

Zumiez Inc
Form 10-Q
May 22, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED APRIL 28, 2012

OR

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

Commission file number 000-51300

ZUMIEZ INC.

(Exact name of registrant as specified in its charter)

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Washington **91-1040022**
(State or other jurisdiction of **(I.R.S. Employer**
incorporation or organization) **Identification No.)**
6300 Merrill Creek Parkway, Suite B, Everett, WA 98203
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (425) 551-1500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

At May 15, 2012, there were 31,326,620 shares outstanding of common stock.

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(In thousands)

	April 28, 2012 (Unaudited)	January 28, 2012
Assets		
Current assets		
Cash and cash equivalents	\$ 7,962	\$ 14,779
Marketable securities	163,243	158,019
Receivables	8,700	6,284
Income taxes receivable	3,325	
Inventories	70,435	65,037
Prepaid expenses and other	8,295	7,907
Deferred tax assets	1,837	1,477
Total current assets	263,797	253,503
Fixed assets, net	96,275	89,478
Goodwill	13,154	13,154
Long-term deferred tax assets	2,808	3,109
Long-term investments	2,351	2,380
Long-term other assets	541	533
Total long-term assets	115,129	108,654
Total assets	\$ 378,926	\$ 362,157
Liabilities and Shareholders Equity		
Current liabilities		
Trade accounts payable	\$ 36,514	\$ 21,743
Accrued payroll and payroll taxes	7,086	9,062
Income taxes payable		5,835
Deferred rent and tenant allowances	4,350	4,230
Other liabilities	14,452	14,706
Total current liabilities	62,402	55,576
Long-term deferred rent and tenant allowances	34,045	32,321
Long-term other liabilities	2,060	1,983
Total long-term liabilities	36,105	34,304
Total liabilities	98,507	89,880
Commitments and contingencies (Note 4)		
Shareholders equity		
Preferred stock, no par value, 20,000 shares authorized; none issued and outstanding		
Common stock, no par value, 50,000 shares authorized; 31,324 shares issued and outstanding at April 28, 2012 and 31,170 shares issued and outstanding at January 28, 2012	102,971	99,412
Accumulated other comprehensive income	191	135

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Retained earnings	177,257	172,730
Total shareholders equity	280,419	272,277
Total liabilities and shareholders equity	\$ 378,926	\$ 362,157

See accompanying notes to condensed consolidated financial statements

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	Three Months Ended	
	April 28, 2012	April 30, 2011
Net sales	\$ 129,899	\$ 105,851
Cost of goods sold	87,798	72,661
Gross profit	42,101	33,190
Selling, general and administrative expenses	34,839	30,638
Operating profit	7,262	2,552
Interest income, net	490	513
Other income, net	17	55
Earnings before income taxes	7,769	3,120
Provision for income taxes	3,242	1,234
Net income	\$ 4,527	\$ 1,886
Basic earnings per share	\$ 0.15	\$ 0.06
Diluted earnings per share	\$ 0.14	\$ 0.06
Weighted average shares used in computation of earnings per share:		
Basic	30,779	30,343
Diluted	31,401	31,084

See accompanying notes to condensed consolidated financial statements

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ZUMIEZ INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended	
	April 28, 2012	April 30, 2011
Net income	\$ 4,527	\$ 1,886
Other comprehensive income, net of tax and reclassification adjustments:		
Foreign currency translation	96	47
Net change in unrealized (loss) gain on available-for-sale investments	(40)	49
Other comprehensive income	56	96
Comprehensive income	\$ 4,583	\$ 1,982

See accompanying notes to condensed consolidated financial statements

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ZUMIEZ INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(In thousands)

(Unaudited)

	Common Stock		Accumulated Other Comprehensive Income	Retained Earnings	Total
	Shares	Amount			
Balance at January 28, 2012	31,170	\$ 99,412	\$ 135	\$ 172,730	\$ 272,277
Net income				4,527	4,527
Other comprehensive income, net of tax			56		56
Issuance and exercise of stock-based compensation, including tax benefit of \$1,710	154	1,953			1,953
Stock-based compensation expense		1,606			1,606
Balance at April 28, 2012	31,324	\$ 102,971	\$ 191	\$ 177,257	\$ 280,419

