MITEK SYSTEMS INC
Form 10-Q/A
May 12, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, DC. 20549

FORM 10-Q/A
AMENDMENT NO. 2

(Mark One)

|X| Amended Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2004 or

|_| Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 0-15235

Mitek Systems, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

87-0418827

(I.R.S. Employer Identification No.)

14145 Danielson St, Ste B, Poway, California 92064

(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code *(858) 513-4600*

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes |X| No |_| .

There were 11,389,481 shares outstanding of the registrant's Common Stock as of December 3, 2004.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2 of the Act)

Yes |_| No |X|.

MITEK SYSTEMS, INC.
FORM 10-QA

For the Quarter Ended June 30, 2004

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EXPLANATORY NOTE

Mitek Systems, Inc. (the "Company") is filing this Amendment No. 2 to its Form 10-Q/A for the quarter ended June 30, 2004 to provide additional information regarding our controls and procedures.

The original Form 10-Q for the quarter ended June 30, 2004 (the “10-Q”) was filed on August 16, 2004. Amendment No. 1 to the Company’s Form 10-Q for the quarter ended June 30, 2004 was filed on January 13, 2005 to reflect the restatement of our financial statements (the "Restatement"). The Restatement reflects adjustments recognized in the quarter, which also affects current and long-term liabilities and stockholders' equity at or for the three and nine months ended June 30, 2004. A discussion of this Restatement and a summary of the effects of the Restatement are presented in Note 10 to the Financial Statements.

For the convenience of the reader, this Amendment No. 2 amends in its entirety the 10-Q and Amendment No.1. This Amendment No. 2 continues to speak as of the date of the 10-Q, and we have not updated the disclosure contained herein to reflect any events that occurred at a later date other than as described in this explanatory note. All information contained in this Amendment No. 2 is subject to updating and supplementing as provided in our periodic reports filed with the Securities and Exchange Commission subsequent to the date of the filing of the 10-Q.

The following section of this Quarterly Report on Form 10-Q/A has been revised from Amendment No. 1:

Item 4 - Controls and Procedures

PART 1: ITEM 1. FINANCIAL INFORMATION
MITEK SYSTEMS, INC
BALANCE SHEETS
(UNAUDITED)

	June 30, 2004 As restated		September 30, 2003	
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$	2,719,226	$	1,819,102
Accounts and notes receivable-net of allowances of		1,439,659		2,900,693
$325,697 and $253,697, respectively				
Note receivable - related party		146,245		195,623
Inventories		18,516		43,182
Prepaid expenses and other assets		181,213		84,167
Total current assets		4,504,859		5,042,767
PROPERTY AND EQUIPMENT-net		119,370		321,029
OTHER ASSETS		31,746		279,985
TOTAL ASSETS	$	4,655,975	$	5,643,781
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)				
CURRENT LIABILITIES:				
Accounts payable	$	477,175	$	881,032
Accrued payroll and related taxes		537,581		690,388
Deferred revenue		646,220		884,917
Liabilities in excess of assets held for sale		376,516		0
Other accrued liabilities		272,060		245,818
Warrants-liability		367,887		0
Current portion of Convertible Debt net of unamortized financing costs of $347,090 (2004)		289,273		0
Total current liabilities		2,966,712		2,702,155
LONG-TERM LIABILITIES:				
Convertible debt - net of unamortized financing costs of $679,719 (2004)		1,683,918		0
Deferred rent		15,538		16,135
Deferred revenue		0		318,826
Long-term payable		8,539		34,194
Total long-term liabilities		1,707,995		369,155
TOTAL LIABILITIES		4,674,707		3,071,310
STOCKHOLDERS' EQUITY(DEFICIT):				
Common stock - $.001 par value; 20,000,000				

shares authorized; 11,389,481 and 11,185,282				
issued and outstanding at June 30, 2004				
and September 30, 2003, respectively		11,389		11,185
Additional paid-in capital		10,064,911		9,327,736
Accumulated deficit		(10,095,032)		(6,766,450)
Net stockholders' equity (deficit)		(18,732)		2,572,471
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$	4,655,975	$	5,643,781

See notes to financial statements

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MITEK SYSTEMS, INC
STATEMENTS OF OPERATIONS
(Unaudited)

	THREE MONTHS ENDED June 30, 2004 AS RESTATED	THREE MONTHS ENDED June 30, 2003	NINE MONTHS ENDED June 30, 2004 AS RESTATED	NINE MONTHS ENDED June 30, 2003
SALES				
Software	$ 389,440	$ 1,479,956	$ 2,024,455	$ 6,609,543
Hardware	85,016	1,107,197	858,571	1,960,078
Professional services, education and other	513,012	454,585	1,817,403	1,301,359
NET SALES	987,468	3,041,738	4,700,429	9,870,980
COSTS AND EXPENSES:				
Cost of sales - Software	141,573	218,970	468,947	740,026
Cost of sales - Hardware	71,227	923,462	804,159	2,083,305
Cost of sales - Prof. Services, education and other	158,585	249,742	620,303	675,771
Operations	326,343	431,638	1,065,035	1,291,633
Selling and marketing	449,742	1,101,175	1,571,762	2,908,291
Research and development	644,090	556,245	1,811,606	1,680,478
General and administrative	613,914	517,179	1,673,589	1,355,523
Total costs and expenses	2,405,474	3,998,411	8,015,401	10,735,027
OPERATING LOSS	(1,418,006)	(956,673)	(3,314,972)	(864,047)
Other income (expense) - net	(17,556)	3,645	(10,600)	7,586
LOSS BEFORE INCOME TAXES	(1,435,562)	(953,028)	(3,325,572)	(856,461)
PROVISION FOR INCOME TAXES	457	380	3,007	10,355
NET LOSS	$ (1,436,019)	$ (953,408)	$ (3,328,579)	$ (866,816)
NET LOSS PER SHARES - BASIC AND DILUTED	$ (0.13)	$ (0.09)	$ (0.29)	$ (0.08)

WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC AND DILUTED	11,389,481	11,156,437	11,340,979	11,144,660
WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND COMMON SHARE EQUIVALENTS OUTSTANDING - DILUTED	11,389,481	11,156,437	11,340,979	11,144,660

See notes to financial statements

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MITEK SYSTEMS, INC
STATEMENTS OF CASH FLOWS
(Unaudited)

	NINE MONTHS ENDED June 30, 2004 AS RESTATED	2003
OPERATING ACTIVITIES		
Net loss	$ (3,328,579)	$ (866,816)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	340,996	336,969
Provision for bad debts	72,000	75,000
Loss on disposal of property and equipment	2,113	986
Provision for sales returns & allowances	104,090	153,000
Fair value of stock options granted to non-employees	10,776	2,823
Amortization of debt discount	14,462	0
Changes in operating assets and liabilities:		
Accounts receivable	1,389,034	803,827
Inventory, prepaid expenses, and other assets	79,745	(136,991)
Accounts payable	(403,857)	(222,575)
Accrued payroll and related taxes	(152,807)	324,900
Long-term payable	(25,655)	(25,655)
Deferred revenue	(557,523)	392,214
Liabilities in excess of assets held for sale	376,516	0
Other accrued liabilities	(78,446)	(14,147)
Net cash provided by (used in) operating activities	(2,157,135)	823,535
INVESTING ACTIVITIES		
Purchases of property and equipment	(45,339)	(180,067)
Proceeds from sale of property and equipment	0	1,203
Payment (advances) on related party note receivable-net	49,378	(8,517)
Net cash provided by (used in) investing activities	4,039	(187,381)
FINANCING ACTIVITIES		
Proceeds from borrowings	0	360,000
Repayment of borrowings	0	(360,000)
Proceeds from convertible debt	3,000,000	0
Deferred costs related to convertible debt	(151,000)	0
Proceeds from exercise of stock options	204,220	19,201
Net cash provided by financing activities	3,053,220	19,201
NET INCREASE IN CASH AND CASH EQUIVALENTS	900,124	655,355
	1,819,102	760,416

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD				
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	2,719,226	$	1,415,771
Supplemental Disclosure of Cash Flow Information				
Cash paid for interest	$	18,510	$	6,736
Cash paid for income taxes	$	3,007	$	10,355
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES				
Options issued in exchange for services	$	10,776	$	2,823
Warrants issued in connection with financing	$	367,887	$	0
Beneficial conversion feature of convertible debt	$	522,384	$	0

See notes to financial statements

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MITEK SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS-UNAUDITED

1. *Basis of Presentation*

The accompanying unaudited financial statements of Mitek Systems, Inc. (the "Company") have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and footnote disclosures that are otherwise required by Regulation S-X and that will normally be made in the Company's Annual Report on Form 10-K. The financial statements do, however, reflect all adjustments (solely of a normal recurring nature) which are, in the opinion of management, necessary for a fair statement of the results of the interim periods presented.

