MINE SAFETY APPLIANCES CO
Form DEF 14A
March 30, 2012

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a)**

**of the Securities Exchange Act of 1934**

**(Amendment No. __)**

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

# Mine Safety Appliances Company

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

MINE SAFETY APPLIANCES COMPANY n 1000 CRANBERRY WOODS DRIVE, CRANBERRY TOWNSHIP, PENNSYLVANIA 16066 n PHONE (724) 776-8600

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

To the Holders of Common Stock of

Mine Safety Appliances Company:

Notice is hereby given that the Annual Meeting of Shareholders of Mine Safety Appliances Company will be held on Tuesday, May 8, 2012 at 9:00 A.M., local Pittsburgh time, at the Marriott Pittsburgh North, 100 Cranberry Woods Drive, Cranberry Township, Pennsylvania 16066 **(please note the new location this year)** for the purpose of considering and acting upon the following:

(1) *Election of Directors for 2015:* The election of three directors for a term of three years;

(2) *CEO Annual Incentive Award Plan:* Approval of adoption of the Company s amended and restated CEO Annual Incentive Award Plan;

(3) *Selection of Independent Registered Public Accounting Firm:* The selection of the independent registered public accounting firm for the year ending December 31, 2012;

(4) *Say on Pay*: To provide an advisory (non-binding) vote on the executive compensation of the Company s named executive officers;

and such other business as may properly come before the Annual Meeting or any adjournment thereof.

Only the holders of Common Stock of the Company of record on the books of the Company at the close of business on February 14, 2012 are entitled to notice of and to vote at the meeting and any adjournment thereof.

You are cordially invited to attend the meeting. Whether or not you expect to attend the meeting, please execute and date the accompanying form of proxy and return it in the enclosed self-addressed, stamped envelope at your earliest convenience. If you attend the meeting, you may, if you wish, withdraw your proxy and vote your shares in person.

By Order of the Board of Directors,

DOUGLAS K. MCCLAINE

*Secretary*

March 30, 2012

## PROXY STATEMENT SUMMARY

*The following summary includes an overview of information that is provided elsewhere in this proxy statement. This summary is intended only as an overview, and we advise you to carefully read the entire proxy statement before casting your vote. MSA thanks you for your continued interest in the Company.*

### 2012 Annual Meeting of Shareholders

| | |
|---|---|
| When: | 9:00 a.m. EDT on May 8, 2012 |
| Where: | Marriott Pittsburgh North<br>100 Cranberry Woods Drive<br>Cranberry Township, PA 16066 |
| Record Date: | February 14, 2012 |
| Voting: | Shareholders of the Company as of the Record Date are entitled to vote on the matters presented at the meeting. Each share of common stock of the Company is entitled to one vote for each director nominee and for one vote on each of the other matters presented. |

### Meeting Agenda

- Election of three (3) directors with terms expiring in 2015
- Approval of adoption of the Company s amended and restated CEO Annual Incentive Award Plan
- Selection of PricewaterhouseCoopers LLC as independent registered public accounting firm for 2012
- Advisory (non-binding) say on pay vote on the executive compensation of the named executive officers

### Voting Matters

| Voting Matter | Board Recommendation | Proxy Page Reference |
|---|---|---|
| Election of Directors | FOR each nominee | 1 |
| CEO Annual Incentive Award Plan | FOR | 8 |
| Selection of PricewaterhouseCoopers LLC | FOR | 56 |
| Advisory (non-binding) Vote on Executive Compensation | FOR | 57 |

**Nominees**

The following table provides a brief overview of each director nominee. We are asking shareholders to vote FOR each nominee. Each nominee, if elected, will serve a term expiring at the 2015 annual meeting of shareholders and until their successors are elected and qualified.

| NAME | OCCUPATION<br>*EXPERIENCE/QUALIFICATIONS* | AGE | DIRECTOR<br>SINCE | COMMITTEES |
|---|---|---|---|---|
| Thomas B. Hotopp | Retired; former President of the Company<br>*Business leadership*<br>*North American markets*<br>*Safety products industry knowledge* | 70 | 1998 | Nominating and Corporate Governance<br>Compensation |
| John T. Ryan III | Retired; former CEO of the Company<br>*Business leadership*<br>*International markets*<br>*Safety products industry knowledge* | 68 | 1981 | Finance |
| Thomas H. Witmer | Retired; former President and CEO, Medrad, Inc.<br>*Business leadership*<br>*International markets*<br>*Engineering, product design, operations and marketing* | 69 | 1997 | Audit<br>Compensation |

**CEO Annual Incentive Award Plan**

We are asking shareholders to approve the adoption of the amended and restated Mine Safety Appliances Company CEO Annual Incentive Award Plan (the Plan ). The Plan was amended and restated on March 20, 2012, subject to approval by the shareholders at the Annual Meeting, to expand the list of performance criteria upon which tax-deductible awards may be granted, which will allow the Company to measure performance against a larger array of performance metrics. If the Plan is not approved by the shareholders, the Plan will continue as currently in effect and awards under the expanded list of performance criteria will not be made pursuant to the Plan. If approved by the shareholders, the Plan will be effective as of January 1, 2012 and continue in effect through the year ending December 31, 2016, unless sooner terminated by the Board of Directors or the Board s Compensation Committee.

**Auditor**

We are asking shareholders to approve the selection of PricewaterhouseCoopers LLC as our independent registered public accounting firm for 2012. The following table provides a summary of PricewaterhouseCoopers LLC fees for services to the Company in 2011 and 2010.

| | 2011 | 2010 |
|---|---|---|
| Audit Fees | $2,730,562 | $ 2,315,062 |
| Audit-Related Fees | 92,164 | 377,146 |
| Tax Fees | 2,342 | 62,250 |
| All Other Fees | | |

**Advisory (non-binding) Vote on Executive Compensation**

We are asking shareholders to vote FOR the Company s compensation of the named executive officers. The Board and the Compensation Committee will take into account the outcome when considering future executive compensation arrangements. In 2011, the shareholders voted in favor of the Company s executive compensation program, with 98.1% of the votes cast by shareholders voting FOR the proposal. The Board and Compensation Committee took this vote into consideration in designing the executive compensation program for 2012. Please see the Compensation Discussion and Analysis in the proxy statement for complete details about compensation for the named executive officers.

**MINE SAFETY APPLIANCES COMPANY**

**PROXY STATEMENT**

**Important Notice Regarding the Availability of Proxy Materials for the Shareholders Meeting to be held on May 8, 2012**

**The 2012 Proxy Statement and the Annual Report to Shareholders for the year ended December 31, 2011 are also available at www.MSAsafety.com/proxymaterials.**

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors (the Board ) of Mine Safety Appliances Company (the Company ) of proxies in the accompanying form to be voted at the Annual Meeting of Shareholders of the Company to be held on Tuesday, May 8, 2012, and at any and all adjournments thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders. If a proxy in the accompanying form is duly executed and returned, the shares of Common Stock represented thereby will be voted and, where a specification is made by the shareholder, will be voted in accordance with such specification. A shareholder giving the accompanying proxy has the power to revoke it at any time prior to its exercise upon written notice given to the Secretary of the Company.

The mailing address of the principal executive offices of the Company is 1000 Cranberry Woods Drive, Cranberry Township, PA 16066.

**VOTING SECURITIES AND RECORD DATE**

As of February 14, 2012, the record date for the Annual Meeting, 36,692,752 shares of Common Stock were issued and outstanding, not including 1,160,201 shares held in the Company s Stock Compensation Trust. The shares held in the Stock Compensation Trust are not considered outstanding for accounting purposes but are treated as outstanding for certain purposes, including voting at the Annual Meeting. See Stock Ownership Beneficial Ownership of Management on page 53.

Only holders of Common Stock of the Company of record on the books of the Company at the close of business on February 14, 2012, are entitled to notice of and to vote at the Annual Meeting and at any adjournment thereof. Such holders are entitled to one vote for each share held and do not have cumulative voting rights with respect to the election of directors. Holders of outstanding shares of the Company s 4½% Cumulative Preferred Stock are not entitled to vote at the meeting.

See Stock Ownership on page 53 for information with respect to share ownership by the directors and executive officers of the Company and the beneficial owners of 5% or more of the Company s Common Stock.

**PROPOSAL NO. 1**

**ELECTION OF DIRECTORS**

At the Annual Meeting, three directors will be elected to serve until the Annual Meeting in 2015. Mr. Thomas B. Hotopp, Mr. John T. Ryan III and Mr. Thomas H. Witmer were nominated by the Board for election in the Class of 2015. **The Board of Directors and its Nominating and Corporate Governance Committee recommend a vote FOR the election of the nominees, each of whom has consented to be named as a nominee and to serve if elected**. Properly executed proxies timely received in the accompanying form will be voted for the election of the nominees named below, unless otherwise directed thereon, or for a substitute nominee designated by the Nominating and Corporate Governance Committee in the event a nominee named becomes unavailable for election.

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The following table sets forth certain information about the nominees, all of whom are currently members of the Board, and about the other directors whose terms of office will continue after the Annual Meeting.

| **Name** | **Principal Occupation and any Position with the Company; Other Reporting Company Directorships** | **Age** | **Director Since** |
|---|---|---|---|
| | **Nominees for terms expiring in 2015** | | |
| Thomas B. Hotopp | Retired (2003); formerly President of the Company. As the former President of the Company, Mr. Hotopp brings to the Company s board extensive experience in the Company s business with particular expertise in the Company s North American operations, markets, customers and competitors. | 70 | 1998 |
| John T. Ryan III | Retired (2008); formerly Chief Executive Officer of the Company; presently non-executive Chairman of the Board. As the former CEO of the Company, Mr. Ryan brings to the Company s board extensive experience in the Company s business with particular expertise in international markets and the global safety products industry. | 68 | 1981 |
| Thomas H. Witmer | Retired (1998); formerly President and Chief Executive Officer, Medrad, Inc. (manufacturer of medical devices). As the former CEO of a publicly traded multinational company, Mr. Witmer brings to the Company s board specific expertise in global engineering, product design, operations and marketing in international markets. | 69 | 1997 |
| | **Continuing Directors with terms expiring in 2013** | | |
| Robert A. Bruggeworth | President and Chief Executive Officer, RF Micro Devices, Inc. (High-Performance RF Components and Compound Semiconductors manufacturer); Director of RF Micro Devices, Inc. As the CEO of a publicly traded multinational corporation, Mr. Bruggeworth brings to the Company s board specific expertise in global business, manufacturing, marketing and material sourcing for high technology products. | 50 | 2007 |
| James A. Cederna | Owner and President, Cederna International, Inc. (executive coaching). As the former Chairman and CEO of Calgon Carbon Corporation, Mr. Cederna brings to the Company s board specific expertise in global business, manufacturing and international markets. | 61 | 2002 |
| John C. Unkovic | Partner and General Counsel, Reed Smith LLP (full service law firm). As a long time partner and General Counsel of a global law firm, Mr. Unkovic brings to the Company s board the ability to identify and address the many legal aspects and risks of operating a multinational company. | 68 | 2002 |

| Name | Principal Occupation and any Position with the Company; Other Reporting Company Directorships | Age | Director Since |
|---|---|---|---|
| | **Continuing Directors with terms expiring in 2014** | | |
| Diane M. Pearse | Senior Vice President, Operations and Merchandising for Redbox Automated Retail, LLC (a fully automated DVD rental company). Prior to joining Redbox, Ms. Pearse was Chief Financial Officer of Crate and Barrel (a home furnishings retailer). As the Senior Vice President, Operations and Merchandising for a large consumer products company, in addition to her prior financial management experience with a major retail company, Ms. Pearse brings extensive financial, accounting, and operational expertise to the Company. | 54 | 2004 |
| L. Edward Shaw, Jr. | Retired (2010); formerly Senior Managing Director of Breeden Capital Management LLC (investment management and multi-disciplinary professional services firm); currently a Director and Chairman of the Compensation Committee of HealthSouth Corporation. Formerly served in senior legal and executive roles with three multinational financial institutions including The Chase Manhattan Bank, as a partner in a major international law firm and as Independent Counsel to the Board of Directors of the New York Stock Exchange, Inc. on regulatory matters. Mr. Shaw brings to the Company s board expertise in the legal and financial aspects and risks of operating a multinational company. | 67 | 1998 |
| William M. Lambert | President and Chief Executive Officer of the Company. As the Company s CEO, Mr. Lambert brings to the Company s board extensive experience in the Company s business with particular expertise in product development, marketing, finance and the global safety products industry. | 53 | 2007 |

Mr. Lambert has been President and Chief Executive Officer of the Company since May 2008. From May 2007 to May 2008 he was President and Chief Operating Officer and prior thereto he was a Vice President of the Company and President of MSA North America. Except as described in the table above, each other director has engaged in the principal occupation indicated in the above table for at least the past five years. Mr. Shaw is the brother-in-law of Mr. Ryan.

**Director Independence**

The Board has determined that each of directors Bruggeworth, Cederna, Hotopp, Pearse, Ryan, Shaw, Unkovic and Witmer is an independent director. An independent director is a director who has no material relationship with the Company, either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company. Under New York Stock Exchange guidelines, Mr. Ryan became eligible to be considered independent on July 1, 2011, three years following his retirement as an officer and employee of the Company. At that time Mr. Shaw, who is Mr. Ryan s brother-in-law, also became eligible to be considered an independent director. The independent directors of the Board considered this matter and determined that Mr. Ryan and Mr. Shaw became independent directors effective July 1, 2011.

In making its independence determinations, the Board reviewed the director s individual circumstances, the corporate governance rules of the New York Stock Exchange and the Board s independence standards. These standards are available in the Investor Relations section of the Company s internet website at www.MSAsafety.com. They are summarized below:

*Disqualifying Relationships*

The following relationships are considered to be material relationships that would impair a director s independence:

If a director is an employee or has an immediate family member who is an executive officer of the Company, the director is not independent until three years after the end of the employment relationship.

If a director or an immediate family member receives more than $120,000 per year in direct compensation from the Company, the director is not independent until three years after the director or family member ceases to receive such compensation. Disqualifying compensation does not include director and committee fees, pension or deferred compensation for prior service or compensation received by an immediate family member for service as a non-executive officer employee.

If:

the director is a partner of or employed by, or the director s immediate family member is a partner of, the firm that is the present internal or external auditor of MSA;

the director s immediate family member is employed by the firm that is the present internal or external auditor of MSA and such family member personally works on MSA s audit; or

the director, or the director s immediate family member, was within the last three years a partner or employee of the present internal or external auditor of MSA and personally worked on MSA s audit within that time.

If a director or an immediate family member is an executive officer of another company, and any of the Company s present executives serves on that company s compensation committee, the director is not independent until three years after the end of such employment or service.

If a director is an employee or an immediate family member is an executive officer of a company that makes payments to or receives payments from the Company for property or services, and the amount of such payments in a fiscal year exceeds the greater of $1 million or 2% of the other company s consolidated gross revenue, the director is not independent until three years thereafter.

*Non-Disqualifying Relationships*

The following relationships are not considered to be material relationships that would impair a director s independence:

A director is an executive officer of another company that is indebted to the Company, or to which the Company is indebted, in an amount less than 5% of the other company s total consolidated assets;

A director is an executive officer of another company in which the Company owns a common stock interest less than 5% of the other company s total shareholders equity;

A director serves as an executive officer of a charitable organization, and the Company s discretionary contributions to the organization are less than 2% of the organization s annual revenue; or

A director is an executive officer of another company that owns a common stock interest in the Company.

*Other Relationships*

The Board will annually review commercial and charitable relationships of directors. If a relationship is not one of the non-disqualifying relationships described above, the determination of whether the relationship is material or not, and therefore whether the director is independent or not, is made by the directors who satisfy the independence guidelines set forth under the two preceding captions.

For example, if a director is the executive officer of a charitable organization, and the Company s discretionary contributions to the organization are more than 2% of that organization s annual revenue, the independent directors will determine, after considering all of the relevant circumstances, whether the relationship is material, and therefore whether or not the director should be considered independent. The Company will explain in its proxy statement the basis for any Board determination that a relationship is not material, despite the fact that it does not meet one of the safe-harbors under Non-Disqualifying Relationships above.

Mr. Unkovic is a partner and General Counsel of Reed Smith LLP, which provides legal services to the Company. In 2011, the amount of payments made by the Company to Reed Smith did not exceed the greater of $1,000,000 or 2% of the consolidated gross revenue of Reed Smith. The Board has determined that Mr. Unkovic s personal gain from the Company s relationship with Reed Smith does not affect his ability to act independently and, accordingly, is not material.

**Board Committees**

The Board has established an Audit Committee, a Compensation Committee, a Nominating and Corporate Governance Committee, a Finance Committee and certain other committees.

The Audit Committee presently consists of directors Bruggeworth, Cederna, Pearse (Chair) and Witmer, each for a term expiring at the 2012 organizational meeting of the Board. The Audit Committee, which met six times during 2011, assists the Board in fulfilling its oversight responsibility relating to the integrity of the Company s financial statements and financial reporting process. The Committee selects and recommends annually to the Board and the shareholders the independent registered public accounting firm to audit the Company s financial statements, approves in advance all audit and non-audit services performed by the independent registered public accounting firm, reviews the plans, findings and recommendations of the independent registered public accounting firm, and reviews and evaluates the performance of the independent registered public accounting firm, its independence and its fees. The Committee reviews and discusses with management and the independent registered public accounting firm the Company s financial statements and reports, its internal and disclosure controls and matters relating to the Company s internal control structure, its Code of Business Conduct and Ethics and legal and regulatory compliance. The Board has determined that Director Pearse is an audit committee financial expert, as defined by the rules of the Securities and Exchange Commission.

The Compensation Committee presently consists of directors Bruggeworth, Hotopp, Unkovic and Witmer (Chair), each for a term expiring at the 2012 organizational meeting of the Board. The Compensation Committee, which met four times in 2011, reviews and recommends (to the independent directors for approval) the annual goals, performance and compensation of the Company s chief executive officer, reviews and approves the compensation of all other executive officers and other key executives, monitors the effectiveness of all other employee benefit offerings, manages the Company s overall compensation strategy and compensation plans, assesses any risk inherent in these plans and attempts to ensure that such risk is not excessive and is acceptable to the Company and employs, compensates and oversees the Company s external compensation consultant and assures its independence. The Compensation Committee also administers the Company s 2008 Management Equity Incentive Plan and predecessor equity plans (collectively, the Management Equity Plans ).

The Nominating and Corporate Governance Committee presently consists of directors Cederna, Hotopp (Chair), Shaw and Unkovic, each for a term expiring at the 2012 organizational meeting of the Board. The Committee, which met three times in 2011, reviews and makes recommendations to the Board regarding the

composition and structure of the Board, criteria and qualifications for Board membership, director compensation and evaluation of current directors and potential candidates for director. It is also responsible for establishing and monitoring policies and procedures concerning corporate governance. Further information concerning the Nominating and Corporate Governance Committee and its procedures appears below.

The Finance Committee, which was established in May 2009, presently consists of directors Cederna, Pearse, Ryan and Shaw (Chair), each for a term expiring at the 2012 organization meeting of the Board. The Committee, which met four times in 2011, reviews and makes recommendations to the Board regarding the Company s capital structure, dividend policy, financing activities, funding of the Company s employee benefit plan, and liquidity management.

**Corporate Governance Matters**

The Board has adopted Corporate Governance Guidelines which cover a wide range of subjects, such as the role of the Board and its responsibilities, Board composition and election, operations and Committees, director compensation, Board and management evaluation and succession planning, director orientation and training and communications with the Board. The Corporate Governance Guidelines, as well as the Charters of the Board s Audit, Compensation, Nominating and Corporate Governance and Finance Committees and the Company s Code of Business Conduct and Ethics for directors, officers and employees, are available in the Investor Relations section of the Company s internet website at www.MSAsafety.com. Such material will also be furnished without charge to any shareholder upon written request to the Corporate Secretary at the Company s address appearing on page one.

The fundamental criterion for selecting a prospective director is the ability to contribute to the well-being of the Company and its shareholders. Good judgment, integrity and a commitment to the mission of the Company are essential. The Board also considers, but does not choose solely on the basis of, the distinctive experiences and perspectives of candidates diverse in race, gender, national origin and past professional accomplishments, when recommending prospective directors for the Company. Other criteria include business and professional experience, public service, other skills and experience needed by the Board, and any other factor considered relevant by the Nominating and Corporate Governance Committee and/or the Board. The Committee may prioritize the criteria depending on the current needs of the Board and the Company.

The Board has separated the position of Chairman of the Board and Chief Executive Officer. The current Chairman is Mr. Ryan. Mr. Ryan was Chairman and Chief Executive Officer of the Company from October 1991 until he retired as Chief Executive Officer in May 2008. He remained an employee of the Company until July 1, 2008. As discussed above under Director Independence, Mr. Ryan became eligible to be considered an independent director under the rules of the New York Stock Exchange on July 1, 2011.

The Board maintains an active structure of independent director leadership. In furtherance of this, the Corporate Governance Guidelines provide that it is the Company s practice for the independent directors to meet at each Board meeting in executive session, with no members of management present. Prior to Messrs. Ryan and Shaw becoming independent directors, the Board held regular executive sessions of non management directors, as well as at least one executive session of independent directors each year.

From May 2011, Mr. Bruggeworth served as chairperson of the executive sessions of the non management directors. Effective August 25, 2011, Mr. Ryan became the chairperson of the executive sessions of the independent directors. A chairperson for such meetings of independent directors will be chosen at the organizational meeting of the Board in 2012. The audit, compensation, nominating and corporate governance, and finance committees are also each led by an independent director.

The Board met eight times during 2011. All directors attended at least 75% of the combined total of the meetings of the Board and of all committees on which they served. Directors are expected to attend the Annual Meeting of Shareholders. All directors attended last year s annual meeting.

**Risk Oversight**

The Board as a whole exercises oversight of the Company s strategic risks and other risks identified through the Company s enterprise risk management program. Strategic risks are identified in the course of the Board s review and approval of the Company s plans and there is regular monitoring of the Company s performance against the strategic objectives including customer satisfaction metrics as well as periodic review of the activities of competitors. The Board also has oversight of the enterprise risk management program which is managed by the chief financial officer. The enterprise risk management program is designed to enable effective and efficient identification and management of critical enterprise risks and to facilitate the incorporation of risk considerations into decision making. The Director of Internal Audit is responsible for leading the formal risk assessment and management process within the Company. The Director of Internal Audit, through consultation with the Company s senior management, periodically assesses the major risks facing the Company and works with the executive leadership team and others responsible for managing each risk to identify and consider appropriate mitigation elements to each risk, and develop risk contingency plans as appropriate. This analysis is reviewed quarterly with the Audit Committee and annually with the full Board, and input from the Board is considered in the analysis.

In addition to the Board oversight described above, each committee has various risks that it oversees. For example, the Audit Committee is responsible for reviewing the Company s risk management policies and procedures, as well as its major financial risk exposures, and the processes management has established to monitor and control such exposures. The Compensation Committee monitors risk inherent in the Company s compensation policies and practices and those related to the recruitment and retention of employees. The Nominating and Corporate Governance Committee monitors risks related to Board performance and the Company s governance practices.

The Compensation Committee has evaluated the risks arising from the Company s compensation policies and practices for its employees, including review of examinations by Pay Governance, LLC, the Compensation Committee s compensation consultant, of the compensation philosophy, design, governance and administration of compensation policies and practices provided to MSA s executives, and information developed by management regarding programs provided to other non-executive employees. Based on this, the Committee concluded again in February 2012 that the risks arising from the Company s compensation policies and practices for its employees are not reasonably likely to have a material adverse effect on the Company.

**Board Recommendation and Required Vote**

In the election of directors for terms expiring in 2015, the three candidates receiving the highest numbers of votes cast by the holders of Common Stock voting in person or by proxy will be elected as directors. A proxy vote indicated as withheld from a nominee will not be cast for such nominee but will be counted in determining whether a quorum exists for the meeting. Shares for which neither a vote for or withheld is selected (e.g., broker non-votes) will not be counted in determining the total votes cast for this matter.

The Company s Restated Articles require that any shareholder intending to nominate a candidate for election as a director must give written notice, containing specified information, to the Secretary of the Company not later than 90 days in advance of the meeting at which the election is to be held. No such notices were received with respect to the 2012 Annual Meeting. Therefore, only the nominees named above will be eligible for election at the meeting.

**The Board of Directors and its Nominating and Corporate Governance Committee recommend a vote FOR the election of the nominees, each of whom has consented to be named as a nominee and to serve if elected.** Properly executed proxies timely received in the accompanying form will be voted for the election of the nominees named below, unless otherwise directed thereon, or for a substitute nominee designated by the Nominating and Corporate Governance Committee in the event a nominee named becomes unavailable for election.

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**PROPOSAL NO. 2**

**APPROVAL OF THE ADOPTION OF THE MINE SAFETY APPLIANCES COMPANY**

**AMENDED AND RESTATED CEO ANNUAL INCENTIVE PLAN**

The Mine Safety Appliances Company CEO Annual Incentive Award Plan (the Plan ) was originally adopted by the Compensation Committee of the Board in February 2005, subject to approval by the shareholders, which approval was obtained on May 10, 2005. The Plan, as amended and restated in February 2010 and adopted by the Compensation Committee of the Board, was again approved by shareholders on May 11, 2010.

The Plan was further amended and restated in March 2012, subject to approval by the shareholders at the Annual Meeting, to expand the list of performance criteria upon which tax-deductible awards may be granted, which will allow the Company to measure performance against a larger array of performance metrics.

The Plan, as amended and restated, is being resubmitted to the Company s shareholders, in accordance with Section 162(m) of the Internal Revenue Code (the Code ), in order to allow the Company to provide certain performance-based compensation that is deductible for Federal income tax purposes. If the Plan is not approved by the Company s shareholders, the Plan will continue as currently in effect and awards under the expanded list of performance criteria will not be made pursuant to the Plan.

The principal features of the Plan are summarized below. The description of the Plan provided below includes the amendments to the Plan. The summary is qualified in its entirety by reference to the full text of the Plan, which is set forth as Appendix A to this Proxy Statement.

**General**

The purposes of the Plan are to provide a strong financial incentive each year for performance of the Company s Chief Executive Officer ( CEO ) by making a significant percentage of the CEO s total cash compensation dependent upon the level of corporate performance attained for the year, and to do so in a manner which preserves deductibility of CEO compensation expense under Section 162(m) of the Code.

Section 162(m) generally limits the Company s federal income tax deduction for compensation paid to the CEO in any year to $1 million, unless any excess qualifies as performance-based compensation. The Plan is intended to conform the determination of the annual CEO incentive award to the requirements of Section 162(m) and thereby attempt to preserve the deductibility of any compensation expense exceeding the Section 162(m) cap and reduce the Company s income taxes owed.

**Administration**

The Plan will be administered by a Committee (the Committee ) appointed by the Board or its Compensation Committee and consisting of not less than two members of the Board, each of whom must be both an outside director as defined in Section 162(m) and an independent director under the listing requirements of the New York Stock Exchange. The Plan will initially be administered by a subcommittee of the Board s Compensation Committee consisting of directors Bruggeworth and Witmer.

**Annual Incentive Awards**

Under the Plan, the CEO s annual incentive award will be earned by meeting a performance target, which is a specific level or levels set by the Committee of achievement by the Company of one or more objective performance criteria. The performance criteria may be based on one or more of the following:

Income statement components, and ratios between them or other measures, including income (which includes operating and net income and on a pre-tax or after-tax basis), consolidated net income, net

income growth, margins (including gross profit, operating margin, pre-tax and net income margins), earnings, earnings before interest and taxes (EBIT), earnings before interest, taxes, depreciation and amortization (EBITDA), earnings before interest, taxes and depreciation ( EBITD ), earnings before interest, taxes and amortization ( EBITA ), economic value added, income from continuing operations, income before extraordinary items, income from continuing operations before extraordinary items, earnings per share and earnings per share growth;

Balance sheet statement components, and ratios between them or other measures, including any asset category, debt, equity, return on equity, return on assets, return on invested capital, return on capital employed, cash conversion cycle, fixed asset turnover ratio, debt ratio, debt-equity ratio, capitalization ratio and intangible assets;

Cash flow statement components, and ratios between them or other measures, including cash management measures, cash flow measures (which include net cash flow from operating activities, working capital, working capital as a percentage of sales, improvement in or attainment of working capital levels, receivables management and related customer terms), and free cash flow;

Operating measures, and ratios between them or other measures, including products shipped, capacity, availability, productivity, funds from operations, product quality, market share, margin and sales volumes, number of accounts, workers compensation claims, budget performance, costs, cost per hire, turnover rate, training costs and expenses, charge-offs and non-performing assets;

Market measures, and ratios between them or other measures, including stock price, growth measure, stock price performance, market capitalization measures and total shareholder return;

Company quality, value and sustainability measures, and ratios between them or other measures, including compliance, safety, environmental and employee matters;

Project completion measures, and ratios between them or other measures, including satisfaction of interim milestones regarding budgets and deadlines, and satisfaction of project deadlines and budget amounts;

Measures relating to acquisitions, divestitures, dispositions or customer satisfaction, and ratios between them or other measures;

Additional ratios between the above categories, including margins, liquidity measures, which include debt to earnings (including EBITDA, EBIT, EBITD and EBITA), interest expense and/or other fixed charges, earnings (including EBITDA, EBIT, EBITD and EBITA) to interest expense and/or other fixed charges, and earnings before or after the effect of items such as interest, taxes, depreciation and amortization.

Performance criteria based on any of those measures may be based on the Company s absolute performance under such measure for the year or specified period, or a combination of absolute or relative values or rates of change, and on a gross or net basis and/or upon a comparison of such performance with the performance of the Company in a prior period, the board-approved plans for the year, the performance of a peer group of companies or other measure selected or defined by the Committee at the time of establishing an award.

On or before the 90th day of each year, and in no event after 25 percent of the service period has elapsed, the Committee will determine the performance criteria to be used for such year and the method of determining the amount earned, including the applicable performance target. In addition to the performance target, the Committee may establish a performance threshold, which is a minimum level of achievement of the selected performance criteria necessary for any part of the annual incentive award to be earned, and/or a performance maximum, which is a maximum dollar amount which may be earned based on the level of achievement of the performance criteria. In such cases, the terms of the award must set forth the dollar value of the annual incentive award at the performance threshold, the level of achievement necessary to earn the performance maximum and the method of determining the amount earned if the level of achievement of the performance criteria is between the

performance threshold and the performance maximum. The terms of the award established by the Committee must be objective such that a third party having knowledge of the relevant facts could determine (1) whether or not the performance target and any performance threshold or performance maximum has been achieved and (2) the dollar amount which has been earned based on such performance.

Within two and one-half months following the end of the year, the Committee must determine and certify in writing whether the performance target, any performance threshold or performance maximum, and any other material terms of an annual incentive award were achieved or satisfied and the amount, if any, of the award payable to the CEO. The Committee may decrease, but may not increase, the amount of the award as calculated pursuant to the terms originally established by the Committee. The amount earned, as certified by the Committee, is payable to the CEO within two and one-half months following the end of the award year.

**2012 Annual Incentive Award**

The Committee has established the terms of the CEO annual incentive award for 2012. The targeted amount of the award may be earned by the Company meeting a performance target, which is a specified level of consolidated net income and operating margin for 2012. In addition, a targeted amount of the award may be earned by the Company meeting a performance target, which is a specified level of consolidated free cash flow for 2012. The performance metrics are equally weighted, and award amounts are subject to increase based on the level of consolidated net income, subject to the performance maximum. There are also performance thresholds which must be achieved before any part of the award may be earned and a performance maximum which may be earned if the various performance metrics exceed the performance target by a specified amount. The following table shows the combined amounts of the 2012 CEO annual incentive award which may be earned at the performance threshold, performance target and performance maximum levels:

| Performance Threshold | Performance Target | Performance Maximum |
|---|---|---|
| $328,500 | $657,000 | $1,478,250 |

**Miscellaneous**

The maximum amount of annual incentive awards which may be paid to any individual participant in any fiscal year of the Company is limited to $2,000,000.

A CEO may receive a pro rata portion of an annual incentive award otherwise earned by Company performance if the CEO s employment terminates during the year due to death, disability or retirement. The terms of an award may also provide for a payment even if the Participant is not employed as the CEO for the entire year. Additionally, an individual who becomes CEO during the year may receive a pro rata award based on the original award terms, or the Committee may establish separate award terms based on Company performance for all or part of the remainder of the year. If a change in control, as defined in the Plan, occurs during a year for which a performance target has been established, the performance target will be deemed to have been achieved, and a pro rata portion of the annual incentive award calculated at the performance target shall be payable. Except as set forth above in this paragraph, an individual must be employed as CEO during the entire fiscal year in order to earn an annual incentive award under the Plan.

If approved by the shareholders, the Plan will be effective as of January 1, 2012 and continue in effect through the year ending December 31, 2016, unless sooner terminated by the Board or the Board s Compensation Committee. The Board or the Compensation Committee may amend, suspend or terminate the Plan at any time, except that no amendment shall be made without shareholder approval if shareholder approval is necessary for awards under the Plan to qualify as performance based compensation under Section 162(m) of the Internal Revenue Code.

**Board Recommendation and Required Vote**

**The Board of Directors recommends a vote FOR approval of the CEO Annual Incentive Award Plan.** Properly executed proxies timely received in the accompanying form will be so voted, unless otherwise directed thereon.

Approval of this proposal requires the affirmative vote of a majority of the votes cast (which excludes abstentions and failures to vote (e.g., broker non-votes)) by the holders of Common Stock present and voting in person or by proxy, with a quorum of a majority of the outstanding shares of Common Stock being present or represented at the Annual Meeting.

# EXECUTIVE COMPENSATION

## COMPENSATION DISCUSSION AND ANALYSIS

In this section, we will describe the material components of our executive compensation program for our Named Executive Officers, referred to herein as Named Officers, whose compensation is set forth in the 2011 Summary Compensation Table and other compensation tables contained in this proxy statement:

William M. Lambert, President and Chief Executive Officer

Dennis L. Zeitler, Senior Vice President, Chief Financial Officer and Treasurer

Ronald N. Herring, Vice President; President, MSA Europe, Russia, Middle East, and India

Joseph A. Bigler, Vice President; President, MSA North America

Kerry M. Bove, Vice President; President, MSA Asia, Australia, Africa, and Latin America

We will also provide an overview of our executive compensation philosophy and our executive compensation program. In addition, we explain how and why the Compensation Committee of the Board (the Committee ) arrives at specific compensation policies and decisions involving the Named Officers. These programs and processes are driven by the Committee s desire to continually increase shareholder value while assuring sound corporate governance, transparency and alignment with MSA s Vision and Values.

## EXECUTIVE SUMMARY

***Our Business***

We are a global manufacturing business with approximately $1.173 billion of revenues in 2011, with operations in North America, South America, Asia, Europe, Middle East, Australia and South Africa. We manufacture and market a wide array of personal protective equipment, including respiratory protection, head, eye, face and hearing protection, fall protection, fixed gas and flame detection systems, portable gas detection instruments and various other safety related products.

The primary goal of the Company is to increase shareholder value over the long-term. We believe that this is best accomplished by achieving our vision to be the world s leading provider of safety solutions that protect workers when life is on the line; continually improving our financial performance; and maintaining a productive, diverse, and motivated work force. The role of our management and Board is to develop and implement effective long-range strategic plans and annual operating plans to achieve these goals. Compensation programs and performance-based incentives are designed to target the median market compensation for executives when these plans are met, above median compensation when they are exceeded, and below median compensation when they are not met.

For fiscal year 2010, the Company s financial performance included revenues of $976,631,000 (a 7.3% increase over 2009) and net income of $38,104,000 (a 12% decrease from 2009). 2010 presented a very difficult economic environment for all of industry, but was one in which the Company remained determined to make select strategic investments and significant cost reductions to position MSA for leadership in the economic recovery. The Board was pleased that both revenues and net income for 2010 exceeded what were considered to be challenging goals for the year, and that the strategic investments and cost reductions were well implemented.

For fiscal year 2011, revenues increased to $1.173 billion (a 20% increase over 2010) and net income increased to approximately $69.9 million (an increase of 83% from 2010). This revenue and income growth reflects the efforts and results of management in 2010 and 2011 and includes the results of General Monitors which was acquired in late 2010 and which has performed successfully since then.

***2011 Executive Compensation Overview***

The Committee has developed executive compensation programs comprised of three primary components: salary; performance-related annual incentives; and equity grants which are also largely performance related. In establishing the performance metrics for the 2011 annual incentive, the Committee recognized that MSA would have to continue navigating a challenging economic environment with significant cost reductions, investments in restructuring worldwide, and strategic investments in new product development. The 2011 business plan was designed to position the Company to grow and enter 2012 in a stronger strategic and competitive position for the years ahead. We believe we have accomplished that goal in 2011.

