

# **zumiez**

**Notice of 2012 Annual Meeting  
And Proxy Statement  
2011 Annual Report on Form 10-K**





6300 Merrill Creek Parkway Suite B  
Everett, Washington 98203

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**To Be Held On May 23, 2012**

Dear Shareholder:

You are cordially invited to attend the annual meeting of shareholders of Zumiez Inc., a Washington corporation. Zumiez is also referred to as “we,” “our,” “us” and the “Company.” The meeting will be held on Wednesday, May 23, 2012 at 1:00 p.m. (Pacific Time) at our headquarters located at 6300 Merrill Creek Parkway, Suite B, Everett, Washington 98203 for the following purposes:

1. To elect three directors to hold office until our 2015 annual meeting of shareholders;
2. To approve material terms of the performance criteria under the Executive Officer Non-Equity Incentive Plan;
3. 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 2, 2013 (“fiscal 2012”); and
4. 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 3. The record date for the annual meeting is March 19, 2012. 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, Zumiez has 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 12, 2012, 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, 2012 (“fiscal 2011”) Proxy Statement and 2011 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 23, 2012:** 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  
*Marc D. Stolzman*  
Chief Financial Officer and Secretary

Everett, Washington  
April 12, 2012

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6300 Merrill Creek Parkway Suite B  
Everett, Washington 98203

**PROXY STATEMENT  
FOR THE ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD MAY 23, 2012**

**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” and the “Company”) is soliciting your proxy to vote at its 2012 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 19, 2012, to attend the meeting. However, you do not need to attend the meeting to vote your shares. Instead, you may simply complete, sign and return the accompanying proxy card. 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 12, 2012 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 19, 2012, 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 31,289,722 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 19, 2012, 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);
- Approval of the material terms of the performance criteria under the Executive Officer Non-Equity Incentive Plan (Proposal 2); 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 2, 2013 (“fiscal 2012”) (Proposal 3).

When you vote your proxy, you appoint Marc D. Stolzman and Richard M. Brooks as your representatives at the meeting. When we refer to the “named proxies,” we are referring to Mr. Stolzman 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 3, 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). 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 19, 2012.
- To vote via the internet—You may vote online at [www.proxyvote.com](http://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 22, 2012.
- 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 22, 2012.
- 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 common stock you own as of the close of business on March 19, 2012, 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 material terms of the performance criteria under the Executive Officer Non-Equity Incentive Plan (Proposal 2); and
- “For” the ratification of the selection of Moss Adams LLP as our independent registered public accounting firm for fiscal 2012 (Proposal 3).

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 \$5,500 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, Marc D. Stolzman, at 6300 Merrill Creek Parkway, Suite B, Everett, Washington 98203.
- 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 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) and the approval of the material terms of the performance criteria under the Executive Officer Non-Equity Incentive Plan (Proposal 2) are considered non-discretionary items while the ratification of the selection of Moss Adams LLP as our auditor (Proposal 3) 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 or Proposal 2 but is permitted to vote your shares on Proposal 3 even if it does not receive voting instructions from you because Proposal 3 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 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.

If a director nominee does not receive the requisite votes to be elected, that director’s term will end on the date on which an individual is selected by the board of directors to fill the position held by such director or ninety (90) days after the date the election results are determined, or the date the director nominee resigns, whichever occurs first.

*Proposal 2.* For the approval of the material terms of the performance criteria under the Executive Officer Non-Equity Incentive Plan, if a majority of the votes cast are “For” the proposal, then Proposal 2 will be approved.

*Proposal 3.* For the ratification of the selection of our independent registered public accounting firm for fiscal 2012, if the number of “For” votes exceeds the number of “Against” votes, then Proposal 2 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 to the information 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. Campion, provides guidance to the CEO and sets the agenda for board meetings and presides over meetings of the full board of directors. Because Mr. Campion is an employee of the Company and is therefore not "independent," our board has appointed the chairman of our governance and nominating committee, Matthew L. Hyde, 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 and regulatory and 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. The board follows the compensation philosophies discussed, below, in the Compensation Discussion & Analysis. 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 \$30,000. The audit committee members receive cash compensation of \$10,000 with the chairperson receiving \$20,000 per year. The compensation committee members receive cash compensation of \$7,500 with the chairperson receiving \$15,000 per year. The governance and nominating committee member receives cash compensation of \$5,000 with the chairperson receiving \$10,000 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 and stock awards earned by each of the Company's non-employee directors during the fiscal year ending January 28, 2012 ("fiscal 2011").

<u>Name</u>	<u>Fees Earned or Paid in Cash (\$)</u>	<u>Stock Awards (1) (\$)</u>	<u>Total (\$)</u>
James M. Weber .....	42,500	63,997	106,497
Matthew L. Hyde .....	40,000	63,997	103,997
William M. Barnum Jr. ....	37,500	63,997	101,497
Gerald F. Ryles .....	55,000	63,997	118,997
Sarah (Sally) G. McCoy .....	45,000	63,997	108,997
Ernest R. Johnson (2) .....	50,000	63,991	113,991

(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 Two (listed under Stock Compensation) in the Notes to Consolidated Financial Statements in our fiscal 2011 Form 10-K.

On May 25, 2011, the day of the annual shareholder meeting, the Company awarded 2,165 shares of restricted stock to the directors with a grant-date fair value of \$63,997, except for Mr. Johnson. Upon his appointment to the board of directors, Mr. Johnson was awarded 2,487 shares of restricted stock with a grant date of July 1, 2011 and a grant-date fair value of \$63,991. The stock awards for all directors will vest on May 25, 2012.

(2) Mr. Johnson was appointed to the board of directors on July 1, 2011.

## PROPOSAL 1

### ELECTION OF DIRECTORS

The Company currently has eight 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. 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 2015. 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 Corporation 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 1, 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 to Terms Expiring in 2015**

*Richard M. Brooks, 52*, 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, where he currently serves as the Chairman of the Board of Trustees as well as serving on its Executive Committee and Compensation Committee.

*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 the action sports retail business. As the Company's second largest shareholder, Mr. Brooks' interest is aligned with other Zumiez shareholders' interests to increase the long-term value of the Company.

*Matthew L. Hyde*, 49, was appointed to our board in December 2005 and is the Executive Vice President of Recreational Equipment Inc. (REI), which he joined in 1986. He currently oversees Marketing, E-commerce & Direct Sales, Real Estate, Store Development, Retail and Customer Experience functions at REI. 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 in Corvallis.

*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*, 52, was appointed to our board in April 2006 and is the President and CEO of Brooks Sports, 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. Presently, Mr. Weber is a director at the Seattle Sports Commission and at Bensussen, Deutsche and Associates.

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

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

**Continuing Directors Whose Terms Expire in 2013**

*William M. Barnum, Jr.*, 58, has served on our board of directors since November 2002. Since 1984, Mr. Barnum has been with Brentwood Private Equity where he co-founded the firm's private equity effort, and is currently its General Partner. Prior to joining Brentwood Private Equity, Mr. Barnum worked at Morgan Stanley & Co. in the investment banking division. He is a graduate of Stanford University, and a graduate of Stanford Law School and Stanford Graduate School of Business. Presently, Mr. Barnum is a director of Filson Holdings, Inc., Quiksilver Corporation, The Teaching Company Holdings, Inc., Ariat International, Inc., ThreeSixty Asia Ltd and Zoe's Kitchen Inc.

*Director Qualifications:* Mr. Barnum's background in private equity and his public company board experience is invaluable to our board's discussions of financial and capital market matters. As the Company formulates and executes its growth strategies, Mr. Barnum provides valuable insights and experiences regarding mergers and acquisitions and international expansion. Additionally, Mr. Barnum has been engaged in the retail and action sports industry for many years and his experience provides valuable guidance to the Company.

*Gerald F. Ryles*, 75, has served on our board of directors since August 2005. Until it was acquired in September 2003, Mr. Ryles was Chairman of the Board and a major shareholder of Microserv Technology Services, a privately held information technology services company. From January 1994 through January 2001, Mr. Ryles was also the Chief Executive Officer. He also has over 40 years of management experience in several different industries as well as management consulting experience with McKinsey & Company. He is a graduate

of the University of Washington, and earned an M.B.A. from Harvard University. He also serves on the board of directors of Giant Campus an educational software company, and the State of Washington's Board of Accountancy, where he was appointed by the Governor in 2006 and served as the Chairman in 2010.

*Director Qualifications:* Mr. Ryles' extensive prior business experiences as a chief executive officer and his financial expertise are critical to our board and the audit committee in particular. Mr. Ryles' consulting background and chief executive experience provides the Company with perspective regarding a number of different successful business strategies that help the Company formulate its operating and growth plans.

#### **Continuing Directors Whose Terms Expire in 2014**

*Thomas D. Champion*, 63, 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, and is on the board of Conservation Northwest, a Bellingham, Washington based environmental group. He is also the trustee of the Champion Foundation, a nonprofit organization focused on ensuring that biologically important ecosystems in Northwestern North American are preserved. The Foundation also works on homelessness issues in the Pacific Northwest.

*Director Qualifications:* Mr. Champion's knowledge as a retailer and as the co-founder of the Company provide the board with invaluable insight into the Company's business and its unique culture. Mr. Champion provides generational leadership, sales, marketing, merchandising and brand building experience and expertise. Mr. Champion'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 action sports retailing. As the Company's largest shareholder, Mr. Champion's interests are aligned with other Zumiez shareholders' interests to increase the long-term value of the Company.

Sarah (Sally) G. McCoy, 51, was appointed to our board of directors in October 2010 and is the President and CEO of CamelBak, a company that originated hands free-hydration and is the leader in hydration products. Ms. McCoy joined CamelBak in 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. Ms. McCoy is a graduate of Dartmouth College. She also serves as the Board President of the Conservation Alliance.

*Director Qualifications:* Ms. McCoy's background in sales, merchandising, sourcing, marketing and executive management of outdoor and action sports 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, 61, 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 BA 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.



## 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.

### **Certain Relationships and Related Transactions**

The Company made charitable contributions to the Zumiez Foundation in fiscal 2011 and the fiscal year ending January 29, 2011 ("fiscal 2010") of approximately of \$0.7 million and \$0.6 million. 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:

1. 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;
2. any person who is known to be the beneficial owner of more than 5% of any class of the Company's voting securities;
3. 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
















4. 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 or the Chief Financial Officer, who shall convey the decision to the appropriate persons within the Company.

### 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.

	 Chairperson  Member	 Lead Independent Director Governance & Nominating Committee	 Audit Committee Financial Expert Compensation Committee
	<hr/> Audit Committee	<hr/> Governance & Nominating Committee	<hr/> Compensation Committee
William M. Barnum . . . . .			
Matthew L. Hyde  . . . . .			
Ernest R. Johnson  . . . . .			
Sarah (Sally) G. McCoy . . .			
Gerald F. Ryles . . . . .			
James M. Weber . . . . .			

#### 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 2011, our full board of directors met four times, the audit committee met four times, the compensation committee met four times and the governance and nominating committee met three 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, respectively. Although the Company does not have a formal policy requiring members of the board of directors to attend annual shareholder meetings, the Company encourages all directors to attend each annual shareholder meeting. Five of the then seven board members were in attendance at our May 25, 2011 annual shareholder meeting.

### **Shareholder Communications with the Board of Directors**

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 Everett, 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.

### **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.

The nominations to the board of directors in fiscal 2011 and through the date of this proxy statement were 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 outside 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.

No fees were paid to any third party search firms in connection with any director nominations.

Ernest R. Johnson was appointed to our board of directors on July 1, 2011. Mr. Johnson was originally recommended to the Company to join the board by the Company's CEO.

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.  
6300 Merrill Creek Parkway, Suite B  
Everett, Washington 98203

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 of the Company 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 19, 2012 by: (i) each of our directors; (ii) each of our NEOs; (iii) all of our 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 19, 2012, 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 18, 2012, which is 60 days after March 19, 2012. 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., 6300 Merrill Creek Parkway, Suite B, Everett, Washington 98203.

<u>Name of Beneficial Owner</u>	<u>Number of Common Shares Beneficially Owned</u>	<u>Percentage of Shares Beneficially Owned</u>
Thomas D. Campion (1) . . . . .	5,018,409	16.0%
Richard M. Brooks (2) . . . . .	3,713,024	11.9%
Lynn K. Kilbourne (3) . . . . .	237,525	*
Marc D. Stolzman (4) . . . . .	18,942	*
Ford K. Wright (5) . . . . .	215,662	*
William M. Barnum Jr. (6) . . . . .	89,271	*
Gerald F. Ryles (7) . . . . .	38,534	*
James M. Weber (8) . . . . .	30,153	*
Matthew L. Hyde (9) . . . . .	30,153	*
Sarah (Sally) G. McCoy (10) . . . . .	4,037	*
Ernest R. Johnson (11) . . . . .	4,087	*
Trevor S. Lang (12) . . . . .	8,644	*
All Executive Officers and Directors as a group (12 persons) . . . . .	9,408,441	29.7%
T. Rowe Price Associates, Inc. (13) . . . . .	4,998,311	16.0%
Waddell & Reed Financial, Inc. (14) . . . . .	2,440,816	7.8%

\* Less than one percent.

- (1) Includes shares of common stock held by grantor retained annuity trusts for which Thomas D. Campion is trustee. Mr. Campion is our Chairman of the Board.
- (2) Mr. Brooks is our CEO and a Director.
- (3) Consists of 54,931 shares of stock held by Ms. Kilbourne of which 25,716 shares are restricted and 182,594 vested stock options. Ms. Kilbourne is our President and General Merchandising Manager.
- (4) Consists of 18,942 shares of stock held by Mr. Stolzman of which 18,942 shares are restricted. Mr. Stolzman is our Chief Financial Officer and Secretary.
- (5) Consists of 63,791 shares of stock held by Mr. Wright of which 8,625 shares are restricted and 151,871 vested stock options. Mr. Wright is our Executive Vice President of Stores.

- (6) Consists of 65,271 shares of stock held by Mr. Barnum of which 2,165 shares are restricted and 24,000 vested stock options. Mr. Barnum is one of our directors.
- (7) Consists of 14,534 shares of stock held by Mr. Ryles of which 2,165 shares are restricted and 24,000 vested stock options. Mr. Ryles is one of our directors.
- (8) Consists of 16,153 shares of stock held by Mr. Weber of which 2,165 shares are restricted and 14,000 vested stock options. Mr. Weber is one of our directors.
- (9) Consists of 16,153 shares of stock held by Mr. Hyde of which 2,165 shares are restricted and 14,000 vested stock options. Mr. Hyde is one of our directors.
- (10) Consists of 4,037 shares of stock held by Ms. McCoy of which 2,165 shares are restricted. Ms. McCoy is one of our directors.
- (11) Consists of 4,087 shares of stock held by Mr. Johnson of which 2,487 shares are restricted. Mr. Johnson is one of our directors.
- (12) Consists of 8,644 shares of stock held by Mr. Lang. Mr. Lang is our former Chief Financial Officer, Chief Administrative Officer and Secretary. Mr. Lang resigned on June 1, 2011.
- (13) This information is based solely on a Schedule 13G/A filed February 10, 2012 by T. Rowe Price Associates, Inc. ("Price Associates"). These securities are owned by various individual and institutional investors including T. Rowe Price New Horizons Fund, Inc. (which owns 2,296,011 shares, representing 7.3% of the shares outstanding), and T. Rowe Price Small-Cap Stock Fund, Inc. (which owns 1,608,900 shares, representing 5.1% of the shares outstanding) which Price Associates serves as an investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities Exchange Act of 1934, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities. 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/A filed February 14, 2012 by Waddell & Reed Financial, Inc. The securities reported on are beneficially owned by one or more open-ended investment companies or other managed accounts which are advised or sub-advised by Ivy Investment Management Company ("IICO"), an investment advisory subsidiary of Waddell & Reed Financial, Inc. ("WDR") or Waddell & Reed Investment Management Company ("WRIMCO"), an investment advisory subsidiary of Waddell & Reed, Inc. ("WRI"). WRI is a broker-dealer and underwriting subsidiary of Waddell & Reed Financial Services, Inc., a parent holding company ("WRFSI"). In turn, WRFSI is a subsidiary of WDR, a publicly traded company. The investment advisory contracts grant IICO and WRIMCO all investment and/or voting power over securities owned by such advisory clients. The investment sub-advisory contracts grant IICO and WRIMCO investment power over securities owned by such sub-advisory clients and, in most cases, voting power. Any investment restriction of a sub-advisory contract does not restrict investment discretion or power in a material manner. Therefore, IICO and/or WRIMCO may be deemed the beneficial owner of the securities covered by this statement under Rule 13d-3 of the Securities Exchange Act of 1934 (the "1934 Act"). IICO, WRIMCO, WRI, WRFSI and WDR are of the view that they are not acting as a "group" for purposes of Section 13(d) under the 1934 Act. Indirect "beneficial ownership" is attributed to the respective parent companies solely because of the parent companies' control relationship to WRIMCO and IICO. The business address of Waddell & Reed Financial, Inc. is 6300 Lamar Avenue, Overland Park, Kansas 66202.



## 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 2011, all applicable Section 16(a) filing requirements were met, and that all such filings were timely except as follows. Late Form 4 reports were filed for Lynn K. Kilbourne, Trevor S. Lang and Ford K. Wright on March 21, 2011 for the reporting of an annual grant of restricted stock and stock options. In addition, a late Form 4 report was filed for non-employee director Ernest R. Johnson on July 7, 2011 for the reporting of an annual grant of restricted stock and a late Form 4 report was filed for Thomas D. Campion on March 1, 2012 for the reporting of a sale of common stock.

### EXECUTIVE OFFICERS

As of the end of fiscal 2011 the names, ages and positions of the current non-director executive officers of the Company are listed below, along with their respective business experience during the past five years. No family relationships exist among any of the directors or executive officers of the Company.

*Lynn K. Kilbourne*, 49, has served as our President and General Merchandising Manager (“GMM”) since September 2008. Prior to September 2008 and since September 2004, Ms. Kilbourne served as our Executive Vice President and GMM. From July 1991 until May 2001, she was with Banana Republic, a subsidiary of Gap, Inc., in various senior management positions. After leaving Banana Republic, Ms. Kilbourne served as an independent consultant in the retail industry until she joined Zumiez in September 2004. Ms. Kilbourne holds a B.A. in Economics and Political Science from Yale University and an M.B.A. from the Harvard University Graduate School of Business Administration.

*Marc D. Stolzman*, 45, has served as Chief Financial Officer and Secretary since August 2011. From June 2008 through November 2010, he had served as the Chief Financial Officer of Blue Nile Inc., a worldwide online retailer of diamonds and fine jewelry. From March 2007 until June 2008, Mr. Stolzman was the Chief Financial Officer of Imperium Renewables Inc, a company in the bio-diesel manufacturing and distribution business. Prior to Imperium, Mr. Stolzman was the Senior Vice President Finance and Business Development, International at Starbucks Coffee Company, a retailer, roaster and distributor of coffee and tea, from July 2003 until January 2007. Prior to that time, Mr. Stolzman held various finance and accounting positions at Starbucks, including CFO of its Japanese operations, since joining Starbucks in May 1994.

*Ford K. Wright*, 44, has served as our Executive Vice President of Stores since March 2007. From May of 2000 through February 2007 he served as the Director of Store Systems. From June 1994 through April 2000 Mr. Wright has served in Store, District and Regional Management positions. Prior to June of 1994 Mr. Wright was employed with Nordstrom. Mr. Wright has over 20 years experience in the retail and wholesale clothing industry.

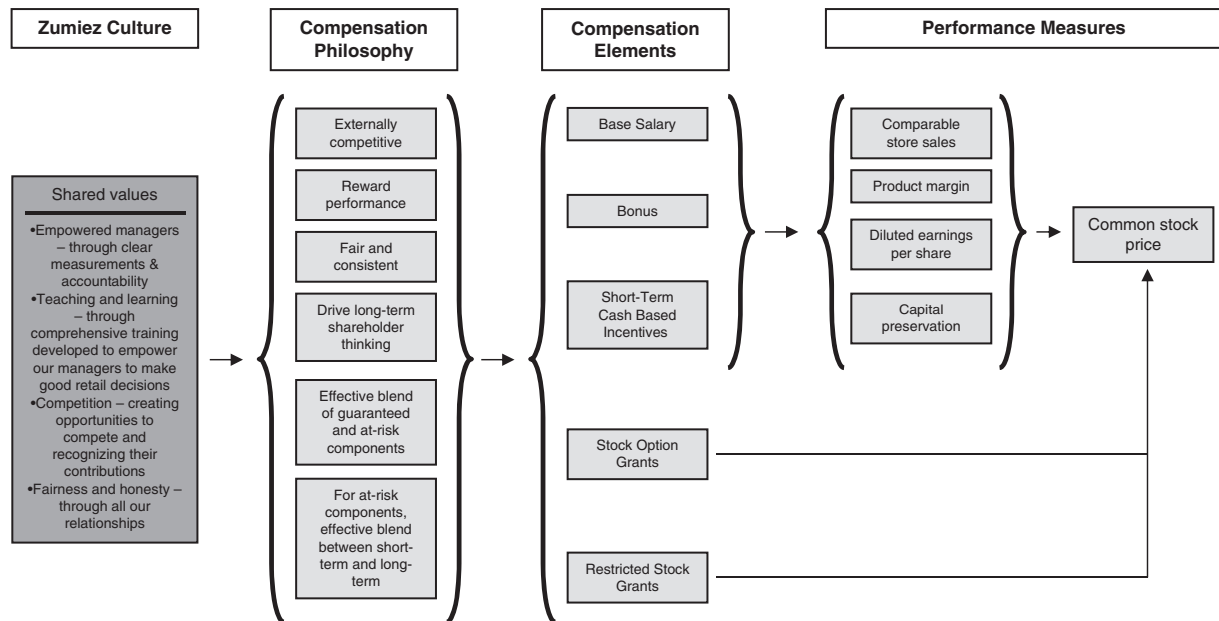


## EXECUTIVE COMPENSATION COMPENSATION DISCUSSION AND ANALYSIS

The Company’s basis for competitive advantage is its culture—conceived, developed and maintained as a unique and powerful basis for engendering commitment, accountability, competitiveness and creativity among all staff. The objective of the Company’s compensation discussion and analysis is to describe how, for the NEOs, the Company links its culture to compensation philosophy and then to compensation strategy; and, to explain how the Company executed its compensation strategy during the last year. While the discussion and analysis focuses on the NEOs in the compensation tables in this proxy statement, the Company links culture, compensation philosophy and compensation strategy throughout the organization from the seasonal sales person 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. 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, the Company believes that the Zumiez culture is unique. The Company believes it is well defined, understood widely and thoroughly among all staff, reinforced and exemplified by leaders held accountable for doing so and integrated into the daily practices and processes throughout the business. The Company believes 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 suppliers, 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 the Company's 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 the Company 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 mechanisms.

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 of staff; 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 not also provided to all Company 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 stock incentives in proportions so that the long-term opportunity for each NEO to earn total direct compensation (salary plus annual cash incentives plus stock 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, 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 stock 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 during the last three years, including fiscal 2011 when our earnings and balance of cash, cash equivalents and marketable securities were the highest in our history of being a public company.

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 three Company-wide measures of performance: (1) comparable store sales results, (2) product margin and (3) diluted earnings per share. 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. We calculate these performance measures as follows:
  - Comparable store sales—We report “comparable store sales” based on net sales beginning on the first anniversary of the first day of operation of a new store. Our comparable store sales also include our ecommerce sales. Changes in our comparable store sales between two periods are based on net sales of stores which were in operation during both of the two periods being compared and, if a store is included in the calculation of comparable store sales for only a portion of one of the two periods being compared, then that store is included in the calculation for only the comparable portion of the other period. Any change in square footage of an existing comparable store, including remodels, does not eliminate that store from inclusion in the calculation of comparable store sales.

- 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 revenue recognized upon purchase by our customers, net of actual sales returns, excluding shipping revenue. For purposes of this calculation, our cost of goods sold consist of the cost of goods purchased from our private label vendors, including importing and inbound freight costs, and the cost of goods purchased from third party manufacturers, sold to our customers.
- Diluted earnings per share—Diluted earnings per share is calculated in accordance with GAAP.
- Provide for the risk of zero annual Short-Term Cash Based Incentives payout should performance expectations not be met.
- Average awards upon achievement of performance measures that, in the judgment of the board of directors, are in the best long-term interests of the shareholders, would be expected in light of industry, company size, company maturity, prevailing business conditions and any need to draw upon short-term earnings to fulfill strategic goals (such as growth, market share, or innovation).
- Provide for pay-at-risk, i.e., performance expectations that are challenging, but achievable.
- Proactively communicate 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.
- Allow for flexibility to attract and retain executives.

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 price change. 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 no downside potential similar to 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 the Company 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 the Company for many years. Accordingly, if a NEO were to depart from the Company then he or she could forfeit substantial amounts of unrealized compensation.

*Shareholder Mentality.* We believe it is in the best interests of shareholders for Zumiez 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.

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

### **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.

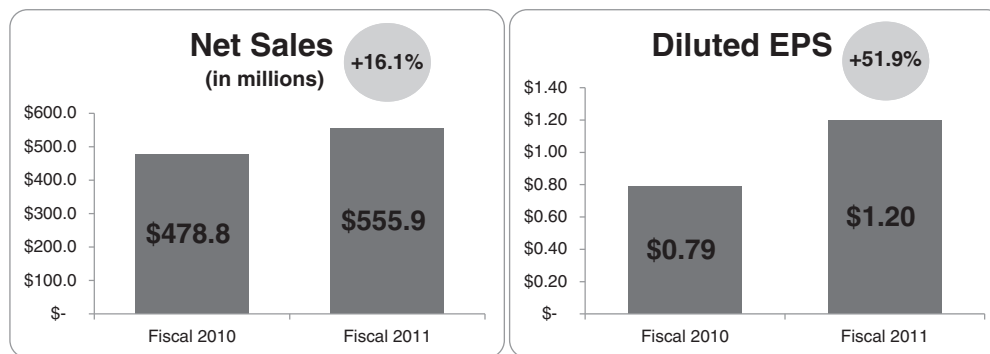
*Stock Option Grants* are opportunities granted from time to time (usually annually or at the time of hiring) to an NEO to purchase Company common stock at some future time at a pre-established fixed price set at the time of grant. This price is the actual market price of the stock at the time of grant. 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 the Company.

*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 orchestrated package to achieve all of the compensation goals described in the immediately preceding section of this discussion.

### Fiscal 2011—A Review of This Past Year

Zumiez achieved strong financial results in fiscal 2011. Our performance was outstanding compared to competitors in the mall and across our industry considering the backdrop of muted economic activity and a difficult consumer environment. The charts below show net sales and diluted earnings per share (“diluted EPS”) on a GAAP basis for fiscal 2010 and 2011 and the percentage growth in fiscal 2011.



We had strong momentum entering fiscal 2011 and expected our financial performance would continue to reflect increasing year over year performance in both net sales and diluted earnings per share. Considering the prior year performance and the plans in motion for fiscal 2011, the compensation committee granted salary increases to the NEOs to keep pay in line with the stated compensation philosophy and market data. The compensation committee adjusted the base salary of the CEO to reflect a salary consistent with the documented compensation structure. Previously, the CEO had been taking a salary that was below market due to his significant beneficial stock ownership; however, the compensation committee determined the base pay was not reflective of both the performance of the company, or the external market conditions and adjusted pay accordingly. Additionally, the compensation committee increased the base salary of the President and General Merchandising Manager to reflect additional responsibilities assigned during the year and on a go forward basis.

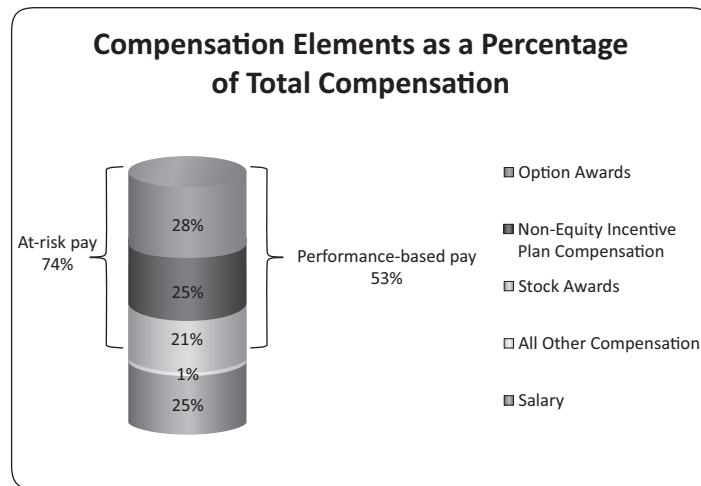
The compensation committee believes the compensation structure outlined in previous years is still relevant and appropriate, so the Short-term Cash Based Incentives and long-term equity incentives components of compensation were designed to follow the same methodology and is discussed in further detail below.

