



2022

CO-OP PURPOSES REPORT

PART TWO: FINANCIALS



COMMUNITY
MARKETS

LETTER FROM THE BOARD CHAIR

May 16, 2023

Dear Co-op Community,

I write to you as your newly appointed [PCC Board of Trustees](#) Chair for 2023. The Board's role is to provide critical oversight of and assistance to the co-op's Leadership Team in setting and achieving PCC's goals. This includes participation in annual financial planning and budgeting; developing strategic, environmental, and social goals; and ensuring that the co-op lives our vision, mission and values.

In 2016, we began publishing an annual Co-op Purposes Report to describe PCC's impact relative to our triple bottom line priorities. Beginning this year, we divided the Co-op Purposes Report into two volumes. [Part One: Responsible Sourcing, Regenerative Operations, and Community Food Systems](#) was published on April 20, 2023, and focuses exclusively on PCC's community, standards and environmental impact in 2022. Part Two (which you are reading now) details the co-op's 2022 business and financial performance, membership trends, and insights into our compensation philosophy and structure.

As part of our financial oversight responsibilities, the Board sets strategic goals for the co-op's triple bottom line of financial performance, social and community contributions, and environmental stewardship. The Board reviews and ultimately approves PCC's annual operating budget and subsequently monitors actual spending and performance in relation to that financial plan.

2022 was another fiscally challenging year for the co-op. We began the year with the reality of an unpredictable economic environment, an expectation of improving sales and a return to post-pandemic shopping behavior. We built a financial budget that honored our triple bottom line across people, planet and profit, and simultaneously planned for headwinds — only some of which we could anticipate.

We ended the year with an operating loss of nearly \$250,000, well short of our expectations. We delayed opening Downtown PCC by over a year in recognition of the general conditions in the area following the onset of the pandemic. As required by our lease that was signed in 2018, we opened in January 2022. Despite excellent store conditions and a dedicated and creative team, that location is significantly underperforming our original goals. While we are appreciative of

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“Each day, we face choices and challenges that are far more complex than conventional grocers. We are also equally grateful to be guided by an unwavering commitment to our triple bottom line.”

ANGELA OWEN, BOARD CHAIR,
PCC BOARD OF TRUSTEES



the City's ongoing efforts to improve conditions in Downtown Seattle, businesses have been slow to return to their offices and the area is far from recovered. As a result, we are also extremely cautious about our near-term expectations there. Ongoing inflation in food prices and a volatile economic climate further hurt the co-op's 2022 sales performance. On the cost side, we incurred \$5.3 million in additional COVID-19 related expenses; much of this stemmed from ongoing city ordinances governing hazard pay for grocery workers in Seattle, Edmonds and Burien. We know these ordinances were essential during the pandemic, yet it was not possible for the co-op to absorb the expenses associated with them and remain profitable.

Throughout 2022 the co-op
was happy to provide nearly
\$2.6 MILLION
in total member benefits,
including 32 in-store offers
on quality seasonal products.

In keeping with the co-op's bylaws, any potential patronage dividend paid to members must come from net income generated by sales to members. The Board then determines if a dividend can be issued based on the co-op's financial results and the needs of the business.

Due to the co-op's operating loss and, therefore, the lack of any member net income in 2022, we are unable to issue a patronage dividend for the year. We deeply regret this, knowing that a dividend is one of many reasons why members shop at PCC.

Beyond the dividend potential, members have access to special offers, events and discounts with partners from a selection of local, like-minded businesses. Throughout 2022 the co-op was happy to provide nearly \$2.6 million in total member benefits, including 32 in-store offers on quality seasonal products. We hope you were able to take advantage of some or all of those offers. It is something we are doing more of in 2023.

Unfortunately, these financial results reflect the economic and social environment in which we find ourselves. I want to emphasize that, during these challenging times, PCC did not close any stores or lay off any store staff, in large part because we believe that some decisions should be guided by more than just financials.

Successfully operating a purpose-driven, independent food co-op at this scale has both stretched and fortified us over the last two years. Each day, we face choices and challenges that are far more complex than conventional grocers. We are also equally grateful to be guided by an unwavering commitment to our triple bottom line.

Despite these recent challenges, all 11 of us on the Board of Trustees feel extremely positive about PCC's future and the Leadership Team's strategic plans to improve sales and control expenses, as we mark the co-op's 70th birthday in 2023. We will celebrate our seven decades serving the Pacific Northwest community with a special focus on our members, including expanded partner perks, member-only offers and events, and the first annual Member Month in October!

My heartfelt thanks to each one of you — for shopping your values at our 16 stores, for the kindness and support you show our staff members when you visit, and for your regular engagement with the co-op. Most of all, thank you for demonstrating that an important element of co-op values is that we stick together, in good times or challenging times.

