

Zumiez Inc
Form 10-Q
December 04, 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 OCTOBER 28, 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 (I.R.S. Employer
incorporation or organization) Identification No.)

4001 204th 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 November 27, 2017, there were 25,249,680 shares outstanding of common stock.

ZUMIEZ INC.

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ZUMIEZ INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	October 28, 2017 (Unaudited)	January 28, 2017
Assets		
Current assets		
Cash and cash equivalents	\$ 10,660	\$ 20,247
Marketable securities	75,109	58,579
Receivables	15,761	12,538
Inventories	156,986	106,924
Prepaid expenses and other current assets	14,372	13,075
Total current assets	272,888	211,363
Fixed assets, net	130,898	129,651
Goodwill	59,544	56,001
Intangible assets, net	15,645	14,610
Deferred tax assets, net	9,842	7,041
Other long-term assets	7,452	8,017
Total long-term assets	223,381	215,320
Total assets	\$ 496,269	\$ 426,683
Liabilities and Shareholders' Equity		
Current liabilities		
Trade accounts payable	\$ 61,676	\$ 25,529
Accrued payroll and payroll taxes	15,782	14,914
Income taxes payable	5,454	1,866
Deferred rent and tenant allowances	8,468	8,344
Short-term borrowings	11,391	—
Other liabilities	22,065	22,944
Total current liabilities	124,836	73,597
Long-term deferred rent and tenant allowances	39,869	41,066
Other long-term liabilities	4,981	4,969
Total long-term liabilities	44,850	46,035
Total liabilities	169,686	119,632
Commitments and contingencies (Note 3)		
Shareholders' equity		
Preferred stock, no par value, 20,000 shares authorized; none issued and outstanding	—	—
Common stock, no par value, 50,000 shares authorized; 25,252 shares issued and outstanding at October 28, 2017 and 24,945 shares issued and outstanding at January 28, 2017	145,230	140,984
Accumulated other comprehensive loss	(8,067)	(16,488)
Retained earnings	189,420	182,555
Total shareholders' equity	326,583	307,051
Total liabilities and shareholders' equity	\$ 496,269	\$ 426,683

See accompanying notes to condensed consolidated financial statements

ZUMIEZ INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Net sales	\$ 245,756	\$ 221,391	\$ 619,156	\$ 572,634
Cost of goods sold	162,389	145,213	423,944	391,653
Gross profit	83,367	76,178	195,212	180,981
Selling, general and administrative expenses	64,559	59,265	183,401	169,144
Operating profit	18,808	16,913	11,811	11,837
Interest income (expense), net	111	(37)	284	22
Other (expense) income, net	(326)	11	(798)	253
Earnings before income taxes	18,593	16,887	11,297	12,112
Provision for income taxes	6,671	6,192	4,432	4,392
Net income	\$ 11,922	\$ 10,695	\$ 6,865	\$ 7,720
Basic earnings per share	\$ 0.48	\$ 0.44	\$ 0.28	\$ 0.31
Diluted earnings per share	\$ 0.48	\$ 0.43	\$ 0.28	\$ 0.31
Weighted average shares used in computation of earnings per share:				
Basic	24,712	24,485	24,660	24,798
Diluted	24,804	24,622	24,845	24,982

See accompanying notes to condensed consolidated financial statements

ZUMIEZ INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Net income	\$ 11,922	\$ 10,695	\$ 6,865	\$ 7,720
Other comprehensive (loss) income, net of tax and reclassification adjustments:				
Foreign currency translation	(1,368)	(1,888)	8,416	441
Net change in unrealized gain/loss on available-for-sale securities	(23)	(8)	5	108
Other comprehensive (loss) income, net	(1,391)	(1,896)	8,421	549
Comprehensive income	\$ 10,531	\$ 8,799	\$ 15,286	\$ 8,269

See accompanying notes to condensed consolidated financial statements

ZUMIEZ INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Common Stock		Accumulated		Total
	Shares	Amount	Loss	Retained Earnings	
Balance at January 28, 2017	24,945	\$ 140,984	\$ (16,488)	\$ 182,555	\$ 307,051
Net income	—	—	—	6,865	6,865
Other comprehensive income, net	—	—	8,421	—	8,421
Issuance and exercise of stock-based awards	307	526	—	—	526
Stock-based compensation expense	—	3,720	—	—	3,720
Balance at October 28, 2017	25,252	\$ 145,230	\$ (8,067)	\$ 189,420	\$ 326,583

	Common Stock		Accumulated		Total
	Shares	Amount	Loss	Retained Earnings	
Balance at January 30, 2016	25,708	\$ 135,013	\$ (15,247)	\$ 177,191	\$ 296,957
Net income	—	—	—	7,720	7,720
Other comprehensive income, net	—	—	549	—	549
Issuance and exercise of stock-based awards, including net tax					
loss of \$809	386	1,346	—	—	1,346
Stock-based compensation expense	—	3,399	—	—	3,399
Repurchase of common stock	(1,195)	—	—	(20,540)	(20,540)
Balance at October 29, 2016	24,899	\$ 139,758	\$ (14,698)	\$ 164,371	\$ 289,431