Results as of June 30, 2004 and for the three and nine months ended June 30, 2004 are not necessarily indicative of results which may be reported for any other interim period or for the year as a whole.

Accounting Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

The operations from Fiscal 2003 and the nine months ended June 30, 2004 have resulted in significant operating losses. The Company has managed its cash requirements for this period principally from cash generated from operations, though the last quarter saw the Company address its cash requirements by issuing Convertible Debt as discussed in Note 6 of the accompanying financial statements. Additionally, the Company reduced its expected future cash needs by entering into the agreement with Harland Financial Solutions whereby certain personnel and overhead expenses were assumed by Harland in the transactions discussed in Note 9 of the accompanying financial statements.

Certain prior year's balances have been reclassified to conform to the 2003 presentation.

2. *New Accounting Pronouncements*

In November 2002, the FASB issued FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees*. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This Interpretation does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. This Interpretation also incorporates, without change, the guidance in FASB Interpretation No. 34, *Disclosure of Indirect Guarantees of Indebtedness of Others*, which is being superseded. The initial recognition and measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements in this Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company has issued no guarantees that qualify for disclosure in this interim financial statement.

In December 2002, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 148 *Accounting for Stock-Based Compensation - Transition and Disclosure*. SFAS No. 148 amends SFAS No. 123, *Accounting for*

Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The amendments to SFAS No. 123 provided for under SFAS No. 148 are effective for financial statements for fiscal years ending after December 15, 2002. The Company has not elected to adopt the fair value accounting provisions of SFAS No. 123 and therefore the adoption of SFAS No. 148 did not have a material effect on our results of operations or financial position.

In January 2003, the FASB issued SFAS No. 150 *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted the provisions of this Statement and it had no impact on its financial statements.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities*. In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of FIN 46 were initially to apply to variable interest entities created after January 31, 2003. The consolidation requirements were initially to apply to transactions entered into prior to February 1, 2003 in the first fiscal year or interim period beginning after June 15, 2003. The FASB postponed implementation of FIN 46 in December 2003. The Company has no variable interest entities.

3. Accounting for Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with Accounting Principles Board Opinion ("APB") No. 25, *Accounting for Stock Issued to Employees*, and FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation.*

Pro forma information regarding net loss and loss per share is required by SFAS No. 123, *Accounting for Stock-based Compensation,* and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the dates of grant using the Black-Scholes option valuation model with the following weighted-average assumptions for the three months and nine months ended June 30, 2004 and 2003.

	2004	2003
Risk free interest rates	2.6%	2.0%
Dividend yields	0%	0%
Volatility	77%	76%
Weighted average expected life	3 years	3 years

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information is as follows (in thousands, except for net income/loss per share information):

	Three months ended June 30		Nine months ended June 30	
	2004	2003	2004	2003
Net loss as reported	$ (1,436)	$ (953)	$ (3,329)	$ (867)
Net loss pro forma	(1,532)	(968)	(3,617)	(1,507)
Net loss per share as reported	(.13)	(.09)	(.29)	(.08)
Net loss per share pro forma	(.13)	(.09)	(.32)	(.14)

4. Revolving Line of Credit

On February 19, 2003 the Company revised its working capital revolving line of credit with First National Bank. This line required interest to be paid at prime plus 1 percentage point, and was subject to a limit on maximum available borrowings of $750,000. The Company had no borrowings under the working capital line of credit on September 30, 2003. This credit line was subject to a net worth covenant whereby the Company was required to maintain a tangible net worth of $2,000,000 in order to use the credit line. The loss sustained during the quarter ended December 31, 2003 caused the Company's net worth to fall to $1,602,000. Though the Company had no borrowings under the credit line as of December 31, 2003, the Company was no longer in compliance with the aforementioned net worth covenant. In June 2004, the Company entered into a Convertible Note with Laurus Master Fund (Laurus). This Convertible Note is described in Note 6 of the financial statements The Note is secured by a general lien on all assets of the Company, and as a condition of this transaction, the Company's line of Credit with First National Bank was cancelled.

5. Product Revenues - Below is a summary of the revenues by product lines.

	Three Months Ended June 30		Nine Months Ended June 30	
Revenue	2004	2003	2004	2003
(000's)				
Recognition Toolkits	$ 330	$ 453	$ 1,568	$ 4,071
Check Image Solutions	197	2,298	1,406	4,490
Document and Image Processing Solutions	65	40	420	611
Maintenance and other	395	251	1,306	699
Total Revenue	$ 987	$ 3,042	$ 4,700	$ 9,871

6. Issuance of Convertible Debt

On June 11, 2004, the Company secured a financing arrangement with Laurus. The financing consists of a $3 million Secured Note that bears interest at the rate of prime (as published in the Wall Street Journal), plus one percent (6% as of December 2, 2004) and has a term of three years (June 11, 2007). The Secured Note is convertible into shares of the Company's common stock at an initial fixed price of $0.70 per share, a premium to the 10-day average closing share price as of June 11, 2004. The conversion price of the Secured Note is subject to adjustment upon the occurrence of certain events. The effective annual interest rate of this Convertible Debt, after considering the total debt issue costs (discussed below), is approximately 17.6%

In connection with the financing, Laurus was also issued warrants to purchase up to 860,000 shares of the Company's common stock. The warrants are exercisable as follows: 230,000 shares at $0.79 per share; 230,000 shares at $0.85 per share and the balance at $0.92 per share. The gross proceeds of the convertible debt were allocated to the debt instrument and the warrants on a relative fair value basis. Then the Company computed the beneficial conversion feature embedded in the debt instrument using the effective conversion price in accordance with EITF 98-5 and 00-27. The Company recorded a debt financing costs of (i) $367,887 for the valuation of the 860,000 warrants issued with the note (computed using a Black-Scholes model with an interest rate of 2.53%, volatility of 81%, zero dividends and expected term of three years); (ii) $522,384 for a beneficial conversion feature inherent in the Secured Note and (iii) $151,000 for debt issue costs paid to affiliates of the lender, for a total discount of $1,041,271. The $1,041,271 is being amortized over the term of the Secured Note. On October 4, 2004 the Company filed the registration statement with the Securities and Exchange Commission and the registration statement remains pending as of the date of this report. Amortization of the debt financing costs through June 30, 2004 was $9,476.

To secure the payment of all obligations, the Company entered into a Master Security Agreement which assigns and grants to Laurus a continuing security interest in all of the following property now owned or at any time upon execution of the agreement, acquired by the Company or subsidiaries, or in which any assignor now have or at any time in the future may acquire any right, title or interest: all cash, cash equivalents, accounts, deposit accounts, inventory, equipment, goods, documents, instruments (including, without limitation, promissory notes), contract rights, general tangibles, chattel paper, supporting obligations, investment property, letter-of-credit rights, trademarks, trademark applications, patents, patent applications, copyrights, copyright applications, tradestyles and any other intellectual property, in each case, in which any Assignor now have or may acquire any right, title or interest, all proceeds and products thereof (including, without limitation, proceeds of insurance) and all additions, accessions and substitutions. In the event any Assignor wishes to finance an acquisition in the ordinary course of business of any hereafter-acquired equipment and have obtained a commitment from a financing source to finance such equipment from an unrelated third party, Laurus agrees to release its security interest on such hereafter-acquired equipment so financed by such third party financing source.

