UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MAY 2, 2020

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	**91-1040022**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

4001 204th Street SW, Lynnwood, WA 98036
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(425) 551-1500**

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	ZUMZ	Nasdaq Global Select

At June 1, 2020, there were 25,430,813 shares outstanding of common stock.

ZUMIEZ INC.
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ZUMIEZ INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	May 2, 2020 (Unaudited)	February 1, 2020
Assets		
Current assets		
Cash and cash equivalents	$ 63,731	$ 52,428
Marketable securities	153,494	198,768
Receivables	16,837	16,841
Inventories	136,354	135,095
Prepaid expenses and other current assets	5,179	9,456
Total current assets	375,595	412,588
Fixed assets, net	109,573	113,051
Operating lease right-of-use assets	285,416	301,784
Goodwill	56,706	57,099
Intangible assets, net	14,366	14,564
Deferred tax assets, net	11,206	6,303
Other long-term assets	8,571	8,869
Total long-term assets	485,838	501,670
Total assets	$ 861,433	$ 914,258
Liabilities and Shareholders’ Equity		
Current liabilities		
Trade accounts payable	$ 49,497	$ 47,787
Accrued payroll and payroll taxes	13,173	23,653
Income taxes payable	4,430	4,686
Operating lease liabilities	70,584	61,800
Other liabilities	19,197	21,784
Total current liabilities	156,881	159,710
Long-term operating lease liabilities	269,608	284,717
Other long-term liabilities	3,790	3,745
Total long-term liabilities	273,398	288,462
Total liabilities	430,279	448,172
Commitments and contingencies (Note 5)		
Shareholders’ equity		
Preferred stock, no par value, 20,000 shares authorized; none issued and outstanding	—	—
Common stock, no par value, 50,000 shares authorized; 25,431 shares issued and outstanding at May 2, 2020 and 25,828 shares issued and outstanding at February 1, 2020	163,349	161,458
Accumulated other comprehensive loss	(14,896)	(12,591)
Retained earnings	282,701	317,219
Total shareholders’ equity	431,154	466,086
Total liabilities and shareholders’ equity	$ 861,433	$ 914,258

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended	
	May 2, 2020	May 4, 2019
Net sales	$ 137,772	$ 212,928
Cost of goods sold	114,036	146,464
Gross profit	23,736	66,464
Selling, general and administrative expenses	51,584	65,496
Operating (loss) profit	(27,848)	968
Interest income, net	1,074	852
Other income, net	106	153
(Loss) earnings before income taxes	(26,668)	1,973
Provision for income taxes	(5,567)	1,180
Net (loss) income	$ (21,101)	$ 793
Basic (loss) earnings per share	$ (0.84)	$ 0.03
Diluted (loss) earnings per share	$ (0.84)	$ 0.03
Weighted average shares used in computation of (loss) earnings per share:		
Basic	25,040	25,090
Diluted	25,040	25,351

See accompanying notes to condensed consolidated financial statements

ZUMIEZ INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	Three Months Ended	
	May 2, 2020	May 4, 2019
Net (loss) income	$ (21,101)	$ 793
Other comprehensive loss, net of tax and reclassification adjustments:		
Foreign currency translation	(1,961)	(3,035)
Net change in unrealized loss on available-for-sale debt securities	(344)	(16)
Other comprehensive loss, net	(2,305)	(3,051)
Comprehensive loss	**$ (23,406)**	**$ (2,258)**

See accompanying notes to condensed consolidated financial statements

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

	Common Stock		Accumulated Other Comprehensive	Retained	
	Shares	Amount	Loss	Earnings	Total
Balance at February 1, 2020	25,828	$ 161,458	$ (12,591)	$ 317,219	$ 466,086
Net loss	—	—	—	(21,101)	(21,101)
Other comprehensive loss, net	—	—	(2,305)	—	(2,305)
Issuance and exercise of stock-based awards	297	335	—	—	335
Stock-based compensation expense	—	1,556	—	—	1,556
Repurchase of common stock	(694)	—	—	(13,417)	(13,417)
Balance at May 2, 2020	25,431	$ 163,349	$ (14,896)	$ 282,701	$ 431,154

	Common Stock		Accumulated Other Comprehensive	Retained	
	Shares	Amount	Income (Loss)	Earnings	Total
Balance at February 2, 2019	25,521	$ 153,066	$ (9,224)	$ 256,614	$ 400,456
Net income	—	—	—	793	793
Other comprehensive loss, net	—	—	(3,051)	—	(3,051)
Issuance and exercise of stock-based awards	220	345	—	—	345
Stock-based compensation expense	—	1,693	—	—	1,693
Cumulative effect of accounting change under ASC 842	—	—	—	(6,276)	(6,276)
Balance at May 4, 2019	25,741	$ 155,104	$ (12,275)	$ 251,131	$ 393,960

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended	
	May 2, 2020	May 4, 2019
Cash flows from operating activities:		
Net (loss) income	$ (21,101)	$ 793
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	6,096	6,263
Noncash lease expense	14,996	13,371
Deferred taxes	(4,856)	1,249
Stock-based compensation expense	1,556	1,693
Impairment of long-lived assets	1,514	123
Other	(173)	101
Changes in operating assets and liabilities:		
Receivables	1,918	4,708
Inventories	(2,031)	(7,540)
Prepaid expenses and other assets	4,354	(167)
Trade accounts payable	1,074	19,568
Accrued payroll and payroll taxes	(10,423)	(5,636)
Income taxes payable	(1,078)	(7,104)
Operating lease liabilities	(6,948)	(13,770)
Other liabilities	(2,440)	(3,790)
Net cash (used in) provided by operating activities	(17,542)	9,862
Cash flows from investing activities:		
Additions to fixed assets	(2,504)	(3,331)
Purchases of marketable securities and other investments	(9,106)	(33,385)
Sales and maturities of marketable securities and other investments	54,344	39,001
Net cash provided by investing activities	42,734	2,285
Cash flows from financing activities:		
Proceeds from issuance and exercise of stock-based awards	428	583
Payments for tax withholdings on equity awards	(93)	(238)
Common stock repurchased	(13,417)	—
Net cash (used in) provided by financing activities	(13,082)	345
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(853)	(466)
Net increase in cash, cash equivalents, and restricted cash	11,257	12,026
Cash, cash equivalents, and restricted cash, beginning of period	58,991	54,271
Cash, cash equivalents, and restricted cash, end of period	$ 70,248	$ 66,297
Supplemental disclosure on cash flow information:		
Cash paid during the period for income taxes	$ 343	$ 7,038
Accrual for purchases of fixed assets	1,976	1,583

