

Zumiez Inc
Form S-1/A
November 01, 2005
As filed with the United States Securities and Exchange Commission on November 1, 2005

Registration No. 333-129101

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

to

Form S-1

REGISTRATION STATEMENT UNDER
THE SECURITIES ACT OF 1933

Zumiez Inc.

(Exact name of registrant as specified in its charter)

Washington
(State or other jurisdiction of
incorporation or organization)

5600
(Primary Standard Industrial
Classification Code Number)

91-1040022
(I.R.S. Employer
Identification Number)

**6300 Merrill Creek Parkway, Suite B
Everett, WA 98203
(425) 551-1500**

(Address, including zip code and telephone number, including area code, of registrant's principal executive offices)

Richard M. Brooks
President and Chief Executive Officer
Zumiez Inc.
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Everett, WA 98203

(Name, address, including zip code and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box:

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price per Share(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common Stock, no par value	2,127,500	\$32.75	\$69,675,625	\$8,200.83(3)

(1) Includes shares to be sold upon exercise, if any, of the underwriters' over-allotment option. See Underwriting.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) of Regulation C under the Securities Act of 1933, as amended, based on the average of the high and low prices of the Common Stock as reported by the Nasdaq National Market on October 14, 2005.

(3) Previously paid.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

SUBJECT TO COMPLETION, DATED NOVEMBER 1, 2005

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

1,850,000 Shares

Zumiez Inc.

Common Stock

The selling shareholders identified in this prospectus are offering 1,850,000 shares of our common stock. We will not receive any proceeds from the sale of the shares offered by the selling shareholders.

Our common stock is traded on the Nasdaq National Market under the symbol ZUMZ. On October 28, 2005, the last reported sale price of our common stock on the Nasdaq National Market was \$32.45 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page 7.

	Per Share	Total
Public Offering Price	\$	\$
Underwriting Discounts and Commissions	\$	\$
Proceeds to the Selling Shareholders	\$	\$

Delivery of the shares of our common stock will be made on or about _____, 2005.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

The selling shareholders identified in this prospectus have granted the underwriters an option to purchase a maximum of 277,500 additional shares of our common stock to cover over-allotment of shares, if any, exercisable at any time until 30 days after the date of this prospectus.

Wachovia Securities

Piper Jaffray

William Blair & Company

The date of this prospectus is _____, 2005.

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You should rely only on the information contained in this prospectus. We and the underwriters have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We and the underwriters are not making an offer to sell or seeking offers to buy these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information appearing herein is accurate as of the date appearing on the front cover of this prospectus only. Our business, financial condition, results of operations and prospects may have changed since that date.

PROSPECTUS SUMMARY

This summary highlights selected information contained in greater detail elsewhere in this prospectus and does not contain all of the information that you should consider before investing in our common stock. You should carefully read the following summary together with the more detailed information regarding us and our common stock being sold in this offering, including Risk Factors and the financial statements and the related notes, appearing elsewhere in this prospectus before making an investment decision.

Zumiez Inc.

We are a leading specialty retailer of action sports related apparel, footwear, equipment and accessories operating under the Zumiez brand name. Our stores cater to young men and women between the ages of 12 and 24 who seek popular brands representing a lifestyle centered on activities that include skateboarding, surfing, snowboarding, bicycle motocross (or BMX) and motocross. 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. As of July 30, 2005, we operated 150 stores primarily located in shopping malls, giving us a presence in 18 states.

Our stores bring the look and feel of an independent specialty shop to the mall through a differentiated merchandising strategy, high-energy sales personnel and a distinctive store environment. We offer a diverse and dynamic collection of brands that currently includes Billabong, Burton, DC Shoe, DVS Shoes, Element, Etnies, Hurley, Quiksilver, Roxy and Volcom, among many others. We believe that our strategic mix of both apparel and hardgoods, including skateboards, snowboards, bindings, components and other equipment, allows us to strengthen the potential of the brands we sell and helps to affirm our credibility with our customers. In addition, we supplement our stores with a select offering of private label apparel and products as a value proposition that we believe complements our overall merchandise selection. We seek to staff our stores with store associates who are knowledgeable users of our products, which we believe provides our customers with enhanced customer service and supplements our ability to identify and react quickly to emerging trends and fashions. Most of our stores, which average approximately 2,700 square feet, feature couches and action sports oriented video game stations that are intended to encourage our customers to shop for longer periods of time and to interact with each other and our store associates.

Over our 26-year history, we have developed a corporate culture based on a passion for the action sports lifestyle. Our management philosophy emphasizes an integrated combination of results measurement, training and incentive programs, all designed to drive sales productivity at the individual store associate level. We have:

- increased our store count from 53 as of the end of fiscal 1999 to 150 as of the end of the second quarter of fiscal 2005;
- improved net sales per store from approximately \$882,000 in fiscal 1999 to approximately \$1.2 million in fiscal 2004, representing a compound annual growth rate of 6.3%;
- maintained net sales per square foot in excess of \$440 for our last five fiscal years ending with fiscal 2004;
- increased net sales from approximately \$44.5 million in fiscal 1999 to approximately \$153.6 million in fiscal 2004, representing a compound annual growth rate of 28.1%;
- increased operating profit from \$3.1 million in fiscal 1999 to \$12.0 million in fiscal 2004, representing a compound annual growth rate of 31.1%; and
- been profitable in every fiscal year of our 26-year history.

In fiscal 2002, certain affiliates (the Brentwood Affiliates) of Brentwood Private Equity III, LLC, a private equity firm, acquired an indirect minority interest in us through Zumiez Holdings LLC, or Zumiez Holdings. Since the investment by the Brentwood Affiliates, we have positioned ourselves for accelerated growth by enhancing our infrastructure and deepening our management team. We believe that these initiatives will improve our ability to continue to expand our business. On May 11, 2005, we completed our

initial public offering in which we sold 1,875,000 shares of our common stock and certain selling shareholders sold 1,718,750 shares of our common stock. We received net proceeds from the offering of approximately \$29.7 million, after payment of underwriting discounts and commissions and offering expenses. We did not receive any proceeds from the sale of the shares of our common stock by the selling shareholders in our initial public offering.

Competitive Strengths

We believe that the following competitive strengths differentiate us from our competitors and are critical to our continuing success:

- attractive lifestyle retailing concept targeting the large action sports segment;
- differentiated merchandising strategy in which we offer an extensive selection of relevant brands and styles encompassing apparel, equipment and accessories;
- deep-rooted corporate culture that we believe allows us to successfully attract and retain passionate and knowledgeable employees;
- distinctive store experience that is designed to enhance our image as an authentic action sports retailer;
- disciplined operating philosophy and comprehensive training programs driven by our experienced management team; and
- high-impact, integrated marketing approach designed to reach our target customer audience through interactive events, promotions, live entertainment and contests.

However, as further described below in Risk Factors, our business operates in a highly competitive market and some of our competitors have longer operating histories, greater brand recognition and significantly greater financial and other resources than we do. As a result, these competitors may be able to undertake more extensive sales and marketing campaigns than our own; adopt more aggressive pricing policies than our own; and make more attractive offers to potential employees and customers than we can.

Growth Strategy

We intend to expand our presence as a leading action sports lifestyle retailer by:

- opening new store locations;
- continuing to generate sales growth through improved store level productivity;
- enhancing our operating efficiency; and
- enhancing our brand awareness through continued marketing and promotion.

Recent Developments

On August 31, 2005, we issued a press release announcing our sales results for August 2005. Total net sales for the four-week period ended August 27, 2005 increased 25.1% to \$24.7 million, compared to \$19.7 million for the four-week period ended August 28, 2004. Our comparable store sales for the four-week period ended August 27, 2005 increased 9.4%, versus a comparable store sales decrease of 3.3% for the four-week period ended August 28, 2004.

On October 5, 2005, we issued a press release announcing our sales results for September 2005. Total net sales for the five-week period ended October 1, 2005 increased 26.8% to \$19.5 million, compared to \$15.4 million for the five-week period ended October 2, 2004. Our comparable store sales for the five-week period ended October 1, 2005 increased 10.1%, versus a comparable store sales increase of 27.3% for the five-week

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period ended October 2, 2004.

On November 1, 2005, we issued a press release announcing our sales results for October 2005 and the thirteen-week period ended October 29, 2005. Total net sales for the four-week period ended October 29, 2005

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increased 29.5% to \$13.2 million, compared to \$10.2 million for the four-week period ended October 30, 2004. Our comparable store sales for the four-week period ended October 29, 2005 increased 10.0%, versus a comparable store sales increase of 11.9% for the four-week period ended October 30, 2004. For the thirteen-week period ended October 29, 2005, our total net sales increased 26.7% to \$57.4 million, compared to \$45.3 million for the thirteen-week period ended October 30, 2004. Our comparable store sales for the thirteen-week period ended October 29, 2005 increased 9.8%, versus a comparable store sales increase of 9.0% for the thirteen-week period ended October 30, 2004.

See note (2) under **Summary Financial Data** **Other Financial Data** below for information as to how we compute changes in comparable store sales.

We opened four new stores during the four-week period ended August 27, 2005, four new stores during the five-week period ended October 1, 2005 and six new stores during the four-week period ended October 29, 2005. As of October 29, 2005 we had a total of 164 stores.

Corporate Information

We were founded in 1978 as a Washington corporation. In 2002, we reincorporated in Delaware and, on April 29, 2005, we reincorporated back to Washington. Our principal executive offices are located at 6300 Merrill Creek Parkway, Suite B, Everett, WA 98203. Our telephone number is (425) 551-1500 and our principal website address is www.zumiez.com. The information contained on our website does not constitute part of, nor is it incorporated into, this prospectus.

Through and including December 31, 2002, our fiscal year ended on December 31 and was the same as the calendar year. After December 31, 2002, we changed our fiscal year to end on the Saturday closest to January 31. As a result of this change in our fiscal year, our financial statements included elsewhere in this prospectus include our statement of operations for the one month period ended February 1, 2003, which was the one month transition period following the end of fiscal 2002 and prior to the beginning of fiscal 2003. Information in this prospectus regarding the compound annual growth rates of our net sales, net sales per store and operating profit, as well as the annual percentage changes in our comparable store net sales and other data regarding changes in our results of operations, for periods encompassing fiscal 2002 and fiscal 2003 do not take into account the one month transition period. In this prospectus, we refer to our fiscal year ended January 31, 2004 as **fiscal 2003** and to our fiscal year ended January 29, 2005 as **fiscal 2004**, and we refer to the twenty-six week periods ended July 31, 2004 and July 30, 2005 as the **six month** periods ended on those dates.

The Offering

Common stock offered by selling shareholders	1,850,000 shares
Common stock to be outstanding immediately prior to and after this offering	13,457,330 shares
Use of Proceeds	The selling shareholders will receive all of the net proceeds from the sale of shares of our common stock offered by this prospectus. We will not receive any proceeds from the sale of shares of our common stock by the selling shareholders.
Nasdaq National Market symbol	ZUMZ
Risk Factors	See Risk Factors beginning on page 7 for a discussion of some of the factors that you should consider carefully before deciding to purchase our common stock.

The number of shares of common stock outstanding immediately prior to and after this offering is based on the number of shares outstanding on July 30, 2005 and excludes the following shares:

- 1,578,327 shares issuable upon exercise of outstanding options at July 30, 2005, with a weighted average exercise price of \$3.87 per share;

and

- an aggregate of 3,425,000 additional shares that were available for future awards under our 2005 Equity Incentive Plan (the 2005 Incentive Plan) and our 2005 Employee Stock Purchase Plan (the Stock Purchase Plan) at July 30, 2005, plus scheduled annual increases and other potential increases in the number of shares available for issuance under the 2005 Incentive Plan.

During the period from July 31, 2005 through October 1, 2005, we issued a total of 153,997 shares of our common stock upon the exercise of outstanding stock options mentioned in the first bullet point above.

Unless otherwise expressly stated or the context otherwise requires, the information in this prospectus:

- assumes no exercise of the underwriters' over-allotment option to purchase up to 277,500 additional shares of common stock from the selling shareholders;
- assumes no exercise of outstanding options; and
- is based upon the number of our shares and options outstanding on July 30, 2005.

Summary Financial Data

The following tables provide summary historical financial data for the periods indicated. You should read this information in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and the related notes included elsewhere in this prospectus.

Through and including December 31, 2002, our fiscal year ended on December 31 and was the same as the calendar year. Subsequent to December 31, 2002, we changed our fiscal year to end on the Saturday closest to January 31 and, as a result, the following tables include financial data as of and for the one month ended February 1, 2003, which was the one month transition period following the end of the fiscal year ended December 31, 2002 and prior to the beginning of the fiscal year ended January 31, 2004. Each fiscal year ending subsequent to December 31, 2002 consists of four 13-week quarters, with an extra week added to the fourth quarter every five or six years. Our fiscal years ended December 31, 2000, 2001 and 2002, January 31, 2004 and January 29, 2005 each consisted of 52 weeks. In this prospectus, we refer to the fiscal year ended January 31, 2004 as "fiscal 2003" and to the fiscal year ended January 29, 2005 as "fiscal 2004," and we refer to the twenty-six week periods ended July 31, 2004 and July 30, 2005 as the "six month" periods ended on those dates.

