

zumiez

**Notice of 2017 Annual Meeting
And Proxy Statement
2016 Annual Report on Form 10-K**



4001 204th Street SW
Lynnwood, Washington 98036

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held On May 31, 2017

Dear Shareholder:

You are cordially invited to attend the 2017 annual meeting of shareholders of Zumiez Inc., a Washington corporation. Zumiez Inc. and its wholly-owned subsidiaries is also referred to as “Zumiez,” “we,” “our,” “us,” “its” and the “Company.” The meeting will be held on Wednesday, May 31, 2017 at 8:30 a.m. (Pacific Time) at our headquarters located at 4001 204th Street SW, Lynnwood, Washington 98036 for the following purposes:

1. To elect three directors to hold office until our 2020 annual meeting of shareholders;
2. To hold an advisory, non-binding, vote on executive compensation;
3. To hold an advisory, non-binding, vote to determine shareholder preferences on whether future advisory votes on executive compensation should occur every one, two or three years;
4. To consider and act upon a proposal to ratify the selection of Moss Adams LLP as our independent registered public accounting firm for the fiscal year ending February 3, 2018 (“fiscal 2017”); and
5. To conduct any other business properly brought before the meeting.

These items of business are more fully described in the Proxy Statement accompanying this Notice.

Our board of directors recommends a vote “**For**” Items 1, 2 and 4 and a vote for the every “**3 Years**” option of Item 3. The record date for the annual meeting is March 23, 2017. Only shareholders of record at the close of business on that date may vote at the meeting or any adjournment or postponement thereof.

Under the Securities and Exchange Commission (“SEC”) rules that allow companies to furnish proxy materials to shareholders over the Internet, we have elected to deliver our proxy materials to the majority of our shareholders over the Internet. The delivery process will allow us to provide shareholders with the information they need, while at the same time conserving natural resources and lowering the cost of delivery. On or about April 21, 2017, we mailed to our shareholders a Notice of Internet Availability of Proxy Materials (the “Notice”) containing instructions on how to access our fiscal year ending January 28, 2017 (“fiscal 2016”) Proxy Statement and 2016 Annual Report to Shareholders. The Notice also provides instructions on how to vote online or by telephone and includes instructions on how to receive a paper copy of the proxy materials by mail.

YOUR VOTE IS IMPORTANT!

Whether or not you attend the annual meeting, it is important that your shares be represented and voted at the meeting. Therefore, we urge you to promptly vote online, by telephone, or if you received a paper copy of the voting card, submit your proxy by signing, dating and returning the accompanying proxy card in the enclosed prepaid return envelope. If you decide to attend the annual meeting and you are a shareholder of record, you will be able to vote in person even if you have previously submitted your proxy.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 31, 2017: The Notice of Annual Meeting of Shareholders, Proxy Statement and the Annual Report to Shareholders are available on the internet at <http://ir.zumiez.com/phoenix.zhtml?c=188692&p=irol-reports>.

By Order of the Board of Directors
Chris K. Visser
Executive Vice President, General Counsel
and Secretary

Lynnwood, Washington
April 21, 2017



4001 204th Street SW
Lynnwood, Washington 98036

**PROXY STATEMENT
FOR THE ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD May 31, 2017**

QUESTIONS AND ANSWERS

Why am I receiving these proxy materials?

We are making available to you this proxy statement and the accompanying proxy card because the board of directors of Zumiez Inc. (“Zumiez,” “we,” “us,” “its” and the “Company”) is soliciting your proxy to vote at our 2017 annual meeting of shareholders. You are invited to attend the annual meeting to vote on the proposals described in this proxy statement. Should you choose to attend, you must be ready to present proof of your ownership of Zumiez stock as of the record date, March 23, 2017, to attend the meeting. However, you do not need to attend the meeting to vote your shares. For more information on voting, see information below under the section heading “How do I vote?”

We intend to mail or otherwise make available this proxy statement and the accompanying proxy card on or about April 21, 2017 to all shareholders of record entitled to vote at the annual meeting.

Who can vote at the annual meeting?

Only shareholders of record at the close of business on March 23, 2017, the record date for the annual meeting, will be entitled to vote at the annual meeting. At the close of business on the record date, there were 25,171,425 shares of common stock outstanding and entitled to vote.

Shareholder of Record: Shares Registered in Your Name

If, at the close of business on the record date, your shares were registered directly in your name with our transfer agent, American Stock Transfer & Trust Company, then you are a shareholder of record. As a shareholder of record, you may vote in person at the meeting or vote by proxy. Whether or not you plan to attend the meeting, we urge you vote your proxy to ensure your vote is counted.

Beneficial Owner: Shares Registered in the Name of a Broker, Bank or Other Agent

If, at the close of business on the record date, your shares were not held in your name, but rather in an account at a brokerage firm, bank or other agent, then you are the beneficial owner of shares held in “street name” and these proxy materials are being forwarded to you by your broker, bank or other agent. The broker, bank or other agent holding your account is considered to be the shareholder of record for purposes of voting at the annual meeting. As a beneficial owner, you have the right to direct your broker, bank or other agent on how to vote the shares in your account. You are also invited to attend the annual meeting. Should you choose to attend, you must be ready to present proof of your ownership of Zumiez stock as of the record date, March 23, 2017, in order to attend the meeting. However, since you are not the shareholder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid legal proxy issued in your name from your broker, bank or other agent. For more information about a legal proxy, see the information, below, under the section heading “How do I vote? – Beneficial Owner: Shares Registered in the Name of Broker, Bank or Other Agent.”

What am I voting on?

You are being asked to vote on the following matters:

- Election of three directors (Proposal 1);
- An advisory, non-binding, vote on executive compensation (Proposal 2);
- An advisory, non-binding, vote to determine shareholder preferences on whether future advisory votes on executive compensation should occur every one, two or three years (Proposal 3); and
- To consider and act upon a proposal to ratify the selection of Moss Adams LLP as our independent registered public accounting firm for the fiscal year ending February 3, 2018 (“fiscal 2017”) (Proposal 4).

When you vote your proxy, you appoint Chris K. Visser and Richard M. Brooks as your representatives at the meeting. When we refer to the “named proxies,” we are referring to Mr. Visser and Mr. Brooks. This way, your shares will be voted even if you cannot attend the meeting.

How do I vote?

For Proposals 1, 2 and 4, you may vote “For,” “Against” or “Abstain” from voting (for the election of directors, you may do this for any director nominee that you specify). For Proposal 3, you may vote for every “1 Year,” every “2 Years,” every “3 Years” or “Abstain” from voting. The procedures for voting are as follows:

Shareholder of Record: Shares Registered in Your Name

If you are a shareholder of record, you may vote in person at the annual meeting, via the internet, by telephone or by proxy card. Whether or not you plan to attend the meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the meeting and vote in person if you have already voted by proxy.

- To vote in person, come to the annual meeting and we will give you a ballot when you arrive. Please be prepared to present proof of your ownership of Zumiez stock as of March 23, 2017.
- To vote via the internet—You may vote online at www.proxyvote.com. Voting on the internet has the same effect as voting by mail or by telephone. If you vote via the internet, do not return your proxy card and do not vote by telephone. Internet voting will be available until 11:59 p.m. Eastern time, May 30, 2017.
- To vote by telephone—You may vote by telephone by calling 1-800-690-6903 and following the automated voicemail instructions. Voting by telephone has the same effect as voting by mail or via the internet. If you vote by telephone, do not return your proxy card and do not vote via the internet. Telephone voting will be available until 11:59 p.m. Eastern time, May 30, 2016.
- To vote using the proxy card, simply complete, sign and date the proxy card and return it promptly in the envelope provided. If you return your signed proxy card to us before the annual meeting, we will vote your shares as you direct.

Beneficial Owner: Shares Registered in the Name of Broker, Bank or Other Agent

If you are a beneficial owner of shares registered in the name of your broker, bank or other agent, you should have received a proxy or voting instruction form with these proxy materials from that organization rather than from us. You can vote by using the proxy or voting information form provided by your broker, bank or other agent or, if made available, vote by telephone or via the internet. To vote in person at the annual meeting, you must obtain a legal proxy from your broker, bank or other agent. Under a legal proxy, the bank, broker, or other agent confers all of its rights as a record holder (which may in turn have been passed on to it by the ultimate record holder) to grant proxies or to vote at the meeting. Follow the instructions from your broker, bank or other agent included with these proxy materials, or contact your broker, bank or other agent to request a legal proxy. Please allow sufficient time to receive a legal proxy through the mail after your broker, bank or other agent receives your request.

How many votes do I have?

On each matter to be voted upon, you have one vote for each share of Zumiez common stock you own as of the close of business on March 23, 2017, the record date for the annual meeting.

What if I return a proxy card but do not make specific choices?

If you return a signed and dated proxy card without marking any voting selections, your shares will be voted in the following manner:

- “For” the election of all nominees for director (Proposal 1);
- “For” the approval of the compensation of the Company’s named executive officers as disclosed in these materials (Proposal 2);
- For a frequency of every “3 Years” for future advisory votes on executive compensation (Proposal 3); and
- “For” the ratification of the selection of Moss Adams LLP as our independent registered public accounting firm for fiscal 2017 (Proposal 4);

If any other matter is properly presented at the meeting, one of the named proxies on your proxy card as your proxy will vote your shares using his discretion.

Who is paying for this proxy solicitation?

We will pay for the entire cost of soliciting proxies. In addition to mailed proxy materials, our directors and employees may also solicit proxies in person, by telephone or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies. We may also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners. We have retained Advantage Proxy to act as a proxy solicitor in conjunction with the annual meeting. We have agreed to pay Advantage Proxy approximately \$4,500 for proxy solicitation services.

What does it mean if I receive more than one proxy card?

If you receive more than one proxy card, your shares are registered in more than one name and/or are registered in different accounts. Please complete, sign and return **each** proxy card to ensure that all of your shares are voted. Alternatively, if you vote by telephone or via the internet, you will need to vote once for each proxy card and voting instruction card you receive.

Can I change my vote after voting my proxy?

Yes. You can revoke your proxy at any time before the applicable vote at the meeting. If you are the record holder of your shares, you may revoke your proxy in any one of three ways:

- You may submit another properly completed proxy with a later date.
- You may send a written notice that you are revoking your proxy to our Secretary, Chris K. Visser, at 4001 204th Street SW, Lynnwood, Washington 98036.
- You may attend the annual meeting and vote in person (if you hold your shares beneficially through a broker, bank or other agent you must bring a legal proxy from the record holder in order to vote at the meeting).

If your shares are held by your broker, bank or other agent, you should follow the instructions provided by them.

What is the quorum requirement?

A quorum of shareholders is necessary to hold a valid meeting. A quorum will be present if at least a majority of the outstanding shares as of the close of business on the record date are represented by shareholders present at the meeting or by proxy.

Your shares will be counted towards the quorum only if you submit a valid proxy (or one is submitted on your behalf by your broker, bank or other agent) or if you vote in person at the meeting. Generally, abstentions and broker non-votes (discussed below in “How are votes counted?”) will be counted towards the quorum requirement. If there is no quorum, a majority of the votes present at the meeting may adjourn the meeting to another date. **Your vote is extremely important, so please vote.**

How are votes counted?

Votes will be counted by the inspector of election appointed for the meeting, who will separately count “For,” “Against” and “Abstain” and broker non-votes (described below, if applicable) for Proposals 1, 2 and 4 and “1 Year,” “2 Years,” “3 Years” and “Abstain” and broker non-votes for Proposal 3. Abstentions and broker non-votes will not be counted as votes cast for any proposal.

If your shares are held by your broker, bank or other agent as your nominee (that is, in “street name”), you will need to obtain a voting instruction form from the institution that holds your shares and follow the instructions included on that form regarding how to instruct your broker, bank or other agent to vote your shares. If you do not give instructions to your broker, bank or other agent, they can vote your shares with respect to discretionary items, but not with respect to non-discretionary items. Under the rules of the New York Stock Exchange, the election of directors (Proposal 1), the advisory vote on executive compensation (Proposal 2) and the advisory vote on the frequency of future advisory votes on executive compensation (Proposal 3) are considered non-discretionary items while the ratification of the selection of Moss Adams LLP as our independent registered public accounting firm (Proposal 4) is considered a discretionary item. Accordingly, if your broker holds your shares in its name, the broker is not permitted to vote your shares on Proposal 1, 2 or 3 but is permitted to vote your shares on Proposal 4 even if it does not receive voting instructions from you because Proposal 4 is considered discretionary. When a broker votes a client’s shares on some but not all of the proposals at the annual meeting, the missing votes are referred to as broker non-votes. Broker non-votes will be included in determining the presence of a quorum at the annual meeting but are not considered present or a vote cast for purposes of voting on the non-discretionary items. **Please vote your proxy so your vote can be counted.**

How many votes are needed to approve each proposal?

Under Washington corporation law, our Articles of Incorporation and our bylaws, if a quorum exists, the approval of any corporate action taken at a shareholder meeting is based on votes cast. “Votes cast” means votes actually cast “For” or “Against” Proposals 1, 2 and 4 and votes actually cast for every “1 Year,” “2 Years” or “3 Years” for Proposal 3, whether by proxy or in person. Abstentions and broker non-votes (discussed previously) are not considered “votes cast.” Each outstanding share entitled to vote with respect to the subject matter of an issue submitted to a meeting of the shareholders shall be entitled to one vote per share.

Proposal 1. As described in more detail below under “Election of Directors,” we have adopted majority voting procedures for the election of directors in uncontested elections. As this is an uncontested election, the director nominees will be elected if the votes cast “For” a nominee’s election exceed the votes cast “Against” the director nominee. There is no cumulative voting for the election of directors.

Proposal 2. For the approval, on an advisory basis, of the compensation of the Company’s named executive officers as disclosed in these materials, if the number of “For” votes exceeds the number of “Against” votes, then Proposal 2 will be approved.

Proposal 3. For the frequency of the advisory votes on executive compensation, the alternative receiving the greatest number of votes – every “1 Year,” every “2 Years” or every “3 Years” – will be the frequency that shareholders prefer.

Proposal 4. For the ratification of the selection of our independent registered public accounting firm for fiscal 2017, if the number of “For” votes exceeds the number of “Against” votes, then Proposal 4 will be ratified.

If you abstain from voting on any of the proposals, or if a broker or bank indicates it does not have discretionary authority to vote on any particular proposal, the shares will be counted for the purpose of determining if a quorum is present, but will not be included in the vote totals as a vote cast with respect to the proposal in question. Furthermore, any abstention or broker non-vote (a broker non-vote is explained previously in “How are votes counted”) will have no effect on the proposals to be considered at the meeting since these actions do not represent votes cast by shareholders.

How can I find out the results of the voting at the annual meeting?

Preliminary voting results will be announced at the annual meeting. Final voting results will be published on Form 8-K with the Securities and Exchange Commission (“SEC”) within four business days after the annual meeting.

Director Qualifications

The board of directors believes that it is necessary for each of the Company’s directors to possess many qualities and skills and the composition of our board of directors has been designed to allow for expertise in differing skill sets. The governance and nominating committee is responsible for assisting the board in matters of board organization and composition and in establishing criteria for board membership. A detailed discussion of these criteria and how they are utilized is set forth below under “Membership Criteria for Board Members.” Also, the procedures for nominating directors are set forth below under “Director Nomination Procedures.”

Information as of the date of this proxy statement about each nominee for election this year and each other current director is included below under “Election of Directors.” The information presented includes information each director has given us about his or her age, all positions he or she holds, his or her principal occupation and business experience for the past five years and the names of other publicly-held companies of which he or she currently serves as a director or has served as a director during the past five years. In addition, information is also presented below regarding each nominee’s and current director’s specific experience, qualifications, attributes and skills that led our board to the conclusion that he or she should serve as a director. We also believe that all of our director nominees and current directors have a reputation for integrity, honesty and adherence to high ethical standards.

Information about the number of shares of common stock beneficially owned by each director appears under the heading “Security Ownership of Certain Beneficial Owners and Management.” There are no family relationships among any of the directors and executive officers of the Company.

Board Leadership

We separate the roles of Chief Executive Officer (“CEO”) and Chairman of the Board (“Chairman”) in recognition of the differences between the two roles. Our CEO, Richard M. Brooks, is responsible for setting the strategic direction for the Company and the day to day leadership and performance of the Company, while our Chairman, Thomas D. Champion, provides guidance to the CEO and sets the agenda for board meetings and presides over meetings of the full board of directors. Because Mr. Champion is an employee of the Company and is therefore not “independent,” our board has appointed Sarah G. McCoy, as the Company’s lead independent director. The lead independent director has responsibility to:

- call, lead and preside over meetings of the independent directors, which meet in private executive sessions at each board meeting;
- call special meetings of the board of directors on an as-needed basis;
- set the agenda for executive sessions of meetings of the independent directors;

- facilitate discussions among the independent directors on key risks and issues and concerns outside of board meetings;
- brief the Chairman and CEO on issues that arise in executive session meetings;
- serve as a non-exclusive conduit to the Chairman and CEO of views, concerns and issues of the independent directors; and
- collaborate with the Chairman and CEO on setting the agenda for board meetings.

Membership Criteria for Board Members

The governance and nominating committee of the board is responsible for establishing criteria for board membership. This criteria includes, but is not limited to, personal and professional ethics, training, commitment to fulfill the duties of the board of directors, commitment to understanding the Company's business, commitment to engage in activities in the best interest of the Company, independence, industry knowledge and contacts, financial and accounting expertise, leadership qualities, public company board of director and committee experience and other relevant experience and qualifications. These criteria are referenced in the Company's Corporate Governance Guidelines and in Exhibit A to the governance and nominating committee's charter, both available at <http://ir.zumiez.com> under the "Governance" section. The board also has the ability to review and add other criteria, from time to time, that it deems relevant. Specific weights are not assigned to particular criteria and no particular criterion is necessarily applicable to all prospective nominees.

The criteria referenced above are used as guidelines to help evaluate the experience, qualifications, skills and diversity of current and potential board members. With respect to diversity, we broadly construe it to mean diversity of race, gender, age, geographic orientation and ethnicity, as well as diversity of opinions, perspectives, and professional and personal experiences. Nominees are not discriminated against on the basis of race, religion, national origin, sexual orientation, disability or any other basis proscribed by law. The board believes that the backgrounds and qualifications of the directors, considered as a group, should provide a significant composite mix of experience, knowledge and abilities that will allow the board to fulfill its responsibilities.

Risk Oversight

The board takes an active role, as a whole and also at the committee level, in helping the Company evaluate and plan for the material risks it faces, including operational, financial, legal, regulatory, strategic and reputational risks. As part of its charter, the audit committee discusses with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies. The compensation committee is responsible for overseeing the management of risks relating to the Company's executive compensation plans and arrangements. The governance and nominating committee manages risks associated with corporate governance, including risks associated with the independence of the board and reviews risks associated with potential conflicts of interest affecting directors and executive officers of the Company. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire board is regularly informed through committee reports about such risks. Furthermore, at least annually, the board conducts an independent session where they outline the risks that they believe exist for the Company and the broader retail industry and compares these with the risks outlined by management. Subsequent to this evaluation, management prioritizes the identified risks along with strategies to manage them or address how the Company intends to mitigate these risks. Additionally, the board exercises its risk oversight function in approving the annual budget and quarterly re-forecasts and in reviewing the Company's long-range strategic and financial plans with management. The board's role in risk oversight has not had any effect on the board's leadership structure.

Director Compensation

The goal of our director compensation is to help attract, retain and reward our non-employee directors and align their interests with those of the shareholders. Our desired goal for total director compensation (cash and equity) is to be at the 50th percentile of comparable companies based on our compensation consultant's competitive survey results.

The Company pays its non-employee directors an annual fee for their services as members of the board of directors. Each non-employee director receives an annual cash retainer of \$38,100 and the lead independent director receives an additional \$23,500. The audit committee members receive cash compensation of \$12,700 with the chairperson receiving \$25,400 per year. The compensation committee members receive cash compensation of \$9,500 with the chairperson receiving \$19,000 per year. The governance and nominating committee member receives cash compensation of \$6,400 with the chairperson receiving \$12,800 per year. Directors appointed in an interim period receive pro-rata retainer fees based on the number of meetings they attend between annual shareholder meetings. The committee chairperson and the respective committee members are paid rates commensurate with the duties and responsibilities inherent within the position held.

Additionally, the Company issues restricted stock awards to its non-employee directors. The board believes such awards provide alignment with the interests of our shareholders. Directors appointed in an interim period receive pro-rata restricted stock awards based on the number of meetings they attend between annual shareholder meetings.

The Company reimburses all directors for reasonable expenses incurred to attend meetings of the board of directors. Non-employee directors may elect to have a portion, or all, of their annual retainer be used for the reimbursement of travel expenses in excess of those that the Company considers to be reasonable.

The following table discloses the cash paid and stock awards earned by each of the Company's non-employee directors during the fiscal year ending January 28, 2017 ("fiscal 2016").

<u>Name</u>	<u>Fees Earned or Paid in Cash (\$)</u>	<u>Stock Awards (1) (\$)</u>	<u>Total (\$)</u>
Matthew L. Hyde	54,000	85,300	139,300
Ernest R. Johnson.....	63,500	85,300	148,800
Sarah (Sally) G. McCoy.....	80,700	85,300	166,000
Travis D. Smith.....	69,800	85,300	155,100
James M. Weber.....	54,000	85,300	139,300
Kalen F. Holmes	60,400	85,300	145,700
Scott A. Bailey (2)	76,200	127,940	204,140

- (1) This column represents the aggregate grant-date fair value of restricted stock awards calculated in accordance with FASB ASC Topic 718, excluding the impact of estimated forfeitures related to service based vesting conditions. For assumptions used in determining these values, please see Note 2 (listed under Stock-Based Compensation) in the Notes to Consolidated Financial Statements in our fiscal 2016 Form 10-K.

On June 1, 2016, the day of the annual shareholder meeting, the Company awarded 5,779 shares of restricted stock to each of the current directors with a grant-date fair value of \$85,300. The stock awards will vest on June 1, 2017.

- (2) Scott A. Bailey was appointed to the board of directors on February 29, 2016. Mr. Bailey was awarded 2,064 of restricted stock with a grant-date fair value of \$42,640. This stock award vested on May 28, 2016. On June 1, 2016, Mr. Bailey was awarded 5,779 shares of restricted stock with a grant-date fair value of \$85,300. The stock awards will vest on June 1, 2017.

PROPOSAL 1

ELECTION OF DIRECTORS

The Company currently has nine director positions. The directors are divided into three classes so that approximately one-third of the directors are elected each year for three-year terms. The Company believes that a classified board promotes continuity of experience and an orderly succession of directors, which, in turn, increases the stability of the Company and encourages a long-term corporate perspective. Directors are elected to hold office until their successors are elected and qualified, or until resignation or removal in the manner provided in our bylaws. Three directors are nominees for election this year and each has consented to serve a three-year term ending in 2020. The remaining directors will continue to serve the terms set out below.

The nominees for director in an uncontested election, such as this one, will be elected if the votes cast in favor of a nominee's election exceed the votes cast opposing such nominee's election. Abstentions and broker non-votes are not considered "votes cast." Likewise, a share otherwise present at the meeting as to which a shareholder gives no authority or direction to vote is also not considered a "vote cast."

In a contested election, the directors shall be elected by a plurality of the votes cast. A "contested election" means an election of directors of the Company in which the number of nominees for any election of directors nominated by (i) the board of directors, or (ii) any shareholder pursuant to Article I, Section 10 of the Company's bylaws, or (iii) a combination of nominees by the board of directors and any shareholder pursuant to Article I, Section 10 of the Company's bylaws, exceed the number of directors to be elected.

A nominee for director in an uncontested election who does not receive the requisite votes for election, but who was a director at the time of the election, shall continue to serve as a director for a term that shall terminate on the date that is the earlier of: (i) ninety (90) days from the date on which the voting results of the election are certified, (ii) the date on which an individual is selected by the board of directors to fill the office held by such director, which selection shall be deemed to constitute the filling of a vacancy by the board of directors, or (iii) the date the director resigns. Except in the foregoing sentence, a director who failed to receive a majority vote for election will not participate in the filling of his or her office. If none of the directors receive a majority vote in an uncontested election, then the incumbent directors (a) will nominate a slate of directors and hold a special meeting for the purpose of electing those nominees as soon as practicable, and (b) may in the interim fill one or more offices with the same director(s) who will continue in office until their successors are elected. If, for any reason, the directors shall not have been elected at any annual meeting, they may be elected at a special meeting of shareholders called for that purpose in the manner provided by the Company's bylaws.

We invite and recommend all of our directors and the nominees for director to attend our annual meeting of shareholders.

Nominees for Election for Terms Expiring in 2020

Thomas D. Champion, 68, is one of our co-founders and has served on our board of directors since our inception in 1978. Mr. Champion has held various senior management positions during this time, including serving as our Chairman since June 2000. From November 1970 until August 1978, he held various management positions with JC Penney Company. Mr. Champion holds a B.A. in Political Science from Seattle University. Mr. Champion serves on the Board of the Alaska Wilderness League, a Washington, D.C. based environmental group. He is the trustee of the Champion Foundation, a nonprofit organization focused on ensuring that biologically important ecosystems in Northwestern North America are preserved. The Foundation also works on homelessness issues in the Pacific Northwest. He is also a trustee of the Champion Advocacy Fund, a 501(c)(4) organization that was founded to support and strengthen efforts to end homelessness in the U.S. and protect wilderness in western North America through direct advocacy and political engagement.

Director Qualifications: Mr. Campion’s knowledge as a retailer and as the co-founder of the Company provides the board with invaluable insight into the Company’s business and its unique culture. Mr. Campion provides generational leadership, sales, marketing, merchandising and brand building experience and expertise. Mr. Campion’s particular knowledge and experience with Zumiez and its competition helps the Company formulate short and long-term strategies that have contributed to Zumiez differentiating itself in the specialty niche of lifestyle retailing. As one of the Company’s largest shareholders, Mr. Campion’s interests are aligned with other Zumiez shareholders’ interests to increase the long-term value of the Company.

Sarah (Sally) G. McCoy, 56, was appointed to our board of directors in October 2010 and was the CEO and President of CamelBak Products, a company that originated hands free-hydration and is the leader in hydration products until January of 2016. Ms. McCoy had been the CEO and President of CamelBak since September of 2006. Prior to joining CamelBak, Ms. McCoy co-founded Silver Steep Partners in 2004, a leading investment banking firm catering to companies in the outdoor and active lifestyle industry. Before Silver Steep, McCoy served as president of Sierra Designs and Ultimate Direction and as vice president at The North Face. She currently serves on the board of directors of Compass Group Diversified Holdings LLC, Implus and Outdoor Industry Foundation. Ms. McCoy is a graduate of Dartmouth College.

Director Qualifications: Ms. McCoy’s background in sales, merchandising, sourcing, marketing and executive management of outdoor and lifestyle consumer brands provides strategic insight and direction for Zumiez as we plan our branded and private label growth strategies. Additionally, her experience in investment banking and valuation experience in our industry is valuable as we formulate our growth strategies.

Ernest R. Johnson, 66, was appointed to our board of directors in July 2011 and has served as the Chairman of Cutter & Buck Inc. and President and Chief Executive Officer for New Wave USA Inc. since November 2009. From February 2006 to November 2009, he served as Chief Executive Officer of Cutter & Buck. Mr. Johnson was also a Senior Vice President and Chief Financial Officer for Cutter & Buck from November 2002 to February 2006. Prior to joining Cutter & Buck, he worked 29 years in several commercial banks holding various senior accounting and financial positions. Mr. Johnson holds a B.A. in Business Administration—Accounting from Washington State University.

Director Qualifications: Mr. Johnson’s background as a CEO for an apparel company and as a CFO for an apparel company and commercial banks provides relevant leadership and financial expertise to the Company’s board of directors. Mr. Johnson also has experience in international business and in mergers and acquisitions.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF EACH NOMINEE PREVIOUSLY NAMED

Continuing Directors Whose Terms Expire in 2018

Richard M. Brooks, 57, has served as our CEO since June 2000. From August 1993 through June 2000, he served as a Vice President and our Chief Financial Officer. From November 1989 until February 1992, Mr. Brooks was with Interchecks, Inc., a subsidiary of Bowater PLC, as a finance officer. Mr. Brooks was with Deloitte, Haskins & Sells, currently known as Deloitte LLP, from July 1982 to March 1989. Mr. Brooks holds a B.A. in Business from the University of Puget Sound. Mr. Brooks has served on the University of Puget Sound Board of Trustees from May 2002 to the present and he currently serves in the role of Immediate Past Chair and serves on a number of board committees.

Director Qualifications: Mr. Brooks’ day to day leadership as our CEO provides him with detailed knowledge of our business and operations. Mr. Brooks provides generational leadership, sales, marketing, merchandising and brand building experience and expertise. Mr. Brooks has demonstrated a record of innovation, achievement and leadership. This experience provides the board with a unique perspective into the operations and vision of Zumiez. Mr. Brooks’ particular knowledge and experience with Zumiez and its competition helps the Company formulate short and long-term strategies that have helped Zumiez differentiate itself in the specialty niche of lifestyle retailing. As one of the Company’s largest shareholders, Mr. Brooks’ interest is aligned with other Zumiez shareholders’ interests to increase the long-term value of the Company.

Matthew L. Hyde, 54, was appointed to our board in December 2005 and is the Chief Executive Officer and President at West Marine, Inc. where he joined in June 2012. He also serves on the Board of Directors at West Marine, Inc. Previously he served as an Executive Vice President of Recreational Equipment Inc. (REI), where he had been since 1986, responsible for Marketing, Direct Sales, Real Estate and Retail operations. Mr. Hyde previously led REI's online division, championing its award-winning multi-channel strategy. He currently serves on the board of the YMCA of the USA, and holds a Bachelor's of Science degree from Oregon State University.

Director Qualifications: Mr. Hyde's background in a retail company, including his online retail and brand marketing experience, is of critical importance to the board. Mr. Hyde also provides critical merchandising and brand building expertise because of his long tenure in specialty retail. Mr. Hyde's successful expertise in building a retail brick and mortar, direct and multi-channel strategy provides insight and experience as the Company plans its growth in these channels of distribution.

James M. Weber, 57, was appointed to our board in April 2006 and is the Chairman and CEO of Brooks Sports Inc., a leading running shoe and apparel company, where he has been since 2001. Mr. Weber's experience also includes positions as Managing Director of U.S. Bancorp Piper Jaffray Seattle Investment Banking practice, Chairman and CEO of Sims Sports, President of O'Brien International, Vice President of The Coleman Company and various roles with the Pillsbury Company. Mr. Weber earned an M.B.A., with distinction, from the Tuck School at Dartmouth College and is a graduate of the University of Minnesota.

Director Qualifications: Mr. Weber's role as the CEO of a sports related company and his international business experience, extensive brand building, marketing and CEO experience provide our board with a very useful perspective as the Company plans its growth strategies.

Continuing Directors Whose Terms Expire in 2019

Kalen F. Holmes, 50, was appointed to our board in December 2014. Ms. Holmes served as an Executive Vice President of Partner Resources (Human Resources) at Starbucks Corporation from November 2009 until her retirement in February 2013. Prior to her employment with Starbucks, Ms. Holmes held a variety of leadership roles with HR responsibility for Microsoft Corporation from September 2003 through November 2009. Prior to joining Microsoft, Ms. Holmes served in a variety of industries, including high-tech, energy, pharmaceuticals and global consumer sales. She serves on the Board of Directors and as Chairperson of the Compensation Committee of Red Robin Gourmet Burgers, Inc. She serves on the Board of Directors of One Medical. She also serves on the Board of Directors for the YWCA King and Snohomish counties and on the Board of Trustees for the Pacific Northwest Ballet. Ms. Holmes holds a Bachelor of Arts in Psychology from the University of Texas and a Master of Arts and a Ph.D. in Industrial/Organization Psychology from the University of Houston.

Director Qualifications: Ms. Holmes' extensive expertise in human resources and people development adds important and relevant experience to the Company's board of directors. Her background in a variety of industries, including retail, provides insight and experience in successfully developing and executing long term strategy related to operations and human resources. In addition, she has experience with large international organizations as they grew in scale to become large multinational corporations and this experience will be beneficial to the Company as it grows in size and scale.

Travis D. Smith, 44, was appointed to our board of directors in August 2012. Mr. Smith has been the Chief Executive Officer of Electronic Auction Services, Inc, a privately held software company, since April 2016. He also serves on their Board of Directors. Prior to his employment with Electronic Auction Services, Inc., he was the CEO and President of Jo-Ann Fabric and Craft stores from August 2011 until August 2014. Mr. Smith began his career with Jo-Ann in 2006 serving as the Executive Vice President, Merchandising and Marketing. In February 2009, Mr. Smith was named Chief Operating Officer and added the duties of President in February 2010, then Chief Executive Officer in August 2011. Prior to his employment with Jo-Ann, Mr. Smith held merchandising and marketing positions of increasing responsibility with Fred Meyer Stores, a division of the Kroger Company, ultimately serving as Senior Vice President, General Merchandise. Mr. Smith has also served on the Board of Directors of Pendleton Woolen Mills since February of 2016. Mr. Smith is a graduate of the University of Notre Dame with a Bachelor's Degree in Business Marketing and Communications.

Director Qualifications: Mr. Smith's background in retailing and in particular merchandising, marketing and leadership roles adds important and relevant experience to the Company's board of directors. Mr. Smith also brings experience in brand building, retail brick and mortar and direct to customer operations.

Scott A. Bailey, 53, was appointed to our board in February 2016. From 2002 to 2015 Mr. Bailey was the CEO and co-founder of One Distribution Company, a leading skate-inspired apparel and footwear company whose brands included KR3W Denim and SUPRA Footwear. KR3W is a lifestyle brand born out of the skateboard culture on the streets of Southern California in 2003 and is known for its denim apparel and SUPRA was launched in 2006 as a premium footwear brand known for its premium high top sneakers. Prior to One Distribution, Mr. Bailey was the co-founder of Split Inc., a youth culture men's and women's apparel brand founded in the early 1990s.

Director Qualifications: Mr. Bailey brings a unique brand and vendor perspective to the Company's board of directors. He has had over a 25 year career as a co-founder and CEO of influential brands in the apparel and footwear space and his experience in growing and building brands both domestically and internationally will be beneficial to the board of directors in an ever changing consumer environment. Also, his understanding of the youth lifestyle customer is also very valuable to the Company.

CORPORATE GOVERNANCE

Independence of the Board of Directors and its Committees

As required under Nasdaq listing rules, a majority of the members of a listed company's board of directors must qualify as "independent," as affirmatively determined by the board of directors. Our board of directors consults with our counsel to ensure that the board's determinations are consistent with all relevant securities and other laws and regulations regarding the definition of "independent," including those set forth in applicable Nasdaq listing rules, as in effect from time to time.

Consistent with these considerations, after review of all relevant transactions or relationships between each director or any of his or her family members and the Company, our senior management and our independent auditors, our board of directors has affirmatively determined that all of our directors are independent directors within the meaning of the applicable Nasdaq listing rules, except for our Chairman, Mr. Campion, and CEO, Mr. Brooks.

As required under applicable Nasdaq listing rules, our independent directors meet in regularly scheduled executive sessions at which only independent directors are present. All of the committees of our board of directors are comprised of directors determined by the board to be independent within the meaning of the applicable Nasdaq listing rules.

