

# Executive Compensation

## Compensation Discussion and Analysis

This section describes fiscal year 2018 executive compensation for the Named Executive Officers (NEOs). The REI named officers for 2018 are:

- President & CEO: Jerry Stritzke (Mr. Stritzke left REI in March 2019)
- EVP COO: Eric Artz
- SVP CFO & Treasurer: Tracie Winbigler
- EVP Chief Customer Officer: Ben Steele
- SVP Merchandising & Co-Op Brands: Susan Viscon

The purpose of this compensation discussion and analysis (CD&A) is to provide a narrative for understanding our pay philosophy, the program's objectives and the factors we consider in structuring the executive compensation program and making pay decisions each year. The actual compensation paid is set forth in the summary compensation table (on page 6) for our NEOs.

## Executive Compensation Program Goals and Pay Philosophy

The primary goals for our executive compensation program are:

- Attracting, motivating and retaining a high-caliber executive team to provide leadership for our success in a dynamic, competitive market. We design our executive compensation program to position REI competitively among the companies against which we recruit and compete for talent.
- Ensuring that compensation opportunities and results for executives are tied to the short-term and long-term performance of the cooperative and aligned with REI's mission and values.
- Paying for performance. NEO compensation is heavily weighted toward "at-risk" compensation in the form of annual and longer term variable cash compensation that is paid out only upon achievement of balanced, pre-determined financial and strategic operating performance goals that are critical to REI's long-term growth and success.

## How We Determine Executive Compensation

### *Role of Our Compensation committee, Independent Consultant and Management*

The board Compensation committee (the "committee"), consisting of independent directors, reviews and approves the compensation that we pay to NEOs and has oversight responsibility for all of REI's employee compensation and benefit programs. The committee annually reviews and approves the merit budget for REI and all officer pay changes. This review and approval include the compensation of the President & CEO, incentive and retirement plans payments, changes to current year incentive plans, performance goals for incentive plans, methodology used in executive compensation analysis, peer group selection, and certifying executive compensation results.

Beginning in August 2018, the committee engaged Meridian Compensation Partners, LLC, as its independent compensation consultant. Meridian does not provide any other services to the co-op. Meridian reports directly to the committee, advising on all material matters relating to executive and non-employee director compensation. Meridian took its direction from the committee chair and coordinated with the President & CEO and the Finance and Human Resources departments, as needed, to understand management proposals and financial objectives and to obtain compensation data that management gathered for our peer group of companies to support the committee in 2018 and early 2019.

The committee, working directly with the independent compensation consultant and input from the Chairman of the Board (without the presence of the President & CEO), deliberates and makes decisions about the salary and variable incentive compensation opportunity to be awarded to the President & CEO for the new fiscal year and performance-based compensation payouts for the prior fiscal year. In setting compensation for NEOs (other than the President & CEO), the committee solicits the input of the President & CEO, who recommends the salary and target variable incentive compensation to be awarded to the other NEOs for the new fiscal year. The committee is solely responsible for making the final decisions on compensation for all NEOs. No NEO is present during discussions of his or her compensation package or participates in approving the amount of any portion of his or her own compensation package.

### ***Role of Market Data and Peer Group***

The committee reviews relevant market pay data from both a custom retail industry peer group as well as published surveys. This market pay data is assembled by Meridian and includes summary statistics for the 25<sup>th</sup>, 50<sup>th</sup> and 75<sup>th</sup> percentiles for base salary, target bonus, target total cash, long-term incentive and target total pay.

As further discussed below, market data is just one reference point the committee and management use when determining NEO pay.

The 2018 peer group includes companies that generally meet the following criteria:

- We compete with for executive talent;
- Have an established business, market presence, and complexity similar to us; and
- Are of similar size to us as measured by revenue, product mix, private label brand offerings, on-line and retail stores, number of stores, geographic footprint and sustained financial performance.

The peer group for fiscal year 2018 included 19 companies. In 2017, management and the board adopted a two-year review cadence specific to the evaluation of peer companies.