The summary statement of operations data for the fiscal year ended December 31, 2002, the one month ended February 1, 2003, the fiscal year ended January 31, 2004 and the fiscal year ended January 29, 2005 and the summary balance sheet data as of January 31, 2004 and January 29, 2005 are derived from our audited financial statements, which are included elsewhere in this prospectus. The summary statement of operations data for the fiscal years ended December 31, 2000 and 2001 and the summary balance sheet data as of December 31, 2000, 2001 and 2002 and February 1, 2003 are derived from our audited financial statements not included in this prospectus. The summary statement of operations data for the six month periods ended July 31, 2004 and July 30, 2005 and the summary balance sheet data as of July 30, 2005 are derived from our unaudited financial statements included elsewhere in this prospectus. Our unaudited financial statements as of and for the six month periods ended July 31, 2004 and July 30, 2005 have been prepared on the same basis as our audited consolidated financial statements included elsewhere in this prospectus and, in the opinion of our management, reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly our financial position and results of operations as of and for those periods. Our financial position and results of operations as of and for the six months ended July 30, 2005 are not necessarily indicative of our financial position or results of operations to be expected as of or for the fiscal year ending January 28, 2006 and there can be no assurance that any trend reflected in the following summary financial data for such six month period will continue in the future.

	Fiscal Year Ended			One month	Fiscal Year Ended		Six Months Ended	
	December 31,	2001	2002	ended	January 31,	January 29,	July 31,	July 30,
	2000			February 1,	2004	2005	2004	2005
				2003			(unaudited)	(unaudited)
	(In thousands, except share and per share data)							
Statement of Operations Data:								
Net sales	\$ 60,827	\$ 84,735	\$ 101,391	\$ 6,392	\$ 117,857	\$ 153,583	\$ 55,444	\$ 72,776
Cost of goods sold	41,027	57,534	71,017	4,575	81,320	103,152	40,212	50,154
Gross margin	19,800	27,201	30,374	1,817	36,537	50,431	15,232	22,622
Selling, general and administrative expenses	14,010	20,470	23,404	2,013	29,076	38,422	15,639	21,332
Operating profit (loss)	5,790	6,731	6,970	(196)	7,461	12,009	(407)	1,290
Other income (expense)	36	(3)	148		8	8	2	1
Interest income (expense)	(335)	(322)	(317)	(12)	(293)	(250)	(156)	48
Earnings (loss) before income taxes	5,491	6,406	6,801	(208)	7,176	11,767	(561)	1,339
Provision (benefit) for income taxes(1)			1,096	(39)	2,701	4,500	(122)	531
Net income (loss)	\$ 5,491	\$ 6,406	\$ 5,705	\$ (169)	\$ 4,475	\$ 7,267	\$ (439)	\$ 808
Net income (loss) per share								
Basic	\$ 0.54	\$ 0.63	\$ 0.49	\$ (0.01)	\$ 0.40	\$ 0.64	\$ (0.04)	\$ 0.07
Diluted	\$ 0.43	\$ 0.50	\$ 0.42	\$ (0.01)	\$ 0.35	\$ 0.56	\$ (0.04)	\$ 0.06
Weighted average shares outstanding								
Basic	10,128,132	10,132,983	11,547,012	11,305,261	11,305,261	11,305,261	11,305,261	12,296,076
Diluted	12,629,007	12,718,806	13,581,579	11,305,261	12,811,855	12,938,858	11,305,261	13,115,740

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(1) For fiscal 2000 and 2001 and for the portion of fiscal 2002 ended November 3, 2002, we were treated as a Subchapter S corporation for federal income tax purposes and, as a result, we were exempt from paying federal and state income taxes for those periods. As a result, our results of operations for fiscal 2000 and 2001 do not reflect any provision for income taxes and our provision for income taxes for fiscal 2002 reflects a provision for only the last two months of fiscal 2002. Accordingly, our provision for income taxes and our total and per share net income for fiscal 2000, 2001 and 2002 are not comparable to our provision for income taxes and our total and per share net income for the subsequent periods reflected in this table. See note 1 to our financial statements included elsewhere in this prospectus.

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	December 31,		2002	February 1,	January 31,	January 29,	July 30,
	2000	2001		2003	2004	2005	2005
	(Dollars in thousands)						
Balance Sheet Data:							
Cash and cash equivalents	\$ 3,536	\$ 645	\$ 7,722	\$ 482	\$ 578	\$ 1,026	\$ 17,844
Working capital	1,335	1,108	(556)	(455)	2,975	4,756	35,375
Total assets	20,996	28,180	42,608	36,003	41,558	54,811	99,666
Total long term liabilities	1,772	2,237	1,955	1,935	2,613	5,576	6,976
Total shareholders' equity	7,488	11,916	14,136	13,967	18,438	25,799	59,253

	Fiscal Year Ended		One Month	Fiscal Year Ended		Six Months Ended	
	December 31,	2001	Ended	January 31,	January 29,	July 31,	July 30,
	2000	2002	February 1,	2004	2005	2004	2005
	(Dollars in thousands except net sales per square foot)						
Other Financial Data:							
Gross margin percentage(1)	32.6 %	32.1 %	30.0 %	28.4 %	31.0 %	32.8 %	27.5 %
Capital expenditures	\$ 3,315	\$ 7,500	\$ 7,186	\$ 42	\$ 5,937	\$ 11,060	\$ 4,817
Depreciation	\$ 1,694	\$ 2,348	\$ 3,571	\$ 332	\$ 4,185	\$ 5,857	\$ 2,569
Store Data:							
Number of stores open at end of period	64	80	99	99	113	140	129
Comparable store sales increase (decrease)(2)(3)	18.5 %	20.2 %	(1.1)%	(5.8)%	4.3 %	9.6 %	7.5 %
Net sales per store(3)(4)	\$ 1,049	\$ 1,203	\$ 1,105	\$ 65	\$ 1,131	\$ 1,195	\$ 458
Total square footage at end of period(5)	147,223	194,651	247,476	247,476	288,784	371,864	337,921
Average square footage per store at end of period(6)	2,300	2,433	2,500	2,500	2,556	2,656	2,599
Net sales per square foot(3)(7)	\$ 456	\$ 506	\$ 443	\$ 26	\$ 448	\$ 457	\$ 178

(1) Gross margin percentage represents gross margin divided by net sales.

(2) Comparable store sales percentage changes are calculated by comparing comparable store sales for the applicable fiscal year or six month period to comparable store sales for the prior fiscal year or the same six month period in the prior fiscal year, as the case may be, or, in the case of the one month ended February 1, 2003, by comparison to comparable store sales for the one month ended February 2, 2002. Comparable store sales are based on net sales, and stores are considered comparable beginning on the first anniversary of their first day of operation. See Management's Discussion and Analysis of Financial Condition and Results of Operations - General for more information about how we compute comparable store sales.

(3) Comparable store sales, net sales per store and net sales per square foot include our in-store sales and our Internet sales. Our Internet sales represented less than 1.0% of our total net sales in each of the periods presented.

(4) Net sales per store represents net sales for the period divided by the average number of stores open during the period. For purposes of this calculation, the average number of stores open during the period is equal to the sum of the number of stores open as of the end of each month during the period divided by the number of months in the period.

(5) Total square footage at end of period includes retail selling, storage and back office space.

(6) Average square footage per store at end of period is calculated on the basis of the total square footage at end of period, including retail selling, storage and back office space, of all stores open at the end of the period.

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(7) Net sales per square foot represents net sales for the period divided by the average square footage of stores open during the period. For purposes of this calculation, the average square footage of stores open during the period is equal to the sum of the total square footage of the stores open as of the end of each month during the period divided by the number of months in the period.

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RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below, together with the financial statements and other information contained in this prospectus, before making a decision to buy our common stock. If any of the following risks actually occurs, our business, financial condition and results of operations could suffer. In these circumstances, the market price of our common stock could decline, and you may lose all or part of your investment in our common stock.

Risks Related to Our Business

Our growth strategy depends on our ability to open and operate a significant number of 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 and on the market price of our common stock. We opened 27 stores in fiscal 2004 and 15 stores in fiscal 2003. We plan to open approximately 35 stores in our fiscal year ending in January 2006, which we refer to as fiscal 2005 (including 11 stores that we opened during the six months ended July 30, 2005), an increase of 25.0% over our store base as of the end of fiscal 2004. We intend to continue to open a significant number of new stores in future years while remodeling a portion of our existing store base annually. However, there can be no assurance that we will open the planned number of new stores in fiscal 2005 or thereafter. 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;
- hire, train and retain store personnel;
- successfully integrate new stores into our existing operations; and
- identify and satisfy the merchandise preferences of new geographic areas.

In addition, many of our planned new stores are to be opened in regions of the United States in which we currently have few, or no, stores. The expansion into these markets may present competitive, merchandising 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.

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.

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

Our sales 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. Any significant decrease in sales during the back-to-school and winter holiday seasons would have a material adverse effect on our financial condition and results of operations. 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 parts of the year. Any unanticipated decrease in demand for our products during these peak shopping seasons could require us to sell excess inventory at a substantial markdown, which could have a material adverse effect on our business, results of operations and financial condition.

Our quarterly results of operations are 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 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;
- 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 business is susceptible to weather conditions that are out of our control, and unseasonable weather could have a negative impact on our results of operations.

Our business is susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could render a portion of our inventory incompatible with those unseasonable conditions. These prolonged unseasonable weather conditions, particularly in the western United States where we have a concentration of stores, 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 markets, which includes apparel, accessories and footwear, we currently compete with other teenage-focused retailers such as Abercrombie & Fitch Co., Aeropostale, Inc., American Eagle Outfitters, Inc., Anchor Blue Clothing Company, Charlotte Russe Inc., Claire's Stores, Inc., Forever 21, Inc., Hollister Co., Hot Topic, Inc., Old Navy, Inc., Pacific Sunwear of California, Inc., The Buckle, Inc., The Wet Seal, Inc. and Urban Outfitters, Inc. 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 e-commerce. In the hardgoods markets, which includes skateboards, snowboards, bindings, components and other equipment, we compete directly or indirectly with the following categories of companies: 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, such as Big 5 Sporting Goods Corporation, Dick's Sporting Goods, Inc., Sport Chalet, Inc. and The Sports Authority Inc., which operates stores under the brand names Sports Authority, Gart Sports, Oshman's and Sportmart; and Internet retailers.

Some of our competitors are larger than we are and have substantially greater financial, marketing and other resources than we do. 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 a deterioration in our relationship with our vendors would likely have a material adverse effect on our business. We do not have any contractual relationships with our vendors and, accordingly, 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. Also, certain of our vendors sell their products directly to the retail market and therefore compete with us directly, and other vendors may decide to do so in the future. There can be no assurance that such vendors will not decide to discontinue supplying their products to us, supply us only less popular or lesser quality items, raise the prices they charge us or focus on selling their products directly. 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.

If we lose key management 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 senior management, including our Co-Founder and Chairman, Thomas D. Campion, our President and Chief Executive Officer,

Richard M. Brooks, our Chief Financial Officer, Brenda I. Morris, and our General Merchandising Manager, Lynn K. Kilbourne. None of our employees, except Mr. Brooks, has an employment agreement with us and we do not have, and do not plan to obtain, key person life insurance covering any of our employees. 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 regional managers, district managers, store managers and store associates, who understand and appreciate our corporate 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 center, 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 is 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 or interruptions or strikes could have a material adverse effect on our business or results of operations.

Our operations, including our sole distribution center, are concentrated in the western United States, which makes us susceptible to adverse conditions in this region.

Our home office and sole distribution center are located in a single facility in Washington, and a substantial number of our stores are located in Washington and the western half of the United States. As a result, our business may be more susceptible to regional factors than the operations of more geographically diversified competitors. These factors include, among others, economic and weather conditions, demographic and population changes and fashion tastes. In addition, we rely on a single distribution center in Everett, Washington to receive, store and distribute merchandise to all of our stores and to fulfill our Internet sales. As a result, a natural disaster or other catastrophic event, such as an earthquake affecting western Washington, in particular, or the West Coast, in general, 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.

We do not own any of our retail stores or our combined home office and distribution center, but instead we lease all of these facilities under operating leases. Payments under these operating leases account for a significant portion of our operating expenses. 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 \$13.9 million and \$17.1 million for fiscal year 2003 and fiscal year 2004, respectively, and \$7.6 million and \$9.6 million for the six months ended July 31, 2004 and July 30, 2005, respectively, and, as of July 30, 2005, we were a party to operating leases requiring future minimum lease payments aggregating approximately \$49.0 million through fiscal year 2009 and approximately \$34.1 million thereafter. 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, none of which is included in the amount of future minimum lease payments. 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;
- 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 the remaining net proceeds we received from our initial public offering in May 2005, 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 to fund our other liquidity and capital needs, which would have a material adverse effect on us.

The terms of our revolving 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 have a \$20 million revolving credit facility with Bank of America, N.A., which we use for inventory financing and other general corporate purposes, that contains a number of significant restrictions and covenants that generally limit our ability to, among other things, (1) incur additional indebtedness or certain lease obligations outside the ordinary course of business; (2) enter into sale/leaseback transactions; (3) make certain changes in our management; and (4) undergo a change in ownership. In addition, our obligations under the revolving credit facility are secured by almost all of our personal property, including, among other things, our inventory, equipment and fixtures. Our revolving credit facility also contains financial covenants that require us to meet certain specified financial ratios, including a debt to earnings ratio, an earnings to interest expense ratio and an inventory to debt ratio. Our ability to comply with these ratios may be affected by events beyond our control.

A breach of any of these restrictive covenants or our inability to comply with the required financial ratios could result in a default under the revolving credit facility. 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 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 ratios could have a material adverse effect on us. In that regard, in fiscal 2002 we breached certain financial covenants in a prior credit facility which required that we obtain waivers from the lender. These breaches did not have a material adverse impact on our financial condition or results of operations. There can be no assurance that we will not breach the covenants or fail to comply with the ratios in our revolving credit facility 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 revolving credit facility 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 as a result of United Parcel Service being unable to distribute our merchandise.