The Secured Notes stipulates that the Secured Note is to be repaid using cash payment along with an equity conversion option; the details of both methods for repayment are as follows: The cash repayments stipulate that beginning on December 1, 2004, or the first amortization date, the Company shall make monthly payments to Laurus on each repayment date until the maturity date, each in the amount of $90,909.09, together with any accrued and unpaid interest to date. The conversion repayment states that each month by the fifth business day prior to each amortization date, Laurus shall deliver to the Company a written notice converting the monthly amount payable on the next repayment date in either cash or shares of common stock, or a combination of both. If a repayment notice is not delivered by Laurus on or before the applicable notice date for such repayment date, then the Company pays the monthly amount due in cash. Any portion of the monthly amount paid in cash shall be paid to Laurus in an amount equal to 102% of the principal portion of the monthly amount due. If Laurus converts all or a portion of the monthly amount in shares of the Company's common stock, the number of such shares to be issued by the Company will be the number determined by dividing the portion of the monthly amount to be paid in shares of common stock, by the applicable fixed conversion price, which is presently $0.70 per share.

A registration rights agreement was executed requiring the Company to register the shares of its common stock underlying the Secured Note and warrants so as to permit the public resale thereof (See Note 8). Liquidated damages of 2% of the Secured Note balance per month accrue if stipulated deadlines are not met. The registration statement was filed with the Securities and Exchange Commission on October 4, 2004.

The following table reflects the Convertible Debt at June 30, 2004:

Convertible Debt	$ 3,000,000
Deferred financing costs	(1,026,809)
	1,973,191
Less: Current Portion	(289,273)
	$ 1,683,918

The debt has the following principal amounts due over the remaining life as follows:

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Year ended 9/30/05	$ 909,091
Year ended 9/30/06	1,090,909
Year ended 9/30/07	$ 1,000,000

7. Warrant Liability

In conjunction with raising capital through the issuance of convertible debt, the Company has issued various warrants that have registration rights for the underlying shares. As the contracts must be settled by the delivery of registered shares and the delivery of the registered shares is not controlled by the Company, pursuant to EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the net value of the warrants at the date of issuance was recorded as a warrant liability on the balance sheet ($367,887).

8. Subsequent Events

On July 7, 2004, the Company entered into an agreement with Harland Financial Solutions (HFS) wherein HFS acquired certain of the Company's trade assets relating to its Item Processing line of business. In addition, HFS assumed the trade liabilities and hired certain of the Company's personnel relating to this line of business. In connection with this transaction, the Company entered into a reseller agreement wherein HFS will be the exclusive reseller of this line of business. The consideration for this transaction was $1,425,000, plus the assumption of liabilities. Under the agreement with HFS, the Company may receive additional consideration from HFS should certain contractual issues be resolved, but no assurance can be made this will occur.

Prior to the end of the Fiscal 2004, the Company incurred a penalty to Laurus Funds for failing to register the securities underlying the Debt Instrument described in Note 7. The amount of the penalty was $208,000. This amount is shown as interest expense in the Financial Statements for the year ended September 30, 2004. On October 4, 2004, the Company settled this penalty with Laurus Master Fund, LLC by agreeing to issue an additional warrant for the purchase of 200,000 shares at a price of $0.70 per share. The value of this additional warrant was calculated by the Company to be $77,925, using a Black-Scholes option pricing model.

Subsequent to the end of Fiscal 2004, the Company was approached by the Principal Shareholder of Mitek Systems, Ltd, who offered to repurchase the Company's interest. In exchange for a cash payment of $150,000 and the cancellation of the stock options granted the principal, the Company agreed to exchange the shares held and the note outstanding, including accrued and unpaid interest. Mitek Systems, Ltd also agreed to cease using the Company's trade name and entered into a reseller agreement on terms similar to other resellers unrelated to the Company.

9. Liabilities in Excess of Assets Held for Sale

Certain assets and liabilities of the Company's CheckQuest product line have been classified as held for sale at June 30, 2004. The Components of these liabilities in excess of assets held for sale at June 30, 2004 are as follows:

Accounts Payable	$ 6,916
Deferred Revenue	940,213
Customer Deposits	40,198
Other Liabilities	688
Accounts Receivable	-453,436
Fixed Assets (Net of Accumulated Depreciation)	-91,187
Prepaid Licenses	-60,938

Other Assets		-5,938
Liabilities in Excess of Assets	$	376,516

10. Restatement

In December 2004, the Company discovered an error resulting in an adjustment relating to (i) the warrants issued to Laurus in connection with our issuance to Laurus of convertible secured notes were incorrectly accounted for as equity, rather than as a liability; and (ii) the beneficial conversion feature of the convertible secured notes were incorrectly accounted for in our financial statements for the quarter ended June 30, 2004. Our financial statements contained in this Report have been restated to reflect our such changes. A summary of the significant effects of the restatement is as follows:

As restated, our originally stated interest expense of $12,570 for the quarter ended June 30, 2004 should have been reported as approximately $5,000 greater, or $17,556. Our net loss of $1,431,027 for the quarter ended June 30, 2004 should have been reported as approximately $5,000 greater or $1,436,019.

As restated, the liability associated with our warrants issued to Laurus should have been reflected as of June 30, 2004 as approximately $370,000. The current portion of convertible debt net of unamortized financing costs should have been reflected as of June 30, 2004 as approximately $289,000. Accordingly, our originally stated current liabilities as of June 30, 2004 of approximately $2,310,000 should have been reported as approximately $660,000 greater or approximately $2,967,000. Our originally stated total liabilities as of June 30, 2004 of approximately $4,661,000 should have been reported as approximately $14,000 greater or $4,675,000. Our originally stated equity of $(5,000) as of June 30, 2004 should have been reported as approximately $14,000 less or $(19,000).

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion

In addition to historical information, this Management's Discussion and Analysis of Financial Condition and Results of Operations (the "MD&A") contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. As contained herein, the words "expects," "anticipates," "believes," "intends," "will," and similar types of expressions identify forward-looking statements, which are based on information that is currently available to the Company, speak only as of the date hereof, and are subject to certain risks and uncertainties. To the extent that the MD&A contains forward-looking statements regarding the financial condition, operating results, business prospects or any other aspect of the Company, please be advised that the Company's actual financial condition, operating results and business performance may differ materially from that projected or estimated by the Company in forward-looking statements. The Company has attempted to identify certain of the factors that it currently believes may cause actual future experiences and results to differ from the Company's current expectations. The difference may be caused by a variety of factors, including, but not limited, to the following: (i) adverse economic conditions; (ii) decreases in demand for Company products and services; (iii) intense competition, including entry of new competitors into the Company's markets; (iv) increased or adverse federal, state and local government regulation; (v) the Company's inability to retain or renew its working capital credit line or otherwise obtain additional capital on terms satisfactory to the Company; (vi) increased or unexpected expenses; (vii) lower revenues and net income than forecast; (viii) price increases for supplies; (ix) inability to raise prices; (x) the risk of additional litigation and/or administrative proceedings involving the Company and its employees; (xi) higher than anticipated labor costs; (xii) adverse publicity or news coverage regarding the Company; (xiii) inability to successfully carry out marketing and sales plans, including the Company's strategic realignment; (xiv) loss of key executives; (xv) changes in interest rates; (xvi) inflationary factors; (xvii) and other specific risks that may be alluded to in this MD&A.

The Company's strategy for fiscal 2004 is to grow the identified markets for its new products and enhance the functionality and marketability of the Company's character recognition technology. In particular, Mitek is determined to expand the installed base of its Recognition Toolkits and leverage existing technology by devising recognition-based applications to detect potential fraud and loss at financial institutions. The Company also seeks to penetrate additional markets for its Document and Image Processing Solutions by taking advantage of specific vertical applications which lend themselves to this type of labor-saving technology. The Company has also taken steps to generate working capital, including in June entering into a $3,000,000 promissory note with Laurus Master Fund, Ltd and in July divesting to Harland Financial Solutions ("HFS") certain assets and liabilities associated with the Company's Item Processing line of business and entering into an exclusive reselling relationship with HFS for the Item Processing line of business. The arrangement with HFS generated working capital, while at the same time reduced ongoing personnel and overhead expenses.

Management presumes that users of these interim financial statements and information have read or have access to the discussion and analysis for the preceding fiscal year. See also Item 3, "Quantitative and Qualitative Disclosures about Market Risk."

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

The Company enters into contractual arrangements with end users that may include licensing of the Company's software products, product support and maintenance services, consulting services, resale of third-party hardware, or various combinations thereof, including the sale of such products or services separately. The Company's accounting policies regarding the recognition of revenue for these contractual arrangements is fully described in Notes to the Audited Financial Statements for the year ended September 30, 2003 included in the Company's Form 10-K.