We believe the strong fiscal 2010 and fiscal 2011 results are due to focusing on long-term winning solutions and the unique business model and compensation structure that have been formed over many years. We continued to make key infrastructure and people investments during the “great recession,” in fiscal 2010 and fiscal 2011 that resonated with our customers. 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 2011 reflected Zumiez’ strong 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 2011 comprised an average of approximately 74% and 53%, respectively, of the total compensation as shown in the Summary Compensation Table. We have excluded our Chairman and CEO due to the difference in the compensation structure for the Chairman and CEO, who beneficially own 16.0% and 11.9% of the Company as of March 17, 2012, respectively, and have not received equity awards in the past five years as discussed further under the section heading, “The Compensation Decision-making Process.”



### Fiscal 2012—A Look at the Upcoming Year

The United States economy has continued to show improvement in fiscal 2011 and entering fiscal 2012. We recognize many consumers continue to face challenging economic conditions and uncertainty in the job market. Further, as we enter fiscal 2012, consumers continue to confront both U.S. political and global economic news that cause concern in the retail environment; accordingly, we are planning the business in a conservative manner. The compensation committee evaluated compensation for fiscal 2012 with an eye toward balancing retention of key executive officers with our pay for performance principles and anticipated costs to the Company. With this in mind, the compensation committee kept the same elements of compensation for fiscal 2012 as the elements in place for fiscal 2011. As such, fiscal 2012 target total direct compensation consists of base salary, annual Short-Term Cash Based Incentives, bonus and long-term equity incentive compensation in the form of stock options awards and restricted stock awards. The compensation committee believes this combination of elements of compensation is the appropriate mix to motivate future performance, drive Company results and retain executive officers. The compensation committee will continue to evaluate both quantitative and qualitative performance results relative to internal goals and standards as well as industry averages when evaluating and determining total direct compensation rewards and opportunities for its NEOs.

## Base Salary

In March 2011, the compensation committee met and reviewed the evaluations of the NEOs and the overall performance of the Company against three objective measures; (1) comparable store sales performance, (2) product margin and (3) diluted earnings per share. Based upon the strong performance of the Company in fiscal 2010 and the contributions of the NEOs towards achieving these results, the following base salaries for fiscal 2011 were awarded:

<u>Executive Officer</u>	<u>Fiscal 2011 Base Salary (1)</u>	<u>Increase Over Prior Fiscal Year</u>
Thomas D. Campion, Chairman of the Board . . . . .	\$306,600	16.8%
Richard M. Brooks, Chief Executive Officer and Director (2) . . . . .	\$613,200	133.6%
Lynn K. Kilbourne, President and General Merchandising Manager . . . . .	\$475,000	35.7%
Marc D. Stolzman, Chief Financial Officer and Secretary (3) . . . . .	\$310,000	—
Ford K. Wright, Executive Vice President of Stores . . . . .	\$270,100	20.0%
Trevor S. Lang, former Chief Financial Officer, Chief Administrative Officer and Secretary (4) . . . . .	\$312,600	6.9%

- (1) Reflects annualized base salary as of the fiscal year end, with the exception of Mr. Lang as noted below. Refer to the Summary Compensation Table for actual base salary paid in fiscal 2011.
- (2) The decision to increase Mr. Brooks' base salary 133.6% over the prior fiscal year was made by the compensation committee in order to bring Mr. Brooks' base salary closer to the 40<sup>th</sup> percentile competitive target, which is in line with the Company's overall compensation philosophy, the strong financial performance of the Company in fiscal 2010 and in light of Mr. Brooks' contributions to the Company over the last 18 years.
- (3) Mr. Stolzman was hired as the Company's Chief Financial Officer and Secretary effective August 8, 2011.
- (4) Mr. Lang resigned as the Company's Chief Financial Officer, Chief Administrative Officer and Secretary effective June 1, 2011.

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 incentive bonus amounts, and actual annual incentive bonus 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 40<sup>th</sup> percentile) for comparable positions based on analysis of the competitive market.

## Short-Term Cash Based Incentives

In March 2011, the compensation committee approved the terms of the fiscal 2011 Short-Term Cash Based Incentives. Our NEOs Short-Term Cash Based Incentives are targeted at approximately 0.3% of sales and 0.5% of sales at maximum payout. The Short-Term Cash Based Incentives is appropriate to provide for increased payouts due to the significant shareholder returns commonly generated by above-target comparable store 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 do 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 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 three performance measures, comparable store sales, product margin and diluted earnings per share, 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 first 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; in the last six years, no NEO has achieved all three of the stretch challenge measurement goals. The following table shows the performance thresholds for each measure for fiscal 2011:

<u>Objective Measure</u>	<u>Performance Threshold</u>			
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
	<b>Target</b>			
Comparable Store Sales Growth . . . . .	6.3%	8.5%	11.0%	13.0%
Product Margin Improvement . . . . .	Last year minus 0.4%	Last year minus 0.2%	Last year plus 0.0%	Last year plus 0.2%
Diluted Earnings Per Share . . . . .	\$ 0.97	\$ 1.04	\$ 1.14	\$ 1.22
Diluted Earnings Per Share Growth . .	22.8%	31.6%	44.3%	54.4%

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</u>			
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
Thomas D. Champion, Chairman of the Board . . . . .	65%	98%	114%	130%
Richard M. Brooks, Chief Executive Officer and Director (1) . . . . .	90%	135%	158%	180%
Lynn K. Kilbourne, President and General Merchandising Manager . . . . .	70%	105%	123%	140%
Marc D. Stolzman, Chief Financial Officer and Secretary . . . . .	65%	98%	114%	130%
Ford K. Wright, Executive Vice President of Stores . . . . .	60%	90%	105%	120%
Trevor S. Lang, former Chief Financial Officer, Chief Administrative Officer and Secretary . . . . .	70%	105%	123%	140%

- (1) The decision to increase the percentage of Mr. Brooks’ base salary that will be earned upon achievement of the performance thresholds compared to the prior fiscal year was made by the compensation committee in order to bring Mr. Brooks’ total cash compensation opportunity (base salary plus Short-Term Cash Based Incentive target) closer to the 50th percentile competitive target, which is in line with the Company’s overall compensation philosophy, the strong financial performance of the Company in fiscal 2010 and in light of Mr. Brooks’ contributions to the Company over the last 18 years.

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. For example, our Executive Vice President of Stores is more heavily weighted on the comparable store sales objective measure, while our President and General Merchandising Manager is more heavily weighted on product margin.

<u>Executive Officer</u>	<u>Objective Measure</u>		
	<u>Comparable Store Sales</u>	<u>Diluted Earnings Per Share Growth</u>	<u>Product Margin</u>
Thomas D. Campion, Chairman of the Board . . . . .	30%	40%	30%
Richard M. Brooks, Chief Executive Officer and Director . . . . .	30%	40%	30%
Lynn K. Kilbourne, President and General Merchandising Manager . . . . .	30%	40%	30%
Marc D. Stolzman, Chief Financial Officer and Secretary . . . . .	30%	50%	20%
Ford K. Wright, Executive Vice President of Stores . . . . .	40%	40%	20%
Trevor S. Lang, former Chief Financial Officer, Chief Administrative Officer and Secretary . . . . .	30%	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**

The level two performance threshold for comparable store sales growth of 8.5%, the level four performance threshold for product margin improvement of last year plus 0.2% and the level three performance threshold for diluted earnings per share of \$1.14 was achieved for fiscal 2011. Short-Term Cash Based Incentive awards for meeting these achievements were paid to the NEOs for fiscal 2011 in March 2012. The Short-Term Cash Based Incentives target and compensation paid to the NEOs for fiscal 2011 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. Campion, Chairman of the Board . . . . .	\$199,290	\$348,758
Richard M. Brooks, Chief Executive Officer and Director . . . . .	\$551,880	\$965,790
Lynn K. Kilbourne, President and General Merchandising Manager . . . . .	\$332,500	\$581,875
Marc D. Stolzman, Chief Financial Officer and Secretary (1) . . . . .	\$ 96,875	\$165,200
Ford K. Wright, Executive Vice President of Stores . . . . .	\$162,060	\$275,502
Trevor S. Lang, former Chief Financial Officer, Chief Administrative Officer and Secretary (2) . . . . .	\$218,820	\$ —

- (1) Mr. Stolzman was hired as the Company’s Chief Financial Officer and Secretary effective August 8, 2011 and received a Short-Term Cash Based Incentive compensation prorated based on the length of service in fiscal 2011. Mr. Stolzman’s Short-Term Cash Based Incentive compensation target on an annualized basis was \$201,500.
- (2) Mr. Lang resigned as the Company’s Chief Financial Officer, Chief Administrative Officer and Secretary effective June 1, 2011 and did not receive Short-Term Cash Based Incentive compensation for fiscal 2011.

**Bonus**

While we continue to open new stores and invest for the future, and have been for many years, the compensation committee recognizes uncertain economic environment that has negatively impacted virtually every industry including consumer discretionary spending businesses and the Company. We believe that our current strong capital position, as evidenced by our cash and net working capital, reflect the strength of the Company now and its prospects for successfully navigating this economic cycle.

The economic challenges that caused the “great recession” of 2008 and 2009 and its lingering effect in the current economy have placed an important emphasis on maintaining strong working capital balances that provide for adequate liquidity while balancing the need to allocate capital to drive increased returns on that capital. Additionally, due to the uncertainty that exists around the fragile state of the economy, there was a wide range of possible financial performance outcomes for the Company in fiscal 2011. This variability makes setting targets for Short-Term Cash Based Incentives difficult. The compensation committee also recognizes that in this environment preserving the Company’s strong financial position and retaining key management is critical to its long-term success. For these reasons, the compensation committee established a discretionary bonus pool for fiscal 2011 of up to 20% of each NEOs base salary in order to reward each NEO for preserving the Company’s strong capital position while still maintaining the Company’s historical approach to setting targets for our Short-Term Cash Based Incentives. The amount of the bonus was set below the historical minimum for the Short-Term Cash Based Incentives, but meaningfully enough to reward the NEOs for achieving the goals set forth below. In evaluating capital preservation, the compensation committee considers the NEOs performance in collectively managing the following:

- 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.

As was the case this year, with respect to discretionary bonuses, in the event that the Company achieves any one of its Short-Term Cash Based Incentive thresholds (described under the heading “Short-Term Cash Based Incentives,” above) for any performance metric, the compensation committee, at its discretion, may choose to grant a lesser bonus or none at all. Since the Company met fiscal 2011 performance thresholds (as defined above) and earned Short-Term Cash Based Incentives the compensation committee elected not to award any bonus and no bonus was paid to the NEOs.

### **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 2011 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. Campion, Chairman of the Board . . . . .	—	—
Richard M. Brooks, Chief Executive Officer and Director . . . . .	—	—
Lynn K. Kilbourne, President and General Merchandising Manager . . . . .	10,000	16,290
Marc D. Stolzman, Chief Financial Officer and Secretary (1) . . . . .	14,993	50,675
Ford K. Wright, Executive Vice President of Stores . . . . .	4,780	7,780
Trevor S. Lang, former Chief Financial Officer, Chief Administrative Officer and Secretary . . . . .	6,460	10,530

- (1) Mr. Stolzman was hired as the Company’s Chief Financial Officer and Secretary effective August 8, 2011 and received an initial grant of restricted stock of 14,993 and an initial grant of stock options of 50,675 in connection with his joining the Company. When establishing the amount of this initial grant, the compensation committee considered competitive practices for new hire grants at the senior executive level; Mr. Stolzman’s experience; his level of responsibility; his expected value to the business; the fair value and cost impact of the awards; the amount of the awards in relation to those granted to our other NEOs; and, negotiations with Mr. Stolzman.

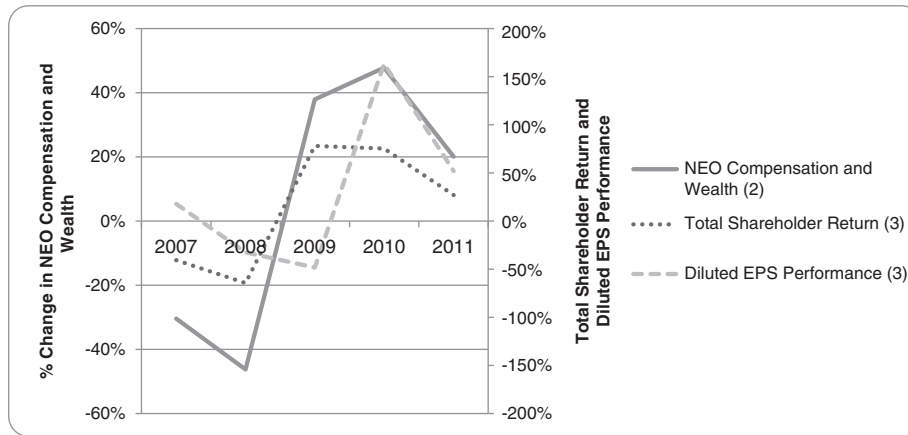
The compensation committee believes the levels of grants are appropriate, consistent with its compensation strategy and provide a meaningful alignment of the NEOs with the Company’s shareholders.

*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.

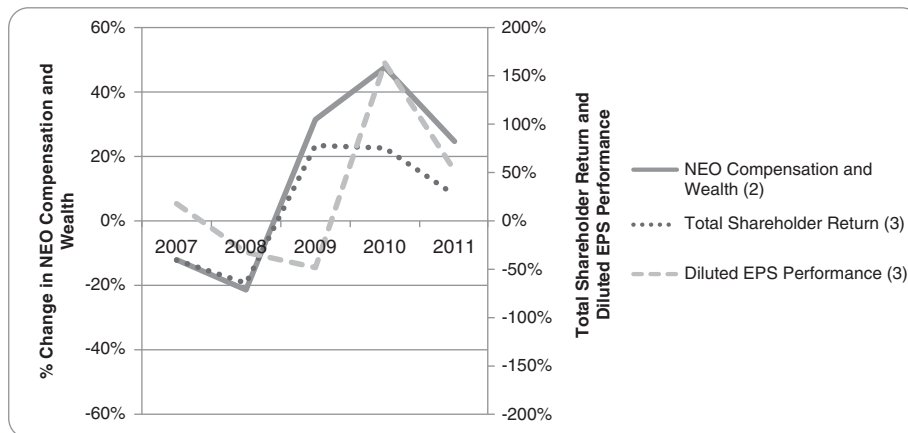
**Executive Compensation and Change in Net Wealth of Zumiez Stock Compare to Total Shareholder Return and Diluted Earnings Per Share Performance**

The following summary charts illustrate, over the previous five fiscal years, the relationship of the percentage change in executive compensation earned and change in net wealth of Zumiez stock value (“NEO Compensation and Wealth”) to total shareholder return and diluted earnings per share performance. For a discussion of how NEO Compensation and Wealth, total shareholder return and diluted earnings per share performance are calculated, please refer to the footnotes of these charts. Additionally, refer to our Summary Compensation Table for a summary of executive compensation calculated in accordance with SEC rules and regulations.

## Chairman and Chief Executive Officer (1)



## Other NEOs (4)



- (1) We have shown the comparison of our Chairman of the Board and Chief Executive Officer value to performance separately from the other NEOs due to the difference in the compensation structure for the Chairman and CEO (who beneficially own 16.0% and 11.9% of the Company as of March 19, 2012, respectively, and have not received equity awards in the past five years).
- (2) NEO Compensation and Wealth is calculated based on (1) the cash compensation earned during the fiscal year (Salary, Bonus and Non-Equity Incentive Plan Compensation from the Summary Compensation Table), (2) all other compensation received during the fiscal year (All Other Compensation from the Summary Compensation Table), (3) the change in the ending value of owned stock, stock awards granted and in-the-money stock option awards and (4) realized gains on sales of stock.
- (3) Total shareholder return is measured by the percentage change in stock price as of the end of the fiscal year; diluted earnings per share (“diluted EPS”) performance is measured by the percentage change in annual diluted earnings per share.
- (4) This chart does not include Mr. Stolzman as he was hired in August 2011 and therefore does not have a percentage change in NEO Compensation and Wealth from the prior year. Additionally, we have removed the NEO Compensation and Wealth for Mr. Lang from the chart as he resigned from the Company in June 2011. The NEO Compensation and Wealth for Mr. Wright begins in March 2007, when he was named an executive officer of the Company.

## 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 three 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 Company 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 the management of the Company.
- 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, Ascend Consulting, to work with the compensation committee on its compensation deliberations. During fiscal 2011, the compensation committee asked the consultant to review the alignment of the Company's culture with its compensation philosophy, 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 the Company and management.

The role of outside counsel—The compensation committee consults with outside legal counsel to advise on its deliberations. Outside legal counsel attends compensation committee meetings as deemed appropriate by the compensation committee and is also available between compensation committee meetings to advise the compensation committee.

### **The Compensation Decision-making Process**

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

- Tally sheets—The Company uses tally sheets for each of the NEOs to summarize the significant components of compensation. At Zumiez, the components of compensation primarily include base salary, Short-Term Cash Based Incentives, bonuses, equity incentives, 401K discretionary match and merchandise discounts. The tally sheets are compared to targeted total compensation. The tally sheets are used to help prepare the tables that follow this compensation discussion and analysis.
- 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 Company's 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 the Company's NEO roles. The committee used this information to ensure that the Company's stated philosophy and strategy for aligning executive compensation opportunities with the competitive market has been and continues to be fulfilled.
- Fiscal 2011 results—The compensation committee has access to the Company's fiscal 2011 operating plans and budgets as approved by the board of directors in March 2011. 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 2012 operating and financial plans—The compensation committee also receives the Company's operating plan and budgets for fiscal 2012 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.



- Wealth creation schedules—The compensation committee requests that management prepare wealth creation schedules for each NEO showing accumulated equity (both vested and unvested), the amount of vested equity awards exercised and the related pre-tax proceeds.
- Performance of teen specialty retailers—The compensation committee requests that management prepare a schedule for a group of teen 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 retailers include: Abercrombie & Fitch, Aeropostale, American Eagle, Hot Topic and Pacific Sunwear. The group was selected because they are generally considered to be leading lifestyle retailers in the teen market. All of the information for these retailers was summarized from publicly available data. The compensation committee compares the Company's 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 (40<sup>th</sup> percentile) base salary opportunities against the Company's competitive market for executive compensation talent.
- Establish average (50<sup>th</sup> 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 50<sup>th</sup> percentile when compared to competitive practices for comparable roles. In the case of our Chairman and our CEO who beneficially own 16.0% and 11.9% 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 for the last five years.

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 store sales, product margin and diluted earnings per share. These three measures have historically been used exclusively 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.* In May of 2011 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 this 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 measureable financial metrics that the compensation committee believes are consistent, transparent and drive shareholder value; that is, comparable store sales, product margin and diluted earnings per share. 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 180% of base pay for our CEO, 140% for our President and GMM, 130% for our Chairman and current CFO and 120% for our Executive Vice President of Stores. The compensation committee believes that the overall executive compensation policy contains less than a 'reasonable likelihood' of material risk.

### **Employment Agreements**

No employees of the Company have employment agreements and all employees are "at will."

### **Tax Implications**

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. In order for one element of NEO compensation, Short-Term Cash

Based Incentive awards (discussed earlier in the Compensation Discussion and Analysis), to be eligible for exclusion under the Section 162(m) \$1.0 million limit for fiscal 2012 and beyond, the compensation committee has approved, and has recommended that the Company's shareholders approve, the material terms of the performance criteria under the Executive Officer Non-Equity Incentive Plan. Please see Proposal 2 for further information on this topic.

### **Advisory Vote on Executive Compensation**

We provided 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 2011 Annual Meeting of Shareholders. As noted above under the section heading "The Compensation Decision-making Process," the result of this advisory shareholder vote was 99.7% of votes cast approved the compensation of our named executive officers.

Additionally, at our 2011 Annual Meeting of Shareholders, we provided 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 this advisory vote 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 will 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. Therefore, the next advisory vote on executive compensation will occur at the 2014 Annual Meeting of Shareholders.

### **COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

Messrs. Ryles, Weber and Barnum currently serve as members of the compensation committee. Mr. Ryles was appointed to the compensation committee on May 25, 2011, replacing Ms. McCoy. No member of the compensation committee was at any time during fiscal 2011 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 2011.

### **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**

Gerald F. Ryles, Chairman  
James M. Weber  
William M. Barnum

*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

### APPROVAL OF MATERIAL TERMS OF THE PERFORMANCE CRITERIA UNDER THE EXECUTIVE OFFICER NON-EQUITY INCENTIVE PLAN

Shareholders are being asked to approve the material terms of the performance goals that may apply to awards under the Executive Officer Non-Equity Incentive Plan (the “Plan”). This approval is necessary to preserve the Company’s federal income tax deduction for performance-based compensation paid to certain executive officers under Section 162(m) of the Internal Revenue Code (the “Code”).

#### Background

The board of directors, upon recommendation by the compensation committee, has approved the Plan for the Company’s executive officers to govern the award and payment of the Short-Term Cash Based Incentive awards to the Company’s executive officers, effective for fiscal 2012. The material terms of the performance criteria under the Plan are being submitted to the shareholders for approval so that payments under the Plan can qualify for deductibility for federal income tax purposes. As discussed above under the section heading, “*Tax Implications*,” Section 162(m) of the Code imposes an annual deduction limit of \$1 million on the amount of compensation paid to certain of the executive officers. The deduction limit does not apply to performance-based compensation that satisfies the requirements of Section 162(m). The requirements of Section 162(m) for performance-based compensation include shareholder approval of the material terms of the performance goals under which the compensation is paid at least once every five years. The material terms include (1) the employees eligible to receive compensation upon attainment of a goal, (2) the business criteria on which the goals may be based and (3) the maximum amount payable to an employee upon attainment of a goal.

#### Summary of the Plan

*Eligible employees.* Awards under the Plan may be granted to executive officers of the Company.

*Business Criteria/Performance Goals.* Under the Plan, awards will be subject to the satisfaction of one or more performance goals. The compensation committee will determine performance goals, which will be designed to support the Company’s business strategy and align executives’ interest with shareholder interests. For awards that are intended to qualify as performance-based compensation under Section 162(m), performance goals will be based on one or more of the following Company-wide measures of performance:

- Comparable store sales
- Product margin
- Diluted earnings per share
- Unit growth
- Cash flow
- Return on equity
- Return on assets
- Shareholder return
- Working capital
- Pre-tax income
- Operating margin

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. Awards under the Plan will be

payable upon the achievement during each performance period (which is the Company's fiscal year) of specified objections. Within 90 days after the beginning of each performance period, the compensation committee will establish the performance goals and the target amount of the award that will be earned if the performance goals are achieved, including the method by which such amounts will be calculated.

At the compensation committee's discretion, any of these performance goals may differ by participant and may be used to measure the performance of the Company as a whole or any business unit or division of the Company, and may be stated in absolute terms or relative to comparison companies or indices to be achieved during a period of time. The performance goals may also include any derivations of the above-referenced measures.

The compensation committee may provide, no later than 90 days after the beginning of the applicable performance period and while the outcome is substantially uncertain, that any evaluation of performance with respect to the performance goals for the performance period will include or exclude any one or more of the following events that occurs during the performance period: (i) significant acquisitions or dispositions of businesses or assets by the Company; (ii) litigation or claim judgments or settlements; (iii) the effect of changes in tax laws, accounting principles, or other laws or provisions affecting reported results; (iv) any reorganization and restructuring programs; (v) extraordinary items as described in Accounting Standards Codification section 225-20-20; (vi) significant, non-recurring charges or credits; (vii) foreign exchange rates; and (viii) any other significant events or circumstances that the Committee determines would render the performance goals unsuitable.

*Maximum Amount Payable.* The maximum amount that may be paid under the Plan to any participant for one performance period is \$2,500,000.

*Administration.* The Plan will be administered by the compensation committee.

*Amendment and Termination.* The compensation committee may amend or termination the Plan, or any part thereof, at any time and for any reason. Certain amendments may not be effective without shareholder approval.

The principal provisions of the Plan are summarized above. The summary is qualified in its entirety by reference to the actual Plan, a copy of which is attached to the electronic copy of the Proxy Statement filed with the SEC and may be accessed from our investor relation's website at <http://ir.zumiez.com>. In addition, a copy of the Plan, for which shareholder approval is being sought for the material terms of the performance criteria under the Plan, may be obtained upon written request to: Secretary, Zumiez Inc., 6300 Merrill Creek Parkway, Suite B, Everett, Washington 98203.

*New Plan Benefits.* As benefits under the Plan are based on financial and other performance in the future, the amount of benefits payable to specific participants is not determinable at this date. On March 5, 2012, subject to shareholder approval of the Plan, the compensation committee set target awards and corresponding performance targets for the Company's named executive officers for fiscal 2012 as set forth in the table below:

<u>Executive Officer</u>	<u>Executive Officer Non-Equity Incentive Plan Target Dollar Value (\$)</u>
Thomas D. Campion, Chairman of the Board . . . . .	\$199,300
Richard M. Brooks, Chief Executive Officer and Director . . . . .	\$568,350
Lynn K. Kilbourne, President and General Merchandising Manager . . . . .	\$391,400
Marc D. Stolzman, Chief Financial Officer and Secretary . . . . .	\$207,500
Ford K. Wright, Executive Vice President of Stores . . . . .	\$180,900

Performance metrics for fiscal 2012 consist of comparable store sales, product margin and dilutive earnings per share growth for the NEOs. In addition to the targeted performance goals, the compensation committee set minimum threshold and maximum cap values for each performance metric, so that final payments may range from \$0 to 200% of the target award amounts.

### **U.S. Federal Income Tax Consequences**

The following tax discussion is a general summary as of the date of this proxy statement of the U.S. federal income tax consequences to the Company and the participants in the Plan. The discussion is intended solely for general information and does not make specific representations to any participant. Recipients of awards should consult their own tax advisors since a taxpayer's particular situation may be such that some variation of the rules described below will apply.

Participants will recognize ordinary compensation income when any cash amounts are paid under the Plan. Subject to any limitations under Section 162(m) of the Code, the Company generally will be entitled to a deduction equal to the amount of ordinary income that a participant is required to recognize; however, there can be no guarantee that amounts payable under the Executive Officer Non-Equity Incentive Plan will be treated as qualified performance-based compensation under Section 162(m).

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE MATERIAL TERMS OF THE PERFORMANCE CRITERIA UNDER THE EXECUTIVE OFFICER NON-EQUITY INCENTIVE PLAN.**

## Summary Compensation Table

The following table shows all compensation for fiscal 2011, 2010 and 2009 awarded to, earned by, or paid to our CEO, our CFO and our other three most highly paid executive officers, as well as our former Chief Financial Officer and Chief Administrative Officer. These executive officers are referred to as “NEOs.”