We rely upon United Parcel Service for our product shipments, including shipments to, from and between our stores. Accordingly, we are subject to risks, including employee strikes and inclement weather, which may affect United Parcel Service's ability to meet our shipping needs. Among other things, any circumstances that require us to use other delivery services for all or a portion of our shipments could result in increased costs and delayed deliveries and could harm our business materially. In addition, although we have a contract with United Parcel Service that expires in June 2008, United Parcel Service has the right to terminate the contract upon 30 days written notice. Although the contract with United Parcel Service provides certain discounts from the shipment rates in effect at the time of shipment, the contract does not limit United Parcel Service's ability to raise the shipment rates at any time. Accordingly, we are subject to the risk that United Parcel Service may increase the rates they charge, that United Parcel Service may terminate their contract with us, that United Parcel Service may decrease the rate discounts provided to us when an existing contract is renewed or that we may be unable to agree on the terms of a new contract with United Parcel Service, any of which could materially adversely affect our operating results.

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 sold in our stores 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.

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 accounted for 12.8% of our net sales in fiscal 2004. 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. Because our private label merchandise generally carries higher gross margins than other merchandise, our failure to anticipate, identify and react in a timely manner to fashion trends with our private label merchandise, particularly if the percentage of net sales derived from private label merchandise increases, may have a material adverse effect on our comparable store sales, financial condition and results of operations.

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 in Asia and Central America. Some of these facilities are also 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 all denominated in United States dollars, a 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 operation.

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 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 which could harm our financial results. In addition, as discussed below, we will be required to improve our financial and managerial controls, reporting systems and procedures to comply with Section 404 of the Sarbanes-Oxley Act of 2002.

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 brand, our store concept, our private label brands or our goodwill and cause a decline in our net sales. At this time, we have not secured protection for our trademarks in any jurisdiction outside of the United States, and thus we cannot prevent other persons from using our trademarks outside of the United States, which also could materially 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.

Substantially all 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 escalation of 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 the our business, financial condition 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.

We may from time to time acquire other retail stores, individually or in groups, or businesses. 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 not be able to successfully integrate any stores or businesses that we may acquire, including their facilities, personnel, financial systems, distribution, operations and general operating procedures. If we fail to successfully integrate acquisitions, we could experience increased costs and other operating inefficiencies, which could have an adverse effect on our results of operations.

Our executive officers and directors and the Brentwood Affiliates have significant influence over, and acting collectively have the ability to control, our management and affairs.

Our executive officers and directors and the Brentwood Affiliates will, in the aggregate, beneficially own approximately 54.0% of our outstanding common stock immediately following the completion of this offering, or approximately 52.0% of our outstanding common stock if the underwriters over-allotment option is exercised in full. Specifically, the Brentwood Affiliates will beneficially own approximately 11.2% of our outstanding common stock immediately following this offering, and Thomas D. Campion, our Chairman of the Board, and Richard M. Brooks, our President and Chief Executive Officer, will beneficially own

approximately 25.6% and 16.8%, of our outstanding common stock, respectively, immediately following this offering. If the underwriters over-allotment option is exercised in full, then the Brentwood Affiliates will beneficially own approximately 9.9% of our outstanding common stock, and Mr. Campion and Mr. Brooks will beneficially own approximately 25.6% and 16.0% of our outstanding common stock, respectively, immediately following this offering. For purposes of calculating the foregoing percentages, we have assumed that shares held by the Campion Foundation, one of the selling shareholders, are beneficially owned by Mr. Campion.

As a result, the Brentwood Affiliates and Messrs. Campion and Brooks individually have significant influence over, and acting together have the ability to control, matters requiring approval by our shareholders, including the election of directors and approval of mergers, consolidations, sales of assets, recapitalizations and amendments to our articles of incorporation. These shareholders may take actions with which you do not agree, including actions that delay, defer or prevent a change of control of our company and that could cause the price that investors are willing to pay for our common stock to decline.

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

Although Internet sales constitute only a small portion of our overall sales, our Internet 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;
- liability for online content; and
- risks related to the computer systems that operate our website and related support systems, including computer viruses and electronic break-ins and similar disruptions.

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

The outcome of litigation could have a material adverse effect on our business.

We are involved, from time to time, in litigation incidental to our business. Management believes, after considering a number of factors and the nature of the legal proceedings to which we are subject, that the outcome of current litigation will not have a material adverse effect upon our results of operations or financial condition. However, management's assessment of our current litigation could change in light of the discovery of facts not presently known to us or determinations by judges, juries or other finders of fact that are not in accord with management's evaluation of the possible liability or outcome of such litigation. As a result, 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.

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 will continue to incur significant legal, accounting, audit, insurance and other expenses as a result of being a public company. The Sarbanes-Oxley Act of 2002, as well as related rules implemented by the SEC and The Nasdaq Stock Market, have required changes in corporate governance practices of public companies. Compliance with these laws, rules and regulations, including compliance with Section 404 of the Sarbanes-Oxley Act as discussed in the following risk factor, have increased and will substantially increase our expenses, including our legal, audit and accounting costs, and have made and will continue to make some activities more time-consuming and costly. These laws, rules and regulations have made and will continue to make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors (our Board) or as officers. As a result of the foregoing, we expect a substantial increase in legal, accounting, audit, insurance and

certain other expenses in the future, which will negatively impact our financial performance and could have a material adverse effect on our results of operations and financial condition.

In addition, we currently have only two directors who qualify as independent directors under the rules of the SEC and The Nasdaq Stock Market, and those rules require that we appoint additional independent directors as needed so that, by May 6, 2006, a majority of our directors are independent and all members of our Board committees are independent. Any failure to appoint additional independent directors as required by The Nasdaq Stock Market would allow The Nasdaq Stock Market to de-list our common stock and could result in adverse publicity and other sanctions, which could have a material adverse effect on our results of operations and the market value of our common stock.

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 have placed and will continue to place a considerable strain on our financial and management systems, processes and controls, as well as on our personnel. In addition, as a public company we will be 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 management's assessment and on the effectiveness of our internal control over financial reporting by the time our annual report for fiscal 2006 is due and thereafter, which will require us to document and make significant changes to our internal controls over financial reporting. As a result, we will be required to improve our financial and managerial controls, reporting systems and procedures, to incur substantial expenses to test our systems and to make such improvements and to hire additional personnel. If our management is unable to certify the effectiveness of our internal controls or if our independent registered public accounting firm cannot render an opinion on management's assessment and on the effectiveness of our internal control over financial reporting, or if material weaknesses in our internal controls are 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.

Risks Related to this Offering

The price of our common stock is likely to be volatile and may decline.

The stock market in general, and the market for stocks of some retailers, have been highly volatile. As a result, the market price of our common stock is likely to be similarly volatile, and investors in our common stock may experience a decrease, which could be substantial, in the value of their stock, including decreases unrelated to our operating performance or prospects. The price of our common stock could be subject to wide fluctuations in response to a number of factors, including those listed elsewhere in this "Risk Factors" section and other such as:

- variations in our operating performance and the performance of our competitors;
- actual or anticipated fluctuations in our quarterly or annual operating results;
- changes in our net sales or earnings estimates or recommendations by securities analysts;
- publication of research reports by securities analysts about us or our competitors or our industry;
- our failure or the failure of our competitors to meet analysts' projections or guidance that we or our competitors may give to the market;
- additions and departures of key personnel;
- strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;

- the passage of legislation or other regulatory developments affecting us or our industry;

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- speculation in the press or investment community;
- changes in accounting principles;
- terrorist acts, acts of war or periods of widespread civil unrest; and
- changes in general market and economic conditions.

In the past, securities class action litigation has often been initiated against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management's attention and resources, and could also require us to make substantial payments to satisfy judgments or to settle litigation.

Future sales of our common stock in the public market could cause our stock price to fall.

Sales of our common stock in the public market, or the perception that such sales might occur, could cause the market price of our common stock to decline. Immediately after completion of this offering, we will have 13,457,330 shares of common stock outstanding, including approximately 1,510,795 shares (or 1,333,295 shares if the underwriters' over-allotment option is exercised in full) that will be beneficially owned by the Brentwood Affiliates, in each case based on shares outstanding as of July 30, 2005. In general, the 1,850,000 shares (or 2,127,500 shares if the underwriters' over-allotment option is exercised in full) sold in this offering will be, and 3,579,499 of the shares of common stock that were sold in our initial public offering are, freely transferable without restriction or additional registration under the Securities Act of 1933, or the Securities Act unless held by our affiliates, as that term is defined in Rule 144 promulgated under the Securities Act.

In addition to the freely transferable shares referred to in the preceding paragraph, we will have 8,027,831 (or 7,750,331 if the underwriters' over-allotment option is exercised in full) additional shares of our common stock outstanding immediately after completion of this offering, based on shares outstanding as of July 30, 2005. Of these shares, (a) 277,069 shares may at any time be sold in the public markets pursuant to Rule 144 (subject, in some cases, to volume limitations) or Rule 701 under the Securities Act, (b) an additional 2,466 shares will be available for sale in the public markets pursuant to Rule 144 (subject, in some cases, to volume limitations) or Rule 701 under the Securities Act on November 2, 2005 (subject to possible extension by up to an additional 34 days under limited circumstances or, as described below, possible waiver) following the expiration of the lock-up agreements entered into by some of our shareholders in connection with our initial public offering, (c) an additional 130,535 shares will be available for sale in the public markets pursuant to Rule 144 on the day after the closing date of this offering (or, if earlier, November 30, 2005) following the expiration of lock-up agreements entered into by some of our shareholders in connection with this offering, and (d) the remaining 7,617,761 shares (or 7,340,261 shares if the underwriters' over-allotment option is exercised in full) will be available for sale in the public markets pursuant to Rule 144 (subject, in some cases, to volume limitations) or Rule 701 under the Securities Act 90 days (subject to possible extension by up to an additional 34 days under limited circumstances as described under Underwriting or, as described below, possible waiver) after the date of this prospectus following the expiration of lock-up agreements entered into by our directors, some of our officers, the selling shareholders and certain other shareholders in connection with this offering. In addition, subsequent to July 30, 2005, one of our officers acquired 55,136 newly issued shares of common stock upon the exercise of stock options and pledged those shares as collateral for a loan. The lock-up agreement entered into by that officer in connection with our initial public offering was waived to permit, and the lock-up agreement entered into by such officer in connection with this offering permits, the pledge and, in the event of a default under such loan, transfer of such shares. Furthermore, immediately after completion of this offering and based on shares outstanding as of July 30, 2005, the holders of 7,736,511 shares (or 7,459,011 shares if the underwriters' over-allotment option is exercised in full) of our outstanding common stock, including the Brentwood Affiliates, will also have the right to include those shares in any registration statement we file with the SEC, subject to exceptions, which would enable those shares to be sold in the public markets, subject in some cases to the restrictions under the lock-up agreements referred to above.

In addition, as of July 30, 2005, options to purchase 1,578,327 shares of our common stock were issued and outstanding and 3,425,000 additional shares of our common stock were available for future awards under our stock option and stock purchase plans, plus scheduled annual increases and other potential increases in the number of shares available for issuance under our 2005 Incentive Plan. We have filed a registration

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statement under the Securities Act covering all of the shares of common stock currently reserved for issuance under these plans. This registration statement has become effective and permits the resale of shares issued upon exercise of those stock options or pursuant to those stock purchase plans in the public markets without restriction under the Securities Act.

Any or all of the shares subject to the lock-up agreements referred to above may be released for sale in the public market prior to expiration of the applicable lock-up periods at the discretion of Wachovia Capital Markets, LLC and Piper Jaffray & Co. For additional information, see [Shares Eligible for Future Sale](#) and [Underwriting](#).

We have outstanding options that have the potential to dilute shareholder value and cause the price of our common stock to decline.

In the past, we have offered, and we expect to continue to offer, stock options or other forms of stock-based compensation to our directors, officers and employees. Stock options issued in the past have per share exercise prices below the public offering price per share in this offering. As of July 30, 2005, we had options outstanding to purchase 1,578,327 shares of our common stock at exercise prices ranging from \$0.46 to \$7.73 per share, and a weighted average exercise price of \$3.87 per share. If some or all of these options are exercised and such shares are sold into the public market, the market price of our common stock may decline.

Washington law and our articles of incorporation and bylaws contain antitakeover provisions that could delay, discourage or prevent takeover attempts that shareholders may consider favorable or attempts to replace or remove our management that would be beneficial to our shareholders.

Certain provisions of our articles of incorporation and our bylaws and of Washington law may delay, discourage or prevent transactions that our shareholders may consider favorable, including transactions that could provide for payment of a premium over the prevailing market price of our common stock, and also may limit the price that investors are willing to pay in the future for our common stock. For example, our articles of incorporation contain provisions, such as allowing our Board to issue preferred stock with rights superior to those of our common stock without the consent of our shareholders and prohibitions on cumulative voting in the election of directors, which could make it more difficult for a third party to acquire us without the consent of our Board. In addition, our articles of incorporation provide for our Board to be divided into three classes serving staggered terms of three years each, permit removal of directors only for cause, provide that vacancies on the Board may be filled only by the affirmative vote of a majority of directors then in office, and require two-thirds shareholder approval of certain types of business transactions and to amend our bylaws. Furthermore, our bylaws require advance notice of shareholder proposals and nominations of candidates for election to our Board and eliminate the ability of shareholders to call for special shareholder meetings. In addition, Chapter 23B.19 of the Washington Business Corporation Act prohibits certain business combinations between us and certain significant shareholders unless certain conditions are met. These provisions may have the effect of delaying, deterring or preventing a third-party from acquiring us. See [Description of Capital Stock](#) [Antitakeover Effects of Washington Law and Certain Provisions of Our Articles of Incorporation and Our Bylaws](#).