American Eagle Outfitters	Hibbett Sports
Big Five Sports	Lululemon athletica
Carter's	Restoration Hardware
Chico's FAS	Skechers U.S.A.
Columbia Sportswear	Under Armour
Dick's Sporting Goods	Urban Outfitters
Deckers	Williams-Sonoma
DSW	Wolverine WorldWide
Express	Zumiez
The Finish Line	

### ***Factors Used in Determining Executive Compensation***

In any given year, when establishing the elements of executive compensation, the committee may take into consideration one or more of the following factors. The relative weight, if any, given to each of the factors below varies by individual NEO and with respect to each element of compensation at the sole discretion of the committee.

In conducting its analysis and determining compensation, the committee considers these factors where relevant:

- Business and talent strategies
- The nature of each NEO's role
- REI's purpose, values and co-op structure

- Individual performance (based on specific financial and operating objectives for each NEO and leadership behaviors);
- Compensation history, including at former employers in the case of new hires;
- Future potential contributions by the NEO;
- Internal comparisons to other executives;
- Comparisons of the value and nature of each compensation element to each other and in total;
- REI's performance results and business outlook; and
- Retention risk.

## COMPENSATION ACTIONS AND ACHIEVEMENT FOR FISCAL 2018

### *Elements of Compensation*

REI compensates its executive officers by providing four key elements of pay. These are:

- Base salary;
- Annual cash incentive bonus (Summit Incentive Plan) contingent on REI's annual results;
- Long-term cash incentive plan (LTIP) linked to performance on two key measurements of success, return on capital and revenue growth, measured over multi-year periods; and
- Retirement plan that applies to all employees and has two components, a retirement contribution of 5% of eligible pay and a profit sharing contribution of up to 10% of eligible pay based on co-op performance.

We have chosen these elements because we believe each supports achievement of one or more of our compensation objectives, and that together they have been and will continue to be effective in this regard. We also provide our executives with health and welfare benefits that are available to a broader group of employees.

The use and weight of each compensation element is based on the judgment of the committee about the importance of each compensation objective in supporting our business and talent strategies and the structure of these elements for executives at other companies. To emphasize the importance of performance-based compensation, base salary and benefits represent less than half of each REI executive's potential compensation at target performance levels.

### *Total Target Compensation Approach*

In making fiscal 2018 compensation decisions, for each NEO the committee reviewed the total target cash opportunity (base salary plus variable performance-based cash compensation) for similarly situated executives of our peer companies. The committee considered the factors discussed in *Factors Used in Determining Executive Compensation* above, the specific compensation objectives for Fiscal 2018 and, for NEOs other than the President & CEO, the President & CEO's recommendation. The committee did not use a formula or assign a particular weight to any one factor in determining each NEO's target pay. Rather, the determination of the total target compensation and mix between fixed base pay and "at-risk" variable pay opportunities was subjective for each NEO and was a function of the committee's overall objectives for total pay positioning and balancing the pay mix. Resulting total target compensation for the NEOs was generally between the 25<sup>th</sup> and 50<sup>th</sup> percentile of the market data for fiscal 2018. In approving this pay structure, the committee was mindful of the executive pay philosophy, REI's mission, core values and co-op structure.

### *Base Salary*

Base salaries are set at a level that the committee believes will effectively attract and retain top talent, considering the factors described above under *Factors Used in Determining Executive Compensation*. In addition, the committee considers the impact of base salary changes on other compensation components where applicable.

### ***Annual Cash Incentive – Summit Incentive Plan***

The REI Summit Incentive Plan (the “Summit Plan”) is an annual program that rewards employees based on company and divisional performance (for NEOs, performance is measured at the company level). The plan covers all employees, including full-time, part-time and seasonal employees and includes eligibility requirements defined within the Summit Plan.

