

Zumiez Inc  
Form 10-Q  
September 07, 2017

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 JULY 29, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934  
Commission file number 000-51300

ZUMIEZ INC.

(Exact name of registrant as specified in its charter)

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

4001 204<sup>th</sup> Street SW, Lynnwood, WA 98036

(Address of principal executive offices) (Zip Code)

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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

Emerging growth company

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

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

At August 30, 2017, there were 25,230,570 shares outstanding of common stock.

ZUMIEZ INC.

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Signature

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## ZUMIEZ INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	July 29, 2017 (Unaudited)	January 28, 2017
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 17,291	\$ 20,247
Marketable securities	53,433	58,579
Receivables	16,334	12,538
Inventories	141,782	106,924
Prepaid expenses and other current assets	15,378	13,075
Total current assets	244,218	211,363
<b>Fixed assets, net</b>		
Goodwill	60,057	56,001
Intangible assets, net	15,903	14,610
Deferred tax assets, net	9,733	7,041
Other long-term assets	7,022	8,017
Total long-term assets	224,649	215,320
Total assets	\$ 468,867	\$ 426,683
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Trade accounts payable	\$ 60,652	\$ 25,529
Accrued payroll and payroll taxes	15,684	14,914
Income taxes payable	68	1,866
Deferred rent and tenant allowances	8,393	8,344
Other liabilities	23,657	22,944
Total current liabilities	108,454	73,597
Long-term deferred rent and tenant allowances	40,795	41,066
Other long-term liabilities	5,113	4,969
Total long-term liabilities	45,908	46,035
Total liabilities	154,362	119,632
<b>Commitments and contingencies (Note 3)</b>		
<b>Shareholders' equity</b>		
Preferred stock, no par value, 20,000 shares authorized; none issued and outstanding	—	—
Common stock, no par value, 50,000 shares authorized; 25,231 shares issued and outstanding at July 29, 2017 and 24,945 shares issued and outstanding at January 28, 2017	143,682	140,984
Accumulated other comprehensive loss	(6,676)	(16,488)
Retained earnings	177,499	182,555
Total shareholders' equity	314,505	307,051
Total liabilities and shareholders' equity	\$ 468,867	\$ 426,683

See accompanying notes to condensed consolidated financial statements



ZUMIEZ INC.

## CONDENSED CONSOLIDATED STATEMENTS OF LOSS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Net sales	\$ 192,245	\$ 178,272	\$ 373,399	\$ 351,243
Cost of goods sold	132,449	123,428	261,555	246,440
Gross profit	59,796	54,844	111,844	104,803
Selling, general and administrative expenses	60,558	55,980	118,841	109,879
Operating loss	(762 )	(1,136 )	(6,997 )	(5,076 )
Interest income, net	92	28	174	59
Other (expense) income, net	(23 )	(256 )	(472 )	242
Loss before income taxes	(693 )	(1,364 )	(7,295 )	(4,775 )
Benefit from income taxes	(85 )	(526 )	(2,239 )	(1,800 )
Net Loss	\$ (608 )	\$ (838 )	\$ (5,056 )	\$ (2,975 )
Basic loss per share	\$ (0.02 )	\$ (0.03 )	\$ (0.21 )	\$ (0.12 )
Diluted loss per share	\$ (0.02 )	\$ (0.03 )	\$ (0.21 )	\$ (0.12 )
Weighted average shares used in computation of loss per share:				
Basic	24,689	24,712	24,635	24,957
Diluted	24,689	24,712	24,635	24,957

See accompanying notes to condensed consolidated financial statements

ZUMIEZ INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three Months Ended July		Six Months Ended	
	29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Net loss	\$ (608 )	\$ (838 )	\$ (5,056 )	\$ (2,975 )
Other comprehensive income (loss), net of tax and reclassification adjustments:				
Foreign currency translation	8,305	(2,664)	9,784	2,329
Net change in unrealized gain/loss on available-for-sale securities	17	122	28	116
Other comprehensive income (loss), net	8,322	(2,542)	9,812	2,445
Comprehensive income (loss)	\$ 7,714	\$ (3,380)	\$ 4,756	\$ (530 )