Name and Principal Position	Year	Salary (\$)	Stock Awards (\$ (1))	Option Awards (\$ (2))	Non-Equity Incentive Plan Compensation (\$ (3))	All Other Compensation (\$ (4))	Total (\$)
Thomas D. Campion Chairman of the Board	2011	305,752	—	—	348,758	8,646	663,156
	2010	262,500	—	—	252,656	6,363	521,519
	2009	262,500	—	—	105,000	2,512	370,012
Richard M. Brooks Chief Executive Officer and Director	2011	606,456	—	—	965,790	8,248	1,580,494
	2010	262,500	—	—	252,656	9,100	524,256
	2009	262,500	—	—	105,000	4,808	372,308
Lynn K. Kilbourne President and General Merchandising Manager	2011	472,596	253,100	248,911	581,875	5,092	1,561,574
	2010	350,000	134,610	204,512	505,313	613	1,195,048
	2009	350,000	113,520	233,200	210,000	861	907,581
Marc D. Stolzman (5) Chief Financial Officer and Secretary	2011	143,077	300,010	599,992	165,200	7,741	1,216,020
Ford K. Wright Executive Vice President of Stores	2011	269,233	120,982	118,878	275,502	5,848	790,443
	2010	225,000	114,419	176,792	235,125	9,864	761,200
	2009	225,000	79,120	233,200	74,250	6,250	617,820
Trevor S. Lang (6) former Chief Financial Officer, Chief Administrative Officer and Secretary	2011	121,282	163,503	160,898	—	112	445,795
	2010	292,500	130,764	196,504	394,144	8,092	1,022,004
	2009	262,500	106,640	233,200	110,250	4,503	717,093

- (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 Two (listed under Stock Compensation) in the Notes to Consolidated Financial Statements in our fiscal 2011, 2010 and 2009 Form 10-K. Information regarding the restricted stock awards granted to the NEOs during fiscal 2011 is set forth in the Grants of Plan-Based Awards Table on a grant-by-grant basis.
- (2) 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 Two (listed under Stock Compensation) in the Notes to Consolidated Financial Statements in our fiscal 2011, 2010 and 2009 Form 10-K. Information regarding the stock option awards granted to our NEOs during 2011 is set forth in the Grants of Plan-Based Awards Table on a grant-by-grant basis.
- (3) The amounts set forth in this column were earned during fiscal 2011, 2010 and 2009 and paid in early fiscal 2012, 2011 and 2010 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.
- (4) All Other Compensation includes the amount of Company 401K employer match contributions and merchandise discounts, which are widely available to all qualified employees. Included in Mr. Stolzman’s All Other Compensation for fiscal 2011 is \$5,576 of COBRA premiums we paid for Mr. Stolzman and his eligible dependents.
- (5) Mr. Stolzman was hired as the Company’s Chief Financial Officer and Secretary effective August 8, 2011. His fiscal 2011 base salary was \$310,000 on an annualized basis.
- (6) Mr. Lang was our Chief Financial Officer and Secretary from June 2007 to April 2010 and Chief Financial Officer, Chief Administrative Officer and Secretary from April 2010 to June 2011. His fiscal 2011 base salary was \$312,600 on an annualized basis. As a result of his termination of employment, Mr. Lang forfeited 109,992 in stock options with a grant date fair value of \$1,633,490 and 19,409 in unvested restricted stock with a grant date fair value of \$410,332.

## Grants of Plan-Based Awards

The following table provides information about equity and non-equity awards granted to the NEOs in fiscal 2011. 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.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			All Other Stock Awards: Number of Shares of Stock or Units (#) (2)	All Other Option Awards: Number of Securities Underlying Options (#) (3)	Exercise or Base Price of Option Awards (\$) (4)	Grant Date Fair Value of Stock and Option Awards (\$) (5)
		Threshold (\$)	Target (\$)	Maximum (\$)				
Thomas D. Campion . . . . . Chairman of the Board		199,290	199,290	398,580				
Richard M. Brooks . . . . . Chief Executive Officer and Director		551,880	551,880	1,103,760				
Lynn K. Kilbourne . . . . . President and General Merchandising Manager	3/14/2011 3/14/2011	332,500	332,500	665,000	10,000	16,290	25.31 248,911	
Marc D. Stolzman (6) . . . . . Chief Financial Officer and Secretary	8/15/2011 8/15/2011	96,875	96,875	193,750	14,993	50,675	20.01 300,010 599,992	
Ford K. Wright . . . . . Executive Vice President of Stores	3/14/2011 3/14/2011	162,060	162,060	324,120	4,780	7,780	25.31 120,982 118,878	
Trevor S. Lang (7) . . . . . former Chief Financial Officer, Chief Administrative Officer and Secretary	3/14/2011 3/14/2011	218,820	218,820	437,640	6,460	10,530	25.31 163,503 160,898	

- (1) These columns show what the potential payout for each NEO was under the executive Short-Term Cash Based Incentives for fiscal 2011 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 2011.
- (2) This column shows the number of shares of restricted stock granted in fiscal 2011 to the NEOs. The restricted stock awards for Ms. Kilbourne, Mr. Wright and Mr. Lang vest over a three-year period in equal annual installments beginning on the first anniversary date of the grant. The restricted stock award for Mr. Stolzman 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 restricted stock awards is set forth in the Summary Compensation Table.
- (3) This column shows the number of stock options granted in fiscal 2011 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 Two (listed under Stock Compensation) in the Notes to Consolidated Financial Statements in our fiscal 2011 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.



- (6) Mr. Stolzman was hired as the Company's Chief Financial Officer and Secretary effective August 8, 2011 and received a Short-Term Cash Based Incentive compensation prorated based on the length of service in fiscal 2011. Mr. Stolzman's Short-Term Cash Based Incentive compensation target on an annualized basis was \$201,500 and his Short-Term Cash Based Incentive compensation maximum on an annualized basis was \$403,000.
- (7) Mr. Lang forfeited 109,992 of stock options and 19,409 of unvested restricted stock upon termination of his employment on June 1, 2011.

## 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, 2012. 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, 2012, which was \$28.33.

Name	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	—	—	—	—	—	—
Lynn K. Kilbourne . . . . . President and General Merchandising Manager	8,971 40,000 32,000 30,000 27,500 4,150 — — — —	— (1) — (2) 8,000(3) 10,000(4) 27,500(5) 12,450(6) 16,290(7) — — — —	3.87 27.31 35.85 14.00 6.88 19.23 25.31 — — — —	9/9/2014 3/9/2016 3/13/2017 3/12/2018 3/16/2019 3/15/2020 3/14/2021 — — — —	— — — — — — — 8,170(8) 5,500(9) 4,666(10) 10,000(11)	— — — — — — — 231,456 155,815 132,188 283,300
Marc D. Stolzman . . . . . Chief Financial Officer and Secretary	— —	50,675(12) —	20.01 —	8/15/2021 —	— 14,993(13)	— 424,752
Ford K. Wright . . . . . Executive Vice President of Stores	25,000 25,200 30,000 27,500 3,588 — — — —	15,000(14) 6,300(3) 10,000(4) 27,500(5) 10,762(6) 7,780(7) — — —	27.31 35.85 14.00 6.88 19.23 25.31 — — —	3/9/2016 3/13/2017 3/12/2018 3/16/2019 3/15/2020 3/14/2021 — — —	— — — — — — 3,832(9) 3,966(10) 4,780(11)	— — — — — — 108,561 112,357 135,417
Trevor S. Lang (15) . . . . . former Chief Financial Officer, Chief Administrative Officer and Secretary	—	—	—	—	—	—

- (1) Options subject to this grant vest twenty percent on July 31, 2005 and 1/48<sup>th</sup> of the remaining options vest each month thereafter. The grant date was September 9, 2004.
- (2) Options subject to this grant vest twenty percent on the one-year anniversary of the grant date and 1/48<sup>th</sup> of the remaining options vest each month thereafter. The grant date was March 9, 2006.

- (3) Options subject to this grant vest over a five-year period in equal annual installments beginning on the one-year anniversary of the grant date. The grant date was March 13, 2007.
- (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 12, 2008.
- (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 16, 2009.
- (6) Options subject to this grant vest over a four-year period in equal annual installments beginning on March 15, 2011. The grant date was June 3, 2010.
- (7) 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.
- (8) This restricted stock grant vest over a four-year period in equal annual installments beginning on the grant date anniversary. The grant date was September 2, 2008.
- (9) 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, 2009.
- (10) 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 15, 2010.
- (11) 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, 2011.
- (12) 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 August 15, 2011.
- (13) This restricted stock grant vest over a four-year period in equal annual installments beginning on the grant date anniversary. The grant date was August 15, 2011.
- (14) Options subject to this grant vest over an eight-year period in equal annual installments beginning on the grant date anniversary. The grant date was March 9, 2006.
- (15) Mr. Lang forfeited 109,992 of stock options and 19,409 of unvested restricted stock upon termination of his employment on June 1, 2011.

## 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 2011, including the number of shares acquired upon exercise or vesting and the value released before payment of any applicable withholding taxes and broker commissions.

Name	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. Campion . . . . . Chairman of the Board	—	—	—	—
Richard M. Brooks . . . . . Chief Executive Officer and Director	—	—	—	—
Lynn K. Kilbourne . . . . . President and General Merchandising Manager	—	—	16,004	333,718
Marc D. Stolzman . . . . . Chief Financial Officer and Secretary	—	—	—	—
Ford K. Wright . . . . . Executive Vice President of Stores	—	—	5,818	141,925
Trevor S. Lang . . . . . former Chief Financial Officer, Chief Administrative Officer and Secretary	61,488	855,186	8,434	208,434

(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, the vesting of which may accelerate in the event of a Change in Control (as defined below). 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.

For purposes of the 2005 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, 2012.

<b>Executive Officer</b>	<b>Stock Option Vesting in Connection with a Change in Control (1)</b>	<b>Restricted Stock Vesting in Connection with a Change in Control (2)</b>
Thomas D. Campion, Chairman of the Board . . . . .	\$ —	\$ —
Richard M. Brooks, Chief Executive Officer and Director . . . . .	\$ —	\$ —
Lynn K. Kilbourne, President and General Merchandising Manager . . .	\$895,666	\$802,759
Marc D. Stolzman, Chief Financial Officer and Secretary . . . . .	\$421,616	\$424,752
Ford K. Wright, Executive Vice President of Stores . . . . .	\$869,980	\$356,335
Trevor S. Lang, former Chief Financial Officer, Chief Administrative Officer and Secretary (3)	\$ —	\$ —

- (1) Represents the amount calculated by multiplying the number of in-the-money 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 2011. 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 2011.
- (3) Mr. Lang, our former Chief Financial Officer, Chief Administrative Officer and Secretary, resigned on June 1, 2011.

## EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information concerning the Company's equity compensation plans at January 28, 2012:

<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) . . . . .	888,043	\$16.18	5,847,696
Equity compensation plans not approved by security holders (2) . . . .	—	—	—
Employee stock purchase plans approved by security holders (3) . . .	—	—	838,006

- (1) Equity compensation plans approved by shareholders include the 1993 Stock Option Plan, the 2004 Stock Option Plan and the 2005 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 2005 Employee Stock Purchase Plan.

## REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The fiscal 2011 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, 2012.

We have discussed with the independent public accountants the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1. AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

We have received and reviewed the written disclosures and the letter from the independent public accountants required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the audit committee concerning independence, and have discussed with the independent accountants 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  
Gerald F. Ryles  
Sarah (Sally) G. McCoy

*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 2011 and 2010**

The aggregate fees billed by Moss Adams LLP for professional services rendered for fiscal 2011 and fiscal 2010, respectively, are as follows:

	<u>Fiscal 2011</u>	<u>Fiscal 2010</u>
Audit fees (1) .....	394,000	406,000
Audit-related fees (2) .....	15,000	15,000
Tax fees (3) .....	94,000	82,000
Total fees .....	<u>503,000</u>	<u>503,000</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 2011 and 2010, there were no services that were performed pursuant to the “*de minimis exception*.”

### **PROPOSAL 3**

#### **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 2, 2013 (“fiscal 2012”). Moss Adams LLP has served as our independent registered public accounting firm since fiscal 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 2012, 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 2012**

## **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., 6300 Merrill Creek Parkway, Suite B, Everett, Washington 98203. 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 29, 2013. 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 13, 2012, to be considered for inclusion. Among other requirements set forth in the SEC’s proxy rules and our bylaws, 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 23, 2013, and not before December 24, 2012. 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.  
6300 Merrill Creek Parkway, Suite B  
Everett, Washington 98203

## 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  
*Marc D. Stolzman*  
*Chief Financial Officer and Secretary*

Everett, Washington  
April 12, 2012

**A copy of our Annual Report on Form 10-K for the fiscal year ended January 28, 2012 filed with the SEC is available without charge upon written request to: Secretary, Zumiez Inc., 6300 Merrill Creek Parkway, Suite B, Everett, Washington 98203.**

Appendix A

EXECUTIVE OFFICER NON-EQUITY INCENTIVE PLAN

ZUMIEZ INC.

**Purpose** ..... The purpose of this Executive Officer Non-Equity Incentive Plan (the “Plan”) is to increase shareholder value by providing an incentive for the achievement of goals that support Zumiez Inc.’s (“Zumiez” or the “Company”) attainment of annual financial and strategic goals.

**Approval by Shareholders** ..... The material terms of the Performance Goals under the Plan will be submitted for approval by the shareholders of Zumiez on or around May 23, 2012. Shareholder approval of the material terms of the Performance Goals under the Plan is required to allow Short-Term Cash Based Incentives paid upon achievement of the Performance Goals to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (“Section 162(m)"). This approval shall expire at the end of five (5) Plan Years.

**Plan Effective Date** ..... January 29, 2012.

**Plan Year** ..... Zumiez’ fiscal year, which ends on the Saturday closest to January 31<sup>st</sup>.

**Eligibility** ..... Zumiez employees serving in positions of executive officer and above, as designated by the outside directors, as defined under Section 162(m), of the Compensation Committee (the “Committee”) of the Board of Directors, are eligible to participate in the Plan.

The chief executive officer has the authority to recommend Participants. The Committee has the sole authority to designate Participants.

Eligibility to participate in the Plan will cease upon termination of the Participant’s employment, withdrawal of designation by the Committee, transfer to an ineligible position, termination of the Plan by Zumiez, or if the Participant engages, directly or indirectly, in any activity that competes with Zumiez field of business or that could be construed as misconduct, as determined by the Committee in its sole discretion.

If a Participant changes from an eligible position to an ineligible position during a Plan Year, eligibility to participate will be at the discretion of the Committee.

**Target Short-Term Cash Based Incentive** .....

The Target Short-Term Cash Based Incentive for each Participant shall be established by the Committee no later than ninety (90) days after the beginning of the applicable Plan Year. The Target Short-Term Cash Based Incentive shall be the amount that would be paid to the Participant under the Plan if 100% of Performance Goals were met. The Target Short-Term Cash Based Incentive may be specified

as a percentage of Base Pay, a specific dollar amount, or according to another method determined by the Committee. The amount, if any, of the Target Short-Term Cash Based Incentive actually earned by the Participant shall be based on the achievement, as determined by the Committee, of Performance Goals.

Base Pay is the annual pay rate established for the Participant by Zumiez and in effect on the last day of the applicable Plan Year or, in the case of a deceased or disabled Participant, on the last day of his or her participation in the Plan. Zumiez, with Committee approval, may at any time, in its sole discretion, revise a Participant's Base Pay.

**Performance Goals** ..... In accordance with Section 162(m), for each Plan Year, the Committee shall select one or more of the following measures as the Performance Goal(s): (i) comparable store sales; (ii) product margin; (iii) dilutive earnings per share as adjusted for any stock split, stock dividend or other recapitalization; (iv) unit growth; (v) cash flow; (vi) return on equity; (vii) return on assets; (viii) shareholder return; (ix) working capital; (x) pre-tax income; or (xi) operating margin; provided, however, that Performance Goals may include any derivations of these measures, as specified by the Committee. At the Committee's discretion, any of these Performance Goals may differ by Participant and may be used to measure the performance of the Company as a whole or any business unit or division of the Company, and may be stated in absolute terms or relative to comparison companies or indices to be achieved during a period of time.

The Committee may provide, no later than ninety (90) days after the beginning of the applicable Plan Year and while the outcome is substantially uncertain, that any evaluation of performance with respect to the Performance Goals for the applicable Plan Year shall include or exclude any one or more of the following events that occurs during the performance period: (i) significant acquisitions or dispositions of businesses or assets by the Company; (ii) litigation or claim judgments or settlements; (iii) the effect of changes in tax laws, accounting principles, or other laws or provisions affecting reported results; (iv) any reorganization and restructuring programs; (v) extraordinary items as described in Accounting Standards Codification section 225-20-20; (vi) significant, non-recurring charges or credits; (vii) foreign exchange rates; and (viii) any other significant events or circumstances that the Committee determines would render the Performance Goals unsuitable. Any such inclusions or exclusions shall be prescribed in a form that satisfies the requirements for "performance-based compensation" within the meaning of Section 162(m)(4)(C) of the Code, or any successor provision thereto.

The Committee shall select the Performance Goals for each Participant no later than ninety (90) days after the beginning of the applicable Plan Year and while the outcome is substantially uncertain.

The Committee shall select the amount of the Target Short-Term Cash Based Incentive for each Participant that will be determined by achievement of the Performance Goals.

If the Performance Goals selected by the Committee are not met, no Short-Term Cash Based Incentive or portion of any Short-Term Cash Based Incentive determined by those goals is payable under the Plan.

**Short-Term Cash Based Incentive**

**Payout and Eligibility** . . . . . Short-Term Cash Based Incentive Payout for each Participant is based on the achievement of the Performance Goals. A Short-Term Cash Based Incentive Payout under this Plan is earned as of the end of the applicable Plan Year and will be paid according to the Plan, if the Participant:

- remains a Zumiez employee through the end of the applicable Plan Year, unless employment is terminated prior to the end of the Plan Year due to death or disability, and
- refrains from engaging during the applicable Plan Year, directly or indirectly, in any activity that competes with Zumiez field of business or that could be construed as misconduct, as determined by the Committee in its sole discretion.

The Committee, based on such further considerations as the Committee in its discretion shall determine, may determine that the Short-Term Cash Based Incentive Payout for any Participant will be less than (but not greater than) the amount earned by such Participant under the Plan.

**Short-Term Cash Based Incentive**

**Payout Calculation** . . . . . Within ninety (90) days after the beginning of the applicable Plan Year and while the outcome is substantially uncertain, the Committee shall review and approve the following for each Participant: the Target Short-Term Cash Based Incentive, the portion of the Target Short-Term Cash Based Incentive determined by the Performance Goals, the Performance Goals, and the relative weighting of the Goals for the Plan Year. Those metrics, will be used to calculate the Short-Term Cash Based Incentive Payout for each Participant.

As soon as reasonably practicable following the conclusion of the applicable Plan Year and before the payment of any Short-Term Cash Based Incentive, or portion of any Short-Term Cash Based Incentive, determined by the Performance Goals, the Committee will certify, in writing, the extent, if any, of the achievement of the Performance Goals, and (i) the potential maximum Short-Term Cash Based Incentive Payout for the Short-Term Cash Based Incentive, or the portion of the Short-Term Cash Based Incentive, determined by the Performance Goals that each Participant is eligible to receive with respect to the applicable Plan Year; and (ii) the actual Short-Term Cash Based Incentive Payout, if different, for the Short-Term Cash Based Incentive, or the portion of the Short-Term Cash Based Incentive, determined by the Performance Goals that the Committee has determined the Company will pay to the Participant.



The maximum Short-Term Cash Based Incentive Payout for the achievement of Performance Goals is \$2.5 million to any one Participant in any Plan Year.

**Short-Term Cash Based Incentive**

**Payout Prorations** ..... For any employee who meets eligibility criteria and becomes a Participant after the start of the Plan Year or whose employment with Zumiez is terminated prior to the end of the Plan Year because of disability or death, the Committee shall prorate the Short-Term Cash Based Incentive Payout related to the Performance Goals. If the Participant is on a leave of absence for a portion of the Plan Year, the Committee in its discretion may reduce the Participant’s Short-Term Cash Based Incentive Payout on a pro-rata basis.

The proration is based on the number of full months during which the Participant participated in the Plan during the Plan Year. Credit is given for a full month if the Participant is eligible for 15 or more calendar days during that month.

If a Participant changes positions within Zumiez during the Plan Year, the Committee, in its discretion, may prorate the Participant’s Short-Term Cash Based Incentive Payout by the number of months in each position.

**Administration** ..... The Committee, based on such further considerations as the Committee in its discretion shall determine, may determine that the Short-Term Cash Based Incentive Payout for any Participant will be less than (but not greater than) the amount earned by such Participant under the Plan.

The Plan shall be administered by the Committee. Subject to the express provisions of the Plan, the Committee shall be authorized and empowered to do all things that it determines to be necessary or appropriate in connection with the administration of the Plan, including, without limitation, the authority to:

- approve the Plan design Performance Goals for each Participant;
- determine and certify the achievement of the Performance Goals;
- approve the Short-Term Cash Based Incentive Payout calculation and Short-Term Cash Based Incentive Payout for each Participant;
- prescribe, amend and rescind rules and regulations relating to the Plan and to define terms not otherwise defined herein;
- interpret and construe the Plan, any rules and regulations under the Plan and the terms and conditions of any Short-Term Cash Based Incentive granted hereunder, and to make exceptions to any such provisions if the Committee, in good faith, determines that it is necessary to do so in light of extraordinary circumstances and for the benefit of Zumiez;
- approve corrections in the documentation or administration of any Short-Term Cash Based Incentive; and

- make all other determinations deemed necessary or advisable for the administration of the Plan.

In the event of a dispute regarding the Plan, the Participant may seek resolution through the Committee chair. All determinations by the Committee chair shall be final and conclusive.

**Short-Term Cash Based Incentive**

**Payout Administration** . . . . . The Short-Term Cash Based Incentive Payout will be made as soon as administratively feasible following the approval by the Committee subsequent to the end of the applicable Plan Year. The Short-Term Cash Based Incentive Payout is expected to be within approximately seventy-five (75) days of the Plan Year end, but in no event later than the last day of the fiscal year following such Plan Year. No amount is due and owing to any Participant before the Committee has approved the Short-Term Cash Based Incentive Payout, and no Short-Term Cash Based Incentive Payout with respect to the Performance Goals will be made unless and until the Committee makes a certification in writing regarding the achievement of the Performance Goals as required by Section 162(m).

The Company will withhold amounts applicable to federal, state and local taxes, domestic or foreign, required by law or regulation.

**No Rights to Employment** . . . . . The Plan is not a contract of employment for any period of time. Any Participant may resign or be terminated at any time for any or no reason. Employment and termination of employment are governed by Zumiez policy and any applicable employment agreement and not by the Plan.

**Amendments and Termination** . . . . . The Plan will be reviewed by the Committee on a periodic basis for revisions. The Committee reserves the right at its discretion with or without notice, to review, amend or terminate the Plan, at any time.

**Executive Compensation Recovery**

**Policy** . . . . . For participants subject to the Zumiez Executive Compensation Recovery Policy, all amounts earned under the Plan are subject to the Policy, as in effect from time to time, a current copy of which may be requested from Zumiez at any time, and the terms and conditions of which are hereby incorporated by reference into the Plan.

**Section 409A of the Code** . . . . . To the extent applicable, it is intended that the Plan and any Short-Term Cash Based Incentives granted hereunder either be exempt from the requirements of, or else comply with the requirements of, Section 409A of the Code and any related regulations or other guidance promulgated with respect to such section by the U.S. Department of the Treasury or the Internal Revenue Service. Any provision that would cause any award granted hereunder to incur additional taxes under Section 409A of the Code shall have no force or effect until amended to comply with Section 409A of the Code, which amendment may be retroactive to the extent permitted by Section 409A of the Code.

**Unfunded Plan** ..... The Plan is intended to be an unfunded plan. Participants are and shall at all times be general creditors of the Company with respect to their Short-Term Cash Based Incentives, if any. If the Committee or the Company chooses to set aside funds in a trust or otherwise for the payment of Short-Term Cash Based Incentives under the Plan, such funds shall at all times be subject to the claims of the creditors of the Company in the event of its bankruptcy or insolvency.

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

**FORM 10-K**

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

For the fiscal year ended: **January 28, 2012**

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)

**91-1040022**  
(IRS Employer  
Identification No.)

**6300 Merrill Creek Parkway, Suite B,  
Everett, Washington**  
(Address of principal executive offices)

**98203**  
(Zip Code)

**(425) 551-1500**

(Registrant's telephone number, including area code)

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

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

Securities registered under 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 ninety 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of the last business day of the second fiscal quarter, July 30, 2011, the aggregate market value of the Registrant's voting and non-voting stock held by non-affiliates of the Registrant was \$584,285,938 using the closing sales price on that day of \$26.57.

At March 6, 2012, there were 31,170,125 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 23, 2012, which definitive proxy statement will be filed not later than 120 days after the end of the fiscal year to which this report relates.

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**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 2011 was the 52-week period ending January 28, 2012. Fiscal 2010 was the 52-week period ending January 29, 2011. Fiscal 2009 was the 52-week period ended January 30, 2010.*

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

**Item 1. BUSINESS**

Zumiez Inc., a Washington corporation, is a leading specialty retailer of action sports related apparel, footwear, equipment and accessories operating under the Zumiez brand name. At January 28, 2012, we operated 444 stores primarily located in shopping malls, giving us a presence in 38 states and Canada. Our stores cater to young men and women between the ages of 12 and 24 who seek popular brands representing an action sport lifestyle centered on activities that include skateboarding, surfing, snowboarding, bicycle motocross (or “BMX”) and motocross. We support the action sports lifestyle and promote our brand through a multi-faceted marketing approach that is designed to integrate our brand image with our customers’ activities and interests. This approach, combined with our differentiated merchandising strategy, store design, comprehensive training programs and passionate employees, allows us to provide an experience for our customers that we believe is consistent with their attitudes, fashion tastes and identities and is otherwise unavailable in most malls. In addition, we operate a website that sells merchandise online and provides content and a community for our target customers. The Company was formed in August 1978.

Our stores bring the look and feel of an independent specialty shop to the mall by emphasizing the action sports lifestyle through a distinctive store environment and high-energy sales personnel. We seek to staff our stores with store associates who are knowledgeable users of our products, which we believe provides our customers with enhanced customer service and supplements our ability to identify and react quickly to emerging trends and fashions. We design our stores to appeal to teenagers and young adults and to serve as a destination for our customers. Most of our stores, which average approximately 2,900 square feet, feature couches and action sports oriented video game stations that are intended to encourage our customers to shop for longer periods of time and to interact with each other and our store associates. To increase customer traffic, we generally locate our stores near busy areas of the mall such as food courts, movie theaters, game stores and other popular teen retailers. We believe that our distinctive store concept and compelling store economics will provide continued opportunities for growth in both new and existing markets.

We believe that our customers desire authentic merchandise and fashion that is rooted in the action sports lifestyle and reflects their individuality. We strive to keep our merchandising mix fresh by continuously introducing new brands, 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 stores with a select offering of private label apparel and products as a value proposition that we believe complements our overall merchandise selection.

Over our 33-year history, we have developed a corporate culture based on a passion for the action sports lifestyle. Our management philosophy emphasizes an integrated combination of results measurement, training and incentive programs, all designed to drive sales productivity at the individual store associate level. We empower our managers to make store-level business decisions and consistently reward their success. We seek to enhance the productivity of our employees and encourage their advancement by offering comprehensive in-store, regional and national training programs, which we refer to collectively as “Zumiez University.” We have:

- increased our store count from 235 as of the end of fiscal 2006 to 444 as of the end of fiscal 2011, representing a compound annual growth rate of 13.6%;
- experienced weighted-average net sales per square foot of \$416 for our last five fiscal years ending with fiscal 2011, from a peak of net sales per square foot of \$491 in fiscal 2006;
- increased net sales from \$298.2 million in fiscal 2006 to \$555.9 million in fiscal 2011, representing a compound annual growth rate of 13.3%;
- been profitable in every fiscal year of our 33-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 12 to 24 year olds, many of whom we believe are attracted to the action sports lifestyle and desire to promote their personal independence and style through the apparel, shoes and accessories they wear and the equipment they use. We believe that action sports is a permanent aspect of youth culture, reaching not only consumers that actually participate in action sports, but also those who seek brands and styles that fit a desired action sports image. We believe we have developed a brand image that our customers view as consistent with their attitudes, fashion tastes and identity that should allow us to benefit in our market.

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

*Deep-rooted Culture.* Our culture and brand image enable us to successfully attract and retain high quality employees who are passionate and knowledgeable about the products we sell. We place great emphasis on customer service and satisfaction, and we have made this a defining feature of our corporate culture. To preserve our culture, we strive to promote store managers from within and they are given extensive responsibility for most



aspects of store level management. We provide these managers with the knowledge and tools to succeed through our comprehensive training programs and the flexibility to manage their stores to meet localized customer demand. Our store leadership at the district manager level and above have all been promoted from within the Zumiez system and their leadership provides unique value and insight to our store managers and sales associates.

*Distinctive Store Experience.* We strive to provide a convenient shopping environment that is appealing and clearly communicates our distinct brand image. Our stores are designed to reflect an “organized chaos” that we believe is consistent with many teenagers’ and young adults’ lifestyles. We seek to attract knowledgeable store associates who identify with the action sports lifestyle and are able to offer superior customer service, advice and product expertise. To further enhance our customers’ experience, most of our stores feature areas with couches and action sports oriented video game stations that are intended to encourage our customers to shop for longer periods of time, to interact with each other and our store associates in a familiar and comfortable setting and to visit our stores more frequently. We believe that our distinctive store environment enhances our image as a leading source for apparel and equipment for the action sports lifestyle.