Each year, the committee reviews and approves the Summit Plan, which includes performance metrics, metric weightings, and financial and operating goals. The company’s annual operating plan, which is reviewed and approved by the board, is used to help establish the performance metrics and target goals. In addition, the committee approves the annual results and related payouts under the Summit Plan shortly after completion of the fiscal year.

The 2018 performance metrics for participants assigned to headquarters jobs were: total company sales weighted at 40% and total company operating profit weighted at 60% each. Each metric has a threshold, target and maximum performance level. For total company sales, the threshold is 97% of the operating plan, the target is 100% of operating plan and the maximum is 105% of operating plan. For total company operating profit, the threshold is 85% of plan, the target is 100% of plan and the maximum is 120% of plan. The award payout levels (as a percent of target award) associated with each performance level is 25% (threshold), 100% (target) and 200% (maximum) and actual results are interpolated between these points on a straight-line basis for performance falling within the range.

The Summit Plan funds when the company has reached the total company operating profit threshold or minimum performance level after paying members a dividend of 10% of their eligible purchases. This is the Summit Plan’s funding trigger and it must be met before any awards will be paid out.

### **2018 Summit Incentive Plan**

**The Summit Payout Modifier was determined based on the following results:**

<b>Metric Description</b>	<b>Metric Weighting</b>	<b>Plan</b>	<b>Actual Results</b>	<b>Actual Performance vs. Plan</b>	<b>Payout Modifier</b>
Total Company Sales	40%	\$2,726,391,391	\$2,774,798,265	101.8%	129.6%
Total Company Operating Profit	60%	\$181,841,275	\$186,668,155	102.7%	111.9%
<b>Combined Weighting / Payout Modifier</b>					<b>119.0%</b>

### ***Long Term Cash Incentive – Long-Term Incentive Plan***

The REI Long-Term Incentive Plan (the “LTIP”) is an incentive program designed to reward participants for the company’s profitable growth over a three-year performance period. The LTIP’s objectives are to provide a competitive pay package to attract and retain high-performing leaders, link pay to sustained long-term REI performance, and foster a pay-for-performance culture. The LTIP covers a select group of key management employees (including all NEOs).

Annually, the committee reviews and approves the performance metrics, metric weightings, and financial goals at the beginning of a new LTIP performance cycle. The company’s long-term strategic plan, which is reviewed and approved by the board, is used to help set metrics and related goals in addition to consideration of general retail market expectations. The committee also approves the three-year results and related payouts under the LTIP following the completion of a performance cycle.

The LTIP is measured over a three-year performance period with a new performance cycle starting each year. This results in overlapping performance cycles and creates a sustained performance focus, maximizes our ability to motivate and retain participants and facilitates review and changes, as appropriate, in eligibility or the performance goals. Payouts typically occur in March following the conclusion of each respective performance period.

Each year, REI’s financial and strategic goals are taken into consideration when determining the LTIP’s performance metrics and goals. The 2016-2018 performance metrics were return on capital and revenue growth equally weighted at

50% each. We believe that a balanced focus on the efficient use of capital and revenue growth provides a strong indicator for REI's long-term success and sustained performance. Each metric has a threshold, target, and maximum performance level. For the 2016-2018 performance cycle the return on capital threshold was 19%, target performance was 22%, and the maximum was 24%. For compound annual revenue growth, the threshold was 3%, target performance was 7%, and the maximum was 10%. The award payout levels (as a percent of target) associated with the threshold, target and maximum performance levels were 25% (threshold), 100% (target) and 200% (maximum) and actual results are interpolated between these points on a straight-line basis for performance falling within the range.

The two performance metrics are evaluated separately and if actual performance over the three-year measurement period on either metric falls below threshold, no payouts will occur.