	Common Stock		Accumulated Other Comprehensive Income	Retained Earnings	Total
	Shares	Amount			
Balance at January 29, 2011	30,835	\$ 91,373	\$ (17)	\$ 135,379	\$ 226,735
Net income				1,886	1,886
Other comprehensive income, net of tax			96		96
Issuance and exercise of stock-based compensation, including tax benefit of \$1,054	172	1,227			1,227
Stock-based compensation expense		1,386			1,386
Balance at April 30, 2011	31,007	\$ 93,986	\$ 79	\$ 137,265	\$ 231,330

See accompanying notes to condensed consolidated financial statements

Table of Contents**ZUMIEZ INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	Three Months Ended	
	April 28, 2012	April 30, 2011
Cash flows from operating activities:		
Net income	\$ 4,527	\$ 1,886
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	5,275	4,705
Deferred taxes	(35)	1,488
Stock-based compensation expense	1,606	1,386
Excess tax benefit from stock-based compensation	(1,710)	(1,054)
Other	(74)	(5)
Changes in operating assets and liabilities:		
Receivables	(2,172)	(2,110)
Inventories	(5,355)	(6,841)
Prepaid expenses and other	(411)	245
Trade accounts payable	14,297	13,470
Accrued payroll and payroll taxes	(1,978)	(1,348)
Income taxes payable	(7,443)	(5,963)
Deferred rent and tenant allowances	1,821	1,949
Other liabilities	(2,549)	(4,167)
Net cash provided by operating activities	5,799	3,641
Cash flows from investing activities:		
Additions to fixed assets	(8,519)	(2,540)
Purchases of marketable securities and other investments	(43,375)	(39,281)
Sales and maturities of marketable securities and other investments	37,317	38,843
Net cash used in investing activities	(14,577)	(2,978)
Cash flows from financing activities:		
Proceeds from exercise of stock-based compensation, net of withholding tax payments	243	173
Excess tax benefit from stock-based compensation	1,710	1,054
Net cash provided by financing activities	1,953	1,227
Effect of exchange rate changes on cash and cash equivalents	8	43
Net (decrease) increase in cash and cash equivalents	(6,817)	1,933
Cash and cash equivalents, beginning of period	14,779	11,357
Cash and cash equivalents, end of period	\$ 7,962	\$ 13,290

Supplemental disclosure on cash flow information:

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Cash paid during the period for income taxes	10,705	5,710
Accrual for purchases of fixed assets	5,840	2,722
See accompanying notes to condensed consolidated financial statements		

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ZUMIEZ INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of Business and Basis of Presentation

Nature of Business Zumiez Inc. (the Company, we, us, its and our) is a leading specialty retailer of action sports related apparel, footwear, equipment and accessories operating under the Zumiez brand name. At April 28, 2012, we operated 455 stores primarily located in shopping malls, giving us a presence in 39 states and Canada. Our stores cater to young men and women between the ages of 12 and 24 who seek popular brands representing a lifestyle centered on activities that include skateboarding, surfing, snowboarding, bicycle motocross (or BMX) and motocross. We support the action sports lifestyle and promote our brand through a multi-faceted marketing approach that is designed to integrate our brand image with our customers' activities and interests. In addition, we operate a website that sells merchandise online and provides content and a community for our target customers. The Company was formed in August 1978 and its home office is currently located in Everett, Washington.

Fiscal Year We use a fiscal calendar widely used by the retail industry that results in a fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to January 31. Each fiscal year consists of four 13-week quarters, with an extra week added to the fourth quarter every five or six years. Fiscal 2012 is the 53-week period ending February 2, 2013. Fiscal 2011 was the 52-week period ending January 28, 2012. The first three months of fiscal 2012 was the 13-week period ended April 28, 2012. The first three months of fiscal 2011 was the 13-week period ended April 30, 2011.