*Disciplined Operating Philosophy.* We have an experienced senior management team. 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 home office staff, managers and store associates with enhanced product knowledge, selling skills and operational expertise. We believe that our merchandising team’s immersion in the action sports lifestyle, supplemented with feedback from our customers, store associates, store leadership and managers, 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 image with the action sports lifestyle. Our marketing efforts focus on reaching our customers in their environment and feature extensive grassroots marketing events, such as the Zumiez Couch Tour, which is a series of interactive sports, music and lifestyle events held at various locations throughout the United States. Our marketing efforts also incorporate local sporting and music event promotions, advertising in magazines popular with our target market, interactive contest sponsorships that actively involve our customers with our brands and products and various social network channels such as Facebook and Twitter. Events and activities such as these provide opportunities for our customers to develop a strong identity with our culture and brand. We believe that our immersion in the action sports lifestyle allows us to build credibility with our customers and gather valuable feedback on evolving customer preferences.

### ***Growth Strategy***

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

*Opening New Store Locations.* We believe that the action sports lifestyle has appeal that provides store expansion opportunities throughout the country and internationally. During the last three fiscal years ending with fiscal 2011, we have opened 108 new stores consisting of 45 stores in fiscal 2011, 27 stores in fiscal 2010 and 36 stores in fiscal 2009. We have successfully opened stores in diverse markets throughout the United States and Canada, which we believe demonstrates the portability and growth potential of our concept. To take advantage of what we believe to be a compelling economic store model, we plan to open approximately 50 stores in fiscal 2012, including stores in our existing markets and in new markets domestically and in Canada. The number of anticipated store openings may increase or decrease due to market conditions.

*Continuing to Generate Sales Growth through Improved Store Level Productivity and Continued Ecommerce Sales Growth.* We seek to maximize our comparable store sales, including sales from our ecommerce site, and net sales per square foot by maintaining consistent store-level execution and offering our customers a

broad and relevant selection of action sports brands and products. We seek to continue to grow our ecommerce sales with a continued focus on enhancing and integrating the unique Zumiez brand experience through this channel. In fiscal 2011, 2010 and 2009, ecommerce sales represented 7.3%, 4.7% and 2.5% of our total net sales.

*Enhancing our Brand Awareness through Continued Marketing and Promotion.* We believe that a key component of our success is the brand exposure that we receive from our marketing events, promotions and activities that embody the action sports lifestyle. These are designed to assist us in increasing brand awareness in our existing markets and expanding into new markets by strengthening our connection with our target customer base. We believe that our marketing efforts have also been successful in generating and promoting interest in our product offerings. In addition, we use our ecommerce presence, designed to convey our passion for the action sports lifestyle, to increase our brand awareness. We plan to continue to expand our integrated marketing efforts by promoting more events and activities in our existing and new markets. 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 the action sports lifestyle. We believe that the breadth of merchandise offered at our stores, which includes apparel, footwear, equipment and accessories, exceeds that offered by many other action sports specialty stores at a single location, and makes our stores a single-stop purchase destination for our target customers. Our apparel offerings include tops, bottoms, outerwear and accessories such as caps, bags and backpacks, belts, jewelry and sunglasses. Our footwear offerings primarily consist of action sports related athletic shoes and sandals. Our equipment offerings, or hardgoods, include skateboards, snowboards and ancillary gear such as boots and bindings. We also offer a selection of other items, such as miscellaneous novelties.

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

We believe that offering an extensive selection of current and relevant brands used and sometimes developed by professional action sports athletes is integral to our overall success. No single brand, including private label, accounted for more than 6.3%, 6.5% and 7.1% of our net sales in fiscal 2011, 2010 and 2009. We believe that our strategic mix of both apparel and hardgoods, including skateboards, snowboards, bindings, components and other equipment, allows us to strengthen the potential of the brands we sell and affirms our credibility with our customers.

We believe that our ability to maintain an image consistent with the action sports lifestyle is important to our key vendors. Given our scale and market position, we believe that many of our key vendors view us as an important retail partner. This position helps ensure our ability to procure a relevant product assortment and quickly respond to the changing fashion interests of our customers. Additionally, we believe we are presented with a greater variety of products and styles by some of our vendors, as well as certain specially designed items that are exclusively distributed to our stores. We supplement our merchandise assortment with a select offering of private label products across many of our apparel product categories. Our private label products complement the branded products we sell, and some of our private label brands allow us to cater to the more value-oriented customer. For fiscal 2011, 2010 and 2009 our private label merchandise represented 17.7%, 18.0% and 15.7% of our net sales.

Our purchasing approach focuses on quality, speed and cost in order to provide timely delivery of merchandise to our stores. We have developed a disciplined approach to buying and a dynamic inventory planning and allocation process to support our merchandise strategy. We utilize a broad vendor base that allows

us to shift our merchandise purchases as required to react quickly to changing 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 store sales strength, our promotions and seasonality. Our management information systems provide us with current inventory levels at each store and for our Company as a whole, as well as current selling history within each store by merchandise classification and by style. We purchase most of our branded merchandise from domestic vendors.

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

We source our private label merchandise from 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.

***Distribution and Fulfillment***

Timely and efficient distribution of merchandise to our stores is an important component of our overall business strategy. During fiscal 2010, we relocated our distribution center from Everett, Washington to Corona, California to reduce distribution costs, expand capacity and increase speed of merchandise delivery to our customers. At our Corona, California facility, merchandise is inspected, allocated to stores, ticketed when necessary and boxed for distribution to our stores. Each store is typically shipped merchandise five times a week, providing our stores with a steady flow of new merchandise. We currently use United Parcel Service to ship the majority of our merchandise to our stores. Our current ecommerce fulfillment center is located in Everett, Washington. Subsequent to the fiscal 2011 year end, we entered into a 10 year lease agreement to lease up to 153,095 square feet in Edwardsville, Kansas for the purpose of relocating our ecommerce fulfillment center. We plan to move into this new leased space in fiscal 2012. We believe our distribution and ecommerce fulfillment infrastructure is sufficient to accommodate our expected store and ecommerce growth over the next several years.

***Stores***

*Store Locations.* All of our stores are leased and substantially all are located in shopping malls of different types. At January 28, 2012, we operated 434 stores in the United States and 10 stores in Canada as shown below:

**United States**

Alaska	3	Idaho	6	Montana	4	Rhode Island	1
Arizona	13	Illinois	16	New Jersey	18	South Dakota	2
California	77	Indiana	8	New Hampshire	4	Texas	45
Colorado	18	Kansas	3	Nevada	9	Utah	12
Connecticut	8	Maine	2	New Mexico	5	Virginia	7
Delaware	3	Maryland	9	New York	30	Washington	24
Florida	18	Massachusetts	8	North Carolina	4	Wisconsin	13
Georgia	3	Michigan	6	Oklahoma	6	Wyoming	2
Hawaii	2	Minnesota	11	Oregon	12		
Iowa	2	Missouri	2	Pennsylvania	18		

## Canada

British Columbia	3
Ontario	7

Approximately 29% of our stores have been opened or remodeled within the previous three fiscal years ending with fiscal 2011. The following table shows the number of stores (excluding temporary stores that we operate from time to time for special events) opened and closed in each of our last three fiscal years:

<u>Fiscal Year</u>	<u>Stores Opened</u>	<u>Stores Closed</u>	<u>Total Number of Stores End of Year</u>
2011	45	1	444
2010	27	4	400
2009	36	2	377

*Store Design and Environment.* We design our stores to create a distinctive and engaging shopping environment that we believe resonates with our customers and it reflects an “organized chaos” that is consistent with many teenagers’ and young adults’ lifestyles. Our stores feature an industrial look with concrete floors and open ceilings, dense merchandise displays, action sports focused posters and signage and popular music, all of which are consistent with the look and feel of an independent action sports specialty shop. Most of our stores have couches and action sports oriented video game stations that are intended to encourage our customers to shop for longer periods of time, to interact with each other and our store associates 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 action sports season dictates. We believe that our store atmosphere enhances our image as a leading provider of action sports lifestyle merchandise.

At January 28, 2012, our stores averaged approximately 2,900 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. In fiscal 2012, we plan on opening new stores with square footage similar to this average. New stores’ size is determined by our expected sales volume; for instance, if we project higher sales, we generally try to build larger stores and, conversely, if we believe stores will be lower volume stores we generally try to build smaller stores.

*Expansion Opportunities and Site Selection.* In selecting a location for a new store, we target high-traffic mall space with suitable demographics and favorable lease terms. We seek locations near busy areas of the mall such as food courts, movie theaters, game stores and other popular teen retailers. We generally locate our stores in malls in which other teen-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. We have currently identified a number of potential sites for new stores in malls with appropriate market characteristics.

We have successfully and consistently implemented our store concept across a variety of mall classifications and geographic locations. Our 27 new stores opened in fiscal 2010 generated average net sales of approximately \$1.0 million per store in fiscal 2011 during their first full year of operation. In fiscal 2011, we opened 45 stores with an average net capital investment of approximately \$0.3 million per store by negotiating favorable terms with our construction contractors and obtaining tenant improvement allowances from landlords. In addition to capital investments, we make working capital investments between \$0.1 million and \$0.3 million per store consisting primarily of merchandise inventory. However, our capital investment to open new stores and net sales generated by new stores vary significantly and depend on a number of factors, including manager and sales associate competency and tenure, the geographic location, type of mall, sales volume of the mall and square footage of those stores. Accordingly, net sales and other operating results for stores that we open or have opened

subsequent to the end of fiscal 2011, as well as our net capital investment to open those stores, may differ substantially from net sales and other operating results and our net capital investment for the stores we opened in prior years.

*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, as evidenced by a significant number of our store managers that began their careers with us as store associates.

Our store operations are currently organized into divisions, regions and districts. Each division is managed by a divisional manager, responsible for approximately one third of our stores. Each region is managed by a regional manager, responsible for approximately 50 stores. We employ one district manager per district, responsible for the sales and operations of approximately 10 stores. Each of our stores is typically staffed with one store manager, one or more assistant managers and two or more store associates, depending on the season and sales volume of the store. The number of store associates we employ generally increases during peak selling seasons, particularly the back-to-school and the winter holiday seasons, and will increase to the extent that we open new stores.

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 office, we give our store managers and district 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, such as our “Zumiez Managers Retreat,” and “Rocktober,” to improve both operational expertise and supervisory skills. Our comprehensive training programs are offered at the store, regional and national levels. Our programs allow managers from all geographic locations to interact with each other and exchange ideas to better operate stores. Our store, district, and regional managers are compensated in part based on the sales volume of the store or stores they manage.

Our store associates generally have an interest in 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. Our store associates receive extensive training from their managers to improve their product expertise and selling skills. We evaluate our store associates weekly on measures such as sales per hour, units per transaction and dollars per transaction to ensure consistent productivity, to reward top performers and to identify potential training opportunities. We provide sales incentives for store associates such as sales-based commissions in addition to hourly wages and our annual “Zumiez 100K” event, which recognizes outstanding sales performance in a resort setting that combines recreation and education. These and other incentive programs are designed to promote a competitive, yet fun, corporate culture that is consistent with the action sports lifestyle 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 action sports lifestyle. 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 action sports lifestyle. 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 brand and culture. For example, the Zumiez Couch Tour is a series of entertainment events that includes skateboarding demonstrations from top professionals, autograph sessions, competitions and live music, and has featured some of today’s most popular personalities in action sports and music. The Zumiez Couch Tour



provides a high-impact platform where customers can interact with some of their favorite action sports athletes and vendors can showcase new products. In fiscal 2011, our Zumiez Couch Tour completed a twelve-city tour across the United States.

Our marketing efforts also incorporate local sporting and music event promotions, advertising in magazines popular with our target market, interactive contest sponsorships that actively involve our customers with our brands and products and various social network channels such as Facebook and Twitter. We believe that our immersion in the action sports lifestyle allows us to build credibility with our target audience and gather valuable feedback on evolving customer preferences.

### ***Management Information Systems***

Our management information systems provide integration of store, 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 our systems with our business requirements and to support our continuing growth.

### ***Competition***

The teenage and young adult retail apparel, hardgoods and accessories industry is highly competitive. We compete with other retailers for vendors, customers, suitable store locations and qualified store associates and management personnel. In the softgoods markets, which includes apparel, accessories and footwear, we currently compete with other teenage-focused retailers such as Abercrombie & Fitch, Aeropostale, American Apparel, American Eagle Outfitters, Billabong, CCS, Forever 21, Hollister, Hot Topic, Old Navy, Pacific Sunwear of California, The Buckle, Wet Seal, Tilly's and Urban Outfitters. In addition, in the softgoods markets we compete with independent specialty shops, department stores and direct marketers that sell similar lines of merchandise and target customers through catalogs and ecommerce. In the hardgoods markets, which includes skateboards, snowboards, bindings, components and other equipment, we compete directly or indirectly with the following categories of companies: other specialty retailers that compete with us across a significant portion of our merchandising categories, such as local snowboard and skate shops; large-format sporting goods stores and chains, such as Big 5 Sporting Goods, Dick's Sporting Goods, Sport Chalet and The Sports Authority 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 we compete favorably with many of our competitors based on 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 2011, approximately 61% of our net sales occurred in the third and fourth quarters combined, similar to previous years. 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, store remodels and closings, competitive influences and the number and timing of new store openings.

### ***Trademarks***

The "Zumiez" trademark and certain other trademarks, have been registered, or are the subject of pending trademark applications, with the United States 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 Corporation for Assigned Names and Numbers.

### ***Employees***

At January 28, 2012, we employed approximately 1,350 full-time and approximately 3,330 part-time employees globally, of which approximately 380 were employed at our home office, distribution center and ecommerce fulfillment center and approximately 4,300 at our store locations. However, the number of part-time employees fluctuates depending on our seasonal needs and, in fiscal 2011, varied from between approximately 2,300 and 5,900 part-time employees. None of our employees are represented by a labor union and we believe generally that our relationship with our employees is good.

### ***Available Information***

Our principal website address is [www.zumiez.com](http://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.

### **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 “anticipate,” “believe,” “expect,” “intend” and similar expressions identify forward-looking statements. Forward-looking statements involve risks and uncertainties, and future events and circumstances could differ significantly from those anticipated in the forward-looking statements. Any of the following risks could harm our business, operating results or financial condition and could result in a complete loss of your investment. Additional risks and uncertainties that are not yet identified or that we currently think are immaterial may also harm our business and financial condition in the future.*

***Significant fluctuations and volatility in the price of cotton, foreign labor costs and other raw materials used in 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 cotton, foreign labor costs or other raw materials used in the production of our merchandise can result in higher costs in the price we pay for this merchandise. The costs for cotton are affected by weather, consumer demand, speculation on the commodities market and other factors that are generally unpredictable and beyond our control. Our gross profit and earnings per share 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 cotton or other 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 and costs of these products may be negatively affected by risks associated with international trade and other international conditions.***

Most of our merchandise is produced by manufacturers 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 affect the importation of merchandise generally and increase the cost and reduce the supply of merchandise available to us. Any reduction in merchandise available to us or any increase in its cost due to tariffs, quotas or local issues that disrupt trade could have a material adverse effect on our results of operations. Although the prices charged by vendors for the merchandise we purchase are primarily denominated in United States dollars, a continued decline in the relative value of the United States dollar to foreign currencies could lead to increased merchandise costs, which could negatively affect our competitive position and our results of operations.

***Our ability to attract customers to our stores depends heavily on the success of the shopping malls in which our stores are located; any decrease in customer traffic in those malls could cause our sales to be less than expected.***

In order to generate customer traffic we depend heavily on locating our stores in prominent locations within successful shopping malls. Sales at these stores are derived, in part, from the volume of traffic in those malls. Our stores benefit from the ability of a mall's other tenants to generate consumer traffic in the vicinity of our stores and the continuing popularity of malls as shopping destinations. Our sales volume and mall traffic generally may be adversely affected by, among other things, economic downturns in a particular area, competition from ecommerce retailers, non-mall retailers and other malls, increases in gasoline prices and the closing or decline in popularity of other stores in the malls in which we are located. An uncertain economic outlook could curtail new shopping mall development, decrease shopping mall 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 mall traffic as a result of these or any other factors could have a material adverse effect on our business, results of operations and financial condition.

***Our growth strategy depends on our ability to open and operate new stores each year, which could strain our resources and cause the performance of our existing stores to suffer.***

Our growth largely depends on our ability to open and operate new stores successfully. However, our ability to open new stores is subject to a variety of risks and uncertainties, and we may be unable to open new stores as planned, and any failure to successfully open and operate new stores would have a material adverse effect on our results of operations. We intend to continue to open new stores in future years while remodeling a portion of our existing store base annually. In addition, our proposed expansion will place increased demands on our operational, managerial and administrative resources. These increased demands could cause us to operate our business less effectively, which in turn could cause deterioration in the financial performance of our individual stores and our overall business. To the extent our new store openings are in markets where we already have stores, we may experience reduced net sales in existing stores in those markets. In addition, successful execution of our growth strategy may require that we obtain additional financing, and we cannot assure you that we will be able to obtain that financing on acceptable terms or at all.

***If we fail to effectively execute our expansion strategy, we may not be able to successfully open new store locations in a timely manner, if at all, which could have an adverse affect on our net sales and results of operations.***

Our ability to open and operate new stores successfully depends on many factors, including, among others, our ability to:

- identify suitable store locations, the availability of which is outside of our control;
- negotiate acceptable lease terms, including desired tenant improvement allowances;
- source sufficient levels of inventory at acceptable costs to meet the needs of new stores;
- hire, train and retain qualified store personnel;
- successfully integrate new stores into our existing operations; and
- identify and satisfy the merchandise preferences of new geographic areas.

In addition, we plan to open new stores in regions of the United States or international locations in which we currently have few, or no, stores. The expansion into these markets may present competitive, merchandising, hiring and distribution challenges that are different from those currently encountered in our existing markets. Any of these challenges could adversely affect our business and results of operations.

***The expansion of our store base to Canada may present increased risks due to our limited familiarity with that market.***

In fiscal 2011, we opened store locations in Canada. The Canadian market may have different competitive conditions, consumer tastes and discretionary spending patterns than our existing markets. As a result, new stores in that market may be less successful than our stores in the United States. Additionally, consumers in the Canadian market may not be familiar with our brand, and we may need to build brand awareness in that market. Furthermore, we have limited experience with the legal and regulatory environments and market practices outside of the United States and cannot guarantee that we will be able to penetrate or successfully operate in the Canadian market. We may also incur additional costs in complying with applicable Canadian laws and regulations as they pertain to both our products and our operations.

***Our business is dependent upon our being able to anticipate, identify and respond to changing fashion trends, customer preferences and other fashion-related factors; failure to do so could have a material adverse effect on us.***

Customer tastes and fashion trends in the action sports lifestyle market are volatile and tend to change rapidly. Our success depends on our ability to effectively anticipate, identify and respond to changing fashion tastes and consumer preferences, and to translate market trends into appropriate, saleable product offerings in a timely manner. If we are unable to successfully anticipate, identify or respond to changing styles or trends and misjudge the market for our products or any new product lines, our sales may be lower than predicted and we may be faced with a substantial amount of unsold inventory or missed opportunities. In response to such a situation, we may be forced to rely on markdowns or promotional sales to dispose of excess or slow-moving inventory, which could have a material adverse effect on our results of operations.

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

The action sports retail industry historically has been subject to substantial cyclicity. As the United States and global economic conditions change, the trends in discretionary consumer spending become unpredictable and discretionary consumer spending could be reduced due to uncertainties about the future. When discretionary consumer spending is reduced, purchases of action sports apparel and related products may decline. The current uncertainty in the United States and global economies and increased government debt spending may have a material adverse impact on our results of operations and financial position.

Because of this cycle, we believe the “value” message has become more important to consumers. As a retailer that sells approximately 80% to 85% branded merchandise, this trend may negatively affect our business, as we generally will have to charge more than vertically integrated private label retailers.

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

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. Our sales in the first and second fiscal quarters are typically lower than in our third and fourth fiscal quarters due, in part, to the traditional retail slowdown immediately following the winter holiday season. 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 volatile and may decline.***

Our quarterly results of operations have fluctuated significantly in the past and can be expected to continue to fluctuate significantly in the future. As discussed above, our sales and operating results are typically lower in the first and second quarters of our fiscal year due, in part, to the traditional retail slowdown immediately following the winter holiday season. Our quarterly results of operations are affected by a variety of other factors, including:

- the timing of new store openings and the relative proportion of our new stores to mature stores;
- whether we are able to successfully integrate any new stores that we acquire and the presence or absence of any unanticipated liabilities in connection therewith;
- fashion trends and changes in consumer preferences;
- calendar shifts of holiday or seasonal periods;
- changes in our merchandise mix;
- timing of promotional events;
- general economic conditions and, in particular, the retail sales environment;
- actions by competitors or mall anchor tenants;
- weather conditions;
- the level of pre-opening expenses associated with our new stores; and
- inventory shrinkage beyond our historical average rates.

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

We may from time to time acquire other retail stores, individually or in groups, or businesses. We may experience difficulties in assimilating any stores or businesses we may acquire and any such acquisitions may also result in the diversion of our capital and our management's attention from other business issues and opportunities. We may not be able to successfully integrate any stores or businesses that we may acquire, including their facilities, personnel, financial systems, distribution, operations and general operating procedures. If we fail to successfully integrate acquisitions or if such acquisitions fail to provide the benefits that we expect to receive, we could experience increased costs and other operating inefficiencies, which could have an adverse effect on our results of operations and financial performance.

***Our business is susceptible to weather conditions that are out of our control, including the potential risks of unpredictable weather patterns 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 (including any weather patterns associated with global warming and cooling) during the winter season or cool weather during the summer season could render a portion of our inventory

incompatible with those unseasonable conditions. These prolonged unseasonable weather conditions, particularly in regions of the United States where we have a concentration of stores, could have a material adverse effect on our business and results of operations.

***We may be unable to compete favorably in the highly competitive retail industry, and if we lose customers to our competitors, our sales could decrease.***

The teenage and young adult retail apparel, hardgoods and accessories industry is highly competitive. We compete with other retailers for vendors, teenage and young adult customers, suitable store locations, qualified store associates and management personnel. In the softgoods market, which includes apparel, accessories and footwear, we currently compete with other teenage-focused retailers. In addition, in the softgoods market we compete with independent specialty shops, department stores and direct marketers that sell similar lines of merchandise and target customers through catalogs and ecommerce. In the hardgoods market, which includes skateboards, snowboards, bindings, components and other equipment, we compete directly or indirectly with other specialty retailers that compete with us across a significant portion of our merchandising categories, such as local snowboard and skate shops, large-format sporting goods stores and chains and ecommerce retailers.

Some of our competitors are larger than we are and have substantially greater financial, marketing, including advanced ecommerce marketing capabilities, and other resources than we do. Direct competition with these and other retailers may increase significantly in the future, which could require us, among other things, to lower our prices and could result in the loss of our customers. Current and increased competition could have a material adverse effect on our business, results of operations and financial condition.

***If we fail to maintain good relationships with vendors or if a vendor is otherwise unable or unwilling to supply us with adequate quantities of their products at acceptable prices, our business and financial performance could suffer.***

Our business is dependent on continued good relations with our vendors. In particular, we believe that we generally are able to obtain attractive pricing and other terms from vendors because we are perceived as a desirable customer, and deterioration in our relationship with our vendors would likely have a material adverse effect on our business. There can be no assurance that our vendors will provide us with an adequate supply or quality of products or acceptable pricing. Our vendors could discontinue selling to us or raise the prices they charge at any time. There can be no assurance that we will be able to acquire desired merchandise in sufficient quantities on terms acceptable to us in the future. 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, would have a material adverse effect on our business, results of operations and financial condition.

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

Our performance depends largely on the efforts and abilities of our senior management, including our Co-Founder and Chairman, Thomas D. Champion, our Chief Executive Officer, Richard M. Brooks, our President and General Merchandising Manager, Lynn K. Kilbourne, our Chief Financial Officer, Marc D. Stolzman and our Executive Vice President of Stores, Ford K. Wright. None of our employees have employment agreements with us and we do not plan to obtain key person life insurance covering any of our employees. If we lose the

services of one or more of our key executives, we may not be able to successfully manage our business or achieve our growth objectives. As our business grows, we will need to attract and retain additional qualified management personnel in a timely manner and we may not be able to do so.

***Our failure to meet our staffing needs could adversely affect our ability to implement our growth strategy and could have a material impact on our results of operations.***

Our success depends in part upon our ability to attract, motivate and retain a sufficient number of qualified employees, including divisional managers, regional managers, district managers, store managers and store associates, who understand and appreciate our corporate culture based on a passion for the action sports lifestyle and are able to adequately represent this culture to our customers. Qualified individuals of the requisite caliber, skills and number needed to fill these positions may be in short supply in some areas, and the employee turnover rate in the retail industry is high. Competition for qualified employees could require us to pay higher wages to attract a sufficient number of suitable employees. If we are unable to hire and retain store managers and store associates capable of consistently providing a high level of customer service, as demonstrated by their enthusiasm for our culture and knowledge of our merchandise, our ability to open new stores may be impaired and the performance of our existing and new stores could be materially adversely affected. We are also dependent upon temporary personnel to adequately staff our stores, distribution center and ecommerce fulfillment center particularly during busy periods such as the back-to-school and winter holiday seasons. There can be no assurance that we will receive adequate assistance from our temporary personnel, or that there will be sufficient sources of temporary personnel. Although none of our employees 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.

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

Our home office and ecommerce fulfillment center are currently located in Washington, our distribution center is located in California and a substantial number of our stores are located in the western half of the United States. We also have a substantial number of stores in the New York/New Jersey region and Texas. As a result, our business may be more susceptible to regional factors than the operations of more geographically diversified competitors. These factors include, among others, economic and weather conditions, demographic and population changes and fashion tastes. In addition, we rely on a single distribution center in the United States to receive, store and distribute the vast majority of our merchandise to our domestic stores. As a result, a natural disaster or other catastrophic event, such as an earthquake affecting the West Coast, could significantly disrupt our operations and have a material adverse effect on our business, results of operations and financial condition.

We are relocating our ecommerce distribution center located in Everett, Washington to Edwardsville, Kansas during the second quarter of fiscal 2012. As a result, events may occur during the relocation period and the operating periods subsequent to the relocation that could significantly disrupt our operations and have a material adverse effect on our business, results of operations and financial condition.

***We are required to make substantial rental payments under our operating leases and any failure to make these lease payments when due would likely have a material adverse effect on our business and growth plans.***

We do not own any of our retail stores or our current combined home office and ecommerce fulfillment center, but instead we lease these facilities under operating leases. Payments under these operating leases account for a significant portion of our operating expenses and has historically been our third largest expense behind cost of sales and our employee related costs. For example, total rental expense, including additional rental payments



(or “percentage rent”) based on sales of some of the stores, common area maintenance charges and real estate taxes, under operating leases was \$68.8 million, \$61.8 million and \$58.0 million for fiscal 2011, 2010 and 2009. At January 28, 2012, we were committed to property owners for operating leases obligations for \$414.0 million. In addition, substantially all of our store leases provide for additional rental payments based on sales of the respective stores, as well as common area maintenance charges, and require that we pay real estate taxes. These amounts generally escalate each year. We expect that any new stores we open will also be leased by us under operating leases, which will further increase our operating lease expenses.

Our substantial operating lease obligations could have significant negative consequences, including:

- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- requiring that a substantial portion of our available cash be applied to pay our rental obligations, thus reducing cash available for other purposes; and
- limiting our flexibility in planning for or reacting to changes in our business or in the industry in which we compete, and placing us at a disadvantage with respect to some of our competitors.

We depend on cash flow from operations to pay our lease expenses and to fulfill our other cash needs. If our business does not generate sufficient cash flow from operating activities, and sufficient funds are not otherwise available to us from borrowings under bank loans or from other sources, we may not be able to service our operating lease expenses, grow our business, respond to competitive challenges or fund our other liquidity and capital needs, which would have a material adverse effect on our business.