The Company considers many factors when applying accounting principles generally accepted in the United States of America related to revenue recognition. These factors include, but are not limited to:

- The actual contractual terms, such as payment terms, delivery dates, and pricing of the various product and service elements of a contract
- Availability of products to be delivered
- Time period over which services are to be performed
- Creditworthiness of the customer
- The complexity of customizations to the Company's software required by service contracts
- The sales channel through which the sale is made (direct, VAR, distributor, etc.)
- Discounts given for each element of a contract
- Any commitments made as to installation or implementation "go live" dates

Each of the relevant factors is analyzed to determine its impact, individually and collectively with other factors, on the revenue to be recognized for any particular contract with a customer. Management is required to make judgments regarding the significance of each factor in applying the revenue recognition standards, as well as whether or not each factor complies with such standards. Any misjudgment or error by management in its evaluation of the factors and the application of the standards, especially with respect to complex or new types of transactions, could have a material adverse affect on the Company's future revenues and operating results.

Accounts Receivable.

We evaluate the creditworthiness of our customers prior to order fulfillment and we perform ongoing credit evaluations of our customers to adjust credit limits based on payment history and our assessment of the customer's current creditworthiness. We constantly monitor collections from our customers and maintain a provision for estimated credit losses that is based on historical experience and on specific customer collection issues. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. Since our revenue recognition policy requires customers to be deemed creditworthy, our accounts receivable are based on customers whose payment is reasonably assured. Our accounts receivable are derived from sales to a wide variety of customers. We do not believe a change in liquidity of any one customer or our inability to collect from any one customer would have a material adverse impact on our financial position.

Fair Value of Equity Instruments

The valuation of certain items, including valuation of warrants, beneficial conversion feature related to convertible debt and compensation expense related to stock options granted, involve significant estimations with underlying assumptions judgmentally determined. The valuation of warrants and stock options are based upon a Black Scholes valuation model, which involve estimates of stock volatility, expected life of the instruments and other assumptions. As the Company's stock is thinly traded, the estimates, which are based partly on historical pricing of the Company's stock, may not represent fair value, but the Company believes it is presently the best form of estimating objective fair value.

Deferred Income Taxes.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We maintain a valuation allowance against the deferred tax asset due to uncertainty regarding the future realization based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. Until such time as the Company can demonstrate that it will no longer incur losses or if the Company is unable to generate sufficient future taxable income we could be required to maintain the valuation allowance against our deferred tax assets.

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS:

Comparison of Three Months and Nine Months Ended June 30, 2004 and 2003

Net Sales. Net sales for the three-month period ended June 30, 2004 were $987,000, compared to $3,042,000 for the same period in 2003, a decrease of $2,055,000, or 68%. The decrease was primarily attributable to a 91% decrease in revenue from Check Image Solutions. The Company continued to experience delayed purchasing decisions, which we believe are due to continued customer hesitancy to adopt check imaging solutions. Though image acceptance is mandated by the passage of Check 21, imaging standards required under this legislation are not yet final. The Company also experienced substantial purchasing hesitancy from customers who expressed concern over the Company's recent quarterly losses and the delisting of the Company's stock from NASDAQ. Subsequent to the quarter ended June 30, 2004, the Company substantially exited this line of business, by agreeing to the transaction with Harland Financial Solutions described in Note 7 of the accompanying financial statements. The Company also experienced a 27% decline in revenue associated with our recognition toolkits, the result of continued customer="margin:0in 0in .0001pt;text-align:right;">11,656

Contingent and other rent expense	4,915	4,231	9,368	7,851
Total rent expense	$ 12,466	$ 10,183		

$

23,949

$

19,507

Litigation On December 10, 2007, a putative class action complaint was filed in the U.S. District Court for the Western District of Washington against the Company and certain of its current and former directors and officers. The complaint asserts claims under Sections 10(b), 20(a), and 20A of the Securities Exchange Act of 1934, as amended, and Rule 10b-5. A substantially similar complaint was filed in the same court on December 14, 2007. These cases, which were subsequently consolidated, purported to be brought on behalf of a class of purchasers of the Company s stock during the period March 14, 2007 to November 7, 2007. Plaintiffs filed a consolidated amended complaint on May 5, 2008, extending the class period to January 4, 2008, and alleging that the defendants violated the federal securities laws during this period of time by, among other things, making misrepresentations about the Company s projected financial results in order to artificially inflate the Company s stock price. Plaintiffs are seeking compensatory damages in an unspecified amount, interest, and an award of attorneys fees and costs.

On July 21, 2008, defendants filed a motion to dismiss the amended complaint. Plaintiffs have until September 19, 2008 to oppose that motion, and defendants reply is due on or before October 20, 2008.

In addition, on December 20, 2007, a shareholder derivative action was filed in the Superior Court of the State of Washington (Snohomish County), allegedly on behalf of and for the benefit of the Company, against certain of the Company s current directors and current and former officers. The Company was named as a nominal defendant. The derivative complaint is based on the same allegations of fact as in the securities class action, and claims that the defendant directors and officers breached fiduciary duties, abused their control, engaged in gross mismanagement, wasted corporate assets, unjustly enriched themselves, and engaged in insider trading. The complaint seeks unspecified damages, restitution, disgorgement of profits, equitable and injunctive relief, attorneys fees, costs, and expenses. Because the complaint is derivative in nature, it does not seek monetary damages from the Company. However, the Company may be required throughout the pendency of the action

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to advance the legal fees and costs incurred by the defendant directors and officers. Under the terms of its corporate bylaws and related indemnity agreements, the Company is obligated to indemnify all current and former officers and directors involved in civil, criminal, or investigative matters, in connection with their service. The Company is also obligated to advance fees and expenses, but only if the involved officer or director acted in good faith. There is no limit on the indemnification payments the Company could be required to make under these provisions. At this time, the Company does not believe that any potential fees or expense arising from officer and director indemnification will be material.

On April 28, 2008, Zumiez moved to dismiss the derivative complaint for failure to make a demand on Zumiez s Board of Directors. Plaintiff filed his response on June 27, 2008. Before Zumiez was to file its reply, it agreed with the plaintiff to stay the derivative action pending the outcome of the motion to dismiss in the federal securities action. On August 3, 2008 the court overseeing the derivative litigation approved the stay.

The Company is unable to predict the outcome of these cases. A court determination in any of these actions against the Company could result in significant liability and could have a material adverse effect on the Company s business, results of operations or financial condition.

On March 5, 2008, a former employee commenced an action against the Company in California state court (Evan Johnson v. Zumiez, Inc., et al., Case No. RG08374968, Alameda County Superior Court) alleging that the Company failed to pay all overtime wages owing to him and other employees, failed to provide meal breaks as required by California law, failed to provide employees with proper itemized wage statements (pay stubs) as required by California law, and failed to pay terminated employees waiting time penalties under California Labor Code section 203. On April 28, 2008, plaintiff filed a first amended complaint which adds an additional claim that employees under age 18 worked more hours than permitted by the Labor Code; the first amended complaint also seeks to recover penalties under the Private Attorney General Act for alleged violation of various Labor Code sections. The company filed an answer to the first amended complaint on May 20, 2008, denying the allegations of the complaint and asserting affirmative defenses. The parties are engaged in discovery. The suit was filed as a putative class action, but no motion requesting certification of the case as a class action has been filed. No trial date has been set. At this early stage of the case, it is not possible to estimate the amount or range of potential loss with any degree of certainty.

Insurance Reserves The Company is responsible for medical insurance claims up to a specified aggregate amount. The Company maintains a reserve for estimated medical insurance claims based on historical claims experience and other estimated assumptions.

4. Fair Value Measurements Effective February 3, 2008 (the first day of our 2008 fiscal year), the Company adopted SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value measurements under SFAS 157 is as follows:

- Level 1 Quoted prices in active markets for identical assets or liabilities;

- Level 2 Quoted prices for similar assets or liabilities in active markets or inputs that are observable;

- Level 3 Inputs that are unobservable.