Basis of Presentation The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial reporting. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The unaudited condensed consolidated financial statements include the accounts of Zumiez Inc. and its wholly-owned subsidiaries. All significant intercompany transactions and balances are eliminated in consolidation.

In our opinion, the unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the condensed consolidated balance sheets, operating results and cash flows for the periods presented.

The financial data at January 28, 2012 is derived from audited consolidated financial statements, which are included in our Annual Report on Form 10-K for the year ended January 28, 2012, and should be read in conjunction with the audited consolidated financial statements and notes thereto. Interim results are not necessarily indicative of results for the full fiscal year due to seasonal and other factors.

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

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

Reclassification of Previously Issued Financial Statements Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications do not have a material impact on our condensed consolidated financial statements. We have reclassified \$0.2 million for the three months ended April 30, 2011 on the consolidated statements of income from selling, general and administrative expenses to cost of goods sold related to additional expenses of our buying and distribution functions.

Correction of an Error in Previously Issued Consolidated Statements of Cash Flows We determined that we have incorrectly reported certain amounts related to accruals for purchases of fixed assets in our consolidated statements of cash flows for all reporting periods prior to October 29, 2011. Upon subsequent review, we determined that the purchases of fixed assets should be reported as Cash flows from investing activities once paid, not upon purchase. In this Form 10-Q for the three months ended April 30, 2011, for reasons described below, we are revising our consolidated statements of cash flows so

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that accruals for purchases of fixed assets are reported once paid, and to provide the required supplemental disclosure on cash flow information for Accruals for purchases of fixed assets. All financial information contained in this Form 10-Q gives effect to these revisions. The revisions did not result in a change to our previously-reported revenues, operating profit, net income, cash and cash equivalents, or shareholders' equity.

We considered all of the relevant quantitative and qualitative factors related to the correction of the error under SEC Staff Accounting Bulletin Topic 1N, Financial Statements *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108), and determined that the impact on previously-issued and current period consolidated financial statements was not material. Therefore, we are revising the prior period consolidated statements of cash flows for the immaterial error in this Form 10-Q and are not amending previously-filed reports.

The following tables reconcile our consolidated statements of cash flows from the previously-reported results to the revised results for the three months ended April 30, 2011 (in thousands):

	Three Months Ended April 30, 2011
Condensed consolidated statements of cash flows:	
Net cash provided by operating activities (as reported)	\$ 6,107
Impact of accrual for fixed assets unpaid as of quarter end	(2,466)
Net cash provided by operating activities (as revised)	\$ 3,641
Net cash used in investing activities (as reported)	\$ (5,444)
Impact of accrual for fixed assets unpaid as of quarter end	2,466
Net cash used in investing activities (as revised)	\$ (2,978)

2. Recent Accounting Pronouncements

Recently Adopted Accounting Standards In September 2011, the Financial Accounting Standards Board (FASB) issued guidance that provides entities testing goodwill for impairment to have the option of performing a qualitative assessment before calculating the fair value of the reporting unit. If entities determine, based on qualitative factors, the fair value of the reporting unit is more likely than not less than the carrying value, the two-step impairment test would be required. This guidance is effective for interim and annual reporting periods beginning after December 15, 2011, with early adoption permitted. We early adopted this guidance in the three months ended January 28, 2012 in connection with our annual goodwill impairment assessment and it did not have a material impact on our financial position, results of operations or cash flows.

In June 2011, the FASB issued guidance that requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. This guidance is effective for interim and annual reporting periods beginning after December 15, 2011, with early adoption permitted. We adopted this guidance in the three months ended April 28, 2012. As this guidance only amends the presentation of the components of comprehensive income, the adoption did not have an impact on our financial position, results of operations or cash flows.