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS AND MARKET DATA

This prospectus includes forward-looking statements that are based on our expectations regarding net sales, selling, general and administrative expenses, profitability, financial position, business strategy, new store openings, and plans and objectives of management. The words believe, may, will, estimate, continue, anticipate, intend, expect and similar expressions, as they relate to us and our business, industry, market, consumers, are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including, among others, those described in Risk Factors and elsewhere in this prospectus, and the following:

- our ability to open and operate new stores successfully;
- our ability to anticipate, identify and respond to fashion trends and customer preferences;
- our dependence on mall traffic for our sales;
- seasonal fluctuations in our business;
- unseasonable weather conditions;
- competition, including promotional and pricing competition; and
- changes in the availability or cost of merchandise, labor or delivery services.

These risks are not exhaustive. Other sections of this prospectus describe additional factors that could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We assume no obligation to update any forward-looking statements as a result of new information, future events or developments.

You should not rely upon forward-looking statements as predictions of future events. We cannot assure you that the events and circumstances reflected in the forward-looking statements will be achieved or occur and actual results could differ materially from those projected or implied in the forward-looking statements.

The market and demographic data included in this prospectus concerning our business and markets, including data regarding retail sales of skateboard, snowboard and surf/bodyboard merchandise, data regarding participation in board sports and data regarding spending by teenagers in the United States is estimated and is based on data made available by market research firms, industry trade associations or other publicly available information.

USE OF PROCEEDS

The selling shareholders will receive all of the net proceeds from the sale of shares of our common stock offered by this prospectus. We will not receive any of the proceeds from the sale of the shares of our common stock by the selling shareholders.

PRICE RANGE OF COMMON STOCK

As of July 30, 2005, there were 13,457,330 shares of our common stock outstanding held by approximately 12 holders of record. Our common stock has traded on the Nasdaq National Market under the symbol ZUMZ since it began trading on May 6, 2005. Our initial public offering was priced at \$18.00 per share on May 5, 2005. The following table shows the high and low last reported sales prices for our common stock on the Nasdaq National Market for the periods presented.

Fiscal 2005	High	Low
Second Fiscal Quarter (commencing May 6, 2005 through July 30, 2005)	\$ 34.38	\$ 23.12
Third Fiscal Quarter (July 31, 2005 through October 29, 2005)	\$ 34.79	\$ 28.69

DIVIDEND POLICY

We do not anticipate paying any cash dividends on our common stock in the foreseeable future. We anticipate that we will retain all of our available funds for use in the operation and expansion of our business. Any future determination as to the payment of cash dividends will be at the discretion of our Board and will depend on our financial condition, operating results, current and anticipated cash needs, plans for expansion and other factors that our Board considers to be relevant. In addition, financial and other covenants in any instruments and agreements that we enter into in the future may restrict our ability to pay cash dividends on our common stock.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and our capitalization as of July 30, 2005. You should read this information together with the sections of this prospectus entitled "Selected Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and related notes appearing elsewhere in this prospectus.

	As of July 30, 2005 (Dollars in thousands, except per share data)
Cash and cash equivalents	\$ 17,844
Long-term debt(1)	\$
Shareholders' equity(2)	
Preferred stock, no par value per share, 20,000,000 shares authorized, none issued and outstanding	
Common stock, no par value per share, 50,000,000 shares authorized, 13,457,330 shares issued and outstanding	32,460
Employee stock options	177
Retained earnings	26,616
Total shareholders' equity	59,253
Total capitalization(1)	\$ 59,253

(1) All of the indebtedness outstanding under our \$20.0 million revolving credit facility is classified as short-term debt. As of July 30, 2005, we had no short-term debt, and \$1,568,000 of letters of credit, outstanding under our revolving credit facility. See note 5 to our financial statements included elsewhere in this prospectus. In addition, we have substantial obligations under operating leases which are not reflected in the above table. See note 9 to our financial statements appearing elsewhere in this prospectus for information as to our obligations under operating leases.

(2) The outstanding share information in the table above excludes: 1,578,327 shares issuable upon exercise of outstanding options with a weighted average exercise price of \$3.87 per share and an aggregate of 3,425,000 additional shares available for future awards under our 2005 Incentive Plan and our Stock Purchase Plan, plus scheduled annual increases and other potential increases in the number of shares available for issuance under our 2005 Incentive Plan. During the period from July 31, 2005 through October 1, 2005, we issued a total of 153,997 shares of our common stock upon the exercise of outstanding stock options mentioned in the previous sentence.

SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and the related notes included elsewhere in this prospectus.

Through and including December 31, 2002, our fiscal year ended on December 31 and was the same as the calendar year. Subsequent to December 31, 2002, we changed our fiscal year to end on the Saturday closest to January 31 and, as a result, the following tables include financial data as of and for the one month ended February 1, 2003, which was the one month transition period following the end of the fiscal year ended December 31, 2002 and prior to the beginning of the fiscal year ended January 31, 2004. Each fiscal year ending subsequent to December 31, 2002 consists of four 13-week quarters, with an extra week added to the fourth quarter every five or six years. Our fiscal years ended December 31, 2000, 2001 and 2002, January 31, 2004 and January 29, 2005 each consisted of 52 weeks. In this prospectus, we refer to the fiscal year ended January 31, 2004 as fiscal 2003 and to the fiscal year ended January 29, 2005 as fiscal 2004, and we refer to the twenty-six week periods ended July 31, 2004 and July 30, 2005 as the six month periods ended on those dates.

The selected statement of operations data for the fiscal year ended December 31, 2002, the one month ended February 1, 2003, the fiscal year ended January 31, 2004 and the fiscal year ended January 29, 2005 and the selected balance sheet data as of January 31, 2004 and January 29, 2005 are derived from our audited financial statements, which are included elsewhere in this prospectus. The selected statement of operations data for the fiscal years ended December 31, 2000 and 2001 and the selected balance sheet data as of December 31, 2000, 2001 and 2002 and February 1, 2003 are derived from our audited financial statements not included in this prospectus. The selected statement of operations data for the six month periods ended July 31, 2004 and July 30, 2005 and the selected balance sheet data as of July 30, 2005 are derived from our unaudited financial statements included elsewhere in this prospectus. Our unaudited financial statements as of and for the six month periods ended July 31, 2004 and July 30, 2005 have been prepared on the same basis as our audited consolidated financial statements included elsewhere in this prospectus and, in the opinion of our management, reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly our financial position and results of operations as of and for those periods. Our financial position and results of operations as of and for the six months ended July 30, 2005 are not necessarily indicative of our financial position or results of operations to be expected as of or for the fiscal year ending January 28, 2006 and there can be no assurance that any trend reflected in the following selected financial data for such six month period will continue in the future.

	Fiscal Year Ended December 31,			One Month Ended	Fiscal Year Ended		Six Months Ended	
	2000	2001	2002	February 1, 2003	January 31, 2004	January 29, 2005	July 31, 2004	July 30, 2005
	(In thousands, except share and per share data)							
Statement of Operations Data:								
Net sales	\$ 60,827	\$ 84,735	\$ 101,391	\$ 6,392	\$ 117,857	\$ 153,583	\$ 55,444	\$ 72,776
Cost of goods sold	41,027	57,534	71,017	4,575	81,320	103,152	40,212	50,154
Gross margin	19,800	27,201	30,374	1,817	36,537	50,431	15,232	22,622
Selling, general and administrative expenses	14,010	20,470	23,404	2,013	29,076	38,422	15,639	21,332
Operating profit (loss)	5,790	6,731	6,970	(196)	7,461	12,009	(407)	1,290
Other income (expense)	36	(3)	148		8	8	2	1
Interest income (expense)	(335)	(322)	(317)	(12)	(293)	(250)	(156)	48
Earnings (loss) before income taxes	5,491	6,406	6,801	(208)	7,176	11,767	(561)	1,339
Provision (benefit) for income taxes(1)			1,096	(39)	2,701	4,500	(122)	531
Net income (loss)	\$ 5,491	\$ 6,406	\$ 5,705	\$ (169)	\$ 4,475	\$ 7,267	\$ (439)	\$ 808
Net income (loss) per share								
Basic	\$ 0.54	\$ 0.63	\$ 0.49	\$ (0.01)	\$ 0.40	\$ 0.64	\$ (0.04)	\$ 0.07
Diluted	\$ 0.43	\$ 0.50	\$ 0.42	\$ (0.01)	\$ 0.35	\$ 0.56	\$ (0.04)	\$ 0.06
Weighted average shares outstanding								
Basic	10,128,132	10,132,983	11,547,012	11,305,261	11,305,261	11,305,261	11,305,261	12,296,076
Diluted	12,629,007	12,718,806	13,581,579	11,305,261	12,811,855	12,938,858	11,305,261	13,115,740

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(1) For fiscal 2000 and 2001 and for the portion of fiscal 2002 ended November 3, 2002, we were treated as a Subchapter S corporation for federal income tax purposes and, as a result, we were exempt from paying federal and state income taxes for those periods. As a result, our results of operations for fiscal 2000 and 2001 do not reflect any provision for income taxes and our provision for income taxes for fiscal 2002 reflects a provision for only the last two months of fiscal 2002. Accordingly, our provision for income taxes and our total and per share net income for fiscal 2000, 2001 and 2002 are not comparable to our provision for income taxes and our total and per share net income for the subsequent periods reflected in this table. See note 1 to our financial statements included elsewhere in this prospectus.

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	December 31, 2000		2001	2002	February 1, 2003	January 31, 2004	January 29, 2005	July 30, 2005 (unaudited)
(Dollars in thousands)								
Balance Sheet Data:								
Cash and cash equivalents	\$ 3,536	\$ 645	\$ 7,722	\$ 482	\$ 578	\$ 1,026	\$ 17,844	
Working capital	1,335	1,108	(556)	(455)	2,975	4,756	35,375	
Total assets	20,996	28,180	42,608	36,003	41,558	54,811	99,666	
Total long term liabilities	1,772	2,237	1,955	1,935	2,613	5,576	6,976	
Total shareholders' equity	7,488	11,916	14,136	13,967	18,438	25,799	59,253	

	Fiscal Year Ended December 31, 2000		2001	2002	One Month Ended February 1, 2003	Fiscal Year Ended January 31, 2004	January 29, 2005	Six Months Ended July 31, 2004 (unaudited)	July 30, 2005 (unaudited)
(Dollars in thousands except net sales per square foot)									
Other Financial Data:									
Gross margin percentage(1)	32.6	% 32.1	% 30.0	% 28.4	% 31.0	% 32.8	% 27.5	% 31.1	%
Capital expenditures	\$ 3,315	\$ 7,500	\$ 7,186	\$ 42	\$ 5,937	\$ 11,060	\$ 4,817	\$ 6,382	
Depreciation	\$ 1,694	\$ 2,348	\$ 3,571	\$ 332	\$ 4,185	\$ 5,857	\$ 2,569	\$ 3,466	
Store Data:									
Number of stores open at end of period	64	80	99	99	113	140	129	150	
Comparable store sales increase (decrease)(2)(3)	18.5	% 20.2	% (1.1)	% (5.8)	4.3	% 9.6	% 7.5	% 11.6	%
Net sales per store(3)(4)	\$ 1,049	\$ 1,203	\$ 1,105	\$ 65	\$ 1,131	\$ 1,195	\$ 458	\$ 499	
Total square footage at end of period(5)	147,223	194,651	247,476	247,476	288,784	371,864	337,921	404,576	
Average square footage per store at end of period(6)	2,300	2,433	2,500	2,500	2,556	2,656	2,599	2,679	
Net sales per square foot(3)(7)	\$ 456	\$ 506	\$ 443	\$ 26	\$ 448	\$ 457	\$ 178	\$ 187	

(1) Gross margin percentage represents gross margin divided by net sales.

(2) Comparable store sales percentage changes are calculated by comparing comparable store sales for the applicable fiscal year or six month period to comparable store sales for the prior fiscal year or the same six month period in the prior fiscal year, as the case may be, or, in the case of the one month ended February 1, 2003, by comparison to comparable store sales for the one month ended February 2, 2002. Comparable store sales are based on net sales, and stores are considered comparable beginning on the first anniversary of their first day of operation. See Management's Discussion and Analysis of Financial Condition and Results of Operations - General for more information about how we compute comparable store sales.

(3) Comparable store sales, net sales per store and net sales per square foot include our in-store sales and our Internet sales. Our Internet sales represented less than 1.0% of our total net sales in each of the periods presented.

(4) Net sales per store represents net sales for the period divided by the average number of stores open during the period. For purposes of this calculation, the average number of stores open during the period is equal to the sum of the number of stores open as of the end of each month during the period divided by the number of months in the period.

(5) Total square footage at end of period includes retail selling, storage and back office space.

(6) Average square footage per store at end of period is calculated on the basis of the total square footage at end of period, including retail selling, storage and back office space, of all stores open at the end of the period.

(7) Net sales per square foot represents net sales for the period divided by the average square footage of stores open during the period. For purposes of this calculation, the average square footage of stores open during the period is equal to the sum of the total square footage of the stores open as of the end of each month during the period divided by the number of months in the period.

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 financial statements and related notes included elsewhere in this prospectus. 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 Risk Factors above. See Cautionary Note Regarding Forward-Looking Statements and Market Data.