***The terms of our revolving credit facility impose operating and financial restrictions on us that may impair our ability to respond to changing business and economic conditions. This impairment could have a significant adverse impact on our business.***

On August 29, 2011, we renewed and amended our secured credit agreement with Wells Fargo Bank, N.A., and the prior facility agreement was terminated. The credit agreement provides us with a secured revolving credit facility until September 1, 2013 of up to \$25.0 million, which, pursuant to an accordion feature, may be increased to \$35.0 million at our discretion. The secured revolving credit facility provides for the issuance of standby letter of credits in an amount not to exceed \$5.0 million outstanding at any time and with a term not to exceed 365 days. The commercial line of credit provides for the issuance of commercial letter of credits in an amount not to exceed \$10.0 million and with terms not to exceed 120 days. The amount of borrowings available at any time under our secured revolving credit facility is reduced by the amount of standby and commercial letters of credit outstanding at that time. There were no outstanding borrowings under the secured revolving credit facility at January 28, 2012 and January 29, 2011. We had open commercial letters of credit outstanding under our secured revolving credit facility of \$0.9 million at January 28, 2012 and \$0.5 million at January 29, 2011. The secured revolving credit facility bears interest at the Daily One Month LIBOR rate plus 1.00%. The credit agreement contains a number of restrictions and covenants that generally limit our ability to, among other things, (1) incur additional debt, (2) undergo a change in ownership and (3) enter into certain transactions. The credit agreement also contains financial covenants that require us to meet certain specified financial tests and ratios, including, a maximum net loss not to exceed \$10.0 million after taxes on a trailing four-quarter basis provided, that, there shall be added to net income all charges for impairment of goodwill and store assets not to exceed \$5.0 million in aggregate, and a minimum quick ratio of 1.25. The quick ratio is defined as our cash and near cash equivalents plus certain defined receivables divided by the outstanding borrowings. Our accounts receivable, general intangibles, inventory and equipment have been pledged to secure our obligations under the credit agreement. We must also provide financial information and statements to our lender. We were in compliance with all such covenants at January 28, 2012.

A breach of any of these restrictive covenants or our inability to comply with the required financial tests and ratios could result in a default under the credit agreement. If a default occurs, the lender may elect to declare all

borrowings outstanding, together with accrued interest and other fees, to be immediately due and payable. If we are unable to repay outstanding borrowings when due, whether at their maturity or if declared due and payable by the lender following a default, the lender has the right to proceed against the collateral granted to it to secure the indebtedness. As a result, any breach of these covenants or failure to comply with these tests and ratios could have a material adverse effect on us. There can be no assurance that we will not breach the covenants or fail to comply with the tests and ratios in our credit agreement or any other debt agreements we may enter into in the future and, if a breach occurs, there can be no assurance that we will be able to obtain necessary waivers or amendments from the lenders.

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

***Our business could suffer if our ability to acquire financing is reduced or eliminated.***

In the current economic environment, we cannot be assured that our borrowing relationship with our lender will continue or that our lender will remain able to support its commitments to us in the future. If our lender fails to do so, then we may not be able to secure alternative financing on commercially reasonable terms, or at all.

***Our business could suffer as a result of small parcel delivery services being unable to distribute our merchandise.***

We rely upon small parcel delivery services for our product shipments, including shipments to, from and between our stores and to our ecommerce customers. Accordingly, we are subject to risks, including employee strikes and inclement weather, which may affect their ability to meet our shipping needs. Among other things, any circumstances that require us to use other delivery services for all or a portion of our shipments could result in increased costs and delayed deliveries and could harm our business materially. In addition, although we have contracts with small parcel delivery services, we and the service providers have the right to terminate these contracts upon 30-90 days written notice. Although the contracts with these small parcel delivery services provide certain discounts from the shipment rates in effect at the time of shipment, the contracts do not limit their ability to raise the shipment rates at any time. Accordingly, we are subject to the risk that small parcel delivery services may increase the rates they charge, that they may terminate their contracts with us, that they may decrease the rate discounts provided to us when an existing contract is renewed or that we may be unable to agree on the terms of a new contract with them, any of which could materially adversely affect our operating results.

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

We do not control our vendors or the manufacturers that produce the products we buy from them, nor do we control the labor practices of our vendors and these manufacturers. The violation of labor or other laws by any of our vendors or these manufacturers, or the divergence of the labor practices followed by any of our vendors or these manufacturers from those generally accepted as ethical in the United States, could interrupt, or otherwise disrupt, the shipment of finished products to us or damage our reputation. Any of these, in turn, could have a material adverse effect on our financial condition and results of operations. In that regard, most of the products sold in our stores are manufactured overseas, primarily in Asia and Central America, which may increase the risk that the labor practices followed by the manufacturers of these products may differ from those considered acceptable in the United States.

Additionally, our products are subject to regulation of and regulatory standards set by various governmental authorities with respect to quality and safety. Regulations and standards in this area are currently in place. 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 in our stores, 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.

***Our failure to adequately anticipate a correct mix of private label merchandise may have a material adverse effect on our business.***

Sales from private label merchandise account for approximately 15% to 20% of our net sales and generally carry higher gross margins than our other merchandise. We may take steps to increase the percentage of net sales of private label merchandise in the future, although there can be no assurance that we will be able to achieve increases in private label merchandise sales as a percentage of net sales. Our failure to anticipate, identify and react in a timely manner to fashion trends with our private label merchandise, would likely have a material adverse effect on our comparable store sales, financial condition and results of operations.

***If our information systems hardware or software fails to function effectively or does not scale to keep pace with our planned growth, our operations could be disrupted and our financial results could be harmed.***

Over the past several years, we have made improvements to our infrastructure and existing hardware and software systems, as well as implemented new systems. If these or any other information systems and software do not work effectively, this could adversely impact the promptness and accuracy of our transaction processing, financial accounting and reporting and our ability to manage our business and properly forecast operating results and cash requirements. To manage the anticipated growth of our operations and personnel, we may need to continue to improve our operational and financial systems, transaction processing, procedures and controls, and in doing so could incur substantial additional expenses that could impact our financial results.

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

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

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

We believe that our trademarks and domain names are valuable assets that are critical to our success. The unauthorized use or other misappropriation of our trademarks or domain names could diminish the value of the Zumiez brand, our store concept, our private label brands or our goodwill and cause a decline in our net sales. Although we have secured or are in the process of securing protection for our trademarks and domain names in a number of countries outside of the United States, there are certain countries where we do not currently have or where we do not currently intend to apply for protection for certain trademarks or at all. Also, the efforts we have taken to protect our trademarks may not be sufficient or effective. Therefore, we may not be able to prevent other persons from using our trademarks or domain names outside of the United States, which also could adversely affect our business. We are also subject to the risk that we may infringe on the intellectual property rights of third

parties. Any infringement or other intellectual property claim made against us, whether or not it has merit, could be time-consuming, result in costly litigation, cause product delays or require us to pay royalties or license fees. As a result, any such claim could have a material adverse effect on our operating results.

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

Substantially all of our stores are located in shopping malls. Any threat of terrorist attacks or actual terrorist events, particularly in public areas, could lead to lower customer traffic in shopping malls. In addition, local authorities or mall management could close shopping malls in response to security concerns. Mall closures, as well as lower customer traffic due to security concerns, would likely result in decreased sales. Additionally, the armed conflicts in the Middle East, or the threat, escalation or commencement of war or other armed conflict elsewhere, could significantly diminish consumer spending, and result in decreased sales for us. Decreased sales would have a material adverse effect on our business, financial condition and results of operations.

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

We are involved, from time to time, in litigation incidental to our business including complaints filed by investors. This litigation could result in substantial costs, and could divert management's attention and resources, which could harm our business. Risks associated with legal liability are often difficult to assess or quantify, and their existence and magnitude can remain unknown for significant periods of time. There can be no assurance that the actual outcome of pending or future litigation will not have a material adverse effect on our results of operations or financial condition. Additionally, while we maintain director and officer insurance for litigation surrounding investor lawsuits, the amount of insurance coverage may not be sufficient to cover a claim and the continued availability of this insurance cannot be assured.

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

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

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

***Our failure to comply with federal, state or local laws, or changes in these laws, 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. Changes in the regulations, the imposition of additional regulations, or the enactment of any new legislation including those related to health care, taxes, privacy, environmental issues and trade, could adversely affect our results of operations or financial condition.

***Recent federal health care legislation could increase our expenses.***

We are self-insured with respect to our health care coverage and do not purchase third party insurance for the health insurance benefits provided to employees with the exception of pre-defined stop loss, which helps

limit the cost of large claims. In March 2010, the Patient Protection and Affordable Care Act (the “Act”) and the Health Care Education Reconciliation Act of 2010 (the “Reconciliation Act”) were signed into law. The Act, as modified by the Reconciliation Act, includes a large number of health care provisions to take effect over four years, including expanded dependent coverage, incentives for businesses to provide health care benefits, a prohibition on the denial of coverage and denial of claims on pre-existing conditions, a prohibition on limits on essential benefits and other expansions of health care benefits and coverage. The costs of these provisions are expected to be funded by a variety of taxes and fees. Some of the taxes and fees, as well as certain health care changes required by these acts, are expected to result, directly or indirectly, in increased health care costs for us. It remains difficult to predict the cost impact of health care reform and at this time, we cannot quantify the impact, if any, that the legislation may have on us due to the changing regulatory environment around this legislation and due to the government’s requirement to issue future unknown regulatory rules. There is no assurance that we will be able to absorb and/or pass through the costs of such legislation in a manner that will not adversely impact our results of operations.

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

Although ecommerce sales constitute a small, but increasing portion of our overall sales, our ecommerce operations subject us to certain risks that could have an adverse effect on our operational results, including:

- diversion of traffic and sales from our stores;
- liability for online content; and
- risks related to the computer systems that operate our website and related support systems, including computer viruses, electronic break-ins and similar disruptions.

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

***We have incurred and will continue to incur significant expenses as a result of being a public company, which will negatively impact our financial performance.***

We completed our initial public offering in May 2005 and we have incurred and could continue to incur significant legal, accounting, insurance and other expenses as a result of being a public company. Rules and regulations implemented by Congress, the SEC and the Nasdaq Global Select Market have required changes in corporate governance practices of public companies. Compliance with these laws could cause us to incur significant costs and expenses, including legal and accounting costs, and could make some compliance activities more time-consuming and negatively impact our financial performance. Additionally, these rules and regulations may make it more expensive for us to obtain director and officer liability insurance. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as officers.

***Failure to maintain adequate financial and management processes and controls could lead to errors in our financial reporting and could harm our ability to manage our expenses.***

Reporting obligations as a public company and our anticipated growth are likely to place a considerable strain on our financial and management systems, processes and controls, as well as on our personnel. In addition, we are required to document and test our internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 so that our management can certify as to the effectiveness of our internal controls and our independent registered public accounting firm can render an opinion on the effectiveness of our internal control over financial reporting on an annual basis. This process requires us to document our internal controls over financial reporting and to potentially make significant changes thereto, if applicable. As a result, we have incurred and expect to continue to incur substantial expenses to test our financial controls and systems, and we

have been and in the future may be required to improve our financial and managerial controls, reporting systems and procedures, to incur substantial expenses to make such improvements and to hire additional personnel. If our management is ever unable to certify the effectiveness of our internal controls or if our independent registered public accounting firm cannot render an opinion on the effectiveness of our internal control over financial reporting, or if material weaknesses in our internal controls are ever identified, we could be subject to regulatory scrutiny and a loss of public confidence, which could have a material adverse effect on our business and our stock price. In addition, if we do not maintain adequate financial and management personnel, processes and controls, we may not be able to accurately report our financial performance on a timely basis, which could cause a decline in our stock price and adversely affect our ability to raise capital.

***Changes to accounting rules or regulations could significantly affect our financial results.***

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). New accounting rules or regulations and changes to existing accounting rules or regulations have occurred and may occur in the future. Future changes to accounting rules or regulations, such as changes to lease accounting guidance or a requirement to convert to international financial reporting standards, could negatively affect our results of operations and financial condition through increased cost of compliance.

***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. In December 2007, a securities class action litigation and associated derivative lawsuits was brought against us and such actions are frequently brought against other companies following a decline in the market price of their securities. These lawsuits were dismissed with prejudice in March 2009. If our stock price is volatile, we may become involved in this type of litigation in the future. Any litigation could result in substantial costs and a diversion of management’s attention and resources that are needed to successfully run our business.

***The value of our investments may fluctuate.***

We have our excess cash primarily invested in state and local municipal securities, U.S. Treasury securities, U.S. Agency securities, corporate debt securities and variable-rate demand notes. These investments have historically been considered very safe investments with minimal default rates. At January 28, 2012, we had \$159.3 million of investments in state and local government securities and variable-rate demand notes, excluding our auction rate security. These securities are not guaranteed by the United States government and are subject to additional credit risk based upon each local municipality’s tax revenues and financial stability. As a result, we may experience a reduction in value or loss of liquidity of our investments, which may have a negative adverse effect on our results of operations, liquidity and financial condition.

***A decline in the market price of our stock and our performance may trigger an impairment of the goodwill recorded on the consolidated balance sheets.***

Goodwill and other intangible assets with indefinite lives is required to be tested for impairment at least annually or more frequently if management believes indicators of impairment exist. Any reduction in the carrying value of our goodwill as a result of our impairment analysis could result in a non-cash goodwill impairment charge to our statement of operations. A goodwill impairment charge could have a significant impact on earnings and potentially result in a violation of our financial covenants, thereby limiting our ability to secure short-term financing.

***Reduced operating results and cash flows may cause us to incur impairment charges.***

We review the carrying value of our fixed assets for impairment whenever events or changes in circumstances indicate that the carrying value of such asset may not be recoverable. The review could result in significant charges related to underperforming stores, which could impact our results of operations.

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**Item 2. PROPERTIES**

All of our stores, primarily located in shopping malls and encompassing approximately 1,307,562 total square feet at January 28, 2012, are occupied under operating leases.

We lease an 87,350 square foot combined home office and ecommerce fulfillment center in Everett, Washington. This lease expires in 2017. In fiscal 2010 and fiscal 2011, we acquired approximately 356,000 square feet of developable land in Lynnwood, Washington, where we have begun construction on our new home office building. We plan to move into this new building in fiscal 2012. Subsequent to the fiscal 2011 year end, we entered into a 10 year lease agreement to lease up to 153,095 square feet in Edwardsville, Kansas for the purpose of relocating our ecommerce fulfillment center. We plan to move into this new leased space in fiscal 2012.

In fiscal 2010, we acquired a 168,450 square foot building in Corona, California that serves as our warehouse and distribution facility.

**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 to the Notes to Consolidated Financial Statements found in Part IV Item 15 of this Form 10-K (listed under "Litigation" under Commitments and Contingencies).

**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 has traded on the Nasdaq Global Select Market under the symbol "ZUMZ." At January 28, 2012, there were 31,169,573 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 for fiscal 2011 and fiscal 2010.

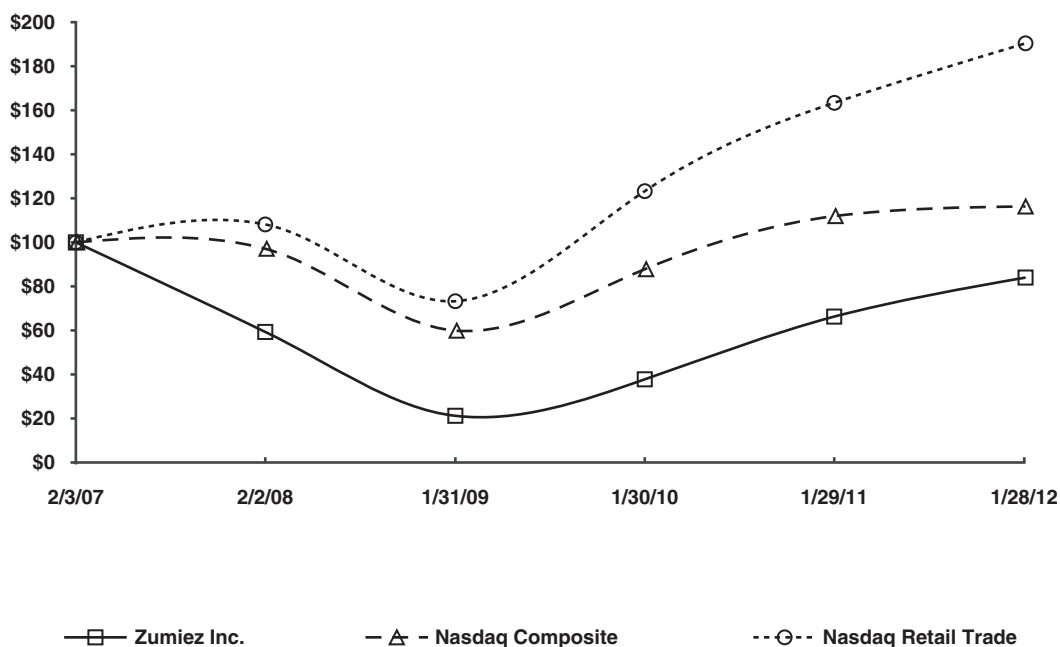
<u>Fiscal 2011</u>	<u>High</u>	<u>Low</u>
First Fiscal Quarter (January 30, 2011—April 30, 2011) . . . . .	\$29.88	\$22.13
Second Fiscal Quarter (May 1, 2011—July 30, 2011) . . . . .	\$30.90	\$21.91
Third Fiscal Quarter (July 31, 2011—October 29, 2011) . . . . .	\$27.23	\$15.85
Fourth Fiscal Quarter (October 30, 2011—January 28, 2012) . . . . .	\$32.49	\$20.74
<u>Fiscal 2010</u>	<u>High</u>	<u>Low</u>
First Fiscal Quarter (January 31, 2010—May 1, 2010) . . . . .	\$22.53	\$12.54
Second Fiscal Quarter (May 2, 2010—July 31, 2010) . . . . .	\$19.79	\$14.98
Third Fiscal Quarter (August 1, 2010—October 30, 2010) . . . . .	\$26.45	\$14.44
Fourth Fiscal Quarter (October 31, 2010—January 29, 2011) . . . . .	\$33.13	\$22.24

## Performance Measurement Comparison

The following graph shows a comparison for total cumulative returns for Zumiez Inc., the Nasdaq Composite Index and the Nasdaq Retail Trade Index during the period commencing on February 3, 2007 and ending on January 28, 2012. The comparison assumes \$100 was invested on February 3, 2007 in each 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 2/03/07 in stock or 1/31/07 in index, including reinvestment of dividends.  
Indexes calculated on month-end basis.

	<u>2/3/07</u>	<u>2/2/08</u>	<u>1/31/09</u>	<u>1/30/10</u>	<u>1/29/11</u>	<u>1/28/12</u>
<b>Zumiez Inc.</b>	<b>100.00</b>	<b>59.50</b>	<b>21.23</b>	<b>37.80</b>	<b>66.24</b>	<b>84.12</b>
<b>Nasdaq Composite</b>	<b>100.00</b>	<b>97.07</b>	<b>60.02</b>	<b>87.95</b>	<b>111.84</b>	<b>116.36</b>
<b>Nasdaq Retail Trade</b>	<b>100.00</b>	<b>108.17</b>	<b>73.39</b>	<b>123.33</b>	<b>163.38</b>	<b>190.39</b>

## Holder of the Corporation's Capital Stock

We had 390 shareholders of record as of February 28, 2012.

## 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 and if a dividend were paid, it would be subject to covenants of our lending facility, which may have the effect of restricting our ability to pay dividends.



## Recent Sales of Unregistered Securities

None

## Issuer Purchases of Equity Securities

We did not repurchase any of our common stock during the thirteen weeks ended January 28, 2012.

## Item 6. SELECTED FINANCIAL INFORMATION

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.

	Fiscal Year Ended				
	January 28, 2012	January 29, 2011	January 30, 2010	January 31, 2009	February 2, 2008
	(in thousands, except per share data)				
<b>Statement of Operations Data:</b>					
Net sales	\$555,874	\$478,849	\$407,603	\$408,669	\$381,416
Cost of goods sold (1)	354,198	311,028	274,396	274,134	244,429
Gross profit	201,676	167,821	133,207	134,535	136,987
Selling, general and administrative expenses (1)	141,444	130,454	120,472	109,927	98,042
Operating profit	60,232	37,367	12,735	24,608	38,945
Interest income, net	1,836	1,496	1,176	2,059	1,722
Other (expense) income, net	(379)	(8)	96	36	3
Earnings before income taxes	61,689	38,855	14,007	26,703	40,670
Provision for income taxes	24,338	14,652	4,876	9,499	15,344
Net income	<u>\$ 37,351</u>	<u>\$ 24,203</u>	<u>\$ 9,131</u>	<u>\$ 17,204</u>	<u>\$ 25,326</u>
Earnings per share:					
Basic	<u>\$ 1.22</u>	<u>\$ 0.81</u>	<u>\$ 0.31</u>	<u>\$ 0.59</u>	<u>\$ 0.89</u>
Diluted	<u>\$ 1.20</u>	<u>\$ 0.79</u>	<u>\$ 0.30</u>	<u>\$ 0.58</u>	<u>\$ 0.86</u>
Weighted average shares outstanding:					
Basic	30,527	29,971	29,499	29,127	28,609
Diluted	31,119	30,794	30,133	29,694	29,322

- (1) Cost of goods sold and selling, general and administrative expenses for the fiscal years ended January 29, 2011 and January 30, 2010 have been revised to account for the reclassification of certain expenses from selling, general and administrative expenses to cost of goods sold. Reclassification of these expenses from selling, general and administrative expenses to cost of goods sold is immaterial for prior periods.

	January 28, 2012	January 29, 2011	January 30, 2010	January 31, 2009	February 2, 2008
		(in thousands)			
<b>Balance Sheet Data:</b>					
Cash, cash equivalents and current marketable securities	\$172,798	\$128,801	\$108,051	\$ 78,582	\$ 76,532
Working capital (1)	197,927	155,400	133,927	112,092	92,161
Total assets	362,157	301,631	260,265	233,349	216,095
Total long-term liabilities	34,304	29,435	27,802	24,177	18,097
Total shareholders' equity	272,277	226,735	192,676	177,951	154,602

- (1) Working capital is defined as current assets minus current liabilities. Working capital for the fiscal year ended January 30, 2010 has been revised to account for the reclassification of certain assets from current assets to long-term assets. Reclassification of these assets from current assets to long-term assets is immaterial for prior periods.

	Fiscal Year Ended				
	January 28, 2012	January 29, 2011	January 30, 2010	January 31, 2009	February 2, 2008
<b>Other Financial Data:</b>					
Gross margin (1) . . . . .	36.3%	35.0%	32.7%	32.9%	35.9%
Capital expenditures (in thousands) (2) . . . . .	\$25,508	\$29,124	\$16,004	\$28,349	\$30,722
Depreciation, amortization and accretion (in thousands) . . . . .	\$19,744	\$17,923	\$22,092	\$19,470	\$14,762

- (1) Gross margin represents gross profit divided by net sales. Gross margin for the fiscal years ended January 29, 2011 and January 30, 2010 have been revised to account for the reclassification of additional expenses from selling, general and administrative expenses to cost of goods sold. Reclassification of these expenses from selling, general and administrative expenses to cost of goods sold is immaterial for prior periods.
- (2) Capital expenditures for the fiscal years ended January 29, 2011 and January 30, 2010 have been revised to account for the correction of an error in previously issued consolidated statements of cash flows (as further explained in Note 1 in our Notes to Consolidated Financial Statements). The correction of the error is immaterial for prior periods.

	Fiscal Year Ended				
	January 28, 2012	January 29, 2011	January 30, 2010	January 31, 2009	February 2, 2008
<b>Store Data:</b>					
Number of stores open at end of period . . . . .	444	400	377	343	285
Comparable store sales increase (decrease) (1) . . . . .	8.7%	11.9%	(10.0%)	(6.5%)	9.2%
Net sales per store (2) (in thousands) . . . . .	\$1,210	\$1,162	\$1,081	\$1,240	\$1,405
Total store square footage at end of period (3) (in thousands) . . . . .	1,308	1,174	1,107	1,005	829
Average square footage per store at end of period (4) . . . . .	2,945	2,935	2,937	2,930	2,909
Net sales per square foot (5) . . . . .	\$ 411	\$ 396	\$ 367	\$ 424	\$ 488

- (1) Comparable store sales percentage changes are calculated by comparing comparable store sales for the applicable fiscal year to comparable store sales for the prior fiscal year. Comparable store sales are based on net sales, and stores are considered comparable beginning on the first anniversary of their first day of operation. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—General” for more information about how we compute comparable store sales. Comparable store sales include our ecommerce sales.
- (2) Net sales per store represents net sales for the period divided by the average number of stores open during the period. For purposes of this calculation, the average number of stores open during the period is equal to the sum of the number of stores open as of the end of each month during the period divided by the number of months in the period. Net sales per store excludes ecommerce sales.
- (3) Total store square footage at end of period includes retail selling, storage and back office space.
- (4) Average square footage per store at the end of a period is calculated based on the total store square footage at end of period, including retail selling, storage and back office space, of all stores open at the end of the period.

- (5) Net sales per square foot represents net sales, excluding 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 period divided by the number of months in the period.

**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.*

**Overview**

We are a mall based specialty retailer of action sports related apparel, footwear, equipment and accessories operating under the Zumiez brand name. At January 28, 2012, we operated 444 stores primarily located in shopping malls, giving us a presence in 38 states and Canada. Our stores cater to young men and women between the ages of 12 and 24 who seek popular brands representing a lifestyle centered on activities that include skateboarding, surfing, snowboarding, BMX and motocross. We support the action sports lifestyle and promote our brand through a multi-faceted marketing approach that is designed to integrate our brand image with our customers’ activities and interests. This approach, combined with our differentiated merchandising strategy, store design, comprehensive training programs and passionate employees, allows us to provide an experience for our customers that we believe is consistent with their attitudes, fashion tastes and identities and is otherwise unavailable in most malls. Accordingly, our success is largely dependent upon our ability to anticipate, identify and respond to the fashion tastes of our customers and to provide merchandise that satisfies customer demands.

**Fiscal 2011—A Review of This Past Year**

In fiscal 2011 Zumiez achieved record sales and earnings levels and continued to build on the momentum we had seen in fiscal 2010. Sales, margins and profit all improved for the year, exceeding internal projections, which was significant in an environment where increases in production costs and lingering economic worries had an impact on all of retail. In addition, while accomplishing these results, we continued to make strategic investments that we believe will reap long-term benefits focused on enhancing the customer experience across multiple sales channels, and on our people and infrastructure aimed at improving decision making and product speed to market. The table below shows net sales, operating profit and margin and diluted earnings per share growth for fiscal 2011 compared to fiscal 2010:

	<b>Fiscal Year Ended</b>		
	<b>January 28, 2012</b>	<b>January 29, 2011</b>	<b>% Change</b>
Net sales (in thousands) . . . . .	\$555,874	\$478,849	16%
Operating profit (in thousands) . . . . .	\$ 60,232	\$ 37,367	61%
Operating margin . . . . .	10.8%	7.8%	
Diluted earnings per share . . . . .	\$ 1.20	\$ 0.79	52%

Our sales results were primarily driven by an increase in dollars per transaction partially offset by a decrease in comparable store transactions. Dollars per transaction increased primarily due to an increase in average unit retail, partially offset by a decline in units per transaction. These sales results were achieved with record product margins, demonstrating the strength of our distinctive product offering and the unique customer experience our store associates provide. As a result of our continued focus on managing our cost structure, these sales results translated into strong operating profit and diluted earnings per share growth.

## **Fiscal 2012—A Look At the Upcoming Year**

There are indications that economic worries are less prevalent and the consumer psyche seems to be improving. While there is some uncertainty, particularly in today's global economy, unemployment figures seem to be improving, consumer confidence is up and the inflationary concerns that retail faced a year ago should be less impactful in the upcoming year. We believe that we have momentum heading into fiscal 2012, and regardless of the macro economic landscape, we should perform well relative to other retailers by staying true to what makes us unique while continuing to make return based investments.

Long-term we aim to grow sales annually and grow operating profit at a faster rate than sales by focusing on our growth initiatives while managing our cost structure. Our primary growth vehicles are:

1. Initiatives that drive comparable store sales gains;
2. Opening high return stores;
3. Ecommerce penetration; and
4. New ventures such as our recent expansion into Canada.

In fiscal 2012 we expect total sales to increase driven by an increase in comparable store sales, the opening of approximately 50 new stores, including up to 10 stores in Canada, and increased sales from our ecommerce channel. If we achieve our sales projections, we expect earnings will increase. We will make further investments in people and infrastructure in fiscal 2012, building on the progress we have made through fiscal 2011, primarily focused on the development of our omni-channel sales strategies, continued progress on our product assortment planning and supply chain solutions, the move of our ecommerce fulfillment center to Edwardsville, Kansas, and a capital investment related to building a new home office planned to open in the second quarter of fiscal 2012. We anticipate inventory levels per square foot to grow slightly. We expect our cash, short-term investments and working capital to increase, and do not anticipate any borrowings on our credit facility.