The following table summarizes assets measured at fair value on a recurring basis at August 2, 2008, as required by SFAS 157:

	Level 1	Level 2	Level 3
		(in thousands)	
Marketable securities	$	$ 58,516	$ 1,847

The $1.8 million in Level 3 marketable securities represents two $1.0 million auction rate securities net of impairment charge of $0.2 million. One of these $1.0 million securities failed to sell at its scheduled auction in March 2008. The interest rate of this security reset to a tax-free rate of 6.55%. In May 2008, the remaining $1.0 million security failed to sell at its scheduled auction. The interest rate of this security was reset to a tax-free rate of 3.20%. The next scheduled auction for these securities is in fiscal 2009. Based on market conditions, the Company changed its valuation methodology for auction rate securities to a valuation method based on numerous assumptions including assessments of the underlying structure of each security, expected cash flows, credit ratings, liquidity and other relevant factors during the first quarter of fiscal 2008.

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Accordingly, these securities are classified as Level 3 within SFAS 157 s valuation hierarchy since the Company s initial adoption of SFAS 157 at February 3, 2008. These assumptions, assessments and the interpretations of relevant market data are subject to uncertainties, are difficult to predict and require significant judgment. The use of different assumptions, applying different judgment to inherently subjective matters and changes in future market conditions could result in significantly different estimates of fair value.

As a result of the temporary declines in fair value for the Company s auction rate securities, which the Company attributes to current liquidity issues rather than credit issues, it has recorded an unrealized loss of approximately $0.2 million to accumulated other comprehensive loss in the condensed consolidated balance sheet as of August 2, 2008. The Company believes the current illiquid conditions are temporary in nature and that it has the ability to hold the auction rate securities until liquidity returns to the market. If it is later determined that the fair value of these securities is other-than-temporarily impaired, the Company will record a loss in the consolidated statement of operations. Due to the Company s belief that the market for these investments may take in excess of twelve months to fully recover, the Company has classified them as noncurrent assets on the accompanying condensed consolidated balance sheet as of August 2, 2008.

The $58.5 million in Level 2 marketable securities includes corporate and municipal bonds traded in the over-the-counter market. Fair values are based on quoted market prices for similar assets or liabilities or determined using inputs that use as their basis readily observable market data that are actively quoted and can be validated through external sources, including third-party pricing services, brokers, and market transactions.

The following table presents the changes in the Level 3 fair-value category for the six months ended August 2, 2008. The Company classifies financial instruments in Level 3 of the fair-value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments may also rely on a number of inputs that are readily observable either directly or indirectly.

	February 2, 2008	Transfers in and/or (out) of Level 3	Total unrealized loss included in Accumlated Comprehensive Loss	August 2, 2008
		(in thousands)		
Marketable securities	$	$ 2,000	$ (153)	$ 1,847

5. Net Income Per Share, Basic and Diluted Basic net income per share is based on the weighted average number of common shares outstanding during the period. Diluted net income per share is based on the weighted average number of common shares and common share equivalents outstanding during the period. Common share equivalents included in the computation represent shares issuable upon assumed exercise of outstanding stock options and non-vested restricted stock and employee stock purchase plan share equivalents. Potentially anti-dilutive securities not included in the calculation of diluted earnings per share include options to purchase common stock where the option exercise price is greater than the average market price of the Company s common stock during the period reported. Total common stock options not included in the calculation of diluted earnings per share were 861,712 and 5,000 for the three and six months ended August 2, 2008 and August 4, 2007, respectively. There were 251,024 and 207,825 of non-vested restricted shares included in the calculation of diluted earnings per share for the three and six months ended August 2, 2008, respectively.

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The following table sets forth the computation of basic and diluted net income per share (in thousands, except share and per share amounts):

	For the Three Months Ended		For the Six Months Ended	
	August 2, 2008	**August 4, 2007**	**August 2, 2008**	**August 4, 2007**
Net income	$ 2,727	$ 3,118	$ 4,089	$ 4,735
Weighted average common shares for basic net income per share	29,072,536	28,540,326	29,042,861	28,478,125
Dilutive effect of stock options and restricted stock	306,053	645,944	331,154	616,109
Weighted average common shares for diluted net income per share	29,378,589	29,186,270	29,374,015	29,094,234
Basic net income per share	$ 0.09	$ 0.11	$ 0.14	$ 0.17
Diluted net income per share	$ 0.09	$ 0.11	$ 0.14	$ 0.16

6**. Goodwill** In connection with the acquisition of Action Concepts Fast Forward, Ltd., on June 24, 2006 the Company recorded goodwill in accordance with SFAS 141 *Business Combinations.* During the quarter ended August 2, 2008, the Company released $250,000 of restricted cash held in escrow that was payable to Action Concepts Fast Forward, Ltd. The Company recorded $13.2 million of goodwill as the excess of the purchase price of $15.5 million over the fair value of the net amounts assigned to assets acquired and liabilities assumed. In accordance with SFAS 142, *Goodwill and Other Intangible Assets,* the Company will continue to assess, in accordance with our goodwill policy as stated in Note 2, whether goodwill is impaired.

7. Related Party Transactions The Company committed charitable contributions to Zumiez Foundation in the six months ended August 2, 2008 of approximately $43,000. The Company committed charitable contributions to the Zumiez Foundation in the six months ended August 4, 2007 of approximately $210,000.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this quarterly report. 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 various factors, including those discussed in the section entitled Risk Factors in our Form 10-K filed with the SEC on March 25, 2008 and in this Form 10-Q.

Forward-looking statements 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, markets and consumer. 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 quarterly report and in the Form 10-K referred to in the preceding paragraph. 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. References in the following discussion to we , us , our , the Company and similar references mean

Zumiez Inc. and its consolidated subsidiary, unless otherwise expressly stated or the context otherwise requires.

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Overview

We are a mall based 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 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.

General

Net sales constitute gross sales net of estimated returns. Net sales include our in-store sales and our internet sales and, accordingly, information in this quarterly report with respect to comparable store sales includes internet sales. Our internet sales are and have historically been approximately 1% of total sales. 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, the 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 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, internet 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.

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, 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.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in conformance with accounting principles generally accepted in the United States of America (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, prepaid assets, goodwill and certain liabilities. We believe our most critical accounting estimates and assumptions are in the following areas:

Impairment of Marketable and Non-Marketable Securities. We periodically review our marketable securities for impairment. If we conclude that any of these investments are impaired, we determine whether such impairment is other-than-temporary as defined under FSP 115-1. Factors we consider to make such a determination include the duration and severity of the impairment, as well as the reason for the decline in value and the potential recovery period. If any impairment is considered other-than-temporary, we will write down the asset to its fair value and take a corresponding charge to our consolidated statement of operations.

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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.

Impairment of Long-Lived Assets. We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is determined by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment recognized is measured by comparing projected individual store discounted cash flow to the asset carrying values. Declines in projected store cash flow could result in the impairment of assets.

Accounting for Income Taxes. As part of the process of preparing the condensed consolidated financial statements, income taxes are estimated for each of the jurisdictions in which we operate. This process involves estimating actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the balance sheet. The likelihood that deferred tax assets will be recovered from future taxable income is assessed, recognizing that future taxable income may give rise to new deferred tax assets. To the extent that future recovery is not likely, a valuation allowance would be established. To the extent that a valuation allowance is established or increased, an expense will be included within the tax provision in the income statement.

Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against net deferred tax assets. Based on our history of operating earnings, no valuation allowance has been recorded as of

August 2, 2008. In the event that actual results differ from these estimates, or these estimates are adjusted in future periods, a valuation allowance may need to be established, which could impact our financial position and results of operations. The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), on January 1, 2007. The Company s policy is to recognize penalties and interest related to unrecognized tax benefits in income tax expense. Provisions for income taxes are based on numerous factors that are subject to audit by the Internal Revenue Service and the tax authorities in the various jurisdictions in which we do business.

Stock-based compensation. Effective January 29, 2006, we adopted the fair value method of accounting for stock-based compensation arrangements in accordance with FASB Statement No. 123(R), Share-Based Payment (SFAS No. 123(R)), using the modified prospective method of transition. Under the provisions of SFAS No. 123(R), the estimated fair value of share-based awards granted under the 2005 Stock Incentive Plan is recognized as compensation expense over the vesting period. Using the modified prospective method, compensation expense is recognized beginning with the effective date of adoption of SFAS No. 123(R) for all share-based issuances (i) granted after the effective date of adoption and (ii) granted prior to the effective date of adoption and after our initial public offering on May 5, 2005. Prior to January 29, 2006, we accounted for stock-based employee compensation plans using the intrinsic value method of accounting in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and its related

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interpretations. Under the provisions of APB 25, no compensation expense was recognized when stock options were granted with exercise prices equal to or greater than market value on the date of grant.

