

**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 OCTOBER 27, 2012

OR

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

Commission file number 000-51300

ZUMIEZ INC.

(Exact name of registrant as specified in its charter)

Washington
(State or other jurisdiction of
incorporation or organization)

91-1040022
(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

At November 28, 2012, there were 31,352,660 shares outstanding of common stock.

[Table of Contents](#)

ZUMIEZ INC.
FORM 10-Q
TABLE OF CONTENTS

Part I.	Financial Information		
Item 1.	Condensed Consolidated Financial Statements		
	Condensed Consolidated Balance Sheets at October 27, 2012 (unaudited) and January 28, 2012		3
	Unaudited Condensed Consolidated Statements of Income for the three and nine months ended October 27, 2012 and October 29, 2011		4
	Unaudited Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended October 27, 2012 and October 29, 2011		5
	Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity for the nine months ended October 27, 2012 and October 29, 2011		6
	Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended October 27, 2012 and October 29, 2011		7
	Notes to Condensed Consolidated Financial Statements		8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations		20
Item 3.	Quantitative and Qualitative Disclosures About Market Risk		34
Item 4.	Controls and Procedures		34
Part II.	Other Information		
Item 1.	Legal Proceedings		35
Item 1A.	Risk Factors		35
Item 2.	Unregistered Sales of Equity and Use of Proceeds		35
Item 3.	Defaults Upon Senior Securities		35
Item 4.	Mine Safety Disclosures		35
Item 5.	Other Information		35
Item 6.	Exhibits		36
	Signature		37

ZUMIEZ INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	<u>October 27, 2012</u> (Unaudited)	<u>January 28, 2012</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 10,580	\$ 14,779
Marketable securities	87,751	158,019
Receivables	11,864	6,284
Inventories	109,786	65,037
Prepaid expenses and other	9,560	7,907
Deferred tax assets	4,881	1,477
Total current assets	234,422	253,503
Fixed assets, net	116,547	89,478
Goodwill	61,926	13,154
Intangible assets, net	19,828	—
Long-term other assets	5,413	6,022
Total long-term assets	203,714	108,654
Total assets	\$ 438,136	\$ 362,157
Liabilities and Shareholders' Equity		
Current liabilities		
Trade accounts payable	\$ 47,331	\$ 21,743
Accrued payroll and payroll taxes	9,996	9,062
Income taxes payable	7,354	5,835
Deferred rent and tenant allowances	4,797	4,230
Other liabilities	18,929	14,706
Total current liabilities	88,407	55,576
Long-term deferred rent and tenant allowances	37,190	32,321
Long-term deferred tax liabilities	5,407	—
Long-term debt and other liabilities	6,773	1,983
Total long-term liabilities	49,370	34,304
Total liabilities	137,777	89,880
Commitments and contingencies (Note 7)		
Shareholders' equity		
Preferred stock, no par value, 20,000 shares authorized; none issued and outstanding	—	—
Common stock, no par value, 50,000 shares authorized; 31,352 shares issued and outstanding at October 27, 2012 and 31,170 shares issued and outstanding at January 28, 2012	106,509	99,412
Accumulated other comprehensive income	1,840	135
Retained earnings	192,010	172,730
Total shareholders' equity	300,359	272,277
Total liabilities and shareholders' equity	\$ 438,136	\$ 362,157

See accompanying notes to condensed consolidated financial statements

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>October 27, 2012</u>	<u>October 29, 2011</u>	<u>October 27, 2012</u>	<u>October 29, 2011</u>
Net sales	\$ 180,023	\$ 153,951	\$ 444,988	\$ 372,015
Cost of goods sold	112,948	94,030	289,387	241,842
Gross profit	67,075	59,921	155,601	130,173
Selling, general and administrative expenses	45,674	37,104	123,160	101,254
Operating profit	21,401	22,817	32,441	28,919
Interest income, net	235	440	1,152	1,387
Other (expense) income, net	(185)	(129)	443	(71)
Earnings before income taxes	21,451	23,128	34,036	30,235
Provision for income taxes	8,784	8,991	14,756	11,621
Net income	\$ 12,667	\$ 14,137	\$ 19,280	\$ 18,614
Basic earnings per share	\$ 0.41	\$ 0.46	\$ 0.62	\$ 0.61
Diluted earnings per share	\$ 0.40	\$ 0.45	\$ 0.61	\$ 0.60
Weighted average shares used in computation of earnings per share:				
Basic	30,957	30,599	30,884	30,487
Diluted	31,416	31,122	31,425	31,093

See accompanying notes to condensed consolidated financial statements

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>October 27, 2012</u>	<u>October 29, 2011</u>	<u>October 27, 2012</u>	<u>October 29, 2011</u>
Net income	\$ 12,667	\$ 14,137	\$ 19,280	\$ 18,614
Other comprehensive income, net of tax and reclassification adjustments:				
Foreign currency translation	3,602	(57)	1,801	12
Net change in unrealized gain (loss) on available-for-sale investments	6	(33)	(96)	78
Other comprehensive income (loss)	<u>3,608</u>	<u>(90)</u>	<u>1,705</u>	<u>90</u>
Comprehensive income	<u>\$ 16,275</u>	<u>\$ 14,047</u>	<u>\$ 20,985</u>	<u>\$ 18,704</u>

See accompanying notes to condensed consolidated financial statements

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

	<u>Common Stock</u>		<u>Accumulated Other Comprehensive Income</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance at January 28, 2012	31,170	\$ 99,412	\$ 135	\$ 172,730	\$ 272,277
Net income	—	—	—	19,280	19,280
Other comprehensive income, net of tax	—	—	1,705	—	1,705
Issuance and exercise of stock-based compensation, including tax benefit of \$2,215	182	2,750	—	—	2,750
Stock-based compensation expense	—	4,347	—	—	4,347
Balance at October 27, 2012	<u>31,352</u>	<u>\$ 106,509</u>	<u>\$ 1,840</u>	<u>\$ 192,010</u>	<u>\$ 300,359</u>

	<u>Common Stock</u>		<u>Accumulated Other Comprehensive Income</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance at January 29, 2011	30,835	\$ 91,373	\$ (17)	\$ 135,379	\$ 226,735
Net income	—	—	—	18,614	18,614
Other comprehensive income, net of tax	—	—	90	—	90
Issuance and exercise of stock-based compensation, including tax benefit of \$1,677	294	2,267	—	—	2,267
Stock-based compensation expense	—	4,007	—	—	4,007
Balance at October 29, 2011	<u>31,129</u>	<u>\$ 97,647</u>	<u>\$ 73</u>	<u>\$ 153,993</u>	<u>\$ 251,713</u>

See accompanying notes to condensed consolidated financial statements

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

	Nine Months Ended	
	October 27, 2012	October 29, 2011
Cash flows from operating activities:		
Net income	\$ 19,280	\$ 18,614
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	16,661	14,587
Deferred taxes	(2,767)	2,052
Stock-based compensation expense	4,347	4,007
Excess tax benefit from stock-based compensation	(2,215)	(1,677)
Lease termination costs	1,404	—
Other	217	70
Changes in operating assets and liabilities:		
Receivables	(5,007)	(3,046)
Inventories	(36,504)	(37,587)
Prepaid expenses and other	(1,506)	(939)
Trade accounts payable	25,578	23,032
Accrued payroll and payroll taxes	183	912
Income taxes payable	2,425	3,115
Deferred rent and tenant allowances	5,622	5,468
Other liabilities	468	(3,430)
Net cash provided by operating activities	<u>28,186</u>	<u>25,178</u>
Cash flows from investing activities:		
Additions to fixed assets	(34,028)	(18,376)
Acquisitions, net of cash acquired	(69,685)	—
Purchases of marketable securities and other investments	(95,268)	(119,352)
Sales and maturities of marketable securities and other investments	164,231	112,106
Net cash used in investing activities	<u>(34,750)</u>	<u>(25,622)</u>
Cash flows from financing activities:		
Payments on long-term debt	(183)	—
Proceeds from exercise of stock-based compensation, net of withholding tax payments	534	1,269
Excess tax benefit from stock-based compensation	2,215	1,677
Net cash provided by financing activities	<u>2,566</u>	<u>2,946</u>
Effect of exchange rate changes on cash and cash equivalents	(201)	22
Net (decrease) increase in cash and cash equivalents	(4,199)	2,524
Cash and cash equivalents, beginning of period	14,779	11,357
Cash and cash equivalents, end of period	<u>\$ 10,580</u>	<u>\$ 13,881</u>
Supplemental disclosure on cash flow information:		
Cash paid during the period for income taxes	\$ 15,077	\$ 6,438
Accrual for purchases of fixed assets	5,154	3,527

