

Zumiez Inc  
Form 10-Q  
June 09, 2015  
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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 MAY 2, 2015**

**OR**

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

**Commission file number 000-51300**

**ZUMIEZ INC.**

**(Exact name of registrant as specified in its charter)**

**Washington**  
**(State or other jurisdiction of**  
**incorporation or organization)**  
**4001 204<sup>th</sup> Street SW, Lynnwood, WA 98036**  
**(Address of principal executive offices) (Zip Code)**

**91-1040022**  
**(I.R.S. Employer Identification No.)**

**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 June 3, 2015, there were 29,205,648 shares outstanding of common stock.

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**ZUMIEZ INC.**

**FORM 10-Q**

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	<b>May 2, 2015</b>	<b>January 31, 2015</b>
	<b>(Unaudited)</b>	
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 11,806	\$ 20,862
Marketable securities	139,048	133,782
Receivables	14,401	12,653
Inventories	104,091	93,850
Prepaid expenses and other	11,117	11,651
Deferred tax assets	7,532	6,965
<b>Total current assets</b>	<b>287,995</b>	<b>279,763</b>
Fixed assets, net	140,320	135,642
Goodwill	55,478	55,852
Intangible assets, net	12,460	13,062
Long-term other assets	9,294	9,386
<b>Total long-term assets</b>	<b>217,552</b>	<b>213,942</b>
<b>Total assets</b>	<b>\$ 505,547</b>	<b>\$ 493,705</b>
<b>Liabilities and Shareholders Equity</b>		
<b>Current liabilities</b>		
Trade accounts payable	\$ 39,525	\$ 32,094
Accrued payroll and payroll taxes	9,168	13,047
Income taxes payable	732	4,651
Deferred rent and tenant allowances	7,448	7,083
Other liabilities	29,276	24,572
<b>Total current liabilities</b>	<b>86,149</b>	<b>81,447</b>
Long-term deferred rent and tenant allowances	44,761	42,553
Long-term deferred tax liabilities	4,542	5,738
Other long-term liabilities	5,669	4,443
<b>Total long-term liabilities</b>	<b>54,972</b>	<b>52,734</b>
<b>Total liabilities</b>	<b>141,121</b>	<b>134,181</b>
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; 29,535 shares issued and outstanding at May 2, 2015, and 29,418 shares issued and outstanding at January 31, 2015	131,715	129,094
Accumulated other comprehensive income	(11,767)	(11,278)
Retained earnings	244,478	241,708
<b>Total shareholders equity</b>	<b>364,426</b>	<b>359,524</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 505,547</b>	<b>\$ 493,705</b>

See accompanying notes to condensed consolidated financial statements

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**ZUMIEZ INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except per share amounts)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>May 2, 2015</b>	<b>May 3, 2014</b>
Net sales	\$ 177,610	\$ 162,932
Cost of goods sold	121,075	112,399
<b>Gross profit</b>	<b>56,535</b>	<b>50,533</b>
Selling, general and administrative expenses	52,409	46,820
<b>Operating profit</b>	<b>4,126</b>	<b>3,713</b>
Interest income, net	205	182
Other income, net	115	86
<b>Earnings before income taxes</b>	<b>4,446</b>	<b>3,981</b>
Provision for income taxes	1,676	1,485
<b>Net income</b>	<b>\$ 2,770</b>	<b>\$ 2,496</b>
Basic earnings per share	\$ 0.10	\$ 0.09
Diluted earnings per share	\$ 0.09	\$ 0.09
Weighted average shares used in computation of earnings per share:		
Basic	29,141	28,861
Diluted	29,486	29,213

See accompanying notes to condensed consolidated financial statements

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	<b>Three Months Ended</b>	
	<b>May 2, 2015</b>	<b>May 3, 2014</b>
Net income	\$ 2,770	\$ 2,496
Other comprehensive income (loss), net of tax and reclassification adjustments:		
Foreign currency translation	(468)	2,293
Net change in unrealized gain/loss on available-for-sale investments	(21)	8
Other comprehensive income (loss), net	(489)	2,301
<b>Comprehensive income</b>	<b>\$ 2,281</b>	<b>\$ 4,797</b>

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			
<b>Balance at January 31, 2015</b>	29,418	\$ 129,094	\$ (11,278)	\$ 241,708	\$ 359,524
Net income				2,770	2,770
Other comprehensive loss, net			(489)		(489)
Issuance and exercise of stock-based compensation, including net tax benefit of \$689	117	1,049			1,049
Stock-based compensation expense		1,572			1,572
<b>Balance at May 2, 2015</b>	29,535	\$ 131,715	\$ (11,767)	\$ 244,478	\$ 364,426

	Common Stock		Accumulated Other Comprehensive Income	Retained Earnings	Total
	Shares	Amount			
<b>Balance at February 1, 2014</b>	29,619	\$ 114,983	\$ 4,710	\$ 215,961	\$ 335,654
Net income				2,496	2,496
Other comprehensive income, net			2,301		2,301
Issuance and exercise of stock-based compensation, including net tax loss of \$62	168	180			180
Stock-based compensation expense		948			948
Repurchase of common stock	(757)			(17,440)	(17,440)
<b>Balance at May 3, 2014</b>	29,030	\$ 116,111	\$ 7,011	\$ 201,017	\$ 324,139

See accompanying notes to condensed consolidated financial statements



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## ZUMIEZ INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>May 2, 2015</b>	<b>May 3, 2014</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 2,770	\$ 2,496
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	7,797	7,009
Deferred taxes	(622)	(1,869)
Stock-based compensation expense	1,572	948
Excess tax benefit from stock-based compensation	(689)	62
Other	(76)	(26)
Changes in operating assets and liabilities:		
Receivables	(1,617)	(1,115)
Inventories	(10,187)	(10,011)
Prepaid expenses and other	605	(2,480)
Trade accounts payable	7,726	24,635
Accrued payroll and payroll taxes	(3,891)	(2,543)
Income taxes payable	(3,355)	(2,448)
Deferred rent and tenant allowances	2,444	4,374
Other liabilities	(789)	(2,462)
Net cash provided by operating activities	1,688	16,570
<b>Cash flows from investing activities:</b>		
Additions to fixed assets	(8,818)	(6,781)
Purchases of marketable securities and other investments	(35,037)	(11,714)
Sales and maturities of marketable securities and other investments	29,074	22,100
Net cash (used in) provided by investing activities	(14,781)	3,605
<b>Cash flows from financing activities:</b>		
Proceeds from revolving credit facilities	4,310	634
Payments on revolving credit facilities	(1,271)	(81)
Repurchase of common stock		(19,553)
Proceeds from exercise of stock-based compensation, net of withholding tax payments	367	242
Excess tax benefit (loss) from stock-based compensation	689	(62)
Net cash provided by (used in) financing activities	4,095	(18,820)

Effect of exchange rate changes on cash and cash equivalents	(58)	90
Net (decrease) increase in cash and cash equivalents	(9,056)	1,445
Cash and cash equivalents, beginning of period	20,862	19,634
Cash and cash equivalents, end of period	\$ 11,806	\$ 21,079

**Supplemental disclosure on cash flow information:**

Cash paid during the period for income taxes, net of refunds	\$ 5,667	\$ 5,783
Accrual for purchases of fixed assets	4,489	4,480

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., including its wholly owned subsidiaries, (the Company, we, us, its and our ) is a leading multi-channel specialty retailer of apparel, footwear, accessories and hardgoods rooted in youth culture as expressed through music, art, fashion and action sports lifestyle for young men and women. At May 2, 2015, we operated 616 stores; 557 in the United States ( U.S. ), 37 in Canada and 22 in Europe. We operate under the names Zumiez and Blue Tomato. Additionally, we operate ecommerce websites at [www.zumiez.com](http://www.zumiez.com) and [www.blue-tomato.com](http://www.blue-tomato.com).