Director Tenure; No Term Limits

The Board currently believes it is not necessary to institute term limits for Directors. Directors who serve on the Board for an extended period of time are able to provide valuable insight into the operations and future of the Company based on their experience with, and understanding of, the Company and its history, policies and objectives. The Board believes that, as an alternative to term limits, it can ensure that the Board continues to evolve and adopt new viewpoints through its evaluation and nomination process and procedures.

Other Company Board and Committee Service

The Company values the experience directors bring from other boards on which they serve, but recognizes that those boards may also present demands on a director's time and availability and may present conflicts or legal issues. Directors are required to advise the Chair of the Governance and Nominating Committee and the CEO before accepting membership on other boards of directors, membership on the audit committee of the other boards in particular, or other significant commitments involving affiliation with other businesses or governmental units.

Accordingly, no director may serve on over five public company boards (including the Company's Board) and no member of the Audit Committee may serve on over three public company audit committees (including the Company's Audit Committee). In addition, directors who serve as CEOs or in equivalent positions generally should not serve on over two public company boards (including the Company's Board) besides their employer's board.

Certain Relationships and Related Transactions

The Company committed to make charitable contributions to the Zumiez Foundation of \$0.7 million in fiscal 2016 and \$0.6 million in fiscal year ending January 30, 2016 ("fiscal 2015"). Our Chairman, Thomas D. Campion, is a trustee of the Zumiez Foundation.

Policy and Procedures with Respect to Related Person Transactions

The Company recognizes that Related Person Transactions (defined as transactions, arrangements or relationships in which the Company was, is or will be a participant and the amount involved exceeds \$10,000, and in which any Related Person (defined below) had, has or will have a direct or indirect interest) may raise questions among shareholders as to whether those transactions are consistent with the best interests of the Company and its shareholders. It is the Company's written policy to enter into or ratify Related Person Transactions only when the board of directors, acting through the audit committee of the board of directors, determines that the Related Person Transaction in question is in, or is not inconsistent with, the best interests of the Company and its shareholders,

including but not limited to situations where the Company may obtain products or services of a nature, quantity or quality, or on other terms, that are not readily available from alternative sources or when the Company provides products or services to Related Persons on an arm's length basis on terms comparable to those provided to unrelated third parties or on terms comparable to those provided to employees generally. A summary of the Company's policies and procedures with respect to review and approval of Related Person Transactions are set forth below.

"Related Persons" are defined as follows:

- any person who is, or at any time since the beginning of the Company's last fiscal year was, a director or executive officer of the Company or a nominee to become a director of the Company;
- any person who is known to be the beneficial owner of more than 5% of any class of the Company's voting securities;
- any immediate family member of any of the foregoing persons, which means any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law of the director, executive officer, nominee or more than 5% beneficial owner, and any person (other than a tenant or employee) sharing the household of such director, executive officer, nominee or more than 5% beneficial owner; and
- any firm, corporation or other entity in which any of the foregoing persons is employed or is a general partner or principal or in a similar position or in which such person has a 5% or greater beneficial ownership interest.

Directors and executive officers are required to submit to the audit committee a list of immediate family members and a description of any current or proposed Related Person Transactions on an annual basis and provide updates during the year.

In its review of any Related Person Transactions, the audit committee shall consider all of the relevant facts and circumstances available to the audit committee, including (if applicable) but not limited to: the benefits to the Company; the impact on a director's independence in the event the Related Person is a director, an immediate family member of a director or an entity in which a director is a partner, shareholder or executive officer; the availability of other sources for comparable products or services; the terms of the transaction; and the terms available to unrelated third parties or to employees generally. No member of the audit committee shall participate in any review, consideration or approval of any Related Person Transaction with respect to which such member or any of his or her immediate family members is the Related Person. The audit committee shall approve or ratify only those Related Person Transactions that are in, or are not inconsistent with, the best interests of the Company and its shareholders as the audit committee determines in good faith. The audit committee shall convey the decision to the CEO, General Counsel or the Chief Financial Officer, who shall convey the decision to the appropriate persons within the Company.

Policy on Insider Trading

In general, employees of the Company are subject to a separate insider trading policy that prohibits them from buying, selling or transferring the Company's securities except during a pre-determined window period, which commences one full business day after the public announcement of the Company's same store sales following the Company's quarterly or annual earnings and ending on the day two weeks thereafter.






Employees are prohibited from buying, selling or transferring the Company's securities, even within the window period, if they are aware of any material non- public information. Material information is information that might affect the Company's stock price or otherwise be of significance to an investor who is determining whether to purchase, sell or hold the Company's securities.





Policy on Derivative Securities and Hedging Activities

The Company maintains a policy related to derivative securities and hedging activities as these securities and activities may put the personal interests and objectives in conflict with the best interests of the Company and its shareholders. Absent the prior written consent of the CFO or the General Counsel, individuals who are subject to this policy (including immediate family members), may not purchase, sell and trade-in options, warrants, puts and calls, or similar instruments or engage in derivative securities involving or relating to the Company’s securities. In addition, without the prior written consent of the CFO or the General Counsel, hedging or monetization transactions such as zero-cost collars and forward sale contracts that allow a person to lock in a portion of the value of his or her shares, often in exchange for all or part of the potential for upside appreciation in the shares, are prohibited.

Information Regarding the Board of Directors and its Committees

Our board has established an audit committee, compensation committee and governance and nominating committee. The board has adopted a written charter for each committee. The charters of these three committees are posted on the Company’s website and can be accessed free of charge at <http://ir.zumiez.com> and are available in print to any shareholder who requests them. The composition of our board committees complies with the applicable rules of the SEC and Nasdaq. The board has determined that Ernest R. Johnson is an audit committee financial expert as defined in the rules of the SEC.

	Audit Committee	Governance & Nominating Committee	Compensation Committee
Matthew L. Hyde		●	●
Ernest R. Johnson 	● 		
Sarah (Sally) G. McCoy 	●	●	
Travis D. Smith	●		● 
James M. Weber		●	●
Kalen F. Holmes		● 	●
Scott A. Bailey	●		

 Chairperson	 Member	 Lead Independent Director	 Audit Committee Financial Expert
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Audit Committee

As more fully described in its charter, our audit committee has responsibility for, among other things:

- the sole authority to appoint, determine the funding for and oversee the independent registered public accounting firm;
- assisting our board in monitoring the integrity of our financial statements and other SEC filings;
- discussing with our management and our independent registered public accounting firm significant financial reporting issues and judgments and any major issues as to the adequacy of our internal controls;
- reviewing our annual and quarterly financial statements prior to their filing with the SEC and prior to the release of our results of operations;
- reviewing the independence, performance and qualifications of our independent registered public accounting firm and presenting its conclusions to our board and approving, subject to permitted exceptions, any non-audit services proposed to be performed by the independent registered public accounting firm;

- oversight of the performance of the Company’s internal audit function; and
- reviewing its charter at least annually for appropriate revisions.

The audit committee has the power to investigate any matter brought to its attention within the scope of its duties and to retain counsel for this purpose where appropriate.

Governance and Nominating Committee

As more fully described in its charter, our governance and nominating committee has the responsibility for, among other things:

- recommending persons to be selected by the board as nominees for election as directors and as chief executive officer;
- assessing our directors’ and our board’s performance;
- making recommendations to the board regarding membership and the appointment of chairpersons of the board’s committees;
- recommending director compensation and benefits policies;
- reviewing its charter at least annually for appropriate revisions; and
- recommending to the board other actions related to corporate governance principles and policies.

Compensation Committee

As more fully described in its charter, our compensation committee has responsibility for, among other things:

- establishing the Company’s philosophy, policies and strategy relative to executive compensation, including the mix of base salary, short-term and long-term incentive and equity based compensation within the context of the stated policies and philosophy including management development and succession planning practices and strategies;
- reviewing corporate goals and objectives relevant to compensation of our CEO and other senior executives including review and approval of performance measures and targets for all executive officers participating in the annual executive non-equity incentive bonus plan and certify achievement of performance goals after the annual measurement period to permit bonus payouts under the plan;
- determining and approving our CEO’s compensation and making recommendations to the board with respect to compensation of other executive employees, including any special discretionary compensation and benefits;
- administering our incentive compensation plans and equity based plans and making recommendations to the board with respect to those plans;
- making recommendations to our board with respect to the compensation of directors;
- the sole authority to appoint, determine the funding for and oversee the independent compensation consultant; and
- reviewing its charter at least annually for appropriate revisions.

Succession Planning

Our CEO and board of directors review at least annually the succession plan of our CEO and each of our named executive officers (“NEO” or “NEOs”). The board of directors conducts an annual review of, and provides approval for, our management development and succession planning practices and strategies.

Our CEO provides an annual report to the board of directors assessing senior management and their potential successors. As part of this process, contingency plans are presented in the event of our CEO's termination of employment for any reason (including death or disability). The report to the board of directors also contains the CEO's recommendation as to his successor. The full board of directors has the primary responsibility to develop succession plans for the CEO position.

Meetings of the Board of Directors and Board and Committee Member Attendance

In fiscal 2016, our board of directors met nine times (including one meeting of the independent directors), the governance and nominating committee met five times, the audit committee met four times and the compensation committee met four times. The board of directors and the committees acted by unanimous written consent when required during the last fiscal year. Each board member attended 75% or more of the aggregate number of meetings of the board, and of the committees on which he or she served, that were held during the period for which he or she was a director or committee member. The Company has a formal policy pursuant to which members of the board of directors are expected to attend annual shareholder meetings absent unusual circumstances that make attendance impracticable.

Shareholder Communications with the Board of Directors; Shareholder Engagement

The Company has a process by which shareholders may communicate directly with directors, including non-employee directors, by mailing such communication to the board of directors in care of the Company's Secretary, at the Company's headquarters in Lynnwood, Washington. The mailing envelope must contain a clear notation indicating that the enclosed letter is a "Shareholder-Board Communication" or "Shareholder-Director Communication." All such letters must identify the author as a shareholder and clearly state whether the intended recipients are all members of the board or just certain specified individual directors. The Secretary will make copies of all such letters and circulate them to the appropriate director or directors. All such communications will be forwarded to the intended director(s) without editing or screening. If these foregoing procedures are modified, then updated procedures will be posted on the Company's corporate website.

The Company maintains an active dialogue with shareholders to ensure a diversity of perspectives are thoughtfully considered. The Board believes that the responsibility lies with management for communications and relationships on behalf of the Company with institutional investors, the media, and customers. Therefore, the Board may participate occasionally in such interaction, but will generally do so only at the request of or with the prior knowledge of management. It has been the Company's practice for the Lead Independent Director to periodically accompany management to meetings with the Company's institutional investors.

Code of Conduct and Ethics

Our board has adopted a code of conduct and ethics applicable to our directors, executive officers, including our chief financial officer and other of our senior financial officers, and employees in accordance with applicable rules and regulations of the SEC and Nasdaq. The code of conduct is available at <http://ir.zumiez.com> under the "Governance" section.

Corporate Governance Guidelines

Our board has adopted corporate governance guidelines that provide an overview of the governance structure maintained at the Company and policies related thereto. The guidelines are available at <http://ir.zumiez.com> under the "Governance" section.

Executive Compensation Recovery Policy

The Company maintains an executive compensation recovery policy. Pursuant to this policy, the Company may recover incentive income that was based on the achievement of quantitative performance targets if the executive officer engaged in fraud or intentional misconduct that resulted in an increase in his or her incentive income. Incentive income includes all incentive income and compensation that the compensation committee considers to be appropriate based upon the circumstance.

The compensation committee has the sole discretion to administer this policy and take actions under it, including soliciting recommendations from the audit committee and the full board of directors and retaining outside advisors to assist in making its determinations. The actions taken by the compensation committee are independent of any action imposed by law enforcement agencies, regulators or other authorities.

Director Nomination Procedures

The nominations to the board of directors were completed by the governance and nominating committee. The governance and nominating committee has established board membership criteria (discussed above, under the section entitled “Membership Criteria for Board Members”) and the procedures for selecting new directors.

Nominations to the board of directors are completed using procedures in accordance with the charter of the governance and nominating committee including the director qualifications, criteria and skills as outlined in such charter. These procedures include:

- Initial review of potential director candidates by the committee as submitted by the independent directors of the board based on our established criteria for board membership including (without limitation) experience, skill set, diversity and the ability to act effectively on behalf of the shareholders and such other criteria as the committee may deem relevant from time to time.
- Each director candidate was put forth for consideration as a director candidate independently by our independent directors based on their knowledge of the candidates. None of our independent directors had a relationship with any candidates that would impair his or her independence. Each candidate’s biography was reviewed by each member of the committee with the intention that each candidate would bring a unique perspective to benefit our shareholders and management.
- Interviews of director candidates were conducted by members of the committee and senior management. These interviews confirmed the committee’s initial conclusion that candidates met the qualifications, criteria and skills to serve as a director of the Company.
- Reference checks were conducted if further checks were required based on the level of knowledge about the candidate by members of the committee.
- Background checks were conducted, including criminal, credit and bankruptcy, SEC violations and/or sanctions, work history and education.
- Independence questionnaires were completed by candidates and then reviewed by the Company, the committee and the Company’s legal counsel to ensure candidates meet the requirements to be an independent director for the board, audit committee, compensation committee and the governance and nominating committee. The review also ensures the candidates positions do not conflict in any material way with Company business.
- Conclusion to nominate a candidate is based on all of the procedures reviewed previously and the information attached. It is ensured through these procedures that the candidate appears to be well qualified to serve on the Company’s board of directors and its committees and appears to meet Nasdaq and SEC requirements to be able to serve as an independent director and as a member of the audit committee and any other committee the board may assign to such director.

The governance and nominating committee of the board will consider qualified nominees recommended by shareholders who may submit recommendations to the governance and nominating committee in care of our Chairman of the Board and Secretary at the following address:

Board of Directors and Chairman of the Board
c/o Secretary
Zumiez Inc.
4001 204th Street SW
Lynnwood, Washington 98036

Nominees for director who are recommended by our shareholders will be evaluated in the same manner as any other nominee for director. Shareholder recommendations for director should include the following information:

- the name, age, residence, personal address and business address of the shareholder who intends to make the nomination and of the person(s) to be nominated;
- the principal occupation or employment, the name, type of business and address of the organization in which such employment is carried on of each proposed nominee and of the shareholder who intends to make the nomination;
- a representation that the shareholder is a holder of record of stock of the Company, including the number of shares held and the period of holding;
- a description of all arrangements or understandings between the shareholder and the recommended nominee;
- such other information regarding the recommended nominee as would be required to be included in a proxy statement filed pursuant to Regulation 14A promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended; and
- the consent of the recommended nominee to serve as a director of the Company if so elected.

The governance and nominating committee may require that the proposed nominee furnish the committee with other information as it may reasonably request to assist it in determining the eligibility of the proposed nominee to serve as a director.

To submit a recommendation for director for an upcoming annual shareholder meeting, it is necessary that a proposing shareholder notify the Company and provide the information set forth previously, no later than 120 days prior to the corresponding date on which the Company's annual proxy statement is mailed in connection with the most recent annual meeting.

General Director Nomination Right of All Shareholders

Any shareholder of the Company may nominate one or more persons for election as a director of the Company at an annual meeting of shareholders if the shareholder complies with the notice, information and consent provisions contained in Article I, Section 10 of the Company's bylaws. Specifically, these provisions require that written notice of a shareholder's intent to make a nomination for the election of directors be received by the Secretary not fewer than 120 days and not more than 150 days prior to the anniversary date of the prior year's annual meeting of shareholders.

The Secretary will send a copy of the Company's bylaws to any interested shareholder who requests them.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table provides information regarding the beneficial ownership of our common stock as of March 23, 2017 by: (i) each of our directors; (ii) each of our NEOs; (iii) all of our named executive officers and directors as a group; and (iv) each person, or group of affiliated persons, known by us to beneficially own more than 5% percent of our common stock. The table is based upon information supplied by our officers, directors and principal shareholders and a review of Schedule 13G reports filed with the SEC. Unless otherwise indicated in the footnotes to the table and subject to community property laws where applicable, we believe that each of the shareholders named in the table has sole voting and investment power with respect to the shares indicated as beneficially owned.

Applicable percentages are based on shares outstanding on March 23, 2017, adjusted as required by rules promulgated by the SEC. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to those securities. In addition, the rules include shares of common stock issuable pursuant to the exercise of stock options that are either immediately exercisable or exercisable on or before May 21, 2017, which is 60 days after March 23, 2017. These shares are deemed to be outstanding and beneficially owned by the person holding those options for the purpose of computing the percentage ownership of that person, but they are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Except as noted below, the address for each person that holds 5% or more of our common stock is c/o Zumiez Inc., 4001 204th Street SW, Lynnwood, Washington 98036.

<u>Name of Beneficial Owner</u>	<u>Number of Common Shares Beneficially Owned</u>	<u>Percentage of Shares Beneficially Owned</u>
Thomas D. Champion (1)	2,900,810	11.5%
Richard M. Brooks (2)	3,713,024	14.8%
Christopher C. Work (3)	58,733	0.2%
Troy R. Brown (4)	77,093	0.3%
Chris K. Visser (5)	34,776	0.1%
James M. Weber (6)	36,538	0.1%
Matthew L. Hyde (7)	36,538	0.1%
Sarah (Sally) G. McCoy (8)	20,422	0.1%
Ernest R. Johnson (9)	20,472	0.1%
Travis D. Smith (10)	11,788	0.0%
Kalen F. Holmes (11)	10,409	0.0%
Scott A. Bailey (12)	7,843	0.0%
All Named Executive Officers and Directors as a group (12 persons)	6,928,446	27.5%
T. Rowe Price Associates, Inc. (13)	3,308,896	13.2%
Wasatch Advisors, Inc (14)	3,111,750	12.5%
Black Rock, Inc. (15)	2,059,949	8.3%
Dimensional Fund Advisors LP (16)	1,822,924	7.3%
The Vanguard Group (17)	1,517,027	6.1%
FMR LLC (18)	496,191	2.0%

- (1) Includes shares of common stock held by grantor retained annuity trusts for which Thomas D. Champion is trustee. Mr. Champion is our Chairman of the Board. Includes a total of 168,437 shares held by the Champion Foundation and the Champion Advocacy Fund; while Mr. Champion does not have a pecuniary interest in these shares he does maintain voting and investment power over these shares.
- (2) Mr. Brooks is our CEO and a Director.
- (3) Consists of 34,707 shares of stock held by Mr. Work of which 10,272 shares are restricted and 24,026 vested stock options. Mr. Work is our Chief Financial Officer.
- (4) Consists of 35,701 shares of stock held by Mr. Brown of which 24,917 shares are restricted and 41,392 vested stock options. Mr. Brown is our Executive Vice President of Ecommerce and Omni-channel.

- (5) Consists of 14,534 shares of stock held by Mr. Visser of which 10,537 shares are restricted and 20,242 vested stock options. Mr. Visser is our Executive Vice President, General Counsel and Secretary.
- (6) Consists of 36,538 shares of stock held by Mr. Weber of which 5,779 shares are restricted and 4,000 vested stock options. Mr. Weber is one of our directors.
- (7) Consists of 36,538 shares of stock held by Mr. Hyde of which 5,779 shares are restricted and 4,000 vested stock options. Mr. Hyde is one of our directors.
- (8) Consists of 20,422 shares of stock held by Ms. McCoy of which 5,779 shares are restricted. Ms. McCoy is one of our directors.
- (9) Consists of 20,472 shares of stock held by Mr. Johnson of which 5,779 shares are restricted. Mr. Johnson is one of our directors.
- (10) Consists of 11,788 shares of stock held by Mr. Smith of which 5,779 shares are restricted. Mr. Smith is one of our directors.
- (11) Consists of 10,409 shares of stock held by Ms. Holmes of which 5,779 shares are restricted. Ms. Holmes is one of our directors.
- (12) Consists of 7,843 shares of stock held by Mr. Bailey of which 5,779 shares are restricted. Mr. Bailey is one of our directors.
- (13) This information is based solely on a Schedule 13G/A filed February 7, 2017 by T. Rowe Price Associates, Inc. (“Price Associates”). The business address of T. Rowe Price Associates, Inc. is 100 E. Pratt Street, Baltimore, Maryland 21202.
- (14) This information is based solely on a Schedule 13G filed February 14, 2017 by Wasatch Advisors, Inc. The business address of Wasatch Advisors, Inc. is 505 Wakara Way, Salt Lake City, UT 84108.
- (15) This information is based solely on a Schedule 13G filed January 27, 2017 by BlackRock, Inc. The business address of BlackRock, Inc. is 55 East 52nd Street, New York, NY 10055.
- (16) This information is based solely on a Schedule 13G filed February 9, 2017 by Dimensional Fund Advisors LP. The business address of Dimensional Fund Advisors LP is Building One 6300 Bee Cave Road, Austin, Texas 78746.
- (17) This information is based solely on a Schedule 13G filed February 10, 2017 by The Vanguard Group. The business address of The Vanguard Group, Inc. is 100 Vanguard Blvd. Malvern, PA 19355.
- (18) This information is based solely on a Schedule 13G filed February 14, 2017 by FMR LLC. The business address of FMR LLC is 245 Summer Street, Boston, MA 02210. Members of the Johnson family, including Abigail P. Johnson, are the predominant owners, directly or through trusts, of Series B voting common shares of FMR LLC, representing 49% of the voting power of FMR LLC. The Johnson family group and all other Series B shareholders have entered into a shareholders' voting agreement under which all Series B voting common shares will be voted in accordance with the majority vote of Series B voting common shares. Accordingly, through their ownership of voting common shares and the execution of the shareholders' voting agreement, members of the Johnson family may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR LLC. Neither FMR LLC nor Abigail P. Johnson has the sole power to vote or direct the voting of the shares owned directly by the various investment companies registered under the Investment Company Act (“Fidelity Funds”) advised by Fidelity Management and Research Company (“FMR Co”), a wholly owned subsidiary of FMR LLC, which power resides with the Fidelity Funds’ Boards of Trustees. Fidelity Management & Research Company carries out the voting of the shares under written guidelines established by the Fidelity Funds’ Boards of Trustees.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors and executive officers, and persons who own more than 10% of a registered class of our equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and other equity securities. Officers, directors and greater than 10% shareholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of the copies of such reports furnished to us and written representations that no other reports were required, during fiscal 2016, all applicable Section 16(a) filing requirements were met and that all such filings were timely, except for late Form 4 reports filed on behalf of Mr. Weber, Mr. Hyde, Ms. McCoy, Mr. Johnson, Mr. Smith, Ms. Holmes and Mr. Bailey for their annual grants of restricted shares in connection with their Board service, Mr. Smith for the sale of shares held and Mr. Work, Mr. Brown and Mr. Visser for their annual grant of options and restricted shares and their vesting of restricted shares.

EXECUTIVE OFFICERS

As of the end of fiscal 2016 the names, ages and positions of the current non-director executive officers of the Company are listed below, along with their respective business experience. No family relationships exist among any of the directors or executive officers of the Company.

Troy R. Brown, 54, has served as our Executive Vice President of Ecommerce and Omni-channel since August 2012. From October 2008 through July 2012, he served as the Senior Vice President of Ecommerce. From February 2007 through August 2008, Mr. Brown was with Tommy Bahama as the Director of Ecommerce. From March 2005 until September 2006, he was with Expedia, where he served as General Manager (“GM”) of Vacation Packages. From August 1994 until March 2005, Mr. Brown was with Eddie Bauer in various management positions including Vice President of Ecommerce. Prior to August 1994, he was employed by Nautica Inc, and ZCMI, where he held various management positions. Mr. Brown has more than 30 years experience in the retail, wholesale and Ecommerce industries.

Chris K. Visser, 46, serves as our Executive Vice President, General Counsel and Secretary. Mr. Visser oversees all legal affairs, real estate, human resources and corporate services operations of the Company. Mr. Visser was appointed General Counsel and Secretary in October 2012 and Executive Vice President in May 2014. From 2001 until October 2012, Mr. Visser was with K&L Gates LLP where he has been a partner in the corporate, securities, and mergers and acquisitions practice group. Mr. Visser also worked as a process engineer with Vista Chemical Company prior to earning his law degree. Mr. Visser holds a Bachelor of Science degree in Chemical Engineering from the University of Washington. Mr. Visser also obtained an M.B.A, with a Concentration in Finance, from the University of Houston and a J.D. from the University of Houston Law Center where he graduated with academic honors and served as an editor on the Houston Law Review.

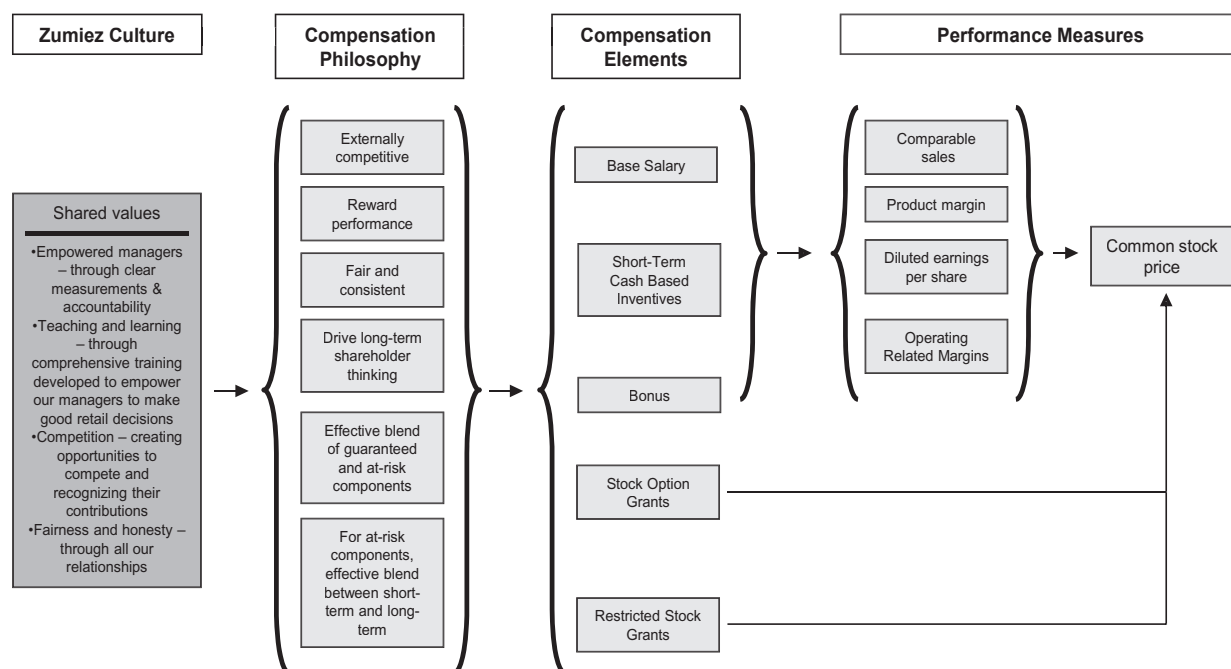
Christopher C. Work, 38, has served as Chief Financial Officer since August 2012. Mr. Work has been employed with the Company since October 2007, where he last served as Vice President, Controller. From September 2002 to October 2007, Mr. Work was an employee of Ernst & Young LLP, obtaining the level of Manager. Mr. Work received a Master of Professional Accounting from the University of Washington and a B.A. in Accountancy from Western Washington University. Mr. Work is a Certified Public Accountant in the State of Washington.

EXECUTIVE COMPENSATION COMPENSATION DISCUSSION AND ANALYSIS

Our basis for competitive advantage is our culture—conceived, developed and maintained as a unique and powerful basis for engendering commitment, accountability, competitiveness and creativity among all of our employees. The objective of this compensation discussion and analysis is to describe how, for our named executive officers (“NEOs”), we link our culture to compensation philosophy and then to compensation strategy; and, to explain how we executed our compensation strategy during the last fiscal year. While the discussion and analysis focuses on the NEOs in the compensation tables in this proxy statement, we link culture, compensation philosophy and compensation strategy throughout the organization from the seasonal sales employee to each of the NEOs.

Value Creation Model

The following summary illustrates how the compensation philosophy and strategies are integrated with and derived from the Zumiez culture. We believe this integrated approach supports long-term growth in shareholder value.



The Zumiez Culture

While every organization has a culture, even if it is a culture by default, we believe that the Zumiez culture is unique. We believe it is well defined, understood widely and thoroughly among all employees, reinforced and exemplified by leaders held accountable for doing so and integrated into the daily practices and processes throughout the business. We believe the Zumiez culture is a competitive advantage and is built on a set of shared values that have been in place since the inception of the business. These shared values include:

- **Empowered managers**—The Zumiez culture pushes decision making down to the appropriate level in the organization within the context of appropriate guidelines, controls and procedures. This gives our managers throughout the organization the ability to impact their results creating increased accountability, clear measurements and a sense of ownership throughout the organization.
- **Teaching and learning**—Our culture strives to integrate quality teaching and learning experiences throughout the organization. We do this through a comprehensive training program, which primarily focuses on sales and customer service training. Our training programs have been developed internally and are almost exclusively taught internally by Zumiez employees to Zumiez employees. The training programs have been developed to empower our managers to make good retail decisions.

- **Competition**—We believe that Zumiez employees enjoy competing. Our entire system is built around creating opportunities for people to compete and to be recognized for their contributions. This is reflected in everything we do including empowering managers, building competition into almost all of our training and in how we recognize the successes of our employees throughout the organization.
- **Fairness and honesty**—Along with our employees, we strive to be fair and honest in all of our relationships. This includes how we work with each other, our vendors, our landlords and our customers.

Culture and Compensation Philosophy

The Zumiez culture guides how we manage our business and it permeates through our compensation philosophy. We believe our culture itself has value to our employees. Our culture allows our employees throughout the organization to make appropriate decisions to impact their results as well as our financial results. We believe the competitive people we hire and the training we provide helps us generate strong operating results and we believe that our employees value working in this kind of environment.

The compensation committee believes the purpose of the compensation program for our NEOs is to help attract, retain, align, motivate and reward executives capable of understanding, committing to, maintaining and enhancing the culture; and, with culture as a centerpiece of our competitive advantage, establishing and accomplishing business strategies and goals that we believe makes us an attractive investment for shareholders. To do so, the compensation committee believes the compensation program should offer compensation opportunities that:

- are externally competitive with compensation paid by companies in the market for executive talent;
- reward performance by linking compensation to quantitative and qualitative goals that the compensation committee believes is in the best long-term interest of shareholders;
- drive long-term shareholder thinking by delivering a substantial portion of the NEOs compensation or wealth in the form of equity that is directly linked to our stock price;
- are an effective blend of guaranteed and at-risk components, where the proportion of guaranteed pay is less than average and the proportion of at-risk pay is greater than average when compared against the competitive market; and
- for at-risk components of pay, are an effective balance between short-term and long-term interests of our shareholders.

The compensation committee believes that at-risk components should result in compensation for the executive in proportion to and to the extent justified by *performance*. For Zumiez executives, “performance” means, first of all, *doing the right things*—achieving the financial results that clearly drive the creation of shareholder value. The compensation program must align the interests and motivations of executives with those of shareholders. Secondly, performance means *doing things right*—acting as strong, respected and acknowledged leaders; and, as role models of leadership behavior in the community at-large. We believe that exemplary executive behavior helps to support sustainable long-term creation of shareholder value.

The compensation committee intends to continually explore, consider and introduce enhanced or new compensation approaches and elements for NEOs as appropriate.

Compensation Goals and Strategy for NEOs

Simplicity and Transparency. The compensation committee seeks *simplicity and transparency* in the compensation program for our NEOs. Therefore, the program focuses on easily understood components of clearly determinable value—base salary, bonuses, short-term cash based incentives and long-term equity awards. We refer to the combination of these as “total direct compensation.” The compensation committee does not use supplemental executive benefits and perquisites that are generally not also made available to our employees.

Attractive Compensation Opportunities. The compensation committee believes in and commits to planning for internal succession; however, the Company must be positioned to *attract and retain high-caliber executive talent in the external marketplace*. It believes it must be positioned to bring in seasoned, proven individuals from within the industry and beyond who can perform the full scope of their roles from the time of hire. Establishing and maintaining the ability to attract and retain talent is a top priority for compensation of NEOs. To address this priority responsibly on behalf of shareholders, the compensation committee works each year to:

- Establish a conservative salary range for each position to guide salary hiring offers and salary increase decisions.
- Establish a competitive total annual cash compensation opportunity for each position through annual cash incentives where payout is contingent on performance.
- Provide opportunities to earn equity incentives in proportions so that the long-term opportunity for each NEO to earn total direct compensation (salary plus annual cash incentives plus equity incentives) is above average should shareholders realize above average returns.

Pay-at-Risk. The compensation committee is committed to *pay-at-risk*. “Pay-at-risk” means compensation that is earned only upon clear evidence that the interests of shareholders have been served. By design, we believe the proportion of each NEOs total direct compensation that is at-risk is greater than what is typically observed in the marketplace. Conservative base salaries are combined with above-average cash and equity incentives to create a total package that is competitive. We believe the *pay-at risk* philosophy is evidenced by the fact that no NEO has been paid the maximum total incentive compensation in our history of being a public company. In addition, no NEO has been paid the target total incentive compensation in the past four years.

Pay-for-Performance. The compensation committee believes *pay-at-risk* enables *pay-for-performance*. It allows major portions of total direct compensation to be paid only when short-term and long-term interests of shareholders have been met.

For *short-term (annual) pay-for-performance* for the NEOs as a group, the compensation committee has the following goals:

- Drive alignment around four general measures of performance: (1) comparable sales results, (2) product margin, (3) diluted earnings per share and (4) operating related margins. The compensation committee believes these are the best measures because they have the largest impact on Zumiez ability to grow profitability and provide clarity to individual executives. Different performance measures may be utilized for different executives based in part on the executive’s ability to impact the performance measure. We calculate these performance measures as follows:
 - Comparable sales— We report “comparable sales” based on net sales beginning on the first anniversary of the first day of operation of a new store or ecommerce business. We operate a sales strategy that integrates our stores with our ecommerce platform. There is significant interaction between our store sales and our ecommerce sales channels and we believe that they are utilized in tandem to serve our customers. Therefore, our comparable sales also include our ecommerce sales. Changes in our comparable sales between two periods are based on net sales of store or ecommerce businesses which were in operation during both of the two periods being compared and, if a store or ecommerce business is included in the calculation of comparable sales for only a portion of one of the two periods being compared, then that store or ecommerce business is included in the calculation for only the comparable portion of the other period. Any store or ecommerce business that we acquire will be included in the calculation of comparable sales after the first anniversary of the acquisition date. Comparable sales can be based on a geographic area and we currently utilize comparable sales growth based on our North America operations.
 - Product margin—Product margin is calculated as net sales less cost of goods sold, divided by our net sales. For purposes of this calculation, our net sales consist of gross sales (net of actual and estimated returns and deductions for promotions), excluding shipping revenue. For purposes of this calculation, our cost of goods sold consist of branded merchandise costs and our private label merchandise costs including design, sourcing, importing and inbound freight costs.