Specifically, the Company was able to exceed many of its financial goals for 2011 and most of its strategic and productivity goals for the year.

The Company had several key areas of focus in 2011 including:

- Financial performance goals
- European transformation goals
- General Monitors integration goals
- Corporate strategy key milestone achievement goals
- Worldwide productivity and restructuring goals

COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

The above areas of focus correlate with the Named Officers performance metrics within the cash incentive plan and help drive return on net assets ( RONA ), operating profits, consolidated net income and customer satisfaction results. As a result of the positive performance attained in each of these key areas, our Named Officers earned cash incentive awards pursuant to our annual incentive program ranging between 164% and 187% of target.

To emphasize the importance of pay-for-performance in our compensation philosophy and our Company s culture, the Company s incentive arrangements are based on the achievement of specific performance goals that support our business strategy. Our annual incentive program focuses on achieving key performance metrics such as those mentioned above. Our long-term incentive program includes stock options, time based restricted stock and performance based stock units. Stock options reward for increases in our share price. Our performance based stock unit program was revised in 2011 to better align rewards to shareholder return by changing the performance metric from RONA to total shareholder return ( TSR ) compared to our peer group. Time based restricted shares vest after three years of continued employment, providing the Company with a valuable retention incentive and alignment with shareholders rewards for increases in stock price. Stock option grants made in 2009, 2010, and 2011 have increased in value. The 2010 and 2011 grants remain unvested thereby providing the Company with important retention benefits.

During 2011, the Committee re-assessed the design and administration of all executive compensation programs to ensure that those programs meet our performance requirements, deliver on our Core Principles, and do not promote unnecessary risk-taking. The Committee also re-evaluated and strengthened policies such as stock ownership and retention requirements, and compensation recoupment. In addition, long-term incentive vesting provisions, capped incentive awards, and an emphasis on team-based metrics serve to mitigate risk. As a result, the Committee concluded that the Company s compensation programs effectively accomplish their intended goals, and do not promote unwanted risk taking that could be detrimental to the Company.

At the annual shareholders meeting in May 2011, the executive compensation of the Company s Named Officers was approved by our shareholders, with 98.1% of the votes cast voting in favor of the proposal. The Committee considered this vote in connection with its determination of compensation policies and decisions and has concluded that the Company will maintain its existing compensation philosophy for 2012. In addition, 84.4% of the votes cast voted in favor of the Board s recommendation of an annual vote on executive compensation. Accordingly, the Company has determined that for the present the executive compensation vote will occur annually.

***Organizational Changes***

There were several organization changes in 2011. Rob Cañizares, President MSA International, retired on October 31, 2011. Effective November 1, 2011, two current officers were promoted into the positions of President:

Ronald N. Herring became President, MSA Europe, Russia, Middle East, and India

Kerry M. Bove became President, MSA Asia, Australia, Africa, and Latin America

***Philosophy and Objectives of the Executive Compensation Program***

The objectives of MSA s executive compensation programs, which cover not only the five Named Officers in the Summary Compensation Table, but all officers of the Company, are to improve shareholder value over the long-term by attracting, retaining and motivating superior executive talent who will drive robust financial and operational performance and enable the Company to achieve its goals. Our program is guided by a philosophy that strives to align target compensation at the middle (50th percentile) of the market for each element, including salary, performance-based cash, and equity incentives and benefits, yet provides an above-market compensation opportunity for (a) performance exceeding annual budget and peer group norms, and (b) executive retirement plans, so as to motivate long-term performance and improvement, commitment,

retention and loyalty, including support for the Company s mission, values and strong corporate ethics. We believe that this philosophy enables the Company to attract and retain superior executive talent by providing the opportunity to work in a highly ethical, growing and team-oriented Company.

The design of our compensation programs is driven by the following Core Principles which support our objectives:

| Core Principles | Objective |
|---|---|
| Executive compensation should be aligned to the achievement of corporate goals and objectives and provide line of sight to annual and long-term corporate strategies without promoting unacceptable levels of risk to the Company. | Improve shareholder value |
| A significant portion of an executive s compensation should be performance-based and should hold executives accountable for the achievement of corporate objectives and increases in shareholder value. | Improve shareholder value |
| The compensation program should promote an ownership culture through the use of stock-based compensation and ownership guidelines that clearly define expected levels of ownership in MSA s stock. | Improve shareholder value |
| The compensation program should reward each executive s individual performance and unique responsibilities while assuring a fair and competitive approach. | Attract, retain and motivate superior talent |
| The compensation program should recognize and reward an executive s loyalty and tenure with the company by providing financial security following retirement. | Attract, retain and motivate superior talent |

***Components of Executive Compensation Program***

Building on these Core Principles, our executive compensation program contains both cash and stock-based components designed to meet specific objectives of the Committee. The Committee considers both annual and long-term Company goals and strives to develop incentives that motivate executives to achieve these goals. Cash payments are provided through an executive s base salary and a performance-based annual incentive. Company stock is provided through the use of stock options, time based restricted stock and, beginning in 2009, performance based stock units. The Committee has chosen to align its cash incentive program with the achievement of annual internal financial and strategic goals, and its performance based stock units program with the accomplishment of both return on net assets (RONA) and total shareholder return (TSR) performance relative to peers.

COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

Executives participate in a retirement plan that provides for post-employment financial security, and some executives are provided with a limited number of perquisites (company car, financial counseling, and limited club memberships) that the Committee believes serve a business purpose, are common in the market and are of modest cost to the Company. Executives also participate in a severance plan that provides certain benefits to executives should their jobs be terminated following a change in control of the Company. The specific rationale for why the Committee has chosen to provide each element of compensation is as follows:

| Compensation Component | Key Characteristics | Purpose | Principal 2011 Actions |
|---|---|---|---|
| Base Salary | Fixed cash compensation component. Reviewed annually and adjusted, if and when appropriate. | Intended to compensate an officer fairly for the responsibility level of the position held. | Base salary increase in 2011 ranged from 0% to 4.8% based on the 2010 performance year, individual performance review and where the executive fell with respect to market median. |
| Annual Incentive Awards | Variable cash compensation component. Payable based on corporate and business unit performance and level of individual contributions to that performance. | Intended to motivate and reward officers for achieving our annual business objectives that drive overall performance. | The Named Officers received annual incentive awards in 2012 for 2011 performance ranging from $242,120 to $997,259 and 164% to 187% of target. |
| Long-Term Incentive Awards | Variable stock component. Actual amounts earned vary based on corporate and share price performance. | Intended to motivate officers to achieve our business objectives by tying incentives to the performance of our Common Stock over the long-term; and to reinforce the link between the interests of our officers and our shareholders. | The Named Officers received long-term incentive awards with grant date values ranging from $227,700 to $1,609,632 in February 2011. |
| Health and Welfare Plans and Retirement Plans | Fixed compensation component. | Intended to provide benefits that promote employee health and support employees in attaining financial security. | No changes to programs in 2011 that affected Named Officers. |
| Perquisites and Other Personal Benefits | Fixed compensation component. | Intended to provide a business-related benefit to our Company, and to assist in attracting and retaining officers. | No changes to programs in 2011 that affected Named Officers. |
| Post-Employment Compensation | Fixed compensation component. | Intended to provide temporary income following an officer s involuntary termination of employment and, in the case of a change of control, to also provide continuity of management. | No changes to programs in 2011 that affected Named Officers. |

The Committee believes that all of these components, taken as a whole, provide an attractive compensation package that aligns with the Company s annual and long-term goals and enables the Company to attract, retain and motivate superior executive talent. As a means of

mitigating risk, the Committee has adopted policies such as share ownership and retention guidelines, which require executives to maintain a certain level of ownership of MSA stock, and a compensation recoupment policy that provides the Committee with the ability to recoup certain awards previously paid or earned based on financial results that were later restated downward, and discretionary authority held by the Committee that allows downward modification of any payouts from any plan.

COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

*Performance-Based Incentives.* The Committee believes that a significant portion of a Named Officer s compensation should be delivered through performance-based incentive compensation components. The Committee has identified meaningful financial and shareholder performance objectives that align with the business, are measurable, and are used by management on a day-to-day basis to pursue its business strategy. The Committee has chosen the following measures for use in the Company s incentive arrangements that support and align with the Company s business strategy:

| Performance Measure | Annual Cash Incentive Plan | Long-Term Incentive Plan | Rationale for Use |
|---|---|---|---|
| Stock Price | | X | Indicator of shareholder value creation |
| Total Shareholder Return (TSR) | | X | Indicator of shareholder value creation |
| Return on Net Assets (RONA) | X | X | Promotes the efficient use of capital over the short- and long-term |
| Net Income | X | | Encourages bottom-line profitability |
| Operating Profit | X | | Encourages operating profitability |
| Gross Profit Margin | X | | Promotes process efficiency |
| Customer Satisfaction Index | X | | Non-financial leading indicator of future success |

In summary, the Committee believes that the best way to reward executives is to combine a program of cash incentives (based on annual financial performance goals) with stock options, performance based stock awards, and time based restricted stock awards the value of which depends on the Company s stock price and, in part, on performance versus long-term financial performance metrics.

The Company s incentive plans (annual and long-term) are targeted to reward executives at the middle (50th percentile) of the market for achieving expected or targeted performance levels. For example, our annual incentive plan is designed to pay above the targeted level and, therefore, above the middle of the market if the Company s performance exceeds our goals and expectations, subject to a cap upon maximum performance. If the Company s performance falls below our goals and expectations, the annual incentive plan is designed to pay below the targeted level. If actual performance falls below a certain threshold level, our annual incentive plan is designed to pay nothing. This variable aspect of our annual incentive arrangement is also present in our long-term stock plans. For instance, we use stock options in our long-term incentive plan such that if the stock price falls below the exercise price they are of no value to the executive. Stock option grants made in 2009, 2010, and 2011 have now increased in value. The 2010 and 2011 grants remain unvested thereby providing the Company with important retention benefits. Our performance based stock units incorporate a performance threshold below which no payments are made.

COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

The following table shows the allocation of performance-based versus fixed compensation components for our Named Officers at targeted levels in 2011:

**PERCENT OF COMPENSATION AT RISK**

| Named Officer | Performance-Based (1) | Fixed (2) |
|---|---|---|
| William M. Lambert | 58.1% | 41.9% |
| Dennis L. Zeitler | 49.3% | 50.7% |
| Ronald N. Herring, Jr. | 44.3% | 55.7% |
| Joseph A. Bigler | 47.6% | 52.4% |
| Kerry M. Bove | 44.2% | 55.8% |

(1) Includes the target value of 2011 non-equity incentive award, the grant date fair value of performance stock units at target and the grant date fair value of stock options granted in February 2011.

(2) Includes base salary earned in 2011 plus the grant date fair value of time based restricted stock granted in February 2011. Time based restricted stock is included in the fixed column because there are no performance conditions to its vesting (other than continued employment), but unlike base salary, the ultimate value of restricted stock is inherently performance based.

**COMPENSATION OVERSIGHT PROCESS**

*Role of the Committee.* The Committee has responsibility for the oversight and decision making regarding executive compensation except for CEO compensation, which is approved by the independent directors as described below. The Committee has engaged an outside compensation consultant, Pay Governance, LLC, to provide assistance and guidance on compensation issues. The consultant provides management and the Committee with relevant information pertaining to market compensation levels, alternative compensation plan design, market trends and best practices. Pay Governance is considered to be independent by the Committee. Except for services to market price several global executive positions in 2011, which were requested by management and authorized in advance by the Committee, the consultant provided only executive compensation consulting services to the Committee. At its meetings, the Committee regularly holds executive sessions, which exclude management and, subject to the Committee s desire, may include its independent consultant. Management assists in the coordination and preparation of the meeting agenda and materials for each meeting, which are reviewed and approved by the Committee Chairman. Meeting materials are mailed to Committee members for review approximately one week in advance of each meeting. The Committee met four times in 2011 and held an executive session at each meeting which excluded members of management.

For the Chief Executive Officer s compensation, the Committee develops proposals and presents them to the full Board s independent directors for their approval. Compensation decisions regarding all other officers are approved by the Committee. The Committee considers the recommendations of the Chief Executive Officer when making compensation decisions regarding all other officers.

*Role of the Compensation Consultant.* The Committee has retained Pay Governance, LLC as its executive compensation consultant. The compensation consultant reports directly to the Committee and the Committee may replace the compensation consultant or hire additional consultants at any time. The compensation consultant attends meetings of the Committee, as requested, and communicates with the Committee Chairman between meetings; however, the Committee makes all decisions regarding the compensation of our officers.

The compensation consultant provides various executive compensation services to the Committee pursuant to a written consulting agreement approved by the Committee Chairman. Generally, these services include advising the Committee on

the principal aspects of our executive compensation program and evolving industry practices, and providing market information and analysis regarding the competitiveness of our program design and our award values in relationship to its performance.

During 2011, the compensation consultant performed the following specific services for the Committee:

- Provided presentations on executive compensation trends and external developments.
- Provided an annual competitive evaluation of total compensation for the Named Officers, as well as our overall compensation program.
- Provided recommendation on all officers total compensation.
- Reviewed Committee agendas and supporting materials in advance of each meeting, and raised questions/issues with management and the Committee Chairman, as appropriate.
- Reviewed drafts and commented on the compensation discussion and analysis for the proxy statement and the related compensation tables.

In addition, the compensation consultant attended meetings of the Committee during 2011 as requested by the Committee Chairman.

The Committee retains sole authority to hire the compensation consultant, approve its annual fees, determine the nature and scope of its services, evaluate its performance, and terminate its engagement.

*Use of Competitive Data.* The Committee reviews data related to compensation levels and programs of other companies prior to making its decisions. The Committee engages its consultant to perform a comprehensive assessment of compensation levels provided to executives among a peer group of companies. These companies are selected based on the following criteria:

- Annual revenues that range from approximately half to double (approximately $500 million to $2 billion in 2011) MSA annual revenues
- Manufacturing process representing various MSA industry sectors and technologies
- Global operations and customer base

For 2011, the peer group consisted of the following 24 companies:

| | |
|---|---|
| Albany International Corp. | Invacare Corp. |
| Brady Corp. | Matthews International Corp. |
| Ceradyne Inc. | Mettler-Toledo International Inc. |
| Checkpoint Systems Inc. | Moog Inc. |
| CLARCOR Inc. | Nordson Corp. |
| Donaldson Company | PerkinElmer Inc. |
| ESCO Technologies Inc. | Robbins & Myers Inc. |
| Federal Signal Corp. | Roper Industries Inc. |
| Force Protection Inc. | Simpson Manufacturing Co. Inc. |
| FLIR Systems | Standex International Corp. |
| Gentex Corp. | STERIS Corp. |
| IDEX Corporation | Waters Corporation |

COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

The Committee re-assesses the peer group composition annually and may periodically make changes, usually by adding companies that may better meet our selection criteria or by removing companies that may have experienced change, such as acquisition, or no longer fit our selection criteria. In 2011, the Committee, through its consultant, conducted a review of the peer companies which resulted in the removal of Bucyrus due to its acquisition by Caterpillar and approved the additions of Donaldson Company, Waters Corporation, FLIR Systems and Force Protection Inc.

The consultant conducts an annual analysis of the most recent proxy disclosures for the peer group companies in order to understand the compensation ranges for base salary, and the annual and long-term incentives provided to the peer group named executive officers. In addition, regression analysis is applied to data from compensation surveys conducted by Towers Watson representing nearly one thousand (1,000) general industry companies. The Committee believes that the combination of these comprehensive data sources allows it to understand the market compensation ranges for both the Named Officers and positions below the Named Officers based on the duties and responsibilities of each position and to determine the level of compensation needed to target the middle (50th percentile) of the market.

The market compensation data is further used to develop a market compensation structure which includes salary grades with midpoints. Each executive is assigned to a salary grade where the midpoint of the grade approximates the median (50th percentile) of the market salary level for that position. Each salary grade has a salary range around the midpoint and has a corresponding annual and long-term incentive award opportunity that also aligns with the middle (50th percentile) of the market. In assigning an executive to a salary grade, the Committee also considers internal factors that may, in a limited number of instances, impact the grade assignment of an executive.

In addition to the market data, the Committee considers the following factors when making compensation decisions:

- Individual and Company performance
- Experience in the position
- Current compensation relative to market median

An assessment of these factors could result in actual compensation being positioned modestly above or below the desired middle (50th percentile) of the market positioning. The Committee does not consider amounts earned from prior performance-based compensation, such as prior bonus awards or realized or unrealized stock option gains, in its decisions to increase or decrease compensation for the following year. The Committee believes that this would not be in the best interest of retaining and motivating executives.

In order to assess the impact of its executive compensation decisions, the Committee reviews a summary report or tally sheet of total compensation provided to each officer. The tally sheet includes the total dollar value of annual compensation, including salary, annual and long-term incentive awards, annual increase in retirement accruals and the value of other benefits and perquisites. The tally sheet also provides the Committee information pertaining to equity ownership, future retirement benefits, and benefits the Company is required to provide to each executive under various termination scenarios. The Committee s review of the tally sheet information is an integral part of its decision making process each year.

**DETERMINATION OF EXECUTIVE COMPENSATION AMOUNTS**

*Fixed Cash Base Salary.* The Company provides executives with a base salary in order to attract and retain executive talent. Base salary is designed to be competitive with other organizations and is sensitive to the skill level, responsibility and experience of the executive. Base salary for each executive is determined through our external benchmarking process and an internal comparison to other executives at the Company to ensure internal equity. Base salary levels are targeted to the middle (50th percentile) of the market, although the Committee considers base salary levels that fall within plus or minus 10% of the market median to be competitive.

Base salary adjustments are considered and are affected by each executive s individual performance assessment based on a rigorous performance management process called PMP. This individual process details an executive s annual accomplishments compared to performance expectations established at the outset of each year, and also assesses the individual s behaviors used to achieve the performance level. The CEO develops and recommends to the Committee annual base salary adjustments for each executive primarily by evaluating individual performance using the PMP process.

The Committee performs a similar comprehensive evaluation of the CEO s performance against pre-determined annual operational and strategic goals previously approved by the independent directors of the Board, and determines his recommended annual base salary increase based on the outcome of this evaluation. This salary recommendation is then also approved by the independent directors. At its February 2011 meeting, the Committee approved salary increases ranging from 0% to 4.8% for the Named Officers. Following these adjustments, salary levels were positioned as follows relative to the market median targeted level: Mr. Lambert 8% below median, Mr. Zeitler 1% above median, Mr. Bigler 7% above median, Mr. Herring 2% below median, Mr. Bove 1% above median.

*Performance-Based Annual Cash Incentive.* The Company provides executives with an annual cash incentive based on (a) the MSA Non-CEO Executive Incentive Plan (NCEIP), which directly rewards the accomplishment of key corporate and/or geographical or business unit performance goals and (b) the CEO Annual Incentive Award Plan (AIAP) which has been approved by shareholders and is administered within the requirements necessary to attempt to retain the tax deductibility of his annual incentive award under Section 162(m) of the Internal Revenue Code. Additionally, each executive, including the CEO, is eligible for a program known as the Enhanced Bonus that rewards participants only when the Company s budgeted consolidated net income before extraordinary items exceeds pre-set targets. Under the Enhanced Bonus feature, annual incentive awards earned under the NCEIP or AIAP, which are each limited to a maximum payout of 150% of target, may be increased from 0% to 50% if the Company s consolidated net income, before extraordinary items, exceeds the target. The enhancement is interpolated at performance levels between target and 125% of target. For each 1% increase in actual consolidated net income above target and before extraordinary items, earned awards under the NCEIP and AIAP are increased by 2%. For example, at performance of 105% of target, the incentive is increased by 10%. The incentive is increased by 50% if the Company exceeds the target by 25% or more, resulting in a total bonus opportunity of 225% of target should performance achieve or exceed maximum levels for all metrics. The Committee believes that the increased performance leverage that the Enhanced Bonus is designed to provide is in the best interests of our shareholders by motivating our senior management to exceed bottom line profitability targets in addition to important Company and business unit performance metrics. The AIAP was amended in March 2012, subject to shareholder approval, to expand the list of performance criteria upon which tax-deductible awards may be granted to the CEO, which will allow the Company to measure performance against a larger array of performance metrics. The AIAP, as amended and restated, is being submitted to the Company s shareholders for approval in Proposal No. 2, beginning on page 8.

The following chart illustrates how the enhanced bonus feature rewards performance that exceeds targets under the NCEIP and AIAP, thereby assuring that executive reward is aligned to shareholder value:

(1) Per Pay Governance, LLC research

Under the NCEIP and AIAP, the target incentive opportunity (paid for achieving target performance) for each Named Officer is aligned with the executive s salary grade level and the middle (50th percentile) of the market as determined through our external benchmarking process, although the Committee considers target incentive opportunities between plus or minus 10 percentage points of the market median to be competitive. If actual performance drops below 70% of the performance target, payout drops to zero.

The following table shows the percent of salary midpoint and dollar amount of incentive that would be earned if actual performance was equal to targeted performance.

**2011 TARGET CASH INCENTIVE AWARD**

| Named Officer | Percent of Salary Midpoint (1) | NCEIP/AIAP Target Award (2) |
|---|---|---|
| William M. Lambert | 80% | $ 547,960 |
| Dennis L. Zeitler | 55% | $ 201,988 |
| Ronald N. Herring, Jr. V.P. Global Product Leadership | 45% | $ 113,845 |
| Ronald N. Herring, Jr. President, MSA Europe, Russia, Middle East and India. | 50% | $ 27,835 |
| Joseph A. Bigler | 50% | $ 166,975 |
| Kerry M. Bove V.P. Operational Excellence | 45% | $ 113,845 |
| Kerry M. Bove President, MSA Asia, Australia, Africa, and Latin America | 50% | $ 27,835 |

(1) Percent of salary midpoint is the percent multiplied by the executive s salary grade midpoint during 2011 to calculate the target award. Midpoints for Messrs. Herring and Bove changed during the year. The target awards shown above reflect 2011 midpoints.

(2) Target award is the amount that would be paid to the executive assuming all Company and individual performance goals are met per that executive s performance metrics. On November 1, 2011, Messrs. Herring and Bove were promoted into the positions of

President for their respective geographic regions. Therefore, target cash incentive awards for 2011 were calculated on a prorated basis, with 5/6 of the award based upon salary mid-point prior to the promotions and 1/6 of the award based upon salary mid-point after the promotions. Each of the two lines presented for Messrs. Herring and Bove reflects the prorated targets for each of the positions held during the year.

Actual NCEIP award payments are based primarily on the achievement of a variety of Company financial goals, but also have a discretionary personal performance factor applied based on the accomplishment of an executive s individual goals. An executive s individual performance goals are a mix of objective, subjective and strategically-oriented goals within the executive s control or to which he or she contributes in a meaningful way.

When making his recommendations, the CEO rates each executive s accomplishments relative to these goals and may increase or decrease the calculated NCEIP bonus amount by up to 20%.

Actual AIAP award payments for the CEO for 2011 were based 50% on achievement of consolidated net income before extraordinary items, as defined by generally accepted accounting principles, and 50% on achievement of return on net assets both relative to the pre-determined goals established and approved by the Committee. The Committee also recommends for Board approval annual operational and strategic goals for the CEO. The independent directors of the Committee may use their discretion to reduce the size of the CEO s calculated award based on his performance relative to his individual goals, but may not increase it. This is necessary to attempt to retain deductibility under Internal Revenue Code Section 162(m).

If performance is below minimum threshold level the payout goes to zero. In addition to these opportunities, the Enhanced Bonus feature may add up to 50% to the calculated NCEIP or AIAP award depending on the level of consolidated net income performance above target. The maximum award opportunity under all plans combined is 225% of target for each executive including the CEO. Actual awards paid for 2011 performance are included in the *Summary Compensation Table* on page 33 under the column *Non-Equity Incentive Plan Compensation*. Award opportunities for each Named Officer under the combined plans for 2011 at threshold, target and maximum are included in the *Grants of Plan-Based Awards* table on page 34 under the columns *Estimated Possible Payouts Under Non-Equity Incentive Plan Awards*.

In 2011, performance measures and goals were approved by the Committee at its February meeting. For the Chief Executive Officer and the other Named Officers, the Committee and in the case of the CEO, independent directors of the full Board, approved the following performance targets:

**PERFORMANCE TARGETS FOR ANNUAL CASH INCENTIVE**

**President and Chief Executive Officer William M. Lambert**

(Dollars in millions)

| Performance Measure | Weighting | 2011 Annual Incentive Goals |
|---|---|---|

| | | Performance | | | |
|---|---|---|---|---|---|
| Consolidated Return on Net Assets | 50% | 19.8% | 11.4% | 16.3% | 21.2% |
| Consolidated Net Income before extraordinary items | 50% | $69.9 | $41.3 | $59.0 | $76.7 |

**Senior Vice President, Chief Financial Officer and Treasurer Dennis L. Zeitler**

(Dollars in millions)

| | | 2011 Actual | 2011 Annual Incentive Goals | | |
|---|---|---|---|---|---|
| Performance Measure | Weighting | Performance | Threshold | Target | Maximum |
| Consolidated Return on Net Assets | 50% | 19.8% | 11.4% | 16.3% | 21.2% |
| Consolidated Net Income before extraordinary items | 50% | $69.9 | $41.3 | $59.0 | $76.7 |

**Vice President and President, MSA Europe, Russia, Middle East and India Ronald N. Herring, Jr.**

(Dollars in millions)

| Performance Measure | Weighting | 2011 Actual Performance | 2011 Annual Incentive Goals | | |
|---|---|---|---|---|---|
| | | | Threshold | Target | Maximum |
| Consolidated Return on Net Assets | 50% | 19.8% | 11.4% | 16.3% | 21.2% |
| Consolidated Operating Income[1] | 25% | $128.6 | $81.3 | $116.2 | $151.1 |
| Consolidated Gross Profit Percentage[2] | 25% | 39.7% | 27.1% | 38.7% | 50.3% |

**Vice President and President, MSA North America Joseph A. Bigler**

(Dollars in millions)

| Performance Measure | Weighting | 2011 Actual Performance | 2011 Annual Incentive Goals | | |
|---|---|---|---|---|---|
| | | | Threshold | Target | Maximum |
| Consolidated Return on Net Assets | 50% | 19.8% | 11.4% | 16.3% | 21.2% |
| North America Segment Operating Income[2] | 25% | $71.7 | $51.9 | $74.1 | $96.3 |
| North America Customer Satisfaction Performance Index | 25% | 74.8% | 67.2% | 73.6% | 80.0% |

**Vice President and President, MSA Asia, Australia, Africa and Latin America Kerry M. Bove**

(Dollars in millions)

| Performance Measure | Weighting | 2011 Actual Performance | 2011 Annual Incentive Goals | | |
|---|---|---|---|---|---|
| | | | Threshold | Target | Maximum |
| Consolidated Return on Net Assets | 50% | 19.8% | 11.4% | 16.3% | 21.2% |
| Consolidated Operating Income[1] | 25% | $128.6 | $81.3 | $116.2 | $151.1 |
| Consolidated Gross Profit Percentage[2] | 25% | 39.7% | 27.1% | 38.7% | 50.3% |

[1] On November 1, 2011, Messrs. Herring and Bove were promoted into the positions of President for their respective geographic regions. While their 2011 performance measures included Consolidated Operating Income and Consolidated Gross Profit Percentage, their 2012 performance measures will include geographic segment business metrics.

[2] For geographic business metrics and certain consolidated metrics a currency adjusted target will be used to compute the annual incentive payment.

The Committee chose consolidated return on net assets (RONA) as the primary corporate performance goal for 2011 for all Named Officers. For the CEO and CFO, consolidated net income before extraordinary items is an additional performance goal. For geographic business unit executives, the Committee has chosen a combination of consolidated return on net assets and their individual segments operating income. Certain of the Named Officers are also measured by other performance goals appropriate to their job duties. The Committee believes that these measures are the best indicators of performance produced as a result of our executives efforts and is reflective of their individual areas of responsibility.

*Long-Term Incentive Compensation*. Our long-term incentive program represents a significant portion of an executive s total compensation package. Awards under this program are considered at risk, which means they can increase or decrease in value based on fluctuations in our stock price. In selecting the appropriate long-term incentive vehicles, the Committee made its decisions based on its desire to reward for long-term stock price appreciation, to promote loyalty and tenure with the Company and to increase executives alignment with shareholders. Stock options and time based restricted stock were chosen to meet these attributes. These awards are granted under the shareholder-approved 2008 Management Equity Incentive Plan (MEIP). In 2009, performance stock units were added to the mix of equity instruments, replacing an equivalent portion of

previously allocated stock options, to place additional emphasis on the objective of maximizing the return on net assets. In 2011, the mix was changed to one-third stock options, one-third restricted stock awards and one-third performance stock units, which increased the use of performance stock units as a long term compensation tool.

The following table illustrates the calculation and allocation of the long-term incentive compensation. This table and the table of Grants of Plan-Based Awards use the amounts computed in accordance with FASB ASC Topic 718.

**LONG-TERM INCENTIVE COMPENSATION**

| | | | Allocation to | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1/1/2011 Salary Midpoint (1) | 2011 Stock Multiplier [1] (2) | Stock Options (33.3%) (3) | Restricted Stock (33.3%) (4) | Performance Stock Units (33.3%) (5) | Option Award Value[2] (1) x (3) | Restricted Stock Award Value[3] (1) x (4) | Performance Stock Units Award Value[4] (1) x (5) |
| William M. Lambert | $ 684,950 | 235% | 78.33% | 78.33% | 78.33% | $536,544 | $536,544 | $536,544 |
| Dennis L. Zeitler | $ 367,250 | 120% | 40.00% | 40.00% | 40.00% | $146,900 | $146,900 | $146,900 |
| Ronald N. Herring, Jr. | $ 303,600 | 75% | 25.00% | 25.00% | 25.00% | $75,900 | $75,900 | $75,900 |
| Joseph A. Bigler | $ 333,950 | 100% | 33.33% | 33.33% | 33.33% | $111,317 | $111,317 | $111,317 |
| Kerry M. Bove | $ 303,600 | 75% | 25.00% | 25.00% | 25.00% | $75,900 | $75,900 | $75,900 |

[1] Stock multiplier is the percentage effective as of January 1, 2011.

[2] Options awarded = Option Award Value divided by the Black-Scholes option value on the date of the award. Actual amount may vary due to rounding to nearest share value.

[3] Shares awarded = Restricted Stock Award Value divided by the closing stock price on the date of the award. Actual amount may vary due to rounding to nearest share value.

[4] Units awarded = Performance Stock Units Award Value divided by the closing stock price on the date of the award. Actual amount may vary due to rounding to nearest share value. Amounts shown in this column may differ from amounts shown in the compensation tables contained in this proxy statement due to differences in the method of calculating fair market value in such compensation tables in accordance with FASB ASC Topic 718.

NOTE: A stock multiplier is the percentage of the Named Officers salary midpoint that is awarded in annual equity grants as long term incentives. Stock multipliers are market based and determined with the assistance of the Company s outside compensation consultant.

Long-term incentive opportunities are developed for each executive salary grade based on the middle (50th percentile) of the market. While the Committee reviews these long-term incentive opportunities annually, it typically only adjusts the individual opportunities periodically as market median long-term incentive data tends to be volatile, increasing or decreasing for certain positions more frequently than salary or annual incentive data. As a result, each Named Officer s long-term incentive opportunity has been the same for the last several years even though the market has moved up and down over this time frame. In order to bring the Chief Executive Officer closer to the market median, the Committee has increased his stock multiplier as described in the above chart from 170% in 2009 to 190% for 2010 and to 235% for 2011. The reallocation in 2011 of long-term incentive compensation opportunities to one-third stock options, one-third restricted stock awards and one-third performance stock units demonstrates the Committee s desire to base a large portion of an executive s long term incentive on performance-based vehicles.

*Stock Option Awards.* Stock options are a performance motivator for executives to increase shareholder value. The Committee has chosen to use stock options because of the alignment they provide with our shareholders and the value realized by the executive is limited to the increase in our stock price in excess of the option s exercise price, which is equal to

the closing stock price on the date of grant. If our stock price drops below the exercise price, the option provides no value to the executive.

The Company computes the fair value of each stock option in accordance with FASB ASC Topic 718, and expenses this amount over the vesting period.

The valuation methodology used to calculate the share grants and to calculate the accounting expense is the same. Each option has vesting provisions that require continued employment of the executive thereby promoting the retention of the executive. Stock options vest 100% three years following grant. The options are exercisable after they vest and until they expire, which is generally on the tenth anniversary following the grant date.

In order to deliver stock options in the most tax efficient means to our executives, incentive stock options are provided, to the extent IRS limits permit, along with non-qualified stock options. The benefit of receiving incentive stock options is that realized gains are taxed at the lower capital gains rate instead of at an executive s higher normal income tax rate, if certain holding period requirements are met. The exercise price is 100% of the fair market value on the grant date.

*Performance Stock Units.* The Company introduced this type of equity grant in 2009 to incentivize the achievement of one or more specific goals promoting long-term shareholder value. At the date of grant, a target number of shares is established based on the share value at the time of the award and present dollar value of the compensation intended to be delivered. Ultimately the number of shares awarded at the end of the performance period varies based on the achievement of corporate goals.

The target number of shares will vest if the target performance goals are met. If excellence goals are met, the number of shares vested will be doubled. If only the minimum threshold performance is achieved, one half of the target number of shares will vest. If performance is below threshold, the entire award will be forfeited. At performance levels between threshold, target and excellence, awards will be interpolated. For grants made in 2009 and 2010, there are no shares issued until the end of the performance period. Therefore, there are no dividend rights or voting rights associated with this form of long-term incentive until the shares are actually issued at vesting.

Goals for the 2009 and 2010 grants were based on a three-year performance period. The metric is based on return on net assets (RONA) as compared to our peer group. Target payout will be made if our RONA is equal to the 50th percentile of our peer group, threshold payout will be made if our RONA is equal to the 25th percentile of our peer group and excellence payout (double the target award) will be made if our RONA is equal to or above the 75th percentile of our peer group.

For the grants made in 2011, the performance metric was changed to Total Shareholder Return (TSR) compared to the peer group. The performance period is three years. At the end of the first year of the performance period, if the TSR is at or above the 50th percentile of the peer group TSR, one fourth of the target number of shares will be issued as restricted stock, subject only to forfeiture in the event of termination of employment prior to the end of the performance period. At the end of the second year of the performance period, if the two year cumulative shareholder return is at or above the 50th percentile of the peer group, one half of the target shares less any shares earned at the end of the first year will be issued as restricted stock, subject only to forfeiture in the event of termination of employment prior to the end of the performance

period. At the end of the third year of the performance period, if the three year cumulative TSR is at the 50th percentile of the peer group, the target number of shares will be earned less any shares earned in the previous two years. If the TSR is at or above the 75th percentile of the peer group at the end of the third year, two times the target number of shares will be earned less any shares

earned during the first two years of the performance period. If the TSR is below the 25th percentile of the peer group at the end of the third year, no shares will be earned for that period. Also, if the TSR is at or above the 25th percentile but is a negative number, then the maximum number of shares earned is limited to one half of the target shares. However, restricted shares that were issued during the first two years of the performance period will not be forfeited and will become vested at the end of the three years based upon the officer s continued employment. For performance between the 25th percentile and the 75th percentile interpolation will be used to determine the actual numbers of shares earned.

*Time Based Restricted Stock.* The Committee has selected time based restricted shares in order to create and encourage an ownership culture and to serve as a retention tool. Restricted shares vest 100% on approximately the third anniversary following the date of grant. The fair value of restricted shares is the fair market value on the date of grant, and the recipient is charged with income for Federal income tax purposes in the year of vesting and at the market value as of the date that vesting restrictions lapse. The restricted shares include voting rights and the right to dividends during the vesting period.

**ADDITIONAL CONSIDERATIONS RELATING TO THE CEO**

Although it is generally the Company s policy to compensate its officers at the 50th percentile of the market based on the most recent market data from the Committee s compensation consultant, the salary of the current CEO, Mr. Lambert, was set in April 2011 at approximately 92% of the market median. This is below the 25th percentile as compared to other chief executive officers at manufacturing companies of similar size. Mr. Lambert s annual incentive pay is also currently set below the median of the market.

For the 2011 equity grants, the Compensation Committee decided to increase Mr. Lambert s equity compensation to the market median of 235% of midpoint. Mr. Lambert s compensation has increased each of the three years since he was elected CEO.