See accompanying notes to condensed consolidated financial statements



ZUMIEZ INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Accumulated				
	Common Stock		Comprehensive	Retained	Total
	Shares	Amount	Loss	Earnings	
Balance at January 28, 2017	24,945	\$ 140,984	\$ (16,488 )	\$ 182,555	\$ 307,051
Net loss	—	—	—	(5,056 )	(5,056 )
Other comprehensive income, net	—	—	9,812	—	9,812
Issuance and exercise of stock-based awards	286	198	—	—	198
Stock-based compensation expense	—	2,500	—	—	2,500
Balance at July 29, 2017	25,231	\$ 143,682	\$ (6,676 )	\$ 177,499	\$ 314,505

	Accumulated				
	Common Stock		Comprehensive	Retained	Total
	Shares	Amount	Loss	Earnings	
Balance at January 30, 2016	25,708	\$ 135,013	\$ (15,247 )	\$ 177,191	\$ 296,957
Net loss	—	—	—	(2,975 )	(2,975 )
Other comprehensive income, net	—	—	2,445	—	2,445
Issuance and exercise of stock-based awards, including net tax					
loss of \$529	282	(132 )	—	—	(132 )
Stock-based compensation expense	—	2,221	—	—	2,221
Repurchase of common stock	(1,059 )	—	—	(18,269 )	(18,269 )
Balance at July 30, 2016	24,931	\$ 137,102	\$ (12,802 )	\$ 155,947	\$ 280,247

See accompanying notes to condensed consolidated financial statements

ZUMIEZ INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended	
	July 29, 2017	July 30, 2016
<b>Cash flows from operating activities:</b>		
Net loss	\$(5,056 )	\$(2,975 )
<b>Adjustments to reconcile net loss to net cash provided by operating activities:</b>		
Depreciation, amortization and accretion	13,520	14,336
Deferred taxes	(2,456 )	(3,713 )
Stock-based compensation expense	2,500	2,221
Other	621	95
<b>Changes in operating assets and liabilities:</b>		
Receivables	(2,092 )	(842 )
Inventories	(32,553)	(32,766)
Prepaid expenses and other current assets	(995 )	(2,690 )
Trade accounts payable	34,627	38,181
Accrued payroll and payroll taxes	561	225
Income taxes payable	(3,372 )	(4,804 )
Deferred rent and tenant allowances	(521 )	(12 )
Other liabilities	(1,016 )	(813 )
Net cash provided by operating activities	3,768	6,443
<b>Cash flows from investing activities:</b>		
Additions to fixed assets	(12,461)	(11,895)
Purchases of marketable securities and other investments	(37,586)	(28,353)
Sales and maturities of marketable securities and other investments	42,615	28,658
Net cash used in investing activities	(7,432 )	(11,590)
<b>Cash flows from financing activities:</b>		
Proceeds from revolving credit facilities	1,791	—
Payments on revolving credit facilities	(1,791 )	—
Repurchase of common stock	—	(19,084)
Proceeds from issuance and exercise of stock-based awards	370	518
Payments for tax withholdings on equity awards	(172 )	(121 )
Net cash provided by (used in) financing activities	198	(18,687)
Effect of exchange rate changes on cash and cash equivalents	510	271
Net decrease in cash and cash equivalents	(2,956 )	(23,563)
Cash and cash equivalents, beginning of period	20,247	43,163
Cash and cash equivalents, end of period	\$17,291	\$19,600
<b>Supplemental disclosure on cash flow information:</b>		
Cash paid during the period for income taxes	\$3,660	\$6,736
Accrual for purchases of fixed assets	2,550	1,835
Accrual for repurchase of common stock	—	254

See accompanying notes to condensed consolidated financial statements

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ZUMIEZ INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of Business and Basis of Presentation

**Nature of Business**—Zumiez Inc., including its wholly owned subsidiaries, (the “Company,” “we,” “us,” “its” and “our”) is a leading specialty retailer of apparel, footwear, accessories and hardgoods for young men and women who want to express their individuality through the fashion, music, art and culture of action sports, streetwear, and other unique lifestyles. At July 29, 2017, we operated 692 stores; 605 in the United States (“U.S.”), 51 in Canada, 30 in Europe, and 6 in Australia. We operate under the names Zumiez, Blue Tomato, and Fast Times. Additionally, we operate ecommerce websites at [www.zumiez.com](http://www.zumiez.com), [www.blue-tomato.com](http://www.blue-tomato.com), and [www.fasttimes.com.au](http://www.fasttimes.com.au).