We account for unvested stock-based employee compensation arrangements granted prior to our initial public offering on the intrinsic value method as allowed by SFAS 123(R).

Results of Operations

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

	For the Three Months Ended		For the Six Months Ended	
	August 2, 2008	August 4, 2007	August 2, 2008	August 4, 2007
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	67.4	65.6	68.0	66.9
Gross profit	32.6	34.4	32.0	33.1
Selling, general and administrative expenses	28.4	28.7	28.7	28.5
Operating profit	4.2	5.7	3.3	4.6
Interest income, net	0.6	0.4	0.6	0.5
Earnings before income taxes	4.8	6.1	3.9	5.1
Provision for income taxes	1.8	2.3	1.5	2.0
Net Income	3.0%	3.8%	2.4%	3.1%

Three Months (13 weeks) Ended August 2, 2008 Compared With Three Months (13 weeks) Ended August 4, 2007

Net Sales

Net sales increased to $92.3 million for the three months ended August 2, 2008 from $82.0 million for the three months ended August 4, 2007, an increase of $10.3 million, or 12.5%.

Comparable store net sales decreased 1.7% for the three months ended August 2, 2008 compared to the three months ended August 4, 2007. The decrease in comparable store net sales was primarily due to lower net sales of juniors apparel, men s apparel, and accessories partially offset by higher net sales of footwear and skate hardgoods. For information as to how we define comparable stores, see General above.

The increase in total net sales was due to an increase in net sales from non-comparable stores of approximately $11.7 million partially offset by a decrease in comparable store net sales of approximately $1.4 million. The increase in non-comparable store net sales was primarily due to the opening of 58 new stores subsequent to August 4, 2007.

Gross Profit

Gross profit for the three months ended August 2, 2008 was $30.1 million compared with $28.2 million for the three months ended August 4, 2007, an increase of approximately $1.9 million, or 6.8%. As a percentage of net sales, gross profit decreased to 32.6% for the three months ended August 2, 2008 from 34.4% for the three months ended August 4, 2007. The reduction in gross profit as a percent of net sales was driven by store occupancy costs growing at a faster rate than sales and to a lesser extent a decline in gross margin on apparel products.

Selling, General and Administrative Expenses

Selling, general and administrative, or SG&A expenses in the three months ended August 4, 2008 were $26.2 million compared with $23.5 million in the three months ended August 4, 2007, an increase of $2.7 million, or 11.5%. This increase was primarily the result of costs associated with operating new stores and to a lesser extent increases in infrastructure and administrative staff to support our growth. As a percentage of net sales, SG&A expenses decreased to 28.4% in the three months ended August 2, 2008 from 28.7% in the three months ended August 4, 2007. The decrease in SG&A expenses as a percentage of net sales was primarily attributable to a decrease in stock-based compensation, incentive compensation and

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credit card fees partially offset by increased store payroll and payroll related costs, additional depreciation on new stores and administrative support for new store growth.

Operating Profit

As a result of the above factors, operating profit was $3.9 million in the three months ended August 2, 2008 compared with $4.7 million in the three months ended August 4, 2007, a decrease of $0.8 million or 16.8%. As a percentage of net sales, operating profit was 4.2% in the three months ended August 2, 2008 compared with 5.7% in the three months ended August 4, 2007.

Provision for Income Taxes

Provision for income taxes was $1.7 million for the three months ended August 2, 2008 compared with $1.9 million for the three months ended August 4, 2007. Our income tax rate was relatively consistent for both referenced periods.

Net Income

Net income was $2.7 million in the three months ended August 2, 2008 compared to $3.1 million in the three months ended August 4, 2007, a decrease of $0.4 million, or 12.5%. As a percentage of net sales, net income was 3.0% in the three months ended August 2, 2008 compared with 3.8% in the three months ended August 4, 2007.

Six Months (26 weeks) Ended August 2, 2008 Compared With Six Months (26 weeks) Ended August 4, 2007

Net Sales

Net sales increased to $171.0 million for the six months ended August 2, 2008 from $150.8 million for the six months ended August 4, 2007, an increase of $20.2 million, or 13.4%.

Comparable store net sales decreased by 1.3% for the six months ended August 2, 2008 compared to the six months ended August 4, 2007. The decrease in comparable store net sales was primarily due to lower net sales of men s apparel, juniors apparel and accessories partially offset by higher net sales of footwear and skate hardgoods. For information as to how we define comparable stores, see General above.

The increase in total net sales was due to an increase in non-comparable store net sales of approximately $22.2 million partially offset by a decrease in net sales from comparable stores of approximately $2.0 million. The increase in non-comparable store net sales was primarily due to the opening of 58 new stores subsequent to August 4, 2007.

Gross Profit

Gross profit for the six months ended August 2, 2008 was $54.7 million compared with $49.9 million for the six months ended August 4, 2007, an increase of $4.8 million, or 9.5%. As a percentage of net sales, gross profit decreased to 32.0% for the six months ended August 2, 2008 from 33.1% for the six months ended August 4, 2007. The decline in gross profit as a percent of net sales was driven primarily by store occupancy costs growing at a faster rate than sales.

Selling, General and Administrative Expenses

Selling, general and administrative, SG&A, expenses for the six months ended August 2, 2008 were $49.1 million compared with $43.0 million in the six months ended August 4, 2007, an increase of $6.1 million, or 14.2%. 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 partially offset by a decrease in stock-based compensation and incentive compensation expenses. As a percentage of net sales, SG&A expenses increased to 28.7% in the six months ended August 2, 2008 from 28.5% in the six months ended August 4, 2007. The increase in SG&A expenses as a percentage of net sales was primarily attributable to additional new store depreciation and store wages and benefits relative to the growth in net sales somewhat offset by a decrease in stock-based compensation and incentive compensation expenses.

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Operating Profit

As a result of the above factors, operating profit decreased to $5.5 million for the six months ended August 2, 2008 compared with $6.9 million for the six months ended August 4, 2007 a decrease of $1.3 million, or 19.6%. As a percentage of net sales, operating profit was 3.3% and 4.6% for the six months ended August 2, 2008 and August 4, 2007, respectively.

Provision for Income Taxes

Provision for income taxes was $2.5 million for the six months ended August 2, 2008 compared with $2.9 million for the six months ended August 4, 2007.

Net Income

Net income decreased to $4.1 million for the six months ended August 2, 2008 from net income of $4.7 million for the six months ended August 4, 2007, a decrease of $0.6 million or 13.6%. As a percentage of net sales, net income was 2.4% and 3.1% for the six months ended August 2, 2008 and August 4, 2007, respectively.

Liquidity and Capital Resources

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

The significant components of our working capital are inventory and liquid assets such as cash, marketable securities and receivables, specifically tenant allowances and 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.

As of August 2, 2008, we held two $1.0 million Auction Rate Securities valued at $1.8 million, net of approximately $0.2 million impairment charge. One of these $1.0 million securities failed to sell at its scheduled auction in March 2008. In May 2008, the remaining $1.0 million security failed to sell at its scheduled auction. The interest rates for these securities reset to a prescribed failure tax-free rate of 6.55% and 3.20%, respectively. We currently do not intend to hold these securities beyond their next auction date and will try to sell these securities when their auction dates come up in March 2009 and May 2009. However, the recent uncertainties in the credit markets have prevented us and other investors from liquidating holdings of auction rate securities in recent auctions for these securities because the amount of securities submitted for sale has exceeded the amount of purchase orders. If the March 2009 and May 2009 auctions fail, we plan to hold these securities until the next auction date and the securities coupon rate will reset to a prescribed failure rate. Unsuccessful auctions could result in our holding securities beyond their next scheduled auction reset dates if a secondary market does not develop; therefore, limiting the short-term liquidity of these investments. These securities have been reclassified from current to long term assets on our condensed consolidated balance sheet as of August 2, 2008.