**Fiscal Year** We use a fiscal calendar widely used by the retail industry that results in a fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to January 31. Each fiscal year consists of four 13-week quarters, with an extra week added to the fourth quarter every five or six years. The three months ended May 2, 2015 and May 3, 2014 were 13-week periods.

**Basis of Presentation** The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ( U.S. 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 U.S. 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 31, 2015 is derived from audited consolidated financial statements, which are included in our Annual Report on Form 10-K for the year ended January 31, 2015, 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 seasonality and other factors.

**Use of Estimates** The preparation of financial statements in conformity with U.S. GAAP requires estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the 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.

**Recent Accounting Standards** In May 2015, the Financial Accounting Standards Board ( FASB ) issued guidance about a customer s accounting for fees paid in a cloud computing arrangement. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2015 and may be applied on either a prospective or retrospective basis. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

In August 2014, the FASB issued new guidance which provides details on when and how to disclose going concern uncertainties. The new standard requires management to perform interim and annual assessments of an entity s ability to continue as a going concern within one year and to provide certain footnote disclosures if conditions or events raise substantial doubt about an entity s ability to continue as a going concern. The new standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2016, with early adoption permitted. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

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In May 2014, the FASB issued a comprehensive new revenue recognition standard. The new standard allows for a full retrospective approach to transition or a modified retrospective approach. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016. In April 2015, the FASB proposed deferring the effective date to December 15, 2017 and permitting early adoptions of the standard, but not before the original effective date of December 15, 2016. We are currently evaluating the method of adoption we plan to use and the effect the standard is expected to have on our financial position, results of operations and cash flows.

In April 2014, the FASB issued guidance that changes the criteria for reporting discontinued operations, as well as requiring new disclosures about discontinued operations and disposals of components of an entity that do not qualify for discontinued operations reporting. We adopted this guidance for the fiscal quarter ending May 2, 2015. The adoption did not have a material impact on our consolidated financial statements.

**2. Business Combination**

**Blue Tomato** On July 4, 2012, we acquired 100% of the outstanding stock of Blue Tomato for cash consideration of 59.5 million Euros (\$74.8 million, using the exchange rate as of July 4, 2012). Blue Tomato is a leading European multi-channel retailer for board sports and related apparel and footwear and the acquisition allowed us to enter into the European marketplace.

In addition, there was the possibility of future incentive payments to the sellers and certain employees of Blue Tomato in an aggregate amount of up to 22.1 million Euros (\$24.8 million, using the exchange rate as of May 2, 2015) to the extent that certain financial metrics are met related to (i) the obtaining of certain EBITDA performance of Blue Tomato for the twelve months ended April 30, 2015 and (ii) the opening and performance of certain defined incremental stores in the European market by April 30, 2015. We account for the estimated future incentive payments as compensation expense, which is included in selling, general and administrative expense on the consolidated statements of income, and recognized this amount ratably over the term of service through April 2015.

At May 2, 2015, we determined that Blue Tomato achieved the metrics related to the opening and performance of certain defined incremental stores, subject to the review of Blue Tomato audited financial statements pursuant to the terms of the agreement; and we will be obligated to pay 6.0 million Euros (\$6.8 million, using the exchange rate as of May 2, 2015) for future incentive payments of which 3.0 million Euros (\$3.4 million, using the exchange rate as of May 2, 2015) will be payable in cash and 3.0 million Euros (\$3.4 million, using the exchange rate as of May 2, 2015) will be payable in 0.1 million shares of our common stock. For the three months ended May 2, 2015, we recorded an expense of future incentive payments of \$0.6 million. For the three months ended May 3, 2014, we estimated that we would not be obligated for future incentive payments and recorded no expense related to the future incentive payments.

**3. Cash, Cash Equivalents and Marketable Securities**

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

	<b>May 2, 2015</b>		
<b>Amortized Cost</b>	<b>Gross Unrealized Holding</b>	<b>Gross Unrealized Holding</b>	<b>Estimated Fair Value</b>

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		<b>Gains</b>		<b>Losses</b>	
<b>Cash and cash equivalents:</b>					
Cash	\$ 6,945	\$		\$	\$ 6,945
<b>Money market funds</b>					
State and local government securities	4,861				4,861
<b>Total cash and cash equivalents</b>	<b>11,806</b>				<b>11,806</b>
<b>Marketable securities:</b>					
State and local government securities	117,216	43		(191)	117,068
Variable-rate demand notes	22,830				22,830
<b>Total marketable securities</b>	<b>\$ 140,046</b>	<b>\$ 43</b>		<b>\$ (191)</b>	<b>\$ 139,898</b>
Less: Long-term marketable securities (1)					(850)
<b>Total current marketable securities</b>					<b>\$ 139,048</b>

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	Amortized Cost	January 31, 2015		Estimated Fair Value
		Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	
Cash and cash equivalents:				
Cash	\$ 10,251	\$	\$	\$ 10,251
Money market funds	7,061			7,061
State and local government securities	3,550			3,550
<b>Total cash and cash equivalents</b>	<b>20,862</b>			<b>20,862</b>
Marketable securities:				
State and local government securities	102,888	73	(186)	102,775
Variable-rate demand notes	31,830			31,830
<b>Total marketable securities</b>	<b>\$ 134,718</b>	<b>\$ 73</b>	<b>\$ (186)</b>	<b>\$ 134,605</b>
Less: Long-term marketable securities (1)				(823)
<b>Total current marketable securities</b>				<b>\$ 133,782</b>

(1) At May 2, 2015 and January 31, 2015, we held one auction rate security, classified as available-for-sale marketable securities and included in long-term other assets on the condensed consolidated balance sheets. All of our available-for-sale securities, excluding our auction rate security, have an effective maturity date of two years or less and may be liquidated, at our discretion, prior to maturity.

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

	Less Than 12 Months		May 2, 2015 12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable securities:						
State and local government securities	65,590	(41)	850	(150)	66,440	(191)
<b>Total marketable securities</b>	<b>\$ 65,590</b>	<b>\$ (41)</b>	<b>\$ 850</b>	<b>\$ (150)</b>	<b>\$ 66,440</b>	<b>\$ (191)</b>

**January 31, 2015**

**Total**

	<b>Less Than 12 Months</b>		<b>12 Months or Greater</b>		<b>Fair</b>	<b>Unrealized</b>
	<b>Fair</b>	<b>Unrealized</b>	<b>Fair</b>	<b>Unrealized</b>	<b>Value</b>	<b>Losses</b>
	<b>Value</b>	<b>Losses</b>	<b>Value</b>	<b>Losses</b>	<b>Value</b>	<b>Losses</b>
<b>Marketable securities:</b>						
State and local government securities	27,701	(9)	823	(177)	28,524	(186)
<b>Total marketable securities</b>	<b>\$ 27,701</b>	<b>\$ (9)</b>	<b>\$ 823</b>	<b>\$ (177)</b>	<b>\$ 28,524</b>	<b>\$ (186)</b>

We did not record a realized loss for other-than-temporary impairments during the three months ended May 2, 2015 or May 3, 2014.