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

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

	Amortized Cost	April 28, 2012		Estimated Fair Value
		Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	
Cash and cash equivalents:				
Cash	\$ 4,265	\$	\$	\$ 4,265
Money market funds	805			805
State and local government securities	2,892			2,892
Total cash and cash equivalents	7,962			7,962
Marketable securities:				
Corporate debt securities	3,695	44		3,739
State and local government securities	138,623	322	(177)	138,768
Variable-rate demand notes	21,625			21,625
Total marketable securities	\$ 163,943	\$ 366	\$ (177)	\$ 164,132
Less: Long-term marketable securities (1)				(889)
Total current marketable securities				\$ 163,243
	Amortized Cost	January 28, 2012		Estimated Fair Value
		Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	
Cash and cash equivalents:				
Cash	\$ 6,343	\$	\$	\$ 6,343
Money market funds	5,139			5,139
State and local government securities	3,297			3,297
Total cash and cash equivalents	14,779			14,779
Marketable securities:				
Corporate debt securities	2,016	30		2,046
State and local government securities	126,047	335	(111)	126,271
Variable-rate demand notes	30,610			30,610
Total marketable securities	\$ 158,673	\$ 365	\$ (111)	\$ 158,927
Less: Long-term marketable securities (1)				(908)
Total current marketable securities				\$ 158,019

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- (1) At April 28, 2012 and January 28, 2012, we held one \$1.0 million par value auction rate security valued at \$0.9 million, net of a \$0.1 million temporary impairment charge, classified as available-for-sale marketable securities and included in long-term investments on the condensed consolidated balance sheets.

All of our available-for-sale securities, excluding our auction rate security, have an effective maturity of two years or less and may be liquidated, at our discretion, prior to maturity. For the three months ended April 28, 2012 and April 30, 2011, realized gains and losses on sales of available-for-sale marketable securities were not material. We use the specific identification method to determine any realized gains or losses from the sale of our marketable securities classified as available-for-sale.

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

	Less Than 12 Months		April 28, 2012 12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable securities:						
State and local government securities	32,133	(66)	1,395	(111)	33,528	(177)
Total marketable securities	\$ 32,133	\$ (66)	\$ 1,395	\$ (111)	\$ 33,528	\$ (177)

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

We did not record a realized loss for other-than-temporary impairments during the three months ended April 28, 2012 and April 30, 2011. At April 28, 2012 and January 28, 2012, we had \$0.9 million invested, net of temporary impairment charge of \$0.1 million, in an auction rate security. We do not intend to sell this security and it is not more likely than not that we will be required to sell the investment before the liquidity in the market improves.

4. Commitments and Contingencies

Leases We are committed under operating leases for all of our retail store locations, our current combined home office and ecommerce fulfillment center in Everett, Washington and our future ecommerce fulfillment center in Edwardsville, Kansas generally with terms of five to ten years. Total rent expense, base rent expense and contingent and other rent expense for the three months ended April 28, 2012 and April 30, 2011 is as follows (in thousands):

	Three Months Ended	
	April 28, 2012	April 30, 2011
Base rent expense	\$ 11,061	\$ 9,868
Contingent and other rent expense (1)	7,056	6,116
Total rent expense	\$ 18,117	\$ 15,984

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

At April 28, 2012, we were committed to property owners for operating lease obligations for \$450.4 million. A majority of our leases provide for ongoing co-tenancy requirements or early cancellation clauses that would further lower rental rates, or permit lease terminations, or both, in the event that co-tenants cease to operate for specific periods or if certain sales levels are not met in specific periods. Most of the store leases require payment of a specified minimum rent and contingent rent based on a percentage of the store's net sales in excess of a specified threshold. Amounts in the table below do not include contingent rent, real estate taxes, insurance or common area maintenance costs unless these costs are fixed and determinable. Future minimum commitments on all leases at April 28, 2012 are as follows (in thousands):

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	Operating Lease Obligations
Fiscal 2012	\$ 43,327
Fiscal 2013	60,885
Fiscal 2014	60,132
Fiscal 2015	57,598
Fiscal 2016	54,342
Thereafter	174,078
Total	\$ 450,362

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Purchase Commitments At April 28, 2012, we had outstanding purchase orders to acquire merchandise from vendors of \$124.2 million, including \$0.1 million of letters of credit outstanding. We have an option to cancel these commitments with no notice prior to shipment, except for private label purchase orders in which we are obligated to repay certain contractual amounts upon cancellation.