Please read on to meet the co-op's new Chief Financial Officer Chris Naismith (page 4), peruse the membership update (page 6), understand the compensation structure and philosophy (page 8), and review the 2022 financial statement (page 14). As always, continue sharing your ideas, comments and input at pccmarkets.com/contact-us.



Angela Owen
Board Chair, PCC Board of Trustees

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**MEET
CHIEF
FINANCIAL
OFFICER
CHRIS
NAISMITH**



Chris Naismith joined PCC Community Markets in late 2022 as Chief Financial Officer. Her addition to the co-op solidified a Leadership Team that is two-thirds represented by women, guiding PCC into the future with a newly defined three-year strategic plan that furthers our vision, mission and values.



Chris is a seasoned business leader with more than three decades of experience in consumer retail for both public and privately held companies. She started her career in public accounting and went on to hold CFO or senior finance leadership roles at well-known brands and retail companies, including the Walt Disney Company, Gap Inc., Williams Sonoma, Microsoft and Sur La Table, garnering a diverse set of skills and experience along the way.

Chris currently sits on the board of ZoomCare, and previously sat on several nonprofit boards, including serving as a Director at Samaritan House and as Chairperson at Mills-Peninsula Hospital. She earned her CPA and is an alum of Deloitte. A graduate of Loyola Marymount University, Chris holds her bachelor's in accounting.

In her role at PCC, Chris oversees all financial and accounting operations, banking relationships, business planning and analysis, and strategy development. She is already a trusted strategic advisor to PCC's Leadership Team and Board of Trustees, and we know our members will enjoy learning more about the co-op's CFO, her expertise, and what she is contributing to PCC's triple bottom line and our shared commitment to economic, social and environmental responsibility.

Why PCC Community Markets?

I am at a point in my life and career where I am keenly focused on positively impacting change. I am at PCC not just to manage profitability but to also help drive the revenue that funds the purpose-driven work of the co-op.

My husband was previously the head of operations and strategic planning for one of the largest food banks in the country; through his work I became deeply aware of food insecurity. In my various roles, I have always been passionate about finding ways that I could contribute to support this cause. Food insecurity is about so much more than access and affordability. It has significant consequences across families and communities. I have witnessed the power of purpose-driven organizations to have significant impact, and that's why I am at PCC.

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How does PCC's triple bottom line guide your work?

I've always admired PCC for its quality as well as its focus on the triple bottom line of people, planet and profit. Unlike other grocery stores, we invest our profits directly back into our staff, our members, our stores and the communities we serve. We don't use private equity, venture capital or the stock market to fund our business, which allows us to remain committed to a triple bottom line.

Always anchoring our decisions in those three Ps is what ensures the enduring longevity of the co-op. We don't cut corners, quality or standards for short-term profits. The co-op, our staff, our members and our broader community weathered incredible challenges during the pandemic. There have not been any reprieves as inflation and economic uncertainty continue to challenge us. The last three years truly tested PCC's commitment to equally balancing environmental, social and economic goals, but they also affirmed that devotion.

I believe in PCC's cooperative values and our purpose-driven approach to business. I feel deep honor and responsibility to steward the financial health of the co-op towards our vision into 2023 and beyond. I am focused on strategies to drive the business and manage cash while sensibly reducing costs and shrink and eliminating waste.

Optimizing profits will stabilize the co-op and fund our mission: to ensure that good food nourishes the communities we serve while cultivating vibrant local, organic food systems.

You are passionate about furthering women's professional development through mentorship. What does that look like at PCC?

The gender gap in the finance industry is partly a product of women leaders lacking mentors. We have a real opportunity to not only provide role models and guidance to emerging women in finance, but to be inclusive as we solve problems and build strategy. Not only is this good for the individuals, but it's great business because our co-op benefits from diverse perspectives.

Within my department at PCC, this means ensuring we hire and develop staff from a wide range of backgrounds and industries. For example, our new controller brings a wealth of accounting experience with her to the co-op. In addition, numerous co-op office staff have transitioned from careers in PCC stores. I'd love to continue this focus on creating opportunities for store staff that are interested in a finance career track.

There may be other opportunities for our finance team to support our co-op's purpose work and, specifically, provide financial training for PCC partners such as nonprofits, suppliers and the local business community. It's exciting to think about the range of possibilities, given PCC's strong legacy and unique model.

It is also rare and special to have a leadership team like PCC's that is two-thirds women. Personally, I am proud to be on this team and looking forward to finding new ways to be intentional about the development of women in every part of our co-op.

How are you expanding financial training and transparency for staff?

Money, budgets and finance can be a really intimidating subject matter to many people. One of the things I enjoy most is demystifying business to make finance more understandable and approachable.