See accompanying notes to condensed consolidated financial statements

ZUMIEZ INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Nature of Business and Basis of Presentation

Nature of Business—Zumiez Inc. (the “Company,” “we,” “us,” “its” and “our”) is a leading multi-channel specialty retailer of action sports related apparel, footwear, equipment and accessories, focusing on skateboarding, snowboarding, surfing, motocross and bicycle motocross (“BMX”) for young men and women. At October 27, 2012, we operated 495 stores; 471 in the United States, 19 in Canada and five in Europe. In the United States and Canada we operate under the name Zumiez and in Europe we operate under the name Blue Tomato. Additionally, we operate ecommerce web sites under www.zumiez.com and www.blue-tomato.com. We completed the acquisition of Snowboard Dachstein Tauern GmbH and Blue Tomato Graz Handel GmbH (collectively, “Blue Tomato”) during the second quarter of fiscal 2012. Blue Tomato is a multi-channel retailer for board sports and related apparel and footwear that operates primarily in the European marketplace.

Fiscal Year—We use a fiscal calendar widely used by the retail industry that results in a fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to January 31. Each fiscal year consists of four 13-week quarters, with an extra week added to the fourth quarter every five or six years. Fiscal 2012 is the 53-week period ending February 2, 2013. Fiscal 2011 was the 52-week period ending January 28, 2012. The first nine months of fiscal 2012 was the 39-week period ended October 27, 2012. The first nine months of fiscal 2011 was the 39-week period ended October 29, 2011.

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

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

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

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

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

Reclassification of Previously Issued Financial Statements—Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications do not have a material impact on our condensed consolidated financial statements. We have reclassified \$0.2 million and \$0.7 million on the consolidated statements of income for the three and nine months ended October 29, 2011 from selling, general and administrative expenses to cost of goods sold related to additional expenses of our buying and distribution functions.

2. Recent Accounting Pronouncements

Recently Issued Accounting Standards—In July 2012, the Financial Accounting Standards Board (“FASB”) issued guidance that will allow an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test for indefinite-lived intangible assets. Under this guidance, an entity would not be required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on qualitative assessment, that it is not more

[Table of Contents](#)

likely than not, the indefinite-lived intangible asset is impaired. This guidance is effective for interim and annual reporting periods beginning after September 15, 2012, with early adoption permitted. We will adopt this guidance in the three months ending February 2, 2013 in conjunction with our annual indefinite-lived intangible assets impairment assessment. We do not expect the adoption will have a material impact on our financial position, results of operations or cash flows.

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

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

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

3. Business Combination

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

In addition, there is the possibility of future incentive payments to the sellers of Blue Tomato in an aggregate amount of up to 22.1 million Euros (\$28.6 million, using the exchange rate as of October 27, 2012) to the extent that certain financial metrics are met and the sellers remain employed with Blue Tomato through April 2015. Of the 22.1 million Euros future incentive payments, 17.1 million Euros (\$22.1 million) is payable in cash, while 5.0 million Euros (\$6.5 million) is payable in shares of our common stock. We account for the estimated future incentive payments as compensation expense and recognize this amount ratably over the term of service through April 2015. At October 27, 2012, we estimated future incentive payments of 18.1 million Euros (\$23.4 million) and for the three and nine months ended October 27, 2012, we recorded \$2.0 million and \$2.7 million of this amount, which is included in selling, general and administrative expense on the condensed consolidated statements of income.

[Table of Contents](#)

The business combination was accounted for using the acquisition method of accounting, which requires an acquirer to recognize assets acquired and liabilities assumed at the acquisition date fair values. The estimated fair value of the assets acquired and liabilities assumed is preliminary and differences between the preliminary and final estimated fair value could be material. The following table summarizes the estimates of fair value at the date of acquisition (in thousands):

Cash and cash equivalents	\$ 5,106
Inventories	7,942
Other current assets	1,573
Property, plant and equipment	4,964
Other long-term assets	232
Intangible assets	19,987
Current liabilities assumed	(4,877)
Deferred tax liabilities	(5,420)
Long-term debt and other liabilities assumed	(2,125)
Net assets acquired	27,382
Goodwill	47,412
Total consideration transferred	\$ 74,794

Inventories acquired were written up by \$2.2 million to their estimated fair value, which will be recognized as cost of goods sold over the estimated inventory turnover period, which is approximately five months. The amount of this increase that was recognized in the three and nine months ended October 27, 2012 was \$1.4 million and \$1.9 million.

The following table summarizes the identifiable intangible assets acquired that will not be subject to amortization (in thousands):

	Intangible Asset Amount
Trade names and trademarks	\$ 13,576

The following table summarizes the identifiable intangible assets acquired that will be subject to amortization and their weighted-average amortization period:

	Intangible Asset Amount (in Thousands)	Weighted- Average Amortization Period (in Years)
Developed technology	\$ 3,771	3.0
Customer relationships	2,640	3.0
Total intangible assets subject to amortization	\$ 6,411	3.0

The remaining consideration transferred, after adjusting for identified intangible assets and the net assets recorded at fair value, was \$47.4 million, which was allocated to goodwill. The goodwill is attributed to Blue Tomato's workforce expertise and expected synergies. Of the goodwill recognized, approximately \$34.9 million is expected to be deductible for income tax purposes, in accordance with Austrian tax laws.

Transaction costs, such as investment advisory, legal and accounting fees, associated with the Blue Tomato acquisition were \$1.9 million for the nine months ended October 27, 2012. Transaction costs were not material for the three months ended October 27, 2012. These expenses are recorded in selling, general and administrative expense on the condensed consolidated statements of income.

Foreign currency transaction gains and losses are included in other income, net on the condensed consolidated statements of income. The foreign currency transaction net gain for the nine months ended October 27, 2012 was \$0.5 million, which primarily related to foreign currency fluctuations associated with the acquisition of Blue Tomato. Foreign currency transaction gains and losses were not material for the three months ended October 27, 2012 and the three and nine months ended October 29, 2011.

We estimate our annual effective tax rate will be higher than both the 35% US federal statutory rate and our fiscal 2011 effective tax rate, as we estimate our effective tax rate will be adversely impacted by the tax effects of the acquisition of Blue Tomato.

[Table of Contents](#)

The activity of Blue Tomato that was included in our condensed consolidated statements of income from the acquisition date to October 27, 2012 was net sales of \$9.6 million and a net loss of \$1.8 million.

Pro Forma Financial Information—The following pro forma financial information shows the results of operations for the three and nine months ended October 27, 2012 and October 29, 2011 (in thousands), as though the acquisition of Blue Tomato had occurred on January 30, 2011. These amounts were calculated after conversion to U.S. GAAP, conforming to our accounting policies and adjusting Blue Tomato results to reflect: (i) the depreciation and amortization that would have been charged assuming the preliminary fair value adjustments to property, plant and equipment and intangible assets and (ii) the compensation expense associated with the estimated future incentive payments to the sellers of Blue Tomato. The adjustments also reflect the income tax effect of the pro forma adjustments.

The amounts also reflect the removal of the following non-recurring, transaction related costs and related income tax effect from fiscal 2012 pro forma results: (i) the transaction costs of \$1.9 million associated with the Blue Tomato acquisition, (ii) the charge related to the fair value adjustment to acquisition date inventory of \$1.9 million and (iii) the foreign currency transaction gain of \$0.5 million associated with the foreign currency fluctuations associated with the acquisition of Blue Tomato. These amounts have been adjusted to be included in fiscal 2011 pro forma amounts as follows: (i) the transaction costs of \$1.9 million have been included in the nine months ended October 29, 2011 results, (ii) related to the fair value adjustment to acquisition date inventory, a charge of \$0.1 million has been included in the three months ended October 29, 2011 results and a charge of \$2.2 million has been included in the nine months ended October 29, 2011 results, to recognize the adjustment over the estimated inventory turnover period and (iii) the foreign currency transaction gain of \$0.5 million has been included in the nine months ended October 29, 2011 results.