Our capital requirements include construction and fixture costs related to the opening of new stores and remodeling expenditures for existing stores. Future capital requirements will depend on many factors, including the pace of new store openings, the availability of suitable locations for new stores, and the nature of arrangements negotiated with landlords. In that regard, our net investment to open a new store has varied significantly in the past due to a number of factors, including the geographic location and size of the new store, and is likely to vary significantly in the future. During fiscal 2008, we expect to spend approximately $33.0 to $35.0 million on capital expenditures, a majority of which will relate to leasehold improvements and fixtures for the 57 total new stores we plan to open in fiscal 2008, and a smaller amount will relate to equipment, systems and improvements for our distribution center and support infrastructure. However, there can be no assurance that the number of stores that we actually open in fiscal 2008 will not be different from the number of stores we plan to open, or that actual fiscal 2008 capital expenditures will not differ from this expected amount.

We expect cash flows from operations and available borrowings under our revolving credit facility will be sufficient to meet our foreseeable cash requirements for operations and planned capital expenditures for at least the next twelve months. Beyond this time frame, if these sources are not sufficient to meet our capital requirements, then we will be required to obtain

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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 provided by operating activities for the six months ended August 2, 2008 was approximately $15.7 million primarily related to increased trade accounts payable, taxes payable, depreciation and deferred rent, partially offset by an increase in inventory and receivables. Net cash used in operating activities for the six months ended August 4, 2007 was $6.7 million primarily related to an increase in inventory and receivables partially offset by an increase in trade accounts payable and an increase in depreciation.

Net cash used in investing activities was $15.5 million for the six months ended August 2, 2008, related to $19.0 million of capital expenditures for new store openings and existing store renovations partially offset by the $3.5 million in net sales of marketable securities. Net cash used in investing activities was $2.7 million for the six months ended August 4, 2007, related to capital expenditures for new store openings and existing store renovations predominately offset by the net sales of marketable securities.

Net cash used in financing activities for the three months ended August 4, 2008 was $4.1 million related to the payment of book overdrafts somewhat offset by proceeds received from exercise of stock options and the related tax benefit. Net cash provided by financing activities for the three months ended August 4, 2007 was $7.4 million related to proceeds received from exercise of stock options and the related tax benefit partially offset by the payment of book overdrafts.

We have a credit agreement with Wells Fargo HSBC Trade Bank, N.A. The credit agreement provides us with a secured revolving credit facility until August 30, 2009 of up to $25.0 million. The secured revolving credit facility provides for the issuance of standby commercial letters of credit in an amount not to exceed $5.0 million outstanding at any time and with a term not to exceed 365 days, although the amount of borrowings available at any time under our secured revolving credit facility is reduced by the amount of standby letters of credit outstanding at that time. There were no outstanding borrowings under the secured revolving credit facility at August 2, 2008 or February 2, 2008. The Company had open letters of credit outstanding under our secured revolving credit facility of $3.6 million at August 2, 2008 and approximately $0.5 million at February 2, 2008. The secured revolving credit facility bears interest at floating rates based on the lower of the prime rate (5.00% at August 2, 2008) minus 0.50% or the LIBOR rate (3.26% at August 2, 2008), plus 1.00% for advances over $500,000 for a minimum of 30 days and a maximum of 180 days. The credit agreement contains a number of restrictions and covenants that generally limit our ability to, among other things, (1) incur additional debt, (2) undergo a change in ownership and (3) enter into certain transactions. The credit agreement also contains financial covenants that require us to meet certain specified financial tests and ratios, including, minimum net income after taxes, maximum total liabilities divided by tangible net worth and minimum quick asset ratio. All of our personal property, including, among other things, our inventory, equipment and fixtures, has been pledged to secure our obligations under the credit agreement. We must also provide financial information and statements to our lender. We were in compliance with all such covenants at August 2, 2008.

Contractual Obligations and Commercial Commitments

There was no material changes outside the ordinary course of business in our contractual obligations during the three months ended August 2, 2008. Our operating lease obligations are not recognized as liabilities in the financial statements. The following table summarizes the total amount of future payments (in thousands) due under certain of our contractual obligations at August 2, 2008:

Contractual Obligations		Total		Less than 1 Year		1- 3 Years		3-5 Years		More than 5 Years
Operating Lease Obligations	$	265,540	$	16,273	$	65,255	$	61,264	$	122,748
Purchase Obligations		95,127		95,127						
Letters of Credit		3,563		3,563						
	$	364,230	$	114,963	$	65,255	$	61,264	$	122,748

We occupy our retail stores and combined home office and distribution center under operating leases generally with terms of five 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,

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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, unless guaranteed in the lease agreement. 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 that is amortized to rent expense over the term of the lease, including any lease renewals deemed to be probable. Rent expense, including common area maintenance and other occupancy costs, was $23.9 million and $19.5 million for the six months ended August 2, 2008 and August 4, 2007, respectively.

At August 2, 2008, we had outstanding purchase orders to acquire merchandise from vendors of approximately $95.1 million. We have an option to cancel these commitments with no notice prior to shipment. At August 2, 2008, we had approximately $3.6 million of letters of credit outstanding.

Off-Balance Sheet Obligations

Our only off-balance sheet contractual obligations and commercial commitments as of August 2, 2008 related to operating lease obligations, open purchase orders, and letters of credit. We have excluded these items from our balance sheet in accordance with GAAP. We presently do not have any non-cancelable purchase commitments. At August 2, 2008, we had outstanding purchase orders to acquire merchandise from vendors for approximately $95.1 million. These purchases are expected to be financed by cash flows from operations and borrowings under our secured revolving credit facility. We have an option to cancel these commitments with no notice prior to shipment. At August 2, 2008, we had $3.6 million of letters of credit outstanding under our secured revolving credit facility. At August 2, 2008, we were committed to property owners for operation lease obligations in the amount of $265.5 million. Most of our leases contain cancellation or kick-out clauses in our favor that relieve us from any future obligation under a lease if specified sales levels are not achieved by a specific date.

Impact of Inflation

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

Risk Factors

Investing in our securities involves a high degree of risk. The following risk factors, issues and uncertainties should be considered in evaluating our future prospects. In particular, keep these risk factors in mind when you read forward-looking statements elsewhere in this report. Forward-looking statements relate to our expectations for future events and time periods. Generally, the words anticipate, believe, expect, intend and similar expressions identify forward-looking statements. Forward looking statements involve risks and uncertainties, and future events and circumstances could differ significantly from those anticipated in the forward looking statements. Any of the following risks could harm our business, operating results or financial condition and could result in a complete loss of your investment. Additional risks and uncertainties that are not yet identified or that we currently think are immaterial may also harm our business and financial condition in the future.

Our 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 intend to continue to open a significant number of new stores in future years while remodeling a portion of our existing store base annually. In addition, our proposed expansion will place increased demands on our operational, managerial and administrative resources. These increased demands could cause us to operate our business less effectively, which in turn could cause deterioration in the financial performance of our individual stores and our overall business. To the extent our new store openings are in markets where we already have stores, we may experience reduced net sales in existing stores in those markets. In addition, successful execution of our growth strategy may require that we obtain additional financing, and we cannot assure you that we will be able to obtain that financing on acceptable terms or at all.

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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

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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;
- whether we are able to successfully integrate any new stores that we acquire and the presence or absence of any unanticipated liabilities in connection therewith;
- fashion trends and changes in consumer preferences;
- calendar shifts of holiday or seasonal periods;
- changes in our merchandise mix;
- timing of promotional events;
- general economic conditions and, in particular, the retail sales environment;
- actions by competitors or mall anchor tenants;

- weather conditions;
- the level of pre-opening expenses associated with our new stores; and
- inventory shrinkage beyond our historical average rates.

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

We may from time to time acquire other retail stores, 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 or if such acquisitions fail to provide the benefits that we expect to receive, we could experience increased costs and other operating inefficiencies, which could have an adverse effect on our results of operations and financial performance.

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

Our business is susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures (including any weather patterns associated with global warming) 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 regions of the 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 market which includes apparel, accessories and footwear, we currently compete with a large number of other teenage-focused retailers. In addition, in the softgoods market we compete with independent specialty shops, department stores, and direct marketers that sell similar lines of merchandise and target customers through catalogs and e-commerce. In the hardgoods market 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 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 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, Trevor S. Lang, our Executive Vice President and General Merchandising Manager, Lynn K. Kilbourne and our Executive Vice President of Stores, Ford K. Wright. None of our employees, except Mr. Brooks, has an employment agreement with us and we 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

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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 our employees are not 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 certain regions in the United States, which makes us susceptible to adverse conditions in these regions.