- Diluted earnings per share—Diluted earnings per share is calculated in accordance with GAAP. Diluted earnings per share can also be utilized on a consolidated basis or based upon a geographic area. We currently utilize diluted earnings per share on both a consolidated basis and on a North America basis.
- Operating related margins—In general, operating margin represents operating profit divided by net sales. Operating margin may also be based on a particular business unit or geographic area in which we operate.
- Provide for the risk of zero annual short-term cash based incentives payout should minimum performance expectations not be met.
- Grant of awards that upon achievement of target performance measures, are in the best long-term interests of the shareholders.
- Provide for pay-at-risk, i.e., performance expectations that are challenging, but achievable.
- Communicate proactively to all NEOs performance expectations in order to establish clear incentive for achievement.
- Provide for upside compensation potential results that are beyond Company expectations.
- Set forth prudent limits, or caps, on upside potential to ensure no possibility of payouts that might be judged by shareholders as unjustifiable or excessive.

For *long-term pay-for-performance (long-term equity incentive)*, the compensation committee’s goal is to link the ultimate compensation amounts realized by NEOs directly and exclusively to the Company’s long-term common stock performance. To do so, the compensation committee makes use of stock-based awards for all NEOs (except as noted, below, under the section heading “The Compensation Decision-making Process”).

The compensation committee has used, and intends to make use of, both gain-based stock awards (stock options) and full-value stock awards (restricted stock). The compensation committee determines on an annual basis for each NEO the total value of an award, based on a competitive range, that best reflects in the compensation committee’s judgment both the individual’s long-term track record of success and potential for long-term value-added future contributions.

Gain-based awards have widespread use and have upside potential that can be highly motivational. However, the compensation committee: (i) is aware that gain-based awards have a different downside potential than that of holding outright shares of stock; (ii) recognizes that the exclusive and substantial use of gain-based awards has been historically noted by the investment community as a potential contributor to misguided or unacceptable decisions on the part of executives in certain other companies; and, (iii) knows that historic accounting advantages for the use of gain-based awards no longer exist. In addition, the compensation committee is aware of the executive compensation trend among publicly-held companies to utilize less gain-based awards in favor of full-value awards such as restricted stock. Therefore, the compensation committee continues to review and has deployed full-value restricted stock awards to help offset and balance the disadvantages of gain-based awards for achieving pay-for-performance and other compensation goals while retaining the advantages of gain-based awards. The mix of gain-based awards and full-value awards is evaluated annually by the compensation committee and adjusted based on input from the compensation consultant and the CEO, all in the context of the marketplace, our compensation philosophy, and what the compensation committee believes is in the best interest of the shareholders and the NEOs. The compensation committee also allows some deference to the CEO in the allocation between stock options and restricted stock, so long as the total compensation charge to Zumiez is equal to what was approved by the compensation committee.

Executive Officer Continuity. Undesirable, unanticipated or untimely departure of an executive officer is a risk to the Company that the compensation committee works to avoid. The risk stems from the potentially high costs of recruiting, relocation, operational disruption, reduced morale, turnover ripple effects among staff, negative external perceptions, reduced external confidence and lost intellectual capital.

The compensation committee encourages executive officer continuity by granting stock awards to an NEO where the ultimate realization of value not only depends on stock price, but also on the NEO remaining with Zumiez for many years. Accordingly, if a NEO were to depart from Zumiez then he or she could forfeit substantial amounts of unrealized compensation.

Shareholder Mentality. We believe it is in the best interests of shareholders for our leaders to feel, think and act like shareholders, and to have a “shareholder mentality” as they go about envisioning, planning for and executing operations. The compensation committee seeks to cultivate NEOs with a shareholder mentality by having NEOs receive, accumulate and maintain significant ownership positions in Zumiez through annual equity grants. We do not believe it is necessary to establish share ownership or share holding requirements because historically the NEOs on aggregate have held a substantial amount of equity and, from a cultural point of view, NEOs are empowered to make decisions on their equity holdings taking into account their personal values, temperament, risk tolerance and personal finances.

Within this concept, through equity awards granted over time, each of our NEOs has the ability to establish and maintain a valuable ownership in Zumiez.

Summary of the Elements of NEO Compensation

The compensation committee utilizes five primary elements for compensating NEOs:

- Base Salary
- Non-Equity Incentive Plan Compensation (“short-term cash based incentives”)
- Bonus
- Stock Option Grants
- Restricted Stock Grants

Total Pay Philosophy—Our “Total Pay” compensation philosophy is designed to recognize and reward the contributions of all employees, including executives, in achieving our strategic goals and business objectives, while aligning our compensation program with shareholder interests. We regularly assess our total pay package, and we adjust it as appropriate to remain competitive and to enable us to attract and retain our NEOs. We believe our total pay practices motivate our executives to build long-term shareholder value.

Base Salary is a pre-set fixed cash amount that is delivered regularly in equal portions through the year. Each NEOs annual base salary rate is reviewed from time to time and at least annually by the compensation committee. Outside of the CEO, the review is based on recommendations of the CEO.

Short-Term Cash Based Incentives are based on pre-set opportunities for cash awards to be paid after the end of the year based on performance for the year. Actual payouts may be between zero and twice the target amount, where the target amount is that established for each NEO by the compensation committee if target goals are achieved.

Bonuses may be awarded from time to time in order to attract and retain key NEOs. These bonuses, when awarded, are generally in addition to those earned from participating in short-term cash based incentives and are considered in the executive’s total direct compensation. The intention is to pay such bonuses rarely and in modest amounts if and only if other elements of the executive pay system do not respond to outstanding achievements clearly pursued and delivered in the interests of shareholders.

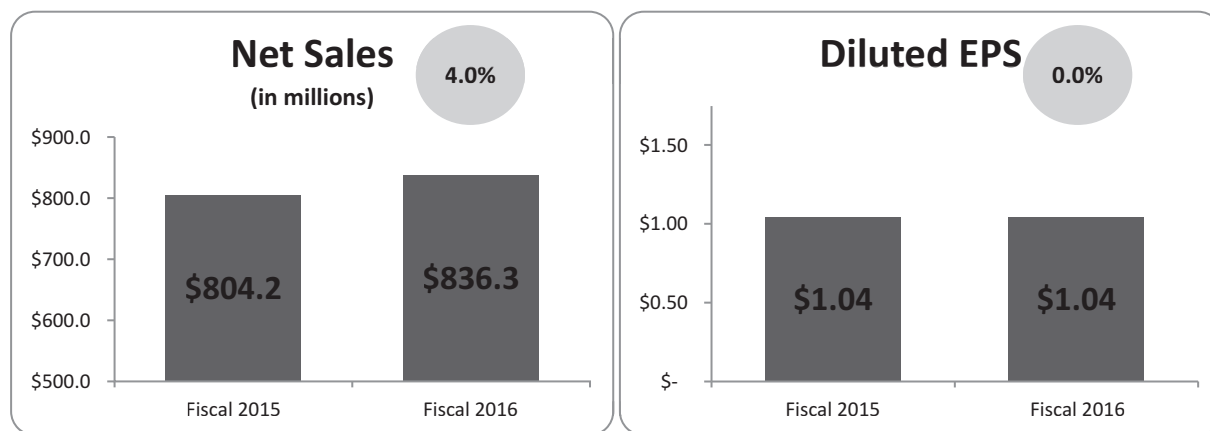
Stock Option Grants are opportunities granted from time to time (usually annually or at the time of hiring) to an NEO to purchase our common stock at some future time at a pre-established fixed price set at the time of grant. This price is the actual market price of the stock at the time of grant. The right to exercise options in a particular grant is accumulated over a number of years, and is subject to vesting based upon continued employment with us.

Restricted Stock Grants are awards of common voting shares of stock that are granted from time to time (usually annually or at the time of hiring) to each NEO. The right to earn the stock is contingent upon continued employment over a period of time.

The compensation committee views the elements of total direct compensation for NEOs as an integrated package to achieve all of the compensation goals described in the immediately preceding section of this discussion.

Fiscal 2016 – A Review of This Past Year

The charts below show net sales and diluted earnings per share (“diluted EPS”) on a GAAP basis for fiscal 2015 and 2016 and the percentage change in fiscal 2016.

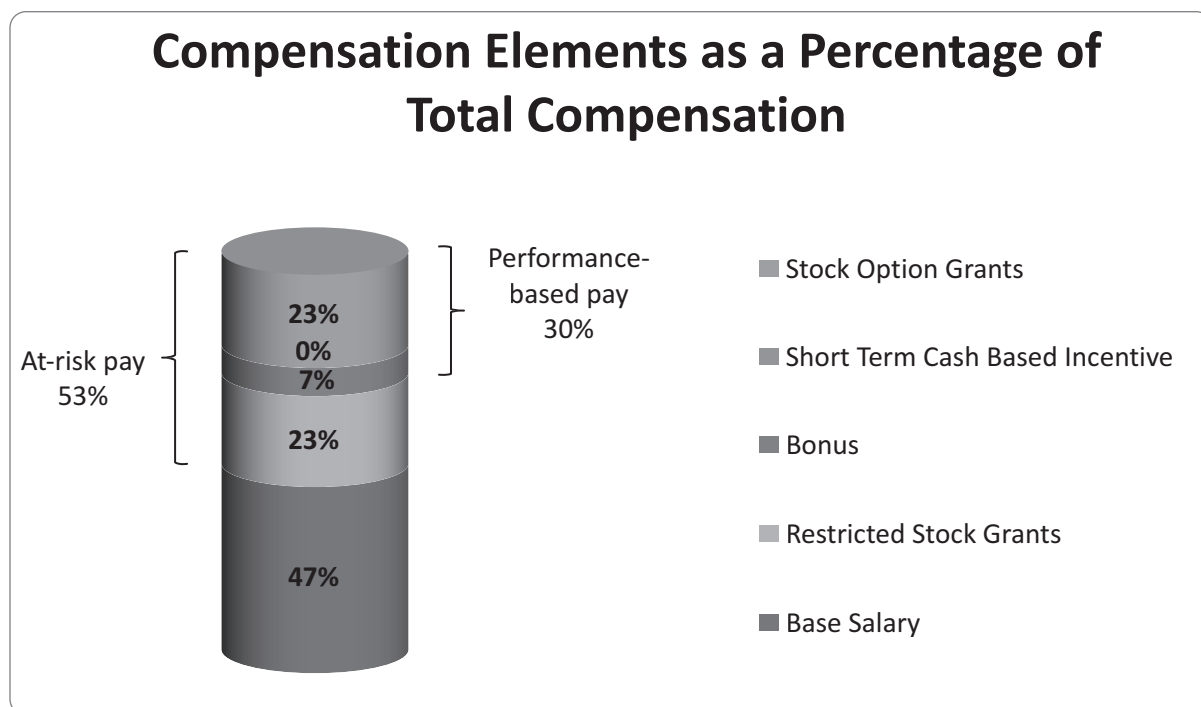


In fiscal 2016 teen retail in general faced a continuing challenging sales environment with many mall-based teen retailers experiencing declining sales and store closures. Following a fourth quarter 2015 comparable sales decrease of 9.5%, Zumiez comparable sales remained negative through the first half of fiscal 2016. By the third quarter of fiscal 2016, driven by the strength of several new brands, Zumiez comparable sales turned positive and remained positive through the balance of the year. The full year comparable sales for fiscal 2016 decreased 0.2%. Operating margins and earnings declined from the prior year due primarily to deleveraging of fixed costs on slightly negative comparable sales. We continued to make investments in our North America store footprint focused on expanding in the United States and Canada by adding 22 new stores during fiscal 2016. We also added 6 new stores to our Blue Tomato operations in Europe and added 5 stores through the acquisition of Fast Times in Australia.

As a leading lifestyle retailer we continue to differentiate ourselves through our distinctive brand offering and diverse product selection, as well as the unique customer experience our sales associates provide. We also believe that investments made in our omni-channel platform focused on creating a seamless shopping experience for our customer between the physical and digital channels is critical for our long-term financial performance. Fiscal 2016 represented the first year of localized fulfillment of our on-line orders which drove significant improvements in speed of delivery to our customers. In store fulfillment is a key part of our omni-channel strategy that we believe will drive long term market share by leveraging the strengths of our store sales team, providing better and faster service to customers, improving product margins, and providing additional selling opportunities.

We believe that by making these key investments over many years and looking at financial results over a longer time horizon will provide a better long-term return for our investors; and since owned stock or stock based awards are the material component of our NEOs compensation and wealth creation, we believe our compensation structure aligns management’s and shareholders’ interests.

Due to our executive compensation programs emphasis on pay for performance and pay at risk, compensation awarded to the NEOs for fiscal 2016 reflected Zumiez' results. As shown below, for the named executive officers as a group, excluding the Chairman and the CEO, pay at risk and performance-based pay for fiscal 2016 comprised an average of approximately 53% and 30%, respectively, of the total compensation as shown in the Summary Compensation Table. Due to fiscal 2016 results, no short-term cash based incentives were awarded. We have excluded our Chairman and CEO due to the difference in the compensation structure for the Chairman and CEO, who beneficially own 11.5% and 14.8% of the Company as of March 23, 2017, respectively, and have not received equity awards since before our initial public offering as discussed further under the section heading, "The Compensation Decision-making Process."



Fiscal 2017 – A Look at the Upcoming Year

Entering 2017 we remain cautious with our expectations. Our focus will be on continued execution of our core strategies as well as strategic investments centered on long-term quality growth. These investments will be largely focused on the roll-out of our new Customer Engagement Suite, continued store growth and continued investments in our people. As we are closer to our targeted number of stores in North America, we expect that store growth in fiscal 2017 will be less than in fiscal 2016 with an estimated 18 stores opening during the fiscal year compared with 28 stores opened and 5 stores acquired in fiscal 2016. In 2017 we will invest in the roll-out of our Customer Engagement Suite focused on integrating our on-line and in-store point of sale (POS) systems, order management system (OMS), and transportation management system (TMS) improving our efficiency and further enhancing our omni-channel capabilities.

In fiscal 2017, we expect our cost structure will grow at a higher rate than 2016, primarily tied to the investments outlined above and required statutory wage increases. We anticipate inventory levels per square foot will grow at fiscal year-end primarily due to timing related to the addition of the 53rd week. Excluding any possible share buy-backs, we expect cash, short-term investments and working capital to increase, and do not anticipate any new long-term borrowings during the year. Long-term we aim to grow sales annually and grow operating profit at a faster rate than sales by focusing on the changing consumer environment while managing our cost structure.

Base Salary

In March 2016, the compensation committee met and reviewed the evaluations of the NEOs and the overall performance of the Company against three objective measures; (1) comparable sales performance, (2) product margin and (3) diluted earnings per share. Based upon our performance in fiscal 2015 and the contributions of the NEOs towards achieving these results, the following base salaries for fiscal 2016 were awarded:

<u>Executive Officer</u>	<u>Fiscal 2016 Base Salary (1)</u>	<u>Increase Over Prior Fiscal Year</u>
Thomas D. Campion, Chairman of the Board	\$ 335,000	0.0%
Richard M. Brooks, Chief Executive Officer and Director	\$ 690,100	0.0%
Christopher C. Work, Chief Financial Officer	\$ 273,000	3.0%
Troy R. Brown, Executive Vice President of Ecommerce and Omni-channel...	\$ 400,000	0.0%
Chris K. Visser, Executive Vice President, General Counsel and Secretary.....	\$ 281,250	3.0%

(1) Reflects annualized base salary as of the fiscal year end. Refer to the Summary Compensation Table for actual base salary paid in fiscal 2016.

The compensation committee sets executive base salaries at levels it believes are competitive based on each individual executive's role and responsibilities. The compensation committee reviews base salaries for executive officers at the time of hire and thereafter on an annual basis. The compensation committee may also review base salary at the time of promotion or other significant changes in responsibilities. Base salary changes also impact target annual short-term cash based incentive amounts, and actual annual short-term cash based incentive payouts, because they are based on a percentage of base salary. When reviewing each executive's base salary, the compensation committee considers the level of responsibility and complexity of the executive's job, whether individual performance in the prior year was particularly strong or weak, and the salaries paid for the same or similar positions based on analysis of the competitive market. Consistent with the philosophy discussed previously, our executive base salaries generally are set at less than the median (at the 40th percentile) for comparable positions based on analysis of the competitive market.

Short-Term Cash Based Incentives

In March 2016, the compensation committee approved the terms of the fiscal 2016 short-term cash based incentives. Our NEOs short-term cash based incentives are targeted at approximately 0.2% of consolidated budgeted sales and 0.4% of consolidated budgeted sales at maximum payout. The short-term cash based incentives are appropriate to provide for increased payouts due to the significant shareholder returns commonly generated by above-target comparable sales, product margin and diluted earnings per share performance. The compensation committee has the discretion under the plan to reduce the awards paid under the plan, but does not have discretion to increase payouts that are based on achievement of the objective performance goals or make a payout based on the objective performance goals if the first threshold targets are not achieved. All of our executives are subject to our Executive Compensation Recovery Policy, which further mitigates excessive risk taking. No payouts are made until audited financial results are received, reviewed and approved by the audit committee at our March meeting after our fiscal year has ended.

For each of the following performance measures, comparable sales-North America, product margin-North America, diluted earnings per share-North America and diluted earnings per share-Consolidated, the compensation committee established performance thresholds for the NEOs. The first threshold relates to a minimum acceptable level of financial performance. Each succeeding threshold is designed to reward the NEOs based upon the improved financial performance of the business. The second threshold is the target threshold. The thresholds above the target threshold each pay out a higher percentage of base salary culminating in the top threshold, which is designed as a stretch challenge. The compensation committee believes these goals are not easily achieved; and, in the ten years since becoming a public company, no NEO has achieved all of the stretch challenge measurement goals. The compensation committee used different performance measures for different NEOs. These are noted and presented by group (Consolidated and North America) in the following tables which show the performance thresholds for each performance measure used for fiscal 2016:

<u>Objective Measure</u>	<u>Performance Threshold - Consolidated</u>				
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
	Target				
Total Sales Growth - North America.....	5.7%	7.8%	9.5%	10.3%	11.0%
Product Margin Improvement - North America	Last year plus 0.4%	Last year plus 0.6%	Last year plus 0.8%	Last year plus 0.9%	Last year plus 1.0%
Diluted Earnings Per Share - Consolidated	\$ 1.25	\$ 1.38	\$ 1.47	\$ 1.53	\$ 1.58
Diluted Earnings Per Share Growth – Consolidated	20.2%	32.7%	41.3%	47.1%	51.9%

<u>Objective Measure</u>	<u>Performance Threshold - North America</u>				
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
	Target				
Total Sales Growth - North America.....	5.7%	7.8%	9.5%	10.3%	11.0%
Product Margin Improvement - North America	Last year plus 0.4%	Last year plus 0.6%	Last year plus 0.8%	Last year plus 0.9%	Last year plus 1.0%
Diluted Earnings Per Share - North America	\$ 1.21	\$ 1.34	\$ 1.43	\$ 1.47	\$ 1.51
Diluted Earnings Per Share Growth - North America.....	11.0%	22.9%	31.2%	34.9%	38.5%

The following table represents the percentage of the respective NEOs base salary that will be earned upon achievement of the performance thresholds (“Threshold Percentage”):

<u>Executive Officer</u>	<u>Performance Threshold - Consolidated</u>				
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
Thomas D. Champion, Chairman of the Board	33%	65%	98%	114%	130%
Richard M. Brooks, Chief Executive Officer and Director	50%	100%	150%	175%	200%
Christopher C. Work, Chief Financial Officer	30%	60%	90%	105%	120%

<u>Executive Officer</u>	<u>Performance Threshold - North America</u>				
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
Troy R. Brown, Executive Vice President of Ecommerce and Omni-channel	37%	74%	111%	130%	148%
Chris K. Visser, Executive Vice President, General Counsel and Secretary	30%	60%	90%	105%	120%

The threshold percentages in the table above are multiplied by the percentages in the following table for each performance threshold achieved (“Objective Measure Weighting Percentage”). The compensation committee weights each threshold for each of the NEOs based upon that individual’s ability to impact the measure.

<u>Executive Officer</u>	<u>Objective Measure</u>			
	<u>Comparable Sales - North America</u>	<u>Diluted Earnings Per Share Growth - Consolidated</u>	<u>Diluted Earnings Per Share Growth - North America</u>	<u>Product Margin - North America</u>
Thomas D. Champion, Chairman of the Board.....	30%	40%	n/a	30%
Richard M. Brooks, Chief Executive Officer and Director	30%	40%	n/a	30%
Christopher C. Work, Chief Financial Officer	30%	50%	n/a	20%
Troy R. Brown, Executive Vice President of Ecommerce and Omni-channel	30%	n/a	40%	30%
Chris K. Visser, Executive Vice President, General Counsel and Secretary	30%	n/a	50%	20%

Therefore, for each performance threshold achieved, the calculation of the short-term cash based incentive earned is as follows:

Base Salary (\$) x Threshold Percentage x Objective Measure Weighting Percentage

During fiscal 2016, we did not achieve the level one metrics. Accordingly, no short-term cash based incentive awards were paid to the NEOs for fiscal 2016. The short-term cash based incentives target and compensation paid to the NEOs for fiscal 2016 are as follows:

<u>Executive Officer</u>	<u>Short-Term Cash Based Incentive Compensation Target</u>	<u>Short-Term Cash Based Incentive Compensation Paid</u>
Thomas D. Champion, Chairman of the Board.....	\$ 217,750	\$ —
Richard M. Brooks, Chief Executive Officer and Director.....	\$ 690,100	\$ —
Christopher C. Work, Chief Financial Officer	\$ 163,800	\$ —
Troy R. Brown, Executive Vice President of Ecommerce and Omni-channel.....	\$ 296,000	\$ —
Chris K. Visser, Executive Vice President, General Counsel and Secretary.....	\$ 168,750	\$ —

Bonus

While we continue to execute growth strategies and invest for the future, the compensation committee recognizes the uncertain economic environment that has the potential to negatively impact virtually every industry including consumer discretionary spending businesses such as ours. The compensation committee recognizes that in some circumstances it may be advisable to establish and pay discretionary bonuses in order to reward NEOs for managing the business during difficult economic conditions. For example, in a situation where at the beginning of a fiscal year there was believed to be a wide range of possible financial outcomes, this variability may make it difficult to set targets for short-term cash based incentives. Accordingly, at the end of the fiscal year the compensation committee retains the discretion to award a bonus if the NEOs were able to achieve meaningful results during the fiscal year by managing the business, such as in the following ways:

- Cash and marketable securities position at year-end versus plan and prior year.
- Working capital versus plan and prior year.
- Capital spending versus plan and prior year.
- Operating income and diluted earnings per share performance for the year versus plan and the prior year.
- The current year’s performance relative to driving long-term value creation.

We may also award discretionary cash bonuses from time to time in order to attract and retain key NEOs.

The intention is to pay such bonuses rarely and in modest amounts if and only if other elements of the executive pay system do not respond to outstanding achievements clearly pursued and delivered in the interests of our shareholders. The compensation committee also recognizes that such bonuses would be discretionary and would not qualify for deductibility under Section 162(m) of the Internal Revenue Code. For additional information on the applicability of Section 162(m), see the discussion under the section heading “Tax and Accounting Implications.”

For fiscal 2016 the compensation committee did elect to make discretionary bonuses to the NEOs other than to the Chief Executive Officer, Richard M. Brooks, and to the Chairman of the Board, Thomas D. Champion. The compensation committee exercised this discretion consistent with the factors outlined above. In particular, the compensation committee desired to recognize the company performance gains obtained in the last two quarters of the fiscal year, driven by the progress achieved in various operational and financial initiatives. The compensation

committee also recognized the efforts involved in successfully completing the Fast Times acquisition. The amounts of the bonuses paid for fiscal 2016 are set forth in the “Bonus” column in the Summary Compensation Table.

Long-Term Equity Incentives

The compensation committee uses long-term equity incentives as a significant component of total compensation consistent with the culture and compensation philosophy. The compensation committee continues to believe in the importance of equity compensation for all executive officers and issues equity incentives broadly through the management population.

Additionally, because we do not have a pension or a supplemental executive retirement plan, we believe our executives should plan for their retirement substantially through potential wealth accumulation from equity gains.

Long-term equity incentive awards are determined through a combination of the Company’s performance, execution of our total compensation strategy of rewarding executives and providing a foundation for wealth building. Our stock option awards generally have a ten-year term and typically vest 25% per year. Our restricted stock awards generally vest 33% per year.

The compensation committee met in March 2016 and considered the performance of the Company, its overall compensation strategy and the level of equity grants to align the NEOs with shareholders. Based on the compensation committee’s deliberations, the following equity incentive awards were granted:

<u>Executive Officer</u>	<u>Restricted Stock Grants</u>	<u>Stock Option Grants</u>
Thomas D. Champion, Chairman of the Board	—	—
Richard M. Brooks, Chief Executive Officer and Director	—	—
Christopher C. Work, Chief Financial Officer	5,329	11,087
Troy R. Brown, Executive Vice President of Ecommerce and Omni-channel	12,690	26,399
Chris K. Visser, Executive Vice President, General Counsel and Secretary	5,329	11,087

The compensation committee believes the levels of grants are appropriate, consistent with its compensation strategy and provide a meaningful alignment of the NEOs with the Company’s shareholders.

Equity Grant Timing Practices. All stock options granted at Zumiez have an exercise price equal to the closing market price of our stock on the grant date. Regular annual grants for employees are approved at the March compensation committee and board meetings, and the grant date for such annual grants is generally the second business day *after* the public release of fiscal year-end earnings. The grants are approved as formulas based on a specified dollar amount and approved dilution percentages; the number of shares and exercise price for each option grant are determined based on the closing market price of our stock on the grant date, and the number of shares for each restricted stock grant is determined by dividing the dollar amount by the closing market price of our stock on the grant date. The board gives the CEO the ability to grant a small number of equity awards for the current fiscal year at the March board meeting for new hires and promotions.

Who is Involved in Compensation Decisions for NEOs

The role of the compensation committee—The compensation committee oversees and governs the compensation of the NEOs. The compensation committee is currently composed of four independent outside directors. Its top priority is aligning the interests of the NEOs with those of shareholders and motivating them in the most effective manner possible to create maximum long-term shareholder value. The compensation committee’s responsibilities are to:

- Establish and articulate the philosophy, rationale and strategy for compensating all NEOs.
- Approve and oversee group and individual compensation plans designed to fulfill our philosophy and strategy.
- Develop, recommend and justify to the board all compensation decisions and actions for the CEO.
- Review and approve all compensation decisions and actions for other NEOs.
- Review and approve any up-front performance measures, goals, standards, weightings and formulas that may be used to determine future conditional awards for NEOs.
- Ensure the ongoing success of our compensation program for NEOs by seeking, pursuing, evaluating and implementing improvements.
- Review total compensation compared to compensation opportunities and practices in the competitive market for executive talent.
- Evaluate the enterprise risk associated with all forms of compensation.
- Appoint, determine the funding for, and oversee the independent compensation consultant.

The role of NEOs—The NEOs, and in particular the CEO, provide and explain information requested by the compensation committee and are present at compensation committee meetings as requested by the compensation committee. The NEOs are not present during deliberations or determination of their respective compensation. On behalf of the compensation committee, the CEO has the following specific responsibilities:

- Develop, recommend and justify, to the compensation committee, compensation decisions and actions for NEOs other than the CEO.
- Develop, recommend and justify, to the compensation committee, any up-front performance measures, goals, standards, weightings and formulas that may be used to determine future conditional awards for the compensation program for NEOs.
- Report, to the compensation committee, experiences with the compensation program for NEOs and present any perceived opportunities for improvement.
- Communicate appropriate information about the compensation committee’s actions and decisions to the other NEOs.

The role of external advisors—At the compensation committee’s discretion, it may engage and consult with external advisors as it determines necessary to assist in the execution of its duties. External advisors have the following responsibilities:

- Provide research, analysis and expert opinions, on an as-requested basis, to assist the compensation committee in education, deliberations and decision-making.
- Maintain independence from our management.
- Interact with members of management only with the approval of the chair of the compensation committee.

All external advisors are engaged directly by the compensation committee and independently of the management of the Company.

The compensation committee periodically engages a compensation consultant to work with the compensation committee on its compensation deliberations. During fiscal 2016, the compensation committee asked Ascend Consulting to provide an assessment of compensation levels and advise the compensation committee on compensation strategies based on a market analysis taking into account recruiting goals, and retaining and motivating talent to build shareholder value. The compensation committee and the Company believe the compensation consultant is independent of Zumiez and our management.

Our Executive Vice President, General Counsel and Secretary supports the compensation committee in its work.

The Compensation Decision-making Process

The compensation committee gathers together information to help it assess compensation for the NEOs, including:

- Tally sheets—We use tally sheets for each of the NEOs to summarize the significant components of compensation, including base salary, short-term cash based incentives, bonuses, and equity incentives. The tally sheets are compared to targeted total compensation.
- Competitive Compensation Analysis—At the compensation committee’s direction, the compensation consultant developed and delivered analysis of competitive compensation for each NEO position. Analysis was performed using publicly-available information on executive pay levels compiled from the most recently available proxy statements of publicly-held companies. The focus was on selected samples of retail companies that best reflect the competitive market for executive talent: those of similar size, business profile and executive compensation practices. Supplemental analyses for the retail sector as a whole and across business sectors in both the Pacific Northwest and nationwide were also conducted. These, along with application of generally accepted methods of statistical analysis, helped ensure the accuracy, validity, reliability and defensibility of results. On the basis of this rigorous approach, the compensation consultant provided expert opinions and conclusions to the compensation committee about targets for base salary, short-term cash based incentives and long-term equity incentives for our NEO roles. The committee used this information to ensure that our stated philosophy and strategy for aligning executive compensation opportunities with the competitive market has been and continues to be fulfilled.
- Fiscal 2016 results—The compensation committee has access to fiscal 2016 operating plans and budgets as approved by the board of directors in March 2016. Management updates the compensation committee and the board on actual performance compared to budgets and summarizes for the compensation committee how the Company and the NEOs performed against the performance targets.
- Fiscal 2017 operating and financial plans—The compensation committee also receives the operating plan and budgets for fiscal 2017 as approved by the Company’s board of directors. The compensation committee uses this information to help establish performance targets for the upcoming fiscal year.
- Audited results—The compensation committee reviews the final audited results to confirm that performance targets were achieved. No incentive awards are made until audited results are received by the board.
- Performance of teen and young adult specialty retailers—The compensation committee requests that management prepare a schedule for a group of teen and young adult retailers comparing comparable-store sales results for the last four fiscal years and the percentage change in diluted earnings per share comparing the most recent year-end results to the previous year. The teen and young adult retailers include: Abercrombie & Fitch, Aeropostale, American Eagle, Tilly’s and Pacific Sunwear. The group was selected because they are generally considered to be leading lifestyle retailers in the teen and young adult market. All of the information for these retailers was summarized from publicly available data. The compensation committee compares our relative performance as an additional data point understanding that all of these companies are larger and may have significantly different business models with significantly different growth profiles.
- Evaluations—The compensation committee receives a self-evaluation and confidential upward evaluations of the CEO and summary evaluations of the remaining NEOs. The compensation committee

chair solicits the full membership of the board for feedback on the CEO's performance and prepares the CEO's annual evaluation for review by the full compensation committee.

The compensation committee thoroughly and systematically reviews and discusses all information submitted. It asks management to clarify and supplement as appropriate. The committee then works with its consultant to determine fair and competitive compensation awards and opportunities for each of the NEOs.

The compensation committee currently structures the NEO compensation program to:

- Provide conservative (40th percentile) base salary opportunities against the Company's competitive market for executive compensation talent.
- Establish average (50th percentile) total cash compensation opportunities (base salary, bonus and Short-Term Cash Based Incentives) against the competitive market.
- Provide long-term equity-based awards at the 50th percentile when compared to competitive practices for comparable roles. In the case of our Chairman and our CEO who beneficially own 11.5% and 14.8% of the Company, respectively, the compensation committee has concluded that each executive owns a sufficient amount of equity to align them with the long-term interests of shareholders. Because of this, neither our Chairman nor our CEO has received equity grants since before the Company's initial public offering.

The compensation committee evaluates this approach to total direct compensation on an annual basis to best maintain alignment of the interests of NEO's with the long-term economic interests of shareholders, given the maturity, complexity and size of the business. Included is a thorough review of the approach to the Chairman and CEO, where the committee reserves the right to provide additional equity-based awards to the incumbents if it determines doing so is in the best interests of shareholders and/or is needed to best reflect competitive practices.

During its deliberations, the compensation committee also considers:

- Long-term wealth accumulation—the accumulated wealth from previous equity incentives granted to each NEO.
- Internal pay equity—the relationship between the compensation of our CEO and the other NEOs, as well as staff at-large.

There is discretion inherent in the compensation committee's role of establishing compensation for the NEOs. The compensation committee has attempted to minimize discretion by focusing on the three objective financial measures it considers to be the long-term drivers of the Company's business: comparable sales, product margin and diluted earnings per share. These three measures have historically been used to determine the short-term cash based incentives and are also key considerations in determining changes to base salary and long-term equity incentive awards. Some discretion is used by the compensation committee in evaluating the qualitative performance of the NEOs in determining base salary adjustments and payment of discretionary bonuses. Some discretion is also used in the granting of long-term equity incentive awards to help NEOs build wealth through ownership of Zumiez stock. However, in all of these uses of discretion the compensation committee is also governed by the overall compensation philosophy; and, is guided by explicit competitive targets and ranges of reasonableness.

In making its final decisions, the committee works to ensure that all outcomes are thoroughly justifiable and defensible as well as fair and effective from all critical perspectives: those of the full board, shareholders, objective external experts and the NEOs themselves.

Advisory Vote on Executive Compensation. The shareholders of the Company are currently provided the opportunity to provide an advisory vote on the Company's executive compensation every three years, including at the 2017 annual meeting of shareholders. At the last such vote in May of 2014 the shareholders of the Company approved the Company's executive compensation in an advisory vote with 99.7% of the votes being cast in favor of the Company's executive compensation. The compensation committee viewed this vote as strong support for its executive compensation decisions and policies and, accordingly, it did not consider making changes to its executive compensation decisions and policies in response to the 2014 advisory shareholder vote.

Enterprise Risk and Compensation

The compensation committee considers all facets of the NEOs compensation structure and believes it appropriately balances the drive for financial results and risks to the Company. The compensation committee aligns executive compensation with shareholder interests by placing a majority of total compensation “at risk,” and increasing the amount of pay that is “at risk” as the executives achieve higher levels of performance. “At risk” means the executive will not realize value unless performance goals are attained. The short-term incentives are tied to easily measurable financial metrics that the compensation committee believes are consistent, transparent and drive shareholder value; that is, comparable sales-North America, product margin-North America, diluted earnings per share-Consolidated and diluted earnings per share-North America. The majority of the long-term based compensation vests over several years and is not tied to specific financial metrics. By combining annual cash incentives tied to short-term financial performance along with the majority of the NEOs long-term wealth creation tied to stock performance, the compensation committee believes an appropriate balance exists between rewarding performance without excessive risk taking. In addition the compensation committee believes the short-term incentives in place that are tied to financial performance do not provide excessive risk to the Company as they are capped at no more than 200% of base pay for our CEO, 148% for our Executive Vice President of Ecommerce and Omni-channel, 130% for our Chairman of the Board, 120% for our Chief Financial Officer and 120% for our Executive Vice President, General Counsel and Secretary. The compensation committee believes that the overall executive compensation policy contains less than a ‘reasonable likelihood’ of material risk.