The pro forma adjustments related to the acquisition of Blue Tomato are based on a preliminary estimate of fair values of the assets acquired and liabilities assumed. Differences between the preliminary and final estimate of fair value could have an impact on the pro forma financial information presented and such impact could be material. The pro forma financial information below is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have been achieved had the acquisition been completed as of the date indicated above or the results that may be obtained in the future.

	Three Months Ended		Nine Months Ended	
	October 27, 2012	October 29, 2011	October 27, 2012	October 29, 2011
Net sales	\$ 180,023	\$ 162,405	\$ 456,119	\$ 391,260
Net income	\$ 13,704	\$ 13,804	\$ 16,853	\$ 8,945

4. Goodwill and Acquisition-Related Intangibles

The following tables summarize the changes in the carrying amount of goodwill for the nine months ended October 27, 2012 (in thousands):

Balance as of January 28, 2012	\$ 13,154
Goodwill acquired	47,412
Effects of foreign currency translation	1,360
Balance as of October 27, 2012	<u>\$61,926</u>

The following table summarizes the gross carrying amount, accumulated amortization and the net carrying amount of our acquisition-related intangible assets at October 27, 2012 (in thousands):

	October 27, 2012		
	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net
Trade names and trademarks	\$ 13,966	\$ —	\$13,966
Developed technology	3,879	431	3,448
Customer relationships	2,716	302	2,414
Total intangible assets	<u>\$ 20,561</u>	<u>\$ 733</u>	<u>\$19,828</u>

[Table of Contents](#)

Amortization expense of acquisition-related intangible assets for the three and nine months ended October 27, 2012 was \$0.5 million and \$0.7 million. We did not record amortization expense of acquisition-related intangible assets for the three and nine months ended October 29, 2011. Amortization expense of acquisition-related intangible assets is recorded in selling, general and administrative expense on the condensed consolidated statements of income. At October 27, 2012, estimated future amortization expense for acquisition-related intangible assets is as follows (in thousands):

	Amortization Expense of Acquisition-related Intangible Assets
Fiscal 2012	\$ 550
Fiscal 2013	2,198
Fiscal 2014	2,198
Fiscal 2015	916
Thereafter	—
Total	<u>\$ 5,862</u>

5. 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 at October 27, 2012 and January 28, 2012 (in thousands):

	October 27, 2012			Estimated Fair Value
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	
Cash and cash equivalents:				
Cash	\$ 4,210	\$ —	\$ —	\$ 4,210
Money market funds	3,464	—	—	3,464
State and local government securities	2,906	—	—	2,906
Total cash and cash equivalents	<u>10,580</u>	<u>—</u>	<u>—</u>	<u>10,580</u>
Marketable securities:				
Corporate debt securities	1,713	55	—	1,768
State and local government securities	85,267	132	(111)	85,288
Variable-rate demand notes	1,600	—	—	1,600
Total marketable securities	<u>\$ 88,580</u>	<u>\$ 187</u>	<u>\$ (111)</u>	<u>\$ 88,656</u>
Less: Long-term marketable securities (1)				<u>(905)</u>
Total current marketable securities				<u>\$ 87,751</u>

[Table of Contents](#)

	January 28, 2012			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	\$ 6,343	\$ —	\$ —	\$ 6,343
Money market funds	5,139	—	—	5,139
State and local government securities	3,297	—	—	3,297
Total cash and cash equivalents	14,779	—	—	14,779
Marketable securities:				
Corporate debt securities	2,016	30	—	2,046
State and local government securities	126,047	335	(111)	126,271
Variable-rate demand notes	30,610	—	—	30,610
Total marketable securities	\$158,673	\$ 365	\$ (111)	\$158,927
Less: Long-term marketable securities (1)				(908)
Total current marketable securities				\$ 158,019

- (1) At October 27, 2012 and January 28, 2012, we held one \$1.0 million par value auction rate security valued at \$0.9 million, net of a \$0.1 million temporary impairment charge, classified as available-for-sale marketable securities and included in long-term other assets on the condensed consolidated balance sheets.

All of our available-for-sale securities, excluding our auction rate security, have an effective maturity of two years or less and may be liquidated, at our discretion, prior to maturity. For the three and nine months ended October 27, 2012 and October 29, 2011, realized gains and losses on sales of available-for-sale marketable securities were not material. We use the specific identification method to determine any realized gains or losses from the sale of our marketable securities classified as available-for-sale.

The following tables summarize the gross unrealized holding losses and fair value for investments in an unrealized loss position at October 27, 2012 and January 28, 2012, and the length of time that individual securities have been in a continuous loss position (in thousands):

	October 27, 2012					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable securities:						
State and local government securities	21,549	(16)	905	(95)	22,454	(111)
Total marketable securities	\$21,549	\$ (16)	\$ 905	\$ (95)	\$22,454	\$ (111)

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

We did not record a realized loss for other-than-temporary impairments during the three and nine months ended October 27, 2012 and October 29, 2011. At October 27, 2012 and January 28, 2012, we had \$0.9 million invested, net of temporary impairment charge of \$0.1 million, in an auction rate security. We do not intend to sell this security and it is not more likely than not that we will be required to sell the investment before the liquidity in the market improves.

[Table of Contents](#)

6. Revolving Credit Facility and Debt

We maintain a secured credit agreement with Wells Fargo Bank, N.A., which provides us with a secured revolving credit facility until September 1, 2013 of up to \$25.0 million, which, pursuant to an accordion feature, may be increased to \$35.0 million at our discretion. The secured revolving credit facility provides for the issuance of a standby letter of credit in an amount not to exceed \$5.0 million outstanding at any time and with a term not to exceed 365 days. The commercial line of credit provides for the issuance of a commercial letter of credit in an amount not to exceed \$10.0 million and with terms not to exceed 120 days. The amount of borrowings available at any time under our secured revolving credit facility is reduced by the amount of standby and commercial letters of credit outstanding at that time. There were no outstanding borrowings under the secured revolving credit facility at October 27, 2012 and January 28, 2012. We had open commercial letters of credit outstanding under our secured revolving credit facility of \$0.6 million at October 27, 2012 and \$0.9 million at January 28, 2012. The secured revolving credit facility bears interest at the Daily One Month LIBOR rate plus 1.00%. The credit agreement contains a number of restrictions and covenants that generally limit our ability to, among other things, (1) incur additional debt, (2) undergo a change in ownership and (3) enter into certain transactions. The credit agreement also contains financial covenants that require us to meet certain specified financial tests and ratios, including, a maximum net loss not to exceed \$10.0 million after taxes on a trailing four-quarter basis provided, that, there shall be added to net income all charges for impairment of goodwill and store assets not to exceed \$5.0 million in aggregate, and a minimum quick ratio of 1.25. The quick ratio is defined as our cash and near cash equivalents plus certain defined receivables divided by the outstanding borrowings. Our accounts receivable, general intangibles, inventory and equipment have been pledged to secure our obligations under the credit agreement. We must also provide financial information and statements to our lender. We were in compliance with all such covenants at October 27, 2012.

Additionally, in conjunction with our acquisition of Blue Tomato, we acquired \$2.3 million in long-term debt, which relates to amounts borrowed to fund operations. This long-term debt had a weighted average interest rate of 1.7% and has maturities through 2021. Long-term debt obligations at October 27, 2012 are as follows (in thousands):

	<u>October 27, 2012</u>
Debt obligations	\$ 2,225
Less: Current portion of debt obligations (1)	(304)
Total long-term debt obligations (2)	<u>\$ 1,921</u>

- (1) The current portion of debt obligations is recorded in other liabilities on the condensed consolidated balance sheets.
(2) The long-term portion of debt obligations is recorded in long-term debt and other liabilities on the condensed consolidated balance sheets.