Through and including December 31, 2002, our fiscal year ended on December 31 and was the same as the calendar year. Subsequent to December 31, 2002, we changed our fiscal year to end on the Saturday closest to January 31 and to consist of four 13-week quarters, with an extra week added to the fourth quarter every five or six years. Our fiscal years ended December 31, 2002, January 31, 2004 and January 29, 2005 each consisted of 52 weeks and references in this prospectus to fiscal 2000, fiscal 2001, fiscal 2002, fiscal 2003 and fiscal 2004 refer to the 52-week periods ended December 31, 2000, December 31, 2001, December 31, 2002, January 31, 2004 and January 29, 2005, respectively. For subsequent fiscal years, we refer to each fiscal year by using the calendar year that is prior to the year in which the fiscal year actually ends. For example, we refer to the fiscal year ending in January 2006 as fiscal 2005. In this prospectus, we sometimes refer to the twenty-six week periods ended July 31, 2004 and July 30, 2005 as the six month periods ended as of those respective dates.

As a result of this change in our fiscal year, the financial data and our financial statements included elsewhere in this prospectus include financial information for the one month ended February 1, 2003, which was the one month transition period following the end of fiscal 2002 and prior to the beginning of fiscal 2003. The following discussion of our results of operations for fiscal 2003 compared to 2002 disregards this one month transition period because we do not believe it is material to an understanding of our results of operations. Likewise, information in this prospectus regarding the compound annual growth rates of our net sales, net sales per store and operating profit, as well as the annual percentage changes in our comparable store net sales and other data regarding changes in our results of operations, for periods encompassing fiscal 2002 and fiscal 2003, do not take into account this one month transition period. We sometimes refer to this one month transition period, which began on January 1, 2003 and ended on February 1, 2003, as the one-month ended February 1, 2003.

Overview

We were founded in 1978 by Thomas D. Campion, our Chairman. Our current President and Chief Executive Officer, Richard M. Brooks, joined us as Chief Financial Officer in 1993. In fiscal 2002, certain affiliates (the Brentwood Affiliates) of Brentwood Private Equity III, LLC, a private equity firm, acquired an indirect 41% minority interest in us through Zumiez Holdings LLC, or Zumiez Holdings. Since the investment by the Brentwood Affiliates, we have positioned ourselves for accelerated growth by enhancing our infrastructure and deepening our management team. Although these initiatives resulted in increased selling, general and administrative expenses as a percentage of net sales in fiscal 2003, fiscal 2004 and for the six months ended July 30, 2005, we believe that they improved our ability to continue to expand our business. Moreover, the additional expenses resulting from these initiatives consisted primarily of infrastructure improvements, most of which were incurred during fiscal 2003, and increased administrative personnel costs, and we believe that we can leverage these additional expenses to the extent we are able to increase our net sales.

On May 11, 2005, we completed our initial public offering in which we sold 1,875,000 shares of our common stock and certain selling shareholders sold 1,718,750 shares of our common stock. We received net proceeds from the offering of approximately \$29.7 million, after payment of underwriting discounts and commissions and offering expenses. We did not receive any proceeds from the sale of the shares by the selling shareholders in our initial public offering. In connection with our initial public offering, all of the shares of our common stock held by Zumiez Holdings were distributed in accordance with the terms of its limited liability company agreement and Zumiez Holdings was dissolved.

Our net sales increased from approximately \$44.5 million in fiscal 1999 to approximately \$153.6 million in fiscal 2004, a compound annual growth rate of 28.1%. Net sales for the six months ended July 30, 2005 increased \$17.3 million, or 31.3%, over net sales for the six months ended July 31, 2004. Net sales for fiscal 2004 increased by \$35.7 million, or 30.3%, over net sales for fiscal 2003. Over the five fiscal years ended with fiscal 2004, we increased our store base from 53 to 140 and our comparable store net sales increased an average of 10.3% per fiscal year. As of July 30, 2005, we operated 150 stores that averaged approximately 2,700 square feet per store, giving us a presence in 18 states.

We intend to expand our presence as a leading action sports lifestyle retailer by opening new stores and continuing to generate sales growth through improved store level productivity. We have successfully and consistently implemented our store concept across a variety of mall classifications and geographic locations, and our strategy is to continue to open stores in both new and existing markets. We plan to open 35 new stores in fiscal 2005 (including eleven stores that we have opened during the six months ended July 30, 2005) and to continue to open a significant number of new stores in future years. Through our merchandising and marketing efforts, we have generally been successful in increasing the level of net sales in our existing stores and we will seek to continue such increases going forward.

We believe that we have developed an economically compelling store model. Our new stores opened during fiscal 2003 generated average net sales of approximately \$1.0 million during their first full year of operations. On average, our net investment to open these stores was approximately \$360,000, which includes capital expenditures, net of landlord contributions, and initial inventory, net of payables. However, net sales and other operating results for stores that we open or have opened subsequent to the end of fiscal 2003, as well as our net investment to open those stores, may differ substantially from net sales and other operating results and our net investment for stores we opened in fiscal 2003. See Business Stores.

In any given period, our overall gross margin may be impacted by changes in the margins of the various products we offer as well as changes in the relative mix of revenues from the different categories of apparel and hardgoods products that we sell. We believe our ability to effectively manage our gross margin despite these factors is evidenced by the relative stability of our gross margin as a percentage of net sales over the last five fiscal years. Over the past five fiscal years, our annual gross margin as a percentage of our net sales has ranged from a low of 30.0% to a high of 32.8%. For the six months ended July 30, 2005, our gross margin as a percentage of our net sales was 31.1%. We achieved these results while continuing to adjust our merchandise mix to respond to changing consumer preferences and market conditions. A number of other factors may also positively or negatively impact our gross margins and results of operations, including, but not limited to:

- the timing of new store openings and the relative proportion of our new stores to mature stores;
- fashion trends and changes in consumer preferences;
- calendar shifts of holiday or seasonal periods;
- 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.

One of our goals is to better leverage our expenses, particularly general corporate overhead and fixed costs such as non-variable occupancy costs, through increases in both comparable store sales and total net sales. At the store level, our strategy is to increase comparable store sales in an effort to improve operating results by spreading our store level fixed costs over increased net sales per comparable store. We also seek to increase our total net sales, both through increases in comparable store sales and by opening new stores, in an effort to better leverage our corporate level expenses and decrease our general and administrative expenses as a percentage of our net sales.

General

Net sales constitute gross sales net of returns. Net sales include our in-store sales and our Internet sales and, accordingly, information in this prospectus with respect to comparable store sales, net sales per store and net sales per square foot includes our Internet sales. For fiscal 1999 through fiscal 2004 and for the six months ended July 30, 2005, Internet sales represented less than 1% of our net sales for each of these periods. Sales with respect to gift cards are deferred and recognized when gift cards are redeemed.

We report comparable store sales based on net sales, and stores are included in our comparable store sales beginning on the first anniversary of their first day of operation. 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. When additional square footage is added to a store that is included in comparable store sales, that store remains in comparable store sales. There may be variations in the way in which some of our competitors and other apparel retailers calculate comparable or same store sales. As a result, data in this prospectus 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 the cost of merchandise sold to customers, inbound shipping costs, distribution costs, depreciation on leasehold improvements at our distribution center, buying and merchandising costs and store occupancy costs. This may not be comparable to the way in which our competitors or other retailers compute their cost of goods sold.

In early February 2005, we completed our move from the 49,000 square foot combined home office and distribution center we had leased since 1994 to a newly leased 87,000 square foot combined home office and distribution center. As a result, we expect a slight increase in our distribution and warehousing costs, which are included as a component of our costs of goods sold, in fiscal 2005 and future periods attributable to the new facility.

Selling, general and administrative expenses consist primarily of store personnel wages and benefits, administrative staff and infrastructure expenses, store supplies, depreciation on leasehold improvements at our home office and stores, facility expenses, and training, advertising and marketing costs. Credit card fees, insurance 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. Our selling, general and administrative expenses have increased, as described below, and will further increase in future periods due in part to increased expenses associated with operating as a public company, including compliance with the Sarbanes-Oxley Act of 2002.

In conjunction with the Brentwood Affiliates investment in fiscal 2002, we terminated our Subchapter S tax election on November 4, 2002 and elected to be taxed as a Subchapter C corporation under the Internal Revenue Code. As a result, we became subject to federal and state income taxes. Prior to this date, we were not subject to federal or state income taxes and, accordingly, our financial statements for fiscal 2000 and fiscal 2001 do not include any provision for income taxes and our financial statements for fiscal 2002 reflect a provision for income taxes for only the last two months of fiscal 2002. Accordingly, our provision for income taxes and net income for fiscal 2000, fiscal 2001 and fiscal 2002 are not comparable to our provision for income taxes and net income for subsequent periods. Our financial statements for fiscal 2003 and fiscal 2004 include a provision for income taxes for the entire fiscal year and our financial statements for the six months ended July 31, 2004 and July 30, 2005 include a provision for income taxes for each of those six month periods.

In connection with our initial public offering, we recognized stock-based compensation expense of approximately \$95,000 in fiscal 2004 and we expect to recognize additional stock-based compensation expense in connection with our initial public offering of approximately \$164,000, \$164,000, \$164,000, \$164,000, \$121,000, \$78,000, \$78,000 and \$28,000 in fiscal 2005, 2006, 2007, 2008, 2009, 2010, 2011 and 2012, respectively. As a result of Statement of Financial Accounting Standards No. 123R, Share-Based Payment (Revised 2004), which will become effective for us beginning with the first quarter of fiscal 2006, share-based payments granted in future periods will increase compensation expense that would otherwise have been

recognized in accordance with Accounting Principles Board Opinion No. 25, Accounting For Stock Issued To Employees, and outstanding unvested options will result in additional compensation expense that otherwise would only have been recognized on a pro-forma basis. Accordingly, our results of operations in future periods will be adversely affected by all of this additional stock-based compensation expense. For more information regarding the implementation of SFAS 123R, see Recently Issued Accounting Pronouncements below.

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. Any inability to provide appropriate merchandise in sufficient quantities in a timely manner could have a material adverse effect on our business, operating results and financial condition.

We have incurred and will continue to incur significant additional legal, accounting, audit, insurance and other expenses as a result of being a public company which will adversely affect our results of operations, perhaps materially. Among other things, we expect that compliance with the Sarbanes-Oxley Act of 2002 and related rules and regulations have increased and will substantially increase our legal, audit and accounting costs in the future. See Risk Factors 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 and 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.

We may take steps, such as increased promotional activities, 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. Because our private label merchandise generally carries higher gross margins than other merchandise, our failure to anticipate, identify and react in a timely manner to fashion trends with our private label merchandise, particularly if the percentage of net sales derived from private label merchandise increases, may have a material adverse effect on our comparable store sales, financial condition and results of operations. Please refer to Risk Factors Our failure to adequately anticipate a correct mix of private label merchandise may have a material adverse effect on our business.

Results of Operations

The following table presents, for the periods indicated, selected items in the statements of operations as a percent of net sales:

	Fiscal Year Ended December 31, 2002	One Month Ended February 1, 2003	Fiscal Year Ended January 31, 2004	Fiscal Year Ended January 29, 2005	Six Months Ended July 31, 2004 (unaudited)	July 30, 2005 (unaudited)
Net sales	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	70.0	71.6	69.0	67.2	72.5	68.9
Gross margin	30.0	28.4	31.0	32.8	27.5	31.1
Selling, general and administrative expenses	23.1	31.5	24.7	25.0	28.2	29.3
Operating profit (loss)	6.9	(3.1)	6.3	7.8	(0.7)	1.8
Other income	0.1					
Interest expense	(0.3)	(0.2)	(0.2)	(0.1)	(0.3)	
Earnings (loss) before income taxes	6.7	(3.3)	6.1	7.7	(1.0)	1.8
Provision (benefit) for income taxes	1.1	(0.6)	2.3	2.9	(0.2)	0.7
Net income (loss)	5.6 %	(2.7)%	3.8 %	4.8 %	(0.8)%	1.1 %

Six Months (26 weeks) Ended July 30, 2005 Compared with Six Months (26 weeks) Ended July 31, 2004

Net Sales

Net sales increased to \$72.8 million for the six months ended July 30, 2005 from \$55.4 million for the six months ended July 31, 2004, an increase of \$17.3 million, or 31.3%. This increase in total net sales was due to an increase in comparable store net sales of approximately \$6.4 million and an increase in net sales from non-comparable stores of approximately \$10.9 million. We sometimes refer to stores that are not comparable stores as non-comparable stores. For information as to how we define comparable stores, see General above.

Comparable store net sales increased by 11.6% in the six months ended July 30, 2005 compared to 7.5% for the six months ended July 31, 2004. This increase was primarily due to higher net sales of juniors apparel, footwear, hardgoods and men's apparel at our comparable stores. The increase in non-comparable store net sales was primarily due to the opening of 22 new stores subsequent to July 31, 2004.

Gross Margin

Gross margin for the six months ended July 30, 2005 was \$22.6 million compared with \$15.2 million for the six months ended July 31, 2004, an increase of \$7.4 million, or 48.6%. As a percentage of net sales, gross margin increased to 31.1% for the six months ended July 30, 2005 from 27.5% for the six months ended July 31, 2004. The increase in gross margin as a percentage of net sales was due primarily to a reduced markdown rate compared to the prior year period due to less aged inventory, improved pricing from some of our vendors due to our larger merchandise purchases and, to a lesser extent, our ability to leverage certain fixed costs, primarily non-variable occupancy costs, over greater overall net sales.