Employment Agreements

None of our U.S. employees have an employment agreement and all U.S. employees are “at will.”

Tax and Accounting Implications

Accounting Treatment. We recognize a charge to earnings for accounting purposes for equity awards over their vesting period. We expect that the compensation committee will continue to review and consider the accounting impact of equity awards in addition to considering the impact for dilution and overhand when deciding on amounts and terms of equity grants.

Deductibility of Executive Compensation. Section 162(m) of the Internal Revenue Code limits the Company’s ability to deduct certain compensation over \$1.0 million paid to the executive officers unless such compensation is based on performance objectives meeting certain criteria or is otherwise excluded from the limitation. The compensation committee believes that it is generally in the Company’s best interests to comply with Section 162(m) and expects that most of the compensation paid to the named executives will either be under the \$1.0 million limit, eligible for exclusion (such as stock options) under the \$1.0 million limit, or based on qualified performance objectives. However, notwithstanding this general policy, the compensation committee also believes that there may be circumstances in which the Company’s interests are best served by maintaining flexibility in the way compensation is provided, whether or not compensation is fully deductible under Section 162(m). Accordingly, it is possible that some compensation paid to executive officers may not be deductible to the extent that the aggregate of non-exempt compensation exceeds the \$1.0 million level. At our 2014 annual meeting of shareholders, the Company’s shareholders approved the material terms of the performance criteria that is utilized in our short-term cash based incentive awards and other awards that may be made in the future pursuant to the terms of the 2014 Equity Incentive Plan and therefore, the short-term cash based incentive awards (discussed earlier in the Compensation Discussion and Analysis) are eligible for exclusion under the Section 162(m) \$1.0 million limit for fiscal 2015 and beyond.

Taxation of Parachute Payments and Deferred Compensation. We do not provide and have no obligation to provide any executive officer, including any NEO, with a “gross-up” or other reimbursement payment for any tax liability that he or she might owe as a result of the application of Section 280G, 4999, or 409A of the Code. Sections 280G and 4999 of the Code provide that executive officers and directors who hold significant equity interests and certain other service providers may be subject to an excise tax if they receive payments or benefits in connection with a change in control that exceed certain limits prescribed by the Code, and that the employer may forfeit a deduction on the amounts subject to this additional tax. Section 409A of the Code also may impose significant taxes on a service provider in the event that he or she receives deferred compensation that does not

comply with the requirements of Code Section 409A. We have structured our compensation arrangements with the intention of complying with or otherwise being exempt from the requirements of Code Section 409A. Our 2014 Equity Incentive Plan provides that it shall be interpreted and administered to the extent necessary to comply with or effectuate an exemption from the requirements of Code Section 409A.

Advisory Vote on Executive Compensation

We are providing the Company's shareholders with the opportunity to vote to approve, on an advisory, non-binding basis, the compensation of our named executive officers at our 2017 annual meeting of shareholders. Please see Proposal 2—Advisory Vote on Executive Compensation. As noted above under the section heading "The Compensation Decision-making Process". The result of the prior advisory shareholder vote at our 2014 annual meeting of shareholders was 99.7% of votes cast approved the compensation of our named executive officers.

Additionally, we are providing the Company's shareholders with the opportunity to indicate their preference on how frequently we should seek an advisory vote on the compensation of our named executive officers, with the option for every "1 Year," every "2 Years," or every "3 Years." The result of the prior advisory vote at our 2011 annual meeting of shareholders was 58.9% of votes cast were in favor of an advisory vote on executive compensation every three years. Based on the board of directors' recommendation for a frequency of three years and the voting results with respect to the frequency of future advisory votes on executive compensation, the board of directors determined that it would include in the annual shareholder meeting proxy materials a shareholder vote on executive compensation every three years until the next required vote on frequency of advisory votes on executive compensation, which we are providing the opportunity to vote on at our 2017 annual meeting of shareholders. Please see Proposal 3—Advisory Vote on The Frequency of an Advisory Vote on Executive Compensation.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Messrs. Weber, Hyde, Smith, and Ms. Holmes currently serve as members of the compensation committee. No member of the compensation committee was at any time during fiscal 2016 or at any other time an officer or employee of Zumiez, and no member had any relationship with Zumiez requiring disclosure as a related-person in the section "Certain Relationships and Related Transactions." No executive officer of Zumiez has served on the board of directors or compensation committee of any other entity that has or has had one or more executive officers who served as a member of our board of directors or compensation committee during fiscal 2016.

REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

The compensation committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussion, the compensation committee recommended to the board of directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

THE COMPENSATION COMMITTEE

Travis D. Smith, Chairperson
Kalen F. Holmes
Matthew L. Hyde
James M. Weber

The compensation committee report does not constitute soliciting material, and shall not be deemed to be filed or incorporated by reference into any other filing under the Securities Act of 1933, or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates the compensation committee report by reference therein.

PROPOSAL 2

ADVISORY VOTE ON EXECUTIVE COMPENSATION

We are providing the Company's shareholders with the opportunity to vote to approve, on an advisory, non-binding basis, the compensation of our named executive officers as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion contained in this proxy statement.

As described in the section entitled, "Compensation Discussion and Analysis," our executive compensation programs are designed to attract, retain, align, motivate and reward executives capable of understanding, committing to, maintaining and enhancing the Zumiez culture; and, with culture as a centerpiece of our competitive advantage, establishing and accomplishing business strategies and goals that we believe makes the Company an attractive investment for shareholders. As a result, our compensation programs are designed to be externally competitive, reward performance, be fair and consistent, drive long-term shareholder thinking, be an effective blend of guaranteed and at-risk components and for at-risk components, be an effective blend between short-term and long-term. Furthermore, our compensation committee does not use supplemental executive benefits and perquisites that are generally not also made available to our employees.

We are presenting this proposal, which gives our shareholders, the opportunity to endorse or not endorse our executive compensation programs through an advisory vote on the following resolution:

"Resolved, that the shareholders approve, on an advisory basis, the compensation of our named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative disclosure, contained in this proxy statement."

This vote is advisory, and therefore not binding on the Company, the compensation committee or our board of directors. Our board of directors and our compensation committee value the opinions of our shareholders and to the extent there is any significant vote against the named executive officer compensation as disclosed in this proxy statement, we will consider our shareholders' concerns and the compensation committee will evaluate whether any actions are necessary to address those concerns. In addition, the non-binding advisory votes described in this Proposal 2 will not be construed as (1) overruling any decision by the Company, the board of directors, or the compensation committee relating to the compensation of the named executive officers, or (2) creating or changing any fiduciary duties or other duties on the part of the board of directors, or any committee of the board of directors, or the Company.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL, ON AN ADVISORY BASIS, OF THE COMPENSATION OF THE COMPANY'S NAMED EXECUTIVE OFFICERS AS DISCLOSED PURSUANT TO ITEM 402 OF REGULATION S-K, INCLUDING THE COMPENSATION DISCUSSION AND ANALYSIS, COMPENSATION TABLES AND NARRATIVE DISCUSSION CONTAINED IN THIS PROXY STATEMENT

PROPOSAL 3

ADVISORY VOTE ON THE FREQUENCY OF AN ADVISORY VOTE ON EXECUTIVE COMPENSATION

In addition to providing an advisory vote on executive compensation, we are providing the Company's shareholders with the opportunity to indicate their preference on how frequently we should seek an advisory vote on the compensation of our named executive officers. Shareholders have the option to vote for every "1 Year," every "2 Years," every "3 Years" or abstain.

After careful consideration, the board of directors believes that a frequency of every three years for the advisory vote on executive compensation is the optimal interval. The board of directors believes that holding an advisory vote every three years complements the goal to create a compensation program that enhances long-term shareholder value. As discussed in the section entitled, "Compensation Discussion and Analysis," a significant component of our compensation program is long-term equity incentives. A vote every three years will provide shareholders with the ability to evaluate our compensation program over a period of time similar to the periods associated with our long-term equity incentive compensation. Additionally, a three-year period of time will allow for our compensation committee and board of directors sufficient time to analyze the results of the advisory vote in comparison to the Company's performance and implement necessary changes. The compensation committee also believes this time horizon will allow the board of directors to engage with shareholders to better understand and respond to vote results. Management actively dialogues with investors and an advisory vote on executive compensation every three years will enhance shareholder communication by providing another avenue to obtain information on investor sentiment about our executive compensation philosophy, policies and procedures. The board of directors believes the Company manages its business and investments to yield sustainable long-term results that are above competitors and that there is a correlation between earnings, stock price and total compensation.

While this vote is advisory, and therefore not binding on the Company, the compensation committee and our board of directors strongly value the opinions of our shareholders and plan to adopt the frequency that the majority of shareholders indicate as their preference. While the board of directors is in favor of a shareholder advisory vote on the compensation of our named executive officers every three years, you may choose to vote in favor of any of three alternatives, i.e. having a shareholder advisory vote on executive compensation ever "1 Year," every "2 Years" or every "3 Years" (or you may abstain from voting on this matter). You are not being asked to vote for or against the board's recommendation of having a shareholder advisory vote every three years.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR A FREQUENCY OF 3 YEARS AS THE SHAREHOLDERS' PREFERENCE FOR THE FREQUENCY FOR ADVISORY VOTES ON THE APPROVAL OF THE COMPENSATION OF THE COMPANY'S NAMED EXECUTIVE OFFICERS

Summary Compensation Table

The following table shows all compensation for fiscal 2016, 2015 and 2014 awarded to, earned by, or paid to our CEO, our CFO and our other executive officers. These executive officers are referred to as “NEOs.”

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary</u> <u>(\$)</u>	<u>Bonus</u> <u>(\$) (1)</u>	<u>Stock</u> <u>Awards</u> <u>(\$) (2)</u>	<u>Option</u> <u>Awards</u> <u>(\$) (3)</u>	<u>Non-Equity</u> <u>Incentive Plan</u> <u>Compensation</u> <u>(\$) (4)</u>	<u>Total</u> <u>(\$)</u>
Thomas D. Campion.....	2016	335,033	—	—	—	—	335,033
Chairman of the Board.....	2015	334,658	—	—	—	—	334,658
	2014	324,911	—	—	—	105,714	430,625
Richard M. Brooks	2016	690,100	—	—	—	—	690,100
Chief Executive Officer	2015	689,327	—	—	—	—	689,327
and Director.....	2014	669,250	—	—	—	335,000	1,004,250
Christopher C. Work	2016	272,692	50,000	104,981	104,994	—	532,667
Chief Financial Officer	2015	264,423	—	91,218	60,792	—	416,433
	2014	249,158	—	62,476	62,490	68,750	442,874
Troy R. Brown.....	2016	400,000	50,000	249,993	249,999	—	949,992
Executive Vice President of.....	2015	398,597	—	269,990	179,994	—	848,581
Ecommerce and Omni-channel.....	2014	362,851	—	199,995	199,998	235,366	998,210
Chris K. Visser	2016	280,933	50,000	104,981	104,994	—	540,908
Executive Vice President,	2015	272,616	—	99,009	66,001	—	437,626
General Counsel and Secretary	2014	262,709	—	62,476	62,490	108,488	496,163

- (1) This column represents the bonus compensation awarded to the NEOs during fiscal 2016, 2015 and 2014 and paid in early fiscal 2017, 2016 and 2015. For additional information on the amount related to bonus compensation, see the previous discussion in the Compensation Discussion and Analysis entitled “Bonus”.
- (2) This column represents the aggregate grant-date fair value of restricted stock awards calculated in accordance with FASB ASC Topic 718, excluding the impact of estimated forfeitures related to service based vesting conditions. For assumptions used in determining these values, please see Note 2 (listed under Stock-Based Compensation) in the Notes to Consolidated Financial Statements in our fiscal 2016, 2015 and 2014 Form 10-K. Information regarding the restricted stock awards granted to the NEOs during fiscal 2016 is set forth in the Grants of Plan-Based Awards Table on a grant-by-grant basis.
- (3) This column represents the aggregate grant-date fair value of stock option awards calculated in accordance with FASB ASC Topic 718, excluding the impact of estimated forfeitures related to service based vesting conditions. For assumptions used in determining these values, please see Note 2 (listed under Stock-Based Compensation) in the Notes to Consolidated Financial Statements in our fiscal 2016, 2015 and 2014 Form 10-K. Information regarding the stock option awards granted to our NEOs during 2016 is set forth in the Grants of Plan-Based Awards Table on a grant-by-grant basis.
- (4) The amounts set forth in this column were earned during fiscal 2016, 2015 and 2014 and paid in early fiscal 2017, 2016 and 2015 respectively, to each of the NEOs under our executive Short-Term Cash Based Incentives. For additional information on the determination of the amounts related to Non-Equity Incentive Plan Compensation, see the previous discussion in the Compensation Discussion and Analysis entitled, “Short-Term Cash Based Incentives.” Information regarding the threshold, target and maximum estimated future payouts under non-equity incentive plan awards is set forth in the Grants of Plan-Based Awards Table.

Grants of Plan-Based Awards

The following table provides information about equity and non-equity awards granted to the NEOs in fiscal 2016. In the columns described as Estimated Future Payouts Under Non-Equity Incentive Plan Awards, this table quantifies potential awards under the executive short-term cash based incentives plan discussed previously.

<u>Name</u>	<u>Grant Date</u>	<u>Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)</u>			<u>All Other Stock Awards: Number of Shares of Stock or Units (#)</u>	<u>All Other Option Awards: Number of Securities Underlying Options (#)</u>	<u>Exercise or Base Price of Option Awards (\$)</u>	<u>Grant Date Fair Value of Stock and Option Awards (\$)</u>
		<u>Threshold (\$)</u>	<u>Target (\$)</u>	<u>Maximum (\$)</u>	<u>(2)</u>	<u>(3)</u>	<u>(4)</u>	<u>(5)</u>
Thomas D. Campion Chairman of the Board		108,875	217,750	435,500				
Richard M. Brooks Chief Executive Officer and Director		345,050	690,100	1,380,200				
Christopher C. Work Chief Financial Officer	3/14/2016 3/14/2016	81,900	163,800	327,600	5,329	11,087	9.47	104,981 104,994
Troy R. Brown Executive Vice President of Ecommerce	3/14/2016 3/14/2016	148,000	296,000	592,000	12,690	26,399	9.47	249,993 249,999
Chris K. Visser Executive Vice President, General Counsel and	3/14/2016 3/14/2016	84,375	168,750	337,500	5,329	11,087	9.47	104,981 104,994

- (1) These columns show what the potential payout for each NEO was under the executive short-term cash based incentives for fiscal 2016 if the threshold, target or maximum goals were satisfied for all performance measures. Please refer to the discussion in the Compensation Discussion and Analysis entitled, "Short-Term Cash Based Incentives" and the Summary Compensation Table for amounts earned by the NEOs in fiscal 2016. No short-term cash based incentive awards were paid to the NEOs for fiscal 2016.
- (2) This column shows the number of shares of restricted stock granted in fiscal 2016 to the NEOs. The restricted stock awards vest over a three-year period in equal annual installments beginning on the first anniversary date of the grant. Please refer to the discussion in the Compensation Discussion and Analysis entitled, "Long-Term Equity Incentives." Information on the aggregate grant-date fair value of restricted stock awards is set forth in the Summary Compensation Table.
- (3) This column shows the number of stock options granted in fiscal 2016 to the NEOs. These stock options vest over a four-year period in equal annual installments beginning on the first anniversary date of the grant. Please refer to the discussion in the Compensation Discussion and Analysis entitled, "Long-Term Equity Incentives." Information on the aggregate grant-date fair value of stock option awards is set forth in the Summary Compensation Table.
- (4) This column shows the exercise price for the stock options granted, which was the closing price of the Company's stock on the grant date indicated.
- (5) This column represents the aggregate grant-date fair value of restricted stock and stock option awards calculated in accordance with FASB ASC Topic 718, excluding the impact of estimated forfeitures related to service based vesting conditions. For assumptions used in determining these values, please see Note 2 (listed under Stock-Based Compensation) in the Notes to Consolidated Financial Statements in our fiscal 2016 Form 10-K. These amounts reflect the Company's accounting expense for these stock option and restricted stock awards to be recognized over the vesting period of the grants, and do not correspond to the actual value that will be recognized by the NEO.

Outstanding Equity Awards at Fiscal Year-End

The following table provides information on the holdings of stock option awards and restricted stock awards for the NEOs at January 28, 2017. This table includes unexercised and unvested stock options and restricted stock awards. The vesting schedule for each grant of stock options and restricted stock awards is shown in the footnotes to this table. The market value of the restricted stock awards is based on the closing market price of our stock on January 28, 2017, which was \$18.85.

<u>Name</u>	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Options Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock that Have Not Vested (\$)
Thomas D. Campion..... Chairman of the Board	—	—	—	—	—	—
Richard M. Brooks..... Chief Executive Officer and Director	—	—	—	—	—	—
Christopher C. Work..... Chief Financial Officer	13,066 (1) 2,709 (2) 2,048 (3) 753 (4) — (5) — — —	— 901 2,047 2,258 11,087 — — —	28.30 24.81 25.49 38.57 19.70 — — —	9/15/2022 3/18/2023 3/17/2024 3/16/2025 3/14/2026 — — —	— — — — — 817 (6) 1,576 (7) 5,329 (8)	— — — — — 15,400 29,708 100,452
Troy R. Brown..... Executive Vice President of Ecommerce..... and Omni-channel.....	4,970 (9) 6,152 (10) 7,248 (2) 6,554 (3) 2,229 (4) — (5) — — —	— — 2,414 6,552 6,686 26,399 — — —	25.31 34.57 24.81 25.49 38.57 19.70 — — —	3/14/2021 3/12/2022 3/18/2023 3/17/2024 3/16/2025 3/14/2026 — — —	— — — — — — 2,614 (6) 4,666 (7) 12,690 (8)	— — — — — — 49,274 87,954 239,207
Chris K. Visser..... Executive Vice President, General Counsel and..... Secretary	9,152 (11) 2,709 (2) 2,048 (3) 818 (4) — (5) — — —	— 901 2,047 2,451 11,087 — — —	27.00 24.81 25.49 38.57 19.70 — — —	10/15/2022 3/18/2023 3/17/2024 3/16/2025 3/14/2026 — — —	— — — — — 817 (6) 1,711 (7) 5,329 (8)	— — — — — 15,400 32,252 100,452

- (1) Options subject to this grant vest over a four-year period in equal annual installments beginning on the one-year anniversary of the grant date. The grant date was September 15, 2012.
- (2) Options subject to this grant vest over a four-year period in equal annual installments beginning on the one-year anniversary of the grant date. The grant date was March 18, 2013.
- (3) Options subject to this grant vest over a four-year period in equal annual installments beginning on the one-year anniversary of the grant date. The grant date was March 17, 2014.
- (4) Options subject to this grant vest over a four-year period in equal annual installments beginning on the one-year anniversary of the grant date. The grant date was March 16, 2015.
- (5) Options subject to this grant vest over a four-year period in equal annual installments beginning on the one-year anniversary of the grant date. The grant date was March 14, 2016.
- (6) This restricted stock grant vest over a three-year period in equal annual installments beginning on the grant date anniversary. The grant date was March 17, 2014.

- (7) This restricted stock grant vest over a three-year period in equal annual installments beginning on the grant date anniversary. The grant date was March 16, 2015.
- (8) This restricted stock grant vest over a three-year period in equal annual installments beginning on the grant date anniversary. The grant date was March 14, 2016.
- (9) Options subject to this grant vest over a four-year period in equal annual installments beginning on the one-year anniversary of the grant date. The grant date was March 14, 2011.
- (10) Options subject to this grant vest over a four-year period in equal annual installments beginning on the one-year anniversary of the grant date. The grant date was March 12, 2012.
- (11) Options subject to this grant vest over a four-year period in equal annual installments beginning on the one-year anniversary of the grant date. The grant date was October 15, 2012.

Option Exercises and Stock Vested

The following table provides information for the NEOs on stock option exercises and on the vesting of other stock awards during fiscal 2016, including the number of shares acquired upon exercise or vesting and the value released before payment of any applicable withholding taxes and broker commissions.

<u>Name</u>	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Valued Realized on Exercise (1) (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (2) (\$)
Thomas D. Champion..... Chairman of the Board	—	—	—	—
Richard M. Brooks..... Chief Executive Officer and Director	—	—	—	—
Christopher C. Work..... Chief Financial Officer	—	—	2,791	54,645
Troy R. Brown..... Executive Vice President of Ecommerce and Omni-channel	—	—	6,905	135,630
Chris K. Visser..... Executive Vice President, General Counsel and Secretary	—	—	3,095	62,758

- (1) The dollar amount realized upon exercise was calculated by determining the difference between the market price of the underlying shares of common stock at exercise and the exercise price of the stock options.
- (2) The dollar amount realized upon vesting was calculated by applying the market price of the restricted stock shares on the vesting dates.

Pension Benefits

The Company does not maintain a defined benefit pension plan or supplemental pension plan.

Nonqualified Deferred Compensation

The Company does not maintain a nonqualified deferred compensation plan.

Potential Payments Upon Termination or Change in Control

Certain of the NEOs have unvested stock options and awards of restricted stock under the Company's 2005 Equity Incentive Plan and 2014 Equity Incentive Plan, the vesting of which may accelerate in the event of a Change in Control (as defined below). The Company does not have employment agreements with any of its employees, including its executive officers. Also, the Company does not maintain a severance or separation plan for its executive officers. Accordingly, except as described below, there are no agreements, arrangements or plans that entitle the Company's executive officers to enhanced benefits upon termination of their employment. The information below is a summary of certain provisions of these agreements and does not attempt to describe all aspects of the agreements. The rights of the parties are governed by the actual agreements and are in no way modified by the abbreviated summaries set forth in this proxy statement.

Acceleration of Stock Award Vesting

The Company's 2005 Equity Incentive Plan provides that in the event of a Change in Control (as defined below), if the surviving corporation does not assume or continue outstanding stock awards or substitute similar stock awards for those outstanding under the 2005 Equity Incentive Plan, then all such outstanding stock awards will be accelerated and become fully vested and exercisable immediately prior to the consummation of the Change in Control transaction.

Double-Trigger Acceleration of Stock Award Vesting

The Company's 2014 Equity Incentive Plan has a double-trigger acceleration which provides that in the event of a Change in Control we do not accelerate vesting of awards that are assumed or replaced by the resulting entity after a change in control unless an employee employment is also terminated by the Company without cause or by the employee with good reason within one year of the change in control.

For purposes of the 2005 Equity Incentive Plan and 2014 Equity Incentive Plan, "Change in Control" means:

- (i) the consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization, if more than 50% of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not shareholders of the Company immediately prior to such merger, consolidation or other reorganization; or
- (ii) the sale, transfer or other disposition of all or substantially all of the Company's assets.

A transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

The following table shows the potential payments the NEOs could have received under these arrangements in connection with a Change in Control on January 28, 2017.

	Change in Control		Change in Control with Double Trigger Acceleration	
	Stock Option Vesting in Connection with a Change in Control (1)	Restricted Stock Vesting in Connection with a Change in Control (2)	Stock Option Vesting in Connection with a Change in Control (3)	Restricted Stock Vesting in Connection with a Change in Control (4)
Executive Officer				
Thomas D. Campion, Chairman of the Board.....	\$ —	\$ —	\$ —	\$ —
Richard M. Brooks, Chief Executive Officer and Director	\$ —	\$ —	\$ —	\$ —
Christopher C. Work, Chief Financial Officer	\$ —	\$ 15,400	\$ —	\$ 145,560
Troy R. Brown, Executive Vice President of Ecommerce and Omni-channel.....	\$ —	\$ 49,274	\$ —	\$ 376,435
Chris K. Visser, Executive Vice President, General Counsel and Secretary	\$ —	\$ 15,400	\$ —	\$ 148,104

- (1) Represents the amount calculated by multiplying the number of in-the-money unvested options with respect to which the vesting would accelerate as a result of a Change in Control under the circumstances noted by the difference between the exercise price and the closing price of a share of common stock on the last trading day of fiscal 2016. The number of shares subject to unvested stock options and exercise prices thereof are shown previously in the Outstanding Equity Awards at Fiscal Year-End table.
- (2) Represents the amount of unvested restricted stocks awarded with respect to which the vesting would accelerate as a result of a Change in Control noted by the number of restricted stock shares unvested at the closing price of a share of common stock on the last trading day of fiscal 2016.
- (3) Represents the amount calculated by multiplying the number of in-the-money unvested options with respect to which the vesting would accelerate as a result of Change in Control under the circumstances of a double trigger acceleration as defined in the 2014 Equity Incentive Plan noted by the difference between the exercise price and the closing price of a share of common stock on the last trading day of fiscal 2016. The number of shares subject to unvested stock options and exercise prices thereof are shown previously in the Outstanding Equity Awards at Fiscal Year-End table.
- (4) Represents the amount of unvested restricted stocks awarded with respect to which the vesting would accelerate as a result of a Change in Control under the circumstances of a double trigger acceleration as defined in the 2014 Equity Incentive Plan noted by the number of restricted stock shares unvested at the closing price of a share of common stock on the last trading day of fiscal 2016.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information concerning the Company's equity compensation plans at January 28, 2017:

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans</u>
Equity compensation plans approved by security holders (1)	186,029	\$ 25.61	2,994,648
Equity compensation plans not approved by security holders (2).....	—	—	—
Employee stock purchase plans approved by security holders (3).....	—	—	285,461

- (1) Equity compensation plans approved by shareholders include the 2005 Equity Incentive Plan and the 2014 Equity Incentive Plan.
- (2) The Company does not have any equity compensation plans that were not approved by the Company's shareholders.
- (3) Employee stock purchase plans approved by shareholders include the 2014 Employee Stock Purchase Plan.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The fiscal 2016 audit committee operates under a written charter adopted by the Company's board of directors. The charter of the audit committee is available at <http://ir.zumiez.com>.

We have reviewed and discussed with management our consolidated financial statements as of and for the fiscal year ended January 28, 2017.

We have reviewed and discussed with management and the independent auditor management's assessment of the effectiveness of the Company's internal control over financial reporting and the independent auditor's opinion about the effectiveness of the Company's internal control over financial reporting.

We have discussed with the independent auditor the matters required to be discussed by Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 16 (Communication with Audit Committees).

We have received and reviewed the written disclosures and the letter from our independent auditor required by applicable requirements of the PCAOB regarding the independent auditor's communications with the audit committee concerning independence, and have discussed with the independent auditor their independence.

Based on the reviews and discussions referred to previously, we recommended to our board of directors that the financial statements referred to previously be included in our Annual Report on Form 10-K.

THE AUDIT COMMITTEE

Ernest R. Johnson, Chairman
Sarah (Sally) G. McCoy
Travis D. Smith
Scott A. Bailey

The audit committee report does not constitute soliciting material, and shall not be deemed to be filed or incorporated by reference into any other filing under the Securities Act of 1933, or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates the audit committee report by reference therein.

Fees Paid to Independent Registered Public Accounting Firm for Fiscal 2016 and 2015

The aggregate fees billed by Moss Adams LLP for professional services rendered for fiscal 2016 and fiscal 2015, are as follows:

	<u>Fiscal 2016</u>	<u>Fiscal 2015</u>
Audit fees (1)	\$ 487,500	\$ 441,000
Audit-related fees (2)	16,000	16,000
Tax fees (3)	22,500	—
Total fees.....	<u>\$ 526,000</u>	<u>\$ 457,000</u>

- (1) Audit fees include services and costs in connection with the audit of the consolidated annual financial statements of the Company and reviews of the interim condensed consolidated financial statements included in the Company's quarterly reports.
- (2) Audit-related fees include services and costs in connection with the audit of the Company's 401K plan.
- (3) Tax fees include services and costs in connection with federal, state and foreign tax compliance and tax advice.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

The audit committee pre-approves all auditing services, internal control-related services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent auditor, subject to the "de minimis exception" (discussed below) for non-audit services that are approved by the audit committee prior to the completion of the audit. The audit committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant pre-approvals shall be presented to the full audit committee at its next scheduled meeting. The audit committee will evaluate whether any permitted non-audit services are compatible with maintaining the auditor's independence.

As discussed previously, all services of the auditor must be pre-approved by the audit committee except for certain services other than audit, review or attest services that meet the "de minimis exception" under 17 CFR Section 210.2-01, namely:

- the aggregate amount of fees paid for all such services is not more than 5% of the total fees paid by the Company to its auditor during the fiscal year in which the services are provided;
- such services were not recognized by the Company at the time of the engagement to be non-audit services; and
- such services are promptly brought to the attention of the audit committee and approved prior to the completion of the audit.

During fiscal 2016 and 2015, there were no services that were performed pursuant to the "*de minimis exception.*"

PROPOSAL 4

RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Upon the recommendation of the audit committee, the board of directors has reappointed Moss Adams LLP to audit our consolidated financial statements for the fiscal year ending February 3, 2018 (“fiscal 2017”). Moss Adams LLP has served as our independent registered public accounting firm since 2006. A representative from Moss Adams LLP will be at the meeting to answer any questions that may arise.

If the shareholders do not ratify the selection of Moss Adams LLP as our independent registered public accounting firm for fiscal 2017, our board of directors will evaluate what would be in the best interests of our Company and our shareholders and consider whether to select a new independent registered public accounting firm for the current fiscal year or whether to wait until the completion of the audit for the current fiscal year before changing our independent registered public accounting firm.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR RATIFICATION OF ITS SELECTION OF MOSS ADAMS LLP AS THE COMPANY’S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL 2017

HOUSEHOLDING OF PROXY MATERIALS

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers, banks and other agents) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more shareholders sharing the same address by delivering a single proxy statement addressed to those shareholders. This process, which is commonly referred to as “householding,” potentially means extra convenience for shareholders and cost savings for companies.

A number of brokers, banks or other agents with account holders who are shareholders of Zumiez will be “householding” our proxy materials. A single proxy statement will be delivered to multiple shareholders sharing an address unless contrary instructions have been received from the affected shareholders. Once you have received notice from your broker, bank or other agent that it will be “householding” communications to your address, “householding” will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in “householding” and would prefer to receive a separate proxy statement and annual report, please notify your broker, bank or other agent, and direct a written request for the separate proxy statement and annual report to Secretary, Zumiez Inc., 4001 204th Street SW, Lynnwood, Washington 98036. Shareholders whose shares are held by their broker, bank or other agent as nominee and who currently receive multiple copies of the proxy statement at their address that would like to request “householding” of their communications should contact their broker, bank or other agent.

PROPOSALS OF SHAREHOLDERS

We expect to hold our next annual meeting on or about May 30, 2018. If you wish to submit a proposal for inclusion in the proxy materials for that meeting, you must send the proposal to our Secretary at the address below. The proposal must be received at our executive offices no later than December 21, 2017, to be considered for inclusion. Among other requirements set forth in the SEC’s proxy rules, you must have continuously held at least \$2,000 in market value or 1% of our outstanding stock for at least one year by the date of submitting the proposal, and you must continue to own such stock through the date of the meeting.

If you intend to nominate candidates for election as directors or present a proposal at the meeting without including it in our proxy materials, you must provide notice of such proposal to us no later than January 30, 2018, and not before December 31, 2017. Our bylaws outline procedures for giving the required notice. If you would like a copy of the procedures contained in our bylaws, please contact:

Secretary
Zumiez Inc.
4001 204th Street SW
Lynnwood, Washington 98036

OTHER MATTERS

Our board of directors knows of no other matters that will be presented for consideration at the annual meeting. If any other matters are properly brought before the meeting, it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their best judgment.

By Order of the Board of Directors
Chris K. Visser
Executive Vice President, General Counsel
and Secretary

Lynnwood, Washington
April 21, 2017

A copy of our Annual Report on Form 10-K for the fiscal year ended January 28, 2017 filed with the SEC is available without charge upon written request to: Secretary, Zumiez Inc., 4001 204th Street SW, Lynnwood, Washington 98036.

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

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

For the fiscal year ended: **January 28, 2017**

OR

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

Commission File Number: **000-51300**

ZUMIEZ INC.

(Exact name of Registrant as specified in its charter)

Washington
(State or other jurisdiction of
incorporation or organization)

4001 204th Street SW
Lynnwood, Washington
(Address of principal executive offices)

91-1040022
(IRS Employer
Identification No.)

98036
(Zip Code)

(425) 551-1500

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **Common Stock**

Name of each exchange on which registered: **The Nasdaq Global Select Market**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 last 90 days. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant as of the last business day of the second fiscal quarter, July 30, 2016, was \$299,590,875. At March 7, 2017, there were 24,943,341 shares outstanding of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this report is incorporated by reference from the Registrant's definitive proxy statement, relating to the Annual Meeting of Shareholders scheduled to be held May 31, 2017, which definitive proxy statement will be filed not later than 120 days after the end of the fiscal year to which this report relates.

ZUMIEZ INC.
FORM 10-K
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ZUMIEZ INC.
FORM 10-K
PART I.

This Form 10-K contains forward-looking statements. These statements relate to our expectations for future events and future financial performance. Generally, the words “anticipates,” “expects,” “intends,” “may,” “should,” “plans,” “believes,” “predicts,” “potential,” “continue” and similar expressions identify forward-looking statements. Forward-looking statements involve risks and uncertainties, and future events and circumstances could differ significantly from those anticipated in the forward-looking statements. These statements are only predictions. Actual events or results may differ materially. Factors which could affect our financial results are described in Item 1A below and in Item 7 of Part II of this Form 10-K. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assume responsibility for the accuracy and completeness of the forward-looking statements. We undertake no duty to update any of the forward-looking statements after the date of this report to conform such statements to actual results or to changes in our expectations.

We use a fiscal calendar widely used by the retail industry that results in a fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to January 31. Each fiscal year consists of four 13-week quarters, with an extra week added to the fourth quarter every five or six years. Fiscal 2017 will be the 53 week period ending February 3, 2018. Fiscal 2016 was the 52 week period ending January 28, 2017. Fiscal 2015 was the 52 week period ending January 30, 2016. Fiscal 2014 was the 52-week period ending January 31, 2015. Fiscal 2013 was the 52-week period ending February 1, 2014. Fiscal 2012 was the 53-week period ending February 2, 2013.

“Zumiez,” the “Company,” “we,” “us,” “its,” “our” and similar references refer to Zumiez Inc. and its wholly-owned subsidiaries.

Item 1. BUSINESS

Zumiez Inc., including its wholly-owned subsidiaries, is a leading specialty retailer of apparel, footwear, accessories and hardgoods for young men and women who want to express their individuality through the fashion, music, art and culture of action sports, streetwear, and other unique lifestyles. Zumiez Inc. was formed in August 1978 and is a Washington State corporation.

At January 28, 2017, we operated 685 stores; 603 in the United States (“U.S.”), 48 in Canada, 29 in Europe and 5 in Australia. We operate under the names Zumiez, Blue Tomato and Fast Times. Additionally, we operate ecommerce websites at www.zumiez.com, www.blue-tomato.com and www.fasttimes.com.au.

We acquired Snowboard Dachstein Tauern GmbH and Blue Tomato Graz Handel GmbH (collectively, “Blue Tomato”) during fiscal 2012. Blue Tomato is one of the leading European specialty retailers of apparel, footwear, accessories and hardgoods. We acquired Fast Times Skateboarding (“Fast Times”) during fiscal 2016. Fast Times is an Australian specialty retailer of skateboards, hardware, apparel and footwear.