These increases are consistent with the plan adopted by the Board to gradually bring his compensation to the 50th percentile of the market, assuming that Mr. Lambert s performance is at acceptable levels. When Mr. Lambert was appointed CEO in 2008, his compensation was set at a level below the market median because he was previously President of an MSA business unit and the Board wanted to increase his pay over time as he grew into the CEO position.

*CEO Pay For Performance.* During 2011, the Committee, with the assistance of its consultant, conducted several analyses to assess the alignment of the CEO s pay relative to the performance of the Company. Company performance was defined as either our total shareholder return (TSR) or a composite of performance metrics. This composite consists of the average ranking relative to our peers of our TSR, Net Income Growth, Operating Income Margin, and Return on Net Assets. These analyses considered the CEO s total direct compensation (TDC) which includes: base salary, actual cash bonus earned and value of equity incentives. Equity incentives were considered using two separate methodologies:

1. **Expected value method:** this method considered the grant date fair value of equity awards and is the same value as stated in our proxy statement summary compensation table.

2. **Realizable compensation method:** this method examines the aggregate value of previously granted equity awards at a point in time, including:
   a. the in-the-money intrinsic value of stock option grants made during the period,
   b. the end of period value of restricted stock grants made during the period, and
   c. for performance awards, the actual payouts for awards beginning and ending during the three-year performance period and the end of period estimated payout for unvested awards granted during the three-year performance period ended December 31, 2010.

The Committee reviewed and discussed the results of the following independent analyses and was satisfied that the executive compensation program was aligned with the performance of the Company.

***2010 Relative CEO Pay Ranking versus 2010 Relative TSR Ranking***

This analysis compares our CEO s 2010 TDC compensation using his actual bonus earned in 2010 (and paid in early 2011) and the *expected value methodology* for equity awards granted in 2010 relative to our peer group CEOs TDC compensation valued on the same basis. Our TSR performance was also evaluated relative to our peers. The Committee concluded that compensation granted in 2010 to our CEO was reasonably aligned to our TSR when considered on a relative basis to our peers.

| MSA CEO 2010 TDC | MSA 2010 Relative TSR | Alignment |
|---|---|---|
| 44th Percentile | 36th Percentile | Strong |

***2010 CEO Actual Bonus Earned Relative to Peers versus 2010 Composite Performance Relative to Peers***

This analysis compares our CEO s 2010 actual bonus earned (paid in early 2011) to the composite performance metrics, which are a collection of metrics used in our incentive arrangements. Both the CEO s bonus information and the composite performance results were compared to the same data of our peers and considered on a percentile rank basis. The Committee concluded that the CEO s annual incentive payment, when evaluated in terms of absolute dollar value, was strongly aligned with the relative performance of the Company.

| 2010 CEO Actual Bonus Payment | Bonus Relative to Peers | Performance Relative to Peers | Alignment of Bonus and Performance |
|---|---|---|---|
| Bonus Earned (Dollar Value) | 27th Percentile | 32nd Percentile | Strong |

COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

***CEO Realizable Compensation as a Percent of Expected Value Relative to Company TSR Performance***

This analysis examines the percent difference in compensation granted to our CEO in a particular year expressed on an expected value basis versus the same compensation expressed on a realizable value basis at the end of 2010. This percent difference is compared to the change in Company TSR for the same time periods to understand if the difference in expected value pay and realizable pay is directionally similar to our TSR performance. For example, if our stock price falls over a period of time we would expect our CEO s realizable compensation to be less than the expected value at the time the compensation was granted. In evaluating this analysis, the Committee was satisfied that the CEO s realizable compensation was directionally similar to changes in our TSR.

| Year | MSA CEO Target TDC at Grant[1] | MSA CEO Realizable Value[2] | Measurement Period | Change in Pay Value[3] | Change in MSA TSR[4] | Alignment |
|---|---|---|---|---|---|---|
| 2008 | $2,219,525 | $1,089,015 | 2008 2010 | (51%) | (33%) | Strong |
| 2009 | $2,284,697 | $3,564,171 | 2009 2010 | 56% | 41% | Strong |
| 2010 | $2,427,073 | $2,588,106 | 2010 | 7% | 22% | Strong |

(1) Target TDC at Grant includes for each particular year the CEO s base salary, target bonus and the grant date fair value of equity awards granted.

(2) Realizable value includes for each particular year the CEO s base salary, actual bonus earned and the realizable value of equity awards granted during that particular year using our December 31, 2010 closing stock price. See page 27 for a more detailed description of realizable value for long-term incentive awards.

(3) Change in Pay Value is the change in the CEO s compensation from the time it was granted to December 31, 2010 considering the impact of actual performance relative to performance goals and changes in company stock price.

(4) MSA TSR is calculated on a point-to-point basis using the final trading day of each year.

**OTHER COMPENSATION AND RETIREMENT POLICIES**

In addition to the other components of our executive compensation program, we maintain the compensation policies described below. These policies are consistent with evolving best practices and help ensure that our executive compensation program does not encourage our officers to engage in risk taking beyond our ability to effectively identify and manage.

*Post Employment Retirement Benefits.* Retirement related compensation is designed to provide financial security following retirement from the Company and to reward for loyalty and tenure with MSA. Retirement benefits fall into three major elements which include pension, 401(k) and non-qualified retirement plans. All of these programs exist to help attract, retain, and motivate key executives. The programs listed below are designed to be competitive and are compared periodically to representative peer companies. Retirement-related compensation programs do not have a direct linkage to performance but rather a link to a long term commitment to MSA, as do all other welfare benefits.

Pension offered as part of a retirement package that helps the Company recruit employees and provides security and peace of mind for future retirement, enabling executives and other employees to exit the workforce at retirement age. Pension amounts are based on final average pay, years of service, age, and a pre-determined plan formula.

401(k) offered as part of our benefits package to encourage employees to save for their own retirement and future financial security. MSA matches 100% of the first 1% of employee contributions and 50% of the next 6% for a total match of 4% on 7% of compensation. Plan design and provisions are reviewed periodically to determine if the total retirement package is competitive.

Non-qualified retirement plans provide additional retirement benefits for executives whose accumulations and contributions in the qualified plans are limited by the Internal Revenue Code. MSA maintains three such plans. The Supplemental Savings Plan provides benefits beyond the limitations imposed on 401(k) plans. The Supplemental Pension Plan provides benefits beyond the limitations imposed on defined benefit pension plans. The Supplemental Executive

Retirement Program provides additional retirement benefits only for officers who retire from the Company at age 55 or later. The Company ceased providing benefits under the Supplemental Executive Retirement Program to any new executives who joined the Company after January 1, 2008.

*Stock Ownership Guidelines.* The Committee has adopted stock ownership guidelines for all Company officers as well as other key executives and believes that significant ownership levels provide additional motivation to executives to perform in accordance with the interests of the Company s shareholders. All officers are expected to hold a number of shares equal in value to their salary grade midpoint multiplied by a stock multiplier ranging from 2.25 up to 5.5 for the CEO. All officers have a five-year period from the time they become an officer to accumulate the specified shares. That specified ownership amount is expected to be retained thereafter as long as an executive remains an active employee. The level of ownership for each Named Officer is as follows:

**STOCK OWNERSHIP REQUIREMENTS**

| Name and Position | Salary Midpoint as of 12/31/2011 | | 2011 Stock Multiplier* | | Ownership Requirement |
|---|---|---|---|---|---|
| William M. Lambert, President, CEO | $ 684,950 | x | 5.50 | = | $ 3,767,225 |
| Dennis L. Zeitler, Sr. V.P., CFO and Treasurer | $ 367,250 | x | 3.50 | = | $ 1,285,375 |
| Ronald N. Herring, Jr., V.P.; President, MSA Europe, Russia, Middle East and India | $ 333,950 | x | 2.25 | = | $ 751,388 |
| Joseph A. Bigler, V.P.; President North America | $ 333,950 | x | 2.25 | = | $ 751,388 |
| Kerry M. Bove, V.P.; President, MSA Asia, Australia, Africa and Latin America | $ 333,950 | x | 2.25 | = | $ 751,388 |

* Stock multiplier is effective as of December 31, 2011.

The Named Officers above all exceeded their ownership requirements as of December 31, 2011.

The following forms of share ownership apply toward the stock ownership level: shares purchased; vested and unvested restricted stock; shares retained following the exercise of stock options; and other shares acquired through any other lawful means. Performance based restricted stock that is not vested is not applied toward the stock ownership level. The Company currently does not have a formal penalty should an executive fail to meet the expected ownership level in the allotted timeframe, but all executives understand these requirements, and the Committee may use its discretion to reduce or eliminate future long-term incentive grants, or take such other actions as it deems appropriate. These ownership guidelines help drive a culture of ownership and accountability among the executive team.

At its February 2010 meeting, the Committee approved a stock retention program in addition to the current stock ownership guidelines. Prior to achieving the ownership guidelines mentioned above, the executive must retain one hundred percent of all equity awards through MSA s compensation program (net of exercise costs and taxes). Once the ownership threshold requirement is met, each executive is required to retain at least twenty percent of the dollar value of additional shares (net of exercise costs and taxes) realized through the exercise of stock options, the vesting of restricted stock, or the vesting of performance based stock units until age 62. Upon attaining age 62, the executive may begin divesting the additional retention shares, but must continue to abide by the basic stock ownership guidelines.

*Recoupment Policy.* The Company has a recoupment policy applicable to officers and other Company employees. In the event of a restatement of MSA s financial results or a determination of other misconduct that causes financial harm to the Company, the Board will review the circumstances that caused the restatement and consider issues of accountability for those who bore responsibility for the events. As part of that review, consideration would also be given to any appropriate action regarding compensation that may have been awarded to such persons. In particular, it would be appropriate to consider

COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

whether any compensation was awarded on the basis of having achieved specified performance targets, whether a person engaged in misconduct that contributed to the restatement and whether such compensation would have been reduced had the financial results been properly reported. Depending on the outcome of that review, appropriate action could include reducing compensation in the year the restatement was made, seeking repayment of any bonus received for the period restated or any gains realized as a result of exercising an option awarded for the period restated, or canceling any unvested equity compensation awarded for the period restated.

*Perquisites.* The Company provides executives with a limited number of perquisites in order to strengthen business relationships and maximize the use of our executives time. Our perquisites have been benchmarked to the market and are considered ordinary, customary, and minimal for each executive s position. The following are available to the Named Officers:

Automobile each Named Officer is provided a Company leased vehicle to facilitate travel among MSA s various locations. Personal use of this automobile is calculated and imputed as income for each executive.

Club memberships a country club membership is provided to our Chief Executive Officer to facilitate customer contact and a business club is provided to our Chief Financial Officer to afford a downtown Pittsburgh location for business meetings.

Financial planning and tax return assistance provides advice and guidance to executives on investment and income tax issues in order to maximize the use and understanding of our executive compensation program and minimize time otherwise required for taxation issues.

The Company does not own or lease an aircraft, nor does the Company have fractional ownership in any aircraft, nor does it pay for executives personal travel.

*Severance Policy.* The Company has a separation pay policy that applies to the Named Officers as well as all other eligible salaried employees. The policy applies to a permanent termination of the employment relationship when initiated by the Company and when other conditions are satisfied. A schedule of benefits determines the separation benefit ranging from four weeks to a maximum of fifty-two weeks of salary continuation.

*Change in Control.* The Company has entered into change in control employment agreements with each of the Named Officers. These agreements provide Named Officers up to three years income and benefits following a change in control of the Company. These agreements are intended to retain executives, provide continuity of management in the event of an actual or threatened change in control and enable executives to remain financially indifferent when evaluating opportunities that may be beneficial to shareholders yet could negatively impact the continued employment of the executive. Cash severance payments are payable only in the event of both a change in control and termination of employment other than for cause, death or disability (commonly known as a double trigger ). Effective in 2011, accelerated vesting of unvested equity awards will also require both a change in control and termination of employment other than for cause, death or disability (a double trigger). Unvested awards granted prior to 2011 will continue to vest upon a qualified change in control without the requirement of termination of employment. There are no tax gross-up provisions in the change in control agreements.

*Stock Option and Other Equity Granting Process.* The Company grants stock options and all other equity grants for executives and all other eligible associates at the first regularly scheduled Compensation Committee meeting of each calendar year. Prior to 2012, the grants were made effective at the close of business on the date of the Compensation Committee meeting, which was prior to the date of the Company s year end

earnings release. Commencing in 2012, the Committee intends to make its grants effective on the later of the date of the regularly scheduled Compensation Committee meeting or the third business day after the Company s year end earnings release. Under the 2008 MEIP, which was approved at the annual shareholders meeting in 2008, the stock option exercise price will be set as the closing price on the grant date, as permitted by generally accepted accounting principles. Option dating practices are consistent, regular and unbiased. The Company does not backdate options or grants of any kind.

COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

*Adjustments or Recovery of Prior Compensation.* The Company does not have employment agreements with any Named Officer. As described above under Recoupment Policy, a policy was established by the Company in 2008 to facilitate the recovery or adjustment of amounts previously awarded or paid to a Named Officer in the event that Company financial results are restated and regardless of whether such person engaged in misconduct or violation of a Company policy. Additionally, the Sarbanes-Oxley Act of 2002 provides that if the Company is required to restate its financial results due to material noncompliance with financial reporting requirements as a result of misconduct, the Chief Executive Officer and the Chief Financial Officer must reimburse the Company for any bonus, incentive or equity-based compensation received, and any profits realized from the sale of Company securities, during the twelve months following the issuance or filing of the noncompliant results.

**COMPENSATION COMMITTEE REPORT**

The Compensation Committee of the Board of Directors has reviewed the Compensation Discussion and Analysis and has discussed it with management. Based upon its review and those discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

Thomas H. Witmer, Chair

Robert A. Bruggeworth

Thomas B. Hotopp

John C. Unkovic

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## COMPENSATION TABLES

**Summary Compensation Table**

The following table shows the compensation for 2011, 2010 and 2009 of the Company s principal executive officer, the Company s principal financial officer and the other three executive officers of the Company with the highest total compensation for 2011 (the Named Officers ):

| Name and Principal Position | Year | Salary | Stock awards (1) | Stock option awards (2) | Non-equity incentive plan compensation (3) | Change in pension value (4) | All other compensation (5) | Total |
|---|---|---|---|---|---|---|---|---|
| William M. Lambert, | 2011 | $ 631,861 | $ 1,167,256 | $ 536,541 | $997,259 | $ 1,041,488 | $ 81,557 | $ 4,455,962 |
| President and Chief | 2010 | $ 605,154 | $ 641,020 | $ 641,059 | $640,798 | $ 448,655 | $ 74,319 | $ 3,051,005 |
| Executive Officer | 2009 | $ 545,069 | $ 619,272 | $ 610,048 | $487,419 | $ 317,736 | $ 45,325 | $ 2,624,869 |
| Dennis L. Zeitler, | 2011 | $ 363,500 | $ 319,550 | $ 146,894 | $377,895 | $ 829,079 | $ 48,638 | $ 2,085,556 |
| Senior Vice President, | 2010 | $ 360,520 | $ 217,040 | $ 217,079 | $396,125 | $ 243,371 | $ 39,170 | $ 1,473,305 |
| Chief Financial Officer and Treasurer | 2009 | $ 340,556 | $ 234,358 | $ 230,890 | $225,877 | $ 209,159 | $ 27,373 | $ 1,268,213 |
| Ronald N. Herring, Jr. | 2011 | $ 293,849 | $ 165,103 | $ 75,894 | $242,120 | $ 343,974 | $ 617,276 | $ 1,738,217 |
| VP; President, MSA | 2010 | $ 282,577 | $ 112,116 | $ 112,157 | $236,946 | $ 137,249 | $ 402,083 | $ 1,283,128 |
| | 2009 | $ 266,665 | $ 121,066 | $ 119,284 | $ 134,930 | $ 105,583 | $ 21,880 | $ 769,409 |
| Europe, Russia, Middle East and India | | | | | | | | |
| Joseph A. Bigler, | 2011 | $ 317,511 | $ 242,107 | $ 111,311 | $274,535 | $ 723,364 | $ 40,091 | $ 1,708,919 |
| VP; President North | 2010 | $ 308,440 | $ 156,252 | $ 156,270 | $291,614 | $ 211,882 | $ 40,007 | $ 1,164,465 |
| America | 2009 | $ 292,847 | $ 168,672 | $ 166,184 | $171,537 | $ 184,363 | $ 26,810 | $ 1,010,413 |
| Kerry M. Bove (6) | 2011 | $ 294,615 | $ 165,103 | $ 75,894 | $242,120 | $ 396,136 | $ 44,660 | $ 1,218,528 |
| VP; President, MSA | 2010 | $ 283,101 | $ 112,116 | $ 112,157 | $236,946 | $ 144,053 | $ 39,362 | $ 927,735 |
| Asia, Australia, Africa and Latin America | 2009 | $ 267,247 | $ 121,066 | $ 119,284 | $134,930 | $ 129,180 | $ 27,794 | $ 799,501 |

(1) Represents the aggregate grant date fair value of the restricted stock awards and performance stock unit awards computed in accordance with FASB ASC Topic 718. For the performance stock unit awards, the amounts disclosed in the table are based upon the target amount of shares granted. If maximum share payouts were achieved for such units, the aggregate grant date fair value for such units would be twice the amount disclosed in each year in the table related to such performance stock units. In the event of such maximum payouts the totals in the stock awards column would be: (i) for 2011, $1,797,981 for Mr. Lambert, $492,219 for Mr. Zeitler, $254,317 for Mr. Herring, $372,930 for Mr. Bigler and $254,317 for Mr. Bove, (ii) for 2010, $961,530 for Mr. Lambert, $325,560 for Mr. Zeitler, and $168,174 for Mr. Herring, $234,378 for Mr. Bigler and $168,174 for Mr. Bove, and (iii) for 2009, $928,908 for Mr. Lambert, $351,537 for Mr. Zeitler, $253,008 for Mr. Bigler and $181,599 for Mr. Bove.

(2) Represents the aggregate grant date fair value of the stock option awards, computed in accordance with FASB ASC Topic 718.

(3) Represents the aggregate amount of incentive awards earned by the Named Officer under the Non-CEO Executive Incentive Program, the CEO Annual Incentive Award Plan and the Enhanced Bonus. See Performance-Based Annual Cash Incentive in the Compensation Discussion and Analysis above.

(4) Represents the amount of the aggregate increase for 2011 in the actuarial present value of the Named Officer s accumulated benefits under the defined benefit retirement plans described under Pension Benefits below.

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(5) The following table describes the 2011 amounts included under All Other Compensation:

| Name | Perquisites and personal benefits (A) | Company contributions to defined contribution plans | Insurance premiums | Total |
|---|---|---|---|---|
| William M. Lambert | $ 29,908 | $ 50,906 | $ 743 | $ 81,557 |
| Dennis L. Zeitler | $ 16,921 | $ 30,385 | $ 1,332 | $ 48,638 |
| Ronald N. Herring, Jr. | $ 595,289 | $ 21,232 | $ 756 | $ 617,277 |
| Joseph A. Bigler | $ 14,502 | $ 24,365 | $ 1,224 | $ 40,091 |
| Kerry M. Bove | $ 22,821 | $ 21,262 | $ 576 | $ 44,659 |

(A) The amounts for Messrs. Lambert and Zeitler consist of the cost of personal use of a Company car, tax and investment assistance and a club membership. The amount for Mr. Bigler consists of the cost of personal use of a Company car and tax and investment assistance. The amount shown for Mr. Herring consists of personal use of a Company car and tax and investment assistance, and several items related to Mr. Herring s international assignment and relocation to Germany for business purposes, as follows: a goods and services allowance of $78,218, a German housing allowance of $61,736, tax equalization payments of $417,908, moving expenses, and a tax gross up. The tax equalization payment to Mr. Herring was made under the Company s international assignment tax equalization policy which is part of the Company s standard expatriate package, to compensate Mr. Herring for taxes that he had to pay in Germany that exceeded those that he would have had to pay in the United States.

(6) Mr. Bove was not a named executive officer in 2010 under the rules of the Securities and Exchange Commission.

**Grants of Plan-Based Awards**

The following table shows the grants of plan-based awards made to the Named Officers in 2011:

| | | Estimated possible payouts under non-equity incentive plan awards (1) | | | Estimated possible payouts under equity incentive plan awards (2) | | | Stock awards (3) | | Option awards (4) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | Grant date | Threshold | Target | Maximum | Threshold | Target | Maximum | Number of shares | Grant date fair value | Number of shares | Exercise price ($/share) | Grant date fair value |
| William M. Lambert | 2/23/2011 | $ 273,980 | $ 547,960 | $ 1,232,910 | $ 315,362 | $ 630,724 | 1,261,449 | 15,992 | $ 536,532 | 55,143 | $ 33.55 | $ 536,541 |
| Dennis L. Zeitler | 2/23/2011 | $ 100,994 | $ 201,988 | $ 454,473 | $ 86,334 | $ 172,668 | 345,337 | 4,378 | $ 146,882 | 15,097 | $ 33.55 | $ 146,894 |
| Ronald N. Herring, Jr. (5) | 2/23/2011 | $ 68,310 | $ 136,620 | $ 307,395 | $ 44,607 | $ 89,213 | 178,427 | 2,262 | $ 75,890 | 7,800 | $ 33.55 | $ 75,894 |
| | 11/1/2011 | $ 83,488 | $ 166,975 | $ 375,694 | | | | | | | | |
| Joseph A. Bigler | 2/23/2011 | $ 83,488 | $ 166,975 | $ 375,694 | $ 65,411 | $ 130,822 | 261,645 | 3,317 | $ 111,285 | 11,440 | $ 33.55 | $ 111,311 |
| Kerry M. Bove (5) | 2/23/2011 | $ 68,310 | $ 136,620 | $ 307,395 | $ 44,607 | $ 89,213 | 178,427 | 2,262 | $ 75,890 | 7,800 | $ 33.55 | $ 75,894 |
| | 11/1/2011 | $ 83,488 | $ 166,975 | $ 375,694 | | | | | | | | |

(1) Represents the amounts which could have been earned by the Named Officer through 2011 performance at the threshold, target and maximum levels under the annual incentive plans described under Performance-Based Annual Cash Incentive in the Compensation Discussion and Analysis above. The actual amounts earned are shown in the Non-equity incentive plan compensation column in the Summary Compensation Table above.

(2)

Represents the amount that could be earned by the Named Officer at the threshold, target and maximum levels of shares to be issued with respect to the performance stock units granted to the Named Officer under the Company s 2008 Management Equity Incentive Plan. The performance period runs through December 31, 2013. The amounts shown are based upon the grant date fair value of the applicable number of shares of the Company s Common Stock.

(3) Represents restricted stock awards granted to each Named Officer in 2011 under the Company s 2008 Management Equity Incentive Plan. To earn the award, the officer must remain employed by the Company or a subsidiary through a date which is approximately the third anniversary of the grant date. Restricted shares will also vest earlier upon a change in control or if the grantee s employment terminates due to death, disability or retirement under a Company retirement plan. Messrs. Zeitler and Bigler are eligible to retire under the Company s pension plan. Unless and until forfeited upon termination of employment prior to vesting, holders of restricted shares receive dividends at the same rate as other holders of the Company s Common Stock.

(4) Represents stock options granted to each Named Officer in 2011 under the Company s 2008 Management Equity Incentive Plan. The options for 2,980 shares granted to each Named Officer are intended to qualify as incentive stock options under the Internal Revenue Code. The options become exercisable on the third anniversary of the grant date or upon an earlier change in control. The exercise price of each option is the market closing price of the Common Stock on the grant date, and the options expire on the tenth anniversary of the grant date. Options are exercisable for up to five years (but not after the expiration date) following termination of employment due to death, disability, voluntary termination with the consent of the Company, retirement under a Company retirement plan or within one year after a change in control and may not be exercised following any other termination of employment.

(5) On November 1, 2011, Messrs. Herring and Bove were promoted into the positions of President for respective geographic regions. The threshold, target and maximum possible payouts as of the original February 23, 2011 grant date and as of the November 1, 2011 promotion date are presented. The actual amount payable will be 5/6 of the February 23, 2011 amounts and 1/6 of the November 1, 2011 amounts.

**Outstanding Equity Awards at Fiscal Year-End**

The following table shows the outstanding equity awards held by the Named Officers at December 31, 2011:

| | Stock option awards | | | | | Restricted stock awards | | | Performance Stock Unit Awards | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Name** | **Number exercisable** | **Number un-exercisable** | **Date exercisable** | **Option exercise price** | **Expiration date** | **Number of shares that have not vested** | **Vesting date** | **Market value of shares that have not vested (1)** | **Number of shares or Units of Stock that have not vested** | **Vesting Date** | **Market Value of Shares or Units that have Not Vested (1)** |
| William M. Lambert | 36,119 | | 3/9/2005 | $ 25.07 | 3/9/2014 | 4,146 | 6/1/2012 | $ 137,316 | 17,366 | 3/20/2012 | $ 575,162 |
| | 20,443 | | 12/14/2005 | $ 45.68 | 2/23/2015 | 4,146 | 6/1/2013 | $ 137,316 | 13,013 | (2) | $ 430,991 |
| | 19,240 | | 2/27/2009 | $ 40.08 | 2/27/2016 | 17,366 | 3/8/2012 | $ 575,162 | 15,992 | (3) | $ 529,655 |
| | 22,859 | | 2/21/2010 | $ 40.10 | 2/21/2017 | 13,013 | 3/8/2013 | $ 430,991 | | | |
| | 58,115 | | 2/26/2011 | $ 45.24 | 2/26/2018 | 15,992 | 3/8/2014 | $ 529,655 | | | |
| | | 107,026 | 2/23/2012 | $ 17.83 | 2/23/2019 | | | | | | |
| | | 91,189 | 2/23/2013 | $ 24.63 | 2/23/2020 | | | | | | |
| | | 55,143 | 2/23/2014 | $ 33.55 | 2/23/2021 | | | | | | |
| Dennis L. Zeitler | 15,969 | | 12/14/2005 | $ 45.68 | 2/23/2015 | 4,146 | 6/1/2012 | $ 137,316 | 6,572 | 3/20/2012 | $ 217,665 |
| | 15,029 | | 2/27/2009 | $ 40.08 | 2/27/2016 | 4,146 | 6/1/2013 | $ 137,316 | 4,406 | (2) | $ 145,927 |
| | 16,602 | | 2/21/2010 | $ 40.10 | 2/21/2017 | 6,572 | 3/8/2012 | $ 217,665 | 4,378 | (3) | $ 144,999 |
| | 21,995 | | 2/26/2011 | $ 45.24 | 2/26/2018 | 4,406 | 3/8/2013 | $ 145,927 | | | |
| | | 40,507 | 2/23/2012 | $ 17.83 | 2/23/2019 | 4,378 | 3/8/2014 | $ 144,999 | | | |
| | | 30,879 | 2/23/2013 | $ 24.63 | 2/23/2020 | | | | | | |
| | | 15,097 | 2/23/2014 | $ 33.55 | 2/23/2021 | | | | | | |
| Ronald N. Herring, Jr. | 12,466 | | 3/12/2004 | $ 10.65 | 3/12/2013 | 3,395 | 3/8/2012 | $ 112,442 | 3,395 | 3/20/2012 | $ 112,442 |
| | 13,849 | | 3/9/2005 | $ 25.07 | 3/9/2014 | 2,276 | 3/8/2013 | $ 75,381 | 2,276 | (2) | $ 75,381 |
| | 9,361 | | 12/14/2005 | $ 45.68 | 2/23/2015 | 2,262 | 3/8/2014 | $ 74,917 | 2,262 | (3) | $ 74,917 |
| | 7,670 | | 2/27/2009 | $ 40.08 | 2/27/2016 | | | | | | |
| | 7,225 | | 2/21/2010 | $ 40.10 | 2/21/2017 | | | | | | |
| | 11,363 | | 2/26/2011 | $ 45.24 | 2/26/2018 | | | | | | |
| | | 20,927 | 2/23/2012 | $ 17.83 | 2/23/2019 | | | | | | |
| | | 15,954 | 2/23/2013 | $ 24.63 | 2/23/2020 | | | | | | |
| | | 7,800 | 2/23/2014 | $ 33.55 | 2/23/2021 | | | | | | |
| Joseph A. Bigler | 12,619 | | 3/9/2005 | $ 25.07 | 3/9/2014 | 4,730 | 3/8/2012 | $ 156,658 | 4,730 | 3/20/2012 | $ 156,658 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 7,640 | | 12/14/2005 | $ 45.68 | 2/23/2015 | 3,172 | 3/8/2013 | $ 105,057 | 3,172 | (2) | $ 105,057 |
| | 7,191 | | 2/27/2009 | $ 40.08 | 2/27/2016 | 3,317 | 3/8/2014 | $ 109,859 | 3,307 | (3) | $ 109,859 |
| | 7,225 | | 2/21/2010 | $ 40.10 | 2/21/2017 | | | | | | |
| | 15,831 | | 2/26/2011 | $ 45.24 | 2/26/2018 | | | | | | |
| | | 29,155 | 2/23/2012 | $ 17.83 | 2/23/2019 | | | | | | |
| | | 22,229 | 2/23/2013 | $ 24.63 | 2/23/2020 | | | | | | |
| | | 11,440 | 2/23/2014 | $ 33.55 | 2/23/2021 | | | | | | |
| Kerry M. Bove | 17,466 | | 3/12/2004 | $ 10.65 | 3/12/2013 | 3,395 | 3/8/2012 | $ 112,442 | 3,395 | 3/20/2012 | $ 112,442 |
| | 13,849 | | 3/9/2005 | $ 25.07 | 3/9/2014 | 2,276 | 3/8/2013 | $ 75,381 | 2,276 | (2) | $ 75,381 |
| | 7,640 | | 12/14/2005 | $ 45.68 | 2/23/2015 | 2,262 | 3/8/2014 | $ 74,917 | 2,262 | (3) | $ 74,917 |
| | 7,191 | | 2/27/2009 | $ 40.08 | 2/27/2016 | | | | | | |
| | 7,225 | | 2/21/2010 | $ 40.10 | 2/21/2017 | | | | | | |
| | 11,363 | | 2/26/2011 | $ 45.24 | 2/26/2018 | | | | | | |
| | | 20,927 | 2/23/2012 | $ 17.83 | 2/23/2019 | | | | | | |
| | | 15,954 | 2/23/2013 | $ 24.63 | 2/23/2020 | | | | | | |
| | | 7,800 | 2/23/2014 | $ 33.55 | 2/23/2021 | | | | | | |

(1) Based on the $33.12 closing price for the Company s Common Stock on December 30, 2011.

(2) The vesting date of these performance stock units will be the date in February or March 2013 that the Compensation Committee determines whether, and to what extent, the performance requirements related to the awards have been met.

(3) The vesting date of these performance stock units will be the date in February or March 2014 that the Compensation Committee determines whether, and to what extent, the performance requirements related to the awards have been met, subject to the earlier vesting of a percentage of the awards if applicable annual performance tests are met, in which case the vesting date for such percentage of awards will be December 31, 2013, if the employee remains employed by the Company at that date.

**Option Exercises and Stock Vested**

The following table shows the stock options exercised by the Named Officers and the restricted stock awards vested for the Named Officers during 2011:

| | Stock option awards | | Restricted stock awards | |
|---|---|---|---|---|
| **Name** | **Number of shares acquired on exercise** | **Value realized on exercise (1)** | **Number of shares acquired on vesting** | **Value realized on vesting (2)** |
| William M. Lambert | 44,251 | $ 962,769 | 6,741 | $ 238,160 |
| Dennis L. Zeitler | | | 2,551 | $ 90,127 |
| Ronald N. Herring, Jr. | | | 1,318 | $ 46,565 |
| Joseph A. Bigler | | | 1,836 | $ 64,866 |
| Kerry M. Bove | 8,734 | $ 214,568 | 1,318 | $ 46,565 |

(1) Represents the difference between the market value on the date of exercise of the shares acquired and the option exercise price.

(2) Represents the market value of the restricted shares on the vesting date.

**Pension Benefits**

The following table provides information concerning the value of the Named Officers accumulated benefits under the Company s defined benefit retirement plans as of December 31, 2011:

| **Name** | **Plan name** | **Number of years credited service** | **Present value of accumulated benefit** | **Payments during last fiscal year** |
|---|---|---|---|---|
| William M. Lambert | MSA s Pension Plan | 30.3 | $ 562,238 | |

| | | | | |
|---|---|---|---|---|
| | MSA Supplemental Pension Plan | 30.3 | $ | 1,913,522 |
| | Supplemental Executive Retirement Plan | N/A | $ | 640,764 |
| Dennis L. Zeitler | MSA s Pension Plan | 34.8 | $ | 1,106,808 |
| | MSA Supplemental Pension Plan | 34.8 | $ | 1,701,272 |
| | Supplemental Executive Retirement Plan | N/A | $ | 425,482 |
| Ronald N. Herring, Jr. | MSA s Pension Plan | 28.4 | $ | 440,274 |
| | MSA Supplemental Pension Plan | 28.4 | $ | 405,754 |
| | Supplemental Executive Retirement Plan | N/A | $ | 316,011 |
| Joseph A. Bigler | MSA s Pension Plan | 39.4 | $ | 1,156,503 |
| | MSA Supplemental Pension Plan | 39.4 | $ | 1,198,605 |
| | Supplemental Executive Retirement Plan | N/A | $ | 425,482 |
| Kerry M. Bove | MSA s Pension Plan | 31.6 | $ | 585,408 |
| | MSA Supplemental Pension Plan | 31.6 | $ | 494,895 |
| | Supplemental Executive Retirement Plan | N/A | $ | 381,834 |

***Pension Plan***

*Introduction.* The Company s Non-Contributory Pension Plan for Employees is a retirement plan that covers most U.S. salaried employees and some U.S. hourly employees.

To have a non-forfeitable right to a benefit under the Pension Plan, a participant must complete five years of service with the Company or an affiliate, or reach normal retirement age while employed by the Company or an affiliate. The Pension Plan s normal retirement age is identical to the participant s Social Security Retirement Age. The Social Security Retirement Age is established by Federal law, and varies from age 65 for persons born before 1938 to age 67 for persons born in 1960 or later years.

*Benefits at Normal Retirement Age.* A participant who retires upon reaching normal retirement age can begin receiving pension payments as of the first day of the following calendar month, which is referred to as the participant s normal retirement date.

The Pension Plan has a minimum benefit formula that applies to only a small number of lower-paid participants. The majority of participants who begin receiving benefits on their normal retirement date are entitled to receive a monthly benefit equal to the sum of the amounts shown in (a), (b) and (c) below:

| | | | | | |
|---|---|---|---|---|---|
| (a) | 0.80% | x | Average Monthly Earnings up to<br>Average Social Security Wage Base | x | Credited Service<br>up to 35 Years |
| | | | *plus* | | |
| (b) | 1.55% | x | Average Monthly Earnings greater than<br>Average Social Security Wage Base | x | Credited Service<br>up to 35 Years |
| | | | *plus* | | |
| (c) | 1.00% | x | Average Monthly Earnings | x | Credited Service<br>over 35 Years |

For purposes of the normal retirement benefit formula, the following terms have the following meanings:

Average Monthly Earnings is generally the average of monthly compensation received during the participant s highest five consecutive calendar years of compensation over the last ten years of employment. Compensation is generally the total cash payments received by a participant for services performed, before any reductions for employee contributions to 401(k) or other employee benefit plans. Compensation does not include any expense reimbursements, income attributable to non-cash benefits, or special one-time payments. The compensation that can be taken into account each year is limited by Federal law. The 2011 limit is $245,000, but this number may be adjusted in future years for cost-of-living increases.

Average Social Security Wage Base is the average of the Social Security taxable wage bases in effect under Federal law during the 35-year period ending in the calendar year in which the participant attains Social Security Retirement Age.

Credited Service is a participant s actual period of service with the Company as an employee in a category of employment that is covered by the Pension Plan. No extra credited service has been granted under the Pension Plan to any of the Named Officers.

*Benefits at Early Retirement Age.* The Pension Plan permits early retirement by participants who have (i) reached age 55 with at least 15 years of service, or (ii) reached age 60 with at least 10 years of service. Messrs. Zeitler and Bigler are currently eligible for early retirement. Participants who elect early retirement can choose to begin receiving pension benefits immediately, in which case their monthly benefit amount will be

reduced to reflect the early start of payments; or they may choose to delay the start of payments until their normal retirement date, at which time they will receive unreduced benefits determined under the normal retirement benefit formula described above.

If a participant takes early retirement and begins receiving pension payments before his or her normal retirement date, the monthly pension benefit will be determined under the normal retirement formula, but will be reduced by (i) 5/9ths of 1% for each of the first 60 months that benefits begin before the normal retirement date, plus (ii) 5/18ths of 1% for each of the next 60 months that benefits begin before the normal retirement date, plus (iii) .345% for each of the next 12 months that benefits begin before the normal retirement date, plus (iv) .3108% for each of the next 12 months that benefits begin before the normal retirement date. Different reduction factors apply to the minimum benefit formula.