Selling, General and Administrative Expenses

Selling, general and administrative, or SG&A, expenses in the six months ended July 30, 2005 were \$21.3 million compared with \$15.6 million in the six months ended July 31, 2004, an increase of \$5.7 million, or 36.4%. This increase was primarily the result of costs associated with operating new stores as well as increases in infrastructure and administrative staff to support our growth and additional expenses resulting from our being a public company. As a percentage of net sales, SG&A expenses increased to 29.3% in the six months ended July 30, 2005 from 28.2% in the six months ended July 31, 2004. The increase in SG&A expenses as a percentage of net sales was primarily attributable to an increase in store payroll for new stores of \$2.3 million and additional depreciation of \$0.8 million and, to a lesser extent, additional infrastructure and administrative staff costs to support our growth and additional costs resulting from our being a public company.

Operating Profit (Loss)

As a result of the above factors, operating profit increased by \$1.7 million to \$1.3 million in the six months ended July 30, 2005 compared with an operating loss of (\$0.4) million in the six months ended July 31, 2004. As a percentage of net sales, operating profit (loss) was 1.8% in the six months ended July 30, 2005 compared with (0.7%) in the six months ended July 31, 2004.

Provision (Benefit) for Income Taxes

Provision for income taxes was \$0.5 million for the six months ended July 30, 2005 compared with a benefit for income taxes of \$0.1 million for the six months ended July 31, 2004.

Net Income (Loss)

Net income increased by \$1.2 million to \$0.8 million in the six months ended July 30, 2005 from a net loss of (\$0.4) million in the six months ended July 31, 2004. As a percentage of net sales, net income (loss) was 1.1% in the six months ended July 30, 2005 compared with (0.8%) in the six months ended July 31, 2004.

Fiscal Year Ended January 29, 2005 Compared with Fiscal Year Ended January 31, 2004

Net Sales

Net sales increased to \$153.6 million for fiscal 2004 from \$117.9 million for fiscal 2003, an increase of \$35.7 million, or 30.3%. This increase in total net sales was due to an increase in comparable store net sales of approximately \$11.3 million and an increase in net sales from non-comparable stores of approximately \$24.4 million.

Comparable store net sales increased by 9.6% in fiscal 2004 compared to fiscal 2003. This increase was primarily due to higher net sales of footwear, snowboard hardgoods, juniors apparel and accessories at our comparable stores. The increase in non-comparable store net sales was primarily due to the opening of 27 new stores subsequent to the end of fiscal 2003.

Gross Margin

Gross margin for fiscal 2004 was \$50.4 million compared with \$36.5 million for fiscal 2003, an increase of \$13.9 million, or 38.0%. As a percentage of net sales, gross margin increased to 32.8% in fiscal 2004 from 31.0% in fiscal 2003. The increase in gross margin as a percentage of net sales was due primarily to the increase in net sales for fiscal 2004 compared fiscal 2003, which allowed us to leverage certain fixed costs, primarily non-variable occupancy costs, over greater overall net sales, improved pricing from some of our vendors due to our larger merchandise purchases and reduced freight and distribution costs as a percentage of net sales.

Selling, General and Administrative Expenses

SG&A expenses in fiscal 2004 were \$38.4 million compared with \$29.1 million in fiscal 2003, an increase of \$9.3 million, or 32.1%. This increase was primarily the result of costs associated with operating new stores as well as increases in infrastructure and administrative staff to support our growth. As a percentage of net sales, SG&A expenses increased to 25.0% in fiscal 2004 from 24.7% in fiscal 2003. The increase in SG&A expenses as a percentage of net sales was primarily attributable to an increase in store payroll for new stores of \$3.3 million and additional depreciation of \$1.6 million and, to a lesser extent, additional infrastructure and administrative staff costs to support our growth, which increased at a faster rate than our net sales.

Operating Profit

As a result of the above factors, operating profit increased by \$4.5 million, or 61.0%, to \$12.0 million in fiscal 2004 from \$7.5 million in fiscal 2003. As a percentage of net sales, operating profit was 7.8% in fiscal 2004 compared with 6.3% in fiscal 2003.

Provision for Income Taxes

Provision for income taxes was \$4.5 million for fiscal 2004 compared with \$2.7 million for fiscal 2003. The effective tax rate was 38.2% for fiscal 2004 compared with 37.6% for fiscal 2003.

Net Income

Net income increased by \$2.8 million, or 62.4%, to \$7.3 million in fiscal 2004 from \$4.5 million in fiscal 2003. As a percentage of net sales, net income was 4.8% in fiscal 2004 compared with 3.8% in fiscal 2003.

Fiscal Year Ended January 31, 2004 Compared with Fiscal Year Ended December 31, 2002

Through and including December 31, 2002, our fiscal year ended on December 31. Subsequent to December 31, 2002, we changed our fiscal year to end on the Saturday closest to January 31 and to consist of four 13-week quarters, with an extra week added to the fourth quarter every five or six years. Our fiscal years ended December 31, 2002 and January 31, 2004 each consisted of 52 weeks. As a result of this change in our fiscal year, the financial data and our financial statements included elsewhere in this prospectus include financial information for the one month ended February 1, 2003, which was the one month transition period following the end of fiscal 2002 and prior to the beginning of fiscal 2003. The following discussion of our

results of operations for fiscal 2003 compared to fiscal 2002 disregards this one month transition period because we do not believe it is material to an understanding of our results of operations.

Net Sales

Net sales increased to \$117.9 million for fiscal 2003 from \$101.4 million for fiscal 2002, an increase of \$16.5 million, or 16.2%. This increase in total net sales was due to an increase in comparable store net sales of approximately \$3.5 million and an increase in net sales from non-comparable stores of approximately \$13.0 million.

Comparable store net sales increased by 4.3% in fiscal 2003 compared to fiscal 2002. This increase was primarily due to higher net sales of men's and juniors' apparel and accessories at our comparable stores, partially offset by lower net sales of skateboard hardgoods and boys' apparel at those stores. The increase in non-comparable store net sales was primarily due to the opening of 15 new stores subsequent to the end of fiscal 2002.

Gross Margin

Gross margin for fiscal 2003 was \$36.5 million compared with \$30.4 million for fiscal 2002, an increase of \$6.1 million, or 20.3%. As a percentage of net sales, gross margin increased to 31.0% in fiscal 2003 from 30.0% in fiscal 2002. The increase in gross margin as a percentage of net sales was due primarily to the increase in net sales for fiscal 2003 compared to fiscal 2002, which allowed us to leverage certain fixed costs, primarily non-variable occupancy costs, over greater overall net sales and, to a lesser extent, to improved pricing from some of our vendors due to our larger merchandise purchases and reduced freight and distribution costs as a percentage of net sales.

Selling, General and Administrative Expenses

SG&A expenses in fiscal 2003 were \$29.1 million compared with \$23.4 million in fiscal 2002, an increase of \$5.7 million, or 24.2%. This increase was primarily the result of costs associated with operating new stores as well as increases in infrastructure and staff to support our growth. As a percentage of net sales, SG&A expenses increased to 24.7% in fiscal 2003 from 23.1% in fiscal 2002. The increase in SG&A expenses as a percentage of net sales was attributable to an increase in store payroll for new stores of \$2.4 million, and to the fact that the costs of additional infrastructure and administrative staff to support our growth increased at a faster rate than our net sales.

Operating Profit

As a result of the above factors, operating profit increased by \$491,000, or 7.0%, to \$7.5 million in fiscal 2003 from \$7.0 million in fiscal 2002. As a percentage of net sales, operating profit was 6.3% in fiscal 2003 compared with 6.9% in fiscal 2002.

Provision for Income Taxes

Provision for income taxes was \$2.7 million for fiscal 2003 compared with \$1.1 million for fiscal 2002. Effective November 4, 2002, we terminated our Subchapter S tax election for federal income tax purposes. As a Subchapter S corporation, we were not subject to federal and state income taxes and, accordingly, our financial statements reflected in this prospectus do not include a provision for income taxes for periods prior to November 4, 2002. The provision for income taxes for fiscal 2002 therefore reflects a provision for only the last two months of fiscal 2002, while fiscal 2003 reflects a full year's provision for income taxes. Accordingly, the provision for income taxes in fiscal 2002 is not comparable to the provision for income taxes in fiscal 2003. The effective tax rate was 37.6% for fiscal 2003 compared with 16.1% for fiscal 2002.

Net Income

Net income decreased by \$1.2 million, or 21.6%, to \$4.5 million in fiscal 2003 from \$5.7 million in fiscal 2002. This decrease in net income was due primarily to the termination of our election to be taxed as a

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Subchapter S corporation, effective November 4, 2002. As a percentage of net sales, net income was 3.8% in fiscal 2003 compared with 5.6% in fiscal 2002. Earnings before income taxes increased by \$375,000, or 5.5%, to \$7.2 million in fiscal 2003 from \$6.8 million in fiscal 2002. As a percentage of net sales, earnings before income taxes decreased to 6.1% in fiscal 2003 from 6.7% in fiscal 2002.

Seasonality and Quarterly Results

We have historically experienced and expect to continue to experience seasonal and quarterly fluctuations in our comparable store sales and operating results. As is the case with many retailers of apparel and related merchandise, our business is subject to seasonal influences. Our net sales and operating results are typically lower in the first and second quarters of our fiscal year, while the winter holiday and back-to-school periods historically have accounted for the largest percentage of our annual net sales. Quarterly results of operations may also fluctuate significantly as a result of a variety of factors, including the timing of store openings and the relative proportion of our new stores to mature stores, fashion trends and changes in consumer preferences, calendar shifts of holiday or seasonal periods, changes in merchandise mix, timing of promotional events, general economic conditions, competition and weather conditions.

The following table sets forth selected unaudited quarterly statement of operations data for the periods indicated. The unaudited quarterly information has been prepared on a basis consistent with the audited consolidated financial statements included elsewhere in this prospectus and includes all adjustments, consisting only of normal recurring adjustments, which we consider necessary for a fair statement of the information shown. This information should be read in conjunction with the consolidated financial statements and the notes thereto appearing elsewhere in this prospectus. The operating results for any fiscal quarter are not indicative of the operating results for a full fiscal year or for any future period and there can be no assurance that any trend reflected in such results will continue in the future.

	Fiscal Year Ended January 31, 2004				Fiscal Year Ended January 29, 2005				Fiscal Year Ending January 28, 2006	
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter
	(Dollars in thousands except per share data)									
Statement of Operations Data										
Net sales	\$ 19,989	\$ 23,601	\$ 34,448	\$ 39,819	\$ 24,829	\$ 30,615	\$ 45,138	\$ 53,001	\$ 33,369	\$ 39,407
Gross margin	\$ 4,909	\$ 6,595	\$ 11,710	\$ 13,323	\$ 6,131	\$ 9,101	\$ 16,185	\$ 19,014	\$ 9,847	\$ 12,771
Operating profit (loss)	\$ (1,006)	\$ (96)	\$ 3,730	\$ 4,833	\$ (930)	\$ 523	\$ 5,576	\$ 6,840	\$ 17	\$ 1,272
Net income (loss)	\$ (629)	\$ (90)	\$ 2,307	\$ 2,887	\$ (678)	\$ 239	\$ 3,459	\$ 4,247	\$ (40)	\$ 848
Basic net income (loss) per share	\$ (0.06)	\$ (0.01)	\$ 0.20	\$ 0.27	\$ (0.06)	\$ 0.02	\$ 0.31	\$ 0.37	\$ 0.00	\$ 0.06
Diluted net income (loss) per share	\$ (0.06)	\$ (0.01)	\$ 0.18	\$ 0.22	\$ (0.06)	\$ 0.02	\$ 0.27	\$ 0.32	\$ 0.00	\$ 0.06
Number of stores open at end of period	99	102	105	113	118	129	132	140	146	150
Comparable store sales increase (decrease)	(4.8)%	3.5 %	5.4 %	9.0 %	8.3 %	6.8 %	9.0 %	12.5 %	12.1 %	11.3 %

Comparable store sales percentage changes are calculated by comparing comparable store sales for the applicable fiscal quarter to comparable store sales for the same fiscal quarter in the prior fiscal year. Comparable store sales are based on net sales and stores are considered comparable beginning on the first anniversary of the first day of operations. See **General** above for more information about how we compute comparable store sales.

Liquidity and Capital Resources

Our primary capital requirements are for capital investments, inventory, store remodeling, store fixtures and ongoing infrastructure improvements such as technology enhancements and distribution capabilities. Historically, our main sources of liquidity have been cash flows from operations and borrowings under our revolving credit facility.

The registration statement for our initial public offering was declared effective by the Securities and Exchange Commission on May 5, 2005. We and certain selling shareholders sold 1,875,000 shares and

1,718,750 shares of common stock, respectively, in the offering at a public offering price of \$18.00 per share, for aggregate gross proceeds of approximately \$33.8 million and \$30.9 million, respectively. In connection with our initial public offering, we paid underwriting discounts and commissions of approximately \$2.4 million and incurred offering expenses of approximately \$1.7 million. After deducting the underwriting discounts and commissions and the offering expenses, we received net proceeds of approximately \$29.7 million from the offering.

The significant components of our working capital are inventory and liquid assets such as cash and receivables, specifically credit card receivables, reduced by short-term debt, 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 extended payment terms with our vendors.

Our capital requirements include construction and fixture costs related to the opening of new stores and for maintenance 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 2005, we expect to spend approximately \$15.7 million on capital expenditures, a majority of which will relate to leasehold improvements and fixtures for the 35 new stores we plan to open in fiscal 2005, and a smaller amount will relate to equipment, systems and improvements for our distribution center and support infrastructure. For the six months ended July 30, 2005, we made capital expenditures of approximately \$6.4 million and opened 11 new stores. However, there can be no assurance that the number of stores that we actually open in fiscal 2005 will not be different from the number of stores we plan to open, or that actual fiscal 2005 capital expenditures will not differ from this expected amount.