Providing staff with information and training about the co-op's sales and business performance creates a culture of financial trust and confidence. At the end of 2022, we translated the co-op's expenses into a single dollar bill visual representation that made it easier for staff to understand how much we spend on each item in our budget. We are also adding financial training sessions for store directors with the intention of sharing that with Persons in Charge (PICs) and department leaders in 2023. Normalizing financial literacy and transparency make it possible for staff to use that know-how in their everyday work.

Simultaneously, I am also learning from our staff! My time with retail houseware brands like Williams Sonoma and Sur La Table have been solid foundations as I transition to working in food with PCC. I'm spending a lot of time in our stores to learn more about how operations work and how small changes in everyday activities at the stores can translate into big financial impact as we work together to not only grow the co-op, but to improve the overall profitability of the co-op and invest in our mission.

MEMBERSHIP UPDATE

As a PCC member, you are part of a like-minded community that aligns with the co-op's vision to inspire and advance the health and well-being of people, their communities and the planet.

We aren't just committed to our community — we're owned by it. When you're a PCC member, every dollar you spend at the co-op goes towards not only fresh and flavorful food, but also to taking care of our community and working toward a socially and environmentally responsible food system for everyone.

In 2022, our co-op welcomed over 12,000 new members, growing membership by 8%. With over 110,000 members, including almost 1,800 staff, you are part of something that is much bigger than a shopping trip at PCC. Thank you for being part of this membership community and for keeping our co-op keenly focused on who we are, what we do and why we do it.

We redesigned the co-op's member program in 2020 to engage more of our community. Members gained access to special offers, events and partner discounts from a selection of local, like-minded businesses, as well as the potential opportunity to receive a dividend when the co-op is profitable.

Throughout 2022 the co-op was happy to provide nearly \$2.6 million in total member benefits, including 32 in-store offers on quality seasonal products. We hope you take advantage of those offers. It is something we are doing more of in 2023!

8% GROWTH

More neighbors are buying into a better food future, making our membership over 110,000 Northwesterners strong.

5,176 VOTES

Our [2022 Annual Election](#) garnered a voting rate of nearly 5% of our membership.

65% SHOPPED MONTHLY

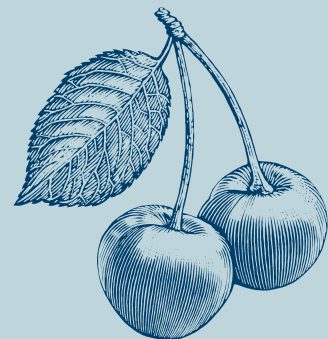
Close to two-thirds of our active members shopped our co-op on a monthly basis.

\$250 IN MEMBER OFFERS

Enhancing our member-only offers resulted in an annual value that is four times the cost of our one-time \$60 membership fee.

7 VIRTUAL EVENTS

Members gathered online to discuss a wide range of topics, such as salmon recovery, Washington wine, local makers and [PCC branded products.](#)



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DIVIDEND UPDATE

Active PCC members are eligible to earn an annual dividend if member operating net income (the profit generated specifically from member purchases) is available and a dividend is approved by the PCC Board of Trustees. Each year, the Board reviews both the co-op's financial results and the needs of the business to determine if a dividend will be issued for the prior fiscal year and, if so, the size of the dividend. Any dividend declared by the Board is calculated as a percentage of total member-eligible purchases. The same percentage applies to each member's individual eligible purchases.

As a result of the co-op reporting a net operating loss for 2022, and the lack of member operating income throughout the year, we deeply regret that we are not able to issue a patronage dividend for 2022. Please read the letter from PCC Board of Trustees Chair, Angela Owens, at the beginning of this report for explanation of why the co-op was not profitable in 2022. To learn more about how a dividend is determined, view [our infographic](#) detailing the process.

Thank you for standing by our side during the pandemic and as we work through the current economic climate.

CELEBRATING 70 YEARS IN 2023

2023 is a year to reflect on the co-op's legacy and chart our path for the future. Participating in our mission has long been a deeply meaningful way to invest in the Pacific Northwest's community food systems while also putting high-quality food on the table. Our members have contributed immeasurably to keeping the co-op focused on our shared priorities. As we celebrate what we've accomplished together, we express our deep gratitude to our community and reiterate our commitment to feeding it well for the next seven decades and beyond. Whether you're a lifelong co-op member or new to our community, join us in celebrating you and [all that we've done together over the years](#).

EXPANDED MEMBER PERKS

PCC's community stretches beyond our staff, members and shoppers. It also includes the farmers, fishers, bakers and

makers whose products fill our shelves, and other businesses in the neighborhoods we serve. The PCC Partner Program offers co-op members deals and discounts with local businesses that share our values. The program tripled in 2023 with more perks for members than ever! From local arts and culture institutions to fitness studios and wineries, [this list of PCC partners](#) is abundant with free items and discounts available across the Puget Sound region.