*Forms of Payment.* In general, Pension Plan benefits are paid as a stream of monthly benefits, referred to as an annuity (the only exception is that benefits with a present value of $5,000 or less are automatically paid in a lump sum following termination of employment). The normal form of payment for a single participant is a single life annuity that pays monthly benefits to the participant for his or her life only. The normal form of payment for a married participant is a qualified joint and survivor annuity that pays monthly benefits to the participant for life, and, after the participant s death, pays monthly benefits to the participant s surviving spouse in an amount equal to 50% of the monthly amount payable during the participant s lifetime. The Pension Plan also permits a participant to elect from among several optional forms of annuity payment that are of equivalent actuarial value to the normal form of payment.

Even though the Named Officers who participate in the Pension Plan cannot receive a lump sum distribution from the Pension Plan, the pension benefit table is required to show a lump sum value at normal retirement age for each individual s accumulated Pension Plan benefit. That lump sum figure was calculated by using an annual interest rate of 6% and the 1983 GAM mortality table.

***Supplemental Pension Plan***

*Introduction.* The Company s Supplemental Pension Plan is a nonqualified retirement plan that provides pension plan participants with pension benefits that they would have received under the Pension Plan except for certain limitations imposed by Federal law, including the limitation on compensation that can be taken into account. Benefits under the Supplemental Pension Plan become non-forfeitable at the same time as benefits become non-forfeitable under the Pension Plan.

*Benefits at Normal Retirement Age.* The monthly benefit payable under the Supplemental Pension Plan to a participant who begins receiving benefits on his or her normal retirement date will be equal to the difference between (i) the amount that would have been payable under the Pension Plan on the normal retirement date if there were no limitations placed by law upon compensation taken into account or upon the amount of annual benefit payments, and (ii) the amount that is actually payable to the participant under the Pension Plan.

*Benefits at Early Retirement Age*. The monthly benefit payable under the Supplemental Pension Plan to a participant who is eligible for early retirement under the Pension Plan and who begins receiving benefits under the Pension Plan before his or her normal retirement date will be equal to the difference between (i) the amount that would have been payable under the Pension Plan if there were no limitations placed by law upon compensation taken into account or upon the amount of annual benefits, and (ii) the amount that is actually payable to the participant under the Pension Plan. Messrs. Zeitler and Bigler are currently eligible for early retirement.

*Forms of Payment.* Benefits payable under the Supplemental Pension Plan are generally payable in the same form that the participant s benefits are payable under the Pension Plan. However, in the event of a participant s termination within a three-year period after a corporate change in control (as defined in the Supplemental Pension Plan), the participant will receive a lump sum distribution of the Supplemental Pension Plan

benefit, even if a lump sum cannot be paid under the Pension Plan.

Even though the Named Officers who participate in the Supplemental Pension Plan are not eligible to receive a lump sum unless a change in control occurs, the pension benefit table is required to show a lump sum value at normal retirement age for each individual s accumulated Supplemental Pension Plan benefit. That lump sum figure is calculated using the same interest rate and mortality assumptions that were used to produce the lump sum figures for the Pension Plan.

***Supplemental Executive Retirement Plan***

The Company s Supplemental Retirement Plan was originally established as the Executive Insurance Program to assist members of senior management approved by the Board in procuring life insurance during their working careers and to provide them with additional flexibility and benefits upon retirement. In order to comply with Section 409A of the Internal Revenue Code the Executive Insurance Program was terminated and replaced with the Supplemental Executive Retirement Plan effective January 1, 2008. The life insurance feature was eliminated and life insurance is now provided under the regular group insurance plan for salaried employees. The plan provides a defined benefit at retirement. Only officers of the Company are eligible for this program. No benefit is payable unless the officer stays with the Company until he or she reaches retirement eligibility, that is, age 55 plus a combination of age and service equal to at least 70. The benefit is payable in equal installments over 15 years. The benefit amount for Mr. Lambert is $1,000,000, and the benefit amount for all other officers is $600,000. There is no pre-retirement death benefit. In the event of death of the participant after retirement, remaining payments are paid to the spouse or other beneficiary.

**Nonqualified Deferred Compensation**

The following table provides information concerning deferrals by the Named Officers of their earned compensation under the Company s nonqualified deferred compensation plans:

| Name | Executive contributions in 2011 (1) | Company contributions in 2011 (2) | Aggregate earnings in 2011 (3) | Aggregate withdrawals/ distributions | Aggregate balance at 12/31/2011 (4) |
|---|---|---|---|---|---|
| William M. Lambert | $ 174,196 | $ 41,106 | | | $ 861,784 |
| Dennis L. Zeitler | $ 36,024 | $ 20,585 | $ 250 | | $ 250,892 |
| Ronald N. Herring, Jr. | $ 20,006 | $ 11,432 | | | $ 136,474 |
| Joseph A. Bigler | $ 25,489 | $ 14,565 | | | $ 266,726 |
| Kerry M. Bove | $ 20,059 | $ 11,462 | | | $ 187,715 |

(1) These amounts are reported in the Summary Compensation Table as salary or non-equity incentive plan compensation, as applicable.

(2) These amounts are reported in the Summary Compensation Table under Other Compensation.

(3) Earnings on deferred compensation under the Company s nonqualified deferred compensation plans are not above market or preferential and are therefore not included in the Summary Compensation Table.

(4) Of the balances shown, the following amounts represent executive and Company contributions which either were reported in the Summary Compensation Table in the year of the contribution or would have been so reported had the individual been a Named Officer for that year: Mr. Lambert, $625,449; Mr. Zeitler, $186,722; Mr. Herring, $125,315; Mr. Bigler, $228,411 and Mr. Bove, $176,218. The remainder represents non-preferential market earnings not reportable in the Summary Compensation Table.

***Supplemental Savings Plan***

For the Named Officers, the amounts shown in the Nonqualified Deferred Compensation table relate to the Company s Supplemental Savings Plan (SSP). The SSP permits the Named Officers and other eligible employees to defer compensation in excess of the limits imposed by the Internal Revenue Code on employee contributions

to the Company s Retirement Savings Plan (RSP), a qualified 401(k) Plan. The Company matches 50% of participant deferrals up to the first 8% of eligible compensation, whether contributed to the RSP or deferred under the SSP. Participant contributions are vested at all times. Company matching contributions vest upon completion of five years of service, or earlier upon death, attainment of age 65 or a change in control.

Compensation eligible for deferral under the SSP includes salary and annual incentive bonus. There is no limit on the percentage of eligible compensation that a participant may defer. Participants may elect to have their SSP accounts treated as if invested in one or more of a selection of publicly available mutual funds similar to those available under the RSP. Accounts are credited with earnings or losses based on the investment results of the funds selected. Participants may change their investment elections, for either new contributions and/or for existing balances, at any time.

Distribution options under the SSP vary depending upon the year in which compensation was deferred. Distribution of amounts deferred prior to 2003 commences upon termination of employment or an earlier change in control and is paid either in a lump sum or in five annual installments, as elected by the participant. For amounts deferred in 2003 or thereafter, the participant could elect an alternate date for the commencement of distributions, which for deferrals in 2005 and thereafter must be at least five years after the year of deferral. Absent such an election, distributions commence upon termination of employment. Distributions are made either in a lump sum or in up to 15 annual installments, as elected by the participant. The timing of participant elections, both as to deferrals and as to distributions, is restricted in accordance with Internal Revenue Service requirements.

**Potential Payments upon Termination or Change-in-Control**

The tables below show the payments and benefits to which each Named Officer would have been entitled if his employment had terminated on December 31, 2011 for the reasons indicated in the tables. In addition to severance amounts payable in certain circumstances under the plan and agreements described following the tables, the amounts shown in the tables include compensation and retirement and other benefits previously earned through service by the Named Officer as described above.

***William M. Lambert***

The following table shows the payments and benefits to which William M. Lambert would have been entitled if his employment had terminated on December 31, 2011 for the reasons indicated in the table:

| | Voluntary termination | Involuntary termination for cause | Involuntary termination without cause | Death | Disability | Change in Control Termination |
|---|---|---|---|---|---|---|
| Cash severance (1) | $ | $ | $ 639,000 | $ | $ | $ 3,609,326 |
| Disability income (2) | $ | $ | $ | $ | $ 1,674,299 | $ |
| Earned award under non-equity incentive plans (3) | $ 997,259 | $ | $ 997,259 | $ 997,259 | $ 997,259 | $ 997,259 |
| Equity: | | | | | | |
| Restricted stock (4) | $ | $ | $ | $ 1,810,439 | $ 1,810,439 | $ 1,810,439 |
| Unexercisable Options | $ | $ | $ | $ 2,410,622 | $ 2,410,622 | $ 2,410,622 |
| Performance Award | $ | $ | $ | $ 1,535,808 | $ 1,535,808 | $ 1,535,808 |
| Retirement benefits: | | | | | | |
| *Defined benefit plans (5)* | | | | | | |
| Pension Plan | $ 562,238 | $ 562,238 | $ 562,238 | $ 276,942 | $ 562,238 | $ 562,238 |
| Supplemental Pension Plan | $ 1,913,522 | $ 1,913,522 | $ 1,913,522 | $ 942,545 | $ 1,913,522 | $ 1,852,567 |
| Supplemental Executive Retirement Plan | $ | $ | $ | $ | $ 640,764 | $ 1,000,000 |
| *Defined contribution plans (6)* | | | | | | |
| 401(k) Retirement Savings Plan | $ 570,708 | $ 570,708 | $ 570,708 | $ 570,708 | $ 570,708 | $ 570,708 |
| Supplemental Savings Plan | $ 861,784 | $ 861,784 | $ 861,784 | $ 861,784 | $ 861,784 | $ 861,784 |
| Retiree medical (7) | $ | $ | $ | $ | $ | $ |
| Other Benefits: | | | | | | |
| Health & Welfare (8) | $ | $ | $ | $ 116,401 | $ 190,289 | $ 42,655 |
| Insurance benefits (9) | $ | $ | $ | $ 1,250,000 | $ | $ |
| Outplacement assistance | $ | $ | $ 6,100 | $ | $ | $ 6,100 |
| Total | $ 4,905,511 | $ 3,908,252 | $ 5,550,611 | $ 10,772,508 | $ 13,167,732 | $ 15,259,506 |

(1) Represents the cash severance amount payable under the Separation Pay Plan for Salaried Employees or the Change in Control Severance Agreements described below.

(2) Represents the present value of the future payments that should be payable under the terms of the MSA Long-Term Disability Plan, which provides an annual benefit of 60% of salary and previous year s bonus up to a maximum annual benefit of $192,000.

(3) Represents the amount earned through completion of the plan year under the Company s non-equity incentive award plans, as shown in the Summary Compensation Table above.

(4) The amount shown is the market value of restricted stock awards held by the Named Officer at December 31, 2011. Under the terms of the 2008 Management Equity Incentive Plan, restricted stock vests early upon a change in control or upon termination of employment due to death, disability or retirement under a Company retirement plan.

(5) Represents the present value of the Named Officer s accumulated benefits under the Company s defined benefit retirement plans described above. The increase in present value for termination following a change in control results from the plans provisions for a lump sum payment upon termination of employment within two years after a change in control. The values upon death reflect survivor benefits. The increased amount payable upon death under the Supplemental Executive Retirement Plan is the death benefit under the insurance policy, which is payable by the insurer.

(6) Represents the balances at December 31, 2011 in the Named Officer s accounts under the Company s qualified and nonqualified defined contribution plans.

(7) The Company has a nondiscriminatory plan available generally to United States salaried employees which provides medical benefits to employees who retire under the Company s Pension Plan until they become eligible for Medicare benefits. The amount shown in the table represents the estimated cost of providing plan benefits to the Named Officer.

(8) Represents the present value of the cost of continued dependent medical care coverage under the Company s group term life insurance policy, which is payable by the insurer. The amount shown for disability is the present value of the cost of continued medical care coverage for the Named Officer and dependents. The amount shown for change in control is the estimated cost to the Company of continuation for 36 months of medical, dental, accident and life insurance benefits, as required by the Change in Control Severance Agreements described below.

(9) The amounts payable on death are the death benefit under the Company s group term life insurance policy, which is payable by the insurer.

***Dennis L. Zeitler***

The following table shows the payments and benefits to which Dennis L. Zeitler would have been entitled if his employment had terminated on December 31, 2011 for the reasons indicated in the table:

| | Voluntary termination | Involuntary termination for cause | Involuntary termination without cause | Death | Disability | Change in Control Termination |
|---|---|---|---|---|---|---|
| Cash severance (1) | $ | $ | $ 363,500 | $ | $ | $ 2,023,503 |
| Disability income (2) | $ | $ | $ | $ | $ 536,919 | $ |
| Earned award under non-equity incentive plans (3) | $ 377,895 | $ | $ 377,895 | $ 377,895 | $ 377,895 | $ 377,895 |
| Equity: | | | | | | |
| Restricted stock (4) | $ 783,222 | $ 783,222 | $ 783,222 | $ 783,222 | $ 783,222 | $ 783,222 |
| Unexercisable Options | $ 881,515 | $ 881,515 | $ 881,515 | $ 881,515 | $ 881,515 | $ 881,515 |
| Performance Award | $ 508,591 | $ 508,591 | $ 508,591 | $ 508,591 | $ 508,591 | $ 508,591 |
| Retirement benefits: | | | | | | |
| *Defined benefit plans (5)* | | | | | | |
| Pension Plan | $ 1,106,808 | $ 1,106,808 | $ 1,106,808 | $ 756,553 | $ 1,106,808 | $ 1,106,808 |
| Supplemental Pension Plan | $ 1,701,272 | $ 1,701,272 | $ 1,701,272 | $ 1,162,897 | $ 1,701,272 | $ 1,781,885 |
| Supplemental Executive Retirement Plan | $ 425,482 | $ 425,482 | $ 425,482 | $ | $ 425,482 | $ 600,000 |
| *Defined contribution plans (6)* | | | | | | |
| 401(k) Retirement Savings Plan | $ 199,888 | $ 199,888 | $ 199,888 | $ 199,888 | $ 199,888 | $ 199,888 |
| Supplemental Savings Plan | $ 250,892 | $ 250,892 | $ 250,892 | $ 250,892 | $ 250,892 | $ 250,892 |
| Retiree medical (7) | $ 205,182 | $ 205,182 | $ 205,182 | $ | $ | $ 211,760 |
| Other Benefits: | | | | | | |
| Health & Welfare (8) | $ | $ | $ | $ 186,862 | $ 211,760 | $ |
| Insurance benefits (9) | $ 10,000 | $ 10,000 | $ 10,000 | $ 600,000 | $ 10,000 | $ 10,000 |
| Outplacement assistance | $ | $ | $ 6,100 | $ | $ | $ 6,100 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total | $ 6,450,747 | $ 6,072,852 | $ 6,820,347 | $ 5,078,315 | $ 6,994,244 | $ 8,742,059 |

(1) Represents the cash severance amount payable under the Separation Pay Plan for Salaried Employees or the Change in Control Severance Agreements described below.

(2) Represents the present value of the future payments that should be payable under the terms of the MSA Long-Term Disability Plan, which provides an annual benefit of 60% of salary and previous year s bonus up to a maximum annual benefit of $192,000.

(3) Represents the amount earned through completion of the plan year under the Company s non-equity incentive award plans, as shown in the Summary Compensation Table above.

(4) The amount shown is the market value of restricted stock awards held by the Named Officer at December 31, 2011. Under the terms of the 2008 Management Equity Incentive Plan, restricted stock vests early upon a change in control or upon termination of employment due to death, disability or retirement under a Company retirement plan. At December 31, 2011, Mr. Zeitler was eligible to retire under the Company s pension plan.

(5) Represents the present value of the Named Officer s accumulated benefits under the Company s defined benefit retirement plans described above. The increase in present value for termination following a change in control results from the plans provisions for a lump sum payment upon termination of employment within two years after a change in control. The values upon death reflect survivor benefits. The increased amount payable upon death under the Supplemental Executive Retirement Plan is the death benefit under the insurance policy, which is payable by the insurer.

(6) Represents the balances at December 31, 2011 in the Named Officer s accounts under the Company s qualified and nonqualified defined contribution plans.

(7) The Company has a nondiscriminatory plan available generally to United States salaried employees which provides medical benefits to employees who retire under the Company s Pension Plan until they become eligible for Medicare benefits. The amount shown in the table represents the estimated cost of providing plan benefits to the Named Officer.

(8) Represents the present value of the cost of continued dependent medical care coverage under the Company s group term life insurance policy, which is payable by the insurer. The amount shown for disability is the present value of the cost of continued medical care coverage for the Named Officer and dependents. The amount shown for change in control is the estimated cost to the Company of continuation for 36 months of medical, dental, accident and life insurance benefits, as required by the Change in Control Severance Agreements described below.

(9) The amounts payable on death are the death benefit under the Company s group term life insurance policy, which is payable by the insurer. The amount payable under all other columns represents the face value of the life insurance policy that would be issued to the Named Officer after his termination of employment.

***Ronald N. Herring, Jr.***

The following table shows the payments and benefits to which Ronald N. Herring, Jr. would have been entitled if his employment had terminated on December 31, 2011 for the reasons indicated in the table:

| | Voluntary termination | Involuntary termination for cause | Involuntary termination without cause | Death | Disability | Change in Control Termination |
|---|---|---|---|---|---|---|
| Cash severance (1) | $ | $ | $ 310,000 | $ | $ | $ 1,487,814 |
| Disability income (2) | $ | $ | $ | $ | $ 1,918,435 | $ |
| Earned award under non-equity incentive plans (3) | $ 242,120 | $ | $ 242,120 | $ 242,120 | $ 242,120 | $ 242,120 |
| Equity: | | | | | | |
| Restricted stock (4) | $ | $ | $ | $ 262,741 | $ 262,741 | $ 262,741 |
| Unexercisable Options | $ | $ | $ | $ 455,423 | $ 455,423 | $ 455,423 |
| Performance Award | $ | $ | $ | $ 262,741 | $ 262,741 | $ 262,741 |
| Retirement benefits: | | | | | | |
| *Defined benefit plans (5)* | | | | | | |
| Pension Plan | $ 440,274 | $ 440,274 | $ 440,274 | $ 215,169 | $ 440,274 | $ 440,274 |
| Supplemental Pension Plan | $ 405,754 | $ 405,754 | $ 405,754 | $ 198,298 | $ 405,754 | $ 392,307 |
| Supplemental Executive Retirement Plan | $ | $ | $ | $ | $ 316,011 | $ |
| *Defined contribution plans (6)* | | | | | | |
| 401(k) Retirement Savings Plan | $ 597,066 | $ 597,066 | $ 597,066 | $ 597,066 | $ 597,066 | $ 597,066 |
| Supplemental Savings Plan | $ 136,474 | $ 136,474 | $ 136,474 | $ 136,474 | $ 136,474 | $ 136,474 |
| Retiree medical (7) | $ | $ | $ | $ | $ | $ |
| Other Benefits: | | | | | | |
| Health & Welfare (8) | $ | $ | $ | $ 156,453 | $ 427,780 | $ 84,608 |
| Insurance benefits (9) | $ | $ | $ | $ 1,200,000 | $ | $ |
| Outplacement assistance | $ | $ | $ 6,100 | $ | $ | $ 6,100 |
| Total | $ 1,821,688 | $ 1,579,568 | $ 2,137,788 | $ 3,726,485 | $ 5,464,819 | $ 4,367,668 |

(1) Represents the cash severance amount payable under the Separation Pay Plan for Salaried Employees or the Change in Control Severance Agreements described below.

(2) Represents the present value of the future payments that should be payable under the terms of the MSA Long-Term Disability Plan, which provides an annual benefit of 60% of salary and previous year s bonus up to a maximum annual benefit of $192,000.

(3) Represents the amount earned through completion of the plan year under the Company s non-equity incentive award plans, as shown in the Summary Compensation Table above.

(4) The amount shown is the market value of restricted stock awards held by the Named Officer at December 31, 2011. Under the terms of the 2008 Management Equity Incentive Plan, restricted stock vests early upon a change in control or upon termination of employment due to death, disability or retirement under a Company retirement plan.

(5) Represents the present value of the Named Officer s accumulated benefits under the Company s defined benefit retirement plans described above. The increase in present value for termination following a change in control results from the plans provisions for a lump sum payment upon termination of employment within two years after a change in control. The values upon death reflect survivor benefits. The increased amount payable upon death under the Supplemental Executive Retirement Plan is the death benefit under the insurance policy, which is payable by the insurer.

(6) Represents the balances at December 31, 2011 in the Named Officer s accounts under the Company s qualified and nonqualified defined contribution plans.

(7) The Company has a nondiscriminatory plan available generally to United States salaried employees which provides medical benefits to employees who retire under the Company s Pension Plan until they become eligible for Medicare benefits. The amount shown in the table represents the estimated cost of providing plan benefits to the Named Officer.

(8) Represents the present value of the cost of continued dependent medical care coverage under the Company s group term life insurance policy, which is payable by the insurer. The amount shown for disability is the present value of the cost of continued medical care coverage for the Named Officer and dependents. The amount shown for change in control is the estimated cost to the Company of continuation for 36 months of medical, dental, accident and life insurance benefits, as required by the Change in Control Severance Agreements described below.

(9) The amounts payable on death are the death benefit under the Company s group term life insurance policy, which is payable by the insurer.

***Joseph A. Bigler***

The following table shows the payments and benefits to which Joseph A. Bigler would have been entitled if his employment had terminated on December 31, 2011 for the reasons indicated in the table:

| | Voluntary termination | Involuntary termination for cause | Involuntary termination without cause | Death | Disability | Change in Control Termination |
|---|---|---|---|---|---|---|
| Cash severance (1) | $ | $ | $ 319,800 | $ | $ | $ 1,654,127 |
| Disability income (2) | $ | $ | $ | $ | $ 618,021 | $ |
| Earned award under non-equity incentive plans (3) | $ 274,535 | $ | $ 274,535 | $ 274,535 | $ 274,535 | $ 274,535 |
| Equity: | | | | | | |
| Restricted stock (4) | $ 371,573 | $ 371,573 | $ 371,573 | $ 371,573 | $ 371,573 | $ 371,573 |
| Unexercisable Options | $ 634,504 | $ 634,504 | $ 634,504 | $ 634,504 | $ 634,504 | $ 634,504 |
| Performance Award | $ 371,573 | $ 371,573 | $ 371,573 | $ 371,573 | $ 371,573 | $ 371,573 |
| Retirement benefits: | | | | | | |
| *Defined benefit plans (5)* | | | | | | |
| Pension Plan | $ 1,156,503 | $ 1,156,503 | $ 1,156,503 | $ 845,495 | $ 1,156,503 | $ 1,156,503 |
| Supplemental Pension Plan | $ 1,198,605 | $ 1,198,605 | $ 1,198,605 | $ 876,275 | $ 1,198,605 | $ 1,244,495 |
| Supplemental Executive Retirement Plan | $ 425,482 | $ 425,482 | $ 425,482 | $ | $ 425,482 | $ 600,000 |
| *Defined contribution plans (6)* | | | | | | |
| 401(k) Retirement Savings Plan | $ 878,634 | $ 878,634 | $ 878,634 | $ 878,634 | $ 878,634 | $ 878,634 |
| Supplemental Savings Plan | $ 266,726 | $ 266,726 | $ 266,726 | $ 266,726 | $ 266,726 | $ 266,726 |
| Retiree medical (7) | $ 180,947 | $ 180,947 | $ 180,947 | $ | $ | $ 180,947 |
| Other Benefits: | | | | | | |
| Health & Welfare (8) | $ | $ | $ | $ 152,498 | $ 178,213 | $ |
| Insurance benefits (9) | $ 10,000 | $ 10,000 | $ 10,000 | $ 650,000 | $ 10,000 | $ 10,000 |
| Outplacement assistance | $ | $ | $ 6,100 | $ | $ | $ 6,100 |
| Total | $ 5,769,082 | $ 5,494,547 | $ 6,094,982 | $ 5,321,813 | $ 6,384,369 | $ 7,649,717 |

(1) Represents the cash severance amount payable under the Separation Pay Plan for Salaried Employees or the Change in Control Severance Agreements described below.

(2) Represents the present value of the future payments that should be payable under the terms of the MSA Long-Term Disability Plan, which provides an annual benefit of 60% of salary and previous year s bonus up to a maximum annual benefit of $192,000.

(3) Represents the amount earned through completion of the plan year under the Company s non-equity incentive award plans, as shown in the Summary Compensation Table above.

(4) The amount shown is the market value of restricted stock awards held by the Named Officer at December 31, 2011. Under the terms of the 2008 Management Equity Incentive Plan, restricted stock vests early upon a change in control or upon termination of employment due to death, disability or retirement under a Company retirement plan. At December 31, 2011, Mr. Bigler was eligible to retire under the Company s pension plan.

(5) Represents the present value of the Named Officer s accumulated benefits under the Company s defined benefit retirement plans described above. The increase in present value for termination following a change in control results from the plans provisions for a lump sum payment upon termination of employment within two years after a change in control. The values upon death reflect survivor benefits. The increased amount payable upon death under the Supplemental Executive Retirement Plan is the death benefit under the insurance policy, which is payable by the insurer.

(6) Represents the balances at December 31, 2011 in the Named Officer s accounts under the Company s qualified and nonqualified defined contribution plans.

(7) The Company has a nondiscriminatory plan available generally to United States salaried employees which provides medical benefits to employees who retire under the Company s Pension Plan until they become eligible for Medicare benefits. The amount shown in the table represents the estimated cost of providing plan benefits to the Named Officer.

(8) Represents the present value of the cost of continued dependent medical care coverage under the Company s group term life insurance policy, which is payable by the insurer. The amount shown for disability is the present value of the cost of continued medical care coverage for the Named Officer and dependents. The amount shown for change in control is the estimated cost to the Company of continuation for 36 months of medical, dental, accident and life insurance benefits, as required by the Change in Control Severance Agreements described below.

(9) The amounts payable on death are the death benefit under the Company s group term life insurance policy, which is payable by the insurer. The amount payable under all other columns represents the face value of the life insurance policy that would be issued to the Named Officer after his termination of employment.

***Kerry M. Bove***

The following table shows the payments and benefits to which Kerry M. Bove would have been entitled if his employment had terminated on December 31, 2011 for the reasons indicated in the table:

| | Voluntary termination | Involuntary termination for cause | Involuntary termination without cause | Death | Disability | Change in Control Termination |
|---|---|---|---|---|---|---|
| Cash severance (1) | $ | $ | $ 310,000 | $ | $ | $ 1,487,814 |
| Disability income (2) | $ | $ | $ | $ | $ 1,674,299 | $ |
| Earned award under non-equity incentive plans (3) | $ 242,120 | $ | $ 242,120 | $ 242,120 | $ 242,120 | $ 242,120 |
| Equity: | | | | | | |
| Restricted stock (4) | $ | $ | $ | $ 262,741 | $ 262,741 | $ 262,741 |
| Unexercisable Options | $ | $ | $ | $ 455,423 | $ 455,423 | $ 455,423 |
| Performance Award | $ | $ | $ | $ 262,741 | $ 262,741 | $ 262,741 |
| Retirement benefits: | | | | | | |
| *Defined benefit plans (5)* | | | | | | |
| Pension Plan | $ 585,408 | $ 585,408 | $ 585,408 | $ 288,355 | $ 585,408 | $ 585,408 |
| Supplemental Pension Plan | $ 494,895 | $ 494,895 | $ 494,895 | $ 243,770 | $ 494,895 | $ 476,899 |
| Supplemental Executive Retirement Plan | $ | $ | $ | $ | $ 381,834 | $ 600,000 |
| *Defined contribution plans (6)* | | | | | | |
| 401(k) Retirement Savings Plan | $ 659,898 | $ 659,898 | $ 659,898 | $ 659,898 | $ 659,898 | $ 659,898 |
| Supplemental Savings Plan | $ 187,715 | $ 187,715 | $ 187,715 | $ 187,715 | $ 187,715 | $ 187,715 |
| Retiree medical (7) | $ | $ | $ | $ | $ | $ |
| Other Benefits: | | | | | | |
| Health & Welfare (8) | $ | $ | $ | $ 121,960 | $ 195,428 | $ 41,184 |
| Insurance benefits (9) | $ | $ | $ | $ 800,000 | $ | $ |
| Outplacement assistance | $ | $ | $ 6,100 | $ | $ | $ 6,100 |
| Total | $ 2,170,036 | $ 1,927,916 | $ 2,486,136 | $ 3,524,723 | $ 5,402,502 | $ 5,268,043 |

(1) Represents the cash severance amount payable under the Separation Pay Plan for Salaried Employees or the Change in Control Severance Agreements described below.

(2) Represents the present value of the future payments that should be payable under the terms of the MSA Long-Term Disability Plan, which provides an annual benefit of 60% of salary and previous year s bonus up to a maximum annual benefit of $192,000.

(3) Represents the amount earned through completion of the plan year under the Company s non-equity incentive award plans, as shown in the Summary Compensation Table above.

(4) The amount shown is the market value of restricted stock awards held by the Named Officer at December 31, 2011. Under the terms of the 2008 Management Equity Incentive Plan, restricted stock vests early upon a change in control or upon termination of employment due to death, disability or retirement under a Company retirement plan.

(5) Represents the present value of the Named Officer s accumulated benefits under the Company s defined benefit retirement plans described above. The increase in present value for termination following a change in control results from the plans provisions for a lump sum payment upon termination of employment within two years after a change in control. The values upon death reflect survivor benefits. The increased amount payable upon death under the Supplemental Executive Retirement Plan is the death benefit under the insurance policy, which is payable by the insurer.

(6) Represents the balances at December 31, 2011 in the Named Officer s accounts under the Company s qualified and nonqualified defined contribution plans.

(7) The Company has a nondiscriminatory plan available generally to United States salaried employees which provides medical benefits to employees who retire under the Company s Pension Plan until they become eligible for Medicare benefits. The amount shown in the table represents the estimated cost of providing plan benefits to the Named Officer.

(8) Represents the present value of the cost of continued dependent medical care coverage under the Company s group term life insurance policy, which is payable by the insurer. The amount shown for disability is the present value of the cost of continued medical care coverage for the Named Officer and dependents. The amount shown for change in control is the estimated cost to the Company of continuation for 36 months of medical, dental, accident and life insurance benefits, as required by the Change in Control Severance Agreements described below.

(9) The amounts payable on death are the death benefit under the Company s group term life insurance policy, which is payable by the insurer.

***Separation Pay Plan for Salaried Employees***

The Company has a severance plan which is available generally to United States salaried exempt employees and which does not discriminate in scope, terms or operation in favor of executive officers. Under this plan, an employee whose employment is involuntarily terminated without cause is entitled to a lump sum separation payment in an amount ranging from four weeks base salary for an employee with less than one year of continuous service to 52 weeks base salary for employees with 21 or more years of continuous service. The cash severance amount show under termination without cause in the tables above is the amount to which the Named Officer would have been entitled under this plan had his employment been terminated without cause on December 31, 2011. A Named Officer would not receive payments under this plan if the termination qualified for severance benefits under the change in control severance agreements described below.

***Change in Control Severance Agreements***

The Company has entered into agreements with each of the Named Officers the stated purpose of which is to encourage the officers continued attention and dedication to their duties without distraction in the event of an actual or potential change in control of the Company. In the agreements, the officers agree that if a potential change in control, as defined in the agreements, occurs, the officers will remain in the employment of the Company for at least six months or until an actual change in control occurs, unless employment is sooner terminated by the executive for good reason, as defined in the agreement, or due to death, disability or retirement or by the Company. In return, the agreements provide that if within three years after a change in control, as defined in the agreement, the officer s employment is terminated by the Company without cause, as defined in the agreement, or the officer terminates his employment for good reason, as defined in the agreement, the officer will be entitled to receive:

a lump sum payment equal to up to three times the sum of (i) the officer s annual salary plus (ii) the average annual bonus paid to the officer for the preceding two years;

continuation for 36 months of medical, dental, accident and life insurance benefits; and

36 months additional service credit under the Company s executive insurance and post-retirement health care programs.

Unlike many companies, the Company does not gross-up the benefits payable to officers for excise taxes. Instead, the benefits payable under the agreements are limited to the amount that can be paid without triggering any excise tax or rendering any amounts non-deductible under the Internal Revenue Code. The limitation would not apply if the reduced benefit is less than the unreduced benefit after payment of any excise tax.

The change in control termination column in the tables above shows the amounts of the payments and benefits each Named Officer would have received if a qualifying termination of employment following a change in control had occurred as of December 31, 2011.

**OTHER INFORMATION CONCERNING THE BOARD OF DIRECTORS**

**Compensation of Directors**

The following table shows the compensation earned by the Company s non-employee directors for services during 2011:

| Name | Fees earned or paid in cash | Restricted stock awards (1) | Stock option awards (1) | Change in Pension Value (2) | Total |
|---|---|---|---|---|---|
| Robert A. Bruggeworth | $ 68,250 | $ 51,739 | $ 33,253 | | $ 153,242 |
| James A. Cederna | $ 69,750 | $ 51,739 | $ 33,253 | | $ 154,742 |
| Thomas B. Hotopp | $ 69,200 | $ 51,739 | $ 33,253 | | $ 154,192 |
| Diane M. Pearse | $ 77,350 | $ 51,739 | $ 33,253 | | $ 162,342 |
| John T. Ryan III | $ 90,900 | $ 51,739 | $ 33,253 | | $ 175,892 |
| L. Edward Shaw, Jr. | $ 67,100 | $ 51,739 | $ 33,253 | | $ 152,092 |
| John C. Unkovic | $ 65,700 | $ 51,739 | $ 33,253 | | $ 150,692 |
| Thomas H. Witmer | $ 73,250 | $ 51,739 | $ 33,253 | | $ 158,242 |

(1) Represents the aggregate grant date fair value of the restricted stock awards and stock option awards computed in accordance with FASB ASC Topic 718.

(2) Represents the amount of the aggregate increase for 2011 in the actuarial present value of the director s accumulated benefits, if any, under the Retirement Plan for Directors described below.

In 2011, the non-employee directors retainer fees were increased for the first time since 2006. The Company paid non-employee directors a retainer on a quarterly basis which totaled $45,000 for the year (increased from $35,000 in 2010), except that the non-employee Chairman of the Board was paid $75,000 (increased from $65,000 in 2010). Meeting fees were not increased in 2011 and were $1,500 for each day of a Board meeting and $1,200 for each meeting of a Committee of the Board attended. Non-employee directors who serve as chairman of a Board Committee receive an additional retainer (not increased in 2011) of $2,500 per quarter in the case of the Audit Committee and $1,250 per quarter in the case of the other committees.

Under the 2008 Non-Employee Directors Equity Incentive Plan and its predecessor the 1990 Non-Employee Directors Stock Option Plan (together, the Director Equity Plans ), the Company grants stock options and restricted stock to each non-employee director on the third business day following each annual meeting. Its purposes are to enhance the mutuality of interests between the Board and the shareholders by increasing the share ownership of the non-employee directors and to assist the Company in attracting and retaining able persons to serve as directors. The total number of shares which may be issued under the 2008 plan is limited to 400,000 shares of Common Stock.

The value of the annual grants of equity under the Director Equity Plans is $85,000 and is made using stock options and restricted stock. The annual stock option grants are made using a Black-Scholes option pricing model. The exercise price of the options is equal to the market value on the grant date. The options become exercisable three years from the grant date and expire ten years from the grant date. If a director resigns or is removed from office for cause, options which have not yet become exercisable are forfeited and exercisable options remain exercisable for 90 days. Otherwise, unexpired options may generally be exercised for five years following termination of service as a director, but not later than the option expiration date. The restricted shares vest on the date of the third annual meeting following the grant date. Unvested shares are forfeited if the director terminates service for reasons other than death, disability or retirement.

Pursuant to the terms of the 2008 plan, on May 16, 2011 each non-employee director was granted an option to purchase 2,969 shares of Common Stock at an option price of $37.33 and 1,386 shares of restricted stock.

Prior to April 1, 2001, a director who retired from the Board after completing at least five years of service as a director was entitled to receive a lifetime quarterly retirement allowance under the Retirement Plan for

Directors. The amount of the allowance was equal to the quarterly directors retainer payable at the time of the director s retirement. Payment began when the sum of the director s age and years of service equaled or exceeded 75. Effective April 1, 2001, plan benefits were frozen so that the quarterly retirement allowance, if any, payable to future retirees will be limited to $5,000 (the quarterly retainer amount in April 2001), multiplied by a fraction, of which the numerator is the director s years of service as of April 1, 2001 and the denominator is the years of service the director would have had at the date the sum of the director s age and years of service equaled 75.