Litigation We are involved from time to time in claims, proceedings and litigation arising in the ordinary course of business. We have made accruals with respect to these matters, where appropriate, which are reflected in our condensed consolidated financial statements. For some matters, the amount of liability is not probable or the amount cannot be reasonably estimated and therefore accruals have not been made. We may enter into discussions regarding settlement of these matters, and may enter into settlement agreements if we believe settlement is in the best interest of the Company's shareholders.

Insurance Reserves We are responsible for medical and dental insurance claims up to a specified aggregate amount. We maintain a reserve for estimated medical and dental insurance claims based on historical claims experience and other estimated assumptions. The insurance reserve at April 28, 2012 and January 28, 2012 was \$0.5 million and \$0.5 million.

5. Fair Value Measurements We apply the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 Quoted prices in active markets for identical assets or liabilities;

Level 2 Quoted prices for similar assets or liabilities in active markets or inputs that are observable; and

Level 3 Inputs that are unobservable.

Our policy is to recognize transfers into and transfers out of hierarchy levels as of the actual date of the event or change in circumstances that caused the transfer.

The following tables summarize assets measured at fair value on a recurring basis at April 28, 2012 and January 28, 2012 (in thousands):

	April 28, 2012		
	Level 1	Level 2	Level 3
Cash equivalents:			
Money market funds	\$ 805	\$	\$
State and local government securities		2,892	
Marketable securities:			
Corporate debt securities		3,739	
State and local government securities		137,879	
Variable-rate demand notes		21,625	
Long-term investments:			
State and local government securities			889
Equity investment			1,462
Total	\$ 805	\$ 166,135	\$ 2,351

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

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

The Level 3 state and local government securities represent a \$1.0 million par value auction rate security, net of temporary impairment charge of \$0.1 million. Our valuation method for the auction rate security is based on numerous assumptions including assessments of the underlying security, expected cash flows, credit ratings, liquidity and other relevant factors. The Level 3 equity investment represents our 14.3% interest in a manufacturer of apparel and hard goods, which we acquired for \$2.0 million in fiscal 2010. We have elected to apply fair value accounting for this investment, which would otherwise be accounted for under the equity method of accounting. We have elected fair value accounting, as we believe the terms of the contract are more properly reflected through the fair value method. The equity investment is valued using comparative market multiples adjusted by an estimated discount factor.

There were no assets measured at fair value on a nonrecurring basis for the three months ended April 28, 2012 and April 30, 2011.

6. Equity Awards We maintain the Zumiez Inc. 2005 Equity Incentive Plan (the 2005 Equity Incentive Plan) under which non-qualified stock options and restricted stock have been granted to employees and non-employee directors.

We account for stock-based compensation by which the estimated fair value of stock-based awards granted is recognized as compensation expense over the vesting period, net of estimated forfeitures. Stock-based compensation expense is recognized using an accelerated method for stock options and a straight-line basis for restricted stock. We estimate forfeitures of stock-based awards based on historical experience and expected future activity.

The fair value of restricted stock grants is measured based on the closing fair market value of our common stock on the date of grant. The fair value of stock option grants are estimated on the date of grant using the Black-Scholes option pricing method with the following weighted-average assumptions used for stock option grants issued during the three months ended April 28, 2012 and April 30, 2011:

	Three Months Ended	
	April 28, 2012	April 30, 2011
Dividend yield	%	%
Volatility rate	66.71%	65.07%
Average expected life (in years)	6.25	6.25
Average risk-free interest rate	1.24%	1.54%
Weighted-average fair value per share of stock options granted	\$ 21.13	\$ 15.28

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The following table summarizes our stock option activity for the three months ended April 28, 2012 (in thousands except grant date weighted-average exercise price and weighted-average remaining contractual life):

	Stock Options	Grant Date Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life (in Years)	Intrinsic Value (1)
Outstanding at January 28, 2012	888	\$ 16.18		
Granted year to date	32	\$ 34.57		
Exercised year to date	(16)	\$ 8.75		
Outstanding at April 28, 2012	904	\$ 16.96	5.09	\$ 19,117
Exercisable at April 28, 2012	564	\$ 18.52	4.96	\$ 11,115

- (1) Intrinsic value for stock options is defined as the difference between the market price of the Company's common stock on the last business day of the quarter and the weighted average exercise price of in-the-money options outstanding at the end of each fiscal period. The market value per share was \$38.23 at April 28, 2012.