#### **4. Commitments and Contingencies**

**Leases** We lease our stores and certain corporate and other operating facilities under operating leases. Total rent expense is as follows (in thousands):

	<b>Three Months Ended</b>	
	<b>May 2, 2015</b>	<b>May 3, 2014</b>
Minimum rent expense	\$ 16,893	\$ 14,757
Contingent rent expense	337	353
<b>Total rent expense (1)</b>	<b>\$ 17,230</b>	<b>\$ 15,110</b>



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- (1) Total rent expense does not include real estate taxes, insurance, common area maintenance charges and other executory costs, which were \$9.4 million and \$8.5 million for the three months ended May 2, 2015 and May 3, 2014.

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 a contingent rent based on a percentage of the store's net sales in excess of a specified threshold, as well as real estate taxes, insurance, common area maintenance charges and other executory costs. Future minimum lease payments at May 2, 2015 are as follows (in thousands):

Fiscal 2015	\$ 46,553
Fiscal 2016	60,878
Fiscal 2017	57,097
Fiscal 2018	51,713
Fiscal 2019	44,950
Thereafter	154,589
<b>Total(1)</b>	<b>\$ 415,780</b>

- (1) Amounts in the table do not include contingent rent and real estate taxes, insurance, common area maintenance charges and other executory costs obligations.

**Purchase Commitments** At May 2, 2015, we had outstanding purchase orders to acquire merchandise from vendors of \$212.0 million. We have an option to cancel these commitments with no notice prior to shipment, except for certain private label and international purchase orders in which we are obligated to repay contractual amounts upon cancellation.

**Litigation** We are involved from time to time in claims, proceedings and litigation arising in the ordinary course of business. We have made accruals with respect to these matters, where appropriate, which are reflected in our 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 our shareholders.

**Insurance Reserves** We use a combination of third-party insurance and self-insurance for a number of risk management activities including workers' compensation, general liability and employee-related health care benefits. We maintain reserves for our self-insured losses, which are estimated based on historical claims experience and actuarial and other assumptions. The self-insurance reserve at May 2, 2015 and January 31, 2015 was \$2.1 million and \$1.8 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.

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The following tables summarize assets measured at fair value on a recurring basis (in thousands):

	<b>May 2, 2015</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Cash equivalents:</b>			
Money market funds	\$	\$	\$
State and local government securities		4,861	
<b>Marketable securities:</b>			
State and local government securities		116,218	
Variable-rate demand notes		22,830	
<b>Long-term other assets:</b>			
Money market funds	2,008		
State and local government securities			850
Equity investments			122
<b>Total</b>	<b>\$ 2,008</b>	<b>\$ 143,909</b>	<b>\$ 972</b>

	<b>January 31, 2015</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Cash equivalents:</b>			
Money market funds	\$ 7,061	\$	\$
State and local government securities		3,550	
<b>Marketable securities:</b>			
State and local government securities		101,952	
Variable-rate demand notes		31,830	
<b>Long-term other assets:</b>			
Money market funds			
State and local government securities			823
Equity investments			123
<b>Total</b>	<b>\$ 7,061</b>	<b>\$ 137,332</b>	<b>\$ 946</b>

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.

There were no material assets measured at fair value on a nonrecurring basis for the three months ended May 2, 2015 and May 3, 2014.

## 6. Stockholders Equity

**Share Repurchase** In December 2013, the Board of Directors authorized a stock repurchase program that provides for the repurchase of up to \$30.0 million of outstanding common stock. The December 2013 stock repurchase program was completed in April 2014. In March 2014, the Board of Directors authorized an additional stock repurchase program that provides for the repurchase of up to \$30.0 million of outstanding common stock through the fiscal year ending January 31, 2015. On December 10, 2014 our Board of Directors superseded and replaced this program with a new \$30.0 million share repurchase program that is expected to continue through January 30, 2016, unless the time period is extended or shortened by the Board of Directors. There was no repurchase activity during the three months ended May 2, 2015. At May 2, 2015, there remains \$30.0 million available to repurchase shares under the share repurchase program.

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

	<b>Foreign currency translation adjustments</b>	<b>Net unrealized gains (losses) on available-for- sale investments</b>	<b>Accumulated other comprehensive income</b>
<b>Three months ended May 2, 2015:</b>			
Balance at January 31, 2015	\$ (11,205)	\$ (73)	\$ (11,278)
Other comprehensive loss, net (1)	(468)	(21)	(489)
Balance at May 2, 2015	\$ (11,673)	\$ (94)	\$ (11,767)
<b>Three months ended May 3, 2014</b>			
Balance at February 1, 2014	\$ 4,790	\$ (80)	\$ 4,710
Other comprehensive income, net (1)	2,293	8	2,301
Balance at May 3, 2014	\$ 7,083	\$ (72)	\$ 7,011

(1) Other comprehensive income (loss) before reclassifications is net of immaterial taxes for the three months ended May 2, 2015 and May 3, 2014 for both net unrealized gains (losses) on available-for-sale investments and accumulated other comprehensive income. Foreign currency translation adjustments are not adjusted for income taxes as they relate to permanent investments in our international subsidiaries.

**7. Equity Awards**

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

We account for stock-based compensation by recording the estimated fair value of stock-based awards granted as compensation expense over the vesting period, net of estimated forfeitures. Stock-based compensation expense is attributed to earnings using a straight-line method. We estimate forfeitures of stock-based awards based on historical experience and expected future activity.

The fair value of restricted stock awards and units is measured based on the closing price of our common stock on the date of grant. The fair value of stock option grants is estimated on the date of grant using the Black-Scholes option pricing model. The following weighted-average assumptions were used to estimate the fair value of stock options granted:

	<b>Three Months Ended</b>	
	<b>May 2, 2015</b>	<b>May 3, 2014</b>
Dividend yield		
Volatility rate	53.4%	63.7%
Weighted-average expected life (in years)	6.25	6.25
Weighted-average risk-free interest rate	1.8%	1.9%
Weighted-average fair value per share of stock options granted	\$ 20.19	\$ 15.26

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

	<b>Three Months Ended</b>	
	<b>May 2, 2015</b>	<b>May 3, 2014</b>
Cost of goods sold	\$ 243	\$ 244
Selling, general and administrative expenses	1,329	704
<b>Total stock-based compensation expense</b>	<b>\$ 1,572</b>	<b>\$ 948</b>

At May 2, 2015, there was \$8.1 million of total unrecognized compensation cost related to unvested stock options, restricted stock awards and restricted stock units. This cost has a weighted-average recognition period of 1.4 years.

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The following table summarizes restricted stock awards and restricted stock units activity (in thousands, except grant date weighted-average fair value):

	<b>Restricted Stock Awards/Units</b>	<b>Grant Date Weighted- Average Fair Value</b>	<b>Intrinsic Value (1)</b>
Outstanding at January 31, 2015	343	\$ 26.56	
Granted	105	\$ 38.11	
Vested	(119)	\$ 27.03	
Forfeited	(21)	\$ 26.28	
Outstanding at May 2, 2015	308	\$ 30.36	\$ 9,817

(1) Intrinsic value for restricted stock awards and units is defined as the market value of the outstanding restricted stock awards and units on the last business day of the quarter.