Moreover, PCC members can look forward to special offers every other week. The co-op has planned for about \$3 million in special, member-only offers in 2023! Members who activate these offers have the potential to enjoy more than \$250 in annual value — that's four times the lifetime fee of \$60 to become a member.

OCTOBER IS MEMBER MONTH!

October will be devoted to thanking the co-op's active members with our first-ever Member Month, which will center around our shared passions of food and community. We'll surprise and delight with member-only offers and giveaways as we celebrate the collective impact of our members over the past 70 years.

MORE TIME TOGETHER

As the world passes the third anniversary of the COVID-19 pandemic, we're delighted to safely rediscover the joy of time together in shared spaces. 2023 and PCC's anniversary are the perfect opportunity to invite our shoppers and members back into stores for more than just your weekly grocery shop. Join us for [events](#) throughout the year that celebrate the seasons, spark conversation about local food systems, and create connections that support our local communities.

PCC'S STAFFING GOALS, COMPENSATION STRUCTURE AND PHILOSOPHY

PCC is the nation's largest retail grocery cooperative and, as such, is guided by cooperative principles, including openness, transparency and accountability. In the spirit of those principles, the Management Development and Compensation Committee (MDCC) of PCC's Board of Trustees is providing the following disclosures about PCC's staffing goals, compensation philosophy and structure.

As of January 1, 2023, PCC had 1,807 total employees. When discussing PCC's compensation structure for our staff, it's easiest to break the total co-op staff into three distinct compensation groups:

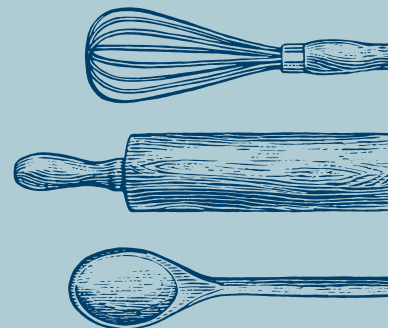
- Unionized store staff, which consists of 1,566 people or 87% of total staff.
- Non-union staff, which consists of 241 people or 13% of total staff, including office staff and store managers.
- Managerial staff, which consists of 111 people or 6% of the total staff. This group includes both store management — the Store Directors, Assistant Store Directors and Deli Managers of each store — and the co-op's CEO, Leadership Team (including the Chief Financial and People Officers, Senior Vice President of Merchandising, and the Vice Presidents of Operations, Marketing + Purpose, Information Technology, Store Development and Legal) and other bonus-eligible office staff in supervisory roles.

STAFFING GOALS AT PCC

PCC seeks to attract and retain competent, qualified and diverse staff in our stores and office. PCC looks for employees who are passionate about the products PCC sells and our social and environmental goals, including advancing the health and well-being of people, and providing support for our vendors and the communities we serve. We are working toward being an employer of choice and the best grocery employer in the Pacific Northwest by offering fulfilling and robust career opportunities.

Compensation is just one piece of PCC's attractiveness as a place to work. Our culture; our continuing commitment to diversity in our workforce; our mission to ensure that good food nourishes the communities we serve and to cultivate vibrant local, organic food

One indicator of success PCC has in attracting and retaining our team is reflected in an average tenure of 6.92 years for staff of all levels. More than 88% of PCC's staff are full-time employees.



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systems; the support we provide to our local communities, farmers and product suppliers; and our commitment to the environment make PCC unique and help us attract and retain dedicated, capable staff.

Hiring and Retention

In 2021 and 2022, during the COVID-19 pandemic, as at other employers in the Seattle area, hiring and retaining qualified staff at PCC became considerably more challenging. Prior to the onset of the pandemic, PCC's open position rate (the number of jobs for which PCC was recruiting at any one time) averaged about 80 positions; during 2021 and 2022, that rate increased to a high of 190 positions in mid-2022. To improve hiring and retention rates, PCC instituted new programs to bolster our attractiveness as an employer in the Seattle metropolitan area, including \$300 referral and hiring bonuses; the PCC Learning Fund, encouraging employees to take in-store online training programs to advance skills and knowledge in their role; more frequent staff recognition and anniversary bonuses; and the addition of an on-call translation service to assist with communication between store management, staff and Human Resources. The success of these programs, coupled with increases in the numbers of people looking for employment, dropped PCC's open position rate to 50 positions in the first quarter of 2023. In late 2022, PCC conducted an all-staff engagement survey to identify areas needing improvement and, throughout 2023, we will be working with staff to address those issues identified.