The following table summarizes our restricted stock activity for the three months ended April 28, 2012 (in thousands except grant date weighted-average fair value):

	Restricted Stock	Grant Date Weighted- Average Fair Value	Intrinsic Value (1)
Outstanding at January 28, 2012	503	\$ 16.79	
Granted year to date	126	\$ 34.62	
Vested year to date	(204)	\$ 14.18	
Forfeited year to date	(2)	\$ 27.70	
Outstanding at April 28, 2012	423	\$ 23.30	\$ 16,158

- (1) Intrinsic value for restricted stock is defined as the market value of the outstanding restricted stock on the last business day of the quarter. The market value per share was \$38.23 at April 28, 2012.

We recorded \$1.6 million and \$1.4 million of total stock-based compensation expense for the three months ended April 28, 2012 and April 30, 2011.

At April 28, 2012, there was \$9.3 million of total unrecognized compensation cost related to unvested stock options and restricted stock grants. This cost has a weighted-average recognition period of 1.6 years.

7. Earnings Per Share, Basic and Diluted The following table sets forth the computation of basic and diluted earnings per share for the three months ended April 28, 2012 and April 30, 2011 (in thousands, except per share amounts).

Three Months Ended

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	April 28, 2012	April 30, 2011
Net income	\$ 4,527	\$ 1,886
Weighted average common shares for basic earnings per share	30,779	30,343
Dilutive effect of stock options and restricted stock	622	741
Weighted average common shares for diluted earnings per share	31,401	31,084
Basic earnings per share	\$ 0.15	\$ 0.06
Diluted earnings per share	\$ 0.14	\$ 0.06

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Total anti-dilutive common stock options not included in the calculation of diluted earnings per share were approximately 0.2 million and 0.3 million for the three months ended April 28, 2012 and April 30, 2011.

8. Exit or Disposal Activities

Distribution Center Relocation In fiscal 2010, we acquired a 168,450 square foot building in Corona, California for \$11.8 million and we have relocated our distribution facility to this facility to be more effective at distributing our products. In fiscal 2010, we entered into an amendment of the lease for our current combined home office, ecommerce fulfillment center and the exited distribution facility in Everett, Washington, which terminated our lease commitments for a portion of the leased space in exchange for additional charges to be paid over the life of the remaining lease period (through June 2017). The lease termination costs recorded reflect the present value of these future charges.

The following table is a summary of the exit and disposal activity and liability balances as a result of the distribution center relocation for the three months ended April 28, 2012 (in thousands):

	Lease termination costs
January 28, 2012	\$ 241
Payments	(10)
April 28, 2012 (1)	\$ 231

- (1) The exit or disposal provisions related to the distribution center relocation at April 28, 2012 are included in other liabilities and long-term other liabilities on the condensed consolidated balance sheets.

Home Office and Ecommerce Fulfillment Center Relocation On February 6, 2012, we entered into a 10 year lease agreement to lease up to 153,095 square feet in Edwardsville, Kansas. We plan to relocate our current ecommerce fulfillment center in Everett, Washington to this facility and begin operations in the second quarter of fiscal 2012. We believe that the Edwardsville, Kansas fulfillment center will provide the additional capacity needed to support the continued growth of our ecommerce business, while also increasing the speed at which we get product to our customers and lowering the freight and distribution costs once the Edwardsville, Kansas fulfillment center is running effectively and at full capacity.

In conjunction with the plan to relocate the ecommerce fulfillment center, we expect to incur approximately \$0.8 million to \$0.9 million in expenses related to the move. Such charges consist of approximately \$0.5 million to \$0.6 million of severance and other employee related costs and approximately \$0.3 million in moving and new facility costs to transition to the new location. Additionally, we plan to relocate our home office in Everett, Washington to Lynnwood, Washington in the second quarter of fiscal 2012. Once the ecommerce fulfillment center and home office have relocated, we expect to incur charges of approximately \$1.2 million associated with estimated moving expenses and lease termination costs.