We expect cash flows from operations, available borrowings under our revolving credit facility and the remaining net proceeds from our initial public offering 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, borrowings under our revolving credit facility and the remaining net proceeds from our initial public offering are not sufficient to meet our capital requirements, then we will be required to obtain additional equity or debt financing in the future. 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.

Net cash used in operating activities in the six months ended July 30, 2005 was \$8.8 million and \$4.6 million in the six months ended July 31, 2004, in each case primarily related to an increase in inventory levels and receivables, partially offset by an increase in accrued liabilities.

Net cash provided by operating activities in fiscal 2004 was \$16.4 million, primarily related to income from operations and an increase in other accrued liabilities, partially offset by an increase in inventory levels. Net cash provided by operating activities in fiscal 2003 was \$7.0 million, primarily related to income from operations, partially offset by an increase in inventory levels and a decrease in accounts payable. Net cash provided by operating activities in fiscal 2002 was \$7.9 million, primarily related to income from operations, partially offset by an increase in inventory levels.

Net cash used in investing activities was \$6.4 million in the six months ended July 30, 2005 and \$4.8 million in the six months ended July 31, 2004, in each case primarily related to capital expenditures for new store openings and existing store renovations.

Net cash used in investing activities was \$11.1 million in fiscal 2004, \$5.9 million in fiscal 2003 and \$7.3 million in fiscal 2002, in each case primarily related to capital expenditures for new store openings and existing store renovations.

Net cash provided from financing activities in the six months ended July 30, 2005 was \$32.0 million, primarily related to our initial public offering on May 5, 2005. Net cash provided by financing activities in the six months ended July 31, 2004 was \$10.6 million, primarily related to net borrowing under our revolving

credit facility offset by the decrease in our book overdraft. Our book overdraft represents checks that we have issued to pay accounts payable but that have not yet been presented for payment.

Net cash used in financing activities in fiscal 2004 was \$4.9 million, primarily related to the decrease in our book overdraft. Net cash used in financing activities in fiscal 2003 was \$942,000, primarily related to net repayments of borrowing under our revolving credit facility and net repayments of long-term debt. Net cash provided by financing activities in fiscal 2002 was \$6.4 million, primarily related to the sale of stock to Zumiez Holdings.

We have a \$20.0 million secured revolving credit facility with a lender. The revolving credit facility provides for the issuance of commercial letters of credit in an amount not to exceed \$7.5 million outstanding at any time and with a term not to exceed 180 days, although the amount of borrowings available at any time under our revolving credit facility is reduced by the amount of letters of credit outstanding at that time. As of July 30, 2005, we had no borrowings and approximately \$1.6 million of letters of credit outstanding under the revolving credit facility. The revolving credit facility bears interest at floating rates based on the lower of the prime rate (6.25% at July 30, 2005) minus a prime margin or the LIBOR rate (3.46% at July 30, 2005) plus a LIBOR margin, with the margin in each case depending on the ratio of our adjusted funded debt (as defined in the loan agreement, as amended) to EBITDAR (as defined in the loan agreement, as amended). Average and peak borrowings, respectively, under the revolving credit facility were \$6.2 million and \$13.8 million for fiscal 2004. The revolving credit facility will expire on July 1, 2006. The borrowing capacity can be increased to \$25.0 million if we request and if we are in compliance with certain provisions. Our obligations under the revolving credit facility are secured by almost all of our personal property, including, among other things, our inventory, equipment and fixtures. We must also provide financial information and statements to our lender and we must reduce the amount of any outstanding advances under the revolving credit facility to no more than \$5.0 million for a period of at least 30 consecutive days of each year. Our revolving credit facility also contains financial covenants that require us to meet certain specified financial ratios, including a debt to earnings ratio, an earnings to interest expense ratio and an inventory to debt ratio. We were in compliance with all covenants at July 30, 2005.

Contractual Obligations and Commercial Commitments

There were no material changes outside the ordinary course of business in our contractual obligations during the six months ended July 30, 2005. Our operating lease obligations are not recognized as liabilities in our financial statements. The following table summarizes the total amount of future payments due under certain of our contractual obligations at July 30, 2005 and the amount of those payments due in future periods as of July 30, 2005:

	Payments Due In Fiscal Year						2010 and Beyond
	Total (Dollars in thousands)	2005 (last 6 months)	2006	2007	2008	2009	
Contractual obligations:							
Non-cancelable operating lease obligations	\$ 83,143	\$ 5,732	\$ 11,593	\$ 11,036	\$ 10,370	\$ 10,284	\$ 34,128
Total contractual cash obligations	\$ 83,143	\$ 5,732	\$ 11,593	\$ 11,036	\$ 10,370	\$ 10,284	\$ 34,128

We occupy our retail stores and combined home office and distribution center under operating leases generally with terms of seven to ten years. Some of our leases have early cancellation clauses, which permit the lease to be terminated by us if certain sales levels are not met in specific periods. Some leases contain renewal options for periods ranging from one to five years under substantially the same terms and conditions as the original leases. In addition to future minimum lease payments, substantially all of our store leases provide for additional rental payments (or percentage rent) if sales at the respective stores exceed specified levels, as well as the payment of common area maintenance charges and real estate taxes. Amounts in the above table do not include percentage rent, common area maintenance charges or real estate taxes. Most of our lease agreements have defined escalating rent provisions, which we have straight-lined over the term of the lease, including any lease renewals deemed to be probable. For certain locations, we receive cash tenant allowances and we have reported these amounts as a deferred liability which is amortized to rent expense

over the term of the lease, including any lease renewals deemed to be probable. Total rental expenses, including percentage rent, common area maintenance costs and real estate taxes, under operating leases were \$13.9 million and \$17.1 million for fiscal year 2003 and fiscal year 2004, respectively, and \$7.6 million and \$9.6 million for the six months ended July 31, 2004 and July 30, 2005, respectively. We amortize our leasehold improvements over the shorter of the useful life of the asset or the lease term.

Off-Balance Sheet Obligations

Our only off-balance sheet contractual obligations and commercial commitments as of July 30, 2005 related to operating lease obligations and letters of credit. We have excluded these items from our balance sheet in accordance with generally accepted accounting principles. We presently do not have any non-cancelable purchase commitments. At July 30, 2005, we had outstanding purchase orders to acquire merchandise from vendors for approximately \$41.7 million. These purchases are expected to be financed by cash flows from operations and borrowings under our revolving credit facility. We have an option to cancel these commitments with no notice prior to shipment. At July 30, 2005, we had approximately \$1.6 million of letters of credit outstanding under our revolving credit facility.

Impact of Inflation

We do not believe that inflation has had a material impact on our net sales or operating results for the past three fiscal years or for the six months ended July 30, 2005. There can be no assurance that our business will not be affected by inflation in the future.

Quantitative and Qualitative Disclosures About Market Risk

During different times of the year, due to the seasonality of our business, we have borrowed under our revolving credit facility. To the extent we borrow under our revolving credit facility, which bears interest at floating rates based either on the prime rate or LIBOR, we are exposed to market risk related to changes in interest rates. At July 30, 2005, we had no borrowings outstanding under our credit facility. We are not a party to any derivative financial instruments.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in conformity with generally accepted accounting principles in the United States, or GAAP. In preparing financial statements in accordance with GAAP we are required to make estimates and assumptions that have an impact on the assets, liabilities, revenue and expense amounts reported. These estimates can also affect supplemental information disclosed by us, including information about contingencies, risk, and financial condition. We believe, given current facts and circumstances, that our estimates and assumptions are reasonable, adhere to GAAP, and are consistently applied. Inherent in the nature of an estimate or assumption is the fact that actual results may differ from estimates and estimates may vary as new facts and circumstances arise. In preparing the financial statements, we make routine estimates and judgments in determining the net realizable value of accounts receivable, inventory, fixed assets, and prepaid allowances. We believe our most critical accounting estimates and assumptions are in the following areas:

Valuation of merchandise inventories. We carry our merchandise inventories at the lower of cost or market. Merchandise inventories may include items that have been written down to our best estimate of their net realizable value. Our decisions to write-down our merchandise inventories are based on our current rate of sale, the age of the inventory and other factors. Actual final sales prices to our customers may be higher or lower than our estimated sales prices and could result in a fluctuation in gross margin. Historically, any additional write-downs have not been significant and we do not adjust the historical carrying value of merchandise inventories upwards based on actual sales experience.

Leasehold improvements and equipment. We review the carrying value of our leasehold improvements and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Measurement of the impairment loss is based on the fair value of the

asset or group of assets. Generally, fair value will be determined using valuation techniques, such as the expected present value of future cash flows. The actual economic lives of these assets may be different than our estimated useful lives, thereby resulting in a different carrying value. These evaluations could result in a change in the depreciable lives of those assets and therefore our depreciation expense in future periods.

Revenue recognition and sales returns reserve. We recognize revenue upon purchase by customers at our retail store locations or upon shipment for orders placed through our website as both title and risk of loss have transferred. We offer a return policy of generally 30 days and we accrue for estimated sales returns based on our historical sales returns results. The amounts of these sales returns reserves vary during the year due to the seasonality of our business. Actual sales returns could be higher or lower than our estimated sales returns due to customer buying patterns that could differ from historical trends.

Stock-based compensation. We account for our employee compensation plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. We amortize stock based compensation using the straight-line method over the vesting period of the related options, which is either five or eight years. We have recorded deferred stock based compensation representing the difference between the option exercise price and the fair value of our common stock on the grant date for financial reporting purposes. We determined the fair value of our common stock based upon several factors, including the market capitalization of similar retailers, management and third party estimates, and the expected valuation we would obtain in an initial public offering. Had different assumptions or criteria been used to determine the fair value of our common stock, different amounts of stock based compensation could have been reported. No awards have been granted subsequent to our initial public offering on May 5, 2005.

Pro forma information regarding net income (loss) attributable to common stockholders and net income (loss) per share attributable to common stockholders is required in order to show our net income (loss) as if we had accounted for employee stock options under the fair value method of SFAS No. 123, as amended by SFAS No. 148. This information is contained in note 2 to our financial statements included elsewhere in this prospectus. The fair values of options and shares issued pursuant to our option plans at each grant date were estimated using the minimum value method, which requires us to make certain assumptions regarding dividend payments, risk-free interest rates and the options' expected terms. Had different assumptions or criteria been used to determine the fair value of our common stock, different amounts of pro-forma stock based compensation could have been reported.

Recently Issued Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 151, Inventory Costs an Amendment of ARB No. 43, Chapter 4. This statement clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and spoilage, requiring these items be recognized as current-period charges. In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this statement are effective for inventory costs incurred during fiscal years beginning after June 15, 2005 and will become effective for us beginning in fiscal 2006. The effect of adopting this statement is not expected to be significant to our financial position and results of operations.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R, Share-Based Payment (Revised 2004) (FAS 123R). This statement addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for the company's equity instruments or liabilities that are based on the fair value of the company's equity securities or may be settled by the issuance of these securities. SFAS 123R eliminates the ability to account for share-based payments using APB 25, Accounting for Stock Issued to Employees and generally requires that such transactions be accounted for using a fair value method. On April 14, 2005, the Securities and Exchange Commission announced the adoption of a new rule that delays SFAS 123R compliance.

Under the SEC rule, the provisions of this statement are effective for annual periods beginning after June 15, 2005 and will become effective for us beginning with the first quarter of fiscal 2006. We have not yet determined which

transaction method we will use to adopt SFAS 123R. The full impact that the adoption of

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this statement will have on our financial position and results of operations will be determined by share-based payments granted in future periods and will increase the compensation expense that would otherwise have been recognized in accordance with APB 25. In addition, outstanding unvested options will result in additional compensation expense that otherwise would only have been recognized on a pro-forma basis.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153, Exchanges of Non-Monetary Assets. This statement refines the measurement of exchanges of non-monetary assets between entities. The provisions of this statement are effective for fiscal periods beginning after June 15, 2005 and became effective for us beginning with the third quarter of fiscal 2005. Historically, we have not transacted significant exchanges of non-monetary assets, but future such exchanges would be accounted for under the standard, when effective.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, Accounting Changes and Error Corrections. This Statement requires retrospective application to prior periods financial statements of changes in accounting principle. The provisions of this statement become effective for fiscal periods beginning after December 15, 2005. The standard dictates that changes in accounting principle that are a result of a new pronouncement shall be subject to the reporting provisions of that pronouncement if they exist.

BUSINESS

Overview

We are a leading specialty retailer of action sports related apparel, footwear, equipment and accessories operating under the Zumiez brand name. As of July 30, 2005, we operated 150 stores primarily located in shopping malls, giving us a presence in 18 states. Our stores cater to young men and women between the ages of 12 and 24 who seek popular brands representing a lifestyle centered on activities that include skateboarding, surfing, snowboarding, BMX and motocross. 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 and is otherwise unavailable in most malls.

Our stores bring the look and feel of an independent specialty shop to the mall by emphasizing the action sports lifestyle through a distinctive store environment and high-energy sales personnel. We seek to staff our stores with store associates who are knowledgeable users of our products, which we believe provides our customers with enhanced customer service and supplements our ability to identify and react quickly to emerging trends and fashions. We design our stores to appeal to teenagers and to serve as a destination for our customers. Most of our stores, which average approximately 2,700 square feet, feature couches and action sports oriented video game stations that are intended to encourage our customers to shop for longer periods of time and to interact with each other and our store associates. To increase customer traffic, we generally locate our stores near busy areas of the mall such as food courts, movie theaters, music or game stores and other popular teen retailers. We believe that our distinctive store concept and compelling store economics will provide continued opportunities for growth in both new and existing markets.

