, subject to some specified exceptions, prohibits business combinations between a Delaware corporation and an interested stockholder, which is generally defined as a stockholder who becomes a beneficial owner of 15% or more of a Delaware corporation's voting stock, for a three-year period following the date that the stockholder became an interested stockholder. Section 203 could have the effect of delaying, deferring or preventing a change in control that our stockholders might consider to be in their best interests.

These and other provisions of the Delaware General Corporation Law and our amended and restated certificate of incorporation and amended and restated bylaws could delay, defer or prevent us from experiencing a change of control or changes in our Board of Directors and management and may adversely affect our stockholders' voting and other rights. Any delay or prevention of a change of control transaction or changes in our Board of Directors and management could deter potential acquirers or prevent the completion of a transaction in which our stockholders could receive a substantial premium over the then current market price for their shares of our common stock.

Item 1B. *Unresolved Staff Comments.*

None.

Item 2. *Properties.*

We do not own any real property. Our store support center is located in Atlanta, Georgia and is leased under a lease agreement expiring in 2024. The approximately 30,000 square foot space includes a simulated store that provides a forum for training and planning visual and marketing concepts prior to their execution in our stores.

Our approximately 123,000 square foot distribution center is located in Stratford, Connecticut. Our distribution center is leased under a lease agreement expiring in 2016 and 2020 (as to different portions of the facility).

As of January 29, 2012, we operated 200 stores in 39 states, including one store in Canada. All of our stores are leased from third parties, and the leases typically have ten-year terms. Some of our leases have early cancellation clauses, which permit the lease to be terminated by us or the landlord if certain sales levels are not met in specific periods or if a shopping center does not meet specified occupancy standards. In addition to future minimum lease payments, some of our store leases provide for additional rental payments based on a percentage of net sales if sales at the respective stores exceed specified levels, as well as the payment of common area maintenance charges, real property insurance and real estate taxes. Many of our lease agreements have defined escalating rent provisions over the initial term and any extensions.

Item 3. *Legal Proceedings.*

From time to time in the normal course of business, we are involved in legal proceedings. We evaluate the need for loss accruals under the requirements of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic No. 450- *Contingencies* (ASC 450). We record an estimated loss for any claim, lawsuit, investigation or proceeding when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. If the reasonable estimate of a probable loss is a range, and no amount within the range is a better estimate, then we record the minimum amount in the range as the loss accrual. If a loss is not probable or a probable loss cannot be reasonably estimated, no liability is recorded.

On December 28, 2011, a putative class action lawsuit styled *Chavez v. Teavana Corp.*, alleging wage and hour violations of the California Labor Code for General Managers in California, was filed in the Superior Court of California, County of Los Angeles. The plaintiff seeks on

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behalf of herself and other putative class members, compensatory damages, restitution, punitive and exemplary damages, penalties, interest and other relief. We dispute the material allegations in the complaint and intend to defend the action vigorously. Due to inherent uncertainties of litigation and because the lawsuit is in early procedural stages, we cannot at this time accurately predict the ultimate outcome, or any potential liability, of the matter.

We are also subject to other legal proceedings and claims that arise in the ordinary course of our business. These include claims resulting from slip and fall accidents, employment related claims and claims from guests or team members alleging illness or injury or other operational concerns. To date, no claims of these types of litigation, certain of which are covered by insurance policies, have had a material effect on our results of operation. While it is not possible to predict the outcome of these other suits, legal proceedings and claims with certainty, we do not believe that they would have a material adverse effect on our financial position and results of operations.

Item 4. *Mine Safety Disclosures.*

Inapplicable.

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Our common stock has been listed on the NYSE under the symbol TEA since July 28, 2011 in connection with our initial public offering, which had a price of \$17.00 per share. Before then, there was no public market for our common stock. The following table sets forth the high and low sales prices of our common stock per share, as shown in the New York Stock Exchange Composite Transactions listed in the Wall Street Journal.

Fiscal Year ended January 29, 2012:

	High	Low
2 nd Quarter (commencing July 28, 2011)	\$ 29.35	\$ 17.00
3 rd Quarter	\$ 29.01	\$ 18.52
4 th Quarter	\$ 24.07	\$ 14.28

There were approximately 14 common stockholders of record on April 9, 2012.