During the three months ended April 28, 2012, in conjunction with the ecommerce fulfillment relocation from Everett, Washington to Edwardsville, Kansas, we recorded \$0.2 million of severance and other employee related costs and \$0.1 million in other exit costs. These amounts were included in cost of goods sold on the condensed consolidated statements of income.

The following table is a summary of the exit and disposal activity and liability balances as a result of the ecommerce fulfillment center relocation for the three months ended April 28, 2012 (in thousands):

	Employee benefit costs	Other exit costs	Total
January 28, 2012	\$	\$	\$
Additions	213	69	282

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Payments	(61)	(38)	(99)
April 28, 2012 (1)	\$ 152	\$ 31	\$ 183

- (1) The exit or disposal provisions related to the ecommerce fulfillment center relocation at April 28, 2012 are included in accrued payroll and payroll taxes and other liabilities on the condensed consolidated balance sheets.

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Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this document. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those discussed in Item 1A Risk Factors in our Form 10-K filed with the SEC on March 13, 2012 and in this Form 10-Q.

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

References in the following discussion to we, us, our, the Company and similar references mean Zumiez Inc. and its wholly-owned subsidiaries, unless otherwise expressly stated or the context otherwise requires.

Overview

We are a specialty retailer of action sports related apparel, footwear, equipment and accessories operating under the Zumiez brand name. At April 28, 2012, we operated 455 stores primarily located in shopping malls, giving us a presence in 39 states and Canada. Our stores cater to young men and women between the ages of 12 and 24 who seek popular brands representing a lifestyle centered on activities that include skateboarding, surfing, snowboarding, BMX and motocross. We support the action sports lifestyle and promote our brand through a multi-faceted marketing approach that is designed to integrate our brand image with our customers' activities and interests. This approach, combined with our differentiated merchandising strategy, store design, comprehensive training programs and passionate employees, allows us to provide an experience for our customers that we believe is consistent with their attitudes, fashion tastes and identities and is otherwise unavailable in most malls. Accordingly, our success is largely dependent upon our ability to anticipate, identify and respond to the fashion tastes of our customers and to provide merchandise that satisfies customer demands.

General

Net sales constitute gross sales net of actual and estimated returns and deductions for promotions. Net sales include our in-store sales and our ecommerce sales, which includes ecommerce shipping revenue. Ecommerce sales were 7.7% and 6.2% of total net sales for the three months ended April 28, 2012 and April 30, 2011. We record the sale of gift cards as a current liability and recognize revenue when a customer redeems a gift card. Additionally, the portion of gift cards that will not be redeemed (gift card breakage) is recognized as revenue after 24 months, at which time the likelihood of redemption is considered remote based on our historical redemption data.

We report comparable store sales based on net sales beginning on the first anniversary of the first day of operation of a new store. Our comparable store sales also include our ecommerce sales. Changes in our comparable store sales between two periods are based on net sales of stores which were in operation during both of the two periods being compared and, if a store is included in the calculation of comparable store sales for only a portion of one of the two periods being compared, then that store is included in the calculation for only the comparable portion of the other period. Any change in square footage of an existing comparable store, including remodels, does not eliminate that store from inclusion in the calculation of comparable store sales. There may be variations in the way in which some of our competitors and other retailers calculate comparable or same store sales. As a result, data herein regarding our comparable store sales may not be comparable to similar data made available by our competitors or other retailers.

Cost of goods sold consists of branded merchandise costs and our private label merchandise costs including design, sourcing, importing and inbound freight costs. Our cost of goods sold also includes shrinkage and buying, occupancy, distribution and

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warehousing costs. This may not be comparable to the way in which our competitors or other retailers compute their cost of goods sold. We receive cash consideration from vendors, which have been recorded as a reduction of cost of goods sold if the inventory has sold, as a reduction of the carrying value of the inventory if the inventory is still on hand, or a reduction of selling, general and administrative expense if the amounts are reimbursements of specific, incremental and identifiable costs of selling the vendors' products.