See accompanying notes to condensed consolidated financial statements

ZUMIEZ INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended October 28, 2017	October 29, 2016
Cash flows from operating activities:		
Net income	\$ 6,865	\$ 7,720
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	20,338	21,178
Deferred taxes	(2,625)	(4,983)
Stock-based compensation expense	3,720	3,399
Other	1,189	221
Changes in operating assets and liabilities:		
Receivables	(2,449)	(1,361)
Inventories	(48,491)	(51,047)
Prepaid expenses and other current assets	(578)	(3,183)
Trade accounts payable	35,693	35,873
Accrued payroll and payroll taxes	699	(631)
Income taxes payable	2,856	(708)
Deferred rent and tenant allowances	(1,240)	(1,035)
Other liabilities	(2,108)	(1,459)
Net cash provided by operating activities	13,869	3,984
Cash flows from investing activities:		
Additions to fixed assets	(19,072)	(16,829)
Acquisition, net of cash acquired	—	(5,395)
	(80,198)	(48,232)

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Purchases of marketable securities and other investments		
Sales and maturities of marketable securities and other investments	63,365	49,986
Net cash used in investing activities	(35,905)	(20,470)
Cash flows from financing activities:		
Proceeds from revolving credit facilities	19,412	17,849
Payments on revolving credit facilities	(7,841)	(5,813)
Repurchase of common stock	—	(21,607)
Proceeds from issuance and exercise of stock-based awards	697	851
Payments for tax withholdings on equity awards	(171)	(95)
Net cash provided by (used in) financing activities	12,097	(8,815)
Effect of exchange rate changes on cash and cash equivalents	352	139
Net decrease in cash and cash equivalents	(9,587)	(25,162)
Cash and cash equivalents, beginning of period	20,247	43,163
Cash and cash equivalents, end of period	\$ 10,660	\$ 18,001
Supplemental disclosure on cash flow information:		
Cash paid during the period for income taxes	\$ 4,434	\$ 10,042
Accrual for purchases of fixed assets	2,190	2,236

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., 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 October 28, 2017, we operated 694 stores; 604 in the United States (“U.S.”), 51 in Canada, 32 in Europe, and 7 in Australia. We operate under the names Zumiez, Blue Tomato, and Fast Times. Additionally, we operate ecommerce websites at zumiez.com, blue-tomato.com and fasttimes.com.au.

Fiscal Year—We use a fiscal calendar widely used by the retail industry that results in a fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to January 31. Each fiscal year consists of four 13-week quarters, with an extra week added to the fourth quarter every five or six years. The three months ended October 28, 2017 and October 29, 2016 were 13-week periods. The nine months ended October 28, 2017 and October 29, 2016 were 39-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 \$0.5 million for the nine months ended October 28, 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 will adopt using a modified retrospective approach. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

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):

	October 28, 2017			
	Gross		Gross	
			Unrealized	Unrealized
			Holding	Holding
	Amortized	Cost	Gains	Losses
	Cost			
				Estimated
				Fair
				Value
Cash and cash equivalents:				
Cash	\$9,764	\$ —	\$ —	\$ 9,764
Money market funds	896	—	—	896
Total cash and cash equivalents	10,660	—	—	10,660
Marketable securities:				
State and local government securities	58,893	21	(35)	58,879
Variable-rate demand notes	16,230	—	—	16,230
Total marketable securities	\$75,123	\$ 21	\$ (35)	\$ 75,109

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	January 28, 2017			
	Gross		Gross	
	Amortized	Unrealized	Unrealized	Estimated
	Cost	Gains	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 marketable 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):

	October 28, 2017				Total	Unrealized
	Less Than 12 Months		12 Months or Greater			
	Fair Value	Losses	Fair Value	Losses		
Marketable securities:						
State and local government securities	31,974	(34)	1,514	(1)	33,488	(35)
Total marketable securities	\$31,974	\$ (34)	\$1,514	\$ (1)	\$33,488	\$ (35)

	January 28, 2017				Total	Unrealized
	Less Than 12 Months		12 Months or Greater			
	Fair Value	Losses	Fair Value	Losses		
Marketable securities:						
State and local government securities	8,702	(30)	—	—	8,702	(30)
Total marketable securities	\$8,702	\$ (30)	\$ —	\$ —	\$8,702	\$ (30)

We did not record a realized loss for other-than-temporary impairments during the three and nine months ended October 28, 2017 or October 29, 2016.

3. Commitments and Contingencies

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

	Three Months Ended		Nine Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Minimum rent expense	\$19,604	\$18,803	\$57,898	\$55,213
Contingent rent expense	799	674	2,016	1,547
Total rent expense (1)	\$20,403	\$19,477	\$59,914	\$56,760

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(1) Total rent expense does not include real estate taxes, insurance, common area maintenance charges and other executory costs, which were \$10.4 million and \$31.2 million for the three and nine months ended October 28, 2017 and \$10.2 million and \$30.7 million for the three and nine months ended October 29, 2016.

A majority of our leases provide for ongoing co-tenancy requirements or early cancellation clauses that would further lower rental rates, or permit lease terminations, or both, in the event that co-tenants cease to operate for specific periods or if certain sales levels are not met in specific periods. Most of the store leases require payment of a specified minimum rent and a contingent rent based on a percentage of the store's net sales in excess of a specified threshold, as well as real estate taxes, insurance, common area maintenance charges and other executory costs. Future minimum lease payments at October 28, 2017 are as follows (in thousands):

Fiscal 2017	\$18,335
Fiscal 2018	69,811
Fiscal 2019	63,005
Fiscal 2020	