Median Tenure at PCC

One indicator of the success PCC has in attracting and retaining our team is reflected in the tenure of PCC staff at all levels. More than 88% of PCC's staff are full-time employees. While the median tenure of food service workers nationally declined again from 1.9 years in 2021 to 1.6 years in 2022, the median tenure of unionized PCC store staff is 2.5 years, and the average tenure is 4.9 years. The tenure of office and managerial staff together at PCC increases the overall average tenure of all employees at PCC to 6.92 years.

PCC as a Career

PCC provides career opportunities for store and office staff to advance to higher level positions within the co-op. To ensure staff are successful, PCC provides a variety of position-specific and general training programs and offers classes to strengthen other skills needed for advancement. PCC reimburses staff for the cost of English Learner (ELL) courses and, as part of the PCC Learning Fund, provides up to \$1,000 per staff member per year for the costs of classes. In 2023, PCC will be rolling out a training program for staff interested in pursuing a career in Deli Management Leadership, with additional training and growth paths to be developed and rolled out in the future.

PCC's success in offering career opportunities is reflected in the following statistics: In 2022, 67% of our open store management positions were filled by promotions of internal candidates, and 34% of our office staff started their careers at PCC stores.

Justice, Equity, Diversity and Inclusion Initiatives at PCC

PCC continues to prioritize strengthening our commitments and efforts toward Justice, Equity, Diversity and Inclusion (JEDI) to improve our culture of learning, compassion and inclusion and to make the co-op an employer of choice with fulfilling career opportunities. A comprehensive discussion of our JEDI program can be found in the Co-op Purposes Report, [*Part One: Responsible Sourcing, Regenerative Operations, and Community Food Systems*](#). The co-op is focusing on creating better access to job opportunities for Black, Indigenous and People of Color and LGBTQIA+ candidates, and is continuing to train our staff on JEDI principles and practices to better workplace experiences and increase staffing and retention.

COMPENSATION PHILOSOPHY

PCC's overall compensation philosophy is to offer total compensation (wages, benefits and incentive pay) that is at or above the median compensation within the grocery industry and the Puget Sound region in which our stores and office operate. This

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means that prevailing compensation levels in the broader Seattle market are an important factor in how PCC establishes wages and benefits for all employees. Compensation philosophy, the components of compensation at PCC, and how the philosophy is applied are overseen by the MDCC on behalf of the Board of Trustees. How compensation is set and the elements of compensation differ between our unionized store staff, managerial staff (including non-union store management) and office staff, as outlined below.

Elements of Compensation at PCC

In addition to wages, the various compensation groups (unionized, office and managerial staff) receive or can elect to receive certain benefits that are a part of PCC's overall compensation packages. Each group receives additional benefits that are unique to that group (outlined in the group-by-group discussions below). The shared benefits include a 15% discount on all PCC purchases made by staff or members of their household. In 2022, the aggregate amount of staff discounts given was \$1.3 million. All staff also receive a free membership to the co-op for the duration of their employment, which entitles them to the same benefits received by other members, such as free "surprise and delight" offerings, special discounts through member-only deals and, if approved by the Board of Trustees, a patronage dividend based on their annual purchases. All staff are eligible for the PCC Learning Fund (described above), and have access to free counseling sessions, financial advice and family services through PCC's Employee Assistance Program.

All full-time staff and their dependents also are eligible to participate in PCC's medical, dental and vision plans (MDV) at premiums that are heavily subsidized by PCC. Because of a 14% overall increase in the cost to PCC to provide MDV coverage for staff in 2022, the MDV premium paid by staff in 2023 was increased for an individual staff member from \$25 per month to \$34 per month. Those who enroll in MDV coverage also receive short- and long-term disability coverage and life insurance at no additional cost. The MDV coverage PCC offers is generally broader than equivalent coverage offered to other regional grocery employees through union-sponsored medical plans.

Additionally, PCC subsidizes a greater portion of the monthly premiums, so the cost to our store staff is equal to or lower than the cost of coverage offered to other unionized grocery employees in the region. The approximate value of PCC's MDV coverage to an individual staff member who enrolls is estimated at \$7,500 per year, with the value of coverage for a family estimated at double that amount. All staff may also participate in a subsidized bus pass program for a nominal monthly fee of \$9.33.

Overall Compensation

PCC bargains separately from other unionized grocers in the region because it allows PCC to provide a more robust benefits package to our unionized staff than is offered by the regional union contract. However, PCC is at a disadvantage to the other grocers because our bargaining cycle currently lags 19 months behind theirs. In mid-2022, the other unionized grocers renegotiated pay scales and, since then, PCC believes that, on average, some of our current wage scales for store staff are slightly below for the contract term (though our benefits packages are above median in value to staff). Based on recent compensation studies, overall compensation for the co-op's office staff is currently at the median for comparable positions in the Puget Sound region.