We employ a sales strategy that integrates our stores with our ecommerce platform. There is significant interaction between our store sales and our ecommerce sales channels and we believe that they are utilized in tandem to serve our customers. Our selling platforms bring the look and feel of an independent specialty shop through a distinctive store environment and high-energy sales personnel. We seek to staff our stores with store associates who are knowledgeable users of our products, which we believe provides our customers with enhanced customer service and supplements our ability to identify and react quickly to emerging trends and fashions. We design our selling platforms to appeal to teenagers and young adults and to serve as a destination for our customers. We believe that our distinctive selling platforms concepts and compelling economics will provide continued opportunities for growth in both new and existing markets.

We believe that our customers desire authentic merchandise and fashion that is rooted in the fashion, music, art and culture of action sports, streetwear, and other unique lifestyles to express their individuality. We strive to keep our merchandising mix fresh by continuously introducing new brands, styles and categories of product. Our focus on a diverse collection of brands allows us to quickly adjust to changing fashion trends. We believe that our strategic mix of apparel, footwear, accessories and hardgoods, including skateboards, snowboards, bindings, components and other equipment, allows us to strengthen the potential of the brands we sell and helps to affirm our credibility with our customers. In addition, we supplement our merchandise mix with a select offering of private label apparel and products as a value proposition that we believe complements our overall merchandise selection.

Over our 38-year history, we have developed a corporate culture based on a passion for action sports, streetwear and other unique lifestyles. We have increased our store count from 444 as of the end of fiscal 2011 to 685 as of the end of fiscal 2016, representing a compound annual growth rate of 9.1%; increased net sales from \$555.9 million in fiscal 2011 to \$836.3 million in fiscal 2016, representing a compound annual growth rate of 8.5%; and been profitable in every fiscal year of our 38-year history.

Competitive Strengths

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

Attractive Lifestyle Retailing Concept. We target a large population of young men and women, many of whom we believe are attracted to action sports, streetwear, and other unique lifestyles and desire to express their personal independence and style through the apparel, footwear and accessories they wear and the equipment they use. We believe we have developed a brand image that our customers view as consistent with their attitudes, fashion tastes and identity that should allow us to benefit and differentiates us in our market.

Differentiated Merchandising Strategy. We have created a highly differentiated retailing concept by offering an extensive selection of current and relevant lifestyle brands encompassing apparel, footwear, accessories and hardgoods. The breadth of merchandise offered through our sales channels exceeds that offered by many of our competitors and includes some brands and products that are available only at our stores within many malls or shopping areas. Many of our customers desire to update their wardrobes and equipment as fashion trends evolve or the season dictates, providing us the opportunity to shift our merchandise selection seasonally. We believe that our ability to quickly recognize changing brand and style preferences and transition our merchandise offerings allows us to continually provide a compelling offering to our customers.

Deep-rooted Culture. We believe our culture and brand image enable us to successfully attract and retain high quality employees who are passionate and knowledgeable about the products we sell. We place great emphasis on customer service and satisfaction, and we have made this a defining feature of our corporate culture. To preserve our culture, we strive to promote from within and we provide our employees with the knowledge and tools to succeed through our comprehensive training programs and the empowerment to manage their stores to meet localized customer demand.

Distinctive Customer Experience. We strive to provide a convenient shopping environment that is appealing and clearly communicates our distinct brand image. We seek to integrate our store and digital shopping experiences to serve our customers whenever, wherever, and however they choose to engage with us. We seek to attract knowledgeable sale associates who identify with our brand and are able to offer superior customer service, advice and product expertise. We believe that our distinctive shopping experience enhances our image as a leading source for apparel and equipment for action sports, streetwear, and other unique lifestyles.

Disciplined Operating Philosophy. We have an experienced senior management team. Our management team has built a strong operating foundation based on sound retail principles that underlie our unique culture. Our philosophy emphasizes an integrated combination of results measurement, training and incentive programs, all designed to drive sales productivity to the individual store associate level. Our comprehensive training programs are designed to provide our employees with enhanced product knowledge, selling skills and operational expertise. We believe that our merchandising teams' immersion in the lifestyles we represent, supplemented with feedback from our customers, store associates and omni-channel leadership, allows us to consistently identify and react to emerging fashion trends. We believe that this, combined with our inventory planning and allocation processes and systems, helps us better manage markdown and fashion risk.

High-Impact, Integrated Marketing Approach. We seek to build relationships with our customers through a multi-faceted marketing approach that is designed to integrate our brand images with the lifestyles we represent. Our marketing efforts focus on reaching our customers in their environment and feature extensive grassroots marketing events. Our marketing efforts also incorporate local sporting and music event promotions, advertising in magazines popular with our target market, interactive contest sponsorships that actively involve our customers with our brands and products and various social network channels. Events and activities such as these provide opportunities for our customers to develop a strong identity with our culture and brands. We believe that our immersion in the lifestyles we represent allows us to build credibility with our customers and gather valuable feedback on evolving customer preferences.

Growth Strategy

We intend to expand our presence as a leading specialty retailer of action sports, streetwear, and other unique lifestyles by:

Opening or Acquiring New Store Locations. We believe our brand has appeal that provides store expansion opportunities throughout the U.S., Canada, Europe and Australia. During the last three fiscal years, we have opened or acquired 146 new stores consisting of 33 stores in fiscal 2016, 57 stores in fiscal 2015 and 56 stores in fiscal 2014. We have successfully opened or acquired stores in diverse markets throughout the U.S. and internationally, which we believe demonstrates the portability and growth potential of our concepts. To take advantage of what we believe to be a compelling economic store model, we plan to open approximately 18 new stores in fiscal 2017, including stores in our existing markets and in new markets domestically and internationally. The number of anticipated store openings may increase or decrease due to market conditions and other factors.

Continuing to Generate Sales Growth through Existing Channels. We seek to maximize our comparable sales by continuing to integrate our store and on-line shopping experiences and offering our customers a broad and relevant selection of brands and products, including a unique customer experience both in store and on-line.

Enhancing our Brand Awareness through Continued Marketing and Promotion. We believe that a key component of our success is the brand exposure that we receive from our marketing events, promotions and activities that embody the unique lifestyles of our customers. These are designed to assist us in increasing brand awareness in our existing markets and expanding into new markets by strengthening our connection with our target customer base. We believe that our marketing efforts have also been successful in generating and promoting interest in our product offerings. In addition, we use our ecommerce presence to further increase our brand awareness. We plan to continue to expand our integrated marketing efforts by promoting more events and activities in our existing and new markets. We also benefit from branded vendors' marketing.

Merchandising and Purchasing

Our goal is to be viewed by our customers as the definitive source of merchandise for their unique lifestyles across all channels in which we operate. We believe that the breadth of merchandise that we offer our customers, which includes apparel, footwear, accessories and hardgoods, exceeds that offered by many other specialty stores at a single location, and makes us a single-stop purchase destination for our target customers.

We seek to identify fashion trends as they develop and to respond in a timely manner with a relevant product assortment. We strive to keep our merchandising mix fresh by continuously introducing new brands or styles in response to the evolving desires of our customers. Our merchandise mix may vary by region, country, and season, reflecting the preferences and seasons in each market.

We believe that offering an extensive selection of current and relevant brands in sports, fashion, music, and art is integral to our overall success. No single third-party brand that we carry accounted for more than 7.3%, 7.2% and 6.9% of our net sales in fiscal 2016, 2015 and 2014. We believe that our strategic mix of apparel, footwear, accessories and hardgoods allows us to strengthen the potential of the brands we sell and affirms our credibility with our customers.

We believe that our ability to maintain an image consistent with the unique lifestyles of our customers is important to our key vendors. Given our scale and market position, we believe that many of our key vendors view us as an important retail partner. This position helps ensure our ability to procure a relevant product assortment and quickly respond to the changing fashion interests of our customers. Additionally, we believe we are presented with a greater variety of products and styles by some of our vendors, as well as certain specially designed items that we exclusively distribute. We supplement our merchandise assortment with a select offering of private label products across many of our product categories. Our private label products complement the branded products we sell, and some of our private label brands allow us to cater to the more value-oriented customer. For fiscal 2016, 2015 and 2014, our private label merchandise represented 20.2%, 21.0% and 19.9% of our net sales.

We have developed a disciplined approach to buying and a dynamic inventory planning and allocation process to support our merchandise strategy. We utilize a broad vendor base that allows us to shift our merchandise purchases as required to react quickly to changing consumer demands and market conditions. We manage the purchasing and allocation process by reviewing branded merchandise lines from new and existing vendors, identifying emerging fashion trends and selecting branded merchandise styles in quantities, colors and sizes to meet inventory levels established by management. We also coordinate inventory levels in connection with individual stores' sales strength, our promotions and seasonality.

Our merchandising staff remains in tune with the fashion, music, art and culture of action sports, streetwear, and other unique lifestyles by participating in action sports, attending relevant events and concerts, watching related programming and reading relevant publications and social network channels. In order to identify evolving trends and fashion preferences, our staff spends considerable time analyzing sales data, gathering feedback from our stores and customers, shopping in key markets and soliciting input from our vendors.

We source our private label merchandise from primarily foreign manufacturers around the world. We have cultivated our private label sources with a view towards high quality merchandise, production reliability and consistency of fit. We believe that our knowledge of fabric and production costs combined with a flexible sourcing base enables us to source high-quality private label goods at favorable costs.

Stores

Store Locations. At January 28, 2017, we operated 685 stores in the following locations:

United States and Puerto Rico - 603 Stores

Alabama	4	Indiana	10	Nebraska	2	Rhode Island	2
Alaska	3	Iowa	4	New Hampshire	6	South Carolina	4
Arizona	13	Kansas	3	New Jersey	20	South Dakota	2
Arkansas	3	Kentucky	4	New Mexico	5	Tennessee	9
California	91	Louisiana	6	New York	33	Texas	51
Colorado	19	Maine	3	Nevada	9	Utah	14
Connecticut	9	Maryland	11	North Carolina	13	Vermont	1
Delaware	4	Massachusetts	11	North Dakota	3	Virginia	15
Florida	34	Michigan	13	Ohio	13	Washington	25
Georgia	12	Minnesota	11	Oklahoma	6	West Virginia	2
Hawaii	7	Mississippi	2	Oregon	13	Wisconsin	14
Idaho	6	Missouri	7	Pennsylvania	22	Wyoming	2
Illinois	18	Montana	5	Puerto Rico	4		

Canada - 48 Stores

Alberta	7	New Brunswick	1	Saskatoon	2
British Columbia	11	Nova Scotia	2		
Manitoba	2	Ontario	23		

Europe - 29 Stores

Austria	12
Germany	16
Switzerland	1

Australia - 5 Stores

Victoria	5
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The following table shows the number of stores (excluding temporary stores that we operate from time to time for special or seasonal events) opened, acquired and closed in each of our last three fiscal years:

<u>Fiscal Year</u>	<u>Stores Opened</u>	<u>Stores Acquired</u>	<u>Stores Closed</u>	<u>Total Number of Stores End of Year</u>
2016	28	5	6	685
2015	57	—	2	658
2014	56	—	4	603

Store Design and Environment. We design our stores to create a distinctive and engaging shopping environment that we believe resonates with our customers. Our stores feature an industrial look, dense merchandise displays, lifestyle focused posters and signage and popular music, all of which are consistent with the look and feel of an independent specialty shop. Our stores are designed to encourage our customers to shop for longer periods of time, to interact with each other and our store associates and to visit our stores more frequently. Our stores are constructed and finished to allow us to efficiently shift merchandise displays throughout the year as the season dictates. At January 28, 2017, our stores averaged approximately 2,932 square feet. All references in this Annual Report on Form 10-K to square footage of our stores refers to gross square footage, including retail selling, storage and back-office space.

Expansion Opportunities and Site Selection. In selecting a location for a new store, we target high-traffic locations with suitable demographics and favorable lease terms. For mall locations, we seek locations near busy areas of the mall such as food courts, movie theaters, game stores and other popular teen and young adult retailers. We generally locate our stores in malls in which other teen and young adult-oriented retailers have performed well. We also focus on evaluating the market and mall-specific competitive environment for potential new store locations. We seek to diversify our store locations regionally and by caliber of mall.

Store Management, Operations and Training. We believe that our success is dependent in part on our ability to attract, train, retain and motivate qualified employees at all levels of our organization. We have developed a corporate culture that we believe empowers the individual store managers to make store-level business decisions and consistently rewards their success. We are committed to improving the skills and careers of our workforce and providing advancement opportunities for employees.

We believe we provide our managers with the knowledge and tools to succeed through our comprehensive training programs and the flexibility to manage their stores to meet customer demands. While general guidelines for our merchandise assortments, store layouts and in-store visuals are provided by our home offices, we give our managers substantial discretion to tailor their stores to the individual market and empower them to make store-level business decisions. We design group training programs for our managers to improve both operational expertise and supervisory skills.

Our store associates generally have an interest in the fashion, music, art and culture of the action sports lifestyle and are knowledgeable about our products. Through our training, evaluation and incentive programs, we seek to enhance the productivity of our store associates. These programs are designed to promote a competitive, yet fun, culture that is consistent with the unique lifestyles we seek to promote.

Marketing and Advertising

We seek to reach our target customer audience through a multi-faceted marketing approach that is designed to integrate our brand image with the lifestyles we represent. Our marketing efforts focus on reaching our customers in their environment, and feature extensive grassroots marketing events, which give our customers an opportunity to experience and participate in the lifestyles we offer. Our grassroots marketing events are built around the demographics of our customer base and offer an opportunity for our customers to develop a strong identity with our brands and culture.

We have a customer loyalty program, the Zumiez STASH, which allows members to earn points for purchases or performance of certain activities. The points can be redeemed for a broad range of rewards, including product and experiential rewards. Our marketing efforts also incorporate local sporting and music event promotions, advertising in magazines popular with our target market, interactive contest sponsorships that actively involve our customers with our brands and products, the Zumiez STASH, catalogs and various social network channels. We believe that our immersion in action sports, streetwear, and other unique lifestyles allows us to build credibility with our target audience and gather valuable feedback on evolving customer preferences.

Distribution and Fulfillment

Timely and efficient distribution of merchandise to our stores is an important component of our overall business strategy. Domestically, our distribution center is located in Corona, California. At this facility, merchandise is inspected, allocated to stores and distributed to our stores and customers. Each store is typically shipped merchandise five times a week, providing our stores with a steady flow of new merchandise. We utilize a localized fulfillment strategy in which we use our domestic store network to provide fulfillment services for the vast majority of customer purchases.

Internationally, we operate combined distribution and ecommerce fulfillment centers located in Graz, Austria and Melbourne, Australia respectively, that support our Blue Tomato ecommerce and store operations in Europe and our Fast Times ecommerce and store operations in Australia. We operate a distribution center located in Delta, British Columbia, Canada to distribute merchandise to our Canadian stores.

Management Information Systems

Our management information systems provide integration of store, on-line, merchandising, distribution, financial and human resources functions. The systems include applications related to point-of-sale, inventory management, supply chain, planning, sourcing, merchandising and financial reporting. We continue to invest in technology to align these systems with our business requirements and to support our continuing growth.

Competition

The teenage and young adult retail apparel, hardgoods, footwear and accessories industry is highly competitive. We compete with other retailers for vendors, customers, suitable store locations and qualified store associates, management personnel, on-line marketing content, social media engagement and ecommerce traffic. In the softgoods market, which includes apparel, footwear and accessories, we currently compete with other teenage and young adult focused retailers. In addition, in the softgoods market we compete with independent specialty shops, department stores, vendors that sell their products directly to the retail market, non-mall retailers and ecommerce retailers. 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, such as local snowboard and skate shops; large-format sporting goods stores and chains, vendors who sell their products directly to the retail market and ecommerce retailers.

Competition in our sector is based on, among other things, merchandise offerings, store location, price and the ability to identify with the customer. We believe that our ability to compete favorably with many of our competitors is due to our differentiated merchandising strategy, compelling store environment and deep-rooted culture.

Seasonality

Historically, our operations have been seasonal, with the largest portion of net sales and net income occurring in the third and fourth fiscal quarters, reflecting increased demand during the back-to-school and winter holiday selling seasons. During fiscal 2016, approximately 58% of our net sales and all of our net income occurred in the third and fourth quarters combined. As a result of this seasonality, any factors negatively affecting us during the last half of the year, including unfavorable economic conditions, adverse weather or our ability to acquire seasonal merchandise inventory, could have a material adverse effect on our financial condition and results of operations for the entire year. Our quarterly results of operations may also fluctuate based upon such factors as the timing of certain holiday seasons, the popularity of seasonal merchandise offered, the timing and amount of markdowns, competitive influences and the number and timing of new store openings, remodels and closings.

Trademarks

The “Zumiez”, “Blue Tomato” and “Fast Times” trademarks and certain other trademarks, have been registered, or are the subject of pending trademark applications, with the U.S. Patent and Trademark Office and with the registries of certain foreign countries. We regard our trademarks as valuable and intend to maintain such marks and any related registrations and vigorously protect our trademarks. We also own numerous domain names, which have been registered with the Corporation for Assigned Names and Numbers.

Employees

At January 28, 2017, we employed approximately 2,400 full-time and approximately 4,900 part-time employees globally. However, the number of part-time employees fluctuates depending on our seasonal needs and generally increases during peak selling seasons, particularly the back-to-school and the winter holiday seasons. None of our employees are represented by a labor union and we believe that our relationship with our employees is positive.

Financial Information about Segments

See Note 16, “Segment Reporting,” in the Notes to Consolidated Financial Statements found in Part IV Item 15 of this Form 10-K, for information regarding our segments, product categories and certain geographical information.

Available Information

Our principal website address is www.zumiez.com. We make available, free of charge, our proxy statement, annual report to shareholders, annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (“SEC”) at <http://ir.zumiez.com>. Information available on our website is not incorporated by reference in, and is not deemed a part of, this Form 10-K. The SEC maintains a website that contains electronic filings by Zumiez and other issuers at www.sec.gov. In addition, the public may read and copy any materials Zumiez files with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Item 1A. 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 “anticipates,” “expects,” “intends,” “may,” “should,” “plans,” “believes,” “predicts,” “potential,” “continue” and similar expressions identify forward-looking statements. Forward-looking statements involve risks and uncertainties, and future events and circumstances could differ significantly from those anticipated in the forward-looking statements. 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.

Failure to anticipate, identify and respond to changing fashion trends, customer preferences and other fashion-related factors could have a material adverse effect on us.

Customer tastes and fashion trends in our 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, including adequately anticipating the correct mix and trends of our private label merchandise, 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.

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, footwear, accessories and hardgoods industry is highly competitive. We compete with other retailers for vendors, teenage and young adult customers, suitable store locations, qualified store associates, management personnel, on-line marketing content, social media engagement and ecommerce traffic. Some of our competitors are larger than we are and have substantially greater financial and marketing resources, including advanced ecommerce market capabilities. Additionally, some of our competitors may offer more options for free and/or expedited shipping for ecommerce sales. Direct competition with these and other retailers may increase significantly in the future, which could require us, among other things, to lower our prices and could result in the loss of our customers. Current and increased competition could have a material adverse effect on our business, results of operations and financial condition.

U.S. and global economic and political uncertainty, coupled with cyclical economic trends in retailing, could have a material adverse effect on our results of operations.

Our retail market historically has been subject to substantial cyclicity. As the U.S. and global economic and political conditions change, the trends in discretionary consumer spending become unpredictable and discretionary consumer spending could be reduced due to uncertainties about the future. When disposable income decreases or discretionary consumer spending is reduced due to a decline in consumer confidence, purchases of apparel and related products may decline. The current uncertainty in the U.S. and global economies and political environment could have a material adverse impact on our results of operations and financial position.

In response to a decline in disposable income and consumer confidence, we believe the “value” message has become more important to consumers. As a retailer that sells approximately 80% branded merchandise, this trend may negatively affect our business, as we generally will have to charge more than vertically integrated private label retailers or we may be forced to rely on promotional sales to compete in our market which could have a material adverse effect on our financial position.

A decrease in consumer traffic could cause our sales to be less than expected.

We depend heavily on generating customer traffic to our stores and websites. This includes locating many of 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. Furthermore, we depend on generating increased traffic to our websites and converting that traffic into sales. This requires us to achieve expected results from our marketing and social media campaigns, accuracy of data analytics, reliability of our website, network, and transaction processing and a high-quality on-line customer experience. Our sales volume and customer traffic in our stores and on our websites generally could be adversely affected by, among other things, economic downturns, competition from other ecommerce retailers, non-mall retailers and other malls, increases in gasoline prices, fluctuations in exchange rates in border or tourism-oriented locations and the closing or decline in popularity of other stores in the malls in which we are located. An uncertain economic outlook could curtail new shopping mall development, decrease shopping mall and ecommerce traffic, reduce the number of hours that shopping mall operators keep their shopping malls open or force them to cease operations entirely. A reduction in consumer traffic to our stores or websites could have a material adverse effect on our business, results of operations and financial condition.

Our growth strategy depends on our ability to grow customer engagement in our current markets and expand into new markets, which could strain our resources and cause the performance of our existing business to suffer.

Our growth largely depends on our ability to optimize our customer engagement in our current trade areas and operate successfully in new geographic markets. However, our ability to open stores in new geographic markets in the U.S. and international locations is subject to a variety of risks and uncertainties, and we may be unable to open new stores as planned or have access to desirable lease space, and any failure to successfully open and operate in new markets could have a material adverse effect on our results of operations. We intend to continue to open new stores in future years, while remodeling a portion of our existing store base such that we have the optimum number of stores in any given trade area. The expansion into new markets may present competitive, merchandising, hiring and distribution challenges that are different from those currently encountered in our existing markets. 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. In addition, successful execution of our growth strategy may require that we obtain additional financing, and we may not be able to obtain that financing on acceptable terms or at all.

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

We may, from time to time, acquire businesses, such as our acquisition of Blue Tomato, which operates primarily in the European market, and Fast Times, which operates primarily in the Australian market. We may experience difficulties in integrating any businesses we may acquire, including their stores, websites, facilities, personnel, financial systems, distribution, operations and general operating procedures, and any such acquisitions may also result in the diversion of our capital and our management's attention from other business issues and opportunities. If we experience difficulties in integrating acquisitions or if such acquisitions do not provide the benefits that we expect to receive, we could experience increased costs and other operating inefficiencies, which could have an adverse effect on our results of operations and overall financial performance.

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

We plan to continue to open new stores in the Canadian, European, and Australian markets. We may continue to expand internationally in other markets, either organically, or through additional acquisitions. International markets may have different competitive conditions, consumer tastes and discretionary spending patterns than our existing U.S. market. As a result, operations in international markets may be less successful than our operations in the U.S. Additionally, consumers in international markets may not be familiar with us or the brands we sell, and we may need to build brand awareness in the markets. Furthermore, we have limited experience with the legal and regulatory environments and market practices in new international markets and cannot guarantee that we will be able to penetrate or successfully operate in these new international markets. We also expect to incur additional costs in complying with applicable foreign laws and regulations as they pertain to both our products and our operations. Accordingly, for the reasons noted above, our plans for international expansion include risks that could have a negative impact on our results of operations.

Our sales and inventory levels fluctuate on a seasonal basis. Accordingly, our quarterly results of operations are volatile and may fluctuate significantly.

Our quarterly results of operations have fluctuated significantly in the past and can be expected to continue to fluctuate significantly in the future. Our sales and profitability are typically disproportionately higher in the third and fourth fiscal quarters of each fiscal year due to increased sales during the back-to-school and winter holiday shopping seasons. Sales during these periods cannot be used as an accurate indicator of annual results. As a result of this seasonality, any factors negatively affecting us during the last half of the year, including unfavorable economic conditions, adverse weather or our ability to acquire seasonal merchandise inventory, could have a material adverse effect on our financial condition and results of operations for the entire year. In addition, in order to prepare for the back-to-school and winter holiday shopping seasons, we must order and keep in stock significantly more merchandise than we carry during other times of the year. Any unanticipated decrease in demand for our products during these peak shopping seasons could require us to sell excess inventory at a substantial markdown, which could have a material adverse effect on our business, results of operations and financial condition.

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 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.

Significant fluctuations and volatility in the cost of raw materials, global labor, shipping and other costs related to the production of our merchandise may have a material adverse effect on our business, results of operations and financial conditions.

Increases in the cost of raw materials, global labor costs, freight costs and other shipping costs in the production and transportation of our merchandise can result in higher costs for this merchandise. The costs for these products are affected by weather, consumer demand, government regulation, speculation on the commodities market and other factors that are generally unpredictable and beyond our control. Our gross profit and results of operations could be adversely affected to the extent that the selling prices of our products do not increase proportionately with the increases in the costs of raw materials. Increasing labor costs and oil-related product costs, such as manufacturing and transportation costs, could also adversely impact gross profit. Additionally, significant changes in the relationship between carrier capacity and shipper demand could increase transportation costs, which could also adversely impact gross profit.

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

Most of our merchandise is produced by manufacturers around the world. Some of these facilities are located in regions that may be affected by natural disasters, political instability or other conditions that could cause a disruption in trade. Trade restrictions such as increased tariffs or quotas, or both, could also 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. This includes costs to comply with regulatory developments regarding the use of “conflict minerals,” certain minerals originating from the Democratic Republic of Congo and adjoining countries, which may affect the sourcing and availability of raw materials used by manufacturers and subject us to increased costs associated with our products, processes or sources of our inputs. Our business could be adversely affected by disruptions in the supply chain, such as strikes, work stoppages, or port closures.

Fluctuations in foreign currency exchange rates could impact our financial condition and results of operations.

We are exposed to foreign currency exchange rate risk with respect to our sales, profits, assets and liabilities denominated in currencies other than the U.S. dollar. As a result, the fluctuation in the value of the U.S. dollar against other currencies could have a material adverse effect on our results of operations, financial condition and cash flows. Upon translation, operating results may differ materially from expectations. As we continue to expand our international operations, our exposure to exchange rate fluctuations will increase. Tourism spending may be affected by changes in currency exchange rates, and as a result, sales at stores with higher tourism traffic may be adversely impacted by fluctuations in currency exchange rates. Further, although the prices charged by vendors for the merchandise we purchase are primarily denominated in U.S. dollars, a decline in the relative value of the U.S. dollar to foreign currencies could lead to increased merchandise costs, which could negatively affect our competitive position and our results of operations.

Our business could be adversely affected by increased labor costs, including costs related to an increase in minimum wage and health care.

Labor is one of the primary components in the cost of operating our business. Increased labor costs, whether due to competition, unionization, increased minimum wage, state unemployment rates, health care, or other employee benefits costs may adversely impact our operating expenses. A considerable amount of our store team members are paid at rates related to the federal or state minimum wage and any changes to the minimum wage rate may increase our operating expenses. Furthermore, inconsistent increases in state and or city minimum wage requirements limit our ability to increase prices across all markets and channels. Additionally, we are self-insured with respect to our health care coverage in the U.S. and do not purchase third party insurance for the health insurance benefits provided to employees with the exception of pre-defined stop loss coverage, which helps limit the cost of large claims. There is no assurance that future health care legislation will not adversely impact our results or operations.

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

We do not control our vendors or the manufacturers that produce the products we buy from them, nor do we control the labor and environmental practices of our vendors and these manufacturers. The violation of labor, safety, environmental and/or other laws and standards by any of our vendors or these manufacturers, or the divergence of the labor and environmental practices followed by any of our vendors or these manufacturers from those generally accepted as ethical in the U.S., 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 reputation, financial condition and results of operations. In that regard, most of the products we sell are manufactured overseas, primarily in Asia, Mexico and Central America, which may increase the risk that the labor and environmental practices followed by the manufacturers of these products may differ from those considered acceptable in the U.S.

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

If we fail to develop and 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 developing and maintaining good relationships with a large number of vendors to provide our customers with an extensive selection of current and relevant brands. In addition to maintaining our large number of current vendor relationships, this includes identifying, attracting and launching new vendors every year to provide a diverse and unique product assortment. We believe that we generally are able to obtain attractive pricing and terms from vendors because we are perceived as a desirable customer, and deterioration in our relationship with our vendors could have a material adverse effect on our business.

However, there can be no assurance that our current vendors or new vendors will provide us with an adequate supply or quality of products or acceptable pricing. Our vendors could discontinue selling to us, raise the prices they charge, sell through direct channels or allow their merchandise to be discounted by other retailers. There can be no assurance that we will be able to acquire desired merchandise in sufficient quantities on terms acceptable to us in the future. In addition, certain of our vendors sell their products directly to the retail market and therefore compete with us directly and other vendors may decide to do so in the future. There can be no assurance that such vendors will not decide to discontinue supplying their products to us, supply us only less popular or lower quality items, raise the prices they charge us or focus on selling their products directly.

In addition, a number of our vendors are smaller, less capitalized companies and are more likely to be impacted by unfavorable general economic and market conditions than larger and better capitalized companies. These smaller vendors may not have sufficient liquidity during economic downturns to properly fund their businesses and their ability to supply their products to us could be negatively impacted. Any inability to acquire suitable merchandise at acceptable prices, or the loss of one or more key vendors, could have a material adverse effect on our business, results of operations and financial condition.

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

Our business is susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season (including any weather patterns associated with global warming and cooling) could render a portion of our inventory incompatible with those unseasonable conditions. These prolonged unseasonable weather conditions could have a material adverse effect on our business and results of operations.

Our omni-channel strategy may not have the return we anticipate, which could have an adverse effect on our results of operations.

We are executing an omni-channel strategy to enable our customers to shop wherever, whenever and however they choose to engage with us. Our omni-channel strategy may not deliver the results we anticipate or may not adequately anticipate changing consumer trends, preferences and expectations. We will continue to develop additional ways to execute our superior omni-channel experience and interact with our customers, which requires significant investments in IT systems and changes in operational strategy, including localization, on-line and in-store point of sale systems, order management system, and transportation management system. If we fail to effectively integrate our store and ecommerce shopping experiences, effectively scale our IT structure or we do not realize the return on our investments that we anticipate our operating results could be adversely affected. Our competitors are also investing in omni-channel initiatives. If our competitors are able to be more effective in their strategy, it could have an adverse effect on our results of operations. If our omni-channel strategy fails to meet customer expectations related to functionality, timely delivery, or customer experience, our business and results of operations may be adversely affected. Additionally, to manage the anticipated growth of our operations and personnel, we will 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.

If our information systems fail to function effectively our operations could be disrupted and our financial results could be harmed.

If our information systems 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. Further, we may suffer loss of critical data and interruptions or delays in our operations. Additionally, we rely on third-party service providers for certain information systems functions. If a service provider fails to provide the data quality, communications capacity, security or services we require, the failure could interrupt our services and could have a material adverse effect on our business, financial condition and results of operations.

If the security of our data is breached we may be subjected to adverse publicity, litigation and significant expenses.

Information systems are susceptible to an increasing threat of continually evolving cybersecurity risks. We maintain security systems, devices and activity monitoring to prevent unauthorized access to our network, systems and databases containing confidential, proprietary, and personally identifiable information. Nevertheless, if unauthorized parties gain access to our networks, systems or databases, they may be able to steal, publish, delete or modify confidential 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 and we may be exposed to reputation damage and loss of customers' trust and business. 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. Actual or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional resources, train employees, and engage third-parties. Further, the regulatory environment surrounding information security, cybersecurity and privacy is increasingly demanding. If we are unable to comply with the new and changing security standards, we may be subject to fines, restrictions and financial exposure, which could adversely affect our retail operations.

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

Our performance depends largely on the efforts and abilities of our key executives. If we lose the services of one or more of our key executives, we may not be able to successfully manage our business or achieve our growth objectives. Furthermore, as our business grows, we will need to attract and retain additional qualified 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 who understand and appreciate our culture and brand and are able to adequately represent this culture. 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. Our business depends on the ability to hire and retain qualified technical and support roles for procurement, distribution, e-commerce and back office functions. Competition for qualified employees in these areas could require us to pay higher wages to attract a sufficient number of suitable employees.

If we are unable to hire and retain store managers and store associates capable of consistently providing a high level of customer service, as demonstrated by their enthusiasm for our culture and knowledge of our merchandise, our ability to open new stores may be impaired and the performance of our existing and new stores could be materially adversely affected. We are also dependent upon temporary personnel to adequately staff our operations 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. If we are unable to hire qualified temporary personnel, our results of operations could be adversely impacted.

Although none of our employees are currently covered by collective bargaining agreements, we cannot guarantee that our employees will not elect to be represented by labor unions in the future, which could increase our labor costs and could subject us to the risk of work stoppages and strikes. Any such failure to meet our staffing needs, any material increases in employee turnover rates, any increases in labor costs or any work stoppages, interruptions or strikes could have a material adverse effect on our business or results of operations.

A decline in cash flows from operations could have a material adverse effect on our business and growth plans.

We depend on cash flow from operations to fund our current operations and our growth strategy, including the payment of our operating leases, wages, store operation costs and 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 our credit facility or from other sources, we may not be able to pay our operating lease expenses, grow our business, respond to competitive challenges or fund our other liquidity and capital needs, which could have a material adverse effect on our business.

The terms of our asset-based revolving credit agreement impose certain restrictions on us that may impair our ability to respond to changing business and economic conditions, which could have a significant adverse impact on our business. Additionally, our business could suffer if our ability to acquire financing is reduced or eliminated.

We maintain an asset-based revolving credit agreement with Wells Fargo Bank, N.A., which provides for a senior secured revolving credit facility (“ABL Facility”) of up to \$100 million. The ABL Facility contains various representations, warranties and restrictive covenants that, among other things and subject to specified circumstances and exceptions, restrict our ability to incur indebtedness (including guarantees), grant liens, make investments, pay dividends or distributions with respect to capital stock, make prepayments on other indebtedness, engage in mergers, dispose of certain assets or change the nature of their business. In addition, excess availability equal to at least 10% of the loan cap must be maintained under the ABL Facility. The ABL Facility does not otherwise contain financial maintenance covenants. These restrictions 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.

The ABL Facility includes customary events of default including non-payment of principal, interest or fees, violation of covenants, inaccuracy of representations or warranties, cross-default to other material indebtedness, bankruptcy and insolvency events, invalidity or impairment of guarantees or security interests, material judgments and change of control. Additionally, we cannot be assured that our borrowing relationship with our lenders will continue or that our lenders will remain able to support their commitments to us in the future. If our lenders fail to do so, then we may not be able to secure alternative financing on commercially reasonable terms, or at all.

Our business could suffer with the closure or disruption of our home office or our distribution centers.

Domestically, we rely on a single distribution center located in Corona, California to receive, store and distribute the vast majority of our merchandise to our domestic stores. Internationally, we operate a combined distribution and ecommerce fulfillment center located in Graz, Austria that supports our Blue Tomato ecommerce and store operations in Europe. We operate a distribution center located in Delta, British Columbia, Canada to distribute our merchandise to our Canadian stores. We operate a distribution and fulfillment center located in Melbourne, Australia to distribute our merchandise to our Australian stores. Additionally, we are headquartered in Lynnwood, Washington. As a result, a natural disaster or other catastrophic event that affects one of the regions where we operate these centers or our home office could significantly disrupt our operations and have a material adverse effect on our business, results of operations and financial condition.