## **General**

Net sales constitute gross sales net of actual and estimated returns and deductions for promotions. Net sales include our in-store sales and our ecommerce sales, which includes ecommerce shipping revenue. Ecommerce sales were 7.3%, 4.7% and 2.5% of total net sales for fiscal 2011, 2010 and 2009. Sales of gift cards are deferred and recognized when gift cards are redeemed. The amount of the gift card liability is determined taking into account our estimate of the portion of gift cards that will not be redeemed or recovered ("gift card breakage"). Gift card breakage is recognized as revenue after 24 months, at which time the likelihood of redemption is considered remote based on our historical redemption data.

We report "comparable store sales" based on net sales beginning on the first anniversary of the first day of operation of a new store. Our comparable store sales also include our ecommerce sales, due to the substantial integration of our stores and ecommerce business. Changes in our comparable store sales between two periods are based on net sales of stores which were in operation during both of the two periods being compared and, if a store is included in the calculation of comparable store sales for only a portion of one of the two periods being compared, then that store is included in the calculation for only the comparable portion of the other period. 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 store sales. There may be variations in the way in which some of our competitors and other apparel retailers calculate comparable or same store sales. As a result, data herein regarding our comparable store sales may not be comparable to similar data made available by our competitors or other retailers.

Cost of goods sold consists of 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 and buying, occupancy, distribution and warehousing costs. This may not be comparable to the way in which our competitors or other retailers compute their cost of goods sold. We receive cash consideration from vendors, which have been reported as a reduction cost of goods sold if the inventory has sold, as 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, we arrange and pay the freight for our customers and bill them for this service, unless our customers have their product shipped to one of our stores or we have free shipping promotions to our customers, in which case we do not bill our customers. Such amounts billed 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, outbound freight, store supplies, depreciation on fixed assets at our home office and stores, facility expenses and training, advertising and marketing costs. Credit card fees, insurance, public company expenses, legal expenses 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 store sales.* As previously described in detail under the caption "General," comparable store sales provide a measure of sales growth for stores open at least one year over the comparable prior year period.

We consider comparable store sales to be an important indicator of our current performance. Comparable store sales results are important to achieve leveraging of our costs, including store payroll and store occupancy. Comparable store sales also have a direct impact on our total net sales, 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. The key drivers of operating profit are comparable store sales, gross profit, our ability to control selling, general and administrative expenses and our level of capital expenditures affecting depreciation expense.

*Store productivity.* We review our stores' operating profit as a measure of their profitability.

### **Critical Accounting Estimates**

Our consolidated financial statements are prepared in accordance with 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 management believes 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 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, of the Notes to Consolidated Financial Statements, included in Part IV Item 15, "Exhibits and Consolidated Financial Statements," of this Annual Report on 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
<b><i>Valuation of Merchandise Inventories</i></b>		
<p>We value our inventory at the lower of 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 dates. Each quarter, we reserve for anticipated physical inventory losses on an aggregate basis.</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 of inventory, the profitability of the inventory and other factors.</p> <p>Our inventory loss 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 inventory loss 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 or assumptions we use to calculate our inventory reserves. However, if actual results are not consistent with our estimates and assumptions, we may be exposed to losses or gains that could be material.</p> <p>A 10% decrease in ultimate sales price at January 28, 2012 would have affected net income by \$0.1 million in fiscal 2011.</p> <p>A 10% difference in actual physical inventory shrinkage reserved at January 28, 2012 would have affected net income by \$0.2 million in fiscal 2011.</p>
<b><i>Fixed Assets</i></b>		
<p>We review the carrying value of our fixed assets for impairment whenever events or changes in circumstances indicate that the carrying value of such asset 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 projected individual store discounted cash flow to the asset carrying values. Declines in projected store cash flow could result in the impairment of assets.</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>Our impairment loss 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 and selecting the discount rate that reflects the risk inherent in future cash flows.</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.</p> <p>Although management believes that the current useful lives 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
<b>Revenue Recognition</b>		
<p>Revenue is recognized upon purchase at our retail store locations. For orders placed through our website, revenue is recognized upon estimated delivery to the customer. Revenue is recorded net of estimated and actual 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 transaction experience.</p>	<p>We have not made any material changes in the accounting methodology used to measure 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. A current liability is recorded upon sale, and revenue is recognized when the gift card is redeemed for merchandise. The amount of the gift card liability is determined taking into account our estimate of the portion of gift cards that will not be redeemed or recovered (“gift card breakage”). Gift card breakage is recognized as revenue after 24 months, at which time the likelihood of redemption is considered remote based on our historical redemption data.</p>		<p>A 10% change in our sales return reserve at January 28, 2012 would have affected net income by \$0.1 million in fiscal 2011.</p>
<b>Stock-Based Compensation</b>		
<p>We maintain the Zumiez Inc. 2005 Equity Incentive Plan under which restricted stock and non-qualified stock options have been granted to employees and non-employee directors.</p>	<p>The calculation of stock-based compensation expense requires management to make assumptions and to apply judgment to estimate the number of stock awards that will ultimately vest and to determine the fair value of our stock option awards. These assumptions and judgments include estimating future employee turnover rates and the inputs to the Black-Scholes option pricing model, including future employee stock option exercise behaviors. Changes in these assumptions can materially affect our stock-based compensation expense.</p>	<p>We do not believe there is a reasonable likelihood there will be a material change in the future estimates or assumptions we use to determine stock-based compensation expense. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to changes in stock-based compensation expense that could be material.</p>
<p>We determine the fair value of our restricted stock awards based on the closing market price of our stock on the grant date. In determining the fair value of our stock options, we use the Black-Scholes option pricing model.</p>		<p>A 10% change in our stock-based compensation expense in fiscal 2011 would have affected net income by \$0.3 million in fiscal 2011.</p>



Description	Judgments and Uncertainties	Effect If Actual Results Differ From Assumptions
<b>Accounting for Income Taxes</b>		
As part of the process of preparing the 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.	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.	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.  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.
<b>Accounting for Contingencies</b>		
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 in the Notes to the Consolidated Financial Statements.	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.	Although management believes that the contingencies 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.

## Results of Operations

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

	Fiscal Year Ended		
	January 28, 2012	January 29, 2011	January 30, 2010
Net sales . . . . .	100.0%	100.0%	100.0%
Cost of goods sold (1) . . . . .	63.7%	65.0%	67.3%
Gross profit . . . . .	36.3%	35.0%	32.7%
Selling, general and administrative expenses (1) . . .	25.5%	27.2%	29.6%
Operating profit . . . . .	10.8%	7.8%	3.1%
Interest and other income, net . . . . .	0.3%	0.3%	0.3%
Earnings before income taxes . . . . .	11.1%	8.1%	3.4%
Provision for income taxes . . . . .	4.4%	3.0%	1.2%
Net income . . . . .	6.7%	5.1%	2.2%

(1) Cost of goods sold and selling, general and administrative expenses for the fiscal years ended January 29, 2011 and January 30, 2010 have been revised to account for the reclassification of certain expenses from selling, general and administrative expenses to cost of goods sold.

## **Fiscal 2011 Results Compared With Fiscal 2010**

### ***Net Sales***

Net sales were \$555.9 million for fiscal 2011 compared to \$478.8 million for fiscal 2010, an increase of \$77.1 million or 16.1%. The increase reflected a comparable store sales increase of 8.7% for fiscal 2011 as well as the net addition of 44 stores (45 new stores offset by one store closure) in fiscal 2011.

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

### ***Gross Profit***

Gross profit was \$201.7 million for fiscal 2011 compared to \$167.8 million for fiscal 2010, an increase of \$33.9 million, or 20.2%. As a percentage of net sales, gross profit increased 130 basis points for fiscal 2011 to 36.3% from 35.0% for fiscal 2010. The increase was primarily due to a 50 basis points impact of the exit costs and other charges of \$2.4 million incurred in fiscal 2010 related to the relocation of our distribution center, 50 basis points due to leveraging our store occupancy costs on a 16.1% net sales increase, 30 basis points in distribution center efficiencies and product margin improvement of 20 basis points, partially offset by a 30 basis points increase in ecommerce shipping costs due to the growth of the ecommerce business.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative ("SG&A") expenses were \$141.4 million for fiscal 2011 compared to \$130.5 million for fiscal 2010, an increase of \$10.9 million, or 8.4%. SG&A expenses as a percent of sales decreased by 170 basis points for fiscal 2011 to 25.5% compared to 27.2% for fiscal 2010. The primary contributors to this decrease were 120 basis points due to store operating expense efficiencies, a 40 basis points impact of a litigation settlement charge of \$2.1 million incurred in fiscal 2010 and a 60 basis points decrease in corporate costs, partially offset by an increase in ecommerce operating expenses as a percent of total sales of 30 basis points due to the growth of the ecommerce business.

### ***Net Income***

Net income for fiscal 2011 was \$37.4 million, or \$1.20 per diluted share, compared with net income of \$24.2 million, or \$0.79 per diluted share, for fiscal 2010. Our effective income tax rate for fiscal 2011 was 39.5% compared to 37.7% for fiscal 2010.

## **Fiscal 2010 Results Compared With Fiscal 2009**

### ***Net Sales***

Net sales were \$478.8 million for fiscal 2010 compared to \$407.6 million for fiscal 2009, an increase of \$71.2 million or 17.5%. The increase reflected a comparable store sales increase of 11.9% for fiscal 2010 as well as the net addition of 23 stores (27 new stores offset by four store closures) in fiscal 2010.

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

### ***Gross Profit***

Gross profit was \$167.8 million for fiscal 2010 compared to \$133.2 million for fiscal 2009, an increase of \$34.6 million, or 26.0%. As a percentage of net sales, gross profit increased 230 basis points for fiscal 2010 to 35.0% from 32.7% for fiscal 2009. The increase was primarily due to product margin improvement of 140 basis points and a 140 basis points decrease in store occupancy costs, partially offset by a 50 basis points increase due to distribution costs primarily associated with the exit costs and other charges of \$2.4 million related to the relocation of our distribution center.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative (“SG&A”) expenses were \$130.5 million for fiscal 2010 compared to \$120.5 million for fiscal 2009, an increase of \$10.0 million, or 8.3%. SG&A expenses as a percent of sales decreased by 240 basis points for fiscal 2010 to 27.2% compared to 29.6% for fiscal 2009. The primary contributors to this decrease were 110 basis points due to store operating expense efficiencies gained by growing expenses at a slower rate than sales growth, the effect of the change in accounting estimate for the depreciable lives of our leasehold improvements of 90 basis points (as further explained in Note 2 in our Notes to Consolidated Financial Statements), 60 basis points due to impairment charges of \$2.5 million on 21 stores in fiscal 2009 and a 30 basis points impact of a litigation settlement charge of \$1.3 million incurred fiscal 2009, partially offset by a 40 basis points impact of a litigation settlement charge of \$2.1 million incurred in fiscal 2010.

### ***Exit or Disposal Activities***

On March 2, 2010, we acquired a 168,450 square foot building in Corona, California for \$11.8 million and we have relocated our distribution facility from Everett, Washington to this facility. We believe that we will be more effective distributing our products through a distribution center located in Corona, California due to the majority of our vendors being located in Southern California. Cumulatively, during fiscal 2010, we recorded \$0.9 million of employee benefit costs (severance and performance bonuses), \$0.6 million of lease termination costs, \$0.3 million of loss on disposal of long-lived assets and \$0.8 million of other costs to exit the facility, partially offset by a \$0.2 million benefit for the related deferred rent liability. These amounts are included in cost of goods sold in our consolidated statements of operations.

### ***Net Income***

Net income for fiscal 2010 was \$24.2 million, or \$0.79 per diluted share, compared with net income of \$9.1 million, or \$0.30 per diluted share, for fiscal 2009. Our effective income tax rate for fiscal 2010 was 37.7% compared to 34.8% for fiscal 2009.

### ***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 fiscal 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 operations data for the last two recent fiscal years. 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.

<b>Fiscal Year Ended January 28, 2012 (1)</b>				
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
	(in thousands, except stores and per share data)			
Net sales	\$105,851	\$112,213	\$153,951	\$183,859
Gross profit (3)	\$ 33,190	\$ 37,062	\$ 59,921	\$ 71,503
Operating profit	\$ 2,552	\$ 3,550	\$ 22,817	\$ 31,313
Net income	\$ 1,886	\$ 2,591	\$ 14,137	\$ 18,737
Basic earnings per share	\$ 0.06	\$ 0.08	\$ 0.46	\$ 0.61
Diluted earnings per share	\$ 0.06	\$ 0.08	\$ 0.45	\$ 0.60
Number of stores open at the end of the period	408	424	442	444
Comparable store sales increase	12.6%	7.5%	6.0%	9.7%

<b>Fiscal Year Ended January 29, 2011 (2)</b>				
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
	(in thousands, except stores and per share data)			
Net sales	\$ 89,096	\$ 97,702	\$135,859	\$156,192
Gross profit (3)	\$ 25,325	\$ 30,290	\$ 52,313	\$ 59,893
Operating profit (loss)	\$ (3,254)	\$ (2,368)	\$ 18,975	\$ 24,014
Net income (loss)	\$ (1,900)	\$ (1,214)	\$ 12,312	\$ 15,005
Basic earnings (loss) per share	\$ (0.06)	\$ (0.04)	\$ 0.41	\$ 0.50
Diluted earnings (loss) per share	\$ (0.06)	\$ (0.04)	\$ 0.40	\$ 0.49
Number of stores open at the end of the period	381	393	400	400
Comparable store sales increase	9.1%	9.3%	14.4%	13.0%

- (1) All quarters in fiscal year ended January 28, 2012 are 13 week periods ended April 30, 2011, July 30, 2011, October 29, 2011 and January 28, 2012.
- (2) All quarters in fiscal year ended January 29, 2011 are 13 week periods ended May 1, 2010, July 31, 2010, October 30, 2011 and January 29, 2011.
- (3) Gross profit for the first, second and third quarters of the fiscal year ended January 28, 2012 and all quarters for the fiscal year ended January 29, 2011 have been revised to account for the reclassification of certain expenses from selling, general and administrative expenses to cost of goods sold.

### **Liquidity and Capital Resources**

Our primary uses of cash are for operational expenditures, capital investments, inventory purchases, store remodeling, store fixtures and ongoing infrastructure improvements such as technology enhancements and distribution capabilities. Historically, our main sources of liquidity have been cash flows from operations.

The significant components of our working capital are inventory 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, 2012 and January 29, 2011, cash, cash equivalents and current marketable securities were \$172.8 million and \$128.8 million. Working capital, the excess of current assets over current liabilities, was \$197.9 million at the end of fiscal 2011, up 27.4% from \$155.4 million at the end of fiscal 2010. The increase in

cash, cash equivalents and current marketable securities and working capital in fiscal 2011 were due primarily to the increased cash flow from operations driven primarily by an increase in net income, partially offset by the costs of opening 45 stores in fiscal 2011.

The following table summarizes our cash flows from operating, investing and financing activities for each of the past three fiscal years (in thousands):

	<b>Fiscal Year Ended</b>		
	<b>January 28, 2012</b>	<b>January 29, 2011</b>	<b>January 30, 2010</b>
Total cash provided by (used in)			
Operating activities .....	\$ 68,065	\$ 48,455	\$ 44,572
Investing activities .....	(68,074)	(43,774)	(77,521)
Financing activities .....	3,415	5,108	1,460
Effect of exchange rate changes on cash and cash equivalents .....	16	—	—
Increase (decrease) in cash and cash equivalents ...	<u>\$ 3,422</u>	<u>\$ 9,789</u>	<u>\$(31,489)</u>

### ***Operating Activities***

Net cash provided by operating activities increased by \$19.6 million in fiscal 2011 to \$68.1 million from \$48.5 million in fiscal 2010. Net cash provided by operating activities increased by \$3.9 million in fiscal 2010 to \$48.5 million from \$44.6 million in fiscal 2009. 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 used in investing activities was \$68.1 million in fiscal 2011 primarily related to net purchases of marketable securities of \$42.6 million and capital expenditures of \$25.5 million for new store openings and existing store renovations. Net cash used in investing activities was \$43.8 million in fiscal 2010 primarily related to capital expenditures of \$29.1 million for new store openings, existing store renovations and the purchase of our new distribution center in Corona, California and net purchases of marketable securities of \$14.7 million. Net cash used in investing activities was \$77.5 million in fiscal 2009 primarily related to net purchases of marketable securities of \$61.5 million and capital expenditures for new store openings and existing store renovations of \$16.0 million.

### ***Financing Activities***

Net cash provided by financing activities in fiscal 2011, 2010 and 2009 was \$3.4 million, \$5.1 million and \$1.5 million related to proceeds from stock option exercise and the associated tax benefits.

### **Sources of Liquidity**

Our most significant sources of liquidity continue to be funds generated by operating activities, 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 and borrowings under our revolving credit facility 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.

On August 29, 2011, we renewed and amended our secured credit agreement with Wells Fargo Bank, N.A., and the prior facility agreement was terminated. The credit agreement provides us with a secured revolving credit facility until September 1, 2013 of up to \$25.0 million, which, pursuant to an accordion feature, may be increased to \$35.0 million at our discretion. The secured revolving credit facility provides for the issuance of standby letter of credits in an amount not to exceed \$5.0 million outstanding at any time and with a term not to exceed 365 days. The commercial line of credit provides for the issuance of commercial letter of credits in an amount not to exceed \$10.0 million and with terms not to exceed 120 days. The amount of borrowings available at any time under our secured revolving credit facility is reduced by the amount of standby and commercial letters of credit outstanding at that time. There were no outstanding borrowings under the secured revolving credit facility at January 28, 2012 and January 29, 2011. We had open commercial letters of credit outstanding under our secured revolving credit facility of \$0.9 million at January 28, 2012 and \$0.5 million at January 29, 2011. The secured revolving credit facility bears interest at the Daily One Month LIBOR rate plus 1.00%. The credit agreement contains a number of restrictions and covenants that generally limit our ability to, among other things, (1) incur additional debt, (2) undergo a change in ownership and (3) enter into certain transactions. The credit agreement also contains financial covenants that require us to meet certain specified financial tests and ratios, including, a maximum net loss not to exceed \$10.0 million after taxes on a trailing four-quarter basis provided, that, there shall be added to net income all charges for impairment of goodwill and store assets not to exceed \$5.0 million in aggregate, and a minimum quick ratio of 1.25. The quick ratio is defined as our cash and near cash equivalents plus certain defined receivables divided by the outstanding borrowings. Our accounts receivable, general intangibles, inventory and equipment have been pledged to secure our obligations under the credit agreement. We must also provide financial information and statements to our lender. We were in compliance with all such covenants at January 28, 2012.

## **Capital Expenditures**

Our capital requirements include construction and fixture costs related to the opening of new stores and remodeling expenditures for existing stores. Future capital requirements will depend on many factors, including the pace of new store openings, the availability of suitable locations for new stores and the nature of arrangements negotiated with landlords. In that regard, our net investment to open a new store has varied significantly in the past due to a number of factors, including the geographic location and size of the new store, and is likely to vary significantly in the future.

During fiscal 2011, we spent \$25.5 million on capital expenditures, related to investment in 45 new stores and 11 remodeled stores at a cost of \$21.2 million, \$2.4 million for costs associated with the construction of our new home office building in Lynnwood, Washington and \$1.9 million in other improvements.

During fiscal 2010, we spent \$29.1 million on capital expenditures, related to investment in 27 new stores and 3 remodeled stores at a cost of \$9.7 million, the acquisition and build-out costs of our new distribution center in Corona, California of \$12.9 million, the acquisition costs of \$3.2 million for land for our new home office in Lynnwood, Washington, and \$3.3 million in other improvements.

During fiscal 2009, we spent \$16.0 million on capital expenditures, related to investment in 36 new stores and 7 remodeled stores at a cost of \$14.2 million and \$1.8 million in other improvements.

In upcoming fiscal 2012, we expect to spend approximately \$42 million to \$44 million on capital expenditures, a majority of which will relate to leasehold improvements and fixtures for the approximately 50 new stores we plan to open in fiscal 2012, remodels of existing stores and the completion of the construction of



our new home office building in Lynnwood, Washington. There can be no assurance that the number of stores that we actually open in fiscal 2012 will not be different from the number of stores we plan to open, or that actual fiscal 2012 capital expenditures will not differ from this expected amount.

### Contractual Obligations and Commercial Commitments

There were no material changes outside the ordinary course of business in our contractual obligations during the fiscal year ended January 28, 2012. The following table summarizes the total amount of future payments due under our contractual obligations at January 28, 2012 (in thousands):

	<u>Total</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013 and Fiscal 2014</u>	<u>Fiscal 2015 and Fiscal 2016</u>	<u>Thereafter</u>
Operating Lease Obligations . . .	\$413,953	\$ 55,238	\$112,870	\$102,499	\$143,346
Purchase Obligations . . . . .	87,202	87,202	—	—	—
Total . . . . .	<u>\$501,155</u>	<u>\$142,440</u>	<u>\$112,870</u>	<u>\$102,499</u>	<u>\$143,346</u>

We occupy our retail stores and combined home office and ecommerce fulfillment center under operating leases generally with terms of five to ten years. At January 28, 2012, we were committed to property owners for operating lease obligations for \$414.0 million. 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. Amounts in the above table do not include percentage rent, common area maintenance charges or real estate taxes unless these costs are fixed and determinable.

At January 28, 2012, we had outstanding purchase orders to acquire merchandise from vendors for \$87.2 million, including \$0.9 million of letters of credit outstanding. We have an option to cancel these commitments with no notice prior to shipment, except for private label purchase orders in which we are obligated to repay certain contractual amounts upon cancellation.

### Off-Balance Sheet Obligations

We did not have any off-balance sheet arrangements at January 28, 2012.

### 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, 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.

### Quantitative and Qualitative Disclosures About Market Risk

See discussion in Item 7A—“Quantitative and Qualitative Disclosures About Market Risk.”

### Recent Accounting Pronouncements

See Item 15 of Part IV, “Exhibits and Consolidated Financial Statements—Note 2 Summary of Significant Accounting Policies—Recent Accounting Pronouncements.”



## **Risk Factors, Issues and Uncertainties**

Please refer to the information set forth under Item 1A, "Risk Factors," above for a discussion of risk factors, issues and uncertainties that our business faces.

## **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, U.S. Treasury securities, U.S. Agency 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 2011, our net income would have decreased by \$0.2 million. This amount is determined by considering the impact of the hypothetical yield rates on our cash, cash equivalents, short-term and long-term marketable securities balances 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 facility. To the extent we borrow under our revolving credit facility, which bears interest at the Daily One Month LIBOR rate plus 1.00%, we are exposed to market risk related to changes in interest rates. At January 28, 2012, we had no borrowings outstanding under our secured revolving credit facility.

## **Item 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Information with respect to this item is set forth in "Index to the Consolidated Financial Statements," under "Part IV, Item 15" of this report.

## **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, 2012 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 28, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. The effectiveness of Zumiez Inc.'s internal control over financial reporting as of January 28, 2012 has been audited by Moss Adams LLP, the Company's independent registered public accounting firm, as stated in their report, which appears herein.

Management's Report on Internal Control Over Financial Reporting is included in this Form 10-K under Part IV, Item 15, "Exhibits and Consolidated Financial Statements."

## **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 2012 Annual Meeting of Shareholders (the “Proxy Statement”) that will be filed within 120 days after our fiscal year ended January 28, 2012 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 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 Years 2011 and 2010” in our Proxy Statement, and is incorporated herein by this reference thereto.

## PART IV

### Item 15. EXHIBITS AND CONSOLIDATED FINANCIAL STATEMENTS

#### (a)(1) Consolidated Financial Statements:

1. Management's Annual Report on Internal Control Over Financial Reporting.
2. Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting.
3. Index to Consolidated Financial Statements.
4. 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.

### MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Zumiez Inc. (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, 2012. Management's assessment was based on criteria described in the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that assessment, the Company's management concluded that the Company's internal control over financial reporting was effective as of January 28, 2012.

Moss Adams LLP has independently assessed the effectiveness of our internal control over financial reporting and its report 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, 2012, based on criteria established in *Internal Control—Integrated Framework* 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, 2012, based on criteria established in *Internal Control—Integrated Framework* 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, 2012 and January 29, 2011, and the consolidated statements of operations, changes in shareholders' equity, and cash flows for the three fiscal years in the period ended January 28, 2012, and our report dated March 13, 2012 expressed an unqualified opinion on those consolidated financial statements.

/s/ Moss Adams LLP

Seattle, Washington  
March 13, 2012

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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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, 2012 and January 29, 2011, and the related consolidated statements of operations, changes in shareholders’ equity and cash flows for each of the three fiscal years in the period ended January 28, 2012. 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, 2012 and January 29, 2011 and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended January 28, 2012, 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, 2012 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2012 expressed an unqualified opinion thereon.