**Fiscal Year**—We use a fiscal calendar widely used by the retail industry that results in a fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to January 31. Each fiscal year consists of four 13-week quarters, with an extra week added to the fourth quarter every five or six years. The three months ended July 29, 2017 and July 30, 2016 were 13-week periods. The six months ended July 29, 2017 and July 30, 2016 were 26-week periods.

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

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

The financial data at January 28, 2017 is derived from audited consolidated financial statements, which are included in our Annual Report on Form 10-K for the year ended January 28, 2017, and should be read in conjunction with the audited consolidated financial statements and notes thereto. Interim results are not necessarily indicative of results for the full fiscal year due to seasonality and other factors.

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

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

economic characteristics.

**Recent Accounting Standards**—In March 2016, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update (ASU) as part of its simplification initiative that includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. Upon the adoption of the ASU, excess tax benefits and deficiencies for share-based payments are recorded as an adjustment of income taxes and reflected in operating cash flows rather than recorded in equity and reported in financing cash flows. The guidance allows for the employer to withhold up to the maximum statutory tax rates in the applicable jurisdictions without triggering liability accounting. The guidance also allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. We adopted this standard beginning January 29, 2017. The amendment related to accounting for excess tax benefits and deficiencies was adopted prospectively, resulting in recognition of excess tax deficiencies against income tax benefit rather than additional paid-in capital of \$0.1 million and \$0.5 million for the three and six months ended July 29, 2017.

In February 2016, the FASB issued a comprehensive standard related to lease accounting to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Most significantly, the new guidance requires lessees to recognize operating leases with a term of more than 12 months as lease assets and lease liabilities. The adoption will require a modified retrospective approach at the beginning of the earliest period presented. The new standard is effective for the fiscal year beginning after December 15, 2018, with early adoption permitted. We are

continuing to evaluating the impact of this standard on our condensed consolidated financial statements. We expect this standard to have a material impact on our condensed consolidated financial statements.

In January 2016, the FASB issued a new standard related primarily to accounting for equity investments, financial liabilities where the fair value option has been elected, and the presentation and disclosure requirements for financial instruments. There will no longer be an available-for-sale classification and therefore, no changes in fair value will be reported in other comprehensive income for equity securities with readily determinable fair values. The new standard will be effective for the fiscal year beginning after December 15, 2017 and early adoption is permitted. We are currently evaluating the impact of this standard on our consolidated financial statements.

In May 2014, the FASB issued a comprehensive new revenue recognition standard. The new standard allows for a full retrospective approach to transition or a modified retrospective approach. This guidance was effective for fiscal years and interim periods within those years beginning after December 15, 2016. In August 2015, the FASB issued updated guidance deferring the effective date for the fiscal year beginning after December 15, 2017 and will permit early adoption of the standard, but not before the original effective date of December 15, 2016. We are continuing to evaluate the impact of this standard but we do not expect the adoption of this standard to have a material impact on our consolidated financial statements. We are continuing to evaluate the method of adoption we will use when we transition to this standard.

## 2. Cash, Cash Equivalents and Marketable Securities

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

	July 29, 2017			
	Gross		Gross	
	Unrealized		Unrealized	
	Amortized	Holding	Holding	Estimated
	Cost	Gains	Losses	Fair Value
<b>Cash and cash equivalents:</b>				
Cash	\$ 15,070	\$ —	\$ —	\$ 15,070
Money market funds	2,221	—	—	2,221
Total cash and cash equivalents	17,291	—	—	17,291
<b>Marketable securities:</b>				
State and local government securities	45,016	39	(17 )	45,038
Variable-rate demand notes	8,395	—	—	8,395
Total marketable securities	\$ 53,411	\$ 39	\$ (17 )	\$ 53,433
	January 28, 2017			
	Amortized	Gross		Gross
				Estimated

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	Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
Cash and cash equivalents:				
Cash	\$19,190	\$ —	\$ —	\$ 19,190
Money market funds	657	—	—	657
State and local government securities	400	—	—	400
Total cash and cash equivalents	20,247	—	—	20,247
Marketable securities:				
State and local government securities	19,151	8	(30 )	19,129
Variable-rate demand notes	39,450	—	—	39,450
Total marketable securities	\$58,601	\$ 8	\$ (30 )	\$ 58,579

All of our available-for-sale securities have an effective maturity date of two years or less and may be liquidated, at our discretion, prior to maturity.

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

July 29, 2017  
Less 12  
Than Months  
12 or  
Months Greater