7. Commitments and Contingencies

Leases—We are committed under operating leases for all of our retail store locations generally with terms of five to ten years. Additionally, we are committed under operating leases for certain of our distribution and e-commerce fulfillment centers and office space locations. Total rent expense, base rent expense and contingent and other rent expense for the three and nine months ended October 27, 2012 and October 29, 2011 is as follows (in thousands):

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>October 27, 2012</u>	<u>October 29, 2011</u>	<u>October 27, 2012</u>	<u>October 29, 2011</u>
Base rent expense	\$ 12,080	\$ 10,720	\$ 34,773	\$ 30,985
Contingent and other rent expense (1)	7,814	6,955	22,114	19,358
Total rent expense	<u>\$ 19,894</u>	<u>\$ 17,675</u>	<u>\$ 56,887</u>	<u>\$ 50,343</u>

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

[Table of Contents](#)

At October 27, 2012, we were committed to property owners for operating lease obligations for \$483.5 million. A majority of our leases provide for ongoing co-tenancy requirements or early cancellation clauses that would further lower rental rates, or permit lease terminations, or both, in the event that co-tenants cease to operate for specific periods or if certain sales levels are not met in specific periods. Most of the store leases require payment of a specified minimum rent and contingent rent based on a percentage of the store's net sales in excess of a specified threshold. Amounts in the table below do not include contingent rent, real estate taxes, insurance or common area maintenance costs unless these costs are fixed and determinable. Future minimum commitments on all leases at October 27, 2012 are as follows (in thousands):

	<u>Operating Lease Obligations</u>
Fiscal 2012	\$ 15,399
Fiscal 2013	65,359
Fiscal 2014	65,447
Fiscal 2015	63,173
Fiscal 2016	60,010
Thereafter	214,094
Total	\$ 483,482

Purchase Commitments—At October 27, 2012, we had outstanding purchase orders to acquire merchandise from vendors of \$117.8 million. We have an option to cancel these commitments with no notice prior to shipment, except for private label purchase orders in which we are obligated to repay certain contractual amounts upon cancellation.

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

Insurance Reserves—We use a combination of 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 insurance reserve at October 27, 2012 and January 28, 2012 was \$0.8 million and \$0.5 million.

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

- Level 1— Quoted prices in active markets for identical assets or liabilities;
- Level 2— Quoted prices for similar assets or liabilities in active markets or inputs that are observable; and
- Level 3— Inputs that are unobservable.

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

The following tables summarize assets measured at fair value on a recurring basis at October 27, 2012 and January 28, 2012 (in thousands):

	<u>October 27, 2012</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents:			
Money market funds	\$3,464	\$ —	\$ —
State and local government securities	—	2,906	—
Marketable securities:			
Corporate debt securities	—	1,768	—
State and local government securities	—	84,383	—
Variable-rate demand notes	—	1,600	—
Long-term other assets:			
State and local government securities	—	—	905
Equity investments	—	—	1,197
Total	\$3,464	\$90,657	\$ 2,102

[Table of Contents](#)

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

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

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

There were no material assets measured at fair value on a nonrecurring basis for the nine months ended October 27, 2012 and October 29, 2011.

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

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

The fair value of restricted stock grants is measured based on the closing fair market value of our common stock on the date of grant. The fair value of stock option grants are estimated on the date of grant using the Black-Scholes option pricing method with the following weighted-average assumptions used for stock option grants issued during the nine months ended October 27, 2012 and October 29, 2011:

	Nine Months Ended	
	October 27, 2012	October 29, 2011
Dividend yield	— %	— %
Volatility rate	66.74%	65.00%
Average expected life (in years)	6.25	6.25
Average risk-free interest rate	1.12%	1.05%
Weighted-average fair value per share of stock options granted	\$ 19.40	\$ 13.35

[Table of Contents](#)

The following table summarizes our stock option activity for the nine months ended October 27, 2012 (in thousands except grant date weighted-average exercise price and weighted-average remaining contractual life):

	<u>Stock Options</u>	<u>Grant Date Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Life (in Years)</u>	<u>Intrinsic Value (1)</u>
Outstanding at January 28, 2012	888	\$ 16.18		
Granted year to date	55	\$ 31.79		
Exercised year to date	(51)	\$ 5.95		
Forfeited year to date	(48)	\$ 21.19		
Outstanding at October 27, 2012	844	\$ 17.52	4.44	\$9,291
Exercisable at October 27, 2012	641	\$ 17.51	4.47	\$ 7,224

- (1) Intrinsic value for stock options is defined as the difference between the market price of the Company's common stock on the last business day of the quarter and the weighted average exercise price of in-the-money options outstanding at the end of each fiscal period.

The following table summarizes our restricted stock activity for the nine months ended October 27, 2012 (in thousands except grant date weighted-average fair value):

	<u>Restricted Stock</u>	<u>Grant Date Weighted- Average Fair Value</u>	<u>Intrinsic Value (1)</u>
Outstanding at January 28, 2012	503	\$ 16.79	
Granted year to date	149	\$ 34.44	
Vested year to date	(235)	\$ 15.22	
Forfeited year to date	(38)	\$ 24.14	
Outstanding at October 27, 2012	379	\$ 23.97	\$10,088

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

We recorded \$1.3 million and \$1.2 million of total stock-based compensation expense for both the three months ended October 27, 2012 and October 29, 2011. We recorded \$4.3 million and \$4.0 million of total stock-based compensation expense for the nine months ended October 27, 2012 and October 29, 2011.

At October 27, 2012, there was \$10.8 million of total unrecognized compensation cost related to unvested stock options and restricted stock grants and the remaining estimated future incentive payments payable in shares of our common stock associated with the Blue Tomato acquisition. This cost has a weighted-average recognition period of 1.2 years.

10. Earnings Per Share, Basic and Diluted— The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended October 27, 2012 and October 29, 2011 (in thousands, except per share amounts).

[Table of Contents](#)

	Three Months Ended		Nine Months Ended	
	October 27, 2012	October 29, 2011	October 27, 2012	October 29, 2011
Net income	\$ 12,667	\$ 14,137	\$ 19,280	\$ 18,614
Weighted average common shares for basic earnings per share	30,957	30,599	30,884	30,487
Dilutive effect of stock options and restricted stock	459	523	541	606
Weighted average common shares for diluted earnings per share	31,416	31,122	31,425	31,093
Basic earnings per share	\$ 0.41	\$ 0.46	\$ 0.62	\$ 0.61
Diluted earnings per share	\$ 0.40	\$ 0.45	\$ 0.61	\$ 0.60

Total anti-dilutive common stock options not included in the calculation of diluted earnings per share were approximately 0.2 million and 0.3 million for the three months ended October 27, 2012 and October 29, 2011. Total anti-dilutive common stock options not included in the calculation of diluted earnings per share were approximately 0.2 million and 0.3 million for the nine months ended October 27, 2012 and October 29, 2011.

11. Exit or Disposal Activities

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

The liability for lease termination costs is based on the present value of future rent obligations and other related costs, net of estimated sublease rent, for the Everett, Washington exited facility, where we are under lease until June 2017. We will monitor the estimated liability for lease termination costs in subsequent periods and revise the liability, if necessary. During the three months ended October 27, 2012, we revised the estimated lease termination costs liability and recorded an adjustment of \$0.5 million, of which \$0.2 million was included in cost of goods sold and \$0.3 million was included in selling, general and administrative expenses on the condensed consolidated statements of income.

Cumulatively, during the nine months ended October 27, 2012, in conjunction with the ecommerce fulfillment relocation from Everett, Washington to Edwardsville, Kansas and the relocation of our home office from Everett, Washington to Lynnwood, Washington, we have recorded \$1.4 million in lease termination costs, \$0.4 million in other exit costs and \$0.3 million of severance and other employee related costs. Of the total amount recorded during the nine months ended October 27, 2012, \$1.0 million was included in cost of goods sold and \$1.1 million was included in selling, general and administrative expenses on the condensed consolidated statements of income. We do not expect to incur material additional costs related to the relocations.

[Table of Contents](#)

The following table is a summary of the exit and disposal activity and liability balances as a result of the ecommerce fulfillment center and home office relocations (in thousands):

	<u>Employee benefit costs</u>	<u>Lease termination costs (1)</u>	<u>Other exit costs</u>	<u>Total</u>
January 28, 2012	\$ —	\$ 241	\$ —	\$ 241
Additions	213	—	69	282
Payments	(61)	(10)	(38)	(109)
April 28, 2012	152	231	31	414
Additions	32	920	371	1,323
Payments	(166)	(12)	(372)	(550)
Adjustments (2)	—	395	—	395
July 28, 2012	18	1,534	30	1,582
Payments	(14)	(205)	(30)	(249)
Adjustments (3)	—	485	—	485
October 27, 2012 (4)	<u>\$ 4</u>	<u>\$ 1,814</u>	<u>\$ —</u>	<u>\$ 1,818</u>

- (1) Included in lease termination costs are the previously recorded lease termination costs associated with our distribution center relocation in fiscal 2010, as all costs are associated with the same lease.
- (2) The adjustment to the lease termination costs liability during the three months ended July 28, 2012 is related to the outstanding deferred rent liability of \$0.4 million associated with the Everett, Washington exited facility.
- (3) The adjustment to the lease termination costs liability during the three months ended October 27, 2012 is related to the revised estimate for lease termination costs at October 27, 2012.
- (4) The exit or disposal provisions related to the ecommerce fulfillment center and home office relocations at October 27, 2012 are included in other liabilities and long-term debt and other liabilities on the condensed consolidated balance sheets.