With respect to the freight component of our ecommerce sales, we arrange and pay the freight for our customers and bill them for this service, unless our customers have their product shipped to one of our stores or we have free shipping promotions to our customers, in which case we do not bill our customers. Such amounts billed are included in net sales and the related freight cost is charged to cost of goods sold.

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

Key Performance Indicators

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

Comparable store sales. As previously described in detail under the caption "General," comparable store sales provide a measure of sales growth for stores open at least one year over the comparable prior year period.

We consider comparable store sales to be an important indicator of our current performance. Comparable store sales results are important to achieve leveraging of our costs, including store payroll, store supplies and rent. Comparable store sales also have a direct impact on our total net sales, cash and working capital.

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

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

Store productivity. We review our stores' operating profit as a measure of the stores' profitability.

Critical Accounting Estimates

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

There have been no significant changes to our critical accounting estimates as discussed in our Annual Report on Form 10-K for the fiscal year ended January 28, 2012.

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

	Three Months Ended	
	April 28, 2012	April 30, 2011
Net sales	100.0%	100.0%
Cost of goods sold	67.6	68.7
Gross profit	32.4	31.3
Selling, general and administrative expenses	26.8	28.9
Operating profit	5.6	2.4
Interest and other income, net	0.4	0.5
Earnings before income taxes	6.0	2.9
Provision for income taxes	2.5	1.1
Net income	3.5%	1.8%

Three Months (13 weeks) Ended April 28, 2012 Compared With Three Months (13 weeks) Ended April 30, 2011***Net Sales***

Net sales were \$129.9 million for the three months ended April 28, 2012 compared to \$105.9 million for the three months ended April 30, 2011, an increase of \$24.0 million or 22.7%. The increase reflected a comparable store sales increase of 12.9% for the three months ended April 28, 2012 as well as the net addition of 47 stores (48 new stores offset by one store closure) subsequent to April 30, 2011.

The increase in comparable stores sales was primarily driven by an increase in dollars per transaction, partially offset by a decline in comparable store transactions. Dollars per transaction increased due to an increase in average unit retail, partially offset by a decrease in units per transaction. Comparable store sales increases in men's clothing, footwear, junior's clothing, hardgoods and accessories were slightly offset by a comparable store sales decrease in boy's clothing. For information as to how we define comparable stores, see [General](#) above.

Gross Profit

Gross profit was \$42.1 million for the three months ended April 28, 2012 compared to \$33.2 million for the three months ended April 30, 2011, an increase of \$8.9 million, or 26.8%. As a percent of net sales, gross profit increased 110 basis points for the three months ended April 28, 2012 to 32.4% from 31.3% for the three months ended April 30, 2011. The increase was primarily due to a 110 basis points impact from leveraging our store occupancy costs on a 22.7% net sales increase and 50 basis points due to distribution center efficiencies. These increases were partially offset by a 40 basis points increase in ecommerce fulfillment expenses partially related to the impact of exit costs and other charges of \$0.3 million incurred during the three months ended April 28, 2012 related to the relocation of our ecommerce fulfillment center.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were \$34.8 million for the three months ended April 28, 2012 compared to \$30.6 million for the three months ended April 30, 2011, an increase of \$4.2 million, or 13.7%. SG&A expenses as a percent of net sales decreased by 210 basis points for the three months ended April 28, 2012 to 26.8% compared to 28.9% for the three months ended April 30, 2011. The decrease was primarily due to 150 basis points in store operating efficiencies and a 50 basis points decrease in corporate costs.

Net Income

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Net income for the three months ended April 28, 2012 was \$4.5 million, or \$0.14 per diluted share, compared with net income of \$1.9 million, or \$0.06 per diluted share, for the three months ended April 30, 2011. Our effective income tax rate for the three months ended April 28, 2012 was 41.7% compared to 39.6% for the three months ended April 30, 2011.