Directors who are employees of the Company or a subsidiary participated in the Retirement Plan for Directors, but do not receive other additional compensation for service as a director.

**Compensation Committee Interlocks and Insider Participation**

There are no interlocking relationships, as defined in regulations of the Securities and Exchange Commission, involving members of the Compensation Committee.

Directors Bruggeworth, Hotopp, Unkovic and Witmer (Chair) served as members of the Compensation Committee during 2011. The Board has determined that each of these directors is independent in accordance with the listing standards of the New York Stock Exchange.

Mr. Unkovic is a partner in the law firm of Reed Smith LLP, which provides legal services to the Company as its outside counsel.

**Review and Approval or Ratification of Related Party Transactions**

The Company has a policy on related party transactions which operates along with the conflicts of interest section of the Company s Code of Ethics and Business Conduct. Copies of the policy on related party transactions and the Code are available in the Investor Relations section of the Company s internet website at www.MSAsafety.com.

The Company s directors, officers and other employees must be free from any personal influence, interest or relationship, or appearance thereof, in situations that might conflict with the best interests of the Company. Directors, officers and employees must fully disclose in advance any circumstance that may create a conflict of interest, including a related party transaction, so that an appropriate determination can be made as to whether it would violate the policy on related party transactions or the Code.

In general, the related party policy covers any transaction, arrangement or relationship in which the Company is a participant and the amount involved exceeds $120,000, and in which any related person had or would have a direct or indirect material interest. A related person is any executive officer, director or nominee, any owner of 5% or more of the Company s voting securities or an immediate family member of any of the foregoing. The policy covers indirect material interests, but excludes certain relationships and pre-approved transactions.

Any officer, director or employee of the Company who is aware of a proposed transaction that may violate the related party policy must bring such transaction to the notice of the General Counsel and Chief Financial Officer of the Company. If the General Counsel or Chief Financial

Officer determines that the proposed transaction could be a related party transaction, the matter will be submitted to the Nominating and Corporate Governance Committee to consider all the material facts of the transaction. The Committee is charged with taking a number of items into account as set forth in the policy and determining whether the transaction is indeed a related party transaction and if so, whether it should be approved in any particular case. The type of matters which the Committee will take into account are:

- the nature of the related party s interest in the transaction;

- the material terms of the transaction, including the amount and type of the transaction;

the importance of the transaction to the related party;

the importance of the transaction to the Company;

whether the terms of the transaction are comparable to those of similar transactions not involving related parties; and

0.00

$

0.06

Number of stores open at end of period

99

102

105

113

118

129

132

140

146

150

Comparable store sales increase (decrease)

(4.8

)%

3.5

%

5.4

%

9.0

%

8.3

%

6.8

%

9.0

%

12.5

%

12.1

%

11.3

%

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

**Liquidity and Capital Resources**

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

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

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

The significant components of our working capital are inventory and liquid assets such as cash and receivables, specifically credit card receivables, reduced by short-term debt, accounts payable and accrued expenses. Our working capital position benefits from the fact that we generally collect cash from sales to customers the same day or within several days of the related sale, while we typically have extended payment terms with our vendors.

Our capital requirements include construction and fixture costs related to the opening of new stores and for maintenance and remodeling expenditures for existing stores. Future capital requirements will depend on many factors, including the pace of new store openings, the availability of suitable locations for new stores, and the nature of arrangements negotiated with landlords. In that regard, our net investment to open a new store has varied significantly in the past due to a number of factors, including the geographic location and size of the new store, and is likely to vary significantly in the future. During fiscal 2005, we expect to spend approximately $15.7 million on capital expenditures, a majority of which will relate to leasehold improvements and fixtures for the 35 new stores we plan to open in fiscal 2005, and a smaller amount will relate to equipment, systems and improvements for our distribution center and support infrastructure. For the six months ended July 30, 2005, we made capital expenditures of approximately $6.4 million and opened 11 new stores. However, there can be no assurance that the number of stores that we actually open in fiscal 2005 will not be different from the number of stores we plan to open, or that actual fiscal 2005 capital expenditures will not differ from this expected amount.

We expect cash flows from operations, available borrowings under our revolving credit facility and the remaining net proceeds from our initial public offering will be sufficient to meet our foreseeable cash requirements for operations and planned capital expenditures for at least the next twelve months. Beyond this time frame, if cash flows from operations, borrowings under our revolving credit facility and the remaining net proceeds from our initial public offering are not sufficient to meet our capital requirements, then we will be required to obtain additional equity or debt financing in the future. There can be no assurance that equity or debt financing will be available to us when we need it or, if available, that the terms will be satisfactory to us and not dilutive to our then-current shareholders.

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

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

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

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

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

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

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

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

## Contractual Obligations and Commercial Commitments

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

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

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

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

**Off-Balance Sheet Obligations**

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

**Impact of Inflation**

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

**Quantitative and Qualitative Disclosures About Market Risk**

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

**Critical Accounting Policies and Estimates**

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

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

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

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

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

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

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

**Recently Issued Accounting Pronouncements**

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

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

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

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

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

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

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

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**BUSINESS**

**Overview**

We are a leading specialty retailer of action sports related apparel, footwear, equipment and accessories operating under the Zumiez brand name. As of July 30, 2005, we operated 150 stores primarily located in shopping malls, giving us a presence in 18 states. Our stores cater to young men and women between the ages of 12 and 24 who seek popular brands representing a lifestyle centered on activities that include skateboarding, surfing, snowboarding, BMX and motocross. We support the action sports lifestyle and promote our brand through a multi-faceted marketing approach that is designed to integrate our brand image with our customers activities and interests. This approach, combined with our differentiated merchandising strategy, store design, comprehensive training programs and passionate employees, allows us to provide an experience for our customers that we believe is consistent with their attitudes, fashion tastes and identities and is otherwise unavailable in most malls.

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

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

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

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

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

**Competitive Strengths**

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

- *Attractive Lifestyle Retailing Concept*. We target a large and growing population of 12 to 24 year olds, many of whom we believe are attracted to the action sports lifestyle and desire to promote their personal independence and style through the apparel they wear and the equipment they use. We believe that action sports are a permanent and growing aspect of youth culture, reaching not only consumers that actually participate in action sports, but also those who seek brands and styles that fit a desired action sports image. We believe we have developed a brand image that our customers view as consistent with their attitudes, fashion tastes and identity that should allow us to benefit from our market s anticipated growth.

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

- *Deep-rooted Corporate Culture.* Our culture and brand image enable us to successfully attract and retain high quality employees who are passionate and knowledgeable about the products we sell. We place great emphasis on customer service and satisfaction, and we have made this a defining feature of our corporate culture. To preserve our culture, our store managers are typically promoted from within and are given extensive responsibility for most aspects of store level management. We provide these managers with the knowledge and tools to succeed through our comprehensive training programs and the flexibility to manage their stores to meet localized customer demand.

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

- *Disciplined Operating Philosophy.* We have an experienced senior management team, with an average of approximately 15 years of experience in retail or related industries as of the end of fiscal 2004. Our management team has built a strong operating foundation based on sound retail principles that underlie our unique culture. Our philosophy emphasizes an integrated combination of results measurement, training and incentive programs, all designed to drive sales productivity down to the individual store associate level. Our comprehensive training programs are designed to provide our managers and store associates with enhanced product knowledge, selling skills and operational expertise. We believe that our merchandising team s immersion in the actions sports lifestyle,

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

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

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

**Growth Strategy**

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

- *Opening New Store Locations.* We believe that the action sports lifestyle has national appeal that provides store expansion opportunities throughout the country. Since the end of fiscal 2002 through the six months ended July 30, 2005, we have opened 53 new stores, consisting of 15 new stores in fiscal 2003, 27 new stores in fiscal 2004 and 11 new stores in the six months ended July 30, 2005. We have successfully opened stores in diverse markets throughout the United States, which we believe demonstrates the portability and growth potential of our concept. We plan to open approximately 35 stores in fiscal 2005 (including eleven stores that we have opened during the six months ended July 30, 2005), including stores in our existing markets and in new markets, to take advantage of what we believe to be a compelling economic store model. We plan to continue to increase the size of our average store by opening new store locations that average approximately 3,000 square feet. These larger locations will accommodate an expanded merchandise mix, while maintaining our unique in-store experience and culture.

- *Continuing to Generate Sales Growth through Improved Store Level Productivity.* We seek to maximize our comparable store sales and net sales per square foot by maintaining consistent store-level execution and offering our customers a broad and relevant selection of action sports brands and products. We also intend to continue to expand our brand awareness in an effort to maintain high levels of customer traffic.

- *Enhancing our Operating Efficiency.* As we continue to expand our business and open new stores, we plan to improve our operating results by taking advantage of economies of scale in purchasing our inventory, leveraging our existing infrastructure and continually optimizing and improving our operations in areas such as inventory and supply chain management. We seek to better leverage our expenses, particularly general corporate overhead and fixed costs such as non-variable occupancy costs, through increases in both comparable store sales and total net sales.

- *Enhancing our Brand Awareness through Continued Marketing and Promotion.* We believe that a key component of our success is the brand exposure that we receive from our marketing events, promotions and activities that embody the action sports lifestyle. These are designed to assist us in increasing brand awareness in our existing markets and expanding into new markets by strengthening our connection with our target customer base. We believe that our marketing efforts have also been successful in generating and promoting interest in our product offerings. In addition, we use our Internet presence, designed to convey our passion for the action sports lifestyle, to increase our brand awareness. We plan to continue to expand our integrated marketing efforts by promoting more events and activities in our existing and new markets, including additional Zumiez Couch Tour destinations.

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**The Action Sports Market**

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

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

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

**Merchandising and Purchasing**

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

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

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

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

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

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

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

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

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

**Distribution and Fulfillment**

Timely and efficient distribution of merchandise to our stores is an important component of our overall business strategy. We process all of our merchandise through our distribution center in Everett, Washington. At this facility, merchandise is inspected, entered into our computer system, allocated to stores, ticketed when necessary, and boxed for distribution to our stores or segregated in our e-commerce fulfillment area for delivery to our Internet customers. A significant percentage of our merchandise is currently pre-ticketed by our vendors, which allows us to ship merchandise more quickly, reduces labor costs and enhances our inventory management. We continue to work with our vendors to increase the percentage of pre-ticketed merchandise. 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 merchandise to our stores. We believe our current distribution infrastructure is sufficient to accommodate our expected store growth and expanded product offerings over the next several years.

**Stores**

As of July 30, 2005, we operated 150 stores with an average of approximately 2,700 square feet per store in 18 states. All of our stores are leased and substantially all are located in shopping malls of different types. All references in this prospectus to square footage of our stores refers to gross square footage, including retail selling, storage and back-office space.

The following store list shows the number of stores we operated in each state as of July 30, 2005:

| State | Number of Stores |
|---|---|
| Alaska | 2 |
| Arizona | 9 |
| California | 28 |
| Colorado | 10 |
| Idaho | 5 |
| Illinois | 9 |
| Minnesota | 10 |
| Montana | 4 |
| Nevada | 4 |

| State | Number of Stores |
|---|---|
| New Jersey | 1 |
| New Mexico | 4 |
| New York | 18 |
| Oregon | 10 |
| Texas | 1 |
| Utah | 11 |
| Washington | 21 |
| Wisconsin | 2 |
| Wyoming | 1 |

As of July 30, 2005, approximately 75% of our stores had been opened or remodeled within the previous five years, and all of our stores except one had been opened or remodeled within the previous ten years. 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 four fiscal years:

| Fiscal Year | Stores Opened | Stores Closed | Total Number of Stores at End of Period |
|---|---|---|---|
| 2001 | 17 | 1 | 80 |
| 2002 | 19 | | 99 |
| 2003 | 15 | 1 | 113 |
| 2004 | 27 | | 140 |
| Six months ended July 30, 2005 | 11 | 1 | 150 |

*Store Design and Environment.* We design our stores to create a distinctive and engaging shopping environment that we believe resonates with our customers and reflects an organized chaos that is consistent with many teenagers 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. To further enhance our customers experience, we seek to attract enthusiastic store associates who are knowledgeable about our products and are able to offer superior customer service and expertise. We believe that our store atmosphere enhances our image as a leading provider of action sports lifestyle merchandise.

As of July 30, 2005, our stores averaged 2,700 square feet. We have been, and plan to continue, opening new stores that average 3,000 square feet, slightly larger than our historical average size. These larger stores are intended to enable us to offer an expanded merchandise selection while maintaining our distinctive store environment.

*Expansion Opportunities and Site Selection.* Since the end of fiscal 2002, we have opened 53 stores to enhance our position in existing markets and to enter into new markets, to build our brand awareness and to capitalize on our successful store model. We plan to open 35 new stores in fiscal 2005 (including 11 stores that we have opened during the six months ended July 30, 2005) and to continue to open a significant number of new stores in future years. Our new store openings are planned in both existing and new markets.

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, music or 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 significant 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 new stores opened during fiscal 2003 generated average net sales of approximately $1.0 million during their first full year of operations. On average, our net investment to open these stores was approximately $360,000, which includes capital expenditures, net of landlord contributions, and initial inventory, net of payables. However, our net investment to open new stores and net sales generated by new stores vary significantly and depend on a number of factors, including the geographic location and size of those stores. Accordingly, net sales and other operating results for stores that we open or have opened subsequent to the end of fiscal 2003, as well as our net investment to open those stores, may differ substantially from net sales and other operating results and our net investment for the stores we opened in fiscal 2003.

*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 regions and districts. Each region is managed by a regional manager, responsible for approximately 50 stores. We employ one district sales 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. 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 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 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, 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 regional, district and store 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, items 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.

*Internet Operations.* We use our website primarily as an information source for our customers. Our website provides current information on our upcoming events and promotions, store locations and merchandise selection. We also sell products directly through our website, although Internet sales currently comprise, and are expected to continue to comprise, a small portion of our overall net sales. In the six months ended July 30, 2005 and fiscal 2004 and fiscal 2003, Internet sales represented less than 1% of our total net sales.

**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, such as the Zumiez Couch Tour, which give our customers an opportunity to experience and participate in the action sports lifestyle. Our marketing efforts also incorporate local sporting and music event promotions, advertising in magazines popular with our target market such as Transworld Snowboarding and Transworld Skateboarding, interactive contest sponsorships that actively involve our customers with our brands and products, and the distribution of about eight million Zumiez stickers in the past calendar year. 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.

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 teenage 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. Recently, our Zumiez Couch Tour completed a twelve city tour across the United States. We also offer promotions and contests such as the Zumiez and Atticus Battle of the Bands, which provides amateur bands the opportunity to compete against one another for a chance to win Zumiez gift certificates and have their winning track produced on an Atticus CD sampler. Advertising expense (income) was approximately $322,000, $295,000 and $235,000 in fiscal 2002, 2003 and 2004, respectively and $24,000 for the one month period ended February 1, 2003 and $25,000 and ($900) for the six months ended July 31, 2004 and the six months ended July 30, 2005, respectively. Advertising expense is presented net of payments that we receive from sponsors and, for the six months ended July 30, 2005, these payments exceeded our actual advertising costs.

**Management Information Systems**

Our management information systems provide integration of store, merchandising, distribution, financial and human resources functions. We use software licensed from ANT USA for merchandise planning and software licensed from CRS Retail that is used for SKU and classification inventory tracking, purchase order management, merchandise distribution, automated ticket making and sales audit functions. Our financial systems are licensed from ACC PAC and Best FAS and are used for general ledger, accounts payable, payroll, budgeting, financial reporting and asset management. We believe that our information systems are scalable, flexible and have the capacity to accommodate our current growth plans.

Sales are updated daily in our merchandising reporting systems by polling sales information from each store s point-of-sale, or POS, terminals. Our POS system consists of registers providing processing of retail transactions, price look-up, time and attendance and e-mail. Sales information, inventory tracking and payroll hours are uploaded to our central host system. The host system downloads price changes, performs system maintenance and provides software updates to the stores through automated nightly two-way electronic communication with each store. We evaluate information obtained through nightly polling to implement merchandising decisions, including product purchasing/reorders, markdowns and allocation of merchandise on a daily basis.

In addition to our home office staff, each of our regional and district managers can access relevant business information, including current and historical sales by store, district and region, transaction information and payroll data.

**Competition**

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 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 Co., Aeropostale, Inc., American Eagle Outfitters, Inc., Anchor Blue Clothing Company, Charlotte Russe Inc., Claire s Stores, Inc., Forever 21, Inc., Hollister Co., Hot Topic, Inc., Old Navy, Inc., Pacific Sunwear of California, Inc., The Buckle, Inc., The Wet Seal, Inc. and Urban Outfitters, Inc. In addition, in the softgoods markets we compete with independent specialty shops, department stores and direct marketers that sell similar lines of merchandise and target customers through catalogs and e-commerce. In the hardgoods markets, which includes skateboards, snowboards, bindings, components and other equipment, we compete directly or indirectly with the following categories of companies: other specialty retailers that compete with us across a significant portion of our merchandising categories, such as local snowboard and skate shops; large-format sporting goods stores and chains, such as Big 5 Sporting Goods Corporation, Dick s Sporting Goods, Inc., Sport Chalet, Inc. and The Sports Authority Inc., which operates stores under the brand names Sports Authority, Gart Sports, Oshman s and Sportmart; and Internet retailers.

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. However, some of our competitors are larger than we are and have substantially greater financial, marketing and other resources than we do. See Risk Factors 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.

**Properties**

In early February 2005, we completed our move from the 49,000 square foot combined home office and distribution center that we occupied since 1994 to a new 87,000 square foot combined home office and distribution center, both in Everett, Washington. We occupy the new facility under a lease expiring in July 2012. We have an option to extend the term of this lease for up to two additional five-year periods. All of our stores, encompassing approximately 405,000 total square feet as of July 30, 2005, are occupied under operating leases. The store leases range for a term of five to ten years and we are generally responsible for payment of property taxes and utilities, common area maintenance and marketing fees.

**Trademarks**

Zumiez, Free World, O-Three and Limelight are among our trademarks registered with the United States Patent and Trademark Office. We regard our trademarks as valuable and intend to maintain such marks and any related registrations. We are currently in the process of filing an application to register the Empyre and Empyre Girl marks. We are not aware of any claims of infringement or other challenges to our right to use our marks in the United States. We vigorously protect our trademarks. We also own numerous domain names which have been registered with Corporation for Assigned Names and Numbers.

**Employees**

As of July 30, 2005, we employed approximately 554 full-time and approximately 1,581 part-time employees, of which approximately 242 were employed at our home office and approximately 1,893 at our store locations. However, the number of part-time employees fluctuates depending on our seasonal needs and, in fiscal 2004, varied from between approximately 1,076 and 1,927 part-time employees. None of our employees are represented by a labor union and we consider our relationship with our employees to be good.

**Legal Proceedings**

From time to time, we become involved in litigation relating to claims arising from our ordinary course of business. Management believes, after considering a number of factors and the nature of legal proceedings to which we are subject, that the outcome of current litigation will not have a material adverse effect upon our results of operations or financial condition. However, see Risk Factors The outcome of litigation could have a material adverse effect on our business.

**MANAGEMENT**

**Our Directors and Executive Officers**

The following table sets forth certain information about our directors and executive officers as of the date of this prospectus.

| Name | Age | Position |
|---|---|---|
| Thomas D. Campion | 57 | Chairman of the Board |
| Richard M. Brooks | 45 | President, Chief Executive Officer and Director |
| Brenda I. Morris | 40 | Chief Financial Officer |
| Lynn K. Kilbourne | 43 | General Merchandising Manager |
| Thomas E. Davin(1)(2) | 47 | Director |
| William M. Barnum, Jr.(2) | 51 | Director |
| Gerald F. Ryles(1)(2) | 69 | Director |
| Steven W. Moore | 30 | Director |

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

Thomas D. Campion, 57, was one of our co-founders and has served on our board of directors (our Board ) since our inception in 1978. Mr. Campion 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. Campion holds a B.A. in Political Science from Seattle University. Mr. Campion serves as the Board Chair of the Alaska Wilderness League, a Washington, D.C. based environmental group, and the Treasurer of the Northwest Ecosystem Alliance, a Bellingham, Washington based environmental group.

Richard M. Brooks, 45, has served as our President and Chief Executive Officer 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 & Touche, 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 has served on its Finance and Facilities Committee and its Audit Committee.

Brenda I. Morris, 40, has served as our Chief Financial Officer since April 2003. From November 1999 until April 2003, she was with K2 Corporation as the Vice President of Finance. Ms. Morris has also held a senior management position with UnionBay Sportswear. Ms. Morris holds a B.S. in Business from Pacific Lutheran University and an M.B.A. from Seattle University. Ms. Morris is a certified public accountant in Washington and a certified management accountant. Ms. Morris is a member of the Journal of Accountancy Review Board for the American Institute of Certified Public Accountants. Ms. Morris serves on the Board of Washington Business Week, a program of the Foundation for Private Enterprise Education serving high school students, where she has served on its Audit Committee and as its Treasurer.

Lynn K. Kilbourne, 43, has served as our General Merchandising Manager since September 2004. 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 us 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.

Thomas E. Davin, 47, has served on our Board since November 2002 and is President and Chief Operating Officer of Panda Restaurant Group, Inc., a leading Chinese quick service restaurant chain with more than 700 restaurants, where he has been since 2004. Prior to joining Panda Restaurant Group, Inc., Mr. Davin served, from 2001 to 2004, as the Operating Partner of Brentwood Private Equity III, LLC, a middle-market private equity firm, or Brentwood Private Equity III. Mr. Davin is a Director of Oakley Inc.

(NYSE OO ) and serves as Chairman of Oakley s Nominating and Corporate Governance Committee and Chairman of Oakley s Audit Committee. From 1993 to 2000 Mr. Davin was a senior executive with Taco Bell Corporation, a division of YUM! Brands, Inc. (NYSE YUM ), and served as its Chief Operating Officer from 1997 to 2000. Mr. Davin earned an M.B.A., with distinction, from the Harvard University Graduate School of Business Administration. Mr. Davin is a graduate of Duke University and served as a U.S. Marine Corps officer from 1979 to 1985.

William M. Barnum, Jr., 51, has served on our Board since November 2002. Since 1984, Mr. Barnum has been with Brentwood Private Equity III, where he co-founded the firm s private equity effort, and is currently its General Partner. Prior to joining Brentwood Private Equity III, Mr. Barnum worked at Morgan Stanley & Co. in the investment banking division, where he served as Assistant to the President and also provided investment banking advisory services. 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 Exhale Enterprises Inc., Filson Holdings, Inc., FleetPride Corporation, Oriental Trading Company, Inc., Quiksilver Corporation and ThreeSixty Asia Ltd.

Gerald F. Ryles, 69, has served on our Board since August 2005. Until it was acquired in September 2003, Mr. Ryles was Chief Executive Officer (from July 1994 through January 2001), Chairman of the Board and a major shareholder of Microserv Technology Services, a privately held information technology services company. Mr. Ryles currently serves on the Board of Directors of Halifax Corporation, the company that acquired Microserv Technology Services. Mr. Ryles has 40 years of experience in many 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 Graduate School of Business Administration.

Steven W. Moore, 30, has served on our Board since April 2005. Mr. Moore is currently a Principal of Brentwood Private Equity III where he has worked since 2000. Prior to joining Brentwood Private Equity III, Mr. Moore worked, from 1998 to 2000, for Donaldson, Lufkin & Jenrette Securities Corporation in the investment banking division and, from 1997 to 1998, for Deloitte & Touche Consulting Group. Mr. Moore holds a B.S. in Mechanical Engineering from the University of Michigan. Mr. Moore is currently a director of Filson Holdings, Inc. and ThreeSixty Asia Ltd.

**Board Structure and Composition**

Our Board currently consists of six members. The Board has determined, after consultation with our legal counsel, that Mr. Davin and Mr. Ryles qualify as independent directors under the rules of The Nasdaq Stock Market. Mr. Davin was previously affiliated with the Brentwood Affiliates, which is among our significant shareholders. We intend to appoint additional independent directors as needed so that a majority of our directors are independent by May 6, 2006. It is our intention to be in full and timely compliance with all applicable rules of the SEC and The Nasdaq Stock Market with respect to the independence of our directors and we intend to avail ourselves of the transition period provided under the applicable rules of the SEC and The Nasdaq Stock Market for issuers that listed in conjunction with their initial public offering. However, if we fail to comply, when required, with the applicable requirements of the SEC or The Nasdaq Stock Market with respect to the independence of the members of our Board and committees of our Board, our common stock may be delisted by The Nasdaq Stock Market and we may otherwise be subject to adverse publicity and sanctions, which could have a material adverse effect on our results of operations and the market price of our common stock.

Our Board is divided into three classes of directors, each serving staggered three-year terms as follows:

- Class I consisting of Mr. Brooks and Mr. Moore, whose initial terms expire at the annual meeting of shareholders to be held in 2006;

- Class II consisting of Mr. Barnum and Mr. Ryles, whose initial terms expire at the annual meeting of shareholders to be held in 2007; and

- Class III consisting of Mr. Campion and Mr. Davin, whose initial terms expire at the annual meeting of shareholders to be held in 2008.

Upon expiration of the term of a class of directors, directors for that class will be elected for a new three-year term at the annual meeting of shareholders in the year in which such term expires. Each director s term is subject to the election and qualification of his successor, or his earlier death, resignation or removal. The authorized number of directors may be changed by resolution duly adopted by our Board and any vacancies on our Board may be filled only by the affirmative vote of a majority of the directors then in office. Any increase or decrease in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. This classification of our Board will make it more difficult for a third party to acquire control of our company.

**Board Committees**

Our Board has established an audit committee and a compensation committee and, will establish a governance and nominating committee. It is our intention that the composition of these Board committees comply, when required, with the independence requirements and other applicable rules of the SEC and The Nasdaq Stock Market. Under those rules, a majority of the members of each of these committees currently must meet these independence requirements (which requirement has been satisfied) and all members of these committees must meet the independence requirements by May 6, 2006.

Audit Committee.

Our audit committee has responsibility for, among other things:

- assisting our Board in monitoring the integrity of our financial statements;

- 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; and

- reviewing the 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.

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.

We plan to nominate a third independent member of our audit committee by May 6, 2006 so that all of our audit committee members will be independent under applicable rules of the SEC and The Nasdaq Stock Market. Our Board has determined that Mr. Davin and Mr. Ryles are audit committee financial experts under applicable SEC rules and each has the required financial sophistication pursuant to the rules of The Nasdaq Stock Market.

Governance and Nominating Committee.

We will establish a governance and nominating committee. The governance and nominating committee will have 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;
- recommending director compensation and benefits policies; and
- considering and recommending to the Board other actions relating to corporate governance.

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Compensation Committee.

Our compensation committee has responsibility for, among other things:

- reviewing corporate goals and objectives relevant to compensation of our Chief Executive Officer and other senior executives;

- determining and approving our Chief Executive Officer s compensation and making recommendations to the Board with respect to compensation of other executive employees;

- administering our incentive compensation plans and equity based plans and making recommendations to the Board with respect to those plans; and

- making recommendations to our Board with respect to the compensation of directors.

We plan to add a third independent director to our compensation committee by May 6, 2006.

**Compensation Committee Interlocks and Insider Participation**

Prior to our establishment of a compensation committee, Messrs. Barnum and Davin participated in deliberations of our Board concerning executive officer compensation. Neither Mr. Barnum, Mr. Davin nor Mr. Ryles, each of whom currently serves as a member of our compensation committee, serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our Board or compensation committee.

**Code of Business Conduct and Ethics**

Our Board has adopted a code of business 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 The Nasdaq Stock Market. Our code of business conduct and ethics is available at our website at www.zumiez.com. Information on our website, however, does not form a part of this prospectus.

**Board Compensation**

For the fiscal year ended January 29, 2005, the individuals serving on our Board who were not our employees did not receive any compensation. We intend to pay our non-employee directors an annual fee for their services as members of our Board and an additional annual fee for each committee on which they serve as a member, although the amount of such fees has not been established. We intend to reimburse all directors for reasonable expenses incurred to attend meetings of our Board or committees. In addition, non-employee directors are eligible to receive equity awards under our 2005 Incentive Plan.

**Executive Compensation**

The following table sets forth the total compensation awarded, paid or earned for services rendered to us in all capacities during fiscal 2004 by our chief executive officer and our three other most highly compensated executive officers. These executives are referred to as the named executive officers elsewhere in this prospectus.

| | **Annual Compensation** | | |
|---|---|---|---|
| **Name and Principal Position** | **Salary** | **Bonus** | **Other Annual Compensation** |
| Thomas D. Campion, Co-Founder and Chairman | $ 210,000 | $ 70,900 | |
| Richard M. Brooks, President and Chief Executive Officer | 210,000 | 70,900 | |
| Brenda I. Morris, Chief Financial Officer | 200,000 | 62,038 | |
| Lynn K. Kilbourne, General Merchandising Manager | 54,619 (1) | 23,633 | $ 40,678 (2) |

(1) Ms. Kilbourne became our General Merchandising Manager in September of 2004. Her annual base salary is $200,000.

(2) Consists of moving expense reimbursements.

**Stock Option Grants in Fiscal 2004**

The following table sets forth information with respect to stock options granted to each of our named executive officers during fiscal 2004 and includes the potential realizable value, which is the hypothetical gain that could be achieved if options were exercised at the end of their terms. This determination assumes options are exercised at the end of their terms, based on assumed annually compounded rates of stock appreciation of 5% and 10% and based on an initial public offering price of $18.00 per share (which was the public offering price in our May 5, 2005 initial public offering), net of the exercise price but before taxes associated with exercise. These assumed rates of appreciation comply with the rules of the SEC and do not represent our estimate of future common stock prices. Actual gains, if any, on stock option exercises will depend on the future performance of our common stock. We granted options to purchase a total of 400,119 shares of common stock during fiscal 2004.

Options granted in fiscal 2004 to the named executive officers were granted under our 2004 Option Plan, the material terms of which are described below. The Board utilized valuations prepared by management and one of the Brentwood Affiliates to establish the exercise price of options. All options granted to the named executive officers are options to purchase our common stock. All options were granted at or above fair market value as determined in good faith by our Board on the date of grant. There were no option exercises during fiscal 2004 and the named executive officers did not exercise any options in fiscal 2004. Subsequent to the date of the 2004 awards, we updated our valuation based on, in part, our financial performance, the performance of comparable companies and our plans to effect an initial public offering. In connection with this new valuation, we took compensation charges related to some options granted with exercise prices below this updated valuation, which charges have been recorded as unearned compensation in the equity section of the balance sheet. These charges will be amortized to compensation expense in the statement of operations, over the five to eight year vesting period applicable to the awards.

| | Individual Grants | | | | Potential Realizable Value at Assumed Annual Stock Price Appreciation Rate for Option Term | |
|---|---|---|---|---|---|---|
| | Number of Securities Underlying Options | Percentage of Total Options Granted in Fiscal 2004 | Exercise Price Per Share | Expiration Date | 5% | 10% |
| Thomas D. Campion | | | | | | |
| Richard M. Brooks | | | | | | |
| Brenda I. Morris | | | | | | |
| Lynn K. Kilbourne(1) | 153,886 | 41.0 % | $ 7.73 | 7/31/2014 | $ 3,159,900 | $ 5,498,947 |

(1) Twenty percent of the options vest at the one-year anniversary of the option grant and then 1/48th of the remaining options vest each month thereafter.

**Employment Agreements and Change of Control Provisions**

On November 4, 2002, we entered into an Executive Agreement with Richard M. Brooks, pursuant to which he serves as our President and Chief Executive Officer. The agreement has no fixed term and terminates upon the death or disability of Mr. Brooks or upon written notice from either party. Under the agreement, Mr. Brooks receives an annual base salary of $210,000 and he is eligible to be considered for an annual discretionary bonus of up to $100,000 and future stock option grants. The agreement further provides that if we terminate Mr. Brooks employment without cause or if he terminates his employment for good reason, he will continue to receive his base salary until he accepts employment with another employer, but in no event longer than 18 months after the termination of his employment. In addition, the agreement prohibits Mr. Brooks, during his employment with us and for the longest time period permitted by law thereafter, from disclosing confidential information; requires Mr. Brooks to transfer to us any inventions he develops during his employment; and prohibits Mr. Brooks from competing with us in geographic regions in the United States in which we conduct business or from hiring our employees for 18 months after the termination of his employment.

**Stock Based Plans**

*1993 Stock Option Plan*

Our Board adopted the 1993 Stock Option Plan (the 1993 Option Plan ) on December 1, 1997 and our shareholders approved it on December 1, 1997. The 1993 Option Plan will remain in effect until all options granted under the plan have been exercised or terminated, but no additional option grants could be made under the 1993 Option Plan after July 30, 2004. The 1993 Option Plan provided for the grant of nonqualified stock options to executive officers and key employees. As of July 30, 2005, options to purchase 1,204,851 shares of common stock were outstanding under the 1993 Option Plan.

*Administration.* A committee of the Board administers the 1993 Option Plan. Subject to the terms of the 1993 Option Plan, the committee determined grant recipients, grant dates, the numbers of stock options to be granted and the terms and conditions of the stock options, including the period of their exercisability, vesting and the exercise price.

*Stock Options.* Nonqualified stock options were granted pursuant to stock option agreements. The committee determined the exercise prices for stock options, which were at least 100% of the fair market value of the shares of common stock underlying the stock options on the date such stock options were granted, and such stock options are not exercisable after the expiration of ten years from the date of grant. The committee determined the vesting period and term of stock options granted under the 1993 Option Plan. Upon the death of an optionee, any options exercisable on the date of death may be exercised by the optionee s estate or the optionee s beneficiary for a period of one year after the date of the optionee s death. Upon the termination of an optionee s employment relationship with us by reason of retirement or permanent disability, an optionee may, within 12 months from the date of termination, exercise his or her stock options to the extent they are exercisable during such 12-month period. Other than in the case of termination by death, disability or retirement, all options held by an optionee shall terminate upon the termination of the optionee s employment relationship with us. An optionee may not transfer a nonqualified stock option other than by will or the laws of descent and distribution.

*Adjustments to Capital Structure.* In the event of a dividend or other distribution, recapitalization, merger, consolidation, split-up, combination, exchange of shares or the like, the committee may adjust the number of shares that may be delivered under the 1993 Option Plan and the number and price of the shares covered by each outstanding stock option grant.

*Amendment and Termination.* The committee may amend the 1993 Option Plan or modify stock option awards in response to changes in securities or other laws or to comply with stock exchange rules at any time. The committee may also terminate or modify the plan at any time.

*2004 Stock Option Plan*

Our Board adopted the 2004 Stock Option Plan (the 2004 Option Plan ) on June 7, 2004 and our shareholders have approved it. Unless sooner terminated by the Board, the 2004 Option Plan will terminate on June 7, 2014, the tenth anniversary of the date that the plan was adopted by our Board. The 2004 Option Plan provides for the grant of incentive stock options and nonqualified stock options, which may be granted to our executive officers and key employees. We will not make any new stock option grants under the 2004 Option Plan. However, all of the 3,307,297 shares that were available for future awards under our 2004 Option Plan at the time we completed our initial public offering in May 2005 may be added to the shares available for award under the 2005 Incentive Plan, subject to the limitation on the maximum number of shares available for award under our 2005 Incentive Plan described below under 2005 Equity Incentive Plan.

*Share Reserve.* As of July 30, 2005, options to purchase 373,476 shares of common stock were outstanding under the 2004 Option Plan. As of July 30, 2005, no shares of common stock had been issued under the 2004 Option Plan.

*Administration.* A committee of the Board administers the 2004 Option Plan. Subject to the terms of the 2004 Option Plan, the committee determines recipients, grant dates, the numbers and types of stock options to be granted and the terms and conditions of the stock options, including the period of their

exercisability and vesting. Subject to the limitations set forth below, the committee also determines the exercise price of stock options granted.

*Stock Options.* Nonqualified stock options, or nonqualified options, and incentive stock options, or incentive options, are granted pursuant to stock option agreements. The committee determines the exercise price for stock options. Subject to the limitations set forth below regarding persons owning more than ten percent of our stock ( ten percent shareholders ), the exercise price for incentive options generally will be at least 100% of the fair market value of the shares of common stock underlying the incentive stock option on the date such incentive option is granted and such incentive options will not be exercisable after the expiration of ten years from the date of grant. For ten percent shareholders, the exercise price for incentive options will be at least 110% of the fair market value of the shares of common stock underlying an incentive option on the date such incentive option is granted and such incentive option will not be exercisable after the expiration of five years from the date of grant. The committee determines the vesting period and term of stock options granted under the 2004 Option Plan.