The following is a discussion of the unique compensation elements offered to or received by the three staff groups outlined above:

Unionized Store Staff

Unionized store staff are members of the United Food and Commercial Workers Union (UFCW 3000) and are compensated in accordance with collective bargaining agreements negotiated between PCC and the UFCW 3000 and ratified by our unionized staff. While, in the past, PCC generally paid a higher wage than other grocers in the region, following the renegotiation of the pay scales for the region's largest grocers in mid-2022, PCC store staff hourly wage rates are slightly lower than wages negotiated by much larger unionized grocers in the region.

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In 2022,
67% of our
open store
management
positions
were filled by
promotions
of internal
candidates,
and 34% of
our office
staff started
their careers
at PCC stores.

In addition to the wages called for under PCC's collective bargaining agreements and the benefits provided to all PCC staff as outlined above, PCC provided hourly store staff with the following additional elements of compensation:

- \$150 "thank you" gift card bonuses in December 2022.
- Contributions to staff pension plans administered by UFCW 3000 in 2022 – total aggregate contributions to staff pension plans were \$4.7 million, or about \$2,900 per staff member.
- Recognition bonuses (amounts vary based on length of service) for milestone work anniversaries. In 2023, PCC will increase the amount of recognition bonuses, and expand the program to offer recognition bonuses for staff at their one-year employment anniversary.

Moreover, during 2020, 2021 and 2022, PCC paid an aggregate of \$16 million in hazard and quarantine pay, including associated benefits and taxes, primarily to our unionized store staff. The hazard and quarantine pay were paid as follows:

- In 2020, \$1.5 million in total hazard pay, representing a \$2/hour wage increase for all unionized hourly store staff over a four-month period.
- In 2021, \$8.1 million in total hazard pay, representing:
 - A \$4/hour wage increase for all unionized hourly store staff (including 15 stores) from February through June 2021.
 - A \$4/hour wage increase for unionized hourly store staff at 11 stores located in Seattle, Burien and Edmonds, from July through December 2021.
- In 2022, \$5.3 million in total hazard pay, representing a \$4/hour wage increase for unionized hourly store staff at the 11 stores identified above from January 1 through September 2, 2022.
- From 2020 through 2022, quarantine pay aggregating a total of \$1.1 million, paid as follows:
 - From March 2020 through March 2022, 10 days of paid quarantine pay for any PCC staff member with a positive PCR test for COVID-19.
 - From April 2022 through September 2022, five days of paid quarantine pay for any PCC staff member with a positive PCR test.

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Office Staff

PCC's office staff (which includes both managerial and non-managerial staff in the Finance and Accounting, Executive, Human Resources, Information Technology, Legal, Marketing + Purpose, Merchandising and Store Development departments) are primarily salaried employees. In addition to wages, in the past year, PCC provided all office staff with the following elements of additional compensation:

- Contributions of 5 to 8% on behalf of staff to PCC's 401(k) Retirement Plan (whether or not the staff member contributes). In 2022, total aggregate contributions were \$1.2 million or about \$6,200 per staff member.
- \$150 "thank you" gift card bonuses in December 2022.
- Recognition bonuses (in varying amounts, based on length of service) described above for milestone work anniversaries.

Managerial Staff

Managerial staff include PCC's CEO and Leadership Team, Store Directors, Assistant Store Directors, Store Deli Managers and bonus-eligible office staff with supervisory responsibilities. Managerial staff are salaried and not eligible for overtime compensation, but receive the same elements of additional compensation, identified above, as unionized and office staff.

PCC competes with other employers in the Seattle market, including larger national grocers and locally based technology companies, for talented managerial staff. Larger competitors routinely offer stock, stock options or long-term equity-based compensation as part of their overall compensation packages, which can represent significant additional compensation value to recruited employees. PCC, as a cooperative, does not have the ability to offer equity-based compensation, so several years ago, the Board of Trustees implemented a bonus plan for PCC to use in recruiting managerial talent. Management determined that the bonus

plan did not effectively incentivize staff to achieve the co-op's financial goals, nor did it recognize achievement of personal goals and, as a result, in 2022 the Board of Trustees approved a new Short Term Incentive Program (STIP), effective as of January 1, 2023. With this new bonus plan, eligible managerial staff may earn a percentage of their base compensation if PCC achieves certain co-op wide financial targets set by the Board of Trustees and, where applicable, if they achieve store or departmental financial performance metrics. In addition, a participant can receive a small percentage of base compensation in bonus upon the achievement of individual performance goals agreed to at the commencement of each year by the participant and their supervisor.