12. Subsequent Event—On November 13, 2012, the Board of Directors authorized a stock repurchase program that provides for the repurchase of up to \$22.0 million of outstanding common stock through February 1, 2014. Under the program, the Company could purchase shares of common stock through open market transactions at prices deemed appropriate by management including pursuant to share repurchase plans under SEC Rule 10b5-1. The timing and amount of repurchase transactions under this program will depend on market conditions and corporate and regulatory considerations. The purchases will be funded from available working capital.

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

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

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

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

Overview

We are a leading multi-channel specialty retailer of action sports related apparel, footwear, equipment and accessories, focusing on skateboarding, snowboarding, surfing, motocross and BMX for young men and women. At October 27, 2012, we operated 495 stores; 471 in the United States, 19 in Canada and five in Europe. In the United States and Canada we operate under the name Zumiez and in Europe we operate under the name Blue Tomato. Additionally, we operate ecommerce web sites under www.zumiez.com and www.blue-tomato.com. We completed the acquisition of Blue Tomato during the second quarter of fiscal 2012. Blue Tomato is a multi-channel retailer for board sports and related apparel and footwear that operates primarily in the European marketplace.

We support the action sports lifestyle and promote our brand through a multi-faceted marketing approach that is designed to integrate our brand image with our customers' activities and interests. This approach, combined with our differentiated merchandising strategy, store design, comprehensive training programs and passionate employees, allows us to provide an experience for our customers that we believe is consistent with their attitudes, fashion tastes and identities. Accordingly, our success is largely dependent upon our ability to anticipate, identify and respond to the fashion tastes of our customers and to provide merchandise that satisfies customer demands.

General

Net sales constitute gross sales net of actual and estimated returns and deductions for promotions. Net sales include our in-store sales and our ecommerce sales, which includes ecommerce shipping revenue. Ecommerce sales were 10.7% and 6.4% of total net sales for the three months ended October 27, 2012 and October 29, 2011 and 8.7% and 6.0% of total net sales for the nine months ended October 27, 2012 and October 29, 2011. We record the sale of gift cards as a current liability and recognize revenue when a customer redeems a gift card. Additionally, the portion of gift cards that will not be redeemed ("gift card breakage") is recognized as revenue after 24 months, at which time the likelihood of redemption is considered remote based on our historical redemption data.

We report "comparable store sales" based on net sales beginning on the first anniversary of the first day of operation of a new store. Our comparable store sales also include our ecommerce sales, due to the substantial integration of our stores and ecommerce business. Changes in our comparable store sales between two periods are based on net sales of stores which were in operation during both of the two periods being compared and, if a store is included in the calculation of comparable store sales for only a portion of one of the two periods being compared, then that store is included in the calculation for only the comparable portion of the other period. Any change in square footage of an existing comparable store, including remodels and relocations, does not eliminate that store from inclusion in the calculation of comparable store sales. Any store or ecommerce business that we acquire will be included in the calculation of comparable store sales after the first anniversary of the acquisition date. As such, Blue Tomato results will not be included in the calculation of comparable store sales until July 2013. There may be variations in the way in which some of our competitors and other retailers calculate comparable or same store sales. As a result, data herein regarding our comparable store sales may not be comparable to similar data made available by our competitors or other retailers.

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

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

[Table of Contents](#)

Key Performance Indicators

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

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

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

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

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

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

Critical Accounting Estimates

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

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

Results of Operations

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

	Three Months Ended		Nine Months Ended	
	October 27, 2012	October 29, 2011	October 27, 2012	October 29, 2011
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	62.7	61.1	65.0	65.0
Gross profit	37.3	38.9	35.0	35.0
Selling, general and administrative expenses	25.4	24.1	27.7	27.2
Operating profit	11.9	14.8	7.3	7.8
Interest and other income, net	0.0	0.2	0.3	0.3
Earnings before income taxes	11.9	15.0	7.6	8.1
Provision for income taxes	4.9	5.8	3.3	3.1
Net income	7.0%	9.2%	4.3%	5.0%

Three Months (13 weeks) Ended October 27, 2012 Compared With Three Months (13 weeks) Ended October 29, 2011

Net Sales

Net sales were \$180.0 million for the three months ended October 27, 2012 compared to \$154.0 million for the three months ended October 29, 2011, an increase of \$26.0 million or 16.9%. The increase reflected a comparable store sales increase of 3.7% for the three months ended October 27, 2012 as well as the net addition of 48 U.S. and Canada stores (51 new stores offset by three store closures) subsequent to October 29, 2011 and the acquisition of Blue Tomato during the second quarter of fiscal 2012. Included in the results for the three months ended October 27, 2012 were \$8.1 million in net sales of Blue Tomato.

[Table of Contents](#)

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

Gross Profit

Gross profit was \$67.1 million for the three months ended October 27, 2012 compared to \$59.9 million for the three months ended October 29, 2011, an increase of \$7.2 million, or 11.9%. As a percent of net sales, gross profit decreased 160 basis points for the three months ended October 27, 2012 to 37.3% from 38.9% for the three months ended October 29, 2011. The decrease was primarily due to a 90 basis points increase in ecommerce fulfillment and ecommerce shipping expenses and a 80 basis points impact of a \$1.4 million charge recorded during the three months ended October 27, 2012 related to a step-up in inventory to estimated fair value in conjunction with our acquisition of Blue Tomato. These increases were partially offset by a 40 basis points impact from leveraging our store occupancy costs on a 3.7% comparable store sales increase.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were \$45.7 million for the three months ended October 27, 2012 compared to \$37.1 million for the three months ended October 29, 2011, an increase of \$8.6 million, or 23.1%. SG&A expenses as a percent of net sales increased by 130 basis points for the three months ended October 27, 2012 to 25.4% compared to 24.1% for the three months ended October 29, 2011. The increase was primarily due to a 110 basis points impact of a \$2.0 million charge incurred during the three months ended October 27, 2012 related to the estimated future incentive payments to be paid in conjunction with our acquisition of Blue Tomato, a 100 basis points increase in corporate costs and a 30 basis points impact for the amortization of intangible assets acquired as part of our Blue Tomato acquisition of \$0.5 million for the three months ended October 27, 2012. These increases were partially offset by 90 basis points in store operating efficiencies and a 40 basis points decrease in incentive compensation.

Net Income

Net income for the three months ended October 27, 2012 was \$12.7 million, or \$0.40 per diluted share, compared with net income of \$14.1 million, or \$0.45 per diluted share, for the three months ended October 29, 2011. Our effective income tax rate for the three months ended October 27, 2012 was 40.9% compared to 38.9% for the three months ended October 29, 2011. Our effective tax rate for the three months ended October 27, 2012 was adversely impacted by the tax effects of the acquisition of Blue Tomato.

Nine Months (39 weeks) Ended October 27, 2012 Compared With Nine Months (39 weeks) Ended October 29, 2011

Net Sales

Net sales were \$445.0 million for the nine months ended October 27, 2012 compared to \$372.0 million for the nine months ended October 29, 2011, an increase of \$73.0 million or 19.6%. The increase reflected a comparable store sales increase of 8.0% for the nine months ended October 27, 2012 as well as the net addition of 48 U.S. and Canada stores (51 new stores offset by three store closures) subsequent to October 29, 2011 and the acquisition of Blue Tomato during the second quarter of fiscal 2012. Included in the results for the nine months ended October 27, 2012 were \$9.6 million in net sales of Blue Tomato, which reflect Blue Tomato sales from the acquisition date of July 4, 2012 to October 27, 2012.