The following table summarizes stock option activity (in thousands except grant date weighted-average exercise price and weighted-average remaining contractual life):

	<b>Stock Options</b>	<b>Grant Date Weighted- Average Exercise Price</b>	<b>Weighted- Average Remaining Contractual Life (in Years)</b>	<b>Intrinsic Value (1)</b>
Outstanding at January 31, 2015	251	\$ 24.76		
Granted	24	\$ 38.57		
Exercised	(32)	\$ 10.23		
Forfeited	(13)	\$ 26.30		
Outstanding at May 2, 2015	230	\$ 28.14	4.7	\$ 1,361
Exercisable at May 2, 2015	168	\$ 27.07	3.1	\$ 1,144

(1) Intrinsic value for stock options is defined as the difference between the market price of our 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 the quarter.

**8. Earnings per Share, Basic and Diluted**

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

	<b>Three Months Ended</b>	
	<b>May 2, 2015</b>	<b>May 3, 2014</b>
Net income	\$ 2,770	\$ 2,496
Weighted average common shares for basic earnings per share	29,141	28,861
Dilutive effect of stock options and restricted stock	345	352
Weighted average common shares for diluted earnings per share	29,486	29,213
Basic earnings per share	\$ 0.10	\$ 0.09
Diluted earnings per share	\$ 0.09	\$ 0.09

Total anti-dilutive common stock options not included in the calculation of diluted earnings per share were less than 0.1 million for the three months ended May 2, 2015 and 0.4 million for the three months ended May 3, 2014.



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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 17, 2015 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.*

*Fiscal 2015 is the 52-week period ending January 30, 2016. Fiscal 2014 is the 52-week period ending January 31, 2015. The first three months of fiscal 2015 was the 13-week period ended May 2, 2015. The first three months of fiscal 2014 was the 13-week period ended May 3, 2014.*

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

**General**

Net sales constitute gross sales (net of actual and estimated returns and deductions for promotions) and shipping revenue. Net sales include our store sales and our ecommerce sales. Net sales are allocated between store and ecommerce based on the location where the customer originated the sale. We record the sale of gift cards as a current liability and recognize revenue when a customer redeems a gift card. Additionally, the portion of gift cards that will not be redeemed ( gift card breakage ) is recognized in net sales after 24 months, at which time the likelihood of redemption is considered remote based on our historical redemption data.

We report comparable sales based on net sales beginning on the first anniversary of the first day of operation of a new store or ecommerce business. We operate a sales strategy that integrates our stores with our ecommerce platform. There is significant interaction between our store sales and our ecommerce sales channels and we believe that they are utilized in tandem to serve our customers. Therefore, our comparable sales also include our ecommerce sales. Changes in our comparable sales between two periods are based on net sales of store or ecommerce businesses which were in operation during both of the two periods being compared and, if a store or ecommerce business is included in the calculation of comparable sales for only a portion of one of the two periods being compared, then that store or ecommerce business is included in the calculation for only the comparable portion of the other period. Any change in

square footage of an existing comparable store, including remodels and relocations, does not eliminate that store from inclusion in the calculation of comparable sales. Any store or ecommerce business that we acquire will be included in the calculation of comparable sales after the first anniversary of the acquisition date. Current year foreign exchange rates are applied to both current year and prior year comparable sales to achieve a consistent basis for comparison. There may be variations in the way in which some of our competitors and other apparel retailers calculate comparable sales. As a result, data herein regarding our comparable sales may not be comparable to similar data made available by our competitors or other retailers.

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

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

Selling, general and administrative expenses consist primarily of store personnel wages and benefits, administrative staff and infrastructure expenses, freight costs for merchandise shipments from the distribution centers to the stores, store supplies, depreciation on fixed assets at our home office and stores, facility expenses, training expenses and advertising and marketing costs. Credit card fees, insurance, public company expenses, legal expenses, amortization of intangibles, future incentive payments, 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 sales.* As previously described in detail under the caption General, comparable sales provide a measure of sales growth for stores and ecommerce businesses open at least one year over the comparable prior year period.

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

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

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

## **Results of Operations**

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

	<b>Three Months Ended</b>	
	<b>May 2, 2015</b>	<b>May 3, 2014</b>
Net sales	100.0%	100.0%
Cost of goods sold	68.2	69.0
Gross profit	31.8	31.0
Selling, general and administrative expenses	29.5	28.7

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Operating profit	2.3	2.3
Interest and other income, net	0.2	0.1
Earnings before income taxes	2.5	2.4
Provision for income taxes	0.9	0.9
Net income	1.6%	1.5%

**Three Months (13 weeks) Ended May 2, 2015 Compared With Three Months (13 weeks) Ended May 3, 2014**

*Net Sales*

Net sales were \$177.6 million for the three months ended May 2, 2015 compared to \$162.9 million for the three months ended May 3, 2014, an increase of \$14.7 million or 9.0%. The increase reflected the net addition of 58 stores (made up of 54 new stores in North America and eight new stores in Europe offset by four store closures in North America) subsequent to May 3, 2014 and a \$4.8 million increase due to comparable sales for the three months ended May 2, 2015, partially offset by a decrease of \$5.0 million due to the impact of changes in foreign exchange rates. By region, North America sales increased \$10.6 million or 7.0% and Europe sales increased \$4.1 million or 33.6% for the three months ended May 2, 2015 compared to the three months ended May 3, 2014.

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There was a 3.0% increase in comparable sales primarily driven by an increase in dollars per transaction offset by a decrease in comparable transactions. Dollars per transaction increased due to an increase in average unit retail and an increase in units per transaction. Comparable sales increases in hardgoods, men's clothing, junior's clothing, and accessories were partially offset by comparable sales decreases in footwear. For information as to how we define comparable sales, see General above.

### ***Gross Profit***

Gross profit was \$56.5 million for the three months ended May 2, 2015 compared to \$50.5 million for the three months ended May 3, 2014, an increase of \$6.0 million, or 11.9%. As a percent of net sales, gross profit increased 80 basis points for the three months ended May 2, 2015 to 31.8%. The increase was primarily driven by a 100 basis points increase in our product margin and 30 basis points from efficiencies in our supply chain, partially offset by a 50 basis point decrease due to the deleveraging of our store occupancy costs.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative ( SG&A ) expenses were \$52.4 million for the three months ended May 2, 2015 compared to \$46.8 million for the three months ended May 3, 2014, an increase of \$5.6 million, or 11.9%. SG&A expenses as a percent of net sales increased by 80 basis points for the three months ended May 2, 2015 to 29.5%. The increase was primarily driven by an increase of 70 basis points due to the deleveraging of our store operating expenses and a 40 basis points impact of expense associated with the future incentive payments to be paid in conjunction with our acquisition of Blue Tomato recorded in the three months ended May 2, 2015, as we did not record an expense associated with the future incentive payments in the three months ended May 3, 2014 and partially offset by a decrease of 30 basis points due to the leveraging of our corporate costs.

### ***Provision for Income Taxes***

Our effective income tax rate for the three months ended May 2, 2015 was 37.7% compared to 37.3% for the three months ended May 3, 2014. The increase in the effective tax rate was driven by the impact of acquisition related expenses associated with the future incentive payments incurred in the three months ended May 2, 2015.

### ***Net Income***

Net income for the three months ended May 2, 2015 was \$2.8 million, or \$0.9 per diluted share, compared with net income of \$2.5 million, or \$0.09 per diluted share, for the three months ended May 3, 2014.

### ***Liquidity and Capital Resources***

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

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

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

During fiscal 2015, we expect to spend approximately \$39 million to \$41 million on capital expenditures, a majority of which will relate to leasehold improvements and fixtures for the 57 new stores we plan to open in fiscal 2015 and remodels or relocations of existing stores. There can be no assurance that the number of stores that we actually open in fiscal 2015 will not be different from the number of stores we plan to open, or that actual fiscal 2015 capital expenditures will not differ from this expected amount.