The effects of war, acts of terrorism, threat of terrorism, or other types of mall violence, could adversely affect our business.

Most of our stores are located in shopping malls. Any threat of terrorist attacks or actual terrorist events, or other types of mall violence, such as shootings in malls, particularly in public areas, could lead to lower consumer 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 consumer traffic due to security concerns, could result in decreased sales. Additionally, the threat, escalation or commencement of war or other armed conflict elsewhere, could significantly diminish consumer spending, and result in decreased sales. Decreased sales could have a material adverse effect on our business, financial condition and results of operations.

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

We believe that our trademarks and domain names are valuable assets that are critical to our success. The unauthorized use or other misappropriation of our trademarks or domain names could diminish the value of the Zumiez, Blue Tomato, or Fast Times brands, our store concepts, our private label brands or our goodwill and cause a decline in our net sales. Although we have secured or are in the process of securing protection for our trademarks and domain names in a number of countries outside of the U.S., there are certain countries where we do not currently have or where we do not currently intend to apply for protection for certain trademarks. 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 U.S., 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.

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

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

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

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.

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

Our business is subject to a wide array of laws and regulations including those related to employment, trade, consumer protection, transportation, occupancy laws, health care, wage laws, employee health and safety, taxes, privacy, health information privacy, identify theft, customs, truth-in-advertising, securities laws, unsolicited commercial communication and environmental issues. Our policies, procedures and internal controls are designed to comply with foreign and domestic laws and regulations, such as those required by the Sarbanes-Oxley Act of 2002 and the U.S. Foreign Corrupt Practices Act. Although we have policies and procedures aimed at ensuring legal and regulatory compliance, our employees or vendors could take actions that violate these laws and regulations. Any violations of such laws or regulations could have an adverse effect on our reputation, results of operations, financial condition and cash flows. Furthermore, changes in the regulations, the imposition of additional regulations, or the enactment of any new legislation, particularly in the U.S. and Europe, could adversely affect our results of operations or financial condition.

Fluctuations in our tax obligations and effective tax rate may result in volatility in our operating results.

We are subject to income taxes in many domestic and foreign jurisdictions. In addition, our products are subject to import and excise duties and/or sales, consumption or value-added taxes in many jurisdictions. We record tax expense based on our estimates of future payments, which include reserves for estimates of probable settlements of domestic and foreign tax audits. At any one time, many tax years are subject to audit by various taxing jurisdictions. There can be no assurance as to the outcome of these audits which may have an adverse effect to our business. In addition, our effective tax rate may be materially impacted by changes in tax rates and duties, the mix and level of earnings or losses by taxing jurisdictions, or by changes to existing accounting rules or regulations. Changes to foreign or domestic tax laws could have a material impact on our financial condition, results of operations or cash flows.

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

Our common stock is traded publicly and various securities analysts follow our financial results and issue reports on us. These reports include information about our historical financial results as well as the analysts' estimates of our future performance. The analysts' estimates are based upon their own independent opinions and can be different from our estimates or expectations. If our operating results are below the estimates or expectations of public market analysts and investors, our stock price could decline.

The reduction of total outstanding shares through the execution of the share repurchase program of common stock may increase the risk that a group of shareholders could form a group to become a controlling shareholder.

We do not have a controlling shareholder, nor are we aware of any shareholders that have formed a "group" (defined as when two or more persons agree to act together for the purposes of acquiring, holding, voting or otherwise disposing of the equity securities of an issuer). The reduction of total outstanding shares through the execution of the share repurchase program of common stock may increase the risk that a group of shareholders could form a group to become a controlling shareholder.

A controlling shareholder would have significant influence over, and may have the ability to control, matters requiring approval by our shareholders, including the election of directors and approval of mergers, consolidations, sales of assets, recapitalizations and amendments to our articles of incorporation. Furthermore, a controlling shareholder may take actions with which other shareholders do not agree, including actions that delay, defer or prevent a change of control of the company and that could cause the price that investors are willing to pay for the company's stock to decline.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

All of our stores are occupied under operating leases and encompassed approximately 2.0 million total square feet at January 28, 2017.

We own approximately 356,000 square feet of land in Lynnwood, Washington, and completed construction of a 63,071 square foot home office in fiscal 2012. Additionally, we lease 14,208 square feet of office space in Schladming, Austria for our European home office. This lease is set to expire in 2027.

We own a 168,450 square foot building in Corona, California that serves as our domestic warehouse and distribution center.

We lease a 95,508 square feet combined distribution and ecommerce fulfillment center in Graz, Austria that supports our Blue Tomato ecommerce and store operations in Europe. This lease is set to expire in 2019. We lease 17,168 square feet of a distribution facility in Delta, British Columbia, Canada that supports our store operations in Canada. This lease is set to expire in 2018. We lease a 2,852 square feet distribution and ecommerce fulfillment center in Melbourne, Australia that supports our Fast Times ecommerce and store operations in Australia. This lease is set to expire in 2018.

Item 3. LEGAL PROCEEDINGS

We are involved from time to time in litigation incidental to our business. We believe that the outcome of current litigation is not expected to have a material adverse effect on our results of operations or financial condition.

See Note 9, "Commitments and Contingencies," in the Notes to Consolidated Financial Statements found in Part IV Item 15 of this Form 10-K, for additional information related to legal proceedings.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is traded on the Nasdaq Global Select Market under the symbol "ZUMZ." At January 28, 2017, there were 24,944,782 shares of common stock outstanding. The following table sets forth the high and low sales prices for our common stock on the Nasdaq Global Select Market.

Fiscal 2016	High	Low
First Fiscal Quarter (January 31, 2016—April 30, 2016)	\$ 22.14	\$ 16.33
Second Fiscal Quarter (May 1, 2016—July 30, 2016).....	\$ 17.12	\$ 13.50
Third Fiscal Quarter (July 31, 2016—October 29, 2016)	\$ 23.07	\$ 14.42
Fourth Fiscal Quarter (October 30, 2016—January 28, 2017)	\$ 26.55	\$ 18.20

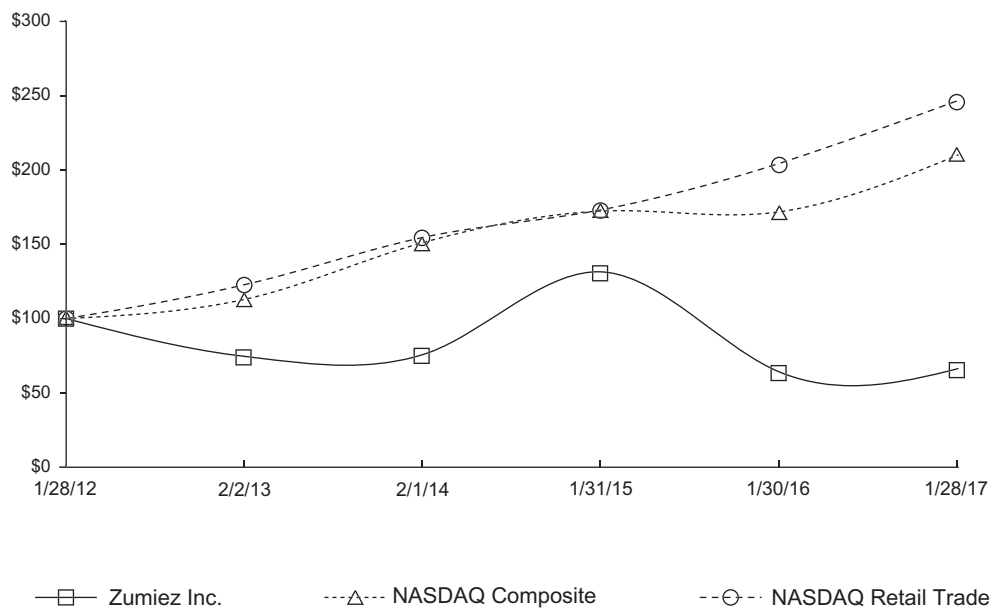
Fiscal 2015	High	Low
First Fiscal Quarter (February 1, 2015—May 2, 2015)	\$ 40.64	\$ 30.89
Second Fiscal Quarter (May 3, 2015—August 1, 2015).....	\$ 32.29	\$ 23.51
Third Fiscal Quarter (August 2, 2015—October 31, 2015)	\$ 26.32	\$ 13.75
Fourth Fiscal Quarter (November 1, 2015—January 30, 2016)	\$ 18.49	\$ 11.53

Performance Measurement Comparison

The following graph shows a comparison for total cumulative returns for Zumiez, the Nasdaq Composite Index and the Nasdaq Retail Trade Index during the period commencing on January 28, 2012 and ending on January 28, 2017. The comparison assumes \$100 was invested on January 28, 2012 in each of Zumiez, the Nasdaq Composite Index and the Nasdaq Retail Trade Index, and assumes the reinvestment of all dividends, if any. The comparison in the following graph and table is required by the SEC and is not intended to be a forecast or to be indicative of future Company common stock performance.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Zumiez Inc., the NASDAQ Composite Index
and the NASDAQ Retail Trade Index



*\$100 invested on 1/28/12 in stock or 1/31/12 in index, including reinvestment of dividends.
Indexes calculated on month-end basis.

	1/28/12	2/2/13	2/1/14	1/31/15	1/30/16	1/28/17
Zumiez	100.00	74.51	75.96	131.63	63.93	66.54
NASDAQ Composite	100.00	113.29	151.56	172.90	172.62	211.07
NASDAQ Retail Trade	100.00	123.01	155.03	174.00	205.56	247.71

Holder of the Company's Capital Stock

We had 465 shareholders of record as of February 27, 2017.

Dividends

No cash dividends have been declared on our common stock to date nor have any decisions been made to pay a dividend in the foreseeable future. Payment of dividends is evaluated on a periodic basis.

Recent Sales of Unregistered Securities

None

Issuer Purchases of Equity Securities

The share repurchase program is conducted under authorizations made from time to time by our Board of Directors. In December 2015, our Board of Directors authorized us to repurchase up to \$70.0 million of our common stock. This program was expired as of January 28, 2017. There were no issuer purchases of our common stock during the thirteen weeks ended January 28, 2017.

Item 6. SELECTED FINANCIAL DATA

The following selected consolidated financial information has been derived from our audited Consolidated Financial Statements. The data should be read in conjunction with our Consolidated Financial Statements and the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein.

	<u>Fiscal 2016</u>	<u>Fiscal 2015 (1)</u>	<u>Fiscal 2014 (2)</u>	<u>Fiscal 2013 (3)</u>	<u>Fiscal 2012 (4)</u>
Statement of Operations Data					
(in thousands, except per share data):					
Net sales	\$ 836,268	\$ 804,183	\$ 811,551	\$ 724,337	\$ 669,393
Cost of goods sold.....	<u>561,266</u>	<u>535,559</u>	<u>524,468</u>	<u>462,577</u>	<u>428,109</u>
Gross profit.....	275,002	268,624	287,083	261,760	241,284
Selling, general and administrative expenses	<u>235,259</u>	<u>222,459</u>	<u>215,512</u>	<u>188,918</u>	<u>172,742</u>
Operating profit.....	39,743	46,165	71,571	72,842	68,542
Interest income, net.....	32	529	637	711	1,410
Other income (expense), net	<u>449</u>	<u>(833)</u>	<u>(557)</u>	<u>(1,589)</u>	<u>327</u>
Earnings before income taxes	40,224	45,861	71,651	71,964	70,279
Provision for income taxes.....	<u>14,320</u>	<u>17,076</u>	<u>28,459</u>	<u>26,016</u>	<u>28,115</u>
Net income	<u>\$ 25,904</u>	<u>\$ 28,785</u>	<u>\$ 43,192</u>	<u>\$ 45,948</u>	<u>\$ 42,164</u>
Earnings per share:					
Basic.....	<u>\$ 1.05</u>	<u>\$ 1.05</u>	<u>\$ 1.50</u>	<u>\$ 1.54</u>	<u>\$ 1.37</u>
Diluted.....	<u>\$ 1.04</u>	<u>\$ 1.04</u>	<u>\$ 1.47</u>	<u>\$ 1.52</u>	<u>\$ 1.35</u>
Weighted average shares outstanding:					
Basic.....	24,727	27,497	28,871	29,810	30,742
Diluted.....	24,908	27,673	29,288	30,206	31,273
Balance Sheet Data (in thousands):					
Cash, cash equivalents and current marketable securities	\$ 78,826	\$ 75,554	\$ 154,644	\$ 117,155	\$ 103,172
Working capital.....	137,766	129,755	191,351	168,472	146,115
Total assets	426,683	414,695	493,705	443,403	409,098
Total long-term liabilities.....	46,035	48,596	52,734	46,375	48,478
Total shareholders' equity.....	307,051	296,957	359,524	335,654	303,421
Other Financial Data (in thousands, except gross margin and operating margin):					
Gross profit.....	32.9%	33.4%	35.4%	36.1%	36.0%
Operating margin	4.8%	5.7%	8.8%	10.1%	10.2%
Capital expenditures.....	\$ 20,400	\$ 34,834	\$ 35,758	\$ 35,969	\$ 41,070
Depreciation, amortization and accretion	\$ 27,916	\$ 30,410	\$ 29,167	\$ 26,596	\$ 22,957
Company Data:					
Number of stores open at end of period.....	685	658	603	551	498
Comparable sales (decrease) increase (5)	(0.2%)	(5.3%)	4.6%	(0.3%)	5.0%
Net sales per store (6) (in thousands).....	\$ 1,235	\$ 1,256	\$ 1,390	\$ 1,366	\$ 1,403
Total store square footage (7) (in thousands).....	2,009	1,935	1,770	1,624	1,480
Average square footage per store (8).....	2,932	2,941	2,936	2,947	2,961
Net sales per square foot (9).....	\$ 420	\$ 427	\$ 473	\$ 462	\$ 475

- (1) Included in the results for fiscal 2015 is \$1.2 million for the exit costs associated with the closure of our Kansas fulfillment center, \$0.6 million for the expense associated with the incentive payments in conjunction with our acquisition of Blue Tomato and an expense of \$0.9 million of amortization of intangible assets.

- (2) Included in the results for fiscal 2014 is \$6.4 million for the expense associated with the future incentive payments in conjunction with our acquisition of Blue Tomato and an expense of \$2.3 million of amortization of intangible assets.
- (3) Included in the results for fiscal 2013 are the following charges: a) a benefit of \$2.7 million representing the correction of an error related to our calculation to account for rent expense on a straight-line basis, b) a benefit of \$2.6 million for the reversal of the previously recorded expense associated with the future incentive payments in conjunction with our acquisition of Blue Tomato, c) an expense of \$2.3 million for the amortization of intangible assets, d) an expense of \$1.3 million for a litigation settlement and e) a benefit of \$0.4 million for the release of a valuation allowance to net operating losses in foreign subsidiaries.
- (4) Fiscal 2012 consisted of 53 weeks. All other fiscal years presented consisted of 52 weeks. In fiscal 2012, we acquired Blue Tomato for cash consideration of 59.5 million Euros (\$74.8 million). Additionally, included in the results for fiscal 2012 are the following charges: a) an expense of \$2.3 million associated with the future incentive payments to be paid in conjunction with our acquisition of Blue Tomato, b) an expense of \$2.2 million related to a step-up in inventory to estimated fair value in conjunction with our acquisition of Blue Tomato, c) an expense of \$2.1 million associated with the relocation of our ecommerce fulfillment center and home office, d) an expense of \$1.9 million in transaction costs incurred in conjunction with our acquisition of Blue Tomato and e) an expense of \$1.3 million for the amortization of intangible assets.
- (5) See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—General” for more information about how we compute comparable sales.
- (6) Net sales per store represents net sales, including ecommerce sales, for the period divided by the average number of stores open during the period. For purposes of this calculation, the average number of stores open during the period is equal to the sum of the number of stores open as of the end of each month during the fiscal year divided by the number of months in the fiscal year.
- (7) Total store square footage includes retail selling, storage and back office space at the end of the fiscal year.
- (8) Average square footage per store is calculated based on the total store square footage at the end of the fiscal year, including retail selling, storage and back office space, of all stores open at the end of the fiscal year.
- (9) Net sales per square foot represents net sales, including ecommerce sales, for the period divided by the average square footage of stores open during the period. For purposes of this calculation, the average square footage of stores open during the period is equal to the sum of the total square footage of the stores open as of the end of each month during the fiscal year divided by the number of months in the fiscal year.

Item 7. 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 consolidated financial statements and related notes included elsewhere in this document. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those discussed in “Item 1A Risk Factors.” See the cautionary note regarding forward-looking statements set forth at the beginning of Part I of the Annual Report on Form 10-K.

Fiscal 2016—A Review of This Past Year

In fiscal 2016 teen retail in general faced a continuing challenging sales environment with many mall-based teen retailers experiencing declining sales and store closures. Following a fourth quarter 2015 comparable sales decrease of 9.5%, Zumiez comparable sales remained negative through the first half of fiscal 2016. By the third quarter of fiscal 2016, driven by the strength of several new brands, Zumiez comparable sales turned positive and remained positive through the balance of the year. The full year comparable sales for fiscal 2016 decreased 0.2%. Operating margins and earnings declined from the prior year due primarily to deleveraging of fixed costs on slightly negative comparable sales. We continued to make investments in our North America store footprint focused on expanding in the United States and Canada by adding 22 new stores during fiscal 2016. We also added 6 new stores to our Blue Tomato operations in Europe and added 5 stores through the acquisition of Fast Times in Australia.

As a leading lifestyle retailer we continue to differentiate ourselves through our distinctive brand offering and diverse product selection, as well as the unique customer experience our sales associates provide. We also believe that investments made in our omni-channel platform focused on creating a seamless shopping experience for our customer between the physical and digital channels is critical for our long-term financial performance. Fiscal 2016 represented the first year of localized fulfillment of our on-line orders which drove significant improvements in speed of delivery to our customers. In store fulfillment is a key part of our omni-channel strategy that we believe will drive long term market share by leveraging the strengths of our store sales team, providing better and faster service to customers, improving product margins, and providing additional selling opportunities.

The following table shows net sales, operating profit, operating margin, and diluted earnings per share for fiscal 2016 compared to fiscal 2015. The fiscal 2015 results include \$1.5 million of charges associated with the acquisition of Blue Tomato made up of \$0.6 million for incentive payments related to the transaction and \$0.9 million for the amortization of intangible assets and \$1.2 million associated with exit charges related to our Kansas fulfillment center.

	<u>Fiscal 2016</u>	<u>Fiscal 2015</u>	<u>% Change</u>
Net sales (in thousands).....	\$ 836,268	\$ 804,183	4%
Operating profit (in thousands)	\$ 39,743	\$ 46,165	-14%
Operating margin.....	4.8%	5.7%	
Diluted earnings per share	\$ 1.04	\$ 1.04	0%

The increase in net sales was primarily driven by the net addition of 27 stores (33 new stores offset by 6 store closures), offset by a 0.2% comparable sales decrease. The decrease in comparable sales was driven by a decrease in dollars per transaction, partially offset by an increase in transactions. Dollars per transaction decreased due to a decrease in units per transaction and a decrease in average unit retail. Operating margin was down in fiscal 2016 compared to fiscal 2015 primarily as a result of deleveraging operating costs partially offset by a decline in unique charges as discussed above.

Fiscal 2017—A Look At the Upcoming Year

Entering 2017 we remain cautious with our expectations. Our focus will be on continued execution of our core strategies as well as strategic investments centered on long-term quality growth. These investments will be largely focused on the roll-out of our new Customer Engagement Suite, continued store growth and continued investments in our people. As we are closer to our targeted number of stores in North America, we expect that store growth in fiscal 2017 will be less than in fiscal 2016 with an estimated 18 stores opening during the fiscal year compared with 28 stores opened and 5 stores acquired in fiscal 2016. In 2017 we will invest in the roll-out of our Customer Engagement Suite focused on integrating our on-line and in-store point of sale (POS) systems, order management system (OMS), and transportation management system (TMS) improving our efficiency and further enhancing our omni-channel capabilities.

In fiscal 2017, we expect our cost structure will grow at a higher rate than 2016, primarily tied to the investments outlined above and required statutory wage increases. We anticipate inventory levels per square foot will grow at fiscal year-end primarily due to timing related to the addition of the 53rd week. Excluding any possible share buy-backs, we expect cash, short-term investments and working capital to increase, and do not anticipate any new long-term borrowings during the year. Long-term we aim to grow sales annually and grow operating profit at a faster rate than sales by focusing on the changing consumer environment while managing our cost structure.

General

Net sales constitute gross sales, net of actual and estimated returns and deductions for promotions, and shipping revenue. Net sales include our store sales and our ecommerce sales. We record the sale of gift cards as a current liability and recognize revenue when a customer redeems a gift card. Additionally, the portion of gift cards that will not be redeemed (“gift card breakage”) is recognized in net sales after 24 months, at which time the likelihood of redemption is considered remote based on our historical redemption data.

We report “comparable sales” based on net sales beginning on the first anniversary of the first day of operation of a new store or ecommerce business. We operate a sales strategy that integrates our stores with our ecommerce platform. There is significant interaction between our store sales and our ecommerce sales channels and we believe that they are utilized in tandem to serve our customers. Therefore, our comparable sales also include our ecommerce sales. Changes in our comparable sales between two periods are based on net sales of store or ecommerce businesses which were in operation during both of the two periods being compared and, if a store or ecommerce business is included in the calculation of comparable sales for only a portion of one of the two periods being compared, then that store or ecommerce business is included in the calculation for only the comparable portion of the other period. Any change in square footage of an existing comparable store, including remodels and relocations, does not eliminate that store from inclusion in the calculation of comparable sales. Any store or ecommerce business that we acquire will be included in the calculation of comparable sales after the first anniversary of the acquisition date. Current year foreign exchange rates are applied to both current year and prior year comparable sales to achieve a consistent basis for comparison. There may be variations in the way in which some of our competitors and other apparel retailers calculate comparable sales. As a result, data herein regarding our comparable sales may not be comparable to similar data made available by our competitors or other retailers.

Cost of goods sold consists of branded merchandise costs and our private label merchandise costs including design, sourcing, importing and inbound freight costs. Our cost of goods sold also includes shrinkage, buying, occupancy, ecommerce fulfillment, distribution and warehousing costs (including associated depreciation) and freight costs for store merchandise transfers. This may not be comparable to the way in which our competitors or other retailers compute their cost of goods sold. Cash consideration received from vendors is reported as a reduction of cost of goods sold if the inventory has sold, a reduction of the carrying value of the inventory if the inventory is still on hand, or a reduction of selling, general and administrative expense if the amounts are reimbursements of specific, incremental and identifiable costs of selling the vendors’ products.

With respect to the freight component of our ecommerce sales, amounts billed to our customers are included in net sales and the related freight cost is charged to cost of goods sold.

Selling, general and administrative expenses consist primarily of store personnel wages and benefits, administrative staff and infrastructure expenses, freight costs for merchandise shipments from the distribution centers to the stores, store supplies, depreciation on fixed assets at our home office and stores, facility expenses, training expenses and advertising and marketing costs. Credit card fees, insurance, public company expenses, legal expenses, amortization of intangibles, 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.

Key Performance Indicators

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

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

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

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

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

Results of Operations

The following table presents selected items on the consolidated statements of income as a percent of net sales:

	<u>Fiscal 2016</u>	<u>Fiscal 2015</u>	<u>Fiscal 2014</u>
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	67.1%	66.6%	64.6%
Gross profit	32.9%	33.4%	35.4%
Selling, general and administrative expenses	28.1%	27.7%	26.6%
Operating profit	4.8%	5.7%	8.8%
Interest and other income (expenses), net	0.0%	0.0%	0.0%
Earnings before income taxes	4.8%	5.7%	8.8%
Provision for income taxes	1.7%	2.1%	3.5%
Net income	<u>3.1%</u>	<u>3.6%</u>	<u>5.3%</u>

Fiscal 2016 Results Compared With Fiscal 2015

Net Sales

Net sales were \$836.3 million for fiscal 2016 compared to \$804.2 million for fiscal 2015, an increase of \$32.1 million or 4.0%. The increase reflected a \$34.5 million increase due to the net addition of 27 stores (made up of 22 new stores in North America, 6 new stores in Europe, and 5 stores acquired in Australia offset by 6 store closures), partially offset by decrease of \$1.6 million of comparable sales in fiscal 2016. By region, North America sales increased \$25.7 million or 3.5% and other international sales increased \$6.4 million or 8.5% during fiscal 2016 compared to fiscal 2015.

The 0.2% decrease in comparable sales was primarily driven by a decrease in dollars per transaction partially offset by an increase in comparable transactions. Dollars per transaction decreased due to a decrease in units per transaction and average unit retail. Comparable sales decreases in hardware, footwear, junior's apparel, and accessories were partially offset by a comparable sales increase in men's apparel. For information as to how we define comparable sales, see "General" above.

Gross Profit

Gross profit was \$275.0 million for fiscal 2016 compared to \$268.6 million for fiscal 2015, an increase of \$6.4 million, or 2.4%. As a percentage of net sales, gross profit decreased 50 basis points in fiscal 2016 to 32.9%. The decrease was primarily driven by a 40 basis point impact due to deleveraging of our store occupancy costs.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were \$235.3 million for fiscal 2016 compared to \$222.5 million for fiscal 2015, an increase of \$12.8 million, or 5.8%. SG&A expenses as a percent of net sales increased by 40 basis points in fiscal 2016 to 28.1%. The increase was primarily driven by 30 basis points from the deleveraging of store costs primarily related to wages and 30 basis point increase in corporate costs primarily related to wages partially offset by 20 basis point decrease in impairment of long-lived assets compared to fiscal 2015.

Net Income

Net income for fiscal 2016 was \$25.9 million, or \$1.04 per diluted share, compared with net income of \$28.8 million, or \$1.04 per diluted share, for fiscal 2015. Our effective income tax rate for fiscal 2016 was 35.6% compared to 37.2% for fiscal 2015. The decrease in the effective tax rate for fiscal 2016 compared to fiscal 2015 was primarily due to the tax impact of our foreign operations.

Fiscal 2015 Results Compared With Fiscal 2014

Net Sales

Net sales were \$804.2 million for fiscal 2015 compared to \$811.6 million for fiscal 2014, a decrease of \$7.4 million or 0.9%. The decrease reflected a \$42.1 million decrease due to comparable sales for fiscal 2015 and a decrease of \$19.6 million due to the impact of changes in foreign exchange rates, partially offset by the net addition of 55 stores (made up of 51 new stores in North America and 6 new stores in Europe offset by 2 store closures in North America). By region, North America sales decreased \$19.0 million or 2.5% and European sales increased \$11.6 million or 18.0% during fiscal 2015 compared to fiscal 2014.

The 5.3% decrease in comparable sales was primarily driven by a decrease in comparable transactions partially offset by an increase in dollars per transaction. Dollars per transaction increased due to an increase in average unit retail and to a lesser extent an increase in units per transaction. Comparable sales decreases in accessories, men's apparel, footwear, and junior's apparel were partially offset by a comparable sales increase in hardgoods. For information as to how we define comparable sales, see "General" above.

Gross Profit

Gross profit was \$268.6 million for fiscal 2015 compared to \$287.1 million for fiscal 2014, a decrease of \$18.5 million, or 6.4%. As a percentage of net sales, gross profit decreased 200 basis points in fiscal 2015 to 33.4%. The decrease was primarily driven by a 140 basis point impact due to deleveraging of our store occupancy costs, 30 basis points impact of the increase in ecommerce related costs including \$1.2 million in exit costs associated with the closure of our Kansas fulfillment center and 20 basis point decrease in product margin.

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses were \$222.5 million for fiscal 2015 compared to \$215.5 million for fiscal 2014, an increase of \$7.0 million, or 3.2%. SG&A expenses as a percent of net sales increased by 110 basis points in fiscal 2015 to 27.7%. The increase was primarily driven by a 170 basis points due to deleveraging of store costs partially offset by 70 basis point decrease from the fiscal 2014 expense associated with the future incentive payments to be paid in conjunction with our acquisition of Blue Tomato.

Net Income

Net income for fiscal 2015 was \$28.8 million, or \$1.04 per diluted share, compared with net income of \$43.2 million, or \$1.47 per diluted share, for fiscal 2014. Our effective income tax rate for fiscal 2015 was 37.2% compared to 39.7% for fiscal 2014. The decrease in the effective tax rate for fiscal 2015 compared to fiscal 2014 was primarily due to the tax impact of foreign operations and the incentive payments in fiscal 2014.

Seasonality and Quarterly Results

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

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

	Fiscal 2016			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except stores and per share data)			
Net sales	\$ 172,970	\$ 178,272	\$ 221,391	\$ 263,635
Gross profit.....	\$ 49,958	\$ 54,844	\$ 76,178	\$ 94,022
Operating profit.....	\$ (3,941)	\$ (1,136)	\$ 16,913	\$ 27,907
Net income	\$ (2,137)	\$ (838)	\$ 10,695	\$ 18,184
Basic earnings per share.....	\$ (0.08)	\$ (0.03)	\$ 0.44	\$ 0.74
Diluted earnings per share.....	\$ (0.08)	\$ (0.03)	\$ 0.43	\$ 0.74
Number of stores open at the end of the period	663	673	688	685
Comparable sales increase (decrease).....	-7.5%	-4.9%	4.0%	5.1%

	Fiscal 2015			
	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
	(in thousands, except stores and per share data)			
Net sales	\$ 177,610	\$ 179,819	\$ 204,320	\$ 242,434
Gross profit.....	\$ 56,535	\$ 57,773	\$ 70,059	\$ 84,257
Operating profit.....	\$ 4,126	\$ 5,312	\$ 15,224	\$ 21,503
Net income	\$ 2,770	\$ 3,213	\$ 9,653	\$ 13,149
Basic earnings per share	\$ 0.10	\$ 0.11	\$ 0.36	\$ 0.50
Diluted earnings per share.....	\$ 0.09	\$ 0.11	\$ 0.36	\$ 0.50
Number of stores open at the end of the period	616	640	653	658
Comparable sales increase (decrease).....	3.0%	-4.5%	-7.3%	-9.5%

Liquidity and Capital Resources

Our primary uses of cash are for operational expenditures, inventory purchases and capital investments, including new stores, store remodels, store relocations, store fixtures and ongoing infrastructure improvements. Additionally, we may use cash for the repurchase of our common stock. Refer to Note 11, "Stockholders' Equity" of the Notes to Consolidated Financial Statements for further discussion of the repurchase plan. Historically, our main source of liquidity has been cash flows from operations.

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

At January 28, 2017 and January 30, 2016, cash, cash equivalents and current marketable securities were \$78.8 million and \$75.6 million. Working capital, the excess of current assets over current liabilities, was \$137.8 million at the end of fiscal 2016, an increase of 6.2% from \$129.8 million at the end of fiscal 2015. The increase in cash, cash equivalents and current marketable securities in fiscal 2016 was due primarily to cash provided by operating activities of \$48.5 million, partially offset by \$21.6 million repurchase of common stock and \$20.4 million of capital expenditures primarily related to the opening of 28 new stores in fiscal 2016 and 14 remodels and relocations.

The following table summarizes our cash flows from operating, investing and financing activities (in thousands):

	<u>Fiscal 2016</u>	<u>Fiscal 2015</u>	<u>Fiscal 2014</u>
Total cash provided by (used in)			
Operating activities	\$ 48,455	\$ 48,607	\$ 89,937
Investing activities	(51,515)	64,730	(73,873)
Financing activities	(20,074)	(90,758)	(13,933)
Effect of exchange rate changes on cash and cash equivalents	218	(278)	(903)
Increase in cash and cash equivalents	<u>\$ (22,916)</u>	<u>\$ 22,301</u>	<u>\$ 1,228</u>

Operating Activities

Net cash provided by operating activities decreased by \$0.1 million in fiscal 2016 to \$48.5 million from \$48.6 million in fiscal 2015. Net cash provided by operating activities decreased by \$41.3 million in fiscal 2015 to \$48.6 million from \$89.9 million in fiscal 2014. Our operating cash flows result primarily from cash received from our customers, offset by cash payments we make for inventory, employee compensation, store occupancy expenses and other operational expenditures. Cash received from our customers generally corresponds to our net sales. Because our customers primarily use credit cards or cash to buy from us, our receivables from customers settle quickly. Changes to our operating cash flows have historically been driven primarily by changes in operating income, which is impacted by changes to non-cash items such as depreciation, amortization and accretion, deferred taxes and excess tax benefit from stock-based compensation, and changes to the components of working capital.

Investing Activities

Net cash provided by investing activities was \$51.5 million in fiscal 2016 related to \$25.7 million in net purchases of marketable securities, \$20.4 million of capital expenditures primarily for new store openings and existing store remodels or relocations and \$5.4 million for the acquisition of Fast Times (net of cash acquired). Net cash provided by investing activities was \$64.7 million in fiscal 2015 related to \$99.6 million in net sales of marketable securities partially offset by \$34.8 million of capital expenditures primarily for new store openings and existing store remodels or relocations. Net cash used in investing activities was \$73.9 million in fiscal 2014 related to \$35.8 million of capital expenditures primarily for new store openings and existing store remodels or relocations and \$38.1 million in net purchases of marketable securities.

Financing Activities

Net cash used in financing activities in fiscal 2016 was \$20.1 million, related to \$21.6 million cash paid for repurchase of common stock, partially offset by \$0.9 million in proceeds from stock-based compensation exercises and related tax benefits and \$0.6 million of net proceeds on revolving credit facilities. Net cash used in financing activities in fiscal 2015 was \$90.8 million, related to \$92.2 million cash paid for repurchase of common stock, partially offset by proceeds from stock-based compensation exercises and related tax benefits of \$1.6 million. Net cash used in financing activities in fiscal 2014 was \$13.9 million, related to \$19.6 million cash paid for repurchase of common stock and \$2.1 million of net payments on revolving credit facilities, and other liabilities, partially offset by proceeds from stock-based compensation exercises and related tax benefits of \$7.7 million.

Sources of Liquidity

Our most significant sources of liquidity continue to be funds generated by operating activities and available cash, cash equivalents and current marketable securities. We expect these sources of liquidity and available borrowings under our revolving credit facility will be sufficient to meet our foreseeable cash requirements for operations and planned capital expenditures for at least the next twelve months. Beyond this time frame, if cash flows from operations are not sufficient to meet our capital requirements, then we will be required to obtain additional equity or debt financing in the future. However, there can be no assurance that equity or debt financing will be available to us when we need it or, if available, that the terms will be satisfactory to us and not dilutive to our then-current shareholders.

As of January 28, 2017, we maintained an asset-based revolving credit agreement with Wells Fargo Bank, National Association as administrative agent, collateral agent, letter of credit issuer and lenders, which provides for a senior secured revolving credit facility of up to \$100 million (“ABL Facility”), subject to a borrowing base, with a letter of credit sub-limit of \$10 million. The ABL Facility is available for working capital and other general corporate purposes. The ABL Facility will mature on February 5, 2021. The ABL Facility is secured by a first-priority security interest in substantially all of the personal property (but not the real property) of the Company. Amounts borrowed under the ABL Facility bear interest, at the Company’s option, at either an adjusted LIBOR rate plus a margin of 1.25% to 1.75% per annum, or an alternate base rate plus a margin of 0.25% to 0.75% per annum. The Company is also required to pay a fee of 0.25% per annum on undrawn commitments under the ABL Facility. Customary agency fees and letter of credit fees are also payable in respect of the ABL Facility. There were no borrowings outstanding under the ABL Facility at January 28, 2017 or the replaced secured revolving credit facility at January 30, 2016. We had no open commercial letters of credit outstanding under our secured revolving credit facility at January 28, 2017 and January 30, 2016.