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

Gross Profit

Gross profit was \$155.6 million for the nine months ended October 27, 2012 compared to \$130.2 million for the nine months ended October 29, 2011, an increase of \$25.4 million, or 19.5%. As a percent of net sales, gross profit was flat for the nine months ended October 27, 2012 at 35.0% compared to 35.0% for the nine months ended October 29, 2011. Gross profit as a percent of sales was impacted by an 80 basis points impact from leveraging our store occupancy costs on a 8.0% comparable

[Table of Contents](#)

store sales increase and 40 basis points due to distribution center efficiencies, which were offset by a 60 basis points increase in ecommerce fulfillment and ecommerce shipping expenses and a 40 basis points impact of a \$1.9 million charge recorded during the nine months ended October 27, 2012 related to a step-up in inventory to estimated fair value in conjunction with our acquisition of Blue Tomato

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses were \$123.2 million for the nine months ended October 27, 2012 compared to \$101.3 million for the nine months ended October 29, 2011, an increase of \$21.9 million, or 21.6%. SG&A expenses as a percent of net sales increased by 50 basis points for the nine months ended October 27, 2012 to 27.7% compared to 27.2% for the nine months ended October 29, 2011. The increase was primarily due to a 60 basis points impact of a \$2.7 million charge incurred during the nine months ended October 27, 2012 related to the estimated future incentive payments to be paid in conjunction with our acquisition of Blue Tomato, a 40 basis points impact of the \$1.9 million in transaction costs incurred during the nine months ended October 27, 2012 in conjunction with our acquisition of Blue Tomato, a 20 basis points impact of amortization of intangible assets acquired as part of our Blue Tomato acquisition of \$0.7 million for the three months ended October 27, 2012 and a 20 basis points impact of exit costs and other charges of \$1.1 million incurred during the nine months ended October 27, 2012 related to the relocation of our home office. These increases were partially offset by 110 basis points in store operating efficiencies.

Net Income

Net income for the nine months ended October 27, 2012 was \$19.3 million, or \$0.61 per diluted share, compared with net income of \$18.6 million, or \$0.60 per diluted share, for the nine months ended October 29, 2011. Our effective income tax rate for the nine months ended October 27, 2012 was 43.4% compared to 38.4% for the nine months ended October 29, 2011. Our effective tax rate for the nine months ended October 27, 2012 was adversely impacted by the tax effects of the acquisition of Blue Tomato.

Liquidity and Capital Resources

Our primary uses of cash are for operational expenditures, capital investments, inventory purchases, store remodeling, store fixtures, ongoing infrastructure improvements such as technology enhancements and distribution capabilities and potential future acquisitions. Historically, our main sources of liquidity have been cash flows from operations.

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

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

During fiscal 2012, we expect to spend approximately \$42 million to \$44 million on capital expenditures, a majority of which will relate to leasehold improvements and fixtures for the approximately 50 new stores we plan to open in fiscal 2012, remodels of existing stores and the completion of the construction of our new home office building in Lynnwood, Washington. There can be no assurance that the number of stores that we actually open in fiscal 2012 will not be different from the number of stores we plan to open, or that actual fiscal 2012 capital expenditures will not differ from this expected amount.

Additionally, during fiscal 2012, we acquired Blue Tomato for cash consideration of \$74.8 million (\$69.7 million net of cash acquired).

Operating Activities

Net cash provided by operating activities increased by \$3.0 million to \$28.2 million for the nine months ended October 27, 2012 from \$25.2 million for the nine months ended October 29, 2011. 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.

[Table of Contents](#)

Because our customers primarily use credit cards or cash to buy from us, our receivables from customers settle quickly. Changes to our operating cash flows have historically been driven primarily by changes in operating income, which is impacted by changes to non-cash items such as depreciation, amortization and accretion, deferred taxes, and excess tax benefit from stock-based compensation, and changes to the components of working capital.

Investing Activities

Net cash used in investing activities was \$34.8 million for the nine months ended October 27, 2012, related to \$69.7 million for the acquisition of Blue Tomato (net of cash acquired) and \$34.0 million of capital expenditures primarily for new store openings and the construction of our new home office building in Lynnwood, Washington, partially offset by \$69.0 million in net sales of marketable securities. Net cash used in investing activities was \$25.6 million for the nine months ended October 29, 2011, related to \$18.4 million of capital expenditures primarily for new store openings and \$7.2 million in net purchases of marketable securities.

Financing Activities

Net cash provided by financing activities for the nine months ended October 27, 2012 and October 29, 2011 was \$2.6 million and \$2.9 million related primarily to proceeds from stock-based compensation exercises and the related tax benefits.

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 and borrowings under our revolving credit facility are not sufficient to meet our capital requirements, then we will be required to obtain additional equity or debt financing in the future. However, there can be no assurance that equity or debt financing will be available to us when we need it, or if available, that the terms will be satisfactory to us and not dilutive to our then-current shareholders.

We maintain a secured credit agreement with Wells Fargo Bank, N.A., which provides us with a secured revolving credit facility until September 1, 2013 of up to \$25.0 million, which, pursuant to an accordion feature, may be increased to \$35.0 million at our discretion. The secured revolving credit facility provides for the issuance of a standby letter of credit in an amount not to exceed \$5.0 million outstanding at any time and with a term not to exceed 365 days. The commercial line of credit provides for the issuance of a commercial letter of credit in an amount not to exceed \$10.0 million and with terms not to exceed 120 days. The amount of borrowings available at any time under our secured revolving credit facility is reduced by the amount of standby and commercial letters of credit outstanding at that time. There were no outstanding borrowings under the secured revolving credit facility at October 27, 2012 and January 28, 2012. We had open commercial letters of credit outstanding under our secured revolving credit facility of \$0.6 million at October 27, 2012 and \$0.9 million at January 28, 2012. The secured revolving credit facility bears interest at the Daily One Month LIBOR rate plus 1.00%.

Additionally, in conjunction with our acquisition of Blue Tomato, we acquired \$2.3 million in long-term debt, which relates to amounts borrowed to fund operations. At October 27, 2012, the amount of borrowings under this debt was \$2.2 million.

Contractual Obligations and Commercial Commitments

There were no material changes outside the ordinary course of business in our contractual obligations during the nine months ended October 27, 2012, with the exception of the long-term debt that we acquired in conjunction with the acquisition of Blue Tomato. The following table summarizes the total amount of future payments due under our contractual obligations at October 27, 2012 (in thousands):

	<u>Total</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013 and Fiscal 2014</u>	<u>Fiscal 2015 and Fiscal 2016</u>	<u>Thereafter</u>
Operating lease obligations	\$ 483,482	\$ 15,399	\$ 130,806	\$ 123,183	\$ 214,094
Purchase obligations	117,812	117,812	—	—	—
Debt principal and interest	2,381	85	679	607	1,010
Total	<u>\$603,675</u>	<u>\$133,296</u>	<u>\$ 131,485</u>	<u>\$ 123,790</u>	<u>\$215,104</u>

[Table of Contents](#)

Off-Balance Sheet Obligations

We did not have any off-balance sheet obligations at October 27, 2012.

Impact of Inflation

We do not believe that inflation has had a material impact on our net sales or operating results in the recent past. There can be no assurance that our business will not be affected by inflation in the future.

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 “anticipate,” “believe,” “expect,” “intend” 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.

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

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

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

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

If we fail to effectively execute our expansion strategy, we may not be able to successfully open new store locations in a timely manner, if at all, which could have an adverse affect on our net sales and results of operations.

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

- identify suitable store locations, the availability of which is outside of our control;
- negotiate acceptable lease terms, including desired tenant improvement allowances;
- source sufficient levels of inventory at acceptable costs to meet the needs of new stores;

[Table of Contents](#)

- hire, train and retain qualified store personnel;
- successfully integrate new stores into our existing operations; and
- identify and satisfy the merchandise preferences of new geographic areas.

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

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

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

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

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

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

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

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

The current uncertainty surrounding the United States and global economies coupled with cyclical economic trends in action sports retailing could have a material adverse effect on our results of operations.

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

[Table of Contents](#)

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

Our quarterly results of operations are volatile and may decline.

Our quarterly results of operations have fluctuated significantly in the past and can be expected to continue to fluctuate significantly in the future. As discussed above, our sales and operating results are typically lower in the first and second fiscal quarters of our fiscal year due, in part, to the traditional retail slowdown immediately following the winter holiday season. 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 or absence 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.