Unless the terms of an optionee s stock option agreement provide otherwise, stock options granted under the 2004 Option Plan expire: 90 days after voluntary or involuntary termination of an optionee s employment (other than in the case of death, disability or discharge for misconduct that is willfully or wantonly harmful to us); upon discharge for misconduct that is willfully or wantonly harmful to us; or 12 months after an optionee s death or disability. In no event may a stock option be exercised after the expiration of its term, as set forth in the stock option agreement. Acceptable consideration for the purchase of common stock issued upon the exercise of a stock option will either be cash or, with our approval, common stock owned by the optionee.

Generally, an optionee may not transfer a nonqualified option other than by will or the laws of descent and distribution unless the nonqualified option agreement provides otherwise. Optionees may not transfer incentive options except by will or by the laws of descent and distribution and incentive options are exercisable during the lifetime of the optionee only by the optionee.

*Recapitalization.* The number of shares for which stock options may be granted under the 2004 Option Plan and the exercise price and the number of shares covered by an outstanding stock option will be adjusted for increases and decreases in the number of our outstanding shares resulting from stock splits and other capital adjustments or the payment of stock dividends.

*Changes in Control.* In the event of a change in control of us, all outstanding stock options under the 2004 Option Plan may be assumed or substituted by any surviving or acquiring entity, and the optionee may exercise his or her vested stock options. If the surviving or acquiring entity elects not to assume or substitute for such outstanding stock options, all outstanding stock options that have not been exercised shall terminate upon the consummation of the change in control.

*Amendment and Termination.* Our Board may amend (subject to shareholder approval as required by applicable law), suspend or terminate the 2004 Option Plan at any time.

*2005 Equity Incentive Plan*

Our Board adopted the 2005 Incentive Plan on January 24, 2005 and our shareholders approved it on April 27, 2005. Unless sooner terminated by the Board, the 2005 Incentive Plan will terminate on the day before the tenth anniversary of the date that the plan was approved by our 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 our employees (including officers), directors and consultants.

*Share Reserve.* The aggregate number of shares of common stock that may be issued pursuant to awards granted under the 2005 Incentive Plan will not exceed 2,925,000 plus (1) the number of shares that are subject to awards under the 2005 Incentive Plan, the 1993 Option Plan or the 2004 Option 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 Option Plan but that were not subject to a grant under such plan at the completion of our initial public offering in May 2005, and (3) an annual increase on the first

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business day of each fiscal year such that the total number of shares available for issuance under the 2005 Incentive 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, our 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 our 2005 Incentive Plan exceed 4,387,500 shares. As a result of this limitation on the aggregate number of shares available for award under our 2005 Incentive Plan, of the 3,307,297 shares of our common stock that were reserved for issuance under our 2004 Option Plan but that were not subject to grants under that plan at the completion of our initial public offering, up to 1,462,500 shares may currently be added to the shares of common stock that may be issued pursuant to awards granted under the 2005 Incentive Plan pursuant to clause (2) of the first sentence of this paragraph; however, we do not currently intend to add any of those shares to the 2005 Incentive Plan. See 2004 Stock Option Plan above.

As of July 30, 2005, no options to purchase shares of common stock were outstanding and no shares had been issued under the 2005 Incentive Plan.

The following types of shares issued under the 2005 Incentive Plan may again become available for the grant of new awards under the 2005 Incentive Plan: restricted stock issued under the 2005 Incentive Plan that is forfeited or repurchased by us prior to it becoming fully vested; shares withheld for taxes; shares tendered to us to pay the exercise price of an option; and shares subject to awards issued under the 2005 Incentive Plan that have expired or otherwise terminated without having been exercised in full.

*Administration.* The Board administers the 2005 Incentive Plan and may delegate this authority to administer the plan to a committee. Subject to the terms of the 2005 Incentive Plan, the plan administrator, which is our Board or its authorized committee, determines recipients, grant dates, the numbers and types of stock awards to be granted and the terms and conditions of the stock awards, including the period of their exercisability and vesting. Subject to the limitations set forth below, the plan administrator will also determine the exercise price of options granted, the purchase price for restricted stock and restricted stock units, and, if applicable, the strike price for stock appreciation rights.

*Stock Options.* Nonqualified options and incentive options are granted pursuant to stock option agreements. The plan administrator determines the exercise price for stock options. Subject to the limitations set forth below regarding persons owning more than ten percent of our stock or of any of our affiliates ( ten percent shareholders ), the exercise price for nonqualified options and incentive options will be at least 100% of the fair market value of the shares of common stock underlying the option on the date such option is granted. Incentive options will not be exercisable after the expiration of ten years from the date of grant. For ten percent shareholders, the exercise price for incentive options will be at least 110% of the fair market value of the shares of common stock underlying an incentive option on the date such incentive option is granted and such incentive option will not be exercisable after the expiration of five years from the date of grant. The plan administrator determines the vesting period and term of stock options granted under the 2005 Incentive Plan.

Unless the terms of an optionee s stock option agreement provide otherwise, if an optionee s service relationship with us, or any of our affiliates, ceases due to disability or death or the optionee dies within a specified period after termination of service, the optionee, or his or her beneficiary, may exercise any vested options for a period of 12 months in the event of disability or 18 months in the event of death, after the date such service relationship ends or after death, as applicable. If an optionee s relationship with us, or any of our affiliates, ceases for any reason other than disability or death, the optionee may exercise any vested options for a period of three months from cessation of service, unless the terms of the stock option agreement provide for earlier or later termination. In no event, however, may an option be exercised after the expiration of its term, as set forth in the stock option agreement.

Acceptable consideration for the purchase of common stock issued upon the exercise of a stock option will either be cash, common stock owned by the optionee that has been held by the optionee for at least six months, a deferred payment arrangement, a cashless exercise or other legal consideration approved by the plan administrator. The plan administrator may grant stock options with provisions entitling the optionee to a further option, referred to as a re-load option, in the event the optionee exercises the option evidenced by the option agreement, in whole or in part, by surrendering other shares of our common stock.

Generally, an optionee may not transfer a nonqualified option other than by will or the laws of descent and distribution unless the nonqualified option agreement provides otherwise. Optionees may not transfer incentive options except by will or by the laws of descent and distribution and incentive options are exercisable during the lifetime of the optionee only by the optionee. Optionees may designate a beneficiary who may exercise the option following the optionee s death.

*Stock Bonus Awards.* Stock bonus awards are granted pursuant to stock award agreements. The consideration for stock bonus awards may be a recipient s performance of services for us or our affiliates. Stock bonus awards may be subject to a repurchase right in accordance with a vesting schedule determined by the plan administrator. Upon termination of a recipient s service with us, stock bonus awards that are unvested as of the date of such termination may be reacquired by us after such time as would not result in negative accounting consequences. Stock bonus awards may be transferable only to the extent provided in a stock award agreement.

*Restricted Stock and Restricted Stock Units.* A restricted stock award or restricted stock unit award is the grant of shares of our common stock either currently (in the case of restricted stock) or at a future date (in the case of restricted stock units) at a price determined by the plan administrator. Restricted stock and restricted stock units are granted pursuant to stock award agreements. Upon termination of a recipient s service with us, shares of restricted stock that are unvested as of the date of such termination may be reacquired by us subject to the terms of the restricted stock award agreement. Restricted stock awards may be subject to a repurchase right in accordance with a vesting schedule determined by the Board. Restricted stock and restricted stock units may be transferable only to the extent provided in a stock award agreement.

*Stock Appreciation Rights.* Stock appreciation rights entitle a participant to receive a payment equal in value to the difference between the fair market value of a share of stock on the date of exercise of the stock appreciation right over the grant price of the stock appreciation right. Stock appreciation rights are granted pursuant to stock award agreements. The plan administrator may grant stock appreciation rights in connection with stock options or in a stand-alone grant. The plan administrator determines the term and grant price for a stock appreciation right. A stock appreciation right granted under the 2005 Incentive Plan vests at the rate specified in the stock award agreement. With respect to stock appreciation rights that are granted in connection with stock options, such stock appreciation rights shall be exercisable only to the extent that the related stock option is exercisable and such stock appreciation rights shall expire no later than the date on which the related stock options expire. If a recipient s relationship with us, or any of our affiliates, ceases for any reason, any unvested stock appreciation rights will be forfeited and any vested stock appreciation rights will be automatically redeemed.

*Capitalization Adjustments.* In the event of a dividend or other distribution (whether in the form of cash, shares of common stock, other securities, or other property), recapitalization, stock split, reorganization, merger, consolidation, exchange of our common stock or our other securities, or other change in our corporate structure, the plan administrator may adjust the number of shares that may be delivered under the 2005 Incentive Plan and the number and price of the shares covered by each outstanding stock award.

*Changes in Control.* In the event of a change in control of us (as defined in the 2005 Incentive Plan), all outstanding options and other awards under the 2005 Incentive Plan may be assumed, continued or substituted for by any surviving or acquiring entity. If the surviving or acquiring entity elects not to assume, continue or substitute for such awards, the vesting of such awards held by award holders whose service with us or any of our affiliates has not terminated will be accelerated and such awards will be fully vested and exercisable immediately prior to the consummation of such transaction, and the stock awards shall automatically terminate upon consummation of such transaction if not exercised prior to such event.

*Amendment and Termination.* The plan administrator may amend (subject to shareholder approval as required by applicable law), suspend or terminate the 2005 Incentive Plan at any time.

*2005 Employee Stock Purchase Plan*

Our Board adopted our Stock Purchase Plan on January 24, 2005 and our shareholders approved it on April 27, 2005.



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*Share Reserve.* The Stock Purchase Plan authorizes the issuance of 500,000 shares of common stock pursuant to purchase rights granted to certain of our employees or to employees of any of our subsidiaries that we designate as being eligible to participate.

*Administration.* The compensation committee of the Board administers the Stock Purchase Plan. The Stock Purchase Plan provides a means by which employees may purchase our common stock. We will implement the Stock Purchase Plan by offering to our eligible employees the right to purchase shares of common stock. Under the Stock Purchase Plan, we will conduct consecutive six-month offerings with a new offering commencing October 1 and April 1 of each year. The offerings will continue until the Stock Purchase Plan is terminated or until the shares reserved for issuance under the plan have been issued.

Common stock may be purchased by the employees participating in the Stock Purchase Plan at a price per share equal to the lesser of (1) 85% of the fair market value of a share of our common stock on the date of commencement of the offering (or the first trading day after the offering if the offering does not commence on a trading day) or (2) 85% of the fair market value of a share of our common stock on the last trading day of the offering. Generally, all regular employees, including officers, who are customarily employed by us or by any of our designated affiliates for more than 20 hours per week and more than five months per calendar year may participate in the Stock Purchase Plan and may contribute (through payroll deductions) up to 15% of their earnings for the purchase of common stock under the Stock Purchase Plan, as determined by the compensation committee. If an employee s employment relationship with us, or any of our affiliates, ceases for any reason, the balance in the account of such participating employee will be paid to the employee or his or her estate. Employees may not transfer or encumber either the payroll deductions credited to their account or any rights to purchase shares other than by will or the laws of descent and distribution.

*Limitations.* Eligible employees may be granted rights to participate under the Stock Purchase Plan only if, together with any other rights granted under other employee stock purchase plans, they do not permit such employee to purchase our common stock at an accrued rate exceeding $25,000 of the fair market value of such stock for each calendar year in which such rights are outstanding. No employee shall be eligible for the grant of any rights under the Stock Purchase Plan if immediately after such rights are granted, such employee owns five percent or more of the total combined voting power or value of all of our classes of capital stock or of the capital stock of any subsidiary of ours.

*Capitalization Adjustments.* In the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, offerings of rights, or any other change in the structure of our common stock, the compensation committee may make such adjustments, if any, as it may deem appropriate in the number, kind and the price of shares available for purchase under the Stock Purchase Plan, and in the number of shares which an employee is entitled to purchase.

*Changes in Control.* In the event of a change in control of us (as defined in the Stock Purchase Plan), the outstanding rights to purchase our common stock granted under the Stock Purchase Plan may be assumed or an equivalent purchase right may be substituted by the successor entity. In the event that the successor entity refuses to assume or substitute for the purchase rights, or continue the purchase right, any offering then in progress shall be shortened by setting a new ending date for such offering, which date will be prior to the date of the proposed transaction. The compensation committee will notify each participant in the offering in writing prior to the new ending date for such offering that the end of the offering has been changed and that the participant s purchase rights will be exercised automatically on such new ending date for the offering.

*Amendment and Termination.* The compensation committee may at any time amend or terminate the Stock Purchase Plan.

**Limitation on Liability and Indemnification**

Sections 23B.08.500 through 23B.08.600 of the Washington Business Corporation Act, or the WBCA, authorize Washington corporations to indemnify and advance expenses to directors, officers, employees or agents of the corporation under certain circumstances against liabilities and expenses incurred in legal proceedings involving such individuals because of their being or having been a director, officer, employee or agent of the corporation. Section 23B.08.560 of the WBCA authorizes a corporation to agree to so indemnify and obligate itself to advance or reimburse

expenses without regard to the limitations of Section 23B.08.510



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through 23B.08.550 of the WBCA; provided, however, that no such indemnity shall be made for or on account of any:

- acts or omissions of the director, officer, employee or agent finally adjudged to be intentional misconduct or a knowing violation of law;
- conduct of the director, officer, employee or agent finally adjudged to be in violation of Section 23B.08.310 of the WBCA (which section relates to unlawful distributions); or
- transaction with respect to which it was finally adjudged that such director, officer, employee or agent personally received a benefit in money, property, or services to which the director, officer, employee or agent was not legally entitled.

Furthermore, Section 23B.08.320 of the WBCA authorizes a corporation to limit a director s liability to the corporation or its shareholders for monetary damages for acts or omissions as a director, except in certain circumstances involving (1) acts or omissions of a director that involve intentional misconduct or a knowing violation of law, (2) conduct violating Section 23B.08.310 of the WBCA (which section relates to unlawful distributions) or (3) any transaction from which the director will personally receive a benefit in money, property or services to which the director is not legally entitled.

Our articles of incorporation provide that we shall indemnify our directors to the fullest extent permitted by the WBCA, subject to exceptions, and require that we advance expenses for those persons pursuant to our bylaws or a separate directors resolution or contract. Our bylaws provide that we shall indemnify our directors, officers and employees to the fullest extent permitted by applicable law, and also provide that we may indemnify our agents. Our bylaws also provide that we may, or in certain cases must, provide advances for expenses to such indemnified individuals who are parties to such a proceeding. Our articles of incorporation provide that a director shall not be personally liable to us or to any of our shareholders for monetary damages for conduct as a director, subject to the limitations set forth in our articles of incorporation. Our bylaws also provide that we may maintain, at our expense, insurance to protect us and an indemnified director, officer, employee or agent against any liability, whether or not we would have the power to indemnify such director, officer, employee or agent against the same liability under Sections 23B.08.510 or 23B.08.520 of the WBCA.

We have entered into separate indemnification agreements with each of our directors and officers to effectuate the provisions discussed above and have purchased director and officer liability insurance. The effect of such provisions is to indemnify our directors and officers against all costs, expenses and liabilities incurred by them in connection with any action, suit or proceeding in which they are involved by reason of their affiliation with us, to the fullest extent permitted by law.

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

**Equity Sales and Related Transactions**

*Zumiez Holdings LLC*

In October and November 2002, we entered into a series of transactions with the Brentwood Affiliates and certain of our shareholders (these transactions are referred to as the 2002 Recapitalization ). As part of the 2002 Recapitalization, we entered into a contribution agreement, or the Contribution Agreement, and certain other agreements, pursuant to which Zumiez Holdings LLC, a Delaware limited liability company, or Zumiez Holdings, was formed and substantially all of our then-outstanding shares of capital stock were contributed to Zumiez Holdings. In connection with the 2002 Recapitalization, we paid $143,000 in fees on behalf of Zumiez Holdings. As a result of this and other payments, we had a receivable from Zumiez Holdings in the amount of $149,000. This receivable was forgiven in the six months ended July 30, 2005 on the dissolution of Zumiez Holdings after our initial public offering in May 2005 and recorded as selling, general and administrative expense. See note 8 to our financial statements included elsewhere in this prospectus. The initial members of Zumiez Holdings were Brentwood-Zumiez Investors, LLC, an entity controlled by the Brentwood Affiliates, Thomas D. Campion, our Co-Founder and Chairman, Richard M. Brooks, our President and Chief Executive Officer, and John G. Haakenson, our Co-Founder. In addition, Thomas E. Davin and William M. Barnum, Jr., each of whom is currently a member of our Board of Directors, were associated with the Brentwood Affiliates at the time of the 2002 Recapitalization and Mr. Barnum and Steven W. Moore, who is also a member of our Board of Directors, are currently associated with the Brentwood Affiliates. Pursuant to the terms of the Zumiez Holdings limited liability company agreement, or the Holdings LLC Agreement, the assets of Zumiez Holdings, which consisted solely of shares of our common stock, were distributed to the persons entitled thereto and Zumiez Holdings was dissolved at the time of our initial public offering. Prior to this distribution and based on shares outstanding as of January 29, 2005, Zumiez Holdings held approximately 95% of our outstanding shares of common stock. Information in this prospectus concerning ownership of our common stock by the Brentwood Affiliates and Messrs. Campion, Barnum, Brooks and Haakenson as of any date prior to the distribution of shares by Zumiez Holdings as described above gives effect to that distribution as if it had occured on that date.

*Services Agreement*

In connection with the 2002 Recapitalization, we entered into a Corporate Development and Administrative Services Agreement, dated November 4, 2002, or the Services Agreement, with Brentwood Private Equity III, pursuant to which we were obligated to pay Brentwood Private Equity III an annual consulting fee, the amount of which fee depended on our adjusted EBITDA, and to reimburse Brentwood Private Equity III for certain expenses. For fiscal 2002, 2003 and 2004 and the six months ended July 30, 2005, we paid Brentwood Private Equity III consulting fees of $31,000, $200,000, $200,000 and $53,000, respectively, under the Services Agreement. We were also obligated under the Services Agreement to pay Brentwood Private Equity III an advisory fee based upon: (1) the aggregate consideration paid by us (A) in connection with an acquisition of all or substantially all of the capital stock, business or assets of another individual or business entity and (B) in connection with any joint venture or minority investment and (2) the amount of any equity interest or similar securities issued by us with the assistance of Brentwood Private Equity III. We were not obligated to pay Brentwood Private Equity III any fees pursuant to clause (2) of the preceding sentence, or any additional advisory or other fees, under the Services Agreement in connection with our initial public offering. The Services Agreement terminated upon the consummation of our initial public offering. The terms of the Services Agreement were negotiated in connection with the 2002 Recapitalization and such negotiations were conducted on an arms-length basis.

*Expense Agreement*

In connection with the 2002 Recapitalization, we entered into an Expense Agreement, dated November 4, 2002, or the Expense Agreement, with Zumiez Holdings pursuant to which we were obligated to reimburse Zumiez Holdings, or such other parties as Zumiez Holdings designated, for reasonable expenses incurred in connection with facilitating investments in us. The Expense Agreement terminated upon the

consummation of our initial public offering. The terms of the Expense Agreement were negotiated in connection with the 2002 Recapitalization and such negotiations were conducted on an arms-length basis.

*Redemption Agreements*

In October 2002, in connection with the 2002 Recapitalization, we entered into common stock redemption agreements with Thomas D. Campion, our Co-Founder and Chairman, and Richard M. Brooks, our President and Chief Executive Officer. Pursuant to the terms of our redemption agreement with Mr. Campion, we redeemed 1,485,651 shares of our common stock held by Mr. Campion for an aggregate purchase price of approximately $7.7 million, which amount was paid by us through our delivery of a promissory note in the sum of approximately $6.2 million and the cancellation of a promissory note in the amount of $1.5 million executed by Mr. Campion in favor of us. Pursuant to the terms of our redemption agreement with Mr. Brooks, we redeemed 159,095 shares of our common stock held by Mr. Brooks for an aggregate purchase price of approximately $829,000, which amount was paid by us through our delivery of a promissory note in the sum of approximately $829,000. Each of the promissory notes issued in connection with the redemption agreements has been paid in full.

*Loans to Executives*

In August 2001, we loaned Thomas D. Campion, our Co-Founder and Chairman, $1.5 million for which he executed a promissory note that was due and payable in full by September 1, 2002 and which promissory note bore interest at a rate of 6.0% per annum. As described above under Redemption Agreements, Mr. Campion paid the principal of this promissory note in full.

*Issuance of Stock to Zumiez Holdings*

In November 2002, in connection with the 2002 Recapitalization, we issued 1,356,371 shares of our common stock to Zumiez Holdings for an aggregate purchase price of approximately $7.1 million, which was paid in cash at the closing of the Contribution Agreement. The members of Zumiez Holdings at the time of such issuance were Brentwood-Zumiez Investors, LLC, an entity controlled by the Brentwood Affiliates, Thomas D. Campion, our Co-Founder and Chairman, Richard M. Brooks, our President and Chief Executive Officer, and John G. Haakenson, our Co-Founder. Thomas E. Davin and William M. Barnum, Jr., each of whom is currently a member of our Board, were associated with the Brentwood Affiliates at the time of the issuance and sale of our common stock to Zumiez Holdings, and Mr. Barnum and Steven W. Moore, who is also a member of our Board of Directors, are currently associated with the Brentwood Affiliates.

*Contribution Agreement*

At the closing under the Contribution Agreement:

- the Brentwood Affiliates contributed approximately $25.3 million to Zumiez Holdings, and Messrs. Campion, Brooks and Haakenson contributed 6,340,768, 2,319,793 and 708,180 shares of our common stock, respectively, to Zumiez Holdings;

- Zumiez Holdings purchased approximately 1,356,371 shares of our common stock from us for approximately $7.1 million and distributed approximately $13.4 million and $3.7 million in cash to Messrs. Campion and Haakenson, respectively; and

- after giving effect to the transactions described above, the Brentwood Affiliates received an approximately 43% membership interest in Zumiez Holdings and Messrs. Campion and Brooks received approximately 35% and 22% membership interests, respectively, in Zumiez Holdings.

Under the Contribution Agreement, we agreed to indemnify and hold harmless Zumiez Holdings, its officers, employees, agents, consultants, advisors and other representatives and its controlling persons and affiliates, which include Brentwood-Zumiez Investors, LLC, an entity controlled by the Brentwood Affiliates, Thomas D. Campion, our Co-Founder and Chairman, and Richard M. Brooks, our President and Chief Executive Officer, for certain losses and expenses. Thomas E. Davin and William M. Barnum, Jr., each of whom is currently a member of our Board, were associated with the Brentwood Affiliates at the time of the

execution of the Contribution Agreement, and Mr. Barnum is currently associated with the Brentwood Affiliates. Except with respect to certain representations and warranties, including representations and warranties related to taxation, our indemnification obligations under the Contribution Agreement expired upon consummation of our initial public offering.

**Director and Officer Indemnification**

Our articles of incorporation and our bylaws contain provisions limiting the liability of our directors and require that we indemnify our directors to the fullest extent permitted by law. In addition, we have entered into agreements to indemnify our directors and executive officers to the fullest extent permitted under Washington law. See Management Limitation on Liability and Indemnification.

**Registration Rights**

Some of our shareholders are entitled to registration rights. See Description of Capital Stock Registration Rights.

**Stock Option Grants**

We have granted options to purchase shares of our common stock to our executive officers and directors. See Management.

**PRINCIPAL AND SELLING SHAREHOLDERS**

The following table sets forth information with respect to the beneficial ownership of our common stock held as of July 30, 2005, and as adjusted to reflect the sale of common stock in this offering for:

- each of our directors;
- each of our named executive officers;
- all of our directors and executive officers as a group;
- each person who we know beneficially owns 5% or more of our common stock; and
- each selling shareholder.

Except as otherwise indicated by footnote, and subject to applicable community property laws, we believe that the beneficial owners of the common stock listed below have sole voting power and investment power with respect to their shares. Beneficial ownership is determined in accordance with the rules of the SEC. Based on information provided to us by the selling shareholders, none of the selling shareholders is a broker-dealer or affiliate of a broker-dealer. See Certain Relationships and Related Transactions Equity Sales and Related Transactions for information regarding material relationships between some of the selling shareholders and us.

Thomas D. Campion, our Chairman of the Board, intends to transfer some of his shares of common stock to the Campion Foundation, one of the selling shareholders, prior to the closing of this offering. Information in the following table, which is based on share ownership as of July 30, 2005, and, unless otherwise expressly stated or the context otherwise requires, information elsewhere in this prospectus concerning share ownership by Mr. Campion and the Campion Foundation, has been prepared as if that transfer had taken place on that date.

The number of shares of common stock outstanding used in calculating the percentage for each listed person and entity includes common stock underlying options held by the person or entity that are exercisable within 60 days of July 30, 2005, but excludes common stock underlying options held by any other person or entity. Percentage of beneficial ownership is based on 13,457,330 shares of common stock outstanding as of July 30, 2005. 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.

| | **Shares Beneficially Owned Prior to this Offering** | | **Shares Being** | **Shares Beneficially Owned After this Offering(7)** | |
|---|---|---|---|---|---|
| **Executive Officers and Directors** | **Number** | **Percentage** | **Offered(7)** | **Number** | **Percentage** |
| Thomas D. Campion(1) | 3,794,903 | 28.2 % | 375,000 | 3,419,903 | 25.4 % |
| Richard M. Brooks(2) | 2,256,512 | 16.8 % | | 2,256,512 | 16.8 % |
| Brenda I. Morris(3) | 59,221 | * | | 59,221 | * |
| Lynn K. Kilbourne(4) | 35,907 | * | | 35,907 | * |
| Thomas E. Davin | | | | | |
| William M. Barnum, Jr.(5)(6) | 3,016,795 | 22.4 % | 2,000,000 | 1,016,795 | 7.6 % |
| Gerald F. Ryles | 600 | * | | 600 | * |
| Steven W. Moore | 6,000 | * | | 6,000 | * |
| All Executive Officers and Directors as a group (8 persons) | 9,169,938 | 67.7 % | 2,375,000 | 6,794,938 | 50.1 % |
| **5% Shareholders:** | | | | | |
| Brentwood-Zumiez Investors, LLC(6) | 3,010,795 | 22.4 % | 2,000,000 | 1,010,795 | 7.5 % |
| **Other Selling Shareholders:** | | | | | |
| Campion Foundation | 230,000 | 1.7 % | 230,000 | | |

* Represents beneficial ownership of less than 1%.

(1) Includes 66,795 shares held by grantor retained annuity trusts for which Mr. Campion is trustee. Also includes 230,000 shares held by a trust named the Campion Foundation, one of the selling shareholders listed in the above table, for which Mr. Campion is a co-trustee and which shares are deemed to be beneficially owned by Mr. Campion. Mr. Campion is our Chairman of the Board.

(2) Mr. Brooks is our President and Chief Executive Officer and serves on the Board of Directors.

(3) Consists of 1,351 shares held by Ms. Morris and 57,870 shares issuable upon exercise of outstanding options exercisable within 60 days of July 30, 2005. Subsequent to July 30, 2005, Ms. Morris exercised options to acquire 55,136 of these shares and pledged those shares as collateral for a loan. Ms. Morris is our Chief Financial Officer.

(4) Consists of shares issuable upon exercise of outstanding options exercisable within 60 days of July 30, 2005. Ms. Kilbourne is our General Merchandising Manager.

(5) Consists of 6,000 shares held by Mr. Barnum and shares held by Brentwood-Zumiez Investors, LLC, an entity controlled by the Brentwood Affiliates. William M. Barnum, Jr., one of our directors, is a managing member of Brentwood Private Equity III, LLC.

(6) The membership interests of Brentwood-Zumiez Investors, LLC are held by Brentwood Associates Private Equity III, L.P., Brentwood Associates Private Equity III-A, L.P., and BAPE III Executive Fund, L.P. (collectively, Brentwood Funds ). Brentwood Private Equity III, LLC is the general partner of each of the Brentwood Funds. Mr. Barnum, one of our directors, is a managing member of Brentwood Private Equity III, LLC, and thus has voting power, investment power and dispositive power over shares held by Brentwood-Zumiez Investors, LLC. Mr. Barnum disclaims beneficial ownership of the shares held or controlled by Brentwood-Zumiez Investors, LLC except to the extent of his pecuniary interest therein. The address for Brentwood-Zumiez Investors, LLC is 11150 Santa Monica Blvd., Suite 1200, Los Angeles, CA 90025.

(7) Assumes that the underwriters' over-allotment option is not exercised. Pursuant to the over-allotment option, the underwriters have the option to purchase up to 150,000 shares from Richard M. Brooks and up to an additional 206,250 shares from Brentwood-Zumiez Investors, LLC. In the event that the underwriters' over-allotment option is exercised in full, then Richard M. Brooks will offer 150,000 shares and the number of shares being offered by Brentwood-Zumiez Investors, LLC will increase by 206,250 shares, and the number of shares beneficially owned by Richard M. Brooks and Brentwood-Zumiez Investors, LLC after this offering will decrease to 2,106,512 shares and 804,545 shares, respectively, or 15.7% and 6.0%, respectively, of the shares to be outstanding immediately after this offering based on shares outstanding as of July 30, 2005. As used in this prospectus, the term selling shareholders means, when used with reference to the shareholders selling in this offering, Thomas D. Campion, the Campion Foundation, Richard M. Brooks and Brentwood-Zumiez Investors, LLC, or any of them, as the context requires.

**DESCRIPTION OF CAPITAL STOCK**

**General**

We are authorized to issue 50,000,000 shares of common stock, no par value per share, and 20,000,000 shares of preferred stock, no par value per share. As of July 30, 2005, there were 13,457,330 shares of common stock outstanding, 1,578,327 shares of common stock issuable upon exercise of outstanding options and no shares of preferred stock issued and outstanding.

**Common Stock**

The holders of our common stock are entitled to one vote per share on all matters submitted to a vote at a meeting of shareholders, except as otherwise required by law and subject to the rights of any preferred stock we may issue in the future. The holders of our common stock are generally entitled to vote on amendments to our articles of incorporation, except for the designation of a series of preferred stock out of our authorized preferred stock. There are no cumulative voting rights for the election of our directors, which means that the holders of a majority of the outstanding shares of our common stock will be entitled to elect all of our directors. Subject to preferences that may be applicable to any outstanding preferred stock, the holders of our common stock are entitled to receive such dividends, if any, as may be declared by our Board out of funds legally available for dividends. In the event of liquidation, dissolution or winding up of us, the holders of our common stock are entitled to share ratably in all assets remaining after payment of or provision for our liabilities, subject to prior rights of preferred stock, if any, then outstanding. Our common stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of our common stock are fully paid and nonassessable.

**Preferred Stock**

Pursuant to our articles of incorporation, our Board has the authority, without action by our shareholders, to issue up to 20,000,000 shares of preferred stock. The Board may issue this stock from time to time in one or more series and may fix the rights, preferences, privileges and restrictions of each series of preferred stock. Some of the rights and preferences that our Board may designate include dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences and sinking fund terms. The Board may determine the number of shares constituting any series and the designation of such series. Any or all of the rights and preferences selected by our Board for any series of preferred stock may be greater than the rights of the common stock. The issuance of preferred stock could adversely affect, among other things, the voting power of holders of common stock and the likelihood that shareholders will receive dividend payments and payments upon our liquidation, dissolution or winding up. The issuance of preferred stock could also have the effect of delaying, deferring or preventing a change in control of us if, for example, our Board designated and issued a series of preferred stock in an amount that sufficiently increased the number of outstanding shares to overcome a vote by the holders of our common stock or with rights and preferences that included special voting rights to veto a change in control, merger or similar transaction.

**Registration Rights**

On November 4, 2002, we entered into an Amended and Restated Stockholders Agreement, which was subsequently amended effective March 22, 2005, (the Stockholders Agreement ), which grants certain holders of our common stock rights with respect to registration of their shares under the Securities Act of 1933. Such registration will permit the resale of those shares in the public market. Under the Stockholders Agreement, we granted Zumiez Holdings the right to demand that we register its shares for sale in an initial public offering. Zumiez Holdings exercised that right in connection with our initial public offering. We also granted all of these shareholders certain piggyback registration rights to register the shares of common stock owned by them under the Securities Act. The Stockholders Agreement provides that whenever we propose to register shares of our common stock under the Securities Act (other than on a Form S-4 or Form S-8), then these shareholders, with certain exceptions, will have the right to register their shares of common stock as part of that registration. The registration rights under the Stockholders Agreement are subject to the rights of

the lead underwriters, if any, to reduce or exclude certain shares owned by these shareholders from the registration. The Stockholders Agreement requires us to pay for all costs and expenses, other than underwriting discounts and commissions and fees and disbursements of counsel for these shareholders, incurred in connection with the registration of shares under the agreement. No shareholder will have any rights under the Stockholders Agreement to include shares in a registration statement if those shares have (1) already been sold pursuant to a registration statement or pursuant to Rule 144 under the Securities Act, or (2) may be sold pursuant to Rule 144 under the Securities Act, if we have advised that shareholder that we are willing to instruct the transfer agent for our common stock to remove any restrictive legends necessary in connection with that sale.

Immediately after completion of this offering and based on shares outstanding as of July 30, 2005, the holders of approximately 7,211,511 shares (or approximately 6,855,261 shares if the underwriters over-allotment option is exercised in full) of our outstanding common stock will be entitled to the registration rights described above. In addition, the Stockholders Agreement provides that all shares of our capital stock acquired by any of those shareholders in the future will also be entitled to these registration rights.

**Antitakeover Effects of Washington Law and Certain Provisions of Our Articles of Incorporation and Our Bylaws**

*Washington RCW 23B.19.* Washington law imposes restrictions on certain transactions between a corporation and certain significant shareholders. Chapter 23B.19 of the WBCA prohibits a target corporation, with certain exceptions, from engaging in certain significant business transactions with a person or group of persons that beneficially owns 10% or more of the voting securities of the target corporation (an acquiring person ) for a period of five years after the acquisition of such securities, unless the transaction is approved by a majority of the members of the target corporation s board of directors prior to the time of acquisition of such securities. Such prohibited transactions include, among other things, a merger or consolidation with, disposition of assets to, or issuance or redemption of stock to or from, the acquiring person; termination of 5% or more of the employees of the target corporation as a result of the acquiring person s acquisition of 10% or more of the shares; or allowing the acquiring person to receive any disproportionate benefit as a shareholder.

After the five-year period, a significant business transaction may occur, as long as it complies with certain fair price provisions of the statute. A corporation may not opt out of this statute. This provision may have the effect of delaying, deterring or preventing a change in control of us.

*Issuance of preferred stock.* As noted above, our Board, without shareholder approval, has the authority under our articles of incorporation to issue preferred stock with rights superior to the rights of the holders of common stock. As a result, preferred stock could be issued quickly and easily, could adversely affect the rights of holders of common stock and could be issued with terms calculated to delay or prevent a change in control or to make removal of management more difficult.

*Election and removal of directors.* Our articles of incorporation provide for the division of our Board into three classes, as nearly as equal in number as possible, with the directors in each class serving for three-year terms, and one class being elected each year by our shareholders. In addition, our directors are removable only for cause and only by vote of the holders of at least a majority of the voting power of our outstanding capital stock entitled to vote in the election of directors and any vacancies on the Board or newly created directorships resulting from an increase in the number of directors shall be filled only by the affirmative vote of a majority of the directors then in office. Because this system of electing, appointing, removing and replacing directors generally makes it more difficult for shareholders to replace a majority of the Board, it may discourage a third party from making a tender offer or otherwise attempting to gain control of us and may maintain the incumbency of the Board.

*Approval for certain business combinations.* Our articles of incorporation require that certain business combinations, including a merger, share exchange and the sale, lease, exchange, mortgage, transfer or other disposition of all or substantially all of our assets other than in the usual and regular course of business, be approved by the holders of not less than 66 2⁄3% of the voting power of all of the then-outstanding shares of the capital stock entitled to vote in the election of directors, voting together as a single class.

*Shareholder meetings.* Our articles of incorporation provide that only the Board or the chairman of the Board may call a special meeting of shareholders. The effect of this provision is that a shareholder will have to wait until an annual meeting or a special meeting called by the Board or the chairman of the Board to bring a proposal for shareholder approval.

*No shareholder action by written consent.* Our bylaws and the WBCA provide that as long as we are a public company (as defined by RCW 23B.01.400), shareholders may not take action by written consent, unless such consent is unanimous.

*Requirements for advance notification of shareholder nominations and proposals.* Our bylaws contain advance notice procedures with respect to shareholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of the Board or a committee thereof.