Additionally, we have revolving lines of credit of up to \$21.9 million, the proceeds of which are used to fund certain international operations. The revolving lines of credit bears interest at 1.63%. There were no borrowings or open commercial letters of credit outstanding under these revolving lines of credit at January 28, 2017 and January 30, 2016.

Capital Expenditures

Our capital requirements include construction and fixture costs related to the opening of new stores and remodel and relocation 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 2016, we spent \$20.4 million on capital expenditures, which consisted of \$16.1 million of costs related to investment in 28 new stores and 14 remodeled or relocated stores, \$2.3 million associated with improvements to our websites and the Customer Engagement Suite and \$2.0 million in other improvements.

During fiscal 2015, we spent \$34.8 million on capital expenditures, which consisted of \$30.9 million of costs related to investment in 57 new stores and 19 remodeled or relocated stores, \$1.9 million associated with improvements to our websites and the Customer Engagement Suite and \$2.0 million in other improvements.

During fiscal 2014, we spent \$35.8 million on capital expenditures, which consisted of \$31.5 million of costs related to investment in 56 new stores and 19 remodeled or relocated stores, \$1.7 million associated with improvements to our websites and \$2.6 million in other improvements.

In fiscal 2017, we expect to spend approximately \$24 million to \$26 million on capital expenditures, a majority of which will relate to leasehold improvements and fixtures for the approximately 18 new stores we plan to open in fiscal 2017 and remodels or relocations of existing stores and improvements to our websites and the Customer Engagement Suite. There can be no assurance that the number of stores that we actually open in fiscal 2017 will not be different from the number of stores we plan to open, or that actual fiscal 2017 capital expenditures will not differ from this expected amount.

Critical Accounting Estimates

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

Our significant accounting policies are discussed in Note 2, “Summary of Significant Accounting Policies,” in the Notes to Consolidated Financial Statements found in Part IV Item 15 of this Form 10-K. We believe that the following accounting estimates are the most critical to aid in fully understanding and evaluating our reported financial results, and they require our most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain.

Description	Judgments and Uncertainties	Effect If Actual Results Differ From Assumptions
<i>Valuation of Merchandise Inventories</i>		
<p>We value our inventory at the lower of average cost or fair market value through the establishment of write-down and inventory loss reserves.</p> <p>Our write-down reserve represents the excess of the carrying value over the amount we expect to realize from the ultimate sales or other disposal of the inventory. Write-downs establish a new cost basis for our inventory. Subsequent changes in facts or circumstances do not result in the restoration of previously recorded write-downs or an increase in that newly established cost basis.</p> <p>Our inventory loss reserve represents anticipated physical inventory losses (“shrinkage reserve”) that have occurred since the last physical inventory.</p>	<p>Our write-down reserve contains uncertainties because the calculation requires management to make assumptions based on the current rate of sales, the age and profitability of inventory and other factors.</p> <p>Our shrinkage reserve contains uncertainties because the calculation requires management to make assumptions and to apply judgment regarding a number of factors, including historical percentages that can be affected by changes in merchandise mix and changes in actual shrinkage trends.</p>	<p>We have not made any material changes in the accounting methodology used to calculate our write-down and shrinkage reserves in the past three fiscal years. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates we use to calculate our inventory reserves. However, if actual results are not consistent with our estimates, we may be exposed to losses or gains that could be material.</p> <p>A 10% decrease in the sales price of our inventory at January 28, 2017 would have decreased net income by \$0.1 million in fiscal 2016.</p> <p>A 10% increase in actual physical inventory shrinkage rate at January 28, 2017 would have decreased net income by \$0.3 million in fiscal 2016.</p>
<i>Valuation of Long-Lived Assets</i>		
<p>We review the carrying value of our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such asset or asset group may not be recoverable.</p> <p>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 the projected discounted cash flow of the asset to the asset carrying value.</p> <p>The actual economic lives of our fixed assets may be different from our estimated useful lives, thereby resulting in a different carrying value. These evaluations could result in a change in the depreciable lives of these assets and therefore our depreciation expense in future periods.</p>	<p>Events that may result in an impairment include the decision to close a store or facility or a significant decrease in the operating performance of a long-lived asset group. Our impairment calculations contain uncertainties because they require management to make assumptions and to apply judgment to estimate future cash flows and asset fair values, including forecasting future sales, gross profit and operating expenses. In addition to historical results, current trends and initiatives, and long-term macro-economic and industry factors are qualitatively considered. Additionally management seeks input from store operations related to local economic conditions, including the impact of closures of selected co-tenants who occupy the mall.</p> <p>Our fixed assets accounting methodology contains uncertainties because it requires management to make estimates with respect to the useful lives of our fixed assets that we believe are reasonable.</p>	<p>We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate long-lived asset impairment losses. However, if actual results are not consistent with our estimates and assumptions, our operating results could be adversely affected. Declines in projected cash flow of the assets could result in impairment.</p> <p>Although management believes that the current useful life estimates assigned to our fixed assets are reasonable, factors could cause us to change our estimates, thus affecting the future calculation of depreciation.</p>

Description	Judgments and Uncertainties	Effect If Actual Results Differ From Assumptions
<p><i>Revenue Recognition</i></p>		
<p>Revenue is recognized upon purchase at our retail store locations. For our ecommerce sales, revenue is recognized upon delivery to the customer. Revenue is recorded net of sales returns and deductions for promotions.</p>	<p>Our revenue recognition accounting methodology contains uncertainties because it requires management to make assumptions regarding future sales returns and the amount and timing of gift cards projected to be redeemed by gift card recipients. Our estimate of the amount and timing of sales returns and gift cards to be redeemed is based primarily on historical experience.</p>	<p>We have not made any material changes in the accounting methodology used to measure future sales returns or recognize revenue for our gift card program in the past three fiscal years. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to recognize revenue. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material.</p>
<p>Revenue is not recorded on the sale of gift cards. We record the sale of gift cards as a current liability and recognize revenue when a customer redeems a gift card. Additionally, the portion of gift cards that will not be redeemed (“gift card breakage”) is recognized in revenue after 24 months, at which time the likelihood of redemption is considered remote based on our historical redemption data.</p>		<p>A 10% increase in our sales return reserve at January 28, 2017 would have decreased net income by \$0.1 million in fiscal 2016.</p> <p>A 10% increase in our unredeemed gift card breakage life at January 28, 2017 would have decreased net income by \$0.5 million in fiscal 2016.</p>
<p><i>Accounting for Income Taxes</i></p>		
<p>As part of the process of preparing the 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 on the consolidated balance sheets. Valuation allowances may be established when necessary to reduce deferred tax assets to the amount expected to be realized.</p>	<p>Significant judgment is required in evaluating our tax positions and determining our provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. For example, our effective tax rates could be adversely affected by earnings being lower than anticipated in jurisdictions where we have lower statutory rates and higher than anticipated in jurisdictions where we have higher statutory rates, by changes in the valuation of our deferred tax assets and liabilities or by changes in the relevant tax, accounting and other laws, regulations, principles and interpretations.</p>	<p>Although management believes that the income tax related judgments and estimates are reasonable, actual results could differ and we may be exposed to losses or gains that could be material.</p>
<p>We regularly evaluate the likelihood of realizing the benefit for income tax positions we have taken in various federal, state and foreign filings by considering all relevant facts, circumstances and information available to us. If we believe it is more likely than not that our position will be sustained, we recognize a benefit at the largest amount that we believe is cumulatively greater than 50% likely to be realized.</p>	<p>Unrecognized tax benefits require significant management judgment regarding applicable statutes and their related interpretation and our particular facts and circumstances.</p>	<p>Upon income tax audit, any unfavorable tax settlement generally would require use of our cash and may result in an increase in our effective income tax rate in the period of resolution. A favorable tax settlement may be recognized as a reduction in our effective income tax rate in the period of resolution.</p>

Description	Judgments and Uncertainties	Effect If Actual Results Differ From Assumptions
<i>Accounting for Contingencies</i>		
<p>We are subject to various claims and contingencies related to lawsuits, insurance, regulatory and other matters arising out of the normal course of business. We accrue a liability if the likelihood of an adverse outcome is probable and the amount is estimable. If the likelihood of an adverse outcome is only reasonably possible (as opposed to probable), or if an estimate is not determinable, we provide disclosure of a material claim or contingency.</p>	<p>Significant judgment is required in evaluating our claims and contingencies, including determining the probability that a liability has been incurred and whether such liability is reasonably estimable. The estimated accruals for claims and contingencies are made based on the best information available, which can be highly subjective.</p>	<p>Although management believes that the contingency related judgments and estimates are reasonable, our accrual for claims and contingencies could fluctuate as additional information becomes known, thereby creating variability in our results of operations from period to period. Additionally, actual results could differ and we may be exposed to losses or gains that could be material.</p>
<i>Goodwill and Indefinite-lived Intangible Assets</i>		
<p>We assess goodwill and indefinite-lived intangible assets for impairment on an annual basis or more frequently if indicators of impairment arise. We perform this analysis at the reporting unit level.</p>	<p>The goodwill and indefinite-lived intangible assets impairment tests require management to make assumptions and judgments.</p>	<p>Based on the results of our annual impairment test for goodwill and indefinite-lived intangible assets, no impairment was recorded. As of October 30, 2016, the most recent impairment assessment date, the estimated fair value of our Blue Tomato reporting unit, which had \$40.3 million of goodwill, exceeded the carrying value by 20%. The remaining reporting units had a fair value substantially in excess of the carrying value. If actual results are not consistent with our estimates or assumptions, or there are significant changes in any of these estimates, projections and assumptions, could have a material effect of the fair value of these assets in future measurement periods and result in an impairment, which could materially affect our results of operations.</p>
<p>We have an option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we choose not to perform the qualitative test or we determine that it is more likely than not that the fair value of the reporting unit is less than the carrying amount, we perform a quantitative two-step impairment test. The first step compares the carrying value of the reporting unit to its estimated fair value, which is based on the perspective of a market-participant. If the fair value of the reporting unit is lower than the carrying value, then a second step is performed to quantify the amount of the impairment.</p>	<p>Our quantitative goodwill analysis of fair value is determined using a combination of the income and market approaches. Key assumptions in the income approach include estimating future cash flows, long-term growth rates and weighted average cost of capital. Our ability to realize the future cash flows used in our fair value calculations is affected by factors such as changes in economic conditions, operating performance and our business strategies. Key assumptions in the market approach include identifying companies and transactions with comparable business factors, such as earnings growth, profitability, business and financial risk.</p>	
<p>We test our indefinite-lived intangible assets by comparing the carry value to the estimated fair value. An impairment loss is recorded for the amount in which the carrying value exceeds the estimated fair value.</p>	<p>The fair value of the trade names and trademarks is determined using the relief from royalty method, which requires assumptions including forecasting future sales, discount rates and royalty rates.</p>	

Contractual Obligations and Commercial Commitments

There were no material changes outside the ordinary course of business in our contractual obligations during fiscal 2016. The following table summarizes the total amount of future payments due under our contractual obligations at January 28, 2017 (in thousands):

	<u>Total</u>	<u>Fiscal 2017</u>	<u>Fiscal 2018 and Fiscal 2019</u>	<u>Fiscal 2020 and Fiscal 2021</u>	<u>Thereafter</u>
Operating lease obligations (1)....	\$ 411,733	\$ 67,790	\$ 119,781	\$ 100,045	\$ 124,117
Purchase obligations (2).....	168,841	168,841	—	—	—
Total	<u>\$ 580,574</u>	<u>\$ 236,631</u>	<u>\$ 119,781</u>	<u>\$ 100,045</u>	<u>\$ 124,117</u>

- (1) Amounts do not include contingent rent and real estate taxes, insurance, common area maintenance charges and other executory costs obligations. See Note 9, “Commitments and Contingencies,” in the Notes to Consolidated Financial Statements found in Part IV Item 15 of the Form 10-K, for additional information related to our operating leases.
- (2) We have an option to cancel these commitments with no notice prior to shipment, except for certain private label and international purchase orders in which we are obligated to repay contractual amounts upon cancellation.

Off-Balance Sheet Arrangements

At January 28, 2017, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

Impact of Inflation/Deflation

We do not believe that inflation has had a material impact on our net sales or operating results for the past three fiscal years. However, substantial increases in costs, including the price of raw materials, labor, energy and other inputs used in the production of our merchandise or the potential change in regulatory environment, could have a significant impact on our business and the industry in the future. Additionally, while deflation could positively impact our merchandise costs, it could have an adverse effect on our average unit retail price, resulting in lower sales and operating results.

Recent Accounting Pronouncements

See Note 2, “Summary of Significant Accounting Policies,” in the Notes to Consolidated Financial Statements found in Part IV Item 15 of this Form 10-K.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our earnings are affected by changes in market interest rates as a result of our short-term and long-term marketable securities, which are primarily invested in state and local municipal securities and variable-rate demand notes, which have long-term nominal maturity dates but feature variable interest rates that reset at short-term intervals. If our current portfolio average yield rate decreased by 10% in fiscal 2016, our net income would have decreased by \$0.1 million. This amount is determined by considering the impact of the hypothetical yield rates on our cash, cash equivalents, short-term marketable securities and assumes no changes in our investment structure.

During different times of the year, due to the seasonality of our business, we may borrow under our revolving credit lines. To the extent we borrow under this revolving credit lines, we are exposed to the market risk related to changes in interest rates. At January 28, 2017, we had no borrowings outstanding under our revolving lines of credit.

Foreign Exchange Rate Risk

Our international subsidiaries operate with functional currencies other than the U.S. dollar. Therefore, we must translate revenues, expenses, assets and liabilities from functional currencies into U.S. dollars at exchange rates in effect during, or at the end of, the reporting period. As a result, the fluctuation in the value of the U.S. dollar against other currencies affects the reported amounts of revenues, expenses, assets and liabilities. Assuming a 10% change in foreign exchange rates, fiscal 2016 net sales would have decreased or increased by approximately \$12.5 million. As we expand our international operations, our exposure to exchange rate fluctuations will continue to increase. To date, we have not used derivatives to manage foreign currency exchange risk.

We import merchandise from foreign countries. As a result, any significant or sudden change in the financial, banking or currency policies and practices of these countries could have a material adverse impact on our financial position, results of operations and cash flows.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information with respect to this item is set forth in “Index to the Consolidated Financial Statements,” found in Part IV Item 15 of this Form 10-K.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. 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 January 28, 2017, our disclosure controls and procedures were effective.

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 January 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management’s Annual Report on Internal Control over Financial Reporting. The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. The Company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

This process includes policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements, and can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Furthermore, because of changes in conditions, the effectiveness of internal control may vary over time.

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of January 28, 2017. Management's assessment was based on criteria described in the Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of January 28, 2017.

The effectiveness of the Company's internal control over financial reporting as of January 28, 2017 has been audited by Moss Adams LLP, the Company's independent registered public accounting firm, as stated in their report, which is included below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Zumiez Inc.

We have audited Zumiez Inc.'s (the "Company") internal control over financial reporting as of January 28, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Zumiez Inc. maintained, in all material respects, effective internal control over financial reporting as of January 28, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Zumiez Inc. as of January 28, 2017 and January 30, 2016, and the consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended January 28, 2017, and our report dated March 13, 2017, expressed an unqualified opinion on those consolidated financial statements.

/s/ Moss Adams LLP

Seattle, Washington
March 13, 2017

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding our directors and nominees for directorship is presented under the headings “Election of Directors,” in our definitive proxy statement for use in connection with our 2016 Annual Meeting of Shareholders (the “Proxy Statement”) that will be filed within 120 days after our fiscal year ended January 28, 2017 and is incorporated herein by this reference thereto. Information concerning our executive officers is set forth under the heading “Executive Officers” in our Proxy Statement, and is incorporated herein by reference thereto. Information regarding compliance with Section 16(a) of the Exchange Act, our code of conduct and ethics and certain information related to the Company’s Audit Committee, Compensation Committee and Governance Committee is set forth under the heading “Corporate Governance” in our Proxy Statement, and is incorporated herein by reference thereto.

Item 11. EXECUTIVE COMPENSATION

Information regarding the compensation of our directors and executive officers and certain information related to the Company’s Compensation Committee is set forth under the headings “Executive Compensation,” “Director Compensation,” “Compensation Discussion and Analysis,” “Report of the Compensation Committee of the Board of Directors” and “Compensation Committee Interlocks and Insider Participation” in our Proxy Statement, and is incorporated herein by this reference thereto.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Information with respect to security ownership of certain beneficial owners and management is set forth under the headings “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in our Proxy Statement, and is incorporated herein by this reference thereto.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions and director independence is presented under the heading “Corporate Governance” in our Proxy Statement, and is incorporated herein by this reference thereto.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning principal accounting fees and services is presented under the heading “Fees Paid to Independent Registered Public Accounting Firm for Fiscal 2016 and 2015” in our Proxy Statement, and is incorporated herein by this reference thereto.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Consolidated Financial Statements

(2) Consolidated Financial Statement Schedules:

All financial statement schedules are omitted because the required information is presented either in the consolidated financial statements or notes thereto, or is not applicable, required or material.

(3) Exhibits included or incorporated herein:

See Exhibit Index.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Zumiez Inc.

We have audited the accompanying consolidated balance sheets of Zumiez Inc. (the “Company”) as of January 28, 2017 and January 30, 2016, and the related consolidated statements of income, comprehensive income, changes in shareholders’ equity and cash flows for each of the three years in the period ended January 28, 2017. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Zumiez Inc. as of January 28, 2017 and January 30, 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 28, 2017, in conformity with generally accepted accounting principles in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Zumiez Inc.’s internal control over financial reporting as of January 28, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2017 expressed an unqualified opinion thereon.

/s/ Moss Adams LLP

Seattle, Washington
March 13, 2017

ZUMIEZ INC.
CONSOLIDATED BALANCE SHEETS
(In thousands)

	January 28, 2017	January 30, 2016
Assets		
Current assets		
Cash and cash equivalents.....	\$ 20,247	\$ 43,163
Marketable securities	58,579	32,391
Receivables	12,538	12,840
Inventories.....	106,924	98,299
Prepaid expenses and other current assets	13,075	12,204
Total current assets	211,363	198,897
Fixed assets, net	129,651	137,233
Goodwill.....	56,001	54,245
Intangible assets, net	14,610	11,766
Deferred tax assets, net	7,041	4,634
Other long-term assets	8,017	7,920
Total long-term assets	215,320	215,798
Total assets	\$ 426,683	\$ 414,695
Liabilities and Shareholders' Equity		
Current liabilities		
Trade accounts payable.....	\$ 25,529	\$ 21,919
Accrued payroll and payroll taxes	14,914	12,466
Income taxes payable	1,866	4,066
Deferred rent and tenant allowances	8,344	8,116
Other liabilities.....	22,944	22,575
Total current liabilities	73,597	69,142
Long-term deferred rent and tenant allowances.....	41,066	43,779
Other long-term liabilities	4,969	4,817
Total long-term liabilities	46,035	48,596
Total liabilities	119,632	117,738
Commitments and contingencies (Note 9)		
Shareholders' equity		
Preferred stock, no par value, 20,000 shares authorized; none issued and outstanding	—	—
Common stock, no par value, 50,000 shares authorized; 24,945 shares issued and outstanding at January 28, 2017 and 25,708 shares issued and outstanding at January 30, 2016.....	140,984	135,013
Accumulated other comprehensive loss.....	(16,488)	(15,247)
Retained earnings	182,555	177,191
Total shareholders' equity	307,051	296,957
Total liabilities and shareholders' equity	\$ 426,683	\$ 414,695

See accompanying notes to consolidated financial statements

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

	Fiscal Year Ended		
	January 28, 2017	January 30, 2016	January 31, 2015
Net sales	\$ 836,268	\$ 804,183	\$ 811,551
Cost of goods sold	561,266	535,559	524,468
Gross profit	<u>275,002</u>	<u>268,624</u>	<u>287,083</u>
Selling, general and administrative expenses	235,259	222,459	215,512
Operating profit	<u>39,743</u>	<u>46,165</u>	<u>71,571</u>
Interest income, net	32	529	637
Other income (expense), net	449	(833)	(557)
Earnings before income taxes	<u>40,224</u>	<u>45,861</u>	<u>71,651</u>
Provision for income taxes	14,320	17,076	28,459
Net income	<u>\$ 25,904</u>	<u>\$ 28,785</u>	<u>\$ 43,192</u>
Basic earnings per share	<u>\$ 1.05</u>	<u>\$ 1.05</u>	<u>\$ 1.50</u>
Diluted earnings per share	<u>\$ 1.04</u>	<u>\$ 1.04</u>	<u>\$ 1.47</u>
Weighted average shares used in computation of earnings per share:			
Basic	24,727	27,497	28,871
Diluted	24,908	27,673	29,288

See accompanying notes to consolidated financial statements

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

	Fiscal Year Ended		
	January 28, 2017	January 30, 2016	January 31, 2015
Net income.....	\$ 25,904	\$ 28,785	\$ 43,192
Other comprehensive loss, net of tax and reclassification adjustments:			
Foreign currency translation.....	(1,338)	(3,931)	(15,995)
Net change in unrealized gain (loss) on available-for-sale investments.....	97	(38)	7
Other comprehensive loss, net.....	(1,241)	(3,969)	(15,988)
Comprehensive income	\$ 24,663	\$ 24,816	\$ 27,204

See accompanying notes to consolidated financial statements

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

	<u>Common Stock</u>		<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance at February 1, 2014	29,619	\$ 114,983	\$ 4,710	\$ 215,961	\$ 335,654
Net income.....	—	—	—	43,192	43,192
Other comprehensive loss, net.....	—	—	(15,988)	—	(15,988)
Issuance and exercise of stock-based awards, including net tax benefit of \$1,355	557	6,591	—	—	6,591
Stock-based compensation expense.....	—	7,520	—	—	7,520
Repurchase of common stock.....	(758)	—	—	(17,445)	(17,445)
Balance at January 31, 2015	29,418	\$ 129,094	\$ (11,278)	\$ 241,708	\$ 359,524
Net income.....	—	—	—	28,785	28,785
Other comprehensive loss, net.....	—	—	(3,969)	—	(3,969)
Issuance and exercise of stock-based awards, including net tax benefit of \$714	255	923	—	—	923
Stock-based compensation expense.....	—	4,996	—	—	4,996
Repurchase of common stock.....	(3,965)	—	—	(93,302)	(93,302)
Balance at January 30, 2016	25,708	\$ 135,013	\$ (15,247)	\$ 177,191	\$ 296,957
Net income.....	—	—	—	25,904	25,904
Other comprehensive loss, net.....	—	—	(1,241)	—	(1,241)
Issuance and exercise of stock-based awards, including net tax loss of \$887	432	1,393	—	—	1,393
Stock-based compensation expense.....	—	4,578	—	—	4,578
Repurchase of common stock.....	(1,195)	—	—	(20,540)	(20,540)
Balance at January 28, 2017	24,945	\$ 140,984	\$ (16,488)	\$ 182,555	\$ 307,051

See accompanying notes to consolidated financial statements

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

	Fiscal Year Ended		
	January 28, 2017	January 30, 2016	January 31, 2015
Cash flows from operating activities:			
Net income	\$ 25,904	\$ 28,785	\$ 43,192
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion	27,916	30,410	29,167
Deferred taxes	(2,555)	(2,698)	(610)
Stock-based compensation expense	4,578	4,996	7,520
Excess tax benefit from stock-based compensation	(3)	(714)	(1,355)
Other	1,564	4,009	1,109
Changes in operating assets and liabilities:			
Receivables	413	(1,184)	(2,990)
Inventories	(7,984)	(5,953)	(10,850)
Prepaid expenses and other current assets	(1,793)	(133)	(4,702)
Trade accounts payable	3,261	(9,103)	14,744
Accrued payroll and payroll taxes	2,313	(483)	2,718
Income taxes payable	(3,713)	1	(23)
Deferred rent and tenant allowances	(2,673)	2,613	5,937
Other liabilities	1,227	(1,939)	6,080
Net cash provided by operating activities	<u>48,455</u>	<u>48,607</u>	<u>89,937</u>
Cash flows from investing activities:			
Additions to fixed assets	(20,400)	(34,834)	(35,758)
Acquisitions, net of cash acquired	(5,395)	-	-
Purchases of marketable securities and other investments	(86,826)	(59,286)	(125,971)
Sales and maturities of marketable securities and other investments	61,106	158,850	87,856
Net cash (used in) provided by investing activities	<u>(51,515)</u>	<u>64,730</u>	<u>(73,873)</u>
Cash flows from financing activities:			
Proceeds from revolving credit facilities	23,079	43,173	6,943
Payments on revolving credit facilities	(22,429)	(43,255)	(9,009)
Repurchase of common stock	(21,607)	(92,235)	(19,557)
Proceeds from exercise of stock-based awards, net of withholding tax	880	845	6,335
Excess tax benefit from stock-based compensation	3	714	1,355
Net cash used in financing activities	<u>(20,074)</u>	<u>(90,758)</u>	<u>(13,933)</u>
Effect of exchange rate changes on cash and cash equivalents	218	(278)	(903)
Net (decrease) increase in cash and cash equivalents	(22,916)	22,301	1,228
Cash and cash equivalents, beginning of period	43,163	20,862	19,634
Cash and cash equivalents, end of period	<u>\$ 20,247</u>	<u>\$ 43,163</u>	<u>\$ 20,862</u>
Supplemental disclosure on cash flow information:			
Cash paid during the period for income taxes	\$ 20,462	\$ 19,630	\$ 28,770
Accrual for purchases of fixed assets	1,191	1,166	2,372
Accrual for repurchase of common stock	—	1,067	—

See accompanying notes to consolidated financial statements

ZUMIEZ INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business and Basis of Presentation

Nature of Business—Zumiez Inc., including its wholly-owned subsidiaries, (“Zumiez”, the “Company,” “we,” “us,” “its” and “our”) is a leading specialty retailer of apparel, footwear, accessories and hardgoods for young men and women who want to express their individuality through the fashion, music, art and culture of action sports, streetwear, and other unique lifestyles. At January 28, 2017, we operated 685 stores; 603 in the United States (“U.S.”), 48 in Canada, 29 in Europe and 5 in Australia. We operate under the names Zumiez, Blue Tomato and Fast Times. Additionally, we operate ecommerce websites at www.zumiez.com, www.blue-tomato.com and www.fasttimes.com.au.

In August 2016, we acquired 100% of the outstanding stock of Fast Times Skateboarding (“Fast Times”) for \$7.1 million paid in \$5.7 million of cash and \$1.4 million in shares of common stock. Fast Times is an Australian specialty retailer of skateboards, hardware, apparel and footwear. All assets and liabilities assumed were measured at fair value on the date of the acquisition and primarily consisted of inventory, fixed assets, intangible assets and goodwill.

Fiscal Year—We use a fiscal calendar widely used by the retail industry that results in a fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to January 31. Each fiscal year consists of four 13-week quarters, with an extra week added to the fourth quarter every five or six years. The fiscal years ended January 28, 2017, January 30, 2016 and January 31, 2015 were 52-week periods.

Basis of Presentation—The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”). The consolidated financial statements include the accounts of Zumiez Inc. and its wholly-owned subsidiaries. All significant intercompany transactions and balances are eliminated in consolidation.

2. Summary of Significant Accounting Policies

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

Fair Value of Financial Instruments—We disclose the estimated fair value of our financial instruments. Financial instruments are generally defined as cash, evidence of ownership interest in an entity or a contractual obligation that both conveys to one entity a right to receive cash or other financial instruments from another entity and imposes on the other entity the obligation to deliver cash or other financial instruments to the first entity. Our financial instruments, other than those presented in Note 10, “Fair Value Measurements,” include cash and cash equivalents, receivables, payables and other liabilities. The carrying amounts of cash and cash equivalents, receivables, payables and other liabilities approximate fair value because of the short-term nature of these instruments. Our policy is to present transfers into and transfers out of hierarchy levels as of the actual date of the event or change in circumstances that caused the transfer.

Cash and Cash Equivalents—We consider all highly liquid investments with original maturity of three months or less when purchased to be cash equivalents.

Concentration of Risk—We maintain our cash and cash equivalents in accounts with major financial institutions in the form of demand deposits, money market accounts and state and local municipal securities. Deposits in these financial institutions may exceed the amount of federal deposit insurance provided on such deposits.

Marketable Securities—Our marketable securities primarily consist of state and local municipal securities and variable-rate demand notes. Variable-rate demand notes are considered highly liquid. Although the variable-rate demand notes have long-term nominal maturity dates, the interest rates generally reset weekly. Despite the long-term nature of the underlying securities of the variable-rate demand notes, we have the ability to quickly liquidate these securities, which have an embedded put option that allows the bondholder to sell the security at par plus accrued interest.

Investments are considered to be impaired when a decline in fair value is determined to be other-than-temporary. If the cost of an investment exceeds its fair value, we evaluate information about the underlying investment that is publicly available such as analyst reports, applicable industry data and other pertinent information and assess our intent and ability to hold the security. For fixed-income securities, we also evaluate whether we have plans to sell the security or it is more likely than not we will be required to sell the security before recovery. The investment would be written down to its fair value at the time the impairment is deemed to have occurred and a new cost basis is established. Future adverse changes in market conditions, continued poor operating results of underlying investments or other factors could result in further losses that may not be reflected in an investment’s current carrying value, possibly requiring an additional impairment charge in the future.

Inventories—Merchandise inventories are valued at the lower of cost or fair market value. The cost of merchandise inventories are based upon an average cost methodology. 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 their current rate of sale, the age of the inventory, the profitability of the inventory and other factors. The inventory related to this reserve is not marked up in subsequent periods. The inventory reserve includes inventory whose estimated market value is below cost and an estimate for inventory shrinkage. Shrinkage refers to a reduction in inventory due to shoplifting, employee theft and other matters. We estimate an inventory shrinkage reserve for anticipated losses for the period. We have reserved for inventory at January 28, 2017 and January 30, 2016 in the amounts of \$4.8 million and \$4.7 million.

Fixed Assets—Fixed assets primarily consist of leasehold improvements, fixtures, land, buildings, computer equipment, software and store equipment. Fixed assets are stated at cost less accumulated depreciation utilizing the straight-line method over the assets’ estimated useful lives. The useful lives of our major classes of fixed assets are as follows:

Leasehold improvements	Lesser of 10 years or the term of the lease
Fixtures	3 to 7 years
Buildings, land and building and land improvements	15 to 39 years
Computer equipment, software, store equipment & other	3 to 5 years

The cost and related accumulated depreciation of assets sold or otherwise disposed of is removed from fixed assets and the related gain or loss is recorded in selling, general and administrative expenses on the consolidated statements of income.

Asset Retirement Obligations—An asset retirement obligation (“ARO”) represents a legal obligation associated with the retirement of a tangible long-lived asset that is incurred upon the acquisition, construction, development or normal operation of that long-lived asset. Our AROs are associated with leasehold improvements that, at the end of a lease, we are contractually obligated to remove in order to comply with certain lease agreements. The ARO balance at January 28, 2017 and January 30, 2016 is \$2.7 million and \$2.6 million and is recorded in other liabilities and other long-term liabilities on the consolidated balance sheets and will be subsequently adjusted for changes in fair value. The associated estimated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over its useful life.

Valuation of Long-Lived Assets—We review the carrying value of long-lived assets or asset groups (defined as a store, corporate facility or distribution center) for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. Recoverability of assets to be held and used is determined by a comparison of the carrying amount of an asset or asset group 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 the fair value of the assets or asset group to the carrying values. The estimation of future cash flows from operating activities requires significant judgments of factors that include forecasting future sales, gross profit and operating expenses. In addition to historical results, current trends and initiatives, and long-term macro-economic and industry factors are qualitatively considered. Additionally management seeks input from store operations related to local economic conditions. Impairment charges are included in selling, general and administrative expenses on the consolidated statements of income.

Goodwill—Goodwill represents the excess of purchase price over the fair value of acquired tangible and identifiable intangible net assets. We test goodwill for impairment on an annual basis or more frequently if indicators of impairment are present. We perform our annual impairment measurement test on the first day of the fourth quarter. Events that may trigger an early impairment review include significant changes in the current business climate, future expectations of economic conditions, declines in our operating results of our reporting units, or an expectation that the carrying amount may not be recoverable.

We have an option to test goodwill for impairment by first performing a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than the carrying amount. If we choose not to perform the qualitative test or we determine that it is more likely than not that the fair value of the reporting unit is less than the carrying amount, we perform a quantitative two-step impairment test. The first step compares the carrying value of the reporting unit to its estimated fair value, which is based on the perspective of a market-participant. If the fair value of the reporting unit is lower than the carrying value, then a second step is performed to quantify the amount of the impairment. The second step includes estimating the fair value of the reporting unit by taking the net assets of the reporting unit as if the reporting unit had been acquired in a business combination. Then, the implied fair value of the reporting unit's goodwill is compared to the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, we recognize an impairment loss in an amount equal to the excess, not to exceed the carrying amount.

We generally determine the fair value of each of our reporting units based on a combination of the income approach and the market valuation approaches. Key assumptions in the income approach include estimating future cash flows, long-term growth rates and weighted average cost of capital. Our ability to realize the future cash flows used in our fair value calculations is affected by factors such as changes in economic conditions, operating performance and our business strategies. Key assumptions in the market approaches include identifying companies and transactions with comparable business factors, such as earnings growth, profitability, business and financial risk.

Intangible Assets—Our intangible assets consist of trade names and trademarks with indefinite lives and certain definite-lived intangible assets. We test our indefinite-lived intangible assets for impairment on an annual basis, or more frequently if indicators of impairment are present. We test our indefinite-lived assets by estimating the fair value of the asset and comparing that to the carrying value, an impairment loss is recorded for the amount that carrying value exceeds the estimated fair value. The fair value of the trade names and trademarks is determined using the relief from royalty method. This method assumes that the trade name and trademarks have value to the extent that their owner is relieved of the obligation to pay royalties for the benefits received from them. The assumptions used in this method requires management judgment and estimates in forecasting future revenue growth, discount rates, and royalty rates.

Definite-lived intangible assets, which consist of developed technology, customer relationships and non-complete agreements, are amortized using the straight-line method over their estimated useful lives. Additionally, we test the definite-lived intangible assets when facts and circumstances indicate that the carrying values may not be recoverable. We first assess the recoverability of our definite-lived intangible assets by comparing the undiscounted cash flows of the definite-lived asset less its carrying value. If the undiscounted cash flows are less than the carrying value, we then determine the estimated fair value of our definite-lived asset by taking the estimated future operating cash flows derived from the operation to which the asset relates over its remaining useful life, using a discounted cash flow analysis and comparing it to the carrying value. Any impairment would be measured as the difference between the carrying amount and the estimated fair value. Changes in any of these estimates, projections and assumptions could have a material effect of the fair value of these assets in future measurement periods and result in an impairment which could materially affect our results of operations.