Dividends

The continued operation and expansion of our business will require substantial funding. Accordingly, we do not anticipate that we will pay any cash dividends on shares of our common stock for the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will depend upon results of operations, financial condition, contractual restrictions, including our senior secured credit facility and other indebtedness we may incur, restrictions imposed by applicable law and other factors our Board of Directors deems relevant.

Securities Authorized for Issuance Under Equity Compensation Plans

See Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters for information regarding securities authorized for issuance under our equity compensation plans.

Stock Price Performance Graph

The following graph compares the cumulative stockholder return on our common stock from July 28, 2011 (our first date of trading in connection with our initial public offering) through January 29, 2012, with the return on (i) the S&P Retail Index and (ii) the Russell 3000 Index over the same period. This graph assumes an initial investment of \$100 at the closing price on July 28, 2011, in our common stock, the S&P Retail Index and the Russell 3000 Index and assumes the reinvestment of dividends, if any. The graph also assumes that the initial price of our common stock on July 28, 2011, was the closing price of \$29.35 per share and that the initial prices of the S&P Retail Index and the Russell 3000 Index on July 28, 2011, were the closing prices on the previous trading day.

The comparisons shown in the graph below are based on historical data. We caution that the stock price performance presented in the graph below is not necessarily indicative of, or is it intended to forecast, the potential future performance of our common stock. Information used in the graph was obtained from a third party website; as such we do not assume responsibility for any errors or omissions in such information.

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* \$100 invested on July 28, 2011 in stock or index, including reinvestment of dividends. The 2011 fiscal year ended on January 29, 2012; however the last trading day within the fiscal year was January 27, 2012.

	7/28/2011	8/31/2011	9/30/2011	10/31/2011	11/30/2010	12/30/2011	1/27/2012
Teavana Holdings, Inc.	\$ 100.00	\$ 93.35	\$ 73.17	\$ 82.23	\$ 71.83	\$ 67.55	\$ 69.28
Russell 3000 Index	\$ 100.00	\$ 93.99	\$ 90.23	\$ 93.32	\$ 85.15	\$ 87.91	\$ 99.17
S&P Retail Index	\$ 100.00	\$ 95.71	\$ 91.55	\$ 99.28	\$ 97.97	\$ 99.17	\$ 103.65

Unregistered Sales of Equity Securities

Not applicable.

Issuer Repurchases of Equity Securities

Not applicable.

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The following selected financial data are derived from the consolidated financial statements of the company. We have also included certain non-financial operating data to enhance your understanding of our business. The data set forth below should be read in conjunction with

Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 and the company's consolidated financial statements and related notes herein. The historical results presented below are not necessarily indicative of results of operations to be expected for any future period.

	January 29, 2012	January 30, 2011	Fiscal Year Ended January 31, 2010	February 1, 2009	February 3, 2008
(dollars in thousands, except per share and store data)					
Consolidated Statement of Operations Data:					
Net sales	\$ 168,100	\$ 124,701	\$ 90,262	\$ 63,861	\$ 47,203
Cost of goods sold (exclusive of depreciation shown separately below)	60,903	46,275	36,435	27,193	19,972
Gross profit	107,197	78,426	53,827	36,668	27,231
Selling, general and administrative expense	69,681	50,571	38,142	29,242	22,232
Depreciation and amortization expense	5,927	4,361	3,489	2,666	2,022
Income from operations	31,589	23,494	12,196	4,760	2,977
Interest expense, net	1,673	2,585	2,435	2,061	1,592
Income before income taxes	29,916	20,909	9,761	2,699	1,385
Provision for income taxes	12,157	8,906	4,470	1,502	1,007
Net income	\$ 17,759	\$ 12,003	\$ 5,291	\$ 1,197	\$ 378
Net income per share:					
Basic	\$ 0.47	\$ 0.33	\$ 0.14	\$ 0.03	\$ 0.01
Diluted	\$ 0.46	\$ 0.32	\$ 0.14	\$ 0.03	\$ 0.01
Weighted average shares outstanding:					
Basic	37,481,072	36,749,460	36,749,460	36,749,460	36,749,460
Diluted	38,419,308	37,725,067	37,322,198	37,095,308	36,750,645
Consolidated Balance Sheet Data (end of period):					
Cash and cash equivalents					