See accompanying notes to condensed consolidated financial statements

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 specialty retailer of apparel, footwear, accessories and hardgoods for young men and women who want to express their individuality through the fashion, music, art and culture of action sports, streetwear, and other unique lifestyles. At May 2, 2020, we operated 719 stores; 606 in the United States ("U.S."), 52 in Canada, 49 in Europe, and 12 in Australia. Beginning in mid-March, we experienced global store closures as a result of a novel strain of coronavirus ("COVID-19") that extended for a significant portion of the three months ended May 2, 2020. As of May 2, 2020, 65 of our stores, which represents 9% of our total count, were open and operating. We are monitoring the evolving circumstances surrounding COVID-19 and will continue to reopen stores as it is safe to do so. We operate under the names Zumiez, Blue Tomato and Fast Times. Additionally, we operate ecommerce websites at zumiez.com, zumiez.ca, blue-tomato.com and fasttimes.com.au.

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, 2020 and May 4, 2019 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 February 1, 2020 is derived from audited consolidated financial statements, which are included in our Annual Report on Form 10-K for the year ended February 1, 2020, 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.

Reclassification—Certain prior period restricted cash amounts have been reclassified to be consistent with current year presentation within our consolidated statement of cash flows.

COVID-19— In December 2019, COVID-19 was first identified, and in March 2020, the World Health Organization categorized COVID-19 as a pandemic. To help control the spread of the virus and protect the health and safety of our employees and customers, we began closing our retail stores across all markets that we operate between March 16, 2020 and March 19, 2020. Changes in our operations due to COVID-19 resulted in material reductions in revenues and operating income during the first fiscal quarter and are expected to have continued negative impacts through the balance of the year.

The COVID-19 pandemic remains a rapidly evolving situation. The continuation of the outbreak may cause prolonged periods of store closures and modified operating schedules and may result in changes in customer behaviors, including a potential reduction in consumer discretionary spending in our stores. These may lead to increased asset recovery and valuation risks, such as impairment of our stores and other assets and an inability to realize deferred tax assets due to sustaining losses in certain jurisdictions. Uncertainties in the global economy could impact the financial viability of our suppliers, vendors and other business partners, which could interrupt our supply chain, limit our ability to sell to our consumer and require other changes to our operations. These and other factors could adversely impact our net revenues, operating income and earnings per share financial measures.

Restricted Cash— Cash and cash equivalents that are restricted as to withdrawal or use under the terms of certain contractual agreements are recorded as restricted cash in other long-term assets on our condensed consolidated balance sheets. The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the condensed consolidated balance sheets that sum to the total of the same such amounts shown in the condensed consolidated statement of cash flows (in thousands):

	February 1, 2020	February 2, 2019
Cash and cash equivalents	$ 52,428	$ 52,422
Restricted cash included in other long-term assets	6,563	1,849
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	$ 58,991	$ 54,271

	May 2, 2020	May 4, 2019
Cash and cash equivalents	$ 63,731	$ 60,616
Restricted cash included in other long-term assets	6,517	5,681
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	$ 70,248	$ 66,297

Restricted cash included in other long-term assets represents amounts held as insurance collateral and collateral for bank guarantees on certain store operating leases.

Significant Accounting Policies—Our significant accounting policies are detailed in Note 2, "Summary of Significant Accounting Policies" within Part IV Item 15 of the Annual Report on Form 10-K for the year ended February 1, 2020. There have been no changes in accounting policies other than specific accounting considerations herein that we have taken as a result of COVID-19.

Zumiez evaluates its long-lived assets for indicators of impairment quarterly or when events or changes in circumstances indicate that their carrying amounts may not be recoverable. Given the substantial reduction in our sales and reduced cash flow projections as a result of the store closures due to the COVID-19 pandemic, we determined that a triggering event occurred and that an impairment assessment was warranted for certain stores. This analysis resulted in the Company recording $1.5M of impairment charges related to long-lived assets and operating lease right of use assets in the first quarter of fiscal 2020. As we open our stores and have better visibility to the current operating environment including the potential sublease market this may result in additional impairment of our long-lived assets later in fiscal 2020.

We assess goodwill and indefinite-lived intangible assets for impairment annually in the fourth quarter or more frequently if indicators of impairment arise. We perform this analysis at the reporting unit level by determining whether the fair value of a reporting unit is less than its carrying amount. Given the aforementioned circumstances surrounding COVID-19, we determined that a triggering event had, in fact, occurred. Based on our prior year fourth quarter impairment analysis, in which the fair values of all reporting units were in excess of their carrying amounts, we concluded that impairment was not needed. At this time, we do not believe that additional impairment of goodwill for the first fiscal quarter of 2020 is warranted; however, we are currently monitoring the ongoing negative effects of COVID-19 and if our results decline from our current estimates, we may incur future potential impairments.

Merchandise inventories are stated at the lower of cost (primarily average cost) or net realizable value. We record reserves for obsolete and slow-moving inventory and for estimated shrinkage between physical inventory counts. During the three months ended May 2, 2020, we recorded no inventory write-offs as a result of excess inventory due to the temporary closure of our retail stores. However, the pace of store reopenings as well as future customer behavior, among other factors, may result in additional inventory write-offs later in fiscal 2020.

During the first quarter of fiscal 2020, we received an immaterial amount of COVID-19 related lease concessions and deferrals for certain stores in United States, Europe and Australia, generally correlating with the limited time period our stores were closed during stay-at-home mandates. Consistent with updated guidance from the Financial Accounting Standards Board ("FASB") in April 2020, we have elected to treat COVID-19-related rent concessions as variable lease expense and lease deferrals as there is no change in the contract assuming they are short-term in nature. COVID-19 related rent concessions that are expected to extend well beyond the fiscal year or change the other terms in the lease are treated as lease modifications and a full re-valuation of the right of use asset and liability is performed. We are having ongoing conversations with landlords in various markets to seek commercially reasonable lease concessions given the current environment.