Deferred Rent, Rent Expense and Tenant Allowances—We lease our stores and certain corporate and other operating facilities under operating leases. A majority of our leases provide for ongoing co-tenancy requirements or early cancellation clauses that would further lower rental rates, or permit lease terminations, or both, in the event that co-tenants cease to operate for specific periods or if certain sales levels are not met in specific periods. Most of the store leases require payment of a specified minimum rent and a contingent rent based on a percentage of the store's net sales in excess of a specified threshold, as well as real estate taxes, insurance, common area maintenance charges and other executory costs. Most of the lease agreements have defined escalating rent provisions, which are straight-lined over the term of the related lease. We recognize rent expense over the term of the lease, plus the construction period prior to occupancy of the retail location. For certain locations, we receive tenant allowances and report these amounts as a liability, which is amortized as a reduction to rent expense over the term of the lease.

Claims and Contingencies—We are subject to various claims and contingencies related to lawsuits, insurance, regulatory and other matters arising out of the normal course of business. We accrue a liability if the likelihood of an adverse outcome is probable and the amount is estimable. If the likelihood of an adverse outcome is only reasonably possible (as opposed to probable), or if an estimate is not determinable, we provide disclosure of a material claim or contingency.

Revenue Recognition—Revenue is recognized upon purchase at our retail store locations. For our ecommerce sales, revenue is recognized upon delivery to the customer. Taxes collected from our customers are recorded on a net basis. We accrue for estimated sales returns by customers based on historical return experience. The allowance for sales returns at January 28, 2017 was \$2.2 million and at January 30, 2016 was \$2.0 million. We record the sale of gift cards as a current liability and recognize revenue when a customer redeems a gift card. Additionally, the portion of gift cards that will not be redeemed (“gift card breakage”) is recognized in net sales after 24 months, at which time the likelihood of redemption is considered remote based on our historical redemption patterns. For the fiscal years ended January 28, 2017, January 30, 2016 and January 31, 2015, we recorded net sales related to gift card breakage income of \$1.1 million, \$0.9 million and \$0.9 million.

Loyalty Program—We have a customer loyalty program, the Zumiez STASH, which allows members to earn points for purchases or performance of certain activities. The points can be redeemed for a broad range of rewards, including product and experiential rewards. Points earned for purchases are recorded as a reduction of net sales based on the fair value of the points at the time the points are earned and the revenue is recognized upon redemption of points for rewards. Points earned for the performance of activities are recorded as marketing expense based on the estimated cost of the points. The deferred revenue related to our customer loyalty program was \$4.3 million at January 28, 2017 and \$3.1 million at January 30, 2016.

Cost of Goods Sold—Cost of goods sold consists of branded merchandise costs and our private label merchandise costs including design, sourcing, importing and inbound freight costs. Our cost of goods sold also includes shrinkage, buying, occupancy, ecommerce fulfillment, distribution and warehousing costs (including associated depreciation) and freight costs for store merchandise transfers. Cash consideration received from vendors is reported as a reduction of cost of goods sold if the inventory has sold, a reduction of the carrying value of the inventory if the inventory is still on hand, or a reduction of selling, general and administrative expense if the amounts are reimbursements of specific, incremental and identifiable costs of selling the vendors' products.

Shipping Revenue and Costs—We include shipping revenue related to ecommerce sales in net sales and the related freight cost is charged to cost of goods sold.

Selling, General and Administrative Expense—Selling, general and administrative expenses consist primarily of store personnel wages and benefits, administrative staff and infrastructure expenses, freight costs for merchandise shipments from the distribution centers to the stores, store supplies, depreciation on fixed assets at the home office and stores, facility expenses, training expenses and advertising and marketing costs. Credit card fees, insurance, public company expenses, legal expenses, amortization of intangibles assets and other miscellaneous operating costs are also included in selling, general and administrative expenses.

Advertising—We expense advertising costs as incurred, except for catalog costs, which are expensed once the catalog is mailed. Advertising expenses are net of sponsorships and vendor reimbursements. Advertising expense was \$10.0 million, \$9.5 million and \$9.4 million for the fiscal years ended January 28, 2017, January 30, 2016 and January 31, 2015.

Stock-Based Compensation—We account for stock-based compensation by recording the estimated fair value of stock-based awards granted as compensation expense over the vesting period, net of estimated forfeitures. Stock-based compensation expense is attributed using the straight-line method. We estimate forfeitures of stock-based awards based on historical experience and expected future activity. The fair value of restricted stock awards and units is measured based on the closing price of our common stock on the date of grant. The fair value of stock option grants is estimated on the date of grant using the Black-Scholes option pricing model.

Common Stock Share Repurchases—We may repurchase shares of our common stock under authorizations made from time to time by our Board of Directors. Under applicable Washington State law, shares repurchased are retired and not presented separately as treasury stock on the consolidated financial statements. Instead, the value of repurchased shares is deducted from retained earnings.

Income Taxes—We use the asset and liability method of accounting for income taxes. Using this method, deferred tax assets and liabilities are recorded based on the differences between the financial reporting and tax basis of assets and liabilities. The deferred tax assets and liabilities are calculated using the enacted tax rates and laws that we expect to be in effect when the differences are expected to reverse. We routinely evaluate the likelihood of realizing the benefit of our deferred tax assets and may record a valuation allowance if, based on all available evidence, it is determined that it is more likely than not that all or some portion of the deferred tax benefit will not be realized.

We regularly evaluate the likelihood of realizing the benefit of income tax positions that we have taken in various federal, state and foreign filings by considering all relevant facts, circumstances and information available. If we believe it is more likely than not that our position will be sustained, we recognize a benefit at the largest amount that we believe is cumulatively greater than 50% likely to be realized. Interest and penalties related to income tax matters are classified as a component of income tax expense. Unrecognized tax benefits are recorded in other long-term liabilities on the consolidated balance sheets.

Our tax provision for interim periods is determined using an estimate of our annual effective rate, adjusted for discrete items, if any, that are taken into account in the relevant period. As the fiscal year progresses, we periodically refine our estimate based on actual events and earnings by jurisdiction. This ongoing estimation process can result in changes to our expected effective tax rate for the full fiscal year. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs so that our year-to-date provision equals our expected annual rate.

Earnings per Share—Basic earnings per share is based on the weighted average number of common shares outstanding during the period. Diluted earnings per share is based on the weighted average number of common shares and common share equivalents outstanding during the period. The dilutive effect of stock options and restricted stock is applicable only in periods of net income. Common share equivalents included in the computation represent shares issuable upon assumed exercise of outstanding stock options, employee stock purchase plan funds held to acquire stock and non-vested restricted stock. Potentially anti-dilutive securities not included in the calculation of diluted earnings per share are options to purchase common stock where the option exercise price is greater than the average market price of our common stock during the period reported.

Foreign Currency Translation—Assets and liabilities denominated in foreign currencies are translated into U.S. dollars, the reporting currency, at the exchange rate prevailing at the balance sheet date. Revenue and expenses denominated in foreign currencies are translated into U.S. dollars at the monthly average exchange rate for the period and the translation adjustments are reported as an element of accumulated other comprehensive loss on the consolidated balance sheets.

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

Recent Accounting Standards—In March 2016, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update (ASU) as part of its simplification initiative that includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. Upon the adoption of the ASU, excess tax benefits and deficiencies for share-based payments are recorded as an adjustment of income taxes and reflected in operating cash flows rather than recorded in equity and reported in financing cash flows. The guidance allows for the employer to withhold up to the maximum statutory tax rates in the applicable jurisdictions without triggering liability accounting. The guidance also allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. The new standard is effective for the fiscal year beginning after December 15, 2016, with early adoption permitted. We will adopt this standard beginning in the first quarter of fiscal 2017. We will continue to account for forfeitures on an estimated basis. The impact of this standard on our consolidated financial statements in future periods is dependent on our stock price at the time the awards vest and the number of awards that vest during a reporting period.

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

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

In July 2015, the FASB issued guidance simplifying the measurement of inventory. This standard requires entities that use inventory methods other than the last-in, first-out (LIFO) or retail inventory method to measure inventory at the lower of cost or net realizable value, which is defined as the estimated selling prices in the normal course of business, less reasonably predictable costs of completion, disposal, and transportation. We are required to adopt this guidance for the fiscal year beginning after December 31, 2016. We do not expect this standard to have a material impact on our consolidated financial statements.

In May 2015, the FASB issued guidance about a customer's accounting for fees paid in a cloud computing arrangement. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance is effective for the fiscal year beginning after December 15, 2015 and may be applied on either a prospective or retrospective basis. We adopted this guidance for the year ended January 28, 2017 and the adoption did not have a material impact on our consolidated financial statements.

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

3. Goodwill and Intangible Assets

The following tables summarize the changes in the carrying amount of goodwill (in thousands):

Balance as of January 31, 2015	\$ 55,852
Effects of foreign currency translation	<u>(1,607)</u>
Balance as of January 30, 2016	54,245
Goodwill acquired	2,568
Effects of foreign currency translation	<u>(812)</u>
Balance as of January 28, 2017	<u>\$ 56,001</u>

There was no impairment of goodwill for the fiscal years ended January 28, 2017, January 30, 2016 and January 31, 2015.

The following table summarizes the gross carrying amount, accumulated amortization and the net carrying amount of intangible assets (in thousands):

	<u>January 28, 2017</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Intangible Assets, Net</u>
Intangible assets not subject to amortization:			
Trade names and trademarks	\$ 14,402	\$ —	\$ 14,402
Intangible assets subject to amortization:			
Developed technology	3,205	3,205	—
Customer relationships	2,375	2,375	—
Non-compete agreements	227	19	208
Total intangible assets	<u>\$ 20,209</u>	<u>\$ 5,599</u>	<u>\$ 14,610</u>
	<u>January 30, 2016</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Intangible Assets, Net</u>
Intangible assets not subject to amortization:			
Trade names and trademarks	\$ 11,766	\$ —	\$ 11,766
Intangible assets subject to amortization:			
Developed technology	3,267	3,267	—
Customer relationships	2,422	2,422	—
Total intangible assets	<u>\$ 17,455</u>	<u>\$ 5,689</u>	<u>\$ 11,766</u>

There was no impairment of intangible assets for the fiscal years ended January 28, 2017, January 30, 2016 and January 31, 2015.

Amortization expense of intangible assets for the fiscal years ended January 28, 2017, January 30, 2016 and January 31, 2015 was less than \$0.1 million, \$0.9 million and \$2.3 million. Amortization expense of intangible assets is recorded in selling, general and administrative expense on the consolidated statements of income.

4. Cash, Cash Equivalents and Marketable Securities

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

	January 28, 2017			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	\$ 19,190	\$ —	\$ —	\$ 19,190
Money market funds	657	—	—	657
State and local government securities	400	—	—	400
Total cash and cash equivalents	<u>20,247</u>	<u>—</u>	<u>—</u>	<u>20,247</u>
Marketable securities:				
State and local government securities	19,151	8	(30)	19,129
Variable-rate demand notes	39,450	—	—	39,450
Total marketable securities	<u>\$ 58,601</u>	<u>\$ 8</u>	<u>\$ (30)</u>	<u>\$ 58,579</u>
January 30, 2016				
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	\$ 33,608	\$ —	\$ —	\$ 33,608
Money market funds	9,555	—	—	9,555
Total cash and cash equivalents	<u>43,163</u>	<u>—</u>	<u>—</u>	<u>43,163</u>
Marketable securities:				
State and local government securities	32,754	8	(187)	32,575
Variable-rate demand notes	644	—	—	644
Total marketable securities	<u>\$ 33,398</u>	<u>\$ 8</u>	<u>\$ (187)</u>	<u>\$ 33,219</u>
Less: Long-term marketable securities (1).....				<u>(828)</u>
Total current marketable securities				<u>\$ 32,391</u>

(1) At January 30, 2016, we held one auction rate security, classified as available-for-sale marketable securities and included in other long-term assets on the consolidated balance sheet.

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

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

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

	January 30, 2016					
	Less Than Twelve Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable securities:						
State and local government securities	\$ 16,884	\$ (15)	\$ 853	\$ (172)	\$ 17,737	\$ (187)
Total marketable securities	<u>\$ 16,884</u>	<u>\$ (15)</u>	<u>\$ 853</u>	<u>\$ (172)</u>	<u>\$ 17,737</u>	<u>\$ (187)</u>

We did not record a realized loss for other-than-temporary impairments during the fiscal years ended January 28, 2017, January 30, 2016 and January 31, 2015.

5. Receivables

Receivables consisted of the following (in thousands):

	January 28, 2017	January 30, 2016
Credit cards receivable.....	\$ 7,671	\$ 7,606
Income tax receivable	568	86
Tenant allowances receivable	268	1,201
Other receivables	4,031	3,947
Receivables	<u>\$ 12,538</u>	<u>\$ 12,840</u>

6. Fixed Assets

Fixed assets consisted of the following (in thousands):

	January 28, 2017	January 30, 2016
Leasehold improvements	\$ 173,916	\$ 164,930
Fixtures.....	86,612	83,467
Buildings, land and building and land improvements.....	28,118	28,198
Computer equipment, software, store equipment and other....	33,555	30,257
Fixed assets, at cost.....	322,201	306,852
Less: Accumulated depreciation	(192,550)	(169,619)
Fixed assets, net	<u>\$ 129,651</u>	<u>\$ 137,233</u>

Depreciation expense on fixed assets is recognized on our consolidated income statement as follows (in thousands):

	Fiscal Year Ended		
	January 28, 2017	January 30, 2016	January 31, 2015
Cost of goods sold	\$ 1,049	\$ 1,238	\$ 1,230
Selling, general and administrative expenses.....	25,843	26,113	23,513
Depreciation expense	<u>\$ 26,892</u>	<u>\$ 27,351</u>	<u>\$ 24,743</u>

Impairment of Long-Lived Assets—We recorded \$1.9 million, \$3.1 million and \$0.2 million of impairment of long-lived assets in selling, general and administrative expenses on the consolidated statements of income for the years ended January 28, 2017, January 30, 2016 and January 31, 2015.

7. Other Liabilities

Other liabilities consisted of the following (in thousands):

	January 28, 2017	January 30, 2016
Unredeemed gift cards	\$ 5,577	\$ 5,328
Accrued indirect taxes	4,961	5,136
Deferred revenue	4,902	3,726
Accrued payables.....	4,189	4,485
Allowance for sales returns	2,189	1,978
Accrual for repurchase of common stock.....	—	1,067
Other current liabilities	1,126	855
Other liabilities	<u>\$ 22,944</u>	<u>\$ 22,575</u>

8. Revolving Credit Facilities and Debt

On February 5, 2016, the Company entered into an asset-based revolving credit agreement with Wells Fargo Bank, National Association, which provides for a senior secured revolving credit facility of up to \$100 million (“ABL Facility”), subject to a borrowing base, with a letter of credit sub-limit of \$10 million. The ABL Facility is available for working capital and other general corporate purposes. The ABL Facility will mature on February 5, 2021.

The ABL Facility is secured by a first-priority security interest in substantially all of the personal property (but not the real property) of the Company. Amounts borrowed under the ABL Facility bear interest, at the Company’s option, at either an adjusted LIBOR rate plus a margin of 1.25% to 1.75% per annum, or an alternate base rate plus a margin of 0.25% to 0.75% per annum. The Company is also required to pay a fee of 0.25% per annum on undrawn commitments under the ABL Facility. Customary agency fees and letter of credit fees are also payable in respect of the ABL Facility.

There were no borrowings outstanding under the ABL Facility at January 28, 2017 or the replaced secured revolving credit facility at January 30, 2016. We had no open commercial letters of credit outstanding under our secured revolving credit facility at January 28, 2017 and January 30, 2016.

Additionally, we have revolving lines of credit of up to \$21.9 million, the proceeds of which are used to fund certain international operations. The revolving lines of credit bears interest at 1.63%. There were no borrowings or open commercial letters of credit outstanding under these revolving lines of credit at January 28, 2017 and January 30, 2016.

9. Commitments and Contingencies

Operating Leases—Total rent expense is as follows (in thousands):

	Fiscal Year Ended		
	January 28, 2017	January 30, 2016	January 31, 2015
Minimum rent expense	\$ 73,888	\$ 68,904	\$ 62,336
Contingent rent expense	2,618	2,196	2,219
Total rent expense (1)	<u>\$ 76,506</u>	<u>\$ 71,100</u>	<u>\$ 64,555</u>

- (1) Total rent expense does not include real estate taxes, insurance, common area maintenance charges and other executory costs, which were \$41.3 million, \$38.6 million and \$35.6 million for the fiscal years ended January 28, 2017, January 30, 2016 and January 31, 2015.

Future minimum lease payments at January 28, 2017 are as follows (in thousands):

Fiscal 2017	\$ 67,790
Fiscal 2018	63,241
Fiscal 2019	56,540
Fiscal 2020	52,647
Fiscal 2021	47,398
Thereafter	124,117
Total (1)	<u>\$ 411,733</u>

- (1) Amounts in the table do not include contingent rent and real estate taxes, insurance, common area maintenance charges and other executory costs obligations.

Purchase Commitments—At January 28, 2017 and January 30, 2016, we had outstanding purchase orders to acquire merchandise from vendors of \$168.8 million and \$159.7 million. We have an option to cancel these commitments with no notice prior to shipment, except for certain private label and international purchase orders in which we are obligated to repay contractual amounts upon cancellation.

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

Insurance Reserves—We use a combination of third-party insurance and self-insurance for a number of risk management activities including workers' compensation, general liability and employee-related health care benefits. We maintain reserves for our self-insured losses, which are estimated based on actuarial based analysis of historical claims experience. The self-insurance reserve at January 28, 2017 and January 30, 2016 was \$2.3 million and \$2.1 million.

10. Fair Value Measurements

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

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

The following tables summarize assets measured at fair value on a recurring basis (in thousands):

	January 28, 2017		
	Level 1	Level 2	Level 3
Cash equivalents:			
Money market funds	\$ 657	\$ —	\$ —
State and local government securities	400	—	—
Marketable securities:			
State and local government securities	—	19,129	—
Variable-rate demand notes	—	39,450	—
Long-term other assets:			
Money market funds	1,557	—	—
Equity investments	—	—	116
Total	<u>\$ 2,614</u>	<u>\$ 58,579</u>	<u>\$ 116</u>

	January 30, 2016		
	Level 1	Level 2	Level 3
Cash equivalents:			
Money market funds	\$ 9,555	\$ —	\$ —
Marketable securities:			
State and local government securities	—	31,747	—
Variable-rate demand notes	—	644	—
Long-term other assets:			
Money market funds	1,510	—	—
State and local government securities	—	—	828
Equity investments	—	—	118
Total	<u>\$ 11,065</u>	<u>\$ 32,391</u>	<u>\$ 946</u>

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

Assets measured at fair value on a nonrecurring basis include items such as long-lived assets resulting from impairment, if deemed necessary. There were no material assets measured at fair value on a nonrecurring basis for the fiscal years ended January 28, 2017 and January 30, 2016.

11. Stockholders' Equity

Share Repurchase—In December 2013, the Board of Directors authorized a stock repurchase program that provides for the repurchase of up to \$30.0 million of outstanding common stock that replaced the existing stock repurchase program that was authorized in December 2012. In December 2014, our Board of Directors superseded and replaced this program with a \$30.0 million share repurchase program. In June 2015, our Board of Directors superseded and replaced this program with a \$50.0 million share repurchase program that was completed in August 2015. In December 2015, our Board of Directors authorized us to repurchase up to \$70.0 million of our common stock. This program was expired as of January 28, 2017.

The following table summarizes common stock repurchase activity during the fiscal year ended January 28, 2017 (in thousands except average price per repurchased shares):

Number of shares repurchased.....	1,195
Average price per share of repurchased shares (with commission)	\$ 17.19
Total cost of shares repurchased.....	\$ 20,540

Accumulated Other Comprehensive Income (Loss)—The component of accumulated other comprehensive income (loss) and the adjustments to other comprehensive income (loss) for amounts reclassified from accumulated other comprehensive income (loss) into net income is as follows (in thousands):

	Foreign currency translation adjustments	Net unrealized gains (losses) on available-for- sale investments	Accumulated other comprehensive income (loss)
Balance at February 1, 2014	\$ 4,790	\$ (80)	\$ 4,710
Other comprehensive loss, net (1)	(15,995)	7	(15,988)
Balance at January 31, 2015	<u>\$ (11,205)</u>	<u>\$ (73)</u>	<u>\$ (11,278)</u>
Other comprehensive loss, net (1)	(3,931)	(38)	(3,969)
Balance at January 30, 2016	<u>\$ (15,136)</u>	<u>\$ (111)</u>	<u>\$ (15,247)</u>
Other comprehensive loss, net (1)	(1,338)	97	(1,241)
Balance at January 28, 2017	<u><u>\$ (16,474)</u></u>	<u><u>\$ (14)</u></u>	<u><u>\$ (16,488)</u></u>

- (1) Other comprehensive income (loss) before reclassifications is net of taxes of less than \$0.1 million for the fiscal year ended January 28, 2017, January 30, 2016 and January 31, 2015 for both net unrealized gains (losses) on available-for-sale investments and accumulated other comprehensive income (loss). Foreign currency translation adjustments are not adjusted for income taxes as they relate to permanent investments in our international subsidiaries.

12. Equity Awards

General—We maintain several equity incentive plans under which we may grant incentive stock options, nonqualified stock options, stock bonuses, restricted stock awards, restricted stock units and stock appreciation rights to employees (including officers), non-employee directors and consultants.

Stock-Based Compensation—Total stock-based compensation expense is recognized on our consolidated income statements as follows (in thousands):

	Fiscal Year Ended		
	January 28, 2017	January 30, 2016	January 31, 2015
Cost of goods sold	\$ 928	\$ 1,041	\$ 1,048
Selling, general and administrative expenses (1)	3,650	3,955	6,472
Total stock-based compensation expense.....	<u><u>\$ 4,578</u></u>	<u><u>\$ 4,996</u></u>	<u><u>\$ 7,520</u></u>

- (1) Included in stock-based compensation expense recognized in selling, general and administrative expenses is \$0.3 million and \$3.1 million of expense associated with the incentive payments paid in shares of our common stock for the fiscal year ended January 30, 2016 and January 31, 2015.

At January 28, 2017, there was \$6.8 million of total unrecognized compensation cost related to unvested stock options and restricted stock. This cost has a weighted-average recognition period of 1.3 years.

Restricted Equity Awards—The following table summarizes the activity of restricted stock awards and restricted stock units, collectively defined as “restricted equity awards” (in thousands, except grant date weighted-average fair value):

	<u>Restricted Equity Awards</u>	<u>Grant Date Weighted- Average Fair Value</u>	<u>Intrinsic Value</u>
Outstanding at February 1, 2014	361	\$ 26.91	
Granted	176	\$ 25.76	
Vested	(154)	\$ 26.31	
Forfeited	(40)	\$ 27.14	
Outstanding at January 31, 2015	<u>343</u>	\$ 26.56	
Granted	130	\$ 36.10	
Vested	(142)	\$ 27.06	
Forfeited	(45)	\$ 28.64	
Outstanding at January 30, 2016	<u>286</u>	\$ 30.32	
Granted	301	\$ 19.06	
Vested	(128)	\$ 29.54	
Forfeited	(17)	\$ 25.78	
Outstanding at January 28, 2017	<u>442</u>	\$ 23.05	\$ 8,330

The following table summarizes additional information related to restricted equity awards activity (in thousands):

	<u>Fiscal Year Ended</u>		
	<u>January 28, 2017</u>	<u>January 30, 2016</u>	<u>January 31, 2015</u>
Vest date fair value of restricted stock vested	\$ 2,404	\$ 5,184	\$ 3,916

Stock Options—We had 0.2 million stock options outstanding at January 28, 2017 with a grant date weighted average exercise price of \$25.61. We had 0.1 million stock options outstanding at January 30, 2016 with a grant date weighted average exercise price of \$27.86 and 0.3 million stock options outstanding at January 31, 2015 with a grant date weighted average exercise price of \$24.76.

Employee Stock Purchase Plan—We offer an Employee Stock Purchase Plan (the “ESPP”) for eligible employees to purchase our common stock at a 15% discount of the lesser of fair market value of the stock on the first business day or the last business day of the offering period, subject to maximum contribution thresholds. The number of shares issued under our ESPP was less than 0.1 million for each of the fiscal years ended January 28, 2017, January 30, 2016 and January 31, 2015.

13. Income Taxes

The components of earnings before income taxes are (in thousands):

	<u>Fiscal Year Ended</u>		
	<u>January 28, 2017</u>	<u>January 30, 2016</u>	<u>January 31, 2015</u>
United States	\$ 35,456	\$ 46,868	\$ 80,449
Foreign	4,768	(1,007)	(8,798)
Total earnings before income taxes	<u>\$ 40,224</u>	<u>\$ 45,861</u>	<u>\$ 71,651</u>

The components of the provision for income taxes are (in thousands):

	Fiscal Year Ended		
	January 28, 2017	January 30, 2016	January 31, 2015
Current:			
Federal	\$ 13,350	\$ 16,186	\$ 24,639
State and local	2,338	2,591	3,386
Foreign.....	1,187	972	1,044
Total current.....	<u>16,875</u>	<u>19,749</u>	<u>29,069</u>
Deferred:			
Federal	(1,855)	(585)	1,706
State and local	(266)	(832)	291
Foreign.....	(434)	(1,256)	(2,607)
Total deferred.....	<u>(2,555)</u>	<u>(2,673)</u>	<u>(610)</u>
Provision for income taxes.....	<u>\$ 14,320</u>	<u>\$ 17,076</u>	<u>\$ 28,459</u>

The reconciliation of the income tax provision at the U.S. federal statutory rate to our effective income tax rate is as follows:

	Fiscal Year Ended		
	January 28, 2017	January 30, 2016	January 31, 2015
Expected U.S. federal income taxes at statutory rates	35.0%	35.0%	35.0%
State and local income taxes, net of federal effect	3.1	3.3	3.4
Foreign earnings, net.....	(2.3)	(0.6)	0.6
Other	<u>(0.2)</u>	<u>(0.5)</u>	<u>0.7</u>
Effective tax rate	<u>35.6%</u>	<u>37.2%</u>	<u>39.7%</u>

The components of deferred income taxes are (in thousands):

	January 28, 2017	January 30, 2016
Deferred tax assets:		
Deferred rent.....	\$ 18,504	\$ 19,512
Net operating losses.....	5,055	4,384
Employee benefits, including stock-based compensation	2,916	3,124
Accrued liabilities.....	2,279	2,125
Inventory	1,458	1,181
Other	<u>2,026</u>	<u>1,516</u>
Total deferred tax assets.....	<u>32,238</u>	<u>31,842</u>
Deferred tax liabilities:		
Property and equipment.....	(16,348)	(19,606)
Goodwill and other intangibles	(7,765)	(6,901)
Other	<u>(1,084)</u>	<u>(701)</u>
Total deferred tax liabilities	<u>(25,197)</u>	<u>(27,208)</u>
Net deferred tax assets	<u>\$ 7,041</u>	<u>\$ 4,634</u>

At January 28, 2017 and January 30, 2016, we had \$20.3 million and \$16.0 million of foreign net operating loss carryovers that could be utilized to reduce future years' tax liabilities. The tax-effected foreign net operating loss carryovers were \$5.1 million and \$4.4 million at January 28, 2017 and January 30, 2016. The net operating loss carryovers have an indefinite carryforward period and currently will not expire.

We file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. Our U.S. federal income tax returns are no longer subject to examination for years before fiscal 2013 and with few exceptions, we are no longer subject to U.S. state examinations for years before fiscal 2012. We are no longer subject to examination for all foreign income tax returns before fiscal 2011.

14. Earnings per Share, Basic and Diluted

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

	Fiscal Year Ended		
	January 28, 2017	January 30, 2016	January 31, 2015
Net income.....	\$ 25,904	\$ 28,785	\$ 43,192
Weighted average common shares for basic earnings per share	24,727	27,497	28,871
Dilutive effect of stock options and restricted stock	181	176	417
Weighted average common shares for diluted earnings per share	<u>24,908</u>	<u>27,673</u>	<u>29,288</u>
Basic earnings per share	<u>\$ 1.05</u>	<u>\$ 1.05</u>	<u>\$ 1.50</u>
Diluted earnings per share	<u>\$ 1.04</u>	<u>\$ 1.04</u>	<u>\$ 1.47</u>

Total anti-dilutive common stock options not included in the calculation of diluted earnings per share were 0.2 million, 0.1 million and 0.1 million for the fiscal years ended January 28, 2017, January 30, 2016 and January 31, 2015.

15. Related Party Transactions

The Zumiez Foundation is a charitable based nonprofit organization focused on meeting various needs of the under-privileged. Our Chairman of the Board is also the President of the Zumiez Foundation. We committed charitable contributions to the Zumiez Foundation of \$0.7 million, \$0.6 million and \$0.7 million for the fiscal years ended January 28, 2017, January 30, 2016, January 31, 2015. We have accrued charitable contributions payable to the Zumiez Foundation of \$0.6 million and \$0.5 million at January 28, 2017 and January 30, 2016.

16. Segment Reporting

Our operating segments have been aggregated and are reported as one reportable segment based on the similar nature of products sold, production, merchandising and distribution processes involved, target customers and economic characteristics.

The following table is a summary of product categories as a percentage of merchandise sales:

	Fiscal Year Ended		
	January 28, 2017	January 30, 2016	January 31, 2015
Men's Apparel	37%	34%	34%
Accessories.....	20%	20%	20%
Footwear	18%	19%	19%
Junior's Apparel.....	13%	13%	13%
Hardgoods	<u>12%</u>	<u>14%</u>	<u>14%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

The following tables present summarized geographical information (in thousands):

	Fiscal Year Ended		
	January 28, 2017	January 30, 2016	January 31, 2015
Net sales (1):			
United States	\$ 710,976	\$ 689,582	\$ 708,279
Foreign	<u>125,292</u>	<u>114,601</u>	<u>103,272</u>
Total net sales	<u>\$ 836,268</u>	<u>\$ 804,183</u>	<u>\$ 811,551</u>
	January 28, 2017	January 30, 2016	
Long-lived assets:			
United States	\$ 110,539	\$ 124,436	
Foreign	<u>26,387</u>	<u>25,352</u>	
Total long-lived assets	<u>\$ 136,926</u>	<u>\$ 149,788</u>	

- (1) Net sales are allocated based on the location in which the sale was originated for the fiscal years ended January 28, 2017 and January 30, 2016 and fulfilled for the fiscal year ended January 31, 2015. Store sales are allocated based on the location of the store and ecommerce sales are allocated to the U.S. for sales on www.zumiez.com and to foreign for sales on www.blue-tomato.com and www.fasttimes.com.au.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ZUMIEZ INC.

<u>/s/ RICHARD M. BROOKS</u>	<u>March 13, 2017</u>
Signature	Date
By: Richard M. Brooks Chief Executive Officer and Director (Principal Executive Officer)	

<u>/s/ CHRISTOPHER C. WORK</u>	<u>March 13, 2017</u>
Signature	Date
By: Christopher C. Work, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>/s/ THOMAS D. CAMPION</u>	<u>March 13, 2017</u>	<u>/s/ JAMES M. WEBER</u>	<u>March 13, 2017</u>
Signature	Date	Signature	Date
Thomas D. Campion, Chairman		James M. Weber, Director	

<u>/s/ MATTHEW L. HYDE</u>	<u>March 13, 2017</u>	<u>/s/ SARAH G. MCCOY</u>	<u>March 13, 2017</u>
Signature	Date	Signature	Date
Matthew L. Hyde, Director		Sarah G. McCoy, Director	

<u>/s/ ERNEST R. JOHNSON</u>	<u>March 13, 2017</u>	<u>/s/ TRAVIS D. SMITH</u>	<u>March 13, 2017</u>
Signature	Date	Signature	Date
Ernest R. Johnson, Director		Travis D. Smith, Director	

<u>/s/ KALEN F. HOLMES</u>	<u>March 13, 2017</u>	<u>/s/ SCOTT A. BAILEY</u>	<u>March 13, 2017</u>
Signature	Date	Signature	Date
Kalen F. Holmes, Director		Scott A. Bailey, Director	

EXHIBIT INDEX

- 3.1 Articles of Incorporation. [Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (file No. 333-122865)]
- 3.2 Bylaws, as amended and restated May 21, 2014 and Amendment No.1, dated as of May 21, 2015, to Bylaws of Zumiez Inc. (as previously Amended and Restated as of May 21, 2014 [Incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on May 23, 2014 and Exhibit to the Company's Form 8-K filed on May 21, 2015])
- 4.1 Form of Common Stock Certificate of Zumiez Inc. [Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (file No. 333-122865)]
- 10.15 Zumiez Inc. 2005 Equity Incentive Plan, as amended and restated effective May 27, 2009. [Incorporated by reference from Exhibit 10.15 to the Form 8-K filed by the Company on June 1, 2009]
- 10.2 Zumiez Inc. 2014 Equity Incentive Plan. [Incorporated by reference to Exhibit 10.20 to the Company's Current Report on Form 8-K filed on May 23, 2014]
- 10.21 Form of Restricted Stock Award Agreement and Terms and Conditions. [Incorporated by reference to Exhibit 10.21 to the Company's Current Report on Form 8-K filed on May 23, 2014]
- 10.22 Form of Stock Option Award Agreement and Terms and Conditions. [Incorporated by reference to Exhibit 10.22 to the Company's Current Report on Form 8-K filed on May 23, 2014]
- 10.23 Zumiez Inc. 2014 Employee Stock Purchase Plan. [Incorporated by reference to Exhibit 10.23 to the Company's Current Report on Form 8-K filed on May 23, 2014]
- 10.24 Form of Indemnification Agreement. [Incorporated by reference to Exhibit 10.24 to the Company's Current Report on Form 8-K filed on May 23, 2014]
- 10.27 Credit Agreement dated as of February 5, 2016 among Zumiez Services Inc., as the lead borrower, for the borrowers and guarantors named therein and Wells Fargo Bank, National Association, as agent and L/C issuer and other lender parties thereto. [Incorporated by reference to Exhibit 10.27 to the Company's Form 8-K filed on February 5, 2016]
- 21.1 Subsidiaries of the Company.
- 23.1 Consent of Moss Adams LLP, Independent Registered Public Accounting Firm.
- 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 (Principal Accounting 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 (Principal Accounting Officer) pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

- 101 The following materials from Zumiez Inc.'s Annual Report on Form 10-K for the annual period ended January 28, 2017, formatted in XBRL (eXtensible Business Reporting Language):
- (i) Consolidated Balance Sheets at January 28, 2017 and January 30, 2016;
 - (ii) Consolidated Statements of Income for the fiscal years ended January 28, 2017, January 30, 2016 and January 31, 2015;
 - (iii) Consolidated Statements of Comprehensive Income for the fiscal years ended January 28, 2017, January 30, 2016 and January 31, 2015;
 - (iv) Consolidated Statements of Changes in Shareholders' Equity for the fiscal years ended January 28, 2017, January 30, 2016 and January 31, 2015;
 - (v) Consolidated Statements of Cash Flows for the fiscal years ended January 28, 2017, January 30, 2016 and January 31, 2015; and
 - (vi) Notes to Consolidated Financial Statements.

Copies of Exhibits may be obtained upon request directed to the attention of our Executive Vice President, General Counsel and Secretary, 4001 204th Street SW, Lynnwood, Washington 98036, and are available at the SEC's website found at www.sec.gov.

