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RECREATIONAL EQUIPMENT, INC.

Consolidated Financial Statements

December 30, 2023 and December 31, 2022

(With Independent Auditors' Report Thereon)

RECREATIONAL EQUIPMENT, INC.

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KPMG LLP
Suite 2800
401 Union Street
Seattle, WA 98101

Independent Auditors' Report

The Board of Directors
Recreational Equipment, Inc.:

Opinion

We have audited the consolidated financial statements of Recreational Equipment, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of December 30, 2023 and December 31, 2022, and the related consolidated statements of comprehensive loss, members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 30, 2023 and December 31, 2022, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

Seattle, Washington
April 1, 2024

RECREATIONAL EQUIPMENT, INC.

Consolidated Balance Sheets

December 30, 2023 and December 31, 2022

(In thousands)

Assets		**December 30, 2023**	**December 31, 2022**
Current assets:			
Cash and cash equivalents	$	144,187	228,999
Short-term investments		199,172	296,791
Accounts receivable, less allowance for credit losses of $110 and $806, respectively		51,321	57,797
Inventories		635,941	753,104
Prepaid expenses and other		72,934	66,107
Income taxes receivable		19,529	18,645
Total current assets		1,123,084	1,421,443
Property and equipment, net of accumulated depreciation of $1,031,023 and $993,757, respectively		566,164	528,245
Operating lease right-of-use assets		470,643	476,592
Goodwill, net of accumulated amortization of $3,146 and $2,506, respectively		1,333	1,972
Deferred income taxes, net		—	99,131
Other		39,494	31,031
Total assets	$	2,200,718	2,558,414
Liabilities and Members' Equity			
Current liabilities:			
Accounts payable	$	277,514	335,514
Customer-related obligations		215,316	200,029
Co-op member reward payable: promotional portion		178,053	173,329
Co-op member reward payable: dividend portion		—	29,154
Accrued payroll and benefits		154,838	179,822
Current lease liabilities		86,303	84,453
Business taxes and other accrued liabilities		55,573	57,534
Total current liabilities		967,597	1,059,835
Long-term lease liabilities		450,479	456,884
Deferred rent and other long-term liabilities		66,843	56,730
Total liabilities		1,484,919	1,573,449
Commitments and contingencies (note 9)			
Members' equity:			
Memberships		431,913	394,535
Accumulated other comprehensive loss		(1,692)	(6,276)
Retained earnings		285,578	596,706
Total members' equity		715,799	984,965
Total liabilities and members' equity	$	2,200,718	2,558,414

See accompanying notes to consolidated financial statements.

RECREATIONAL EQUIPMENT, INC.

Consolidated Statements of Comprehensive Loss

Periods ended December 30, 2023 and December 31, 2022

(In thousands)

		January 1, 2023 – December 30, 2023	January 2, 2022 – December 31, 2022
Net sales	$	3,758,226	3,850,174
Cost of sales		2,304,354	2,308,084
Gross profit		1,453,872	1,542,090
Operating expenses:			
Payroll-related expenses		941,391	963,777
Occupancy, general, and administrative		726,242	793,177
Operating expenses		1,667,633	1,756,954
Operating loss		(213,761)	(214,864)
Other expense, net		(840)	(8,636)
Loss before co-op member rewards: dividend portion and income taxes		(214,601)	(223,500)
Co-op member rewards: dividend portion, net		(3,082)	(4,027)
Loss before income taxes		(211,519)	(219,473)
Provision (benefit) for income taxes		99,609	(54,761)
Net loss		(311,128)	(164,712)
Other comprehensive income (loss):			
Unrealized gain (loss) on available-for-sale securities, net of tax of ($1,611) and $2,253, respectively		4,584	(6,408)
Comprehensive loss	$	(306,544)	(171,120)

See accompanying notes to consolidated financial statements.

RECREATIONAL EQUIPMENT, INC.

Consolidated Statements of Members' Equity

Periods ended December 30, 2023 and December 31, 2022

(In thousands)

		Memberships	Retained earnings	Accumulated other comprehensive income (loss)	Total members' equity
Balance at January 2, 2022	$	358,323	761,418	132	1,119,873
Unrealized loss on available-for-sale securities, net of tax		—	—	(6,408)	(6,408)
Memberships issued		36,212	—	—	36,212
Net loss		—	(164,712)	—	(164,712)
Balance at December 31, 2022		394,535	596,706	(6,276)	984,965
Unrealized gain on available-for-sale securities, net of tax		—	—	4,584	4,584
Memberships issued		37,378	—	—	37,378
Net loss		—	(311,128)	—	(311,128)
Balance at December 30, 2023	$	431,913	285,578	(1,692)	715,799

See accompanying notes to consolidated financial statements.

RECREATIONAL EQUIPMENT, INC.

Consolidated Statements of Cash Flows

Periods ended December 30, 2023 and December 31, 2022

(In thousands)

		January 1, 2023 – December 30, 2023	January 2, 2022 – December 31, 2022
Operating activities:			
Net loss	$	(311,128)	(164,712)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization of goodwill		84,232	85,123
Amortization of investment premium/discount and other		(173)	