/s/ Moss Adams LLP

Seattle, Washington  
March 13, 2012



**ZUMIEZ INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands)

	<u>January 28, 2012</u>	<u>January 29, 2011</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents .....	\$ 14,779	\$ 11,357
Marketable securities .....	158,019	117,444
Receivables .....	6,284	6,129
Inventories .....	65,037	56,303
Prepaid expenses and other .....	7,907	7,210
Deferred tax assets .....	1,477	2,418
<b>Total current assets</b> .....	<u>253,503</u>	<u>200,861</u>
Fixed assets, net .....	89,478	78,248
Goodwill and other intangibles .....	13,154	13,154
Long-term deferred tax assets .....	3,109	5,703
Long-term investments .....	2,380	2,766
Long-term other assets .....	533	899
<b>Total long-term assets</b> .....	<u>108,654</u>	<u>100,770</u>
<b>Total assets</b> .....	<u>\$362,157</u>	<u>\$301,631</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Trade accounts payable .....	\$ 21,743	\$ 16,371
Accrued payroll and payroll taxes .....	9,062	7,580
Income taxes payable .....	5,835	4,108
Deferred rent and tenant allowances .....	4,230	3,719
Other liabilities .....	14,706	13,683
<b>Total current liabilities</b> .....	<u>55,576</u>	<u>45,461</u>
Long-term deferred rent and tenant allowances .....	32,321	27,629
Long-term other liabilities .....	1,983	1,806
<b>Total long-term liabilities</b> .....	<u>34,304</u>	<u>29,435</u>
<b>Total liabilities</b> .....	<u>89,880</u>	<u>74,896</u>
Commitments and contingencies (Note 9)		
<b>Shareholders' equity</b>		
Preferred stock, no par value, 20,000 shares authorized; none issued and outstanding . . .	—	—
Common stock, no par value, 50,000 shares authorized; 31,170 shares issued and outstanding at January 28, 2012 and 30,835 shares issued and outstanding at January 29, 2011 .....	99,412	91,373
Accumulated other comprehensive income (loss) .....	135	(17)
Retained earnings .....	172,730	135,379
<b>Total shareholders' equity</b> .....	<u>272,277</u>	<u>226,735</u>
<b>Total liabilities and shareholders' equity</b> .....	<u>\$362,157</u>	<u>\$301,631</u>

See accompanying notes to consolidated financial statements

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

	Fiscal Year Ended		
	January 28, 2012	January 29, 2011	January 30, 2010
Net sales .....	\$555,874	\$478,849	\$407,603
Cost of goods sold .....	354,198	311,028	274,396
<b>Gross profit</b> .....	<b>201,676</b>	<b>167,821</b>	<b>133,207</b>
Selling, general and administrative expenses .....	141,444	130,454	120,472
<b>Operating profit</b> .....	<b>60,232</b>	<b>37,367</b>	<b>12,735</b>
Interest income, net .....	1,836	1,496	1,176
Other (expense) income, net .....	(379)	(8)	96
<b>Earnings before income taxes</b> .....	<b>61,689</b>	<b>38,855</b>	<b>14,007</b>
Provision for income taxes .....	24,338	14,652	4,876
<b>Net income</b> .....	<b>\$ 37,351</b>	<b>\$ 24,203</b>	<b>\$ 9,131</b>
Basic earnings per share .....	<u>\$ 1.22</u>	<u>\$ 0.81</u>	<u>\$ 0.31</u>
Diluted earnings per share .....	<u>\$ 1.20</u>	<u>\$ 0.79</u>	<u>\$ 0.30</u>
Weighted average shares used in computation of earnings per share:			
Basic .....	30,527	29,971	29,499
Diluted .....	31,119	30,794	30,133

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</u>	<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Income (Loss)</u>	<u>Earnings</u>	
<b>Balance at January 31, 2009</b> .....	29,533	\$75,789	\$ 117	\$102,045	\$177,951
Net income .....	—	—	—	9,131	9,131
Change in unrealized loss on available-for-sale investments, net of tax of \$7 .....	—	—	(16)	—	(16)
Comprehensive income .....	—	—	—	—	9,115
Issuance and exercise of stock-based compensation, including tax benefit of \$707 .....	718	1,461	—	—	1,461
Stock-based compensation expense .....	—	4,149	—	—	4,149
<b>Balance at January 30, 2010</b> .....	<u>30,251</u>	<u>81,399</u>	<u>101</u>	<u>111,176</u>	<u>192,676</u>
Net income .....	—	—	—	24,203	24,203
Change in unrealized loss on available-for-sale investments, net of tax of \$76 .....	—	—	(118)	—	(118)
Comprehensive income .....	—	—	—	—	24,085
Issuance and exercise of stock-based compensation, including tax benefit of \$3,248 .....	584	5,108	—	—	5,108
Stock-based compensation expense .....	—	4,866	—	—	4,866
<b>Balance at January 29, 2011</b> .....	<u>30,835</u>	<u>91,373</u>	<u>(17)</u>	<u>135,379</u>	<u>226,735</u>
Net income .....	—	—	—	37,351	37,351
Change in unrealized gain on available-for-sale investments, net of tax of \$109 .....	—	—	171	—	171
Foreign currency translation, net of tax of \$- .....	—	—	(19)	—	(19)
Comprehensive income .....	—	—	—	—	37,503
Issuance and exercise of stock-based compensation, including tax benefit of \$1,826 .....	335	2,736	—	—	2,736
Stock-based compensation expense .....	—	5,303	—	—	5,303
<b>Balance at January 28, 2012</b> .....	<u>31,170</u>	<u>\$99,412</u>	<u>\$ 135</u>	<u>\$172,730</u>	<u>\$272,277</u>

See accompanying notes to consolidated financial statements

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

	Fiscal Year Ended		
	January 28, 2012	January 29, 2011	January 30, 2010
<b>Cash flows from operating activities:</b>			
Net income	\$ 37,351	\$ 24,203	\$ 9,131
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion	19,744	17,923	22,092
Deferred taxes	3,441	537	(4,886)
Stock-based compensation expense	5,303	4,866	4,149
Excess tax benefit from stock-based compensation	(1,826)	(3,248)	(707)
Impairment of long-lived assets	130	105	2,538
Other	478	353	105
Changes in operating assets and liabilities:			
Receivables	(671)	(998)	(319)
Inventories	(8,833)	(5,387)	1,058
Prepaid expenses and other	(607)	(1,137)	(656)
Trade accounts payable	4,295	(52)	579
Accrued payroll and payroll taxes	1,485	987	1,854
Income taxes payable	2,868	3,350	4,475
Deferred rent and tenant allowances	5,334	1,838	3,917
Other liabilities	(427)	5,115	1,242
<b>Net cash provided by operating activities</b>	<u>68,065</u>	<u>48,455</u>	<u>44,572</u>
<b>Cash flows from investing activities:</b>			
Additions to fixed assets	(25,508)	(29,124)	(16,004)
Purchases of marketable securities and other investments	(194,531)	(179,611)	(128,963)
Sales and maturities of marketable securities and other investments	151,965	164,961	67,446
<b>Net cash used in investing activities</b>	<u>(68,074)</u>	<u>(43,774)</u>	<u>(77,521)</u>
<b>Cash flows from financing activities:</b>			
Proceeds from exercise of stock-based compensation, net of withholding tax payments	1,589	1,860	753
Excess tax benefit from stock-based compensation	1,826	3,248	707
<b>Net cash provided by financing activities</b>	<u>3,415</u>	<u>5,108</u>	<u>1,460</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	16	—	—
<b>Net increase (decrease) in cash and cash equivalents</b>	3,422	9,789	(31,489)
<b>Cash and cash equivalents, beginning of period</b>	<u>11,357</u>	<u>1,568</u>	<u>33,057</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 14,779</u>	<u>\$ 11,357</u>	<u>\$ 1,568</u>
<b>Supplemental disclosure on cash flow information:</b>			
Cash paid during the period for income taxes	\$ 18,014	\$ 10,789	\$ 5,288
Accrual for purchases of fixed assets	3,083	469	1,138
Non-cash investing activity—refundable use tax in fixed assets	(110)	(359)	(1,506)
Non-cash investing activity—asset retirement obligations in fixed assets	224	129	1,095

See accompanying notes to consolidated financial statements

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Nature of Business and Basis of Presentation

**Nature of Business**—Zumiez Inc. (the “Company,” “we,” “us,” “its” and “our”) is a leading specialty retailer of action sports related apparel, footwear, equipment and accessories operating under the Zumiez brand name. At January 28, 2012, we operated 444 stores primarily located in shopping malls, giving us a presence in 38 states and Canada. Our stores cater to young men and women between the ages of 12 and 24 who seek popular brands representing a lifestyle centered on activities that include skateboarding, surfing, snowboarding, bicycle motocross (or “BMX”) and motocross. We support the action sports lifestyle and promote our brand through a multi-faceted marketing approach that is designed to integrate our brand image with our customers’ activities and interests. In addition, we operate a website that sells merchandise online and provides content and a community for our target customers. The Company was formed in August 1978 and is headquartered in Everett, Washington.

**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. Fiscal 2011 was the 52-week period ending January 28, 2012. Fiscal 2010 was the 52-week period ended January 29, 2011. Fiscal 2009 was the 52-week period ended January 30, 2010.

**Basis of Presentation**—The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“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.

**Reclassification of Previously Issued Financial Statements**—Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications do not have a material impact on our consolidated financial statements.

We have reclassified \$1.6 million and \$0.9 million for the fiscal years ended January 29, 2011 and January 30, 2010 on the consolidated statements of operations from selling, general and administrative expenses to cost of goods sold related to occupancy, fulfillment and warehousing costs associated with our ecommerce business. We have reclassified these expenses to align the classification of our ecommerce business expenses with the classification of other occupancy, distribution and warehousing costs in cost of goods sold. Additionally, we have reclassified \$1.0 million and \$0.7 million for the fiscal years ended January 29, 2011 and January 30, 2010 on the consolidated statements of operations from selling, general and administrative expenses to cost of goods sold related to additional expenses of our buying and distribution functions.

We have reclassified \$21.4 million at January 30, 2010 from cash equivalents to short-term marketable securities related to variable-rate demand notes and municipal bonds, which have an embedded put option that allows the bondholder to sell the security at par plus accrued interest. While these reclassified securities are considered highly liquid, we believe they are more appropriately classified as short-term marketable securities. This reclassification increased net cash used in investing activities by \$21.4 million on the consolidated statements of cash flows for the fiscal year ended January 30, 2010.

**Correction of an Error in Previously Issued Consolidated Statements of Cash Flows**—We determined that we have incorrectly reported certain amounts related to accruals for purchases of fixed assets in our consolidated statements of cash flows for all reporting periods prior to October 29, 2011. Upon subsequent review, we determined that the purchases of fixed assets should be reported as “Cash flows from investing activities” once paid, not upon purchase. In this Form 10-K for the fiscal years ended January 29, 2011 and January 30, 2010, for reasons described below, we are revising our consolidated statements of cash flows so that accruals for purchases of fixed assets are reported once paid, and to provide the required supplemental disclosure on cash flow information for “Accruals for purchases of fixed assets.” All financial information contained in this

Form 10-K gives effect to these revisions. The revisions did not result in a change to our previously-reported revenues, operating profit, net income, cash and cash equivalents, or shareholders' equity.

We considered all of the relevant quantitative and qualitative factors related to the correction of the error under SEC Staff Accounting Bulletin Topic 1N, Financial Statements—*Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (“SAB 108”), and determined that the impact on previously-issued and current period consolidated financial statements was not material. Therefore, we are revising the prior period consolidated statements of cash flows for the immaterial error in this Form 10-K and are not amending previously-filed reports.

The following tables reconcile our consolidated statements of cash flows from the previously-reported results to the revised results for the fiscal years ended January 29, 2011 and January 30, 2010 (in thousands):

	<b>Fiscal Year Ended</b>	
	<b>January 29, 2011</b>	<b>January 30, 2010</b>
Consolidated statements of cash flows:		
Net cash provided by operating activities (as reported) . . . . .	\$ 48,692	\$ 45,116
Impact of accrual for fixed assets unpaid as of year end . . . . .	(237)	(544)
Net cash provided by operating activities (as revised) . . . . .	<u>\$ 48,455</u>	<u>\$ 44,572</u>
Net cash used in investing activities (as reported) . . . . .	\$(44,011)	\$(78,065)
Impact of accrual for fixed assets unpaid as of year end . . . . .	237	544
Net cash used in investing activities (as revised) . . . . .	<u>\$(43,774)</u>	<u>\$(77,521)</u>

## 2. Summary of Significant Accounting Policies

**Use of Estimates**—The preparation of consolidated financial statements in conformity with 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 certain assets and liabilities as 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.

**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. We have not experienced any losses on our deposits of cash and cash equivalents.

**Marketable Securities**—At January 28, 2012 and January 29, 2011, marketable securities, classified as available-for-sale, were \$158.9 million and \$118.3 million, and consisted primarily of state and local municipal securities, U.S. Treasury securities, U.S. Agency securities and variable-rate demand notes with original

maturities over 90 days. 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.

Generally accepted accounting principles require recording an investment impairment charge at the point we believe an investment has experienced a decline in value that is other-than-temporary. In determining whether an other-than-temporary impairment has occurred, we review information about the underlying investment that is publicly available such as analyst reports, applicable industry data and other pertinent information and assess our intent to hold the security and whether it is more likely than not we will be required to sell any investment before recovery of its amortized cost basis. The investment would be written down to its current market value at the time the impairment is deemed to have occurred. 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 market. 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. Actual final sales prices to customers may be higher or lower than our estimated sales prices and could result in a fluctuation in gross profit. Historically, any additional write-downs have not been significant. We have reserved for inventory at January 28, 2012 and January 29, 2011 in the amounts of \$3.2 million and \$3.2 million. The inventory reserve includes inventory whose estimated market value is below cost and an estimate for inventory shrinkage. We estimate an inventory shrinkage reserve for anticipated losses for the period. Shrinkage refers to a reduction in inventory due to shoplifting, employee theft and other matters. The inventory related to these reserves is not marked up in subsequent periods.

**Fixed Assets**—Fixed assets primarily consist of land, buildings, leasehold improvements, fixtures, 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
Computer equipment, software, store equipment & other	3 to 5 years
Buildings and improvements	15 to 39 years

The cost and related accumulated depreciation of assets sold or otherwise disposed of is removed from the accounts and the related gain or loss is reported in the consolidated statements of operations.

In accordance with our fixed asset policy, we review the estimated useful lives of our fixed assets on an ongoing basis. In fiscal 2010, this review indicated that the actual lives of leasehold improvements were longer than the estimated useful lives used for depreciation purposes in our consolidated financial statements. As a result, effective January 31, 2010, we changed our estimate of the useful lives of our leasehold improvements to the lesser of 10 years or the term of the lease to better reflect the estimated periods during which these assets will remain in service. The useful lives of leasehold improvements were previously estimated to be the lesser of 7 years or the term of the lease. For the fiscal year ended January 29, 2011, the effect of this change in estimate was to reduce depreciation expense by \$4.2 million, increase net income by \$2.7 million and increase basic and diluted earnings per share by \$0.09.



**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 primarily 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 is recorded in other liabilities and long-term other 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 for impairment annually, or as indicators of impairment are present. Measurement of the impairment loss is based on the fair value of the asset or group of assets. Generally, fair value will be determined using accepted valuation techniques, such as the present value of expected future cash flows.

**Goodwill**—We evaluate the recoverability of goodwill annually by 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 the fair value of the reporting unit is greater than the carrying amount, further testing of goodwill impairment is not performed. If the fair value of the reporting unit is less than the carrying unit, we perform a quantitative two-step impairment test. The first step compares the fair value of the reporting unit with its carrying amount, including goodwill. If the carrying amount exceeds fair value, then the second step of the impairment test is performed to measure the amount of any impairment loss. Additional impairment assessments may be performed on an interim basis if we encounter events or changes in circumstances that would indicate that, more likely than not, the carrying amount of goodwill has been impaired.

**Equity Method Investments**—We hold a 14.3% interest in a manufacturer of apparel and hard goods, which we acquired for \$2.0 million in fiscal 2010. We have elected to apply fair value accounting for this investment, which would otherwise be accounted for under the equity method of accounting. We have elected fair value accounting, as we believe the terms of the contract are more properly reflected through the fair value method. The investment balance is reported in long-term investments on the consolidated balance sheets, with the corresponding changes in the fair value recorded in other (expense) income, net on the consolidated statements of operations.

The investment agreement allows for a put option, where Zumiez has an option to sell its interest back to the investee for the greater of the initial purchase price of \$2.0 million or the fair value of the investment. This put option is allowed any time following the fifth anniversary of the initial investment, but prior to the seventh anniversary of the initial investment. Additionally, the investment agreement allows for a call option, where the investee has an option to repurchase the interest from Zumiez for the fair value of the investment. This call option is allowed any time on or after the seventh anniversary of the initial investment. We have elected to apply fair value accounting for the put and call options. The put option has a nominal value and the call option has no fair value, given that the investment would be repurchased at its fair value if the call option were exercised.

**Deferred Rent, Rent Expense and Tenant Allowances**—We occupy our retail stores and combined home office and ecommerce fulfillment center under operating leases generally with terms of five to ten years. 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. Most of the lease agreements have defined escalating rent provisions, which are straight-lined over the term of the related lease, including any lease renewals deemed to be probable. 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 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 in the Notes to the Consolidated Financial Statements.

**Revenue Recognition**—Sales are recognized upon purchase at our retail store locations. For orders placed through our website, revenue is recognized upon estimated delivery to the customer. Taxes collected from our customers are recorded on a net basis. 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 as revenue after 24 months, at which time the likelihood of redemption is considered remote based on our historical redemption data. For fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010, we recorded net sales related to gift card breakage income of \$0.6 million, \$0.6 million and \$0.7 million. We report shipping revenues within net sales. Revenue is recorded net of estimated and actual sales returns and deductions for promotions. We accrue for estimated sales returns by customers based on historical sales return results. The allowance for sales returns at January 28, 2012 and January 29, 2011 was \$0.9 million and \$0.7 million. The Company offers a return policy of 30 days.

**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 and buying, occupancy, distribution and warehousing costs. This may not be comparable to the way in which our competitors or other retailers compute their cost of goods sold. We receive cash consideration from vendors, which has been recorded as a reduction of cost of goods sold if the inventory has sold, as 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, we arrange and pay the freight for our customers and bill them for this service, unless our customers have their product shipped to one of our stores or we have free shipping promotions to our customers, in which case we do not bill our customers. Such amounts billed are included in net sales and the related freight cost is charged to cost of goods sold. For fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010, we incurred shipping costs related to ecommerce sales of \$4.4 million, \$2.6 million and \$1.2 million.

**Selling, General and Administrative Expense**—Selling, general and administrative expenses consist primarily of store personnel wages and benefits, administrative staff and infrastructure expenses, outbound freight, store supplies, depreciation on fixed assets at the home office and stores, facility expenses and training, advertising and marketing costs. Credit card fees, insurance, public company expenses, legal expenses 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.

**Advertising**—We expense advertising costs as incurred. Advertising expenses are net of sponsorships and vendor reimbursements. Advertising expense was \$2.5 million, \$1.3 million and \$0.8 million for the fiscal years ended January 28, 2012, January 29, 2011, and January 30, 2010.

**Stock-Based Compensation**—We account for stock-based compensation by which the estimated fair value of stock-based awards granted is recognized as compensation expense over the vesting period, net of estimated forfeitures. Stock-based compensation expense is recognized using an accelerated method for stock options and a straight-line basis for restricted stock. We estimate forfeitures of stock-based awards based on historical experience and expected future activity.

The fair value of restricted stock awards is measured based on the closing fair market value of the Company's common stock on the date of grant. The fair value of stock option grants are estimated on the date of grant using the Black-Scholes option pricing method based on the following subjective assumptions:

*Volatility*—This is a measure of the amount by which a stock price has fluctuated or is expected to fluctuate. We use actual daily historical changes in the market value of our stock since becoming a public company in May 2005. An increase in the expected volatility will increase compensation expense.

*Risk-free interest rate*—This is the U.S. Treasury rate as of the grant date having a term equal to the expected term of the option. An increase in the risk-free interest rate will increase compensation expense.

*Expected term*—The expected term was calculated using the simplified method outlined by SEC Staff Accounting Bulletin No. 107, Share-Based Payment (SAB 107). Under this method, the expected term is equal to the sum of the weighted average vesting term plus the original contractual term divided by two. We have elected this method as we have concluded that we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term due to the limited period of time our equity shares have been publicly traded.

*Dividend yield*—We do not have plans to pay dividends in the foreseeable future. An increase in the dividend yield will decrease compensation expense.

The fair value of stock option grants are estimated on the date of grant using the Black-Scholes option pricing method with the following weighted-average assumptions used for stock option grants issued for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010:

	<b>Fiscal Year Ended</b>		
	<u>January 28, 2012</u>	<u>January 29, 2011</u>	<u>January 30, 2010</u>
Dividend yield . . . . .	0.0%	0.0%	0.0%
Volatility rate . . . . .	65.0%	67.5%	66.8%
Weighted-average expected life (in years) . . . . .	6.25	6.50	6.26
Weighted-average risk-free interest rate . . . . .	1.1%	2.4%	1.7%
Weighted-average fair value per share of stock options granted . . . . .	\$13.35	\$12.24	\$4.44

**Income Taxes**—Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their respective tax bases. Valuation allowances may be established when necessary to reduce deferred tax assets to the amount expected to be realized.

We recognize tax benefits from an uncertain position only if it is “more likely than not” that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. Interest and penalties related to uncertain tax positions may be classified in the financial statements as either income taxes or interest and another expense classification. The Company has elected to classify interest and penalties related to uncertain tax positions as income tax expense.

**Earnings per Share**—Basic earnings per share is based on the weighted average number of common shares outstanding during the period. The dilutive effect of stock options and restricted stock is applicable only in periods of net income. Diluted earnings per share is based on the weighted average number of common shares and common share equivalents outstanding during the period. Common share equivalents included in the computation represent shares issuable upon assumed exercise of outstanding stock options, 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 the Company's common stock during the period reported.

**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.

Our product categories as a percentage of merchandise sales for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010 is as follows:

	<b>Fiscal Year Ended</b>		
	<u>January 28, 2012</u>	<u>January 29, 2011</u>	<u>January 30, 2010</u>
Men's Apparel . . . . .	33%	32%	31%
Footwear . . . . .	24%	23%	24%
Accessories . . . . .	20%	21%	18%
Hardgoods . . . . .	11%	12%	14%
Junior's Apparel . . . . .	10%	10%	11%
Other . . . . .	<u>2%</u>	<u>2%</u>	<u>2%</u>
Total . . . . .	<u>100%</u>	<u>100%</u>	<u>100%</u>

Net sales related to our international operations for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010 and long-lived assets related to our international operations at January 28, 2012 and January 29, 2011 were not material and are not reported separately from domestic revenues and long-lived assets.

**Recently Adopted Accounting Standards**— In September 2011, the Financial Accounting Standards Board (“FASB”) issued guidance that provides entities testing goodwill for impairment to have the option of performing a qualitative assessment before calculating the fair value of the reporting unit. If entities determine, based on qualitative factors, the fair value of the reporting unit is more likely than not less than the carrying value, the two-step impairment test would be required. This guidance is effective for interim and annual reporting periods beginning after December 15, 2011, with early adoption permitted. We early adopted this guidance in the three months ended January 28, 2012 in connection with our annual goodwill impairment assessment and it did not have a material impact on our financial position, results of operations or cash flows.

In January 2010, the FASB issued guidance that requires reporting entities to make new disclosures about fair value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. In addition, the guidance clarifies certain existing disclosure requirements. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the additional Level 3 reconciliation disclosures, which are effective for interim and annual reporting periods beginning after December 15, 2010. We adopted the additional Level 3 reconciliation disclosure requirements in the three months ended April 30, 2011. The adoption of this guidance did not have a material impact on our financial position, results of operations or cash flows.

**Recently Issued Accounting Standards**— In June 2011, the FASB issued guidance that requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. This guidance is effective for interim and annual reporting periods beginning after December 15, 2011. As this guidance only amends the presentation of the components of comprehensive income, the adoption will not have an impact on our financial position, results of operations or cash flows.

In May 2011, the FASB issued guidance that amends certain accounting and disclosure requirements related to fair value measurements. This guidance is effective for interim and annual reporting periods beginning after December 15, 2011. We do not expect the adoption will have a material impact on our financial position, results of operations or cash flows.

### 3. 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 at January 28, 2012 and January 29, 2011 (in thousands):

	January 28, 2012			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash .....	\$ 6,343	\$—	\$ —	\$ 6,343
Money market funds .....	5,139	—	—	5,139
State and local government securities .....	3,297	—	—	3,297
Total cash and cash equivalents .....	<u>14,779</u>	<u>—</u>	<u>—</u>	<u>14,779</u>
Marketable securities:				
Corporate debt securities .....	2,016	30	—	2,046
State and local government securities .....	126,047	335	(111)	126,271
Variable-rate demand notes .....	30,610	—	—	30,610
Total marketable securities .....	<u>\$158,673</u>	<u>\$365</u>	<u>\$(111)</u>	<u>\$158,927</u>
Less: Long-term marketable securities (1) .....				(908)
Total current marketable securities .....				<u>\$158,019</u>
January 29, 2011				
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash .....	\$ 7,160	\$—	\$ —	\$ 7,160
Money market funds .....	928	—	—	928
State and local government securities .....	3,269	—	—	3,269
Total cash and cash equivalents .....	<u>11,357</u>	<u>—</u>	<u>—</u>	<u>11,357</u>
Marketable securities:				
Treasury and agency securities .....	6,043	26	—	6,069
State and local government securities .....	103,110	125	(195)	103,040
Variable-rate demand notes .....	9,205	—	—	9,205
Total marketable securities .....	<u>\$118,358</u>	<u>\$151</u>	<u>\$(195)</u>	<u>\$118,314</u>
Less: Long-term marketable securities (1) .....				(870)
Total current marketable securities .....				<u>\$117,444</u>

(1) At January 28, 2012 and January 29, 2011, we held one \$1.0 million par value auction rate security valued at \$0.9 million net of a \$0.1 million temporary impairment charge, classified as available-for-sale marketable securities and included in long-term investments on the consolidated balance sheets.

All of our available-for-sale securities, excluding our auction rate security, have an effective maturity date of two years or less and may be liquidated, at our discretion, prior to maturity. For the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010, realized gains and losses on sales of available-for-sale marketable securities were not material. We use the specific identification method to determine any realized gains or losses from the sale of our marketable securities classified as available-for-sale.

The following tables summarize the gross unrealized holding losses and fair value for investments in an unrealized loss position at January 28, 2012 and January 29, 2011, and the length of time that individual securities have been in a continuous loss position (in thousands):

	January 28, 2012					
	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 . . . . .	\$20,900	\$(19)	\$1,408	\$ (92)	\$22,308	\$(111)
Total marketable securities . . . . .	\$20,900	\$(19)	\$1,408	\$ (92)	\$22,308	\$(111)

	January 29, 2011					
	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 . . . . .	\$42,761	\$(62)	\$1,907	\$(133)	\$44,668	\$(195)
Total marketable securities . . . . .	\$42,761	\$(62)	\$1,907	\$(133)	\$44,668	\$(195)

We did not record a realized loss for other-than-temporary impairments during the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010. At January 28, 2012 and January 29, 2011, we had \$0.9 million invested, net of temporary impairment charge of \$0.1 million, in an auction rate security that is classified as available-for-sale marketable securities in long-term investments on the consolidated balance sheets. Auction rate securities are generally long-term debt instruments that provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined calendar intervals. This mechanism generally allows existing investors to rollover their holdings and continue to own their respective securities or liquidate their holdings by selling their securities at par value. Prior to February 3, 2008, we invested in these securities for short periods of time as part of our cash management program. However, the uncertainties in the credit markets that began in early 2008 have prevented us and other investors from liquidating holdings of auction rate securities in recent auctions for these securities because the amount of securities submitted for sale has exceeded the amount of purchase orders. Should the auction continue to fail, we do not intend to sell the security and it is not more likely than not that we will be required to sell the investment before the liquidity in the market improves. Additionally, the investment is fully collateralized by the U. S. government. Although we are uncertain as to when the liquidity issues relating to this investment will improve, we consider the issue temporary. As a result of the temporary decline in fair value for our auction rate security, we have recorded an unrealized loss of \$0.1 million, which is included in accumulated other comprehensive income (loss) on the consolidated balance sheets at January 28, 2012 and January 29, 2011. We continue to monitor the market for auction rate securities and consider its impact, if any, on the fair market value of the investment. It is possible that further declines in fair value may occur, and those declines, if any, would be recognized in accordance with GAAP, and if it is later determined that the fair value of this security is other-than-temporarily impaired, we will record a loss in the consolidated statement of operations. Due to our belief that the market for this investment may take in excess of twelve months to fully recover, we have classified it as a noncurrent asset in long-term investments on the consolidated balance sheets at January 28, 2012 and January 29, 2011.



#### 4. Receivables

At January 28, 2012 and January 29, 2011, receivables on the consolidated balance sheets consisted of the following (in thousands):

	<u>January 28, 2012</u>	<u>January 29, 2011</u>
Credit cards receivable .....	\$2,941	\$2,468
Tenant allowances receivable .....	1,158	704
Interest receivable .....	1,155	1,220
Refundable use tax .....	191	1,053
Other receivables .....	839	684
	<u>\$6,284</u>	<u>\$6,129</u>

We do not extend credit to our customers except through independent third-party credit cards, which are generally collected in several business days. The refundable use tax amounts in the table of \$0.2 million and \$1.1 million at January 28, 2012 and January 29, 2011 represents an overpayment of use tax on construction costs to build and remodel stores that is expected to be collected or credited from state jurisdictions.

#### 5. Fixed Assets

At January 28, 2012 and January 29, 2011, fixed assets on the consolidated balance sheets consist of the following (in thousands):

	<u>January 28, 2012</u>	<u>January 29, 2011</u>
Leasehold improvements .....	\$ 102,486	\$ 93,011
Fixtures .....	56,122	49,738
Land, building and building improvements .....	19,310	14,890
Computer equipment, software, store equipment and other .....	17,622	15,586
Fixed assets, at cost .....	195,540	173,225
Less: accumulated depreciation .....	<u>(106,062)</u>	<u>(94,977)</u>
Fixed assets, net of accumulated depreciation .....	<u>\$ 89,478</u>	<u>\$ 78,248</u>

Depreciation expense on fixed assets was \$17.4 million, \$16.4 million, and \$20.3 million for fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010.

#### 6. Goodwill

We recorded \$13.2 million of goodwill as the excess of the purchase price of \$15.5 million over the fair value of the net amounts assigned to assets acquired and liabilities assumed in connection with the acquisition of Action Concepts Fast Forward, Ltd. in fiscal 2006. We will continue to assess, in accordance with our goodwill policy as stated in Note 2, whether goodwill is impaired. There was no impairment of goodwill for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010.



## 7. Other Liabilities

At January 28, 2012 and January 29, 2011, other liabilities on the consolidated balance sheets consisted of the following (in thousands):

	<u>January 28, 2012</u>	<u>January 29, 2011</u>
Accrued payables .....	\$ 5,177	\$ 3,092
Accrued excise taxes .....	4,224	3,906
Unredeemed gift cards .....	3,460	3,260
Accrued legal .....	120	2,211
Other current liabilities .....	<u>1,725</u>	<u>1,214</u>
	<u>\$14,706</u>	<u>\$13,683</u>

## 8. Revolving Credit Facility

On August 29, 2011, we renewed and amended our secured credit agreement with Wells Fargo Bank, N.A., and the prior facility agreement was terminated. The credit agreement provides us with a secured revolving credit facility until September 1, 2013 of up to \$25.0 million, which, pursuant to an accordion feature, may be increased to \$35.0 million at our discretion. The secured revolving credit facility provides for the issuance of standby letter of credits in an amount not to exceed \$5.0 million outstanding at any time and with a term not to exceed 365 days. The commercial line of credit provides for the issuance of commercial letter of credits in an amount not to exceed \$10.0 million and with terms not to exceed 120 days. The amount of borrowings available at any time under our secured revolving credit facility is reduced by the amount of standby and commercial letters of credit outstanding at that time. There were no outstanding borrowings under the secured revolving credit facility at January 28, 2012 and January 29, 2011. We had open commercial letters of credit outstanding under our secured revolving credit facility of \$0.9 million at January 28, 2012 and \$0.5 million at January 29, 2011. The secured revolving credit facility bears interest at the Daily One Month LIBOR rate plus 1.00%. The credit agreement contains a number of restrictions and covenants that generally limit our ability to, among other things, (1) incur additional debt, (2) undergo a change in ownership and (3) enter into certain transactions. The credit agreement also contains financial covenants that require us to meet certain specified financial tests and ratios, including, a maximum net loss not to exceed \$10.0 million after taxes on a trailing four-quarter basis provided, that, there shall be added to net income all charges for impairment of goodwill and store assets not to exceed \$5.0 million in aggregate, and a minimum quick ratio of 1.25. The quick ratio is defined as our cash and near cash equivalents plus certain defined receivables divided by the outstanding borrowings. Our accounts receivable, general intangibles, inventory and equipment have been pledged to secure our obligations under the credit agreement. We must also provide financial information and statements to our lender. We were in compliance with all such covenants at January 28, 2012.