### **2016-2018 Long-Term Incentive Plan (LTIP)**

**The Long-Term Incentive Payout Modifier was determined based on the following results:**

<b>Metric Description</b>	<b>Metric Weighting</b>	<b>Plan</b>	<b>Actual Results</b>	<b>Actual Performance vs. Plan</b>	<b>Payout Modifier</b>
Return on Capital	50%	21.70%	20.50%	94.5%	64.1%
Revenue Growth	50%	6.20%	4.72%	76.1%	65.3%
<b>Combined Weighting / Payout Modifier</b>					<b>64.70%</b>

### ***Retirement and Profit Sharing Plan***

The REI Retirement and Profit Sharing Plan (the "RPS Plan") is a qualified plan governed under ERISA and is intended to provide all eligible employees with the opportunity to save for retirement through the RPS Plan on a voluntary basis. There are specific eligibility requirements for participation in the RPS Plan. Under this plan, REI provides a retirement contribution equal to 5% of a participant's eligible earnings, plus an additional profit sharing contribution of up to 10% of eligible earnings based on the company's performance. These two components are funded 100% by REI. For the 2018 fiscal year, REI funded a total of 9% of eligible employee earnings into the RPS Plan (5% retirement and 4% profit sharing). The annual profit sharing component is reviewed at the conclusion of the fiscal year by the committee and approved by the board of directors. In addition, all employees are eligible to defer a portion of their Summit Plan payout to the RPS Plan in accordance with IRS annual limits.

### ***Compensation Recovery Policy***

In November 2016, our board adopted a compensation recovery policy effective January 1, 2017, which covers our executive officers at the Senior Vice President or above levels. Under this policy, if we are required to prepare an accounting restatement to correct an accounting error on an annual audited financial statement due to material noncompliance with any financial reporting requirement, or a restatement, and if the board or a committee of independent directors concludes that our CEO, CFO or any other executive officer received a variable compensation payment under our annual Summit Plan or LTIP that would not have been payable if the original annual financial statements reflected the restatement, then under the compensation recovery policy our CEO, CFO and other executive officers will be required to disgorge the net after-tax amount of that portion of the variable compensation payment that would not have been payable if the original annual financial statements reflected the restatement.

**REI's HIGHEST COMPENSATED EXECUTIVES <sup>1</sup>**  
**Year Ending December 31, 2018**

Name and Title	Year	Base Pay <sup>2</sup>	Annual Incentive Plan <sup>3</sup>	Long-Term Incentive Plan <sup>4</sup>	REI Retirement & Profit Sharing Plan <sup>5</sup>	Deferred Compensation Plan of 1990 <sup>5</sup>	Other Allowances <sup>6</sup>	Total
Jerry Stritzke <sup>7</sup> Former President & CEO	2018	\$850,000	\$1,314,949	\$989,910	\$24,750	\$51,750	\$10,800	\$3,242,159
	2017	\$850,000	\$817,700	\$1,047,908	\$24,300	\$52,200	\$10,800	\$2,802,908
	2016	\$850,000	\$871,845	\$1,340,770	\$23,850	\$52,650	\$10,800	\$3,149,915
Eric Artz <sup>8</sup> Executive Vice President Chief Operating Officer	2018	\$620,100	\$590,336	\$340,457	\$24,750	\$31,059	\$5,640	\$1,612,342
	2017	\$620,100	\$367,099	\$385,024	\$24,300	\$31,509	\$5,640	\$1,433,673
	2016	\$617,008	\$389,455	\$523,123	\$23,850	\$31,681	\$5,640	\$1,590,757
Tracie Winbigler <sup>9</sup> Senior Vice President Chief Financial Officer & Treasurer	2018	\$461,250	\$301,888	\$162,596	\$24,750	\$16,762	\$5,640	\$972,886
	2017	\$459,519	\$170,022	\$128,036	\$24,300	\$17,057	\$5,640	\$804,574
	2016	\$450,000	\$177,525	\$94,479	\$23,850	\$16,650	\$5,640	\$768,144
Ben Steele <sup>10</sup> Executive Vice President Chief Customer Officer	2018	\$426,909	\$305,500	\$147,849	\$24,750	\$13,672	\$5,640	\$924,320
	2017	\$396,600	\$146,742	\$150,039	\$24,300	\$11,394	\$6,360	\$735,435
	2016	\$369,785	\$145,880	\$139,758	\$23,850	\$9,431	\$5,640	\$694,344
Susan Viscon Senior Vice President Merchandising & Co-op Brands	2018	\$405,822	\$265,610	\$140,435	\$24,750	\$11,774	\$5,640	\$854,031
	2017	\$395,634	\$146,385	\$154,274	\$24,300	\$11,307	\$5,640	\$737,539
	2016	\$382,480	\$150,888	\$196,018	\$23,850	\$10,573	\$5,640	\$769,449