CEO Compensation

PCC's operations and business are overseen by our Leadership Team, which is in turn supervised by the co-op's Chief Executive Officer, Krishnan Srinivasan. Mr. Srinivasan also sits on the co-op's Board of Trustees, participates in all Board and committee meetings (see Board of Trustee Compensation below for a description of meeting obligations), and serves as the primary liaison between the co-op and other local businesses, governmental and community leaders, and PCC members. Mr. Srinivasan receives or may elect to receive the same additional compensation benefits made available to all office and managerial office staff. Mr. Srinivasan was hired as the CEO of PCC in January of 2022, and his annual base salary was set by the Board of Trustees. Based on several national and Pacific Northwest executive compensation studies, Mr. Srinivasan's base salary is approximately 85% of the median base salary (not including equity compensation such as stock or stock options, a standard piece of executive compensation which PCC does not offer) for CEOs of similarly sized companies, and his total compensation package (base salary together with maximum bonus potential) is approximately 76% of the compensation of CEOs of similarly sized companies. His base salary is also lower than his most recent predecessors in the role.

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In 2022, Mr. Srinivasan's annual base salary, as set by the PCC Board of Trustees, was \$500,000, and he had the opportunity, conditioned upon PCC's achievement of certain financial goals established annually by the Board of Trustees, to earn a bonus of up to 55% of his base salary. The co-op did not achieve all its financial goals in 2022 and bonuses were reduced to 50% of the target amount. However, at Mr. Srinivasan's request, he did not receive a bonus for 2022. Mr. Srinivasan's salary for 2023 remains unchanged at \$500,000. Mr. Srinivasan does not receive additional compensation for his participation as a trustee on the PCC Board of Trustees.

Board of Trustees Compensation

PCC's Board of Trustees oversees the setting of strategic financial, social and environmental goals for the co-op and monitors performance to such goals. The Board is made up of 11 members: eight "outside" trustees (i.e., not employed by PCC); two trustees who are store staff members; and PCC's CEO, who is an ex officio (automatically appointed) member of the Board. The Board has three standing committees, each with either three or four trustees as members, to whom the Board has delegated the oversight on specific areas of PCC's business. Trustees are recruited to the Board based on the Board's annual assessment of the skills, backgrounds, diversity and experience needed to guide PCC's complex business and growing organization. Trustees participate in a minimum of six to seven full-day Board meetings each year and each Trustee sits on at least one committee, each of which holds an additional five or more one- to two-hour committee meetings each year. Trustees are provided with a substantial amount of written materials and financial statements to be reviewed in advance of each Board and committee meeting in preparation for discussion. Trustees may be called upon to participate in special task forces formed from time to time, as well as participate in interviews of candidates for the Board or the Leadership Team, and events with members and staff. Trustees are expected to provide advice and guidance upon request to management throughout the year.

PCC competes with other businesses in the Seattle area for qualified and competent individuals willing to devote the time and effort required to serve on our Board of Trustees. Other businesses generally offer directors on their boards a mix of cash and equity-based compensation (generally stock or stock options) as consideration for their service on the board. PCC, being a cooperative, cannot offer equity-based compensation to those who serve on our Board of Trustees. Therefore, in recognition of the considerable duties, time and effort trustees commit to PCC, all trustees other than the CEO (who receives no compensation for his participation on the Board and its committees) receive a stipend of \$30,000 per year for their service to the co-op. In recognition of the additional time and effort required to fulfill the duties of the chairperson, the chair of the Board receives an additional \$12,500 stipend per year, and the chairs of the three standing committees each receive an additional \$7,500 per year for their services. The Board and committee chair roles rotate every few years.

Based on a 2022 third-party compensation study of board compensation levels from similarly sized private and public companies, the stipends paid to members of PCC's Board of Trustees in 2022 were roughly 25% of the total median compensation (both cash and equity) paid to directors on boards of similarly sized companies (based on annual revenues), and between 45% and 76% of the median cash-only compensation paid to directors of public and private companies, respectively, of similar size.

SUMMARY OF FINANCIAL STATEMENT

PCC Community Markets is the largest retail grocery co-op in the country, and our measure of success is achievement of our triple bottom line: people, profit and planet. Our goal is to run a healthy business, which enables us to positively impact our employees, members and communities. The following financial statement reports on our progress against that goal.

Financially, 2022 was a challenging year as we faced diverse headwinds, including rising inflation, labor shortages, supply chain challenges and consumers spending less on groceries.

We posted \$422 million in net sales in 2022, growing 6% year-over-year. Overall, the co-op's operating expenses grew 9%, meaning costs increased faster than net sales. Contributing to higher operating expenses was the impact of \$5.3 million in additional COVID-19 related expenses, primarily hazard pay as mandated by Seattle, Burien and Edmonds. We know these ordinances were essential during the pandemic, yet it was not possible for the co-op to absorb the expenses associated with them and remain profitable. In addition, we opened two new stores, Downtown and Kirkland PCC. Downtown PCC continues to be impacted by the slower-than-expected return of workers and shoppers in the Downtown Seattle corridor. The co-op is proud to contribute to the revival of Downtown Seattle by supporting both the community and our members, yet PCC incurred a significant operating loss due to this slower-than-anticipated recovery.