## 9. Commitments and Contingencies

**Leases**—We are committed under operating leases for all of our retail store locations and our combined home office and ecommerce fulfillment center generally with terms of five to ten years. Total rent expense, base rent expense and contingent and other rent expense for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010 is as follows (in thousands). Included in other rent expense are payments of real estate taxes, insurance and common area maintenance costs.

	<u>Fiscal Year Ended</u>		
	<u>January 28, 2012</u>	<u>January 29, 2011</u>	<u>January 30, 2010</u>
Base rent expense .....	\$41,566	\$37,140	\$35,208
Contingent and other rent expense ...	<u>27,214</u>	<u>24,660</u>	<u>22,774</u>
Total rent expense .....	<u>\$68,780</u>	<u>\$61,800</u>	<u>\$57,982</u>

At January 28, 2012, we were committed to property owners for operating lease obligations for \$414.0 million. 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. Amounts in the table below do not include contingent rent, real estate taxes, insurance or common area maintenance costs unless these costs are fixed and determinable. Future minimum commitments on all leases at January 28, 2012 are as follows (in thousands):

	<u>Operating Lease Obligations</u>
Fiscal 2012 .....	\$ 55,238
Fiscal 2013 .....	57,179
Fiscal 2014 .....	55,691
Fiscal 2015 .....	53,052
Fiscal 2016 .....	49,447
Thereafter .....	<u>143,346</u>
Total .....	<u>\$413,953</u>

**Purchase Commitments**—At January 28, 2012 and January 29, 2011, we had outstanding purchase orders to acquire merchandise from vendors of \$87.2 million and \$76.5 million, including \$0.9 million and \$0.5 million of letters of credit outstanding. We have an option to cancel these commitments with no notice prior to shipment, except for private label purchase orders in which we are obligated to repay certain 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 the Company's shareholders.

A putative class action, *Chandra Berg et al. v. Zumiez Inc.*, was filed against the Company in the Los Angeles Superior Court under case number BC408410 on February 25, 2009. The Complaint alleged causes of action for failure to pay overtime wages to present and former store managers in California, failure to provide meal periods and rest breaks to store managers, failure to reimburse retail employees for clothing required by the Company's dress code, failure to reimburse retail employees for business expenses, failure to provide store managers with accurate itemized wage statements, failure to pay terminated store managers all wages due at the time of termination, unfair business practices and declaratory relief. Plaintiff filed a First Amended Complaint on April 2, 2010 which added an additional plaintiff/class representative and a new cause of action for penalties for alleged Labor Code violations under the Private Attorneys General Act. We filed an answer to the First Amended Complaint and conducted discovery. On February 8, 2010, we attended a mediation wherein no settlement was reached. Plaintiffs filed their motion for class certification, and we filed our opposition to class certification. Plaintiffs' reply papers were filed on August 2, 2010. On September 1, 2010, the Company announced that it had reached an agreement to settle. The settlement agreement was \$2.1 million, which includes settlement awards to class members, incentive payments to the two plaintiffs, attorneys' fees and costs and claims administration costs. The court granted preliminary approval of the settlement on November 3, 2010, and granted final approval of the settlement on February 23, 2011. The claims administrator distributed the settlement funds pursuant to the Court's order and the settlement agreement. The accrued charge was recorded in selling, general and administrative expenses on the consolidated statements of operations for the fiscal year ended January 29, 2011 and was paid out on March 10, 2011.

**Insurance Reserves**—We are responsible for medical and dental insurance claims up to a specified aggregate amount. We maintain a reserve for estimated medical and dental insurance claims based on historical claims experience and other estimated assumptions. The insurance reserve at January 28, 2012 and January 29, 2011 was \$0.5 million and \$0.4 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.

We follow the guidelines for assessing fair value measurements consistent with GAAP that requires an assessment of whether certain factors exist to indicate that the market for an instrument is not active at the measurement date. If, after evaluating those factors, the evidence indicates the market is not active, a company must determine whether recent quoted transaction prices are associated with distressed transactions.

The following tables summarize assets measured at fair value on a recurring basis at January 28, 2012 and January 29, 2011 (in thousands):

	<b>January 28, 2012</b>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents:			
Money market funds . . . . .	\$5,139	\$ —	\$ —
State and local government securities . . . . .	—	3,297	—
Marketable securities:			
Corporate debt securities . . . . .	—	2,046	—
State and local government securities . . . . .	—	125,363	—
Variable-rate demand notes . . . . .	—	30,610	—
Long-term investments:			
State and local government securities . . . . .	—	—	908
Equity method investment . . . . .	—	—	1,472
	<b>January 29, 2011</b>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents:			
Money market funds . . . . .	\$ 928	\$ —	\$ —
State and local government securities . . . . .	—	3,269	—
Marketable securities:			
Treasury and agency securities . . . . .	—	6,069	—
State and local government securities . . . . .	—	102,170	—
Variable-rate demand notes . . . . .	—	9,205	—
Long-term investments:			
State and local government securities . . . . .	—	—	870
Equity method investment . . . . .	—	—	1,896

Our policy is to recognize transfers into and transfers out of hierarchy levels as of the actual date of the event or change in circumstances that caused the transfer.

The Level 2 marketable securities primarily include state and local municipal securities, U.S. Treasury securities, U.S. Agency 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.

The Level 3 state and local government securities represent a \$1.0 million par value auction rate security, net of temporary impairment charge of \$0.1 million. Our valuation method for the auction rate security is based on numerous assumptions including assessments of the underlying security, expected cash flows, credit ratings, liquidity and other relevant factors.

The Level 3 equity investment represents our 14.3% interest in a manufacturer of apparel and hard goods. The equity investment is valued using comparative market multiples adjusted by an estimated discount factor. We have elected to apply fair value accounting for this investment, which would otherwise be accounted for under the equity method of accounting. We have elected fair value accounting, as we believe the terms of the contract are more properly reflected through the fair value method. The investment balance is reported in long-term investments on the consolidated balance sheets, with the corresponding changes in the fair value recorded in other (expense) income, net on the consolidated statements of operations.

The following tables present the changes in the Level 3 fair value category for the fiscal years ended January 28, 2012 and January 29, 2011 (in thousands):

	<u>State and Local Government Securities</u>	<u>Equity Investment</u>
Balance at January 31, 2009 .....	\$ 1,767	\$ —
Sales .....	(1,000)	—
Unrealized gain included in accumulated other comprehensive income (loss) .....	<u>105</u>	<u>—</u>
Balance at January 30, 2010 .....	<u>872</u>	<u>—</u>
Purchases .....	—	2,000
Unrealized loss included in accumulated other comprehensive income (loss) .....	(2)	—
Unrealized loss included in other (expense) income, net .....	<u>—</u>	<u>(104)</u>
Balance at January 29, 2011 .....	<u>870</u>	<u>1,896</u>
Unrealized gain included in accumulated other comprehensive income (loss) .....	38	—
Unrealized loss included in other (expense) income, net .....	<u>—</u>	<u>(424)</u>
Balance at January 28, 2012 .....	<u>\$ 908</u>	<u>\$1,472</u>

The following table represents the fair value hierarchy for assets measured at fair value on a nonrecurring basis at January 28, 2012, January 29, 2011 and January 30, 2010 (in thousands):

<u>Long-Lived Assets Held and Used</u>	<u>Fair Value (as of period end)</u>	<u>Using Significant Unobservable Inputs (Level 3 Measurements)</u>	<u>Net Loss (for the fiscal year ended)</u>
January 28, 2012 .....	\$ 51	\$ 51	\$ 130
January 29, 2011 .....	\$117	\$117	\$ 105
January 30, 2010 .....	\$ 30	\$ 30	\$2,538

During the fiscal year ended January 28, 2012, in accordance with the accounting for impairments of long-lived assets classified as held and used, two stores with a net fixed asset carrying amount of \$0.2 million were written down to their fair value of \$0.1 million, resulting in a net impairment charge of \$0.1 million. During the fiscal year ended January 29, 2011, two stores with a net fixed asset carrying amount of \$0.2 million were written down to their fair value of \$0.1 million, resulting in a net impairment charge of \$0.1 million. During the fiscal year ended January 30, 2010, 21 stores with a net fixed asset carrying amount of \$2.6 million were written down to their fair value of \$0.1 million, resulting in a net impairment charge of \$2.5 million. These non-cash impairment charges are included in selling, general and administrative expenses. The fair value was determined using a discounted cash flow model at a store level. The estimation of future cash flows from operating activities requires significant judgments of factors that include future sales, gross profit and operating expenses. If our actual sales, gross profit or operating expenses differ from our estimates, the carrying value of certain store assets may prove unrecoverable and we may incur additional impairment charges in the future.

## 11. Equity Awards

**General Description of Equity Awards Plans**—During fiscal 2004, the Company adopted the 2004 Stock Option Plan (the “2004 Plan”) to provide for the granting of incentive stock options and nonqualified stock options to executive officers and key employees of the Company as determined by the 2004 Plan Committee of the Company’s board of directors. The terms of the 2004 Plan are generally the same as the 1993 Plan. The Company has authorized 7,365,586 split adjusted shares of common stock for issuance under the 2004 Plan. The Company does not plan on making any new stock option grants under the 2004 Plan.

The Company adopted the 2005 Equity Incentive Plan (the “2005 Plan”) on January 24, 2005 and the Company’s shareholders approved it on April 27, 2005. Unless sooner terminated by the Board, the 2005 Plan will terminate on the day before the tenth anniversary of the date that the 2005 Plan was approved by the Company’s shareholders. The 2005 Incentive Plan provides for the grant of incentive stock options, nonqualified stock options, stock bonuses, restricted stock awards, restricted stock units and stock appreciation rights, which may be granted to the Company’s employees (including officers), directors and consultants.

The aggregate number of shares of common stock that may be issued pursuant to awards granted under the 2005 Plan will not exceed 5,850,000 plus (1) the number of shares that are subject to awards under the 2005 Plan, the 1993 Plan or the 2004 Plan that have been forfeited or repurchased by us or that have otherwise expired or terminated, (2) at our option, the number of shares that were reserved for issuance under the 2004 Plan but that were not subject to a grant under such plan at the completion of the Company’s initial public offering in May 2005, and (3) an annual increase on the first business day of each fiscal year such that the total number of shares available for issuance under the 2005 Plan shall equal 15% of the total number of shares of common stock outstanding on such business day; provided, that with respect to such annual increase, the board may designate a lesser number of additional shares or no additional shares during such fiscal year. In no event, however, will the aggregate number of shares available for award under the 2005 Plan exceed 8,775,000 split adjusted shares. As a result of this limitation on the aggregate number of shares available for award under the 2005 Plan, and the 6,614,594 split adjusted shares of the Company’s common stock that were reserved for issuance under our 2004 Plan but that were not subject to grants under that plan at the completion of the initial public offering, up to

2,925,000 split adjusted shares, may currently be added to the shares of common stock that may be issued pursuant to awards granted under the 2005 Plan pursuant to clause (2) of the first sentence of this paragraph; however, the Company does not currently intend to add any of those shares to the 2005 Plan.

**Stock Options**—On July 21, 2009, we completed an offer to exchange certain employee stock options issued under the 2005 Equity Incentive Plan (“Exchange Offer”). Certain previously granted stock options were exchanged for new, lower-priced stock options granted on a one and one half-for-one basis (1.5:1). An aggregate of 460,700 previously granted stock options were exchanged for an aggregate of 307,138 new stock options granted pursuant to the Exchange Offer with an exercise price of \$8.64 per share. The new stock option grants vest annually over a four-year period beginning on the first anniversary of the date granted. The Exchange Offer resulted in a nominal increase in stock-based compensation expense.

The following table summarizes our stock option activity for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010 (in thousands except weighted-average exercise price and weighted-average remaining contractual life):

	<u>Stock Options</u>	<u>Grant Date Weighted- Average Exercise Price</u>	<u>Weighted-Average Remaining Contractual Life (in Years)</u>	<u>Intrinsic Value (1)</u>
Outstanding at January 31, 2009 .....	1,793	\$17.13		
Granted (2) .....	528	\$ 8.03		
Exercised .....	(258)	\$ 1.64		
Forfeited (3) .....	(568)	\$29.50		
Outstanding at January 30, 2010 .....	1,495	\$11.88		
Granted .....	58	\$19.13		
Exercised .....	(392)	\$ 3.70		
Forfeited .....	(43)	\$18.68		
Outstanding at January 29, 2011 .....	1,118	\$14.86		
Granted .....	90	\$22.33		
Exercised .....	(183)	\$ 7.17		
Forfeited .....	(137)	\$21.45		
Outstanding at January 28, 2012 .....	888	\$16.18	5.54	\$11,885
Exercisable at January 28, 2012 .....	479	\$18.66	4.92	\$ 5,620
Vested or expected to vest at January 28, 2012 (4) .....	876	\$16.16	5.50	\$11,758

- (1) Intrinsic value for stock options is defined as the difference between the market price of the Company’s common stock on the last business day of the fiscal year and the weighted average exercise price of in-the-money options outstanding at the end of the fiscal year. The market value per share was \$28.33 at January 28, 2012.
- (2) Includes 307,138 stock options issued pursuant to the Exchange Offer.
- (3) Includes 460,700 stock options exchanged in the Exchange Offer.
- (4) Includes outstanding vested options as well as outstanding, non-vested options after a forfeiture rate is applied.

The following table summarizes additional information related to stock option activity for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010 (in thousands):

	Fiscal Year Ended		
	<u>January 28, 2012</u>	<u>January 29, 2011</u>	<u>January 30, 2010</u>
Aggregate intrinsic value of stock options exercised . . . . .	\$3,257	\$7,909	\$2,489
Vest-date fair value of stock options vested . . . . .	\$3,809	\$2,094	\$1,400

The following table summarizes information concerning outstanding and exercisable options at January 28, 2012:

Exercise Price	Options Outstanding		Options Exercisable
	Number of Options (in thousands)	Weighted Average Remaining Contractual Life	Number of Options (in thousands)
\$ 3.87	116	2.6	79
6.88	140	7.1	60
8.64	194	4.7	68
14.00-20.01	182	7.5	74
25.31-27.31	109	5.5	65
\$ 33.59-37.95	<u>147</u>	5.0	<u>133</u>
Total	<u>888</u>		<u>479</u>

**Restricted Stock**—The following table summarizes our restricted stock activity for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010 (in thousands except weighted-average fair value):

	<u>Restricted Stock</u>	<u>Grant Date Weighted- Average Fair Value</u>	<u>Intrinsic Value (1)</u>
Outstanding at January 31, 2009 . . . . .	<u>285</u>	\$15.49	
Granted . . . . .	450	\$ 7.17	
Vested . . . . .	(81)	\$16.17	
Forfeited . . . . .	<u>(32)</u>	\$ 9.80	
Outstanding at January 30, 2010 . . . . .	<u>622</u>	\$ 9.67	
Granted . . . . .	196	\$19.19	
Vested . . . . .	(195)	\$10.11	
Forfeited . . . . .	<u>(31)</u>	\$11.99	
Outstanding at January 29, 2011 . . . . .	<u>592</u>	\$12.55	
Granted . . . . .	188	\$25.14	
Vested . . . . .	(221)	\$12.47	
Forfeited . . . . .	<u>(56)</u>	\$17.01	
Outstanding at January 28, 2012 . . . . .	<u>503</u>	\$16.79	\$14,248

(1) Intrinsic value for restricted stock is defined as the market value of the outstanding restricted stock on the last business day of the fiscal year. The market value per share was \$28.33 at January 28, 2012.



The following table summarizes additional information related to restricted stock activity for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010 (in thousands):

	Fiscal Year Ended		
	<u>January 28, 2012</u>	<u>January 29, 2011</u>	<u>January 30, 2010</u>
Vest-date fair value of restricted stock vested . . . . .	\$5,524	\$3,734	\$674

**Stock-Based Compensation**—We recorded \$5.3 million, \$4.9 million and \$4.1 million of total stock-based compensation expense for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010.

At January 28, 2012, there was \$6.3 million of total unrecognized compensation cost related to unvested stock options and restricted stock grants. This cost has a weighted-average recognition period of 1.4 years.

## 12. Employee Benefit Plans

The Zumiez Investment Plan (Z.I.P.) is a qualified plan under Section 401(k) of the Internal Revenue Code. Employees that have been with the Company for a year, work an average of thirty hours a week and are twenty-one or older are eligible to participate in the Z.I.P. Our 401(k) matching and profit-sharing contributions are discretionary and are determined annually by management. We committed \$0.5 million, \$0.4 million and \$0.2 million to the plan for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010.

We offer an Employee Stock Purchase Plan (the “ESPP”) for eligible employees to purchase the Company’s 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. The ESPP provides for six month offering periods commencing on October 1 and April 1 of each year. Employees can contribute up to 15% of their pay but may not exceed \$25,000 of aggregate stock value in a calendar year. The maximum number of shares an employee may purchase during an offering period is 2,000 shares. Employees are eligible to participate in the ESPP if they work at least 20 hours a week and at least five months in a calendar year.

## 13. Income Taxes

The components of deferred income taxes at January 28, 2012 and January 29, 2011 are (in thousands):

	<u>January 28, 2012</u>	<u>January 29, 2011</u>
Deferred tax assets:		
Deferred rent . . . . .	\$ 14,205	\$ 12,172
Employee benefits, including stock based compensation . . . .	5,794	6,001
Accrued liabilities . . . . .	1,164	1,783
Inventory . . . . .	507	897
Other . . . . .	452	333
Total deferred tax assets . . . . .	<u>22,122</u>	<u>21,186</u>
Deferred tax liabilities:		
Property and equipment . . . . .	(14,997)	(10,986)
Goodwill and other intangibles . . . . .	(2,042)	(1,714)
Other . . . . .	(497)	(365)
Total deferred tax liabilities . . . . .	<u>(17,536)</u>	<u>(13,065)</u>
Net deferred tax assets . . . . .	<u>\$ 4,586</u>	<u>\$ 8,121</u>

The components of the provision for income taxes for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010 are (in thousands):

	Fiscal Year Ended		
	<u>January 28, 2012</u>	<u>January 29, 2011</u>	<u>January 30, 2010</u>
Current:			
Federal .....	\$17,013	\$11,813	\$ 7,760
State .....	<u>3,884</u>	<u>2,324</u>	<u>2,002</u>
Total current .....	<u>20,897</u>	<u>14,137</u>	<u>9,762</u>
Deferred:			
Federal .....	3,358	662	(3,872)
State .....	<u>83</u>	<u>(147)</u>	<u>(1,014)</u>
Total deferred .....	<u>3,441</u>	<u>515</u>	<u>(4,886)</u>
Provision for income taxes .....	<u>\$24,338</u>	<u>\$14,652</u>	<u>\$ 4,876</u>

The reconciliation of the income tax provision at the U.S. federal statutory rate to our effective income tax rate is as follows for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010:

	Fiscal Year Ended		
	<u>January 28, 2012</u>	<u>January 29, 2011</u>	<u>January 30, 2010</u>
Expected U.S. federal income taxes at statutory rates .....	35.0%	35.0%	35.0%
State and local income taxes, net of federal effect .....	4.1	3.4	4.6
Tax exempt interest .....	(0.9)	(1.2)	(2.9)
Other .....	<u>1.3</u>	<u>0.5</u>	<u>(1.9)</u>
Effective tax rate .....	<u>39.5%</u>	<u>37.7%</u>	<u>34.8%</u>

We did not have unrealized tax benefits related to uncertain tax positions recorded at January 28, 2012 or January 29, 2011. 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 2008, and with few exceptions, we are no longer subject to U.S. state examinations for years before fiscal 2007.

#### 14. Comprehensive Income

Comprehensive income represents all changes in equity during a period except those resulting from investments by and distributions to shareholders. Comprehensive income for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010 is as follows (in thousands):

	Fiscal Year Ended		
	<u>January 28, 2012</u>	<u>January 29, 2011</u>	<u>January 30, 2010</u>
Net income .....	\$37,351	\$24,203	\$9,131
Net change in unrealized gains (losses) on available-for-sale investments, net of tax .....	171	(118)	(16)
Net change in foreign currency translation adjustments .....	<u>(19)</u>	<u>—</u>	<u>—</u>
Comprehensive income .....	<u>\$37,503</u>	<u>\$24,085</u>	<u>\$9,115</u>

The components of accumulated other comprehensive income (loss) at January 28, 2012 and January 29, 2011 is as follows (in thousands):

	<u>January 28, 2012</u>	<u>January 29, 2011</u>
Unrealized gains (losses) on available-for-sale investments, net of tax . . . . .	\$154	\$ (17)
Cumulative foreign currency translation adjustments (1) . . . . .	<u>(19)</u>	<u>—</u>
Accumulated other comprehensive income (loss) . . . . .	<u>\$135</u>	<u>\$ (17)</u>

(1) Foreign currency translation adjustments are not adjusted for income taxes as they relate to a permanent investment in our subsidiary in Canada.

### 15. 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):

	<u>Fiscal Year Ended</u>		
	<u>January 28, 2012</u>	<u>January 29, 2011</u>	<u>January 30, 2010</u>
Net income . . . . .	\$37,351	\$24,203	\$ 9,131
Weighted average common shares for basic earnings per share . . . . .	30,527	29,971	29,499
Dilutive effect of stock options and restricted stock . . . . .	<u>592</u>	<u>823</u>	<u>634</u>
Weighted average common shares for diluted earnings per share . . . . .	<u>31,119</u>	<u>30,794</u>	<u>30,133</u>
Basic earnings per share . . . . .	<u>\$ 1.22</u>	<u>\$ 0.81</u>	<u>\$ 0.31</u>
Diluted earnings per share . . . . .	<u>\$ 1.20</u>	<u>\$ 0.79</u>	<u>\$ 0.30</u>

Total anti-dilutive common stock options not included in the calculation of diluted earnings per share were 0.3 million, 0.3 million and 0.4 million for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010.

### 16. Exit or Disposal Activities

During the fiscal year ending January 29, 2011, we acquired a 168,450 square foot building in Corona, California for \$11.8 million and we have relocated our distribution facility from Everett, Washington to this facility. We believe that we will be more effective distributing our products through a distribution center located in Corona, California due to the majority of our vendors being located in Southern California. In July 2010, we entered into an amendment of the lease for our combined home office, ecommerce fulfillment center and the exited distribution facility in Everett, Washington, which terminated our lease commitments for a portion of the leased space in exchange for additional charges to be paid over the life of the remaining lease period. The lease termination costs recorded reflect the present value of these future charges.

In conjunction with the closure of the Everett, Washington distribution facility, during the fiscal year ended January 29, 2011, we recorded \$0.9 million of employee benefit costs (severance and performance bonuses), \$0.6 million of lease termination costs and \$0.8 million of other costs to exit the facility. Additionally, we incurred a \$0.3 million charge on disposal of long-lived assets and we recognized a \$0.2 million benefit for the related deferred rent liability. These amounts are included in cost of goods sold on the consolidated statements of operations.

The following table is a summary of the exit and disposal activity and liability balances as a result of this relocation (in thousands):

	<u>Employee benefit costs</u>	<u>Lease termination costs</u>	<u>Other exit costs</u>	<u>Total</u>
January 30, 2010 .....	\$ —	\$ —	\$ —	\$ —
Additions .....	882	1,051	806	2,739
Payments .....	(876)	(305)	(806)	(1,987)
Adjustments (1) .....	9	(453)	—	(444)
January 29, 2011 (2) .....	15	293	—	308
Payments .....	(15)	(59)	—	(74)
Adjustments .....	—	7	—	7
January 28, 2012 (2) .....	<u>\$ —</u>	<u>\$ 241</u>	<u>\$ —</u>	<u>\$ 241</u>

- (1) The lease termination cost adjustment primarily represents the difference between the calculated lease termination cost as a result of the amended lease and our initial estimate of lease termination costs recorded on the cease use date.
- (2) The exit or disposal provisions are included in other liabilities and long-term other liabilities on the consolidated balance sheets at January 28, 2012 and are included in accrued payroll and payroll taxes, other liabilities and long-term other liabilities on the consolidated balance sheets at January 29, 2011.

## 17. Related Party Transactions

We committed charitable contributions to Zumiez Foundation of \$0.7 million, \$0.6 million and \$0.3 million for fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010. We have accrued charitable contributions payable to Zumiez Foundation at January 28, 2012 and January 29, 2011 of \$0.6 million and \$0.6 million. Zumiez Foundation is a charitable based nonprofit organization focused on meeting the various needs of the under-privileged in communities where we have retail stores. The Company's Chairman of the Board is also the President of Zumiez Foundation.

## 18. Subsequent Events

On February 6, 2012, we entered into a 10 year lease agreement to lease up to 153,095 square feet in Edwardsville, Kansas. We plan to relocate our current ecommerce fulfillment center in Everett, Washington to this facility and begin operations in the second quarter of fiscal 2012. In conjunction with the plan to relocate the ecommerce fulfillment center, we expect to incur approximately \$0.9 million to \$1.0 million in expenses related to the move. Such charges consist of approximately \$0.5 million to \$0.6 million of severance and other employee related costs and approximately \$0.4 million in moving and new facility costs to transition to the new location. Additionally, we plan to relocate our corporate headquarters in Everett, Washington to Lynnwood, Washington in the second quarter of fiscal 2012. Once the ecommerce fulfillment center and corporate headquarters have relocated, we expect to incur charges of approximately \$1.2 million associated with estimated moving expenses and lease termination costs.

## 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. [Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on August 25, 2008]
- 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)]
- 10.6 Zumiez Inc. 2004 Stock Option Plan. [Incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1 (file No. 333-122865)]
- 10.8 Zumiez Inc. 2005 Employee Stock Purchase Plan. [Incorporated by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1 (file No. 333-122865)]
- 10.9 Form of Indemnity Agreement between Zumiez Inc. and each of its officers and directors. [Incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1 (file No. 333-122865)]
- 10.10 Limited Liability Company Agreement of Zumiez Holdings LLC. [Incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1 (file No. 333-122865)]
- 10.12 Equity Purchase Agreement with Gerald R. Anderson, Brandon C. Batton, AC Fast Forward LLC and AC Fast Forward Mgt., LLC dated May 16, 2006. [Incorporated by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the period ended July 29, 2006 as filed on September 12, 2006]
- 10.13 Lease Agreement between Merrill Creek Holdings, LLC and Zumiez Inc. dated October 2, 2006. [Incorporated by reference to Exhibit 10.13 to the Company's Form 8-K filed on October 4, 2006]
- 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]
- 10.17 Purchase and Sale Agreement and Joint Escrow Instructions with Railroad Street Land Holdings, LLC dated February 18, 2010. [Incorporated by reference from Exhibit 10.17 to the Form 8-K filed by the Company on February 22, 2010]
- 10.18 Credit Agreement, including Revolving Line of Credit Note, with Wells Fargo HSBC Trade Bank, N.A. dated August 29, 2011. [Incorporated by reference from Exhibit 10.18 to the Form 8-K filed by the Company on August 31, 2011]
- 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, 2012, formatted in XBRL (eXtensible Business Reporting Language):
  - (i) Consolidated Balance Sheets at January 28, 2012 and January 29, 2011; (ii) Consolidated Statements of Operations for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010; (iii) Consolidated Statements of Changes in Shareholders' Equity for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010; (iv) Consolidated Statements of Cash Flows for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010; and (v) Notes to Consolidated Financial Statements. (1)

(1) The XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-K shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

Copies of Exhibits may be obtained upon request directed to the attention of our Chief Financial Officer, 6300 Merrill Creek Parkway, Suite B, Everett, WA 98203, and are available at the SEC’s website found at [www.sec.gov](http://www.sec.gov).

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