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. We also have a substantial number of stores in the New York/New Jersey region and Texas. 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 $23.9 million and $19.5 million for the six months ended August 2, 2008 and August 4, 2007, respectively, and $22.2 million, $31.9 million and $43.5 million for fiscal 2005, 2006, and 2007 respectively. As of August 2, 2008, we were a party to operating leases requiring future minimum lease payments aggregating approximately $142.8 million through fiscal year 2012 and approximately $122.7 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 other costs, 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 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.

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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 $25 million credit agreement with Wells Fargo HSBC Trade Bank, N.A., which we use for inventory financing and other general corporate purposes, that contains a number of restrictions and covenants that generally limit our ability to, among other things, (1) incur additional indebtedness, (2) undergo a change in ownership and (3) enter into certain transactions. In addition, all of our personal property, including our inventory, equipment and fixtures, secure our obligations under the credit agreement. Our credit agreement also contains financial covenants that require us to meet certain specified financial tests and ratios, including minimum net income after taxes, maximum total liabilities divided by tangible net worth and minimum quick asset 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 tests or ratios could result in a default under the credit agreement. If a default occurs, the lender may elect to declare all borrowings outstanding, together with accrued interest and other fees, to be immediately due and payable. If we are unable to repay outstanding borrowings when due, whether at their maturity or if declared due and payable by the lender following a default, the lender has the right to proceed against the collateral granted to it to secure the indebtedness. As a result, any breach of these covenants or failure to comply with these tests or ratios could have a material adverse effect on us. There can be no assurance that we will not breach the covenants or fail to comply with the tests or ratios in our credit agreement or any other debt agreements we may enter into in the future and, if a breach occurs, there can be no assurance that we will be able to obtain necessary waivers or amendments from the lenders.

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

Our business could suffer as a result of small parcel delivery services such as United Parcel Service or Federal Express being unable to distribute our merchandise.

We rely upon small parcel delivery services 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 their 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 contracts with small parcel delivery services, we have the right to terminate these contracts upon 30 days written notice. Although the contracts with these small parcel delivery services provide certain discounts from the shipment rates in effect at the time of shipment, the contracts do not limit their ability to raise the shipment rates at any time. Accordingly, we are subject to the risk that small parcel delivery services may increase the rates they charge, that they may terminate their contracts with us, that they 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 them, 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.

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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 15.4% of our net sales in fiscal year 2007. 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 would likely have a material adverse effect on our comparable store sales, financial condition and results of operations.

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

Manufacturers outside of the United States produce most of our merchandise. Some of these facilities are located in regions that may be affected by natural disasters, political instability or other conditions that could cause a disruption in trade. Trade restrictions such as increased tariffs or quotas, or both, could also affect the importation of merchandise generally, and increase the cost, and reduce the supply of merchandise available to us. Any reduction in merchandise available to us or any increase in its cost due to tariffs, quotas or local issues that disrupt trade could have a material adverse effect on our results of operations. Although the prices charged by vendors for the merchandise we purchase are all denominated in United States dollars, a continued decline in the relative value of the United States dollar to foreign currencies could lead to increased merchandise costs, which could negatively affect our competitive position and our results of 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 that could impact our financial results.

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

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

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 our business, financial condition and results of operations.

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

We are involved, from time to time, in litigation incidental to our business including complaints filed by investors. This litigation could result in substantial costs, and could divert management s attention and resources, which could harm our business. Risks associated with legal liability are often difficult to assess or quantify, and their existence and magnitude can remain unknown for significant periods of time. While we maintain director and officer insurance, the amount of insurance coverage may not be sufficient to cover a claim and the continued availability of this insurance cannot be assured. 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.

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

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

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

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

Although internet sales constitute 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.

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, 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 Global Market, has 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 caused and will continue to cause us to incur significant costs and expenses, including legal 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 it more expensive for us to obtain director and officer liability insurance, and we have been required to accept reduced policy limits and coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as officers. As a result of the foregoing, we have incurred and we expect to incur significant legal, accounting, insurance and certain other expenses on an ongoing basis, which will negatively impact our financial performance and could have a material adverse effect on our results of operations and financial condition.

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

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

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

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

The action sports retail industry historically has been subject to substantial cyclicality. As economic conditions in the United States change, the trends in discretionary consumer spending become unpredictable and discretionary consumer spending could be reduced due to uncertainties about the future. When discretionary consumer spending is reduced, purchases of action sports apparel and related products may decline. A recession in the general economy or continued uncertainties regarding future economic prospects could have a material adverse effect on our results of operations.

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

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

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The trading price of our investment in marketable securities may fluctuate

We invest our excess cash in diversified high credit money market accounts, US treasuries, certificates of deposit, municipal bonds and auction rate securities. The investments have historically been considered very safe investments with very minimal default rates. However, the recent uncertainties in the credit markets have prevented us and other investors from liquidating holdings of auction rate securities in recent auctions for these securities because the amount of securities submitted for sale has exceeded the amount of purchase orders. We reduced our holdings of auction rate securities during 2007 through the auction process. As of August 2, 2008, we had $1.8 million invested in auction rate securities, which are classified as long-term marketable securities on our condensed consolidated balance sheet. In the quarter ended August 2, 2008 we incurred an impairment charge on these investments of approximately $0.2 million. If market liquidity issues continue, we may have additional impairment charges on these investments.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Credit Facility 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 secured revolving credit facility, which bears interests at floating rates based on either the prime rate or LIBOR, we are exposed to market risk related to changes in interest rates. At August 2, 2008, we had no borrowings outstanding under our secured revolving credit facility. At August 2, 2008, we had $3.6 million of letters of credit outstanding under our secured revolving credit facility. We are not a party to any derivative financial instruments.

Interest Rate Risk. We invest in a variety of securities, consisting primarily of investments in interest-bearing demand deposit accounts with financial institutions, tax-exempt money market funds and debt securities of corporations and municipalities. By policy, we limit the amount of credit exposure to any one issuer.

Investments in both fixed rate and floating rate interest earning products carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall. Due in part to these factors, our income from investments may decrease in the future.

Item 4: Controls and Procedures

Evaluation of Disclosure Controls and Procedures. We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Securities Exchange Act Rule 13a-15(e)). Based on this evaluation, our CEO and CFO concluded that, as of August 2, 2008, our disclosure controls and procedures were effective.

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

Changes in Internal Control Over Financial Reporting. There has been no change in our internal control over financial reporting (as defined in Securities Exchange Act Rule 13a-15(f)) during the quarter ended August 2, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are involved from time to time in litigation incidental to our business. The Company is unable to predict the outcome of litigated cases. A court determination in any of litigation actions against the Company could result in significant liability and could have a material adverse effect on the Company s business, results of operations or financial condition.

See Note 3 to the Notes to Condensed Consolidated Financial Statements found in Item 1 of this Form 10-Q (listed under Litigation under Commitments and Contingencies).

Item 1A. Risk Factors

Please refer to the Risk Factors set forth in Item 2 of Part I of this Form 10-Q as well as the risk factors previously disclosed in Item 1A of Part I of our Annual Report on Form 10-K for the year ended February 2, 2008. There have been no material changes in the risk factors set forth in our Annual Report on From 10-K for the year ended February 2, 2008.

Item 2. Changes in Securities; Use of Proceeds and Issuer Purchases of Equity Securities

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

At our Annual Meeting of Shareholders held on May 28, 2008, the following proposals were adopted by the following number of votes:

Proposal Number One: The election of two directors to hold office until the 2011 Annual Meeting of Shareholders. Each of the following nominees for director was elected to serve for a three-year term, by the following margins of votes:

Nominees	For	Withheld
Thomas D. Campion	27,690,811	333,195
David M. DeMattei	27,906,147	117,859

Proposal Number Two: Ratification of selection of Moss Adams LLP, independent registered public accounting firm, reappointed by the Board of Directors to audit the consolidated financial statements of the Company for the fiscal year ending January 31, 2009:

Independent Registered Public Accountants	For	Against	Abstain
Moss Adams LLP	27,991,670	25,493	6,842

Item 5. Other Information

None

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Item 6. Exhibits

Exhibits

Exhibit No.	**Description of Exhibits**
31.1	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of the Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ZUMIEZ INC.

By: /s/ TREVOR S. LANG
Trevor S. Lang
Chief Financial Officer

Dated: August 28, 2008