We believe that our customers desire merchandise and fashion that is rooted in the action sports lifestyle and reflects their individuality. We strive to keep our merchandising mix fresh by continuously introducing new brands and styles. Our focus on a diverse collection of brands allows us to quickly adjust to changing fashion trends. The brands we currently offer include Billabong, Burton, DC Shoe, DVS Shoes, Element, Etnies, Hurley, Quiksilver, Roxy and Volcom, among many others. We believe that our strategic mix of both apparel and hardgoods, including skateboards, snowboards, bindings, components and other equipment, allows us to strengthen the potential of the brands we sell and helps to affirm our credibility with our customers. In addition, we supplement our stores with a select offering of private label apparel and products as a value proposition that we believe complements our overall merchandise selection.

Over our 26-year history, we have developed a corporate culture based on a passion for the action sports lifestyle. Our management philosophy emphasizes an integrated combination of results measurement, training and incentive programs, all designed to drive sales productivity at the individual store associate level. We empower our store managers to make store-level business decisions and consistently reward their success. We seek to enhance the productivity of our employees and encourage their advancement by offering comprehensive in-store, regional and national training programs, which we refer to collectively as Zumiez University. We have:

- increased our store count from 53 as of the end of fiscal 1999 to 150 as of the end of the second quarter of fiscal 2005;
- improved net sales per store from approximately \$882,000 in fiscal 1999 to approximately \$1.2 million in fiscal 2004, representing a compound annual growth rate of 6.3%;
- maintained net sales per square foot in excess of \$440 for our last five fiscal years ending with fiscal 2004;
- increased net sales from approximately \$44.5 million in fiscal 1999 to approximately \$153.6 million in fiscal 2004, representing a compound annual growth rate of 28.1%;
- increased operating profit from \$3.1 million in fiscal 1999 to \$12.0 million in fiscal 2004, representing a compound annual growth rate of 31.1%; and
- been profitable in every fiscal year of our 26-year history.

In fiscal 2002, the Brentwood Affiliates acquired an indirect minority interest in us. Since the investment by the Brentwood Affiliates, we have positioned ourselves for accelerated growth by enhancing our infrastructure and deepening our management team. We believe that these initiatives will improve our ability to continue to expand our business.

Competitive Strengths

We believe that the following competitive strengths differentiate us from our competitors and are critical to our continuing success.

- *Attractive Lifestyle Retailing Concept.* We target a large and growing population of 12 to 24 year olds, many of whom we believe are attracted to the action sports lifestyle and desire to promote their personal independence and style through the apparel they wear and the equipment they use. We believe that action sports are a permanent and growing aspect of youth culture, reaching not only consumers that actually participate in action sports, but also those who seek brands and styles that fit a desired action sports image. We believe we have developed a brand image that our customers view as consistent with their attitudes, fashion tastes and identity that should allow us to benefit from our market's anticipated growth.
- *Differentiated Merchandising Strategy.* We have created a highly differentiated retailing concept by offering an extensive selection of current and relevant action sports brands encompassing apparel, equipment and accessories. The breadth of merchandise offered at our stores exceeds that offered by many other action sports specialty stores and includes some brands and products that are available within the mall only at our stores. The action sports lifestyle includes activities that are popular at different times throughout the year, providing us the opportunity to shift our merchandise selection seasonally. Many of our customers desire to update their wardrobes and equipment as fashion trends evolve or the action sports season dictates. We believe that our ability to quickly recognize changing brand and style preferences and transition our merchandise offerings allows us to continually provide a compelling offering to our customers.
- *Deep-rooted Corporate Culture.* Our culture and brand image enable us to successfully attract and retain high quality employees who are passionate and knowledgeable about the products we sell. We place great emphasis on customer service and satisfaction, and we have made this a defining feature of our corporate culture. To preserve our culture, our store managers are typically promoted from within and are given extensive responsibility for most aspects of store level management. We provide these managers with the knowledge and tools to succeed through our comprehensive training programs and the flexibility to manage their stores to meet localized customer demand.
- *Distinctive Store Experience.* We strive to provide a convenient shopping environment that is appealing and clearly communicates our distinct brand image. Our stores are designed to reflect an organized chaos that we believe is consistent with many teenagers' lifestyles. We seek to attract knowledgeable store associates who identify with the action sports lifestyle and are able to offer superior customer service, advice and product expertise. To further enhance our customers' experience, most of our stores feature areas with couches and action sports oriented video game stations that are intended to encourage our customers to shop for longer periods of time, to interact with each other and our store associates in a familiar and comfortable setting and to visit our stores more frequently. We believe that our distinctive store environment enhances our image as a leading source for apparel and equipment for the action sports lifestyle.
- *Disciplined Operating Philosophy.* We have an experienced senior management team, with an average of approximately 15 years of experience in retail or related industries as of the end of fiscal 2004. Our management team has built a strong operating foundation based on sound retail principles that underlie our unique culture. Our philosophy emphasizes an integrated combination of results measurement, training and incentive programs, all designed to drive sales productivity down to the individual store associate level. Our comprehensive training programs are designed to provide our managers and store associates with enhanced product knowledge, selling skills and operational expertise. We believe that our merchandising team's immersion in the action sports lifestyle,

supplemented with feedback from our customers, store associates and managers, allows us to

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consistently identify and react to emerging fashion trends. We believe that this, combined with our inventory planning and allocation processes and systems, helps us mitigate markdown risk.

- *High-Impact, Integrated Marketing Approach.* We seek to build relationships with our customers through a multi-faceted marketing approach that is designed to integrate our brand image with the action sports lifestyle. Our marketing efforts focus on reaching our customers in their environment and feature extensive grassroots marketing events, such as the Zumiez Couch Tour, which is a series of interactive sports, music and lifestyle events held at various locations throughout the United States. Our marketing efforts also incorporate local sporting and music event promotions, advertising in magazines popular with our target market, interactive contest sponsorships that actively involve our customers with our brands and products, and distribution of about eight million Zumiez stickers in the past calendar year. Events and activities such as these provide opportunities for our customers to develop a strong identity with our culture and brand. We believe that our immersion in the action sports lifestyle allows us to build credibility with our customers and gather valuable feedback on evolving customer preferences.

Growth Strategy

We intend to expand our presence as a leading action sports lifestyle retailer by:

- *Opening New Store Locations.* We believe that the action sports lifestyle has national appeal that provides store expansion opportunities throughout the country. Since the end of fiscal 2002 through the six months ended July 30, 2005, we have opened 53 new stores, consisting of 15 new stores in fiscal 2003, 27 new stores in fiscal 2004 and 11 new stores in the six months ended July 30, 2005. We have successfully opened stores in diverse markets throughout the United States, which we believe demonstrates the portability and growth potential of our concept. We plan to open approximately 35 stores in fiscal 2005 (including eleven stores that we have opened during the six months ended July 30, 2005), including stores in our existing markets and in new markets, to take advantage of what we believe to be a compelling economic store model. We plan to continue to increase the size of our average store by opening new store locations that average approximately 3,000 square feet. These larger locations will accommodate an expanded merchandise mix, while maintaining our unique in-store experience and culture.
- *Continuing to Generate Sales Growth through Improved Store Level Productivity.* We seek to maximize our comparable store sales and net sales per square foot by maintaining consistent store-level execution and offering our customers a broad and relevant selection of action sports brands and products. We also intend to continue to expand our brand awareness in an effort to maintain high levels of customer traffic.
- *Enhancing our Operating Efficiency.* As we continue to expand our business and open new stores, we plan to improve our operating results by taking advantage of economies of scale in purchasing our inventory, leveraging our existing infrastructure and continually optimizing and improving our operations in areas such as inventory and supply chain management. We seek to better leverage our expenses, particularly general corporate overhead and fixed costs such as non-variable occupancy costs, through increases in both comparable store sales and total net sales.
- *Enhancing our Brand Awareness through Continued Marketing and Promotion.* We believe that a key component of our success is the brand exposure that we receive from our marketing events, promotions and activities that embody the action sports lifestyle. These are designed to assist us in increasing brand awareness in our existing markets and expanding into new markets by strengthening our connection with our target customer base. We believe that our marketing efforts have also been successful in generating and promoting interest in our product offerings. In addition, we use our Internet presence, designed to convey our passion for the action sports lifestyle, to increase our brand awareness. We plan to continue to expand our integrated marketing efforts by promoting more events and activities in our existing and new markets, including additional Zumiez Couch Tour destinations.

The Action Sports Market

We believe that action sports are a permanent and growing aspect of youth culture, reaching not only consumers that actually participate in action sports, but also those who seek brands and styles that fit a desired action sports image. According to Board-Trac, a market research firm, retail sales of skateboard, snowboard and surf/bodyboard apparel, equipment and accessories in the United States were estimated to be approximately \$11.5 billion in 2003. We believe that events such as the ESPN X Games, the inclusion of snowboarding as a medal event in the Winter Olympics and the national recognition of leading board sport athletes have broadened general awareness of the action sports lifestyle. The following table, which is based upon data made available by SGMA International, an industry trade group, indicates the estimated number of U.S. participants in board sports, which we define as skateboarding, snowboarding and surfing, during 2004:

	Board Sport	U.S. Participants
Skateboarding		10.6 million
Snowboarding		7.1 million
Surfing		1.9 million

We believe teens and young adults are the primary participants in action sports. This concentrated interest is particularly appealing for us, as teens have significant spending power. According to Teenage Research Unlimited, a market research firm, spending by U.S. teens was projected to be \$169 billion in 2004. We believe that teens enjoy shopping in malls and purchasing clothing and fashion-related merchandise.

Merchandising and Purchasing

Merchandising. Our goal is to be viewed by our customers, both young men and young women, as the definitive source of merchandise for the action sports lifestyle. We believe that the breadth of merchandise offered at our stores, which includes apparel, footwear, equipment and accessories, exceeds that offered by many other action sports specialty stores at a single location, and makes our stores a single-stop purchase destination for our target customers. Our apparel offerings include tops, bottoms, outerwear and accessories such as caps, belts and sunglasses. Our footwear offerings primarily consist of action sports related athletic shoes and sandals. Our equipment offerings, or hardgoods, include skateboards, snowboards and ancillary gear such as boots and bindings. We also offer a selection of other items, such as miscellaneous novelties and DVDs.

We seek to identify action sports oriented fashion trends as they develop and to respond in a timely manner with a relevant in-store product assortment. We strive to keep our merchandising mix fresh by continuously introducing new brands or styles in response to the evolving desires of our customers. We also take advantage of the change in action sports seasons during the year to maintain an updated product selection. Our merchandise mix may vary by region, reflecting the specific action sports preferences and seasons in different parts of the country.

We believe that offering an extensive selection of current and relevant brands used and sometimes developed by professional action sports athletes is integral to our overall success. The brands we currently offer include: Billabong, Burton, DC Shoe, DVS Shoes, Element, Etnies, Hurley, Quiksilver, Roxy and Volcom, among many others. No single brand accounted for more than 7.2% and 4.8% of our net sales in fiscal 2004 and fiscal 2003, respectively. We believe that our strategic mix of both apparel and hardgoods, including skateboards, snowboards, bindings, components and other equipment, allows us to strengthen the potential of the brands we sell and affirms our credibility with our customers.

We believe that our ability to maintain an image consistent with the action sports lifestyle is important to our key vendors. Given our scale and market position, we believe that many of our key vendors view us as an important retail partner. This position helps ensure our ability to procure a relevant product assortment and quickly respond to the changing fashion interests of our customers. Additionally, we believe we are presented with a greater variety of products and styles by some of our vendors, as well as certain specially designed items that are only distributed to our stores.

We supplement our merchandise assortment with a select offering of private label products across many of our apparel product categories. Our private label products complement the branded products we sell,

and allow us to cater to the more value-oriented customer. For fiscal 2004, 2003 and 2002, our private label merchandise represented approximately 12.8%, 12.6% and 12.0%, respectively, of our net sales.

Purchasing. Our merchandising staff consists of a general merchandising manager, planning staff and a staff of buyers and assistant buyers. Our purchasing approach focuses on quality, speed and cost in order to provide timely delivery of merchandise to our stores. We have developed a disciplined approach to buying and a dynamic inventory planning and allocation process to support our merchandise strategy. We utilize a broad vendor base that allows us to shift our merchandise purchases as required to react quickly to changing market conditions. We manage the purchasing and allocation process by reviewing branded merchandise lines from new and existing vendors, identifying emerging fashion trends and selecting branded merchandise styles in quantities, colors and sizes to meet inventory levels established by management. We also coordinate inventory levels in connection with our promotions and seasonality. Our management information systems provide us with current inventory levels at each store and for our company as a whole, as well as current selling history within each store by merchandise classification and by style. We purchase most of our branded merchandise from domestic vendors.

Our merchandising staff remains in tune with the action sports culture by participating in action sports, attending relevant events and concerts, watching action sports related programming and reading action sports publications. In order to identify evolving trends and fashion preferences, our staff spends considerable time analyzing sales data by category and brand down to the stock keeping unit, or SKU (an identification used for inventory tracking purposes), level, gathering feedback from our stores and customers, shopping in key markets and soliciting input from our vendors. As part of our feedback collection process, our merchandise team receives merchandise requests from both customers and store associates and meets with our store managers two to three times per year to discuss current customer trends.

We purchase our private label merchandise from independent third parties with the expertise to source through foreign manufacturers in Asia. We have cultivated our private brand sources with a view towards high quality merchandise, production reliability and consistency of fit. We believe that our knowledge of fabric and production costs combined with a flexible sourcing base enables us to buy high-quality private label goods at favorable costs.