*Amendment of our bylaws.* Our articles of incorporation and our bylaws provide that shareholders can amend our bylaws only upon the affirmative vote of the holders of at least 66 2⁄3% of the voting power of all of the then-outstanding shares of the capital stock entitled to vote in the election of directors, voting together as a single class. Our Board can amend our bylaws without shareholder approval. However, our directors may not amend the bylaws fixing their qualifications, classifications, or term of office.

**Transfer Agent And Registrar**

The Transfer Agent and Registrar for our common stock is Wachovia Bank, N.A.

**Nasdaq National Market Quotation**

Our common stock is traded on the Nasdaq National Market under the symbol ZUMZ.

**SHARES ELIGIBLE FOR FUTURE SALE**

Future sales of substantial amounts of our common stock in the public market, or the perception that such sales may occur, could adversely affect prevailing market prices of our common stock. Furthermore, because some of our shares are subject to contractual and legal restrictions on resale described below, sales of substantial amounts of common stock in the public market after these restrictions lapse, or the perception that such sales may occur, could adversely affect the prevailing market price and our ability to raise equity capital in the future.

Upon completion of this offering and based on shares outstanding as of July 30, 2005, we will have 13,457,330 outstanding shares of common stock. The 2,375,000 shares (or 2,731,250 shares if the underwriters over-allotment option is exercised in full) sold in this offering will be, and 3,579,499 of the shares of common stock that were sold in our initial public offering are, freely transferable without restriction or additional registration under the Securities Act unless held by our affiliates, as that term is defined in Rule 144 promulgated under the Securities Act.

In addition to the freely transferable shares referred to in the preceding paragraph, we will have 7,502,831 (or 7,146,581 if the underwriters over-allotment option is exercised in full) additional shares of our common stock outstanding immediately after completion of this offering, based on shares outstanding as of July 30, 2005. Of these shares, (a) 277,069 shares may at any time be sold in the public markets pursuant to Rule 144 (subject, in some cases, to volume limitations) or Rule 701 under the Securities Act, (b) an additional 2,466 shares will be available for sale in the public markets pursuant to Rule 144 (subject, in some cases, to volume limitations) or Rule 701 under the Securities Act on November 2, 2005 (subject to possible extension by up to an additional 34 days under limited circumstances or, as discussed below, possible waiver) following the expiration of the lock-up agreements entered into by some of our shareholders in connection with our initial public offering, (c) an additional 130,535 shares will be available for sale in the public markets pursuant to Rule 144 on the day after the closing date of this offering (or, if earlier, November 30, 2005) following the expiration of lock-up agreements entered into by some of our shareholders in connection with this offering, and (d) the remaining 7,092,761 shares (or 6,736,511 shares if the underwriters over-allotment option is exercised in full) will be available for sale in the public markets pursuant to Rule 144 (subject, in some cases, to volume limitations) or Rule 701 under the Securities Act 90 days (subject to possible extension by up to an additional 34 days under limited circumstances as described under Underwriting or, as discussed below, possible waiver) after the date of this prospectus following the expiration of the lock-up agreements entered into by our directors, some of our officers, the selling shareholders and certain other shareholders in connection with this offering. Any or all of the shares subject to the lock-up agreements referred to above may be released for sale in the public market prior to expiration of the applicable lock-up periods at the discretion of Wachovia Capital Markets, LLC and Piper Jaffray & Co. In that regard, subsequent to July 30, 2005, one of our officers acquired 55,136 newly issued shares of common stock upon the exercise of stock options and pledged those shares as collateral for a loan. The lock-up agreement entered into by that officer in connection with our initial public offering was waived to permit, and the lock-up agreement entered into by such officer in connection with this offering permits, the pledge and, in the event of a default under such loan, transfer of such shares.

No prediction can be made as to the effect, if any, that sales of shares or the availability of shares for sale in the public markets will have on the market price of our common stock prevailing from time to time. Nevertheless, sales of substantial amounts of our common stock in the public market, including, sales after the lapse or waiver of the restrictions described in this section, or the perception that sales may occur, could adversely affect the prevailing market price and our ability to raise equity capital in the future at a time and price that we deem appropriate.

**Lock-Up Agreements**

We, our directors, some of our officers, all of the selling shareholders and certain other shareholders have agreed that, without the prior written consent of Wachovia Capital Markets, LLC and Piper Jaffray & Co., we and they will not, among other things, offer or sell any shares of our common stock during the period beginning on and including the date of this prospectus through and including the date that is the 90th day after the date of this prospectus, except for sales of shares to the underwriters and subject to certain other

exceptions. The 90-day lock-up period may be extended by an additional 34 days under certain circumstances described under Underwriting Lock-up Agreements. Wachovia Capital Markets, LLC and Piper Jaffray & Co. may, in their sole discretion and at any time or from time to time, without notice, release all or any portion of the shares subject to the lock-up agreements. See Underwriting Lock-up Agreements.

**Rule 144**

In general, under Rule 144 as currently in effect, but subject to the lock-up agreements described above, if applicable, a person (or persons whose shares are aggregated) who has purchased our common stock from us or any affiliate of ours at least one year previously would be entitled to sell within any three-month period a number of shares that does not exceed the greater of 1% of the number of shares of common stock then outstanding or the average weekly trading volume of the common stock as reported through the Nasdaq National Market during the four calendar weeks preceding the filing of a Form 144 with respect to such sale. Sales under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us. In addition, a person who is not deemed to have been our affiliate at any time during the 90 days preceding a sale and who has beneficially owned for at least two years the shares proposed to be sold would be entitled to sell such shares under Rule 144(k) without regard to the volume limitations and other requirements described above.

**Rule 701**

Our employees, directors and officers who acquired our common stock prior to May 5, 2005 under written compensatory benefit plans or written contracts relating to the compensation of those persons may rely on Rule 701 with respect to the resale of that stock. In general, Rule 701 permits resales of shares issued under compensatory benefit plans and contracts in reliance upon Rule 144, but without compliance with certain restrictions, including the holding period requirements contained in Rule 144. Accordingly, subject to the lock-up agreements described above, if applicable, under Rule 701 persons who are not our affiliates may resell those shares subject only to the manner of sale provisions of Rule 144 and persons who are our affiliates may resell those shares without compliance with Rule 144 s minimum holding period requirements.

**Registration Rights**

Immediately after completion of this offering and based on shares outstanding as of July 30, 2005, the holders of approximately 7,211,511 shares (or 6,855,261 shares if the underwriters over-allotment option is exercised in full) of our outstanding common stock will have the right, under the Stockholders Agreement, to require that we include those shares in any registration statement we file under the Securities Act, subject to exceptions. Such registration will permit the resale of those shares in the public markets. In addition, all shares of capital stock which those stockholders may acquire in the future will also be entitled to similar registration rights. See Description of Capital Stock Registration Rights for a description of such rights.

**Stock Plans**

As of July 30, 2005, options to purchase 1,578,327 shares of common stock were issued and outstanding and 3,425,000 additional shares of our common stock were available for future awards under our stock option and stock purchase plans, plus scheduled annual increases and other potential increases in the number of shares available for issuance under the 2005 Incentive Plan. See Management Stock Based Plans. We have filed a registration statement under the Securities Act covering all of the shares of common stock currently reserved for issuance under our outstanding stock option and stock purchase plans. This registration statement has become effective and permits the resale of shares issued upon the exercise of those stock options or pursuant to those stock purchase plans in the public market without restriction under the Securities Act.

**UNDERWRITING**

Subject to the terms and conditions of the underwriting agreement, the selling shareholders have agreed to sell to the underwriters named below, and the underwriters, for whom Wachovia Capital Markets, LLC and Piper Jaffray & Co. are acting as joint book-running managers and representatives, have severally agreed to purchase, the respective number of shares of common stock appearing opposite their names below:

| Underwriter | Number of Shares |
|---|---|
| Wachovia Capital Markets, LLC | |
| Piper Jaffray & Co. | |
| William Blair & Company, L.L.C. | |
| Total | 2,375,000 |

The underwriters have agreed to purchase all of the shares shown in the above table if any of those shares are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated.

The shares of common stock are offered by the underwriters, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by counsel for the underwriters and other conditions. The underwriters reserve the right to withdraw, cancel or modify the offer and to reject orders in whole or in part.

As joint book-running managers on behalf of the underwriting syndicate, Wachovia Capital Markets, LLC and Piper Jaffray & Co. will be responsible for recording a list of potential investors that have expressed an interest in purchasing common stock as part of this offering.

Certain of the selling stockholders may be characterized as underwriters within the meaning of the Securities Act of 1933 and therefore may be subject to certain statutory liabilities of the Securities Act.

***Commissions and Discounts.*** The underwriters have advised us that they propose to offer the shares of common stock to the public at the public offering price appearing on the cover page of this prospectus and to certain dealers at that price less a concession of not more than $ per share, of which up to $ may be reallowed to other dealers. After the initial offering, the public offering price, concession and reallowance to dealers may be changed.

The following table shows the public offering price, underwriting discounts and commissions and proceeds, before expenses, to the selling shareholders, both on a per share basis and in total, assuming either no exercise or full exercise by the underwriters of their over-allotment option.

| | Per Share | Total Without Option | With Option |
|---|---|---|---|
| Public offering price | | | |
| Underwriting discounts and commissions payable by the selling shareholders | | | |
| Proceeds, before expenses, to the selling shareholders | | | |

We estimate that the expenses of this offering payable by us will be approximately $300,000. We have agreed to pay the expenses of the selling shareholders incurred in connection with this offering, other than underwriting discounts and commissions payable in respect of the shares sold by the selling shareholders and fees and disbursements of counsel for the selling shareholders.

***Over-allotment Option.*** The selling shareholders identified in note (7) to the table under "Principal and Selling Shareholders" have granted to the underwriters an option, exercisable during the 30-day period after the date of this prospectus, to purchase up to 356,250 additional shares of common stock at the public offering price per share less the underwriting discounts and commissions per share shown on the cover

page of this prospectus. To the extent that the underwriters exercise this option, each underwriter will have a firm commitment, subject to conditions, to purchase approximately the same percentage of those additional shares that the number of shares of common stock to be purchased by that underwriter as shown in the above table represents as a percentage of the total number of shares shown in that table.

***Indemnity.*** We and the selling shareholders have agreed to indemnify the underwriters against specified liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments that the underwriters may be required to make in respect of those liabilities.

***Lock-up Agreements.*** We, all of our directors, some of our officers and all of the selling shareholders, which directors, officers and shareholders will own a total of approximately 49.8% of our outstanding common stock (or 47.1% if the underwriters over-allotment option is exercised in full) immediately upon completion of this offering, based on shares outstanding as of July 30, 2005, have agreed that, without the prior written consent of Wachovia Capital Markets, LLC and Piper Jaffray & Co., we and they will not, during the period beginning on and including the date of this prospectus through and including the date that is the 90th day after the date of this prospectus, directly or indirectly:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of any shares of our common stock or other capital stock or any securities convertible into or exercisable or exchangeable for our common stock or other capital stock;

- in the case of us, file or cause the filing of any registration statement under the Securities Act of 1933 with respect to any shares of our common stock or other capital stock or any securities convertible into or exercisable or exchangeable for our common stock or other capital stock (other than registration statements on Form S-8 relating to benefit plans described in clause (2), or securities issued in a transaction described in clause (6), of the immediately following paragraph); or

- enter into any swap or other agreement, arrangement or transaction that transfers to another, in whole or in part, directly or indirectly, any of the economic consequences of ownership of our common stock or other capital stock or any securities convertible into or exercisable or exchangeable for our common stock or other capital stock,

whether any transaction described in any of the foregoing bullet points is to be settled by delivery of our common stock or other capital stock, other securities, in cash or otherwise. Moreover, if:

- during the last 17 days of the 90-day restricted period referred to above we issue an earnings release or material news or a material event relating to us occurs, or

- prior to the expiration of the 90-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 90-day period,

the restrictions described in the immediately preceding sentence will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event, as the case may be, unless Wachovia Capital Markets, LLC and Piper Jaffray & Co. waive, in writing, that extension. In addition, certain other shareholders have entered into lock-up agreements substantially similar to those entered into by our directors and some of our officers as described above covering an aggregate of 522,135 shares (or approximately 3.9% of our outstanding common stock based on shares outstanding as of July 30, 2005), which agreements are subject to the applicable exceptions described in the next paragraph and to the further exception that those shareholders will be permitted to sell up to a total of 130,535 of those shares commencing on the day after the closing date of this offering (or, if earlier, November 30, 2005).

The restrictions described in the immediately preceding paragraph do not apply to:

(1) the sale of shares to the underwriters;

(2) the issuance by us of shares, or options to purchase shares, of our common stock pursuant to stock based plans described above under Management Stock Based Plans, as those plans are in effect on the date of this prospectus;

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(3) the issuance by us of shares of common stock upon the exercise of stock options outstanding on the date of this prospectus or issued after the date of this prospectus under stock based plans referred to in clause (2) above, as those stock options and plans are in effect on the date of this prospectus;

(4) in the case of any director or officer or any selling shareholder that is a natural person, bona fide gifts for charitable or estate planning purposes;

(5) in the case of any selling shareholder that is a partnership or limited liability company, transfers to any partner or member, as the case may be, of such partnership or limited liability company if, in any such case, such transfer is not for value; and

(6) the issuance by us of shares of common stock or other capital stock or any securities convertible into or exchangeable or exercisable for common stock or other capital stock (A) in order to acquire assets or equity of one or more businesses by merger, asset purchase, stock purchase or otherwise or (B) in connection with a strategic transaction involving another company, so long as, in each case described in clause (A) above, the shares of common stock, other capital stock or other securities are issued to the stockholders or other equity owners of the applicable business and, in each case described in clause (B) above, the shares of common stock, other capital stock or other securities are issued directly to such company or to the stockholders or other equity owners of such company,

provided that, in the case of any transfer, gift or issuance described in clause (4), (5) or (6) above, the transferee, donee or recipient, as the case may be, executes and delivers to the representatives of the underwriters, not later than one business day prior to such transfer, gift or issuance, a written agreement wherein it agrees to be subject to the restrictions described in the immediately preceding paragraph, subject to the applicable exceptions described above in this paragraph. In addition, subsequent to July 30, 2005, one of our officers acquired 55,136 newly issued shares of common stock upon the exercise of stock options and pledged those shares as collateral for a loan, and the lock-up agreement entered into by that officer in connection with this offering permits the pledge and, in the event of a default under such loan, transfer of such shares.

Wachovia Capital Markets, LLC and Piper Jaffray & Co. may, in their sole discretion and at any time or from time to time, without notice, release all or any portion of the shares or other securities subject to the lock-up agreements. Any determination to release any shares or other securities subject to the lock-up agreements would be based on a number of factors at the time of determination, which may include the market price of the common stock, the liquidity of the trading market for the common stock, general market conditions, the number of shares or other securities proposed to be sold or otherwise transferred and the timing, purpose and terms of the proposed sale or other transfer.

***Quotation on the Nasdaq National Market.*** Our common stock is traded on the Nasdaq National Market under the symbol ZUMZ.

***Stabilization.*** In order to facilitate this offering of our common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the market price of our common stock. Specifically, the underwriters may sell more shares of common stock than they are obligated to purchase under the underwriting agreement, creating a short position. A short sale is covered if the short position is no greater than the number of shares of common stock available for purchase by the underwriters under the over-allotment option. The underwriters may close out a covered short sale by exercising the over-allotment option or purchasing common stock in the open market. In determining the source of common stock to close out a covered short sale, the underwriters may consider, among other things, the market price of common stock compared to the price payable under the over-allotment option. The underwriters may also sell shares of common stock in excess of the over-allotment option, creating a naked short position. The underwriters must close out any naked short position by purchasing shares of common stock in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after the date of pricing of this offering that could adversely affect investors who purchase in this offering.

As an additional means of facilitating this offering, the underwriters may bid for, and purchase, common stock in the open market to stabilize the price of our common stock. The underwriting syndicate may also reclaim selling concessions allowed to an underwriter or a dealer for distributing common stock in this offering if the syndicate repurchases previously distributed common stock to cover syndicate short positions or to stabilize the price of the common stock.

The foregoing transactions, if commenced, may raise or maintain the market price of our common stock above independent market levels or prevent or retard a decline in the market price of the common stock.

The representatives have advised us that these transactions, if commenced, may be effected on the Nasdaq National Market or otherwise. Neither we nor any of the underwriters makes any representation that the underwriters will engage in any of the transactions described above and these transactions, if commenced, may be discontinued without notice. Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of the effect that the transactions described above, if commenced, may have on the market price of our common stock.

***Other.*** The underwriters for this offering acted as underwriters for our initial public offering in May 2005. Furthermore, Wachovia Bank, N.A., an affiliate of one of the underwriters, serves as the transfer agent and registrar for our common stock. In addition, we appointed Wachovia Capital Markets, LLC, one of the underwriters, to hold restricted common stock issued to our directors and officers and other designated employees under our equity incentive plans and to execute transactions in our common stock on behalf of those persons.

**LEGAL MATTERS**

Preston Gates & Ellis LLP, Seattle, Washington, will pass upon the validity of the common stock offered hereby. Sidley Austin Brown & Wood LLP, San Francisco, California, will act as counsel to the underwriters. Sidley Austin Brown & Wood LLP will rely, as to all matters of Washington law, on Preston Gates & Ellis LLP. Partners and other attorneys of Preston Gates & Ellis LLP hold an aggregate of 500 shares of our common stock.

**EXPERTS**

The financial statements as of January 31, 2004 and January 29, 2005, for the fiscal years ended December 31, 2002, January 31, 2004 and January 29, 2005 and for the one month ended February 1, 2003 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

**WHERE YOU CAN FIND MORE INFORMATION**

We have filed with the Securities and Exchange Commission, or SEC, a registration statement on Form S-1 under the Securities Act with respect to the common stock offered in this offering. This prospectus does not contain all of the information set forth in the registration statement. For further information with respect to Zumiez Inc. and the common stock offered in this offering, we refer you to the registration statement and to the attached exhibits. With respect to each such document filed as an exhibit to the registration statement, we refer you to the exhibit for a more complete description of the matters involved.

You may inspect our registration statement and the attached exhibits and schedules without charge at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain copies of all or any part of our registration statement from the SEC upon payment of prescribed fees. You may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330.

Our SEC filings, including the registration statement and the exhibits filed with the registration statement, are also available from the SEC s website at www.sec.gov, which contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

You can obtain a copy of any of our filings, at no cost, by writing to or telephoning us at:

Zumiez Inc.
6300 Merrill Creek Parkway, Suite B
Everett, WA 98203
Attention: Investor Relations
(425) 551-1500



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# INDEX TO FINANCIAL STATEMENTS


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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of

Zumiez Inc.

In our opinion, the accompanying balance sheets and the related statements of operations, of changes in shareholders equity and of cash flows present fairly, in all material respects, the financial position of Zumiez Inc. at January 29, 2005 and January 31, 2004, and the results of its operations and its cash flows for each of the three fiscal years in the period ended January 29, 2005, and for the one month ended February 1, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PRICEWATERHOUSECOOPERS LLP

Seattle, Washington

March 29, 2005, except Note 12, as to
which the date is April 20, 2005

**ZUMIEZ INC.**
**BALANCE SHEETS**
**(In thousands, except share amounts)**

| | January 31, 2004 | January 29, 2005 | July 30, 2005 (Unaudited) |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | $ 578 | $ 1,026 | $ 17,844 |
| Receivables | 1,039 | 1,911 | 4,863 |
| Inventory | 20,802 | 23,230 | 42,226 |
| Prepaid expenses and other | 395 | 1,166 | 2,820 |
| Deferred tax assets | 668 | 859 | 1,059 |
| Total current assets | 23,482 | 28,192 | 68,812 |
| Leasehold improvements and equipment, net | 18,076 | 26,619 | 30,854 |
| Total assets | $ 41,558 | $ 54,811 | $ 99,666 |
| **Liabilities and Shareholders Equity** | | | |
| Current liabilities | | | |
| Current portion of long-term debt | $ 544 | $ | $ |
| Revolving credit facility | 300 | | |
| Book overdraft | 4,464 | 429 | |
| Trade accounts payable | 9,273 | 11,240 | 25,168 |
| Accrued payroll and payroll taxes | 1,609 | 2,561 | 2,481 |
| Income taxes payable | 1,846 | 2,611 | |
| Current portion of deferred rent and tenant allowances | 319 | 1,045 | 960 |
| Other accrued liabilities | 2,152 | 5,550 | 4,828 |
| Total current liabilities | 20,507 | 23,436 | 33,437 |
| Long-term debt, less current portion | | | |
| Long-term deferred rent and tenant allowances, less current portion | 1,277 | 4,065 | 5,794 |
| Deferred tax liabilities | 1,336 | 1,511 | 1,182 |
| Total liabilities | $ 23,120 | $ 29,012 | $ 40,413 |
| Commitments and contingencies (Note 9) | | | |
| Shareholders equity | | | |
| Preferred stock, no par value, 20,000,000 shares authorized; none issued and outstanding at January 31, 2004, January 29, 2005 and July 30, 2005 (unaudited) | | | |
| Common stock, no par value, 50,000,000 shares authorized; 11,305,261, 11,305,261 and 13,457,330 shares issued and outstanding at January 31, 2004, January 29, 2005 and July 30, 2005 (unaudited), respectively | 44 | 44 | 32,460 |
| Employee stock options | | 95 | 177 |
| Retained earnings | 18,541 | 25,808 | 26,616 |
| Receivable from parent | (147 ) | (148 ) | |
| Total shareholders equity | 18,438 | 25,799 | 59,253 |
| Total liabilities and shareholders equity | $ 41,558 | $ 54,811 | $ 99,666 |

The accompanying notes are an integral part of these financial statements

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

| | Fiscal Year Ended December 31, 2002 | One Month Ended February 1, 2003 | Fiscal Year Ended January 31, 2004 | January 29, 2005 | Six Months Ended July 31, 2004 (unaudited) | July 30, 2005 |
|---|---|---|---|---|---|---|
| Net sales | $ 101,391 | $ 6,392 | $ 117,857 | $ 153,583 | $ 55,444 | $ 72,776 |
| Cost of goods sold | 71,017 | 4,575 | 81,320 | 103,152 | 40,212 | 50,154 |
| Gross margin | 30,374 | 1,817 | 36,537 | 50,431 | 15,232 | 22,622 |
| Selling, general and administrative expenses | 23,404 | 2,013 | 29,076 | 38,422 | 15,639 | 21,332 |
| Operating profit (loss) | 6,970 | (196) | 7,461 | 12,009 | (407) | 1,290 |
| Other income (expense) | 148 | | 8 | 8 | 2 | 1 |
| Interest income (expense) | (317) | (12) | (293) | (250) | (156) | 48 |
| Earnings (loss) before income taxes | 6,801 | (208) | 7,176 | 11,767 | (561) | 1,339 |
| Provision (benefit) for income taxes | 1,096 | (39) | 2,701 | 4,500 | (122) | 531 |
| Net income (loss) | $ 5,705 | $ (169) | $ 4,475 | $ 7,267 | $ (439) | $ 808 |
| Basic net income (loss) per share | $ 0.49 | $ (0.01) | $ 0.40 | $ 0.64 | $ (0.04) | $ 0.07 |
| Diluted net income (loss) per share | $ 0.42 | $ (0.01) | $ 0.35 | $ 0.56 | $ (0.04) | $ 0.06 |
| Weighted average shares outstanding | | | | | | |
| Basic | 11,547,012 | 11,305,261 | 11,305,261 | 11,305,261 | 11,305,261 | 12,296,076 |
| Diluted | 13,581,579 | 11,305,261 | 12,811,855 | 12,938,858 | 11,305,261 | 13,115,740 |

The accompanying notes are an integral part of these financial statements

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

| | Common Stock Shares | Amount | Additional Paid-In Capital | Employee Stock Options | Retained Earnings | Receivable from Parent | Total |
|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2001** | 11,014 | $ 43 | $ 407 | $ | $ 11,467 | | $ 11,917 |
| Dividends declared | | | | | (922 ) | | (922 ) |
| Stock issued upon exercise of options | 580 | 2 | 98 | | | | 100 |
| Stock redemption | (1,645 ) | (6 ) | (6,549 ) | | (2,015 ) | | (8,570 ) |
| Stock purchased by parent | 1,356 | 5 | 6,044 | | | (143 ) | 5,906 |
| Net income | | | | | 5,705 | | 5,705 |
| **Balance at December 31, 2002** | 11,305 | $ 44 | $ | $ | $ 14,235 | $ (143 ) | $ 14,136 |
| Net loss | | | | | (169 ) | | (169 ) |
| **Balance at February 1, 2003** | 11,305 | $ 44 | $ | $ | $ 14,066 | $ (143 ) | $ 13,967 |
| Cost incurred on behalf of parent | | | | | | (4 ) | (4 ) |
| Net income | | | | | 4,475 | | 4,475 |
| **Balance at January 31, 2004** | 11,305 | $ 44 | $ | $ | $ 18,541 | $ (147 ) | $ 18,438 |
| Stock based compensation | | | | 95 | | | 95 |
| Cost incurred on behalf of parent | | | | | | (1 ) | (1 ) |
| Net income | | | | | 7,267 | | 7,267 |
| **Balance at January 29, 2005** | 11,305 | $ 44 | $ | $ 95 | $ 25,808 | $ (148 ) | $ 25,799 |
| Common shares issued, including tax benefit of $2.5 million (unaudited) | 2,152 | 32,416 | | | | | 32,416 |
| Stock based compensation (unaudited) | | | | 82 | | | 82 |
| Cost incurred on behalf of parent (unaudited) | | | | | | (1 ) | (1 ) |
| Parent receivable forgiven (unaudited) | | | | | | 149 | 149 |
| Net income (unaudited) | | | | | 808 | | 808 |
| **Balance at July 30, 2005 (unaudited)** | 13,457 | $ 32,460 | $ | $ 177 | $ 26,616 | $ | $ 59,253 |

The accompanying notes are an integral part of these financial statements

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

| | Fiscal Year Ended December 31, 2002 | One Month Ended February 1, 2003 | Fiscal Year Ended January 31, 2004 | January 29, 2005 | Six Months Ended July 31, 2004 (unaudited) | July 30, 2005 |
|---|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | | |
| Net income (loss) | $ 5,705 | $ (169 ) | $ 4,475 | $ 7,267 | $ (439 ) | $ 808 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities | | | | | | |
| Depreciation | 3,571 | 332 | 4,185 | 5,857 | 2,569 | 3,466 |
| Deferred tax expense | (136 ) | 83 | 804 | (16 ) | (116 ) | (528 ) |
| Stock compensation expense | | | | 95 | | 82 |
| Loss on disposal of assets | 13 | | 33 | 126 | 3 | 19 |
| Changes in operating assets and liabilities | | | | | | |
| Receivables | (317 ) | 133 | (272 ) | (872 ) | (381 ) | (2,952 ) |
| Inventory | (4,194 ) | (94 ) | (1,957 ) | (1,456 ) | (10,056 ) | (13,581 ) |
| Prepaid expenses | (179 ) | (24 ) | (79 ) | (771 ) | (99 ) | (1,654 ) |
| Trade accounts payable | 1,599 | (2,937 ) | (2,423 ) | 995 | 5,567 | 8,513 |
| Accrued payroll and payroll taxes | 270 | (1,007 ) | 449 | 952 | 464 | (80 ) |
| Income taxes payable | 1,056 | (120 ) | 826 | 765 | (2,697 ) | (2,611 ) |
| Other accrued liabilities | 118 | (682 ) | 564 | 3,397 | 376 | (575 ) |
| Deferred rent | 433 | 34 | 370 | 48 | 176 | 306 |
| Net cash provided by (used in) operating activities | $ 7,939 | $ (4,451 ) | $ 6,975 | $ 16,387 | $ (4,633 ) | $ (8,787 ) |
| **Cash flows from investing activities** | | | | | | |
| Additions to leasehold improvements and equipment | $ (7,186 ) | $ (42 ) | $ (5,937 ) | $ (11,060 ) | $ (4,817 ) | $ (6,382 ) |
| Advances (to) from shareholders | (109 ) | | | | | |
| Net cash used in investing activities | $ (7,295 ) | $ (42 ) | $ (5,937 ) | $ (11,060 ) | $ (4,817 ) | $ (6,382 ) |
| **Cash flows from financing activities** | | | | | | |
| Change in book overdraft | $ 2,293 | $ 2,774 | $ 1,690 | $ (4,035 ) | $ (1,168 ) | $ (429 ) |
| Borrowings on revolving credit facility | 20,440 | 1,845 | 25,620 | 37,852 | 24,373 | 16,450 |
| Payments on revolving credit facility | (20,440 ) | | (27,165 ) | (38,152 ) | (12,044 ) | (16,450 ) |
| Proceeds from sale of stock | | | | | | 32,416 |
| Principal payments on long-term debt | (1,087 ) | (272 ) | (1,087 ) | (544 ) | (544 ) | |
| Proceeds from exercise of stock options | 100 | | | | | |
| Stock purchased by parent | 6,049 | | | | | |
| Redemption of common stock | | (7,094 ) | | | | |
| Dividends paid | (922 ) | | | | | |
| Net cash provided by (used in) financing activities | $ 6,433 | $ (2,747 ) | $ (942 ) | $ (4,879 ) | $ 10,617 | $ 31,987 |
| Net (decrease) increase in cash and cash equivalents | $ 7,077 | $ (7,240 ) | $ 96 | $ 448 | $ 1,167 | $ 16,818 |
| **Cash and cash equivalents** | | | | | | |
| Beginning of period | 645 | 7,722 | 482 | 578 | 578 | 1,026 |
| End of period | $ 7,722 | $ 482 | $ 578 | $ 1,026 | $ 1,745 | $ 17,844 |
| **Supplemental disclosure of cash flow information** | | | | | | |
| Cash paid during the period for interest | $ 302 | $ 12 | $ 265 | $ 250 | $ 103 | $ 59 |
| Cash paid during the period for income taxes | 176 | | 1,172 | 3,812 | 2,752 | 2,605 |

The accompanying notes are an integral part of these financial statements

**NOTES TO FINANCIAL STATEMENTS**

**1. Nature and Ownership of Business and Basis of Presentation**

**Nature of Business** Zumiez Inc. (the Company ) is a leading specialty retailer of action sports related apparel, footwear, equipment and accessories operating under the Zumiez brand name. As of July 30, 2005, the Company operated 150 stores primarily located in shopping malls, giving the Company a presence in 18 states. The Company s 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. The Company supports the action sports lifestyle and promotes its brand through a multi-faceted marketing approach that is designed to integrate its brand image with its customers activities and interests. In addition, the Company operates a website which sells merchandise online and provides content and a community for its target customers. The Company, based in Everett, WA, was formed in August 1978 and operates within one reportable segment.

**Change in Ownership** Effective November 4, 2002, 95% of the shares of the Company were transferred to Zumiez Holdings LLC (the Parent ) in exchange for cash, the redemption of a note receivable and the creation of two notes payable to two of the shareholders (the Transaction ). In connection with the Transaction, the Company entered into common stock redemption agreements with two shareholders. Pursuant to the terms of the redemption agreements with these shareholders, the Company redeemed 1,485,651 shares of its common stock held by one shareholder for an aggregate purchase price of approximately $7.7 million, which amount was paid by the Company through delivery of a note payable for approximately $6.2 million and the cancellation of a $1.5 million note receivable and the Company redeemed 159,095 shares of common stock held by the other shareholder for an aggregate purchase price of approximately $829,000, which amount was paid by the Company through delivery of a note payable for approximately $829,000. Each of these notes payable have been paid in full.

Also on November 4, 2002, approximately 43% of the Parent was sold to certain affiliates (the Brentwood Affiliates ) of Brentwood Private Equity III, LLC, a private equity firm, for approximately $25.3 million, of which approximately $17.1 million was distributed to two of the original shareholders of the Company. The Transaction did not result in a change in the operating control of the Company. While the Brentwood Affiliates have certain protective rights regarding their investment in the Parent, and therefore the Company, two of the Company s shareholders continue to serve in the function of the primary operating roles of the Company Chairman and Chief Executive Officer. In fiscal 2002, 2003 and 2004 the Company paid Brentwood Private Equity III, LLC consulting fees of $31,000, $200,000 and $200,000, respectively, under a Corporate Development and Administrative Services Agreement.

As part of the Transaction, the Company also authorized 20,000,000 shares of preferred stock, with a no par value. Subsequent to January 1, 2003 and prior to March 1, 2004, the Company had the right to require the Brentwood Affiliates to purchase at least $5.0 million, but no more than $10.0 million in the aggregate, of preferred stock. The Company did not exercise this right and no preferred stock was issued.

Also effective November 4, 2002, the Company terminated its Subchapter S tax election and elected to be taxed as a Subchapter C corporation under the Internal Revenue Code. As a result, the Company has been subject to federal and state income taxes beginning as of November 4, 2002. Prior to this date, the shareholders were taxed on the earnings of the Company on their personal income tax returns, in accordance with Subchapter S of the Internal Revenue Code. Therefore, no provision for income taxes or deferred taxes is recorded in these financial statements for operating results through November 3, 2002. Upon the conversion to a Subchapter C corporation, the Company recorded a net deferred tax asset of $373,000.

**Fiscal Year** Subsequent to December 31, 2002, the Company changed its fiscal year end from December 31 to a 52- or 53- week period ending on the Saturday closest to January 31. This fiscal calendar is widely used by the retail industry. As a result of the change in its fiscal year end, there was a one month conversion period ended February 1, 2003. Each fiscal year now consists of four 13-week quarters, with an extra week added to the fourth quarter every five or six years. Fiscal 2004 was the 52-week period ended January 29, 2005. Fiscal 2003 was the 52-week period ended January 31, 2004. Fiscal 2002 was the calendar year ended December 31, 2002.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**Reincorporation (unaudited)** On April 29, 2005, the Company reincorporated in the State of Washington from the State of Delaware. In connection with the reincorporation, the Company filed new articles of incorporation and adopted new bylaws. The new articles of incorporation changed the Company s common stock from $0.01 par value per share to no par value per share and increased the Company s authorized capital stock.

**Initial Public Offering (unaudited)** In May 2005, the Company completed an initial public offering of its common stock in which the Company sold 1,875,000 shares and certain selling shareholders sold 1,718,750 shares. The Company received net proceeds from the offering of approximately $29.7 million, after payment of underwriting discounts and commissions and offering expenses. The Company did not receive any of the proceeds from the sale of shares of common stock by the selling shareholders. Prior to this initial public offering, the Company was a majority owned subsidiary of the Parent, a holding company with no operating activities. The financial position and operating results of the Parent are not included in the Company s financial statements included in this prospectus. The Parent was dissolved in connection with the Company s recently completed initial public offering.

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

Unaudited Interim Results

The accompanying balance sheet as of July 30, 2005, the statements of operations and the statements of cash flows for the six months ended July 31, 2004 and July 30, 2005, and the statement of changes in stockholders equity for the six months ended July 30, 2005, are unaudited. The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly the Company s financial position, results of operations and cash flows for the six months ended July 31, 2004 and July 30, 2005. The financial data and other information disclosed in these notes to the financial statements related to the six months ended July 31, 2004 and July 30, 2005 are unaudited. The results for the six months ended July 30, 2005 are not necessarily indicative of the results to be expected for the fiscal year ending January 28, 2006 or for any other interim period or for any future year.

**2. Summary of Significant Accounting Policies**

**Comprehensive Income** Comprehensive income represents all changes in equity during a period except those resulting from investments by and distributions to shareholders. There was no difference between net income and comprehensive income for fiscal 2002, 2003 and 2004 and the one month period ended February 1, 2003.

**Use of Estimates** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the 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 the Company, including information about contingencies, risk, and financial condition. In preparing the financial statements, the Company makes routine estimates and judgments in determining the net realizable value of accounts receivable, inventory, fixed assets, and prepaid allowances. Some of the more significant estimates include the allowance for sales returns, the reserve for inventory valuation estimates and the expected useful lives of fixed assets. Actual results could differ from those estimates.

**Concentration of Risk** The Company maintains its cash and cash equivalents in accounts with one major financial institution in the United States of America, in the form of demand deposits, certificates of deposits and money market

accounts. Deposits in this bank may exceed the amounts of federal deposit insurance provided on such deposits. The Company has not experienced any losses on its deposits of cash and



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**NOTES TO FINANCIAL STATEMENTS (Continued)**

cash equivalents. The Company s accounts receivable are primarily derived from credit card purchases from customers and are typically settled within one to two days.

**Cash and Cash Equivalents** The Company considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

**Restricted Cash** At December 31, 2002, February 1, 2003, January 31, 2004 and January 29, 2005, restricted cash consisted of a certificate of deposit held for the lessor of the Company s former combined home office and distribution center of $32,000 and is included in prepaid expenses and other. At July 30, 2005, the Company had no restricted cash balances (unaudited).