Throughout 2022, we invested close to \$2.6 million into our membership benefits and welcomed 12,000 new members. Enhanced member-only offers throughout the year generated an average benefit of nearly \$250 per member.

We are proud that, during the pandemic, we did not close any stores or lay off any store staff, and we maintained staff benefits.

Our total loss from operations was \$6.9 million, primarily due to the higher operating expenses against lower sales than planned. The co-op offset that loss with the sale of our 50% share in an older shopping center property in which our Kirkland store was located prior to being relocated to its new space. That provided the co-op with \$6 million in investment income. We ended the year with an operating loss of \$250,000. With no member operating income, PCC regretfully is not financially able to provide a dividend to members.

As a co-op, PCC is accountable to our members (including all staff) and our profits are returned to our stores, members and the communities we serve. Jobs at PCC offer competitive wages, varied schedules and exceptional benefits. We are proud that, during the pandemic, we did not close any stores or lay off any store staff, and we maintained staff benefits. Read more about the co-op's compensation structure and philosophy on pages 8-13.

Learn more about the co-op's 2022 financial performance on the following page.

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CONSOLIDATED INCOME STATEMENT

	2022	2021
SALES, NET	\$421,879,590	\$397,968,540
COST OF GOODS SOLD	255,485,493	239,276,792
Gross profit	166,394,097	158,691,748
% of Sales	39.4%	39.9%
OPERATING EXPENSES		
Wages, benefits and taxes	113,817,007	107,324,672
General and administrative expenses	18,900,024	17,756,747
Occupancy expenses	37,156,737	31,420,910
Marketing and outreach expenses	3,165,966	2,398,574
Gain on disposal of assets	233,316	(7,134)
Total operating expenses	173,273,050	158,893,769
(Loss) income from operations	(6,878,953)	(202,021)
OTHER INCOME (EXPENSE)		
Interest income	6,683	7,539
Interest expense	(313,763)	(38,566)
Investment income	6,747,815	911,149
Other income (expense)	188,691	183,871
Total other income, net	6,629,426	1,063,993
Income before patronage dividends and provision for income taxes	(249,527)	861,972
PATRONAGE DIVIDENDS	-	557,395
Income before provision for income taxes	(249,527)	304,577
PROVISION FOR INCOME TAXES		
Current expense (benefit)	(746,414)	743,668
Deferred expense	305,076	(620,693)
NET INCOME	\$191,811	\$181,602
% of Sales	0.0%	0.0%

CONTINUED >>

CONSOLIDATED BALANCE SHEET

	2022	2021
CURRENT ASSETS		
Cash and cash equivalents	\$23,092,309	\$22,242,639
Receivables, net	2,664,450	3,656,408
Inventories	11,271,459	9,744,344
Prepaid expenses and other assets	3,341,277	3,060,523
Income tax receivable	2,526,414	-
Total current assets	42,895,909	38,703,914
PROPERTY AND EQUIPMENT, net	85,304,735	92,660,574
LONG-TERM ASSETS		
Operating lease right-of-use assets	120,360,381	-
Other assets	499,460	557,025
Investments	2,852,371	2,804,424
Total long-term assets	123,712,212	3,361,449
Total assets	\$251,912,856	\$134,725,937

LIABILITIES AND MEMBERSHIP EQUITY

CURRENT LIABILITIES		
Accounts payable	\$13,209,355	\$14,803,015
Accrued wages and benefits	9,117,258	10,202,327
Other accrued expenses	3,226,510	2,569,954
Income tax payable	-	400,756
Contract liabilities	787,294	863,697
Patronage dividends payable	99,574	772,915
Current portion of operating lease liabilities	7,927,832	-
Current portion of long-term debt	1,642,766	1,600,397
Total current liabilities	36,010,589	31,213,061
LONG-TERM LIABILITIES		
Deferred income taxes	6,377,901	6,072,825
Operating lease liabilities, net of current portion	129,979,955	-
Deferred rent	-	5,964,095
Deferred lease incentives	-	11,291,890
Long-term debt, net of current portion	8,123,876	9,784,131
Total long-term liabilities	144,481,732	33,112,941
MEMBERSHIP EQUITY		
Membership certificates	11,597,401	10,768,612
Retained earnings	59,823,134	59,631,323
Total membership equity	71,420,535	70,399,935
Total liabilities and membership equity	\$251,912,856	\$134,725,937

Note: In 2022 the co-op adopted the Accounting Standard Update (ASU) 2016-02, Leases (Topic 842), which requires lessees to recognize assets and liabilities for leases currently classified as operating leases. As a result, the balance sheet now reflects a right of use asset and corresponding liability.