Recent Accounting Standards— In April 2020, the FASB issued interpretive guidance that indicated it would be acceptable for entities to make an election to account for lease concessions related to the effects of the COVID-19 pandemic consistent with how those concessions would be accounted for under Topic 842, as though enforceable rights and obligations for those concessions existed (regardless of whether those enforceable rights and obligations for the concessions explicitly exist in the contract). The FASB also indicated it was acceptable to treat deferral of lease payments with no substantive changes to the contract as if there was no change to the contract. The Company has elected to treat COVID-19 related lease concessions as variable lease expense and COVID-19 related lease deferrals as there was no change to the contract assuming they are short-term in nature. For leases where rent concessions are expected to extend well beyond the fiscal year or change the other terms of the lease these are treated as a lease modification. We have adopted this standard prospectively for the fiscal year beginning February 2, 2020 and due to the changing landscape are not able to estimate the impact on our condensed consolidated financial statements for fiscal year 2020.

In December 2019, the FASB issued an update simplifying the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. We early adopted this update for the fiscal year, and interim periods, beginning February 2, 2020. The impact on our condensed consolidated financial statements was not material.

In August 2018, the FASB issued a new standard over customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. The standard requires implementation costs incurred in a hosting arrangement that is a service contract be accounted for in accordance with ASC 350-40. The new standard is effective for annual periods beginning after December 15, 2019, with early adoption permitted. We adopted this standard prospectively for the fiscal year beginning February 3, 2019 and the impact on our condensed consolidated financial statements was not material.

In January 2017, the FASB issued a new standard simplifying the test for goodwill impairment. The standard eliminates Step 2 from the goodwill impairment test. The standard requires entities perform the goodwill impairment test by comparing the fair value of a reporting unit to its carrying amount and recognize the impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total goodwill allocated to that reporting unit. The new standard is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted. We do expect this standard to have a material impact on our condensed consolidated financial statements.

2. Revenue

The following table disaggregates net sales by geographic region (in thousands):

	Three Months Ended	
	May 2, 2020	**May 4, 2019**
United States	$ 110,364	$ 176,918
Canada	6,173	11,032
Europe	19,600	22,946
Australia	1,635	2,032
Net sales	$ 137,772	$ 212,928

Net sales for the three months ended May 2, 2020 included a $1.0 million decrease due to the change in foreign exchange rates, which consisted of $0.2 million in Canada, $0.6 million in Europe and $0.2 million in Australia.

Our contract liabilities include deferred revenue related to our customer loyalty program and gift cards. The current liability for gift cards was $3.3 million at May 2, 2020 and $4.3 million at February 1, 2020, respectively. Deferred revenue related to our STASH loyalty program was $0.5 million at May 2, 2020 and $0.7 million at February 1, 2020, respectively.

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)

	May 2, 2020			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	$ 45,384	$ —	$ —	$ 45,384
Money market funds	15,747	—	—	15,747
U.S. treasury and government agency securities	—	—	—	—
Corporate debt securities	2,600	—	—	2,600
Total cash and cash equivalents	63,731	—	—	63,731
Marketable securities:				
U.S. treasury and government agency securities	19,936	399	—	20,335
Corporate debt securities	115,947	1,001	(401)	116,547
State and local government securities	16,601	117	(106)	16,612
Variable-rate demand notes	—	—	—	—
Total marketable securities	$ 152,484	$ 1,517	$ (507)	$ 153,494

	February 1, 2020			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	$ 34,233	$ —	$ —	$ 34,233
Money market funds	9,850	—	—	9,850
Corporate debt securities	8,345	—	—	8,345
Total cash and cash equivalents	52,428	—	—	52,428
Marketable securities:				
U.S. treasury and government agency securities	25,452	142	(2)	25,592
Corporate debt securities	148,608	1,121	—	149,729
State and local government securities	22,310	207	—	22,517
Variable-rate demand notes	930	—	—	930
Total marketable securities	$ 197,300	$ 1,470	$ (2)	$ 198,768

All of our marketable securities have an effective maturity date of five 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):

	May 2, 2020					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable securities:						
U.S. treasury and government agency securities	$ —	$ —	$ —	$ —	$ —	$ —
Corporate debt securities	$ 25,160	$ (401)	$ —	$ —	$ 25,160	$ (401)
State and local government securities	$ 4,664	$ (106)	$ —	$ —	$ 4,664	$ (106)
Total marketable securities	$ 29,824	$ (507)	$ —	$ —	$ 29,824	$ (507)

	February 1, 2020					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable securities:						
U.S. treasury and government agency securities	$ 567	$ (2)	$ —	$ —	$ 567	$ (2)
Corporate debt securities	$ —	$ —	$ —	$ —	$ —	$ —
State and local government securities	$ —	$ —	$ —	$ —	$ —	$ —
Total marketable securities	$ 567	$ (2)	$ —	$ —	$ 567	$ (2)

We did not record a realized loss for other-than-temporary impairments during the three months ended May 2, 2020 or May 4, 2019.

4. Leases

At May 2, 2020, we had operating leases for our retail stores, certain distribution and fulfillment facilities, vehicles and equipment. Our remaining lease terms vary from one month to ten years, with varying renewal and termination options. At May 2, 2020, the weighted-average of the remaining lease term was 5.7 years and the weighted-average discount rate was 3.3%.

The following table presents components of lease expense (in thousands):

	Three Months Ended	
	May 2, 2020	May 4, 2019
Operating lease expense	$ 17,953	$ 17,082
Variable lease expense	676	894
Total lease expense (1)	$ 18,629	$ 17,976

(1) Total lease expense includes short-term lease expense and sublease income which is immaterial to the Company. Total lease expense does not include right-of-use asset impairment charges, common area maintenance charges and other non-lease components.

Supplemental cash flow information related to leases is as follows (in thousands):

	Three Months Ended	
	May 2, 2020	May 4, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ (6,948)	$ (13,770)
Right-of-use assets obtained in exchange for new operating lease liabilities	2,214	20,296

At May 2, 2020, the maturities of our operating leases liabilities are as follows (in thousands):

Fiscal 2020	$ 61,945
Fiscal 2021	72,657
Fiscal 2022	63,948
Fiscal 2023	53,603
Fiscal 2024	46,058
Thereafter	73,943
Total minimum lease payments	372,154
Less: interest	(31,962)
Present value of lease obligations	340,192
Less: current portion	(70,584)
Long-term lease obligations (1)	$ 269,608

(1) Amounts in the table do not include contingent rent, common area maintenance charges and other non-lease components.

At May 2, 2020, we have excluded from the table above operating leases that were contractually executed, but have not yet commenced. These operating leases are expected to commence by the end of fiscal 2020 and is immaterial to the Company.

5. Commitments and Contingencies

Purchase Commitments—At May 2, 2020, we had outstanding purchase orders to acquire merchandise from vendors of $177.5 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.

A putative class action, *Alexia Herrera, on behalf of herself and all other similarly situated, v. Zumiez Inc.*, was filed against us in the Eastern District Count of California, Sacramento Division under case number 2:16-cv-01802-SB in August 2016. Alexandra Bernal filed the initial complaint and then in October 2016 added Alexia Herrera as a named plaintiff and Alexandra Bernal left the case. The putative class action lawsuit against us alleges, among other things, various violations of California's wage and hour laws, including alleged violations of failure to pay reporting time. In May 2017 we moved for judgment on the pleadings in that plaintiff's cause of action for reporting-time pay should fail as a matter of law as the plaintiff and the other putative class members did not "report for work" with respect to certain shifts on which the plaintiff's claims are based. In August 2017, the court denied the motion. However, in October 2017 the district court certified the order denying the motion for judgment on the pleadings for immediate interlocutory review by the United States Court of Appeals for the Ninth Circuit. We then filed a petition for permission to appeal the order denying the motion for judgment on the pleadings with the United States Court of Appeals for the Ninth Circuit, which petition was then granted in January 2018. Our opening appellate brief was filed on June 6, 2018 and the plaintiff's answering appellate brief was filed August 6, 2018. Our reply brief to the Plaintiff's answering appellate brief was filed on September 26, 2018 and oral arguments were completed on February 4, 2019. On May 20, 2019, the United States Court of Appeals for the Ninth Circuit granted our motion for leave to file a supplemental brief addressing new authority. On June 10, 2019, the plaintiff's supplemental answering brief was filed with the United States Court of Appeals for the Ninth Circuit. We then filed our supplemental reply brief to the plaintiff's supplemental answering brief with the United States Court of Appeals for the Ninth Circuit on June 24, 2019. On March 19, 2020 the United States Court of Appeals for the Ninth Circuit published its opinion (i) affirming the District Court's denial of judgment on the pleadings on plaintiff's reporting time pay and minimum wage claims, (ii) reversing the District Court's denial of judgment on the pleadings on plaintiff's expense reimbursement claim and (iii) refusing to certify the reporting time pay question to the California Supreme Court. On April 2, 2020 we filed a petition for rehearing en banc to certify the reporting time pay question to the California Supreme Court and on April 27, 2020 plaintiff filed a response to our petition for rehearing en banc. We in turn filed a reply in support of our petition for rehearing en banc on May 1, 2020. On May 14, 2020, the United States Court of Appeals for the Ninth Circuit denied our petition for rehearing en banc. Given the current status of this case, we are unable to express a view regarding the ultimate outcome or, if the outcome is adverse, to estimate an amount, or range, of reasonably possible loss. We have defended this case vigorously and will continue to do so.

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, 2020 and February 1, 2020 was $2.1 million and $1.9 million.

6. Revolving Credit Facilities and Debt

On December 7, 2018, the Company entered into a secured credit agreement with Wells Fargo Bank, N.A., which provided us with a senior secured credit facility ("credit facility") of up to $35.0 million. The secured revolving credit facility is available for working capital and other general corporate purposes. The senior secured credit facility provides for the issuance of standby letters of credit in an amount not to exceed $17.5 million outstanding at any time and with a term not to exceed 365 days. The commercial line of credit provides for the issuance of commercial letters of credit in an amount not to exceed $10.0 million and with terms not to exceed 120 days. The amount of borrowings available at any time under our credit facility is reduced by the amount of standby and commercial letters of credit outstanding at that time. The credit facility will mature on December 7, 2021. All obligations under the credit facility are joint and several with Zumiez Services and guaranteed by certain of our subsidiaries. The credit facility is secured by a first-priority security interest in substantially all of the personal property (but not the real property) of the borrowers and guarantors. Amounts borrowed under the credit facility bear interest at an adjusted LIBOR rate plus a margin of 1.25% per annum.

The credit facility contains various representations, warranties and restrictive covenants that, among other things and subject to specified circumstances and exceptions, restrict our ability to incur indebtedness (including guarantees), grant liens, make investments, pay dividends or distributions with respect to capital stock, make prepayments on other indebtedness, engage in mergers, dispose of certain assets or change the nature of their business.

The credit facility contains certain financial maintenance covenants that generally require the Registrant to have net income after taxes of at least $5.0 million on a trailing four-quarter basis and a quick ratio of 1.25:1.0 at the end of each fiscal quarter. The credit facility contains certain affirmative covenants, including reporting requirements such as delivery of financial statements, certificates and notices of certain events, maintaining insurance, and providing additional guarantees and collateral in certain circumstances. The credit facility includes customary events of default including non-payment of principal, interest or fees, violation of covenants, inaccuracy of representations or warranties, cross-default to other material indebtedness, bankruptcy and insolvency events, invalidity or impairment of guarantees or security interests, material judgments and change of control.

There were no borrowings outstanding under the credit facility at May 2, 2020 and February 1, 2020. We had one open commercial letter of credit outstanding for less than $0.3 million under our secured revolving credit facility at May 2, 2020 and no open commercial letters of credit outstanding at February 1, 2020.

7. 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.

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

	May 2, 2020		
	Level 1	Level 2	Level 3
Cash equivalents:			
Money market funds	$ 15,747	$ —	$ —
Treasury and agency securities	—	—	—
Corporate debt securities	—	2,600	—
Marketable securities:			
U.S. treasury and government agency securities	—	20,335	—
Corporate debt securities	—	116,547	—
State and local government securities	—	16,612	—
Variable-rate demand notes	—	—	—
Other long-term assets:			
Money market funds	1,712	—	—
Total	$ 17,459	$ 156,094	$ —

	February 1, 2020		
	Level 1	Level 2	Level 3
Cash equivalents:			
Money market funds	$ 9,850	$ —	$ —
Corporate debt securities	—	8,345	—
Marketable securities:			
Treasury and agency securities	—	25,592	—
Corporate debt securities	—	149,729	—
State and local government securities	—	22,517	—
Variable-rate demand notes	—	930	—
Other long-term assets:			
Money market funds	1,711	—	—
Total	$ 11,561	$ 207,113	$ —

The Level 2 marketable securities include U.S treasury and government agency securities, corporate debt securities, 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, 2020 and May 4, 2019.

8. Stockholders' Equity

Share Repurchase—On December 4, 2019, our Board of Directors approved the repurchase of up to an aggregate of $100 million of common stock. Repurchases may be made from time to time on the open market at prevailing market prices. This program is expected to continue through January 30, 2021, unless the time period is extended or shortened by the Board of Directors. This repurchase program supersedes all previously approved and authorized share repurchase programs.

The following table summarizes common stock repurchase activity during the three months ended May 2, 2020 (in thousands, except per share amounts):

Number of shares repurchased	694
Average price per share of repurchased shares (with commission)	$ 19.31
Total cost of shares repurchased	$ 13,417

Accumulated Other Comprehensive Loss—The components of accumulated other comprehensive loss and the adjustments to other comprehensive loss for amounts reclassified from accumulated other comprehensive loss into net income are as follows (in thousands):

	Foreign currency translation adjustments	Net unrealized gains (losses) on available-for-sale debt securities	Accumulated other comprehensive loss
Three months ended May 2, 2020:			
Balance at February 1, 2020	$ (13,696)	$ 1,105	$ (12,591)
Other comprehensive loss, net (1)	(1,961)	(344)	(2,305)
Balance at May 2, 2020	$ (15,657)	$ 761	$ (14,896)
Three months ended May 4, 2019:			
Balance at February 2, 2019	$ (9,270)	$ 46	$ (9,224)
Other comprehensive loss, net (1)	(3,035)	(16)	(3,051)
Balance at May 4, 2019	$ (12,305)	$ 30	$ (12,275)

(1) Other comprehensive loss is net of immaterial taxes for the three months ended May 2, 2020 and May 4, 2019 for net unrealized gains (losses) on available-for-sale investments. Foreign currency translation adjustments are not adjusted for income taxes as they relate to permanent investments in our international subsidiaries.

9. 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.

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

	Three Months Ended	
	May 2, 2020	May 4, 2019
Cost of goods sold	$ 319	$ 345
Selling, general and administrative expenses	1,237	1,348
Total stock-based compensation expense	$ 1,556	$ 1,693

At May 2, 2020, there was $12.2 million of total unrecognized compensation cost related to unvested stock options, restricted stock awards and restricted stock units. This cost has a weighted-average remaining recognition period of 1.9 years.

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

	Restricted Stock Awards/Units	Grant Date Weighted-Average Fair Value	Intrinsic Value
Outstanding at February 1, 2020	541	$ 22.82	
Granted	292	$ 18.61	
Vested	(184)	$ 21.38	
Forfeited	(8)	$ 23.02	
Outstanding at May 2, 2020	641	$ 21.32	$ 13,642

We had 0.5 million stock options outstanding at May 2, 2020 with a weighted average exercise price of $22.03 and 0.3 million stock options outstanding at February 1, 2020 with a weighted average exercise price of $23.38.

10. Loss (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):

	Three Months Ended	
	May 2, 2020	May 4, 2019
Net (loss) income	$ (21,101)	$ 793
Weighted average common shares for basic (loss) earnings per share:	25,040	25,090
Dilutive effect of stock options and restricted stock	—	261
Weighted average common shares for diluted (loss) earnings per share:	25,040	25,351
Basic (loss) earnings per share	$ (0.84)	$ 0.03
Diluted (loss) earnings per share	$ (0.84)	$ 0.03

There were 0.1 million anti-dilutive common shares related to stock-based awards for the three months ended May 2, 2020 and 0.1 million for the three months ended May 4, 2019.

11. Subsequent Events

At the end of May 2020, 493 stores were opened and operating worldwide, an increase of 428 stores since the end of the first quarter, representing 69% of our total stores. Total sales for May 2020 decreased $5.2 million or 8.6% compared to the prior year same month due to the number of stores closed during the month offset by favorable results for the stores open during the month and our e-commerce sales. Sales for stores open over the same portions of the month to the prior year, including comparable e-commerce sales increased $24.3 million or 79.6% percent over the prior year.

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 16, 2020 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. Uncertainty is further heightened given the innumerable considerations related to COVID-19. Results and trends may differ materially depending on a variety of factors, including, but not limited to: further spread of COVID-19; regulatory measures or recommendations put in place to limit the spread of COVID-19, including restrictions on business operations and social distancing requirements, the length and severity of such restrictions; the potential for a resurgence of COVID-19 infections in a given geographic region, and fluctuations in U.S. and international economies. 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 2020 is the 52-week period ending January 30, 2021. Fiscal 2019 was the 52-week period ending February 1, 2020. The first three months of fiscal 2020 was the 13-week period ended May 2, 2020. The first three months of fiscal 2019 was the 13-week period ended May 4, 2019.

"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. We record the sale of gift cards as a current liability and recognize revenue when a customer redeems a gift card. Additionally, the portion of gift cards that will not be redeemed ("gift card breakage") is recognized based on our historical redemption rate in proportion to the pattern of rights exercised by the customer.

We report "comparable sales" based on net sales beginning on the first anniversary of the first day of operation of a new store or ecommerce business. We operate a sales strategy that integrates our stores with our ecommerce platform. There is significant interaction between our store sales and our ecommerce sales channels and we believe that they are utilized in tandem to serve our customers. Therefore, our comparable sales also include our ecommerce sales. Changes in our comparable sales between two periods are based on net sales of store or ecommerce 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 increase or decrease less than 25% in square footage of an existing comparable store, including remodels and relocations within the same mall, or temporary closures less than seven days does not eliminate that store from inclusion in the calculation of comparable sales. Any store or ecommerce business that we acquire will be included in the calculation of comparable sales after the first anniversary of the acquisition date. Current year foreign exchange rates are applied to both current year and prior year comparable sales to achieve a consistent basis for comparison. Stores closed due the impacts of COVID-19 are generally excluded from our comparable sales calculation as they were closed for longer than seven days. Furthermore, as our ecommerce business has remained open during the current COVID-19 pandemic it remains reported in our comparable sales calculation. 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, distribution and warehousing costs (including associated depreciation) and freight costs for store merchandise transfers. This may not be comparable to the way in which our competitors or other retailers compute their cost of goods sold. Cash consideration received from vendors is reported as a reduction of cost of goods sold if the inventory has sold, a reduction of the carrying value of the inventory if the inventory is still on hand, or a reduction of selling, general and administrative expense if the amounts are reimbursements of specific, incremental and identifiable costs of selling the vendors' products.

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

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

Key Performance Indicators

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

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

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

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

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

We consider our cash and current marketable securities balances to be a critical asset of the business and important to drive our short and long-term initiatives as well as balance our liquidity for on-going operations. We have always strived to maintain a strong balance sheet that is built to weather the storm of an economic down turn and support the long-term viability of the business.

Results of Operations

In December 2019, a strain of coronavirus (COVID-19) was first identified. Since then, COVID-19 has surfaced in almost all regions around the world. In the best interest of our customers and employees and in line with governmental regulations, all stores were closed by March 19, 2020, with a significant majority remaining closed through the quarter ended May 2, 2020. Since the initial closure of stores, we have carefully monitored our locations on a store by stores basis and gradually reopened in cities where we have determined that it is safe to do so. The closure of our stores for an extended time has had a significant impact on the financial results of our business during the first quarter.

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

	Three Months Ended	
	May 2, 2020	May 4, 2019
Net sales	100.0 %	100.0 %
Cost of goods sold	82.8	68.8
Gross profit	17.2	31.2
Selling, general and administrative expenses	37.4	30.7
Operating (loss) profit	(20.2)	0.5
Interest and other income, net	0.8	0.4
(Loss) earnings before income taxes	(19.4)	0.9
Provision for income taxes	(4.1)	0.5
Net (loss) income	(15.3) %	0.4 %

As part of the COVID-19 response, the Company has taken the following actions to preserve financial liquidity and financial flexibility:

- Suspended hiring, laid off virtually all part-time staff, eliminated substantially all planned fiscal 2020 bonuses and delayed majority of merit raises
- Lowered operating costs, including travel, marketing and other non-essential items
- Reduced capital spend by delaying or cancelling select projects
- Reduced planned inventory receipts by cancelling or delaying orders
- Suspended rent payments while negotiating rent relief with landlords and delayed or canceled planned new store openings
- Extended payment terms for both merchandise and non-merchandise vendor invoices
- Paused share repurchases.

The Company ended the quarter with $217 million in cash and investments and no debt.

Three Months (13 weeks) Ended May 2, 2020 Compared With Three Months (13 weeks) Ended May 4, 2019

Net Sales

Net sales were $137.8 million for the three months ended May 2, 2020 compared to $212.9 million for the three months ended May 4, 2019, a decrease of $75.1 million or 35.3%. The decrease in sales was primarily driven by the impacts of COVID-19 and the closure of our physical retail across the world. This impact was partially offset by a $15.3 million increase in comparable sales and the net addition of 12 stores (made up of 7 new stores in North America, 7 new stores in Europe and 3 new stores in Australia partially offset by 5 store closures in North America) subsequent to May 4, 2019. By region, North America sales decreased $71.4 million or 38.0% and other international sales (which consists of Europe and Australia sales) decreased $3.7 million or 15.0% for the three months ended May 2, 2020 compared to the three months ended May 4, 2019. Excluding the impact of changes in foreign exchange rates, North America sales decreased $ 71.2 million or 37.9% and other international sales decreased $2.9 million or 11.7% for the three months ended May 2, 2020 compared to the three months ended May 4, 2019.

Comparable sales increased by $15.3 million or 12.9% primarily driven by a 5.8% increase in comparable sales in February prior to our stores closing and strong ecommerce sales during the period of closure. For our operations that were comparable during the quarter we saw an increase in comparable transactions and dollars per transaction. Dollars per transaction increased due to an increase in units per transaction partially offset by a decrease in average unit retail. Comparable sales were primarily driven by an increase in hardgoods followed by men’s clothing, women’s clothing and accessories. These increases were partially offset by decreases in comparable sales in footwear. There were no departments that were positive in total sales for the quarter. For information as to how we define comparable sales, see “General” above.

Gross Profit

Gross profit was $23.7 million for the three months ended May 2, 2020 compared to $66.5 million for the three months ended May 4, 2019, a decrease of $42.8 million, or 64.4%. As a percent of net sales, gross profit decreased 1,400 basis points for the three months ended May 2, 2020 to 17.2% as we deleveraged meaningfully across our fixed cost structures during the period of closure. The decrease was primarily driven by a 790 basis point increase in our store occupancy costs due to the continuation of rent charges without associated sales during our period of closures, a 350 basis point increase in web fulfillment, distribution and shipping costs due to increased web activity as a result of COVID-19 related store closures as well as deleverage across our distribution fixed costs including the continuation of wage payments during store closures, a 140 basis point decrease in pre-shrink product margin, and a 90 basis point increase in COVID-19 related impairment to our right of use asset.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were $51.6 million for the three months ended May 2, 2020 compared to $65.5 million for the three months ended May 4, 2019, a decrease of $13.9 million, or 21.2%. SG&A expenses as a percent of net sales increased 670 basis points for the three months ended May 2, 2020 to 37.4% as we deleveraged meaningfully across our fixed costs during the period of closure. The increase was primarily driven by a 690 basis point increase in our store costs and a 70 basis point increase in corporate costs both primarily due to deleveraging as a result of sales decline as well as the continuation of wage payments during stores closures as a result of COVID-19, this was partially offset by a 100 basis point decrease in incentive compensation.

Net Loss (Income)

Net loss for the three months ended May 2, 2020 was $21.1 million, or $0.84 loss per diluted share, compared with net income of $0.8 million, or $0.03 earnings per diluted share, for the three months ended May 4, 2019. Our effective income tax rate for the three months ended May 2, 2020 was a 20.9% provision for income taxes compared to a 59.8% provision for income taxes for the three months ended May 4, 2019. The change was primarily due to an increase in net losses in certain jurisdictions.

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. 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 2020, we expect to spend approximately $10 million to $11 million on capital expenditures, which is down from $18 million to $20 million, which we reported in March. The majority of our capital expenditures will relate to leasehold improvements and fixtures for the approximately 9 new stores we remain on track to open in fiscal 2020 and remodels or relocations of existing stores. There can be no assurance that the number of stores that we actually open in fiscal 2020 will not be different from the number of stores we plan to open, or that actual fiscal 2020 capital expenditures will not differ from our expectations.

Operating Activities

Net cash from operating activities decreased by $27.4 million to $17.5 million used in operating activities for the three months ended May 2, 2020 from $9.9 million provided by operating activities for the three months ended May 4, 2019. 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. Historically, changes to our operating cash flows have been driven primarily by changes in operating income, which is impacted by changes to non-cash items such as depreciation, amortization and accretion, deferred taxes, and changes to the components of working capital.

Investing Activities

Net cash provided by investing activities was $42.7 million for the three months ended May 2, 2020 related to $45.2 million in net sales of marketable securities partially offset by $2.5 million of capital expenditures primarily for new store openings and existing store remodels or relocations. Net cash provided by investing activities was $2.3 million for the three months ended May 4, 2019, related to $5.6 million in net sales of marketable securities partially offset by $3.3 million of capital expenditures primarily for new store openings and existing store remodels or relocations.

Financing Activities

Net cash used in financing activities for the three months ended May 2, 2020 was $13.1 million, related to $13.4 million used in the repurchase of common stock and $0.1 million in payments for tax withholding obligations upon vesting of restricted stock partially offset by $0.4 million proceeds from the issuance and exercise of stock-based awards. Net cash provided by financing activities for the three months ended May 4, 2019 was $0.3 million, primarily related to $0.6 million proceeds from the issuance and exercise of stock-based awards partially offset by $0.3 million in payments for tax withholding obligations upon vesting of restricted 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 provided us with a senior secured credit facility ("credit facility") of up to $35.0 million. The credit facility is available for working capital and other general corporate purposes. The credit facility provides for the issuance of standby letters of credit in an amount not to exceed $17.5 million outstanding at any time and with a term not to exceed 365 days. The commercial line of credit provides for the issuance of commercial letters of credit in an amount not to exceed $10.0 million and with terms not to exceed 120 days. The credit facility will mature on December 7, 2021. The credit facility is secured by a first-priority security interest in substantially all of the personal property (but not the real property) of the borrowers and guarantors. Amounts borrowed under the credit facility bear interest at an adjusted LIBOR rate plus a margin of 1.25% per annum. There were no borrowings or open commercial letters of credit outstanding under the secured credit facility at May 2, 2020 and February 1, 2020.

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 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 February 1, 2020.

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, 2020. The following table summarizes the total amount of future payments due under our contractual obligations at May 2, 2020 (in thousands):

	Total	Fiscal 2020	Fiscal 2021 and Fiscal 2022	Fiscal 2023 and Fiscal 2024	Thereafter
Operating lease liabilities, including imputed interest (1)	$ 372,154	$ 61,945	$ 136,605	$ 99,661	$ 73,943
Purchase obligations (2)	$ 177,479	177,479	—	—	—
Total	$ 549,633	$ 239,424	$ 136,605	$ 99,661	$ 73,943

(1) This amount represents the minimum lease payments, included imputed interest, under non-cancelable operating leases. See Note 4, "Leases," 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, packaging supplies and international purchase orders in which we are obligated to repay contractual amounts upon cancellation.

Off-Balance Sheet Arrangements

At May 2, 2020, 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.

The novel coronavirus disease (COVID-19) global pandemic could continue to have an adverse impact on our business.

Since being declared a pandemic by the World Health Organization in March 2020, COVID-19 has negatively impacted global economies, disrupted consumer spending and global supply chains, and created significant volatility and disruption of financial markets. The COVID-19 global pandemic could continue to have a material impact on our business, including our results of operations, financial condition and liquidity. The duration and severity of the COVID-19 pandemic will determine its ongoing impact on our business, including our ability to execute business strategies and initiatives in their expected time frame, the effect on our suppliers and disruptions to the global supply chain, and the ability of our customers to pay for our services and products.

A resurgence in the spread of COVID-19, could force the closure of our retail stores globally, as we saw in the first quarter of 2020. We may face long term store closure requirements and other operational restrictions with respect to some or all of our physical locations for prolonged periods of time due to, among other factors, evolving and increasingly stringent governmental restrictions, public health directives, quarantine policies, or social distancing measures, resulting in a materially adverse impact to our financial results.

With store closures withstanding, consumer fears about becoming ill with the virus may persist, adversely affecting traffic to our stores. Consumer spending may also be negatively impacted by general economic downturn and decreased consumer confidence resulting from the COVID-19 global pandemic. This may negatively impact sales in our stores and our e-commerce channel. The potential reduction in consumer visits to our stores, caused by COVID-19, and any decreased spending at retail stores or online caused by a lack of consumer confidence and spending following the pandemic, could result in a loss of sales and profits.

A rise in the spread COVID-19 also has the potential to significantly impact our supply chain if manufacturers of our products, distribution centers where we manage our inventory, or operations of our logistics and other service providers are disrupted, temporarily closed or experience worker shortages.

The COVID-19 pandemic's impact on macroeconomic conditions could alter the functioning of financial and capital markets, foreign currency exchange rates, commodity prices, and interest rates. After the COVID-19 global pandemic has settled, we may continue to experience adverse impacts to our business as a result of any economic recession that has occurred or may occur in the future.

The extent of the impact of the COVID-19 global pandemic on our business is highly uncertain and difficult to predict, given the innumerable unknowns regarding the duration and severity of the pandemic.

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

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

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

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

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

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

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

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

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

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

We depend heavily on generating customer traffic to our stores and websites. This includes locating many of our stores in prominent locations within successful shopping malls. Sales at these stores are derived, in part, from the volume of traffic in those malls. Our stores benefit from the ability of a mall’s “anchor” tenants, generally large department stores and other area attractions, to generate consumer traffic in the vicinity of our stores and the continuing popularity of malls as shopping destinations. In addition, some malls that were in prominent locations when we opened our stores may cease to be viewed as prominent. If this trend continues or if the popularity of mall shopping continues to decline generally among our customers, our sales may decline, which would impact our results of operations. Additionally, we may experience other risks associated with operating leases, such as lease termination or impairment of operating lease right-of-use assets. These risks may include circumstances that are not within our control, such as changes in fair market rent. Furthermore, we depend on generating increased traffic to our ecommerce business and converting that traffic into sales. This requires us to achieve expected results from our marketing and social media campaigns, accuracy of data analytics, reliability of our website, network, and transaction processing and a high-quality online customer experience. Our sales volume and customer traffic in our stores and on our websites generally could be adversely affected by, among other things, economic downturns, competition from other ecommerce retailers, non-mall retailers and other malls, increases in gasoline prices, fluctuations in exchange rates in border or tourism-oriented locations and the closing or decline in popularity of other stores in the malls in which we are located. Also, geopolitical events, including the threat of terrorism, or widespread health emergencies, such as coronavirus and other communicable diseases, viruses, or pandemics, could cause people to avoid our stores in shopping malls. An uncertain economic outlook could curtail new shopping mall development, decrease shopping mall and ecommerce traffic, reduce the number of hours that shopping mall operators keep their shopping malls open or force them to cease operations entirely. A reduction in consumer traffic to our stores or websites could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

If our information systems 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.

If our information systems, including software, do not work effectively, this could adversely impact the promptness and accuracy of our transaction processing, financial accounting and reporting and our ability to manage our business and properly forecast operating results and cash requirements. 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In the U.S., we rely on a single distribution center located in Corona, California to receive, store and distribute the vast majority of our merchandise to our domestic stores. Internationally, we operate a combined distribution and ecommerce fulfillment center located in Graz, Austria that supports our Blue Tomato ecommerce and store operations in Europe. We operate a distribution center located in Delta, British Columbia, Canada to distribute our merchandise to our Canadian stores. We operate a distribution and fulfillment center located in Melbourne, Australia to distribute our merchandise to our Australian stores. Additionally, we are headquartered in Lynnwood, Washington. As a result, unforeseen events, including war, terrorism, other political instability or conflicts, riots, public health issues (including widespread/pandemic illnesses such as coronavirus and other communicable diseases or viruses), a natural disaster or other catastrophic event that affects one of the regions where we operate these centers or our home office could significantly disrupt our operations and have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Our market risk profile at May 2, 2020 has not significantly changed since February 1, 2020. Our market risk profile at February 1, 2020 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, 2020, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting. There has been no change in our internal control over financial reporting (as defined in Securities Exchange Act Rule 13a-15(f)) during the three months ended May 2, 2020 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 5 to the Notes to Condensed Consolidated Financial Statements found in Part I 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 February 1, 2020. There have been no material changes in the risk factors set forth in our Annual Report on Form 10-K for the year ended February 1, 2020.

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, 2020 (in thousands, except average price paid per share):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Dollar Value of Shares that May Yet Be Repurchased Under the Plans or Programs (1)
February 2, 2020-February 29, 2020	-	-	-	-
March 1, 2020-April 4, 2020	694	$ 19.31	694	$ 86,583
April 5, 2020-May 2, 2020	-	-	-	-
Total	694		694	

(1) In December 2019, our Board of Directors approved the repurchase of up to an aggregate of $100 million of common stock. This program is expected to continue through January 30, 2021, unless the time period is extended or shortened by the Board of Directors. This repurchase program supersedes all previously approved and authorized share repurchase programs.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6. Exhibits

Exhibit No.	Description of Exhibits
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, 2020, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at May 2, 2020 (unaudited) and February 1, 2020; (ii) Unaudited Condensed Consolidated Statements of Operations for the three months ended May 2, 2020 and May 4, 2019; (iii) Unaudited Condensed Consolidated Statements of Comprehensive Loss for the three months ended May 2, 2020 and May 4, 2019; (iv) Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity for the three months ended May 2, 2020 and May 4, 2019; (v) Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended May 2, 2020 and May 4, 2019; and (vi) Notes to Condensed Consolidated Financial Statements.

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 8, 2020

By: /s/ Christopher C. Work
Christopher C. Work
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULE 13a-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Richard M. Brooks, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Zumiez Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Richard M. Brooks

Richard M. Brooks
Chief Executive Officer and Director
(Principal Executive Officer)

Dated: June 8, 2020

Exhibit 31.2

**CERTIFICATION PURSUANT TO
RULE 13a-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Christopher C. Work, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Zumiez Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Christopher C. Work
Christopher C. Work
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Dated: June 8, 2020

Exhibit 32.1

CERTIFICATIONS PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the Quarterly Report of Zumiez Inc., a Washington corporation (the "Company"), on Form 10-Q for the three months ended May 2, 2020 as filed with the Securities and Exchange Commission (the "Report"), I, Richard M. Brooks, Principal Executive Officer of the Company and Christopher C. Work, Principal Financial Officer of the Company, certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Richard M. Brooks
Richard M. Brooks
Chief Executive Officer and Director
(Principal Executive Officer)
June 8, 2020

/s/ Christopher C. Work
Christopher C. Work
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
June 8, 2020