<sup>1</sup> This summary reflects the pay of the co-op's President & CEO, two Executive Vice Presidents, and two Senior Vice Presidents during the calendar years shown. Information reported in this table includes all base pay, annual incentive awards, long-term incentive awards and other cash compensation paid to each of the named officers.

<sup>2</sup> Base pay reflects actual employee earnings from regular base salary and vacation, sick, holiday and sabbatical pay during the calendar years shown including any special base pay stipends paid during the three year period. Annual salary increases include merit and market adjustments. 2018, 2017 and 2016 included 26 paychecks within the calendar year.

<sup>3</sup> The annual incentive plan (Summit Incentive Plan), is a performance based plan which includes sales and operating profit performance metrics. Targets in the Summit Incentive Plan are consistent with the Company's pay-for-performance philosophy and focus the leadership team on the Company's short-term or annual performance. The awards for 2018, 2017, and 2016 reflect the Company's annual performance over those periods.

<sup>4</sup> 2018 values for the Long-Term Incentive Plan reflect awards for the 2016 - 2018 performance period. Payouts represent below target performance in three-year return on capital and above target performance in three-year revenue growth for the period from January 2016 through December 2018. Targets in the Long-Term Incentive Plan are consistent with the Company's pay-for-performance philosophy and focus the leadership team on the Company's long-term performance. The awards for the 2015 - 2017 and 2014 - 2016 three-year cycles reflect the Company's performance over those three-year periods.

<sup>5</sup> For 2018, a 9% contribution was awarded for all eligible employees under the Retirement and Profit Sharing Plan. The Plan allows for up to a 15% contribution of eligible earnings, based on Company profitability. A 9% contribution was awarded in 2017 and a 9% contribution was awarded in 2016. IRS Compensation Limits for contributions to the Retirement and Profit Sharing Plan are observed for all employees. These limits cap the amount the Company can contribute to the Retirement and Profit Sharing Plan for certain officers. For an officer with base salary earnings in excess of the IRS Compensation Limits, the Company applies the Retirement and Profit Sharing contribution percentage to the earnings above the IRS Compensation Limits and contributes the resulting amount to an account in the officer's name under the Company's Deferred Compensation Plan of 1990. The combination of Company contributions to an officer's Retirement and Profit Sharing Plan account and Deferred Compensation Plan of 1990 account results in the same percentage contribution provided to any eligible employee who is not affected by IRS Compensation Limits.

<sup>6</sup> Other Allowances consist of a monthly allowance for car expenses and a communication device.

<sup>7</sup> Mr. Stritzke's 2018 compensation, detailed in this report, reflects 2018 earnings as President and CEO. Effective March 2019, Mr. Stritzke resigned as President and CEO. He is no longer an active employee of REI.

<sup>8</sup> In February 2019, Mr. Artz was named Interim President and CEO. His 2018 compensation, detailed in this report, reflects 2018 earnings as Executive Vice President, Chief Operating Officer

<sup>9</sup> Ms. Winbigler received a relocation reimbursement of \$27,521 in 2016 per the terms of her offer letter not shown in the table. Ms. Winbigler received a sign-on bonus of \$175,000 in 2016 as part of her offer letter not shown in the table.

<sup>10</sup> In August 2016, Mr. Steele received a spot bonus award of \$50,000 not shown in the table. In September 2018, Mr. Steele received a promotion to Executive Vice President, Chief Customer Officer.