Our sales and inventory levels fluctuate on a seasonal basis, leaving our operating results particularly susceptible to changes in back-to-school and winter holiday shopping patterns.

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. Our sales in the first and second fiscal quarters are typically lower than in our third and fourth fiscal quarters due, in part, to the traditional retail slowdown immediately following the winter holiday season. 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.

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

Increases in the cost of cotton, other raw materials, foreign labor costs and transportation costs used in the production of our merchandise can result in higher costs in the price we pay for this merchandise. The costs for cotton are affected by weather,

[Table of Contents](#)

consumer demand, speculation on the commodities market and other factors that are generally unpredictable and beyond our control. Our gross profit and earnings per share could be adversely affected to the extent that the selling prices of our products do not increase proportionately with the increases in the costs of cotton or other materials. Increasing labor costs and oil-related product costs, such as manufacturing and transportation costs, could also adversely impact gross profit. Additionally, significant changes in the relationship between carrier capacity and shipper demand could increase transportation costs, which could also adversely impact gross profit.

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

Most of our merchandise is produced by manufacturers around the world. Some of these facilities are located in regions that may be affected by natural disasters, political instability or other conditions that could cause a disruption in trade. Trade restrictions such as increased tariffs or quotas, or both, could also affect the importation of merchandise generally and 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. Although the prices charged by vendors for the merchandise we purchase are primarily denominated in United States dollars, a continued decline in the relative value of the United States dollar to foreign currencies could lead to increased merchandise costs, which could negatively affect our competitive position and our results of operations.

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 (including any weather patterns associated with global warming and cooling) during the winter season or cool weather during the summer season could render a portion of our inventory incompatible with those unseasonable conditions. These prolonged unseasonable weather conditions could have a material adverse effect on our business and results of operations.

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

The teenage and young adult retail apparel, hardgoods and accessories industry is highly competitive. We compete with other retailers for vendors, teenage and young adult customers, suitable store locations, qualified store associates and management personnel. In the softgoods market, which includes apparel, accessories and footwear, we currently compete with other teenage-focused retailers. In addition, in the softgoods market we compete with independent specialty shops, department stores and direct marketers that sell similar lines of merchandise and target customers through catalogs and ecommerce. In the hardgoods market, which includes skateboards, snowboards, bindings, components and other equipment, we compete directly or indirectly with other specialty retailers that compete with us across a significant portion of our merchandising categories, such as local snowboard and skate shops, large-format sporting goods stores and chains and ecommerce retailers.

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

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

Our business is dependent on continued good relations with our vendors. In particular, we believe that we generally are able to obtain attractive pricing and other terms from vendors because we are perceived as a desirable customer, and deterioration in our relationship with our vendors would likely have a material adverse effect on our business. There can be no assurance that our vendors will provide us with an adequate supply or quality of products or acceptable pricing. Our vendors could discontinue selling to us or raise the prices they charge at any time. There can be no assurance that we will be able to acquire desired merchandise in sufficient quantities on terms acceptable to us in the future. In addition, certain of our vendors sell their products directly to the retail market and therefore compete with us directly and other vendors may decide to do so in the future. There can be no assurance that such vendors will not decide to discontinue supplying their products to us, supply us

[Table of Contents](#)

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, would have a material adverse effect on our business, results of operations and financial condition.

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

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

- diversion of traffic and sales from our stores;
- rapid technological change;
- liability for online content; and
- risks related to the computer systems that operate our website and related support systems, including computer viruses, electronic break-ins and similar disruptions.

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

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

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

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

Our success depends in part upon our ability to attract, motivate and retain a sufficient number of qualified employees, including divisional managers, regional managers, district managers, store managers and store associates, who understand and appreciate our culture based on a passion for the action sports lifestyle and are able to adequately represent this culture to our customers. Qualified individuals of the requisite caliber, skills and number needed to fill these positions may be in short supply in some areas, and the employee turnover rate in the retail industry is high. Competition for qualified employees could require us to pay higher wages to attract a sufficient number of suitable employees. If we are unable to hire and retain store managers and store associates capable of consistently providing a high level of customer service, as demonstrated by their enthusiasm for our culture and knowledge of our merchandise, our ability to open new stores may be impaired and the performance of our existing and new stores could be materially adversely affected. We are also dependent upon temporary personnel to adequately staff our stores and distribution and ecommerce fulfillment centers particularly during busy periods such as the back-to-school and winter holiday seasons. There can be no assurance that we will receive adequate assistance from our temporary personnel, or that there will be sufficient sources of temporary personnel. Although none of our employees are currently covered by collective bargaining agreements, we cannot guarantee that our employees will not elect to be represented by labor unions in the future, which could increase our labor costs and could subject us to the risk of work stoppages and strikes. Any such failure to meet our staffing needs, any material increases in employee turnover rates, any increases in labor costs or any work stoppages, interruptions or strikes could have a material adverse effect on our business or results of operations.

Our business could suffer with the closure or disruption of any of our distribution or ecommerce fulfillment centers.

Domestically, we rely on a single distribution center located in Corona, California to receive, store and distribute the vast majority of our merchandise to our domestic stores and we rely on a single ecommerce fulfillment center located in Edwardsville, Kansas to ship merchandise purchased on the www.zumiez.com website. Internationally, we operate a combined distribution and ecommerce fulfillment center located in Graz, Austria that support our Blue Tomato ecommerce and store operations in Europe and we use a third-party distribution center located in Kamloops, British Columbia to distribute our

[Table of Contents](#)

merchandise to our Canadian stores. As a result, a natural disaster or other catastrophic event that affects one of the regions where we operate these centers could significantly disrupt our operations and have a material adverse effect on our business, results of operations and financial condition.

Additionally, we relocated our ecommerce fulfillment center to Edwardsville, Kansas during the second quarter of fiscal 2012. As a result, events may occur during the operating periods subsequent to the relocation that could significantly disrupt our operations and have a material adverse effect on our business, results of operations and financial condition.

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

Payments under these operating leases account for a significant portion of our operating expenses and has historically been our third largest expense behind cost of sales and our employee related costs. For example, total rental expense, including additional rental payments (or “percentage rent”) based on sales of some of the stores, common area maintenance charges and real estate taxes, under operating leases was \$56.9 million and \$50.3 million for the nine months ended October 27, 2012 and October 29, 2011. At October 27, 2012, we were committed to property owners for operating leases obligations for \$483.5 million. In addition, substantially all of our store leases provide for additional rental payments based on sales of the respective stores, as well as common area maintenance charges, and require that we pay real estate taxes. These amounts generally escalate each year. We expect that any new stores we open will also be leased by us under operating leases, which will further increase our operating lease expenses.

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

- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- requiring that a substantial portion of our available cash be applied to pay our rental obligations, thus reducing cash available for other purposes; and
- limiting our flexibility in planning for or reacting to changes in our business or in the industry in which we compete, and placing us at a disadvantage with respect to some of our competitors.

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

The terms of our primary credit facility impose operating and financial restrictions on us that may impair our ability to respond to changing business and economic conditions. This impairment could have a significant adverse impact on our business.

We maintain a secured credit agreement with Wells Fargo Bank, N.A., which provides us with a secured revolving credit facility until September 1, 2013 of up to \$25.0 million, which, pursuant to an accordion feature, may be increased to \$35.0 million at our discretion. The credit agreement contains a number of restrictions and covenants that generally limit our ability to, among other things, (1) incur additional debt, (2) undergo a change in ownership and (3) enter into certain transactions. The credit agreement also contains financial covenants that require us to meet certain specified financial tests and ratios, including, a maximum net loss not to exceed \$10.0 million after taxes on a trailing four-quarter basis provided, that, there shall be added to net income all charges for impairment of goodwill and store assets not to exceed \$5.0 million in aggregate, and a minimum quick ratio of 1.25. The quick ratio is defined as our cash and near cash equivalents plus certain defined receivables divided by the outstanding borrowings. Our accounts receivable, general intangibles, inventory and equipment have been pledged to secure our obligations under the credit agreement. We must also provide financial information and statements to our lender. We were in compliance with all such covenants at October 27, 2012.