**Receivables** Consist primarily of tenant allowances and credit card transactions that remain outstanding at the end of the period. The Company does not extend credit to its customers, except through third-party credit cards.

**Merchandise Inventories** Merchandise inventories are valued at the lower of cost or market. The cost of merchandise inventories are based upon an average cost methodology and inventory costs are removed on a first-in, first-out. Merchandise inventories may include items that have been written down to the Company s best estimate of their net realizable value. The Company s decisions to write-down its merchandise inventories are based on its current rate of sale, the age of the inventory and other factors. Actual final sales prices to customers may be higher or lower than the Company s estimated sales prices and could result in a fluctuation in gross profit. Historically, any additional write-downs have not been significant and the Company does not adjust the historical carrying value of merchandise inventories upwards based on actual sales experience.

**Leasehold Improvements and Equipment** Leasehold improvements and equipment are stated at cost less accumulated depreciation. Amortization of leasehold improvements is computed on the straight-line method over the lesser of an asset s estimated useful life or the lease term (generally 7-10 years), whichever is shorter. Depreciation on furniture, fixtures and equipment is computed on the straight-line method over five years. Maintenance and repairs are expensed as incurred. The cost and related accumulated depreciation or amortization of assets sold or otherwise disposed of is removed from the accounts and the related gain or loss is reported in the statement of operations.

**Valuation of Long-Lived Assets** The Company has adopted SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, and reviews the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Measurement of the impairment loss is based on the fair value of the asset, or group of assets. Generally, fair value will be determined using accepted valuation techniques, such as the present value of expected future cash flows.

**Fair Value of Financial Instruments** Statement of Financial Accounting Standards No. 107 ( SFAS 107 ), Disclosures about Fair Value of Financial Instruments, requires management to disclose the estimated fair value of certain assets and liabilities defined by SFAS 107 as financial instruments. Financial instruments are generally defined by SFAS 107 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. At January 29, 2005 and all other previous periods presented herein, the carrying amounts of cash and cash equivalents, receivables, payables and other accrued liabilities approximated fair value because of the short maturity of these financial instruments. The carrying value of the long-term debt and the revolving credit facility approximate the fair value because these financial instruments have floating interest rates which reflect current market conditions.

**Deferred Rent, Rent Expense and Tenant Allowances** The Company occupies its retail stores and combined home office and distribution center under operating leases generally with terms of seven to ten years. Some of these leases have early cancellation clauses, which permit the lease to be terminated if certain sales levels are not met in specific periods. Some leases contain renewal options for periods ranging from one to five years under substantially the same terms and conditions as the original leases. Most of the store leases

**NOTES TO FINANCIAL STATEMENTS (Continued)**

require payment of a specified minimum rent, plus 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. The Company straight-lines and recognizes its rent expense over the term of the lease, plus the construction period prior to occupancy of the retail location, using a mid-month convention. For certain locations, the Company receives cash tenant allowances and has reported these amounts as a deferred liability which is amortized to rent expense over the term of the lease. Also included in rent expense are payments of real estate taxes, insurance and certain common area and maintenance costs in addition to the future minimum operating lease payments.

**Income Taxes** The provision for income taxes includes both current and deferred tax expenses. Current tax expense is the amount associated with current operating results. The Company follows the liability method of accounting for income taxes, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary difference between the carrying amounts and the tax bases of the assets and liabilities. Valuation allowances are established when necessary to reduce deferred tax asserts to the amount expected to be realized.

**Revenue Recognition** Sales are recognized upon purchase by customers at the Company s retail store locations or upon shipment for orders placed through the Company s website as both title and risk of loss have transferred. The Company records the sale of gift cards as a current liability and recognizes revenue when a customer redeems a gift card. The Company reports shipping revenues and costs within sales and cost of goods sold, respectively. The Company accrues for estimated sales returns by customers based on historical sales return results. Sales return reserves were insignificant for all periods presented. The Company offers a return policy of generally 30 days.

The Company does not extend credit to customers, except through third-party credit cards. The majority of sales are through credit cards, and accounts receivable are composed primarily of amounts due from financial institutions related to credit card sales.

The Company records a liability when gift cards are issued and recognizes revenue when gift cards are redeemed. The Company has the right to assess gift card dormancy fees, but has historically not done so.

The Company presents its merchandise assortment as a percentage of net sales for the following categories: Men s , which includes men s apparel; Women s , which includes women s apparel; and Accessories and Other , which includes all other merchandise (e.g., hardgoods, accessories, footwear, etc.). The percentage of net sales for each of the aforementioned categories for fiscal 2002, the one month period ended February 1, 2003, fiscal 2003 and fiscal 2004 was as follows:

| | Fiscal Year Ended December 31, 2002 | One Month Ended February 1, 2003 | Fiscal Year Ended January 31, 2004 | Fiscal Year Ended January 29, 2005 |
|---|---|---|---|---|
| Men s | 31.0 % | 26.7 % | 29.6 % | 32.1 % |
| Women s | 13.7 | 14.2 | 16.4 | 16.0 |
| Accessories and Other | 55.3 | 59.1 | 54.0 | 51.9 |
| Total | 100.0 % | 100.0 % | 100.0 % | 100.0 % |

**Cost of Goods Sold** Cost of goods sold consists of the cost of merchandise sold to customers, inbound shipping costs, distribution costs, depreciation on leasehold improvements at the distribution center, buying and merchandising costs and store occupancy costs. This may not be comparable to the way in which the Company s competitors or other retailers compute their cost of goods sold.

**Selling, General and Administrative Expense** Selling, general and administrative expenses consist primarily of store personnel wages and benefits, administrative staff and infrastructure expenses, store supplies, depreciation on leasehold improvements at the home office and stores, facility expenses, and

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

training, advertising and marketing costs. Credit card fees, insurance and other miscellaneous operating costs are also included in selling, general and administrative expenses. This may not be comparable to the way in which the Company s competitors or other retailers compute their selling, general and administrative expenses. The Company does receive insignificant amounts of cash consideration from vendors which have been reported as a reduction of expenses as the amounts are reimbursements of specific, incremental and identifiable costs of selling the vendors products.

**Advertising** The Company expenses advertising costs as incurred. Advertising expenses are net of sponsorships. Advertising expense was approximately $322,000, $295,000 and $235,000 in fiscal 2002, 2003 and 2004, respectively, and $24,000 for the one month period ended February 1, 2003. Advertising expense for the six month period ending July 31, 2004 was $25,351 and advertising for the six month period ending July 30, 2005 resulted in net income of $900.

**Net Income per Share** Basic net income per common share is computed using the weighted average number of shares outstanding. Diluted net income per common share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock. Incremental shares of 2,034,567, 1,506,595 and 1,633,597 in fiscal 2002, 2003 and 2004, respectively, and 1,452,829, 1,489,656 and 819,664 for the one month period ended February 1, 2003, the six months ended July 31, 2004 and the six months ended July 30, 2005, respectively, were used in the calculation of diluted net income per common share.

**Stock Compensation** The Company has stock-based employee compensation plans, which are described further in note 7 below. The Company accounts for stock-based employee compensation arrangements on the intrinsic value method in accordance with the provisions of Accounting Principles Board Opinion ( APB ) No. 25, Accounting for Stock Issued to Employees and related amendments and interpretations. The Company complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123 ( SFAS 123 ), Accounting for Stock-Based Compensation, which requires fair value recognition for employee stock-based compensation.

If the computed fair values of the awards had been amortized to expense over the vesting period of the awards, pro forma net income (loss) and net income (loss) per share would have been reduced to the pro forma amounts indicated in the following table (in thousands, except per share data):

| | Fiscal Year Ended December 31, 2002 | One Month Ended February 1, 2003 | Fiscal Year Ended January 31, 2004 | Fiscal Year Ended January 29, 2005 | Six Months Ended July 31, 2004 (unaudited) | July 30, 2005 (unaudited) |
|---|---|---|---|---|---|---|
| Net income (loss), as reported | $ 5,705 | $ (169 ) | $ 4,475 | $ 7,267 | $ (439 ) | $ 808 |
| Add: Stock-based compensation expense, as reported, net of tax | | | | 59 | | 49 |
| Deduct: Stock-based employee compensation expense determined under fair-value-based method, net of tax | (207 ) | (17 ) | (118 ) | (313 ) | (51 ) | (178 ) |
| Pro forma net income (loss) | 5,498 | (186 ) | 4,357 | 7,013 | (490 ) | 679 |
| Net income (loss) per share: | | | | | | |
| Basic as reported | $ 0.49 | $ (0.01 ) | $ 0.40 | $ 0.64 | $ (0.04 ) | $ 0.07 |
| Basic pro forma | $ 0.48 | $ (0.02 ) | $ 0.39 | $ 0.62 | $ (0.04 ) | $ 0.06 |
| Diluted as reported | $ 0.42 | $ (0.01 ) | $ 0.35 | $ 0.56 | $ (0.04 ) | $ 0.06 |
| Diluted pro forma | $ 0.40 | $ (0.02 ) | $ 0.34 | $ 0.54 | $ (0.04 ) | $ 0.05 |

**Merchandise Risk** The Company s success is largely dependent upon its ability to gauge the fashion tastes of its customers and provide merchandise that satisfies customer demand. Any inability to provide appropriate merchandise in sufficient quantities in a timely manner could have a material adverse effect on the Company s business, operating

results and financial condition.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**Reclassifications** Certain amounts in the prior year financial statements have been reclassified to conform to the current year s financial statement presentation. The reclassifications had no effect on shareholders equity or net income.

**Recent accounting pronouncements**

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

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

Under the SEC rule, the provisions of this statement are effective for annual periods beginning after June 15, 2005 and will become effective for the Company beginning with the first quarter of fiscal 2006. The Company has not yet determined which transaction method it will use to adopt SFAS 123R. The full impact that the adoption of this statement will have on the Company s financial position and results of operations will be determined by share-based payments granted in future periods and will increase the compensation expense that would otherwise have been recognized in accordance with APB 25. In addition, outstanding unvested options will result in additional compensation expense that otherwise would only have been recognized on a pro-forma basis.

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

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

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**3. Transition Period Comparative Data**

As a result of the change in the Company s fiscal year end there was a one month transition period. The following table presents certain condensed financial information for the one month ended February 2, 2002 (unaudited) and the one month ended February 1, 2003, respectively.

| | One Month Ended February 2, 2002 (unaudited) (In thousands) | February 1, 2003 |
|---|---|---|
| Summarized Statements of Operations | | |
| Net sales | $ 5,831 | $ 6,392 |
| Cost of goods sold | 3,961 | 4,575 |
| Gross margin | $ 1,870 | $ 1,817 |
| Operating profit (loss) | $ 170 | $ (196 ) |
| Net income (loss) | $ 161 | $ (169 ) |
| Summarized Balance Sheets | | |
| Assets | | |
| Total current assets | $ 17,083 | $ 19,646 |
| Total assets | $ 30,318 | $ 36,003 |
| Liabilities and shareholders equity | | |
| Total current liabilities | $ 15,972 | $ 20,101 |
| Total liabilities | $ 18,241 | $ 22,036 |
| Total shareholders equity | 12,077 | 13,967 |
| Total liabilities and shareholders equity | $ 30,318 | $ 36,003 |

**4. Leasehold Improvements and Equipment**

Leasehold improvements and equipment consist of the following:

| | January 31, 2004 (In thousands) | January 29, 2005 |
|---|---|---|
| Leasehold improvements and other equipment | $ 20,102 | $ 29,706 |
| Store computer equipment | 3,225 | 4,179 |
| Store displays | 9,923 | 13,822 |
| Vehicles | 53 | 53 |
| | 33,303 | 47,760 |
| Less accumulated depreciation | (15,227 ) | (21,141 ) |
| | $ 18,076 | $ 26,619 |

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**5. Long-Term Debt**

Long-term debt consists of the following:

| | January 31, 2004 (In thousands) | January 29, 2005 |
|---|---|---|
| Note payable to bank, payable in quarterly installments of $272,000 plus interest at LIBOR (1.155% per annum at January 31, 2004) plus 2%, maturing July 1, 2004 | $ 544 | $ |
| Less current portion | (544 ) | |
| | $ | $ |

The note payable to bank at January 31, 2004 was collateralized by substantially all the assets of the Company. Additionally, this note payable contained covenants that required the Company to maintain certain working capital ratios and placed certain restrictions on the declaration and payment of dividends. The note was paid in full per the terms of the agreement in fiscal 2004.

In May 2003 the Company entered into an agreement for a new revolving credit facility of $20,000,000. The revolving credit facility has a $7,500,000 sub-limit for the issuance of letters of credit with 180 day maximum maturity. The outstanding borrowings under the revolving credit facility were $300,000 at January 31, 2004. The Company also had open letters of credit of $447,000 at January 31, 2004.

In September 2004 the Company entered into a loan modification agreement to the existing revolving credit facility. The loan modification agreement reduced certain applicable interest rates and extended the maturity date of the revolving credit facility to July 1, 2006. The borrowing capacity can be increased to $25.0 million if the Company requests and if the Company is in compliance with certain provisions. There were no outstanding borrowings under the revolving credit facility at January 29, 2005. The Company had open letters of credit of $671,000 at January 29, 2005. The revolving credit facility bears interest at floating rates based on the lower of the prime rate (5.25% at January 29, 2005) minus a prime margin ranging from 0.75% to 0.10% or the LIBOR rate (2.53% at January 29, 2005) plus a LIBOR margin ranging from 1.40% to 2.15%, in each case depending on the ratio of the Company s adjusted funded debt (as defined in the loan agreement, as amended) to EBITDAR (as defined in the loan agreement, as amended). The Company s obligations under the revolving credit facility are secured by almost all of its personal property, including, among other things, inventory, equipment and fixtures. The Company must reduce the amount of any outstanding advances under the revolving credit facility to no more than $5.0 million for a period of at least 30 consecutive days each year. The revolving credit facility also contains financial covenants that require the Company to meet specified financial ratios, including a debt to earnings ratio, an earnings to interest expense ratio and an inventory to debt ratio. The Company was in compliance with all covenants at January 29, 2005 and for the year then ended.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**6. Income Taxes**

The components of the current deferred tax assets and net long-term deferred tax assets (liabilities) are:

| | January 31, 2004 (In thousands) | January 29, 2005 |
|---|---|---|
| Current deferred tax assets (liabilities) | | |
| Inventory | $ 621 | $ 784 |
| Employee benefits | 124 | 167 |
| Prepaid expenses | (77 ) | (92 ) |
| Charitable Contributions | | |
| Total current deferred tax assets | 668 | 859 |
| Long-term deferred tax assets (liabilities) | | |
| Property and equipment | (1,927 ) | (3,437 ) |
| Employee benefits | | 35 |
| Deferred rent | 591 | 1,891 |
| Total long-term deferred tax liabilities | (1,336 ) | (1,511 ) |
| Net deferred tax liability | $ (668 ) | $ (652 ) |

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

| | Fiscal Year Ended December 31, 2002 (In thousands) | One Month Ended February 1, 2003 | Fiscal Year Ended January 31, 2004 | Fiscal Year Ended January 29, 2005 |
|---|---|---|---|---|
| Current | | | | |
| Federal | $ 837 | $ (122 ) | $ 1,526 | $ 3,831 |
| State | 395 | | 371 | 685 |
| Total current | 1,232 | (122 ) | 1,897 | 4,516 |
| Deferred | | | | |
| Federal | (129 ) | 77 | 740 | (21 ) |
| State | (7 ) | 6 | 64 | 5 |
| Total deferred | (136 ) | 83 | 804 | (16 ) |
| Provision (benefit) for income taxes | $ 1,096 | $ (39 ) | $ 2,701 | $ 4,500 |

**NOTES TO FINANCIAL STATEMENTS (Continued)**

The reconciliation of the income tax provision at the U.S. federal statutory rate to the Company s effective income tax rate is as follows for the fiscal year ended:

| | Fiscal Year Ended December 31, 2002 | One Month Ended February 1, 2003 | Fiscal Year Ended January 31, 2004 | Fiscal Year Ended January 29, 2005 |
|---|---|---|---|---|
| Expected U.S. federal income taxes at statutory rates | 34.0 % | 34.0 % | 34.0 % | 34.0 % |
| State and local income taxes, net of federal effect | 4.3 | | 3.4 | 3.9 |
| Benefit of Subchapter S election and termination | (22.3 ) | (0.9 ) | | |
| Permanent differences | | | 0.2 | 0.5 |
| Other | 0.1 | (14.3 ) | | (0.1 ) |
| | 16.1 % | 18.8 % | 37.6 % | 38.3 % |

**7. Stock Options**

During fiscal 1997, the Company adopted the 1993 Stock Option Plan (the Plan ) to provide for the granting of nonqualified stock options to executive officers and key employees of the Company as determined by a committee of the Company s board of directors, the 1993 Plan Committee (the Committee ).

The date of grant, option price, vesting period and other terms specific to options granted under the Plan are determined by the Committee. All stock options granted under the Plan vest over a fixed period and expire ten years from the date of grant and no additional awards may be made under the Plan. Prior to fiscal 2004, the option price for all options granted was equal to the fair market value of the Company s common stock at the date of grant and no stock-based compensation expense was recognized during fiscal 2002, 2003 or the one month ended February 1, 2003.

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 a committee of the Company s board of directors, the 2004 Plan Committee. The terms of the 2004 Plan are generally the same as the Plan. The Company has authorized 3,682,793 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 (unaudited).

During fiscal 2004, the Company issued stock options to certain employees with exercise prices below the fair market value of the Company s common stock at the date of grant. In accordance with the requirements of APB 25, the Company has recorded stock-based compensation for the difference between the exercise price of the stock options and the fair market value of the Company s stock at the grant date. During the fiscal 2004, the Company recorded stock-based compensation of $95,000 related to these options. Stock-based compensation expense is currently recognized over the vesting period of the awards, generally five to eight years. Excluding the impact of the adoption of FAS 123R, future compensation expense to be recognized through fiscal 2012 associated with these grants will be $961,000.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

All grants of stock options have been to employees of the Company. There were no stock option grants, exercises, forfeitures or cancellations during fiscal 2002 or the one month period ended February 1, 2003. The fair values of the options granted under the Plan and the 2004 Plan were estimated using the minimum-value method with the assumptions from the table below:

| | Fiscal Year Ended January 31, 2004 | Fiscal Year Ended January 29, 2005 |
|---|---|---|
| Dividend yield | % | % |
| Average risk-free interest rate: | | |
| Expected lives Ten years | % | % |
| Expected lives Eight years | % | 3.97 % |
| Expected lives Five years | 3.30 % | 3.41 % |

The following table summarizes stock option activity:

| | Fiscal Year Ended December 31, 2002 | | Fiscal Year Ended January 31, 2004 | | Fiscal Year Ended January 29, 2005 | | For Six Months Ended July 30, 2005 | |
|---|---|---|---|---|---|---|---|---|
| | Number of Options | Weighted-Average Exercise Price | Number of Options | Weighted-Average Exercise Price | Number of Options | Weighted-Average Exercise Price | Number of Options (Unaudited) | Weighted-Average Exercise Price |
| Options outstanding at beginning of period | 2,032,977 | $ 1.66 | 1,452,828 | $ 2.25 | 1,533,700 | $ 2.47 | 1,855,397 | $ 3.54 |
| Options granted during the period | | | 134,670 | 5.21 | 400,119 | 7.73 | | |
| Options exercised during the period | (580,149 ) | (0.17 ) | | | | | (277,069 ) | 1.65 |
| Options forfeited during the period | | | (53,798 ) | (3.55 ) | (78,422 ) | (3.92 ) | | |
| Options outstanding at end of period | 1,452,828 | $ 2.25 | 1,533,700 | $ 2.47 | 1,855,397 | $ 3.54 | 1,578,327 | $ 3.87 |
| Weighted-average fair value of options granted | | | | $ 0.71 | | $ 2.27 | | |
| Options exercisable | 504,536 | $ 1.65 | 672,693 | $ 1.77 | 860,057 | $ 2.03 | 698,332 | $ 2.78 |

The following table summarizes information concerning outstanding and exercisable options at January 29, 2005:

| | Options Outstanding | | Options Exercisable |
|---|---|---|---|
| Exercise Price | Number of Options | Weighted-Average Remaining Contractual Life | Number of Options |
| $ 0.46 | 323,052 | 2.9 | 282,670 |
| 2.17 | 591,788 | 4.3 | 369,867 |
| 3.55 | 430,391 | 6.6 | 161,397 |
| 5.21 | 134,670 | 8.3 | 46,123 |
| 7.73 | 375,496 | 9.4 | |
| Total | 1,855,397 | | 860,057 |

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**8. Related Party Transactions**

During fiscal 2004, the Company paid $1,000 in fees related to the Transaction that are receivable from the Parent. At January 29, 2005, due to additional such payments by the Company, the balance was $148,000. This amount is reported in shareholders equity.

During fiscal 2001, the Company advanced $1,500,000 to a shareholder under a note receivable. At December 31, 2001, the outstanding balance of the note and accrued interest receivable was $1,533,750, and while the interest was paid in cash in fiscal 2002, the note was redeemed as part of the Transaction.

In fiscal 2002, 2003 and 2004 the Company paid Brentwood Private Equity III, LLC a consulting fee of $31,000, $200,000 and $200,000, respectively, under a Corporate Development and Administrative Services Agreement.

**Related party transactions for the six months ended July 30, 2005 (unaudited)** The Company paid $1,000 in fees on behalf of its Parent, resulting in a balance of $149,000, which was forgiven and the Parent was subsequently dissolved in connection with the Company s initial public offering. This amount was reported in shareholders equity and expensed to selling, general and administrative expense.

During the six months ended July 30, 2005 and July 31, 2004 (unaudited) the Company paid Brentwood Private Equity III, LLC a consulting fee of $53,000 and $100,000, respectively, under a Corporate Development and Administrative Services Agreement. This agreement was subsequently terminated in connection with the initial public offering, resulting in a prorated consulting fee for the six months ended July 30, 2005 of $3,000 compared to the fees per the agreement of $50,000 paid for the six months ended July 31, 2004.

**9. Commitments and Contingencies**

**Leases** The Company is committed under operating leases for all of its retail store locations. In addition to minimum future lease payments, all store leases provide for additional rental payments based on sales, as well as common area maintenance charges. During fiscal 2004, the Company entered into a lease for a new combined home office and distribution center under a noncancelable operating lease agreement that expires in July 2012, with two renewal optons. For leases that have fixed escalation clauses, minimum rents are recognized on a straight-line basis over the term of the lease.

Rent expense, including common area maintenance and other occupancy costs, was $11,754,000, $13,871,000, $17,136,000 and $919,000 for fiscal 2002, 2003, 2004 and the one month period ended February 1, 2003, respectively.

Future minimum annual commitments (in thousands) on all leases at January 29, 2005 are as follows:

| | Retail Stores | Home Office | Total |
|---|---|---|---|
| Fiscal 2005 | $ 9,977 | $ 404 | $ 10,381 |
| Fiscal 2006 | 9,871 | 432 | 10,303 |
| Fiscal 2007 | 9,228 | 467 | 9,695 |
| Fiscal 2008 | 8,508 | 479 | 8,987 |
| Fiscal 2009 | 8,376 | 492 | 8,868 |
| Thereafter | 25,183 | 982 | 26,165 |
| | $ 71,143 | $ 3,256 | $ 74,399 |

**Purchase Commitments** The Company had outstanding purchase orders to acquire merchandise from vendors for approximately $28.1 million at January 29, 2005. These purchases are expected to be financed by cash flows from

operations and the Company s revolving credit facility. The Company has an option to cancel such commitments with no notice prior to shipment.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**Litigation** The Company is involved from time to time in litigation incidental to its business and, from time to time, the Company may make provisions for potential litigation losses. The Company follows SFAS 5, Accounting for Contingencies when assessing pending or potential litigation. Management believes, after considering a number of factors and the nature of the contingencies to which the Company is subject, that the outcome of these contingencies will not have a material adverse effect upon the results of operations or financial condition of the Company.

**Insurance Reserves** The Company is responsible for medical insurance claims up to a specified aggregate amount. The Company maintains a reserve for estimated medical insurance claims based on historical claims experience and other estimated assumptions. The Company follows SFAS 5, Accounting for Contingencies when assessing pending or potential claims.

**Employment Agreement** The Company has an employment agreement in place with a key employee. The agreement provides that if the Company terminates the employee s employment without cause or if he terminates his employment for good reason, the employee could be entitled to continue to receive his base salary up to a maximum commitment of $315,000.

**10. Retirement Savings Plan**

The Zumiez Investment Plan is a qualified plan under Section 401(k) of the Internal Revenue Code. The Company s 401(k) matching and profit-sharing contributions are discretionary and are determined annually by the Company. The Company contributed $50,000, $55,000 and $125,000 to the plan during fiscal 2002, 2003 and 2004, respectively.

**11. Income (Loss) Per Share**

Basic net income (loss) per share is based on the weighted average number of common shares outstanding. Diluted net income (loss) per share is based on the weighted average number of common shares and common share equivalents outstanding. Common share equivalents included in the computation represent shares issuable upon assumed exercise of outstanding stock options.

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

| | Fiscal Year Ended December 31, 2002 | One Month Ended February 1, 2003 | Fiscal Year Ended January 31, 2004 | Fiscal Year Ended January 29, 2005 | Six Months Ended July 31, 2004 (Unaudited) | Six Months Ended July 31, 2005 |
|---|---|---|---|---|---|---|
| Net income (loss) | $ 5,705 | $ (169 ) | $ 4,475 | $ 7,267 | $ (439 ) | $ 808 |
| Weighted average common shares for basic net income (loss) per share | 11,547,011 | 11,305,261 | 11,305,261 | 11,305,261 | 11,305,261 | 12,296,076 |
| Dilutive effect of stock options | 2,034,567 | | 1,506,594 | 1,633,597 | | 819,664 |
| Weighted average common shares for diluted net income (loss) per share | 13,581,578 | 11,305,261 | 12,811,855 | 12,938,858 | 11,305,261 | 13,115,740 |
| Basic net income (loss) per share | $ 0.49 | $ (0.01 ) | $ 0.40 | $ 0.64 | $ (0.04 ) | $ 0.07 |
| Diluted net income (loss) per share | $ 0.42 | $ (0.01 ) | $ 0.35 | $ 0.56 | $ (0.04 ) | $ 0.06 |

For the one month ended February 1, 2003, the dilutive effect of 1,452,829 options were excluded and for the six months ended July 31, 2004 (unaudited) the dilutive effect of 1,489,656 options were excluded from weighted average diluted shares outstanding because the effect was antidilutive.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**12. Subsequent Events**

**Stock Split** On April 14, 2005, the Company s Board of Directors and shareholders approved an amendment to the Company s Certificate of Incorporation to effect a 1 for 258.6485 split of the Company s common stock (the Stock Split ). The Stock Split became effective on April 20, 2005. All reference to shares in the financial statements and the accompanying notes, including but not limited to the number of shares and per share amounts, unless otherwise noted, have been adjusted to reflect the Stock Split on a retroactive basis. Previously awarded stock options in the Company s common stock have been retroactively adjusted to reflect the Stock Split.

**2,375,000 Shares**
**Common Stock**

PROSPECTUS

**, 2005**

Wachovia Securities

**Piper Jaffray**

**William Blair & Company**

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**PART II**
**INFORMATION NOT REQUIRED IN THE PROSPECTUS**

**Item 13.** ***Other Expenses of Issuance and Distribution***

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable by us in connection with the sale of common stock being registered. All amounts, other than the SEC registration fee and the NASD fee, are estimates. We will pay all these expenses.

| | **Amount to be Paid** |
|---|---|
| SEC Registration Fee | $ 11,146 |
| NASD Filing Fee | 9,970 |
| Printing Fees and Expenses | 75,000 |
| Legal Fees and Expenses | 100,000 |
| Accounting Fees and Expenses | 75,000 |
| Blue Sky Fees and Expenses | 5,000 |
| Transfer Agent and Registrar Fees | 15,000 |
| Miscellaneous | 8,884 |
| Total | $ 300,000 |

**Item 14.** ***Indemnification of Directors and Officers***

Sections 23B.08.500 through 23B.08.600 of the Washington Business Corporation Act (the WBCA ) authorize Washington corporations to indemnify and advance expenses to directors, officers, employees or agents of the corporation under certain circumstances against liabilities and expenses incurred in legal proceedings involving such individuals because of their being or having been a director, officer, employee or agent of the corporation. Section 23B.08.560 of the WBCA authorizes a corporation to agree to so indemnify and obligate itself to advance or reimburse expenses without regard to the limitations of Section 23B.08.510 through 23B.08.550 of the WBCA; provided, however, that no such indemnity shall be made for or on account of any:

- acts or omissions of the director, officer, employee or agent finally adjudged to be intentional misconduct or a knowing violation of law;

- conduct of the director, officer, employee or agent finally adjudged to be in violation of Section 23B.08.310 of the WBCA (which section relates to unlawful distributions); or

- transaction with respect to which it was finally adjudged that such director, officer, employee or agent personally received a benefit in money, property, or services to which the director, officer, employee or agent was not legally entitled.

Furthermore, Section 23B.08.320 of the WBCA authorizes a corporation to limit a director s liability to the corporation or its shareholders for monetary damages for acts or omissions as a director, except in certain circumstances involving (1) acts or omissions of a director that involve intentional misconduct or a knowing violation of law, (2) conduct violating Section 23B.08.310 of the WBCA (which section relates to unlawful distributions) or (3) any transaction from which the director will personally receive a benefit in money, property or services to which the director is not legally entitled.

Zumiez Inc. s (the Company ) articles of incorporation provide that the Company shall indemnify its directors to the fullest extent permitted by the WBCA, subject to exceptions, and require that the Company advance expenses for such persons pursuant to the Company s bylaws or a separate directors resolution or contract. The bylaws provide that the Company shall indemnify its directors, officers and employees to the fullest extent permitted by applicable law, and also provide that the Company may indemnify its agents. The Company s bylaws also provide that the Company may, or in certain cases must, provide advances for expenses to such indemnified individuals who are parties to such a proceeding. The Company s articles of incorporation provide that a director shall not be personally liable to the Company or to any of its shareholders for monetary damages for conduct as a director, subject to the limitations set forth in the

Company s articles of incorporation. The bylaws also provide that the Company may maintain, at its expense, insurance to protect itself and an indemnified director, officer, employee or agent against any liability, whether or not the Company would have the power to indemnify such director, officer, employee or agent against the same liability under Sections 23B.08.510 or 23B.08.520 of the WBCA.

The Company has entered into separate indemnification agreements with each of its directors and officers to effectuate the provisions discussed above and to purchase director and officer liability insurance. The effect of such provisions is to indemnify the Company s directors and officers against all costs, expenses and liabilities incurred by them in connection with any action, suit or proceeding to which they are involved by reason of their affiliation with the Company to the fullest extent permitted by law.

**Item 15.** ***Recent Sales of Unregistered Securities***

*Issuance of Securities to Zumiez Holdings*

In October and November 2002, we entered into a series of transactions with certain affiliates of Brentwood Private Equity III, LLC (the Brentwood Affiliates ) and certain of our shareholders (the 2002 Recapitalization ). In November 2002, in connection with the 2002 Recapitalization, we issued 1,356,371 shares of our common stock to Zumiez Holdings LLC, a Delaware limited liability company that was formed in connection with the 2002 Recapitalization ( Zumiez Holdings ), for an aggregate purchase price of approximately $7.1 million. The issuance of our common stock to Zumiez Holdings in connection with the 2002 Recapitalization was exempt from registration under Section 4(2) of the Securities Act or Regulation D promulgated thereunder as a transaction by an issuer not involving a public offering. Zumiez Holdings was an accredited investor, as such term is defined in the Securities Act and the regulations promulgated thereunder, and represented its intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof. Appropriate legends were affixed to the share certificates issued in such transaction.

*Exercise of Stock Options*

In July 1993, as partial consideration for a loan from Rajnikant R. Shah and Akhil R. Shah (collectively, the Optionees ) to us, we granted the Optionees an option to purchase 580,150 shares of our common stock at an exercise price of $0.1724 per share. In July 2002, the Optionees exercised their option to purchase shares of our common stock and we issued an aggregate of 580,150 shares of our common stock to the Optionees for an aggregate purchase price of $99,993. The issuance of our common stock to the Optionees was exempt from registration under Section 4(2) of the Securities Act as a transaction by an issuer not involving a public offering. The optionees represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof. Appropriate legends were affixed to the share certificates issued in such transaction.

*Stock Option Grants*

Since February 2002, we have granted options to employees (including officers) to purchase an aggregate of 534,789 shares of our common stock at exercise prices of between $5.21 and $7.73 per share, as further described below:

| Date(s) | Number of Options | Exercise Price | Vesting Schedule |
| --- | --- | --- | --- |
| 4/28/2003 | 122,527 | $ 5.21 | 20% in year 1, 1/48 monthly thereafter for 4 years |
| 9/4/2003 | 12,144 | $ 5.21 | 20% in year 1, 1/48 monthly thereafter for 4 years |
| 6/1/2004 | 153,885 | $ 7.73 | 12.5% per year for 8 years |
| 7/31/2004 | 246,233 | $ 7.73 | 20% in year 1, 1/48 monthly thereafter for 4 years |

All option grants during this period have been made in consideration for services rendered or to be rendered by the respective employees. The amount of options included in each grant to employees has been determined by our board of directors in consultation with management taking into consideration the employee s job description, tenure and level of service. During this same period, we have not issued any shares of our common stock upon exercise of such stock options. The stock option grants were exempt under Rule 701 under the Securities Act as exempt offers and sales of securities under a written compensatory benefit plan.

**Item 16.** ***Exhibits and Financial Statement Schedules***

(a) The following exhibits are filed herewith:

| Exhibit Number | **Exhibit Description** |
|---|---|
| 1.1* | Form of Underwriting Agreement. |
| 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 3.2 to the Company s Registration Statement on Form S-1 (File No. 333-122865)] |
| 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)] |
| 5.1* | Opinion of Preston Gates & Ellis LLP. |
| 10.1 | Business Loan Agreement dated May 29, 2003 between Bank of America, N.A. and Zumiez Inc., as modified by Loan Modification Agreement dated September 30, 2004. [Incorporated by reference to Exhibit 10.1 to the Company s Registration Statement on Form S-1 (File No. 333-122865)] |
| 10.2 | Lease Agreement between Merrill Creek Holdings, LLC and Zumiez Inc. dated August 2, 2004. [Incorporated by reference to Exhibit 10.2 to the Company s Registration Statement on Form S-1 (File No. 333-122865)] |
| 10.3 | Executive Agreement, dated as of November 4, 2002 between Zumiez Inc. and Richard M. Brooks. [Incorporated by reference to Exhibit 10.3 to the Company s Registration Statement on Form S-1 (File No. 333-122865)] |
| 10.4 | Carrier Agreement between United Parcel Service Inc. and Zumiez Inc. dated July 4, 2005. [Incorporated by reference to Exhibit 10.4 to the Company s Quarterly Report on Form 10-Q for the period ended July 30, 2005 as filed on September 13, 2005] |
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| | |
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| 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)] |
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| 21.1* | Subsidiaries of the registrant. |
| 23.1 | Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm. |
| 23.2* | Consent of Preston Gates & Ellis LLP (included in Exhibit 5.1). |
| 24.1* | Power of Attorney (included on signature page of this Registration Statement). |

* Previously filed.

**Item 17. Undertakings**

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 14 or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant undertakes that:

(1) for purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be a part of this registration statement as of the time it was declared effective, and

(2) for the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has duly caused this Amendment to Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Everett, State of Washington, on the 8th day of November, 2005.

ZUMIEZ INC.
By: /s/ RICHARD M. BROOKS
Richard M. Brooks
*President and Chief Executive Officer*

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment to Registration Statement on Form S-1 has been signed by the following persons in the capacities indicated on November 8, 2005.

| Signature | | **Title** |
|---|---|---|
| /s/ RICHARD M. BROOKS<br>Richard M. Brooks | | President and Chief Executive Officer, Director (Principal Executive Officer) |
| /s/ BRENDA I. MORRIS<br>Brenda I. Morris | | Chief Financial Officer (Principal Financial and Accounting Officer) |
| *<br>William M. Barnum, Jr. | | Director |
| *<br>Thomas E. Davin | | Director |
| *<br>Thomas D. Campion | | Chairman |
| *<br>Steven W. Moore | | Director |
| *<br>Gerald F. Ryles | | Director |
| * | /s/ BRENDA I. MORRIS<br>Brenda I. Morris | Attorney-in-fact |

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**EXHIBIT INDEX**

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