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**Table of Contents*****Operating Activities***

Net cash provided by operating activities decreased by \$14.9 million to \$1.7 million for the three months ended May 2, 2015 from \$16.6 million for the three months ended May 3, 2014. Our operating cash flows result primarily from cash received from our customers, offset by cash payments we make for inventory, employee compensation, store occupancy expenses and other operational expenditures. Cash received from our customers generally corresponds to our net sales. Because our customers primarily use credit cards or cash to buy from us, our receivables from customers settle quickly. Changes to our operating cash flows have historically been driven primarily by changes in operating income, which is impacted by changes to non-cash items such as depreciation, amortization and accretion, deferred taxes, and excess tax benefit from stock-based compensation, and changes to the components of working capital.

***Investing Activities***

Net cash used in investing activities was \$14.8 million for the three months ended May 2, 2015, related to \$8.8 million of capital expenditures primarily for new store openings and existing store remodels or relocations and \$6.0 million in net purchases of marketable securities. Net cash provided in investing activities was \$3.6 million for the three months ended May 3, 2014, related to \$10.4 million in net purchases of marketable securities, partially offset by \$6.8 million of capital expenditures primarily for new store openings and existing store remodels or relocations.

***Financing Activities***

Net cash provided by financing activities for the three months ended May 2, 2015 was \$4.1 million, primarily related to \$3.0 million in net proceeds from revolving credit facilities and long-term debt and proceeds from stock-based compensation exercises and related tax benefits of \$1.1 million. Net cash used in financing activities for the three months ended May 3, 2014 was \$18.8 million, primarily related to \$19.6 million cash paid for the repurchase of common stock.

***Sources of Liquidity***

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

We maintain a secured credit agreement with Wells Fargo Bank, N.A., which provides us with a secured revolving credit facility until September 1, 2016 of up to \$25.0 million, which, pursuant to an accordion feature, may be increased to \$35.0 million at our discretion. The secured revolving credit facility provides for the issuance of a standby letter of credit in an amount not to exceed \$5.0 million outstanding at any time and with a term not to exceed 365 days. The commercial line of credit provides for the issuance of a commercial letter of credit in an amount not to exceed \$10.0 million and with terms not to exceed 120 days. The amount of borrowings available at any time under our secured revolving credit facility is reduced by the amount of standby and commercial letters of credit outstanding at that time. There were no borrowings outstanding under the secured revolving credit facility at May 2, 2015 and January 31, 2015. We had open commercial letters of credit outstanding under our secured revolving credit facility of

\$0.2 million and \$0.3 million at May 2, 2015 and January 31, 2015. The secured revolving credit facility bears interest either at a fluctuating rate per annum equal to 1% above the Daily Three Month LIBOR rate or at a fixed rate of 1% above LIBOR in effect on the first day of an applicable fixed rate term.

Additionally, we have revolving lines of credit of up to 9.0 million Euro, the proceeds of which are used to fund certain international operations. There were \$3.1 million of borrowings outstanding under these revolving lines of credit at May 2, 2015 and no borrowings outstanding at January 31, 2015. We had no open commercial letters of credit outstanding under these revolving lines of credit at May 2, 2015 or January 31, 2015. There were also no borrowings under the other long-term debt at May 2, 2015 and January 31, 2015.

### **Critical Accounting Estimates**

Our condensed consolidated financial statements are prepared in accordance with U.S. GAAP. In connection with the preparation of our condensed consolidated financial statements, we are required to make assumptions and estimates about future events and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses and the related



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disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that we believe to be relevant at the time our condensed consolidated financial statements are prepared. On a regular basis, we review the accounting policies, assumptions, estimates and judgments to ensure that our condensed consolidated financial statements are presented fairly and in accordance with U.S. GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

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 31, 2015.

**Contractual Obligations and Commercial Commitments**

There were no material changes outside the ordinary course of business in our contractual obligations during the three months ended May 2, 2015. The following table summarizes the total amount of future payments due under our contractual obligations at May 2, 2015 (in thousands):

	<b>Total</b>	<b>Fiscal 2015</b>	<b>Fiscal 2016 and Fiscal 2017</b>	<b>Fiscal 2018 and Fiscal 2018</b>	<b>Thereafter</b>
Operating lease obligations (1)	\$ 415,780	\$ 46,553	\$ 117,975	\$ 96,663	\$ 154,589
Purchase obligations (2)	212,039	212,039			
Line of credit obligations (3)	3,102	3,102			
Total (4)	\$ 630,921	\$ 261,694	\$ 117,975	\$ 96,663	\$ 154,589

- (1) Amounts do not include contingent rent and real estate taxes, insurance, common area maintenance charges and other executory costs obligations. See Note 4, Commitments and Contingencies, in the Notes to Condensed Consolidated Financial Statements found in Item 1 of this Form 10-Q, for additional information related to our operating leases.
- (2) We have an option to cancel these commitments with no notice prior to shipment, except for certain private label purchase orders in which we are obligated to repay contractual amounts upon cancellation.
- (3) Amounts include borrowings outstanding under our revolving lines of credit.
- (4) The table above excludes the future incentive payments to the sellers and certain employees of Blue Tomato. See Note 2, Business Combination, in the Notes to Condensed Consolidated Financial Statements found in Item 1 of this Form 10-Q, for additional information related to the future incentive payments. Also excluded from the table above are unrecognized tax benefits of \$0.5 million, as we are unable to reasonably estimate the timing of future cash payments, if any, for these liabilities.

**Off-Balance Sheet Arrangements**

At May 2, 2015, we did not have any off-balance sheet arrangements.

**Impact of Inflation/Deflation**

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

## **Risk Factors**

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

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***Our ability to attract customers to our stores depends heavily on the success of the shopping malls in which many of our stores are located; any decrease in customer traffic in those malls could cause our sales to be less than expected.***

In order to generate customer traffic we depend heavily on locating many of our stores in prominent locations within successful shopping malls. Sales at these stores are derived, in part, from the volume of traffic in those malls. Our stores benefit from the ability of a mall's other tenants to generate consumer traffic in the vicinity of our stores and the continuing popularity of malls as shopping destinations. Our sales volume and mall traffic generally may be adversely affected by, among other things, economic downturns in a particular area, competition from ecommerce retailers, non-mall retailers and other malls, increases in gasoline prices and the closing or decline in popularity of other stores in the malls in which we are located. An uncertain economic outlook could curtail new shopping mall development, decrease shopping mall traffic, reduce the number of hours that shopping mall operators keep their shopping malls open or force them to cease operations entirely. A reduction in mall traffic as a result of these or any other factors could have a material adverse effect on our business, results of operations and financial condition.

***Our growth strategy depends on our ability to open and operate new stores each year, which could strain our resources and cause the performance of our existing stores to suffer.***

Our growth largely depends on our ability to open and operate new stores successfully. However, our ability to open new stores is subject to a variety of risks and uncertainties, and we may be unable to open new stores as planned, and any failure to successfully open and operate new stores could have a material adverse effect on our results of operations. We intend to continue to open new stores in future years while remodeling a portion of our existing store base annually. In addition, our proposed expansion will place increased demands on our operational, managerial and administrative resources. These increased demands could cause us to operate our business less effectively, which in turn could cause deterioration in the financial performance of our individual stores and our overall business. To the extent our new store openings are in markets where we already have stores, we may experience reduced net sales in existing stores in those markets. In addition, successful execution of our growth strategy may require that we obtain additional financing, and we cannot assure you that we will be able to obtain that financing on acceptable terms or at all.

In addition, we plan to open new stores in regions of the U.S. or international locations in which we currently have few, or no, stores. The expansion into these markets may present competitive, merchandising, hiring and distribution challenges that are different from those currently encountered in our existing markets. Any of these challenges could adversely affect our business and results of operations.

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

We may, from time to time, acquire other retail stores or businesses, such as our acquisition of Blue Tomato, a leading European multi-channel retailer for board sports and related apparel and footwear, which was completed in fiscal 2012. We may experience difficulties in integrating any stores or businesses we may acquire, including their facilities, personnel, financial systems, distribution, operations and general operating procedures, and any such acquisitions may also result in the diversion of our capital and our management's attention from other business issues and opportunities. If we experience difficulties in integrating acquisitions or if such acquisitions do not provide the benefits that we expect to receive, we could experience increased costs and other operating inefficiencies, which could have an adverse effect on our results of operations and overall financial performance.

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

In fiscal 2011, we opened our first store locations in Canada and we plan to continue to open new stores in Canada. During fiscal 2012, we acquired Blue Tomato, which operates primarily in the European market, and we plan to open new stores in Europe in the future. We may continue to expand internationally, either organically, or through additional acquisitions. International markets may have different competitive conditions, consumer tastes and discretionary spending patterns than our existing U.S. market. As a result, operations in international markets may be less successful than our operations in the U.S. Additionally, consumers in international markets may not be familiar with us or the brands we sell, and we may need to build brand awareness in the markets. Furthermore, we have limited experience with the legal and regulatory environments and market practices outside of the U.S. and cannot guarantee that we will be able to penetrate or successfully operate in international markets. We also expect to incur additional costs in complying with applicable foreign laws and regulations as they pertain to both our products and our operations.

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Additionally, the results of operations of our international subsidiaries are exposed to foreign exchange rate fluctuations. Upon translation, operating results may differ materially from expectations. As we expand our international operations, our exposure to exchange rate fluctuations will increase.

***Our business is dependent upon our being able to anticipate, identify and respond to changing fashion trends, customer preferences and other fashion-related factors; failure to do so could have a material adverse effect on us.***

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

***The current uncertainty surrounding the U.S. and global economies, including the European economy, coupled with cyclical economic trends in action sports retailing could have a material adverse effect on our results of operations.***

The action sports retail industry historically has been subject to substantial cyclicalities. As the U.S. and global economic conditions change, the trends in discretionary consumer spending become unpredictable and discretionary consumer spending could be reduced due to uncertainties about the future. When discretionary consumer spending is reduced, purchases of action sports apparel and related products may decline. The current uncertainty in the U.S. and global economies and increased government debt may have a material adverse impact on our results of operations and financial position.

Because of this cycle, we believe the value message has become more important to consumers. As a retailer that sells approximately 80% to 85% branded merchandise, this trend may negatively affect our business, as we generally will have to charge more than vertically integrated private label retailers.

***Our sales and inventory levels fluctuate on a seasonal basis, leaving our operating results particularly susceptible to changes in back-to-school and winter holiday shopping patterns. Accordingly, our quarterly results of operations are volatile and may fluctuate significantly.***

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

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

the timing of new store openings and the relative proportion of our new stores to mature stores;

whether we are able to successfully integrate any new stores that we acquire and the presence of any unanticipated liabilities in connection therewith;

fashion trends and changes in consumer preferences;

calendar shifts of holiday or seasonal periods;

changes in our merchandise mix;

timing of promotional events;

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

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actions by competitors or mall anchor tenants;

weather conditions;

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

inventory shrinkage beyond our historical average rates.

***Significant fluctuations and volatility in the price of cotton, foreign labor costs and other raw materials used in the production of our merchandise may have a material adverse effect on our business, results of operations and financial conditions.***

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

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

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

***The regulatory requirements regarding conflict minerals could have a negative impact on our results of operations.***

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC promulgated final rules regarding disclosure of the use of certain minerals (tantalum, tin, gold and tungsten) known as conflict minerals, which are mined from the Democratic Republic of the Congo and adjoining countries, as well as procedures regarding a manufacturer's efforts to prevent the sourcing of such minerals and metals produced from those minerals. We conducted required due diligence activities for the 2014 calendar year and filed our second Form SD report with the SEC in May 2015. Additional requirements under the rule could affect sourcing at competitive prices and availability in sufficient quantities of certain of the conflict minerals used in the manufacture of our products, which could have a material adverse effect on our ability to purchase these products in the future. The costs of compliance, including those related to supply chain research, the limited number of suppliers and possible changes in the sourcing of these minerals, could have a material adverse effect on our results of operations or cash flow.

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

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

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

The teenage and young adult retail apparel, footwear, accessories and hardgoods industry is highly competitive. We compete with other retailers for vendors, teenage and young adult customers, suitable store locations, qualified store associates and



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management personnel. Some of our competitors are larger than we are and have substantially greater financial, marketing, including advanced ecommerce marketing capabilities, and other resources than we do. Additionally, some of our competitors may offer more options for free and/or expedited shipping for ecommerce sales. Direct competition with these and other retailers may increase significantly in the future, which could require us, among other things, to lower our prices and could result in the loss of our customers. Current and increased competition could have a material adverse effect on our business, results of operations and financial condition.

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

Our business is dependent on continued good relations with our vendors. In particular, we believe that we generally are able to obtain attractive pricing and other terms from vendors because we are perceived as a desirable customer, and deterioration in our relationship with our vendors could have a material adverse effect on our business. There can be no assurance that our vendors will provide us with an adequate supply or quality of products or acceptable pricing. Our vendors could discontinue selling to us, raise the prices they charge at any time or allow their merchandise to be discounted by other retailers. There can be no assurance that we will be able to acquire desired merchandise in sufficient quantities on terms acceptable to us in the future. In addition, certain of our vendors sell their products directly to the retail market and therefore compete with us directly and other vendors may decide to do so in the future. There can be no assurance that such vendors will not decide to discontinue supplying their products to us, supply us only less popular or lower quality items, raise the prices they charge us or focus on selling their products directly. In addition, a number of our vendors are smaller, less capitalized companies and are more likely to be impacted by unfavorable general economic and market conditions than larger and better capitalized companies. These smaller vendors may not have sufficient liquidity during economic downturns to properly fund their businesses and their ability to supply their products to us could be negatively impacted. Any inability to acquire suitable merchandise at acceptable prices, or the loss of one or more key vendors, could have a material adverse effect on our business, results of operations and financial condition.

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

Our ecommerce operations subject us to certain risks that could have an adverse effect on our operational results, including:

rapid technological change;

liability for online content; and

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

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

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

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

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

Our success depends in part upon our ability to attract, motivate and retain a sufficient number of qualified employees who understand and appreciate our culture based on a passion for the action sports lifestyle and are able to adequately represent this culture to our customers. Qualified individuals of the requisite caliber, skills and number needed to fill these positions may be in short supply in some areas, and the employee turnover rate in the retail industry is high. Competition for qualified employees could require us to pay higher wages to attract a sufficient number of suitable employees. If we are unable to hire and retain store managers and store associates capable of consistently providing a high level of customer service, as demonstrated by their enthusiasm for our culture and knowledge of our merchandise, our ability to open new stores may be impaired and the performance of our existing and new stores could be materially adversely affected. We are also dependent upon temporary personnel to adequately staff our stores and distribution and ecommerce fulfillment centers particularly during busy periods such as the back-to-school and winter holiday seasons. There can be no assurance that we will receive adequate

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

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

Domestically, we rely on a single distribution center located in Corona, California to receive, store and distribute the vast majority of our merchandise to our domestic stores and we primarily rely on a single ecommerce fulfillment center located in Edwardsville, Kansas to ship merchandise purchased on the [www.zumiez.com](http://www.zumiez.com) website. Internationally, we operate a combined distribution and ecommerce fulfillment center located in Graz, Austria that support our Blue Tomato ecommerce and store operations in Europe and we operate a distribution center located in Delta, British Columbia, Canada to distribute our merchandise to our Canadian stores. Additionally, we are headquartered in Lynnwood, Washington. As a result, a natural disaster or other catastrophic event that affects one of the regions where we operate these centers could significantly disrupt our operations and have a material adverse effect on our business, results of operations and financial condition.

### ***We are required to make substantial rental payments under our operating leases and any failure to make these lease payments when due could have a material adverse effect on our business and growth plans.***

Payments under operating leases account for a significant portion of our operating expenses and has historically been our third largest expense behind cost of sales and our employee related costs. Total rent expense, including contingent rent based on sales of some of our stores, was \$17.2 million and \$15.1 million for the three months ended May 2, 2015 and May 3, 2014. Total rent expense amounts do not include real estate taxes, insurance, common area maintenance charges and other executory costs, which were \$9.4 million and \$8.5 million for the three months ended May 2, 2015 and May 3, 2014.

At May 2, 2015, we were committed to property owners for minimum lease payments of \$415.8 million. In addition to minimum lease payments, substantially all of our store leases provide for contingent rent payments based on sales of the respective stores, as well as real estate taxes, insurance, common area maintenance charges and other executory costs. These amounts generally escalate each year. We expect that any new stores we open will also be leased by us under operating leases, which will further increase our operating lease expenses and obligations.

Our substantial operating lease obligations could have significant negative consequences, including:

increasing our vulnerability to general adverse economic and industry conditions;

limiting our ability to obtain additional financing;

requiring that a substantial portion of our available cash be applied to pay our rental obligations, thus reducing cash available for other purposes; and

limiting our flexibility in planning for or reacting to changes in our business or in the industry in which we compete, and placing us at a disadvantage with respect to some of our competitors.

We depend on cash flow from operations to pay our lease expenses and to fulfill our other cash needs. If our business does not generate sufficient cash flow from operating activities, and sufficient funds are not otherwise available to us from borrowings under bank loans or from other sources, we may not be able to service our operating lease expenses, grow our business, respond to competitive challenges or fund our other liquidity and capital needs, which could have a material adverse effect on our business.

***The terms of our primary credit facility impose operating and financial restrictions on us that may impair our ability to respond to changing business and economic conditions. These restrictions could have a significant adverse impact on our business. Additionally, our business could suffer if our ability to acquire financing is reduced or eliminated.***

We maintain a secured credit agreement with Wells Fargo Bank, N.A., which provides us with a secured revolving credit facility until September 1, 2016 of up to \$25.0 million, which, pursuant to an accordion feature, may be increased to \$35.0 million at our discretion. The credit agreement contains a number of restrictions and covenants that generally limit our ability to, among other things, (1) incur additional debt, (2) undergo a change in ownership and (3) enter into certain transactions. The credit agreement also contains financial covenants that require us to meet certain specified financial tests and ratios, including,

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a maximum net income after taxes of not less than one dollar on a trailing four-quarter basis provided, that, there shall be added to net income all charges for impairment of goodwill and other intangibles and up to an aggregate of \$5.0 million of store asset impairment, and a minimum quick ratio of 1.25. The quick ratio is defined as our cash and near cash equivalents plus certain defined receivables divided by the borrowings outstanding. Our accounts receivable, general intangibles, inventory and equipment have been pledged to secure our obligations under the credit agreement. We must also provide financial information and statements to our lender. We were in compliance with all such covenants at May 2, 2015. There were no borrowings outstanding under the secured revolving credit facility at May 2, 2015 and January 31, 2015. We had open commercial letters of credit outstanding under our secured revolving credit facility of \$0.2 million and \$0.3 million at May 2, 2015 and January 31, 2015.

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

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

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

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

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

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

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

Sales from private label merchandise account for approximately 15% to 20% of our net sales and generally carry higher gross margins than our other merchandise. We may take steps to increase the percentage of net sales of private label merchandise in the future, although there can be no assurance that we will be able to achieve increases in private label merchandise sales as a percentage of net sales. Our failure to anticipate, identify and react in a timely manner to fashion trends with our private label merchandise, could have a material adverse effect on our comparable sales, financial condition and results of operations.

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

We are continuing to make investments to improve our information systems infrastructure. If our information systems and software do not work effectively, this could adversely impact the promptness and accuracy of our transaction processing, financial accounting and reporting and our ability to manage our business and properly forecast operating results and cash

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requirements. Additionally, we rely on third-party service providers for certain information systems functions. If a service provider fails to provide the data quality, communications capacity or services we require, the failure could interrupt our services and could have a material adverse effect on our business, financial condition and results of operations. To manage the anticipated growth of our operations and personnel, we may need to continue to improve our operational and financial systems, transaction processing, procedures and controls, and in doing so could incur substantial additional expenses that could impact our financial results.

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

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

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

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

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

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

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

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



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

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

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

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

Our business is subject to a wide array of laws and regulations. Changes in the regulations, the imposition of additional regulations, or the enactment of any new legislation including those related to health care, taxes, privacy, environmental issues and trade, could adversely affect our results of operations or financial condition.

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

Labor is a primary component in the cost of operating our business. Increased labor costs, whether due to competition, unionization, increased minimum wage, state unemployment rates, employee benefits costs or otherwise, may adversely impact our operating expenses. A considerable amount of our store team members are paid at rates related to the federal or state minimum wage and any changes to the minimum wage rate may increase our operating expenses. Additionally, we are self-insured with respect to our health care coverage in the U.S. and do not purchase third party insurance for the health insurance benefits provided to employees with the exception of pre-defined stop loss coverage, which helps limit the cost of large claims. In March 2010, The Patient Protection and Affordable Care Act was enacted requiring employers such as us to provide health insurance for all qualifying employees or pay penalties for not providing coverage. The most significant increases in cost will occur in fiscal 2015 and fiscal 2016. We evaluated the impact the new law will have on us, and although we cannot predict with certainty the financial and operational impacts the new law will have, we expect to be required to provide health benefits to more employees than we currently do, which we expect to raise our labor costs. While the majority of these costs will begin in fiscal 2015 and fiscal 2016, there is no assurance that we will be able to absorb and/or pass through the costs of such legislation in a manner that will not adversely impact our results or operations.

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

We completed our initial public offering in May 2005 and we have incurred and could continue to incur significant legal, accounting, insurance and other expenses as a result of being a public company. Rules and regulations implemented by Congress, the SEC and the Nasdaq Global Select Market have required changes in corporate governance practices of public companies. Compliance with these laws could cause us to incur significant costs and

expenses, including legal and accounting costs, and could make some compliance activities more time-consuming and negatively impact our financial performance. Additionally, these rules and regulations may make it more expensive for us to obtain director and officer liability insurance. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as officers.

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

Reporting obligations as a public company and our anticipated growth, both domestically and internationally, are likely to place a considerable strain on our financial and management systems, processes and controls, as well as on our personnel. In addition, we are required to document and test our internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 so that our management can certify as to the effectiveness of our internal controls and our independent registered public accounting firm can render an opinion on the effectiveness of our internal control over financial reporting on an annual basis. This process requires us to document our internal controls over financial reporting and to potentially make significant changes thereto, if applicable. As a result, we have incurred and expect to continue to incur substantial expenses to test our financial controls and systems, and we have been and in the future may be required to improve our financial and managerial controls, reporting systems and procedures, to incur substantial expenses to make such improvements and to hire additional personnel. If our management is ever unable to certify the effectiveness of our internal controls or if our independent registered public accounting firm cannot render an opinion on the effectiveness of our internal

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control over financial reporting, or if material weaknesses in our internal controls are ever identified, we could be subject to regulatory scrutiny and a loss of public confidence, which could have a material adverse effect on our business and our stock price. In addition, if we do not maintain adequate financial and management personnel, processes and controls, we may not be able to accurately report our financial performance on a timely basis, which could cause a decline in our stock price and adversely affect our ability to raise capital.

***Changes to accounting rules or regulations could significantly affect our financial results.***

Our condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ( U.S. GAAP ). New accounting rules or regulations and changes to existing accounting rules or regulations have occurred and may occur in the future. Future changes to accounting rules or regulations, such as changes to lease accounting guidance or a requirement to convert to international financial reporting standards, could negatively affect our results of operations and financial condition through increased cost of compliance.

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

Our common stock is traded publicly and various securities analysts follow our financial results and issue reports on us. These reports include information about our historical financial results as well as the analysts' estimates of our future performance. The analysts' estimates are based upon their own independent opinions and can be different from our estimates or expectations. If our operating results are below the estimates or expectations of public market analysts and investors, our stock price could decline. In December 2007, a securities class action litigation and associated derivative lawsuits were brought against us and such actions are frequently brought against other companies following a decline in the market price of their securities. These lawsuits were dismissed with prejudice in March 2009. If our stock price is volatile, we may become involved in this type of litigation in the future. Any litigation could result in substantial costs and a diversion of management's attention and resources that are needed to successfully run our business.

***The value of our investments may fluctuate.***

We have our excess cash primarily invested in state and local municipal securities and variable-rate demand notes. These investments have historically been considered very safe investments with minimal default rates. At May 2, 2015, we had \$143.9 million of investments in state and local government securities and variable-rate demand notes. These securities are not guaranteed by the U.S. government and are subject to additional credit risk based upon each local municipality's tax revenues and financial stability. As a result, we may experience a reduction in value or loss of liquidity of our investments, which may have a negative adverse effect on our results of operations, liquidity and financial condition.

***A decline in the market price of our stock and/or our performance may trigger an impairment of the goodwill and other indefinite-lived intangible assets recorded on the condensed consolidated balance sheets.***

Goodwill and other indefinite-lived intangible assets are required to be tested for impairment at least annually or more frequently if management believes indicators of impairment exist. Any reduction in the carrying value of our goodwill or other indefinite-lived intangible assets as a result of our impairment analysis could result in a non-cash impairment charge, which could have a significant impact on our results of operations.

***Reduced operating results and cash flows may cause us to incur impairment charges.***

We review the carrying value of our fixed assets for impairment whenever events or changes in circumstances indicate that the carrying value of such asset may not be recoverable. The review could result in a non-cash impairment charge related to underperforming stores, which could impact our results of operations.

**Item 3: Quantitative and Qualitative Disclosures About Market Risk**

Our market risk profile at May 2, 2015 has not significantly changed since January 31, 2015. Our market risk profile at January 31, 2015 is disclosed in our Annual Report on Form 10-K.

**Item 4: Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures.* We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Securities Exchange Act Rule 13a-15(e)). Based on this evaluation, our CEO and CFO concluded that, as of May 2, 2015, our disclosure controls and procedures were effective.

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*Changes in Internal Control over Financial Reporting.* There has been no change in our internal control over financial reporting (as defined in Securities Exchange Act Rule 13a-15(f)) during the quarter ended May 2, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II - OTHER INFORMATION****Item 1. Legal Proceedings**

We are involved from time to time in litigation incidental to our business. We are unable to predict the outcome of litigated cases. A court determination in any of litigation actions against us could result in significant liability and could have a material adverse effect on our business, results of operations or financial condition.

See Note 4 to the Notes to Condensed Consolidated Financial Statements found in Item 1 of this Form 10-Q (listed under **Litigation** under **Commitments and Contingencies**).

**Item 1A. Risk Factors**

Please refer to the Risk Factors set forth in Item 2 of Part I of this Form 10-Q as well as the risk factors previously disclosed in Item 1A of Part I of our Annual Report on Form 10-K for the year ended January 31, 2015. There have been no material changes in the risk factors set forth in our Annual Report on Form 10-K for the year ended January 31, 2015.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table presents information with respect to purchase of common stock of the Company made during the thirteen weeks ended May 2, 2015.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased and Dollar Value of Shares that May Yet Be Repurchased Under the Plans or Programs (1)	
			Part of Publicly Announced Plans or Programs (1)	
February 1, 2015 - February 28, 2015	7,627	\$ 38.45		\$
March 1, 2015 - April 4, 2015				
April 5, 2015 - May 2, 2015				
Total	7,627			

(1) During the thirteen weeks ended May 2, 2015, 7,627 shares were purchased by us in order to satisfy employee tax withholding obligations upon the vesting of restricted stock. These shares were not acquired pursuant to any publicly announced purchase plan or program.

As of May 2, 2015, the maximum dollar value of shares that may yet be repurchased under our current share repurchase program was \$30.0 million. The share repurchase program is conducted under authorizations made from time to time by our Board of Directors. In December 2013, the Board of Directors authorized a stock repurchase program that provides for the repurchase of up to \$30.0 million of outstanding common stock. The December 2013 stock repurchase program was completed in April 2014. In March 2014, the Board of Directors authorized an additional stock repurchase program that provides for the repurchase of up to \$30.0 million of outstanding common stock through the fiscal year ending January 31, 2015. On December 10, 2014, our Board of Directors superseded and replaced this program with a new \$30.0 million share repurchase program that is expected to continue through January 30, 2016, unless the time period is extended or shortened by the Board of Directors.

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

None

**Table of Contents****Item 6. Exhibits**

<b>Exhibit No.</b>	<b>Description of Exhibits</b>
10.26	Executive Transitional Services and Release Agreement, dated March 2, 2015
31.1	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications of the Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
101	The following materials from Zumiez Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended May 2, 2015, formatted in XBRL (eXtensible Business Reporting Language): <ul style="list-style-type: none"> <li>(i) Condensed Consolidated Balance Sheets at May 2, 2015 and January 31, 2015; (ii) Condensed Consolidated Statements of Income for the three months ended May 2, 2015 and May 3, 2014; (iii) Condensed Consolidated Statements of Comprehensive Income for the three months ended May 2, 2015 and May 3, 2014; (iv) Condensed Consolidated Statements of Changes in Shareholders' Equity for the three months ended May 2, 2015 and May 3, 2014; (v) Condensed Consolidated Statements of Cash Flows for the three months ended May 2, 2015 and May 3, 2014; and (vi) Notes to Condensed Consolidated Financial Statements.</li> </ul>

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ZUMIEZ INC.

Dated: June 9, 2015

By: /s/ Christopher C. Work  
Christopher C. Work  
Chief Financial Officer

(Principal Financial Officer and Principal  
Accounting Officer)