A breach of any of these restrictive covenants or our inability to comply with the required financial tests and ratios could result in a default under the credit agreement. If a default occurs, the lender may elect to declare all borrowings outstanding, together with accrued interest and other fees, to be immediately due and payable. If we are unable to repay outstanding borrowings when due, whether at their maturity or if declared due and payable by the lender following a default, the lender has the right to

[Table of Contents](#)

proceed against the collateral granted to it to secure the indebtedness. As a result, any breach of these covenants or failure to comply with these tests and ratios could have a material adverse effect on us. There can be no assurance that we will not breach the covenants or fail to comply with the tests and ratios in our credit agreement or any other debt agreements we may enter into in the future and, if a breach occurs, there can be no assurance that we will be able to obtain necessary waivers or amendments from the lenders.

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

Our business could suffer if our ability to acquire financing is reduced or eliminated.

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

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

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

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

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

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

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

Over the past several years, we have made improvements to our infrastructure and existing hardware and software systems, as well as implemented new systems. If these or any other information systems and software do not work effectively, this could adversely impact the promptness and accuracy of our transaction processing, financial accounting and reporting and our ability to manage our business and properly forecast operating results and cash requirements. To manage the anticipated growth of our operations and personnel, we may need to continue to improve our operational and financial systems, transaction processing, procedures and controls, and in doing so could incur substantial additional expenses that could impact our financial results.

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

[Table of Contents](#)

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

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

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

The effects of war or acts of terrorism could adversely affect our business.

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

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

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

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

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

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

[Table of Contents](#)

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

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

Enacted federal health care legislation could increase our expenses.

We are self-insured with respect to our health care coverage in the United States and do not purchase third party insurance for the health insurance benefits provided to employees with the exception of pre-defined stop loss, which helps limit the cost of large claims. In March 2010, the Patient Protection and Affordable Care Act (the “Act”) and the Health Care Education Reconciliation Act of 2010 (the “Reconciliation Act”) were signed into law. The Act, as modified by the Reconciliation Act, includes a large number of health care provisions to take effect over four years, including expanded dependent coverage, incentives for businesses to provide health care benefits, a prohibition on the denial of coverage and denial of claims on pre-existing conditions, a prohibition on limits on essential benefits and other expansions of health care benefits and coverage. The costs of these provisions are expected to be funded by a variety of taxes and fees. Some of the taxes and fees, as well as certain health care changes required by these acts, are expected to result, directly or indirectly, in increased health care costs for us. It remains difficult to predict the cost impact of health care reform and at this time, we cannot quantify the impact, if any, that the legislation may have on us due to the changing regulatory environment around this legislation and due to the government’s requirement to issue future unknown regulatory rules. There is no assurance that we will be able to absorb and/or pass through the costs of such legislation in a manner that will not adversely impact our results of operations.

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

We completed our initial public offering in May 2005 and we have incurred and could continue to incur significant legal, accounting, insurance and other expenses as a result of being a public company. Rules and regulations implemented by Congress, the SEC and the Nasdaq Global Select Market have required changes in corporate governance practices of public companies. Compliance with these laws could cause us to incur significant costs and expenses, including legal and accounting costs, and could make some compliance activities more time-consuming and negatively impact our financial performance. Additionally, these rules and regulations may make it more expensive for us to obtain director and officer liability insurance. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as officers.

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

Reporting obligations as a public company and our anticipated growth, both domestically and internationally, are likely to place a considerable strain on our financial and management systems, processes and controls, as well as on our personnel. In addition, we are required to document and test our internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 so that our management can certify as to the effectiveness of our internal controls and our independent registered public accounting firm can render an opinion on the effectiveness of our internal control over financial reporting on an annual basis. This process requires us to document our internal controls over financial reporting and to potentially make significant changes thereto, if applicable. As a result, we have incurred and expect to continue to incur substantial expenses to test our financial controls and systems, and we have been and in the future may be required to improve our financial and managerial controls, reporting systems and procedures, to incur substantial expenses to make such improvements and to hire additional personnel. If our management is ever unable to certify the effectiveness of our internal controls or if our independent registered public accounting firm cannot render an opinion on the effectiveness of our internal control over financial reporting, or if material weaknesses in our internal controls are ever identified, we could be subject to regulatory scrutiny and a loss of public confidence, which could have a material adverse effect on our business and our stock price. In addition, if we do not maintain adequate financial and management personnel, processes and controls, we may not be able to accurately report our financial performance on a timely basis, which could cause a decline in our stock price and adversely affect our ability to raise capital.

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

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

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

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

The value of our investments may fluctuate.

We have our excess cash primarily invested in state and local municipal securities, corporate debt securities and variable-rate demand notes. These investments have historically been considered very safe investments with minimal default rates. At October 27, 2012, we had \$88.9 million of investments in state and local government securities and variable-rate demand notes, excluding our auction rate security. These securities are not guaranteed by the United States government and are subject to additional credit risk based upon each local municipality’s tax revenues and financial stability. As a result, we may experience a reduction in value or loss of liquidity of our investments, which may have a negative adverse effect on our results of operations, liquidity and financial condition.

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

Goodwill and other intangible assets are required to be tested for impairment at least annually or more frequently if management believes indicators of impairment exist. Any reduction in the carrying value of our goodwill or other intangible assets as a result of our impairment analysis could result in a non-cash impairment charge to our condensed consolidated statements of income. An impairment charge could have a significant impact on earnings and potentially result in a violation of our financial covenants, thereby limiting our ability to secure short-term financing.

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

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

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Our market risk profile at October 27, 2012 has not significantly changed since January 28, 2012. Our market risk profile at October 27, 2012 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 October 27, 2012, our disclosure controls and procedures were effective.

Disclosure controls and procedures, no matter how well designed and implemented, can provide only reasonable assurance of achieving an entity’s disclosure objectives. The likelihood of achieving such objectives is affected by limitations inherent in disclosure controls and procedures. These include the fact that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human failures such as simple errors or mistakes or intentional circumvention of the established process.

Changes in Internal Control over Financial Reporting. There has been no change in our internal control over financial reporting (as defined in Securities Exchange Act Rule 13a-15(f)) during the quarter ended October 27, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

[Table of Contents](#)**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 7 to the Notes to Condensed Consolidated Financial Statements found in Item 1 of this Form 10-Q (listed under “Litigation” under Commitments and Contingencies).

Item 1A. Risk Factors

Please refer to the Risk Factors set forth in Item 2 of Part I of this Form 10-Q as well as the risk factors previously disclosed in Item 1A of Part I of our Annual Report on Form 10-K for the year ended January 28, 2012. There have been no material changes in the risk factors set forth in our Annual Report on Form 10-K for the year ended January 28, 2012.

Item 2. Unregistered Sales of Equity and Use of Proceeds

The following table presents information with respect to purchases of common stock of the Company made during the thirteen weeks ended October 27, 2012.

<u>Period</u>	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</u>
July 28, 2012—August 25, 2012	992	\$ 34.32	—	—
August 26, 2012—September 29, 2012	—	\$ —	—	—
September 30, 2012—October 27, 2012	—	\$ —	—	—
Total	<u>992</u>		<u>—</u>	

- (1) During the thirteen weeks ended October 27, 2012, 992 shares were either forfeited or purchased by us in order to satisfy employee tax withholding obligations upon the vesting of restricted stock. These shares were not acquired pursuant to any publicly announced purchase plan or program.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

[Table of Contents](#)

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description of Exhibits</u>
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 October 27, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at October 27, 2012 and January 28, 2012; (ii) Condensed Consolidated Statements of Income for the three and nine months ended October 27, 2012 and October 29, 2011; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended October 27, 2012 and October 29, 2011; (iv) Condensed Consolidated Statements of Changes in Shareholders' Equity for the nine months ended October 27, 2012 and October 29, 2011; (v) Condensed Consolidated Statements of Cash Flows for the nine months ended October 27, 2012 and October 29, 2011; and (vi) Notes to Condensed Consolidated Financial Statements. (1)
(1)	The XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

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: December 5, 2012

By: /s/ Christopher C. Work

Christopher C. Work

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

**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: December 5, 2012

**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: December 5, 2012

**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 October 27, 2012 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)
December 5, 2012

/s/ Christopher C. Work

Christopher C. Work
Chief Financial Officer
(Principal Financial Officer and Principal Accounting
Officer)
December 5, 2012

A signed original of this written statement required by Section 906 has been provided to Zumiez Inc. and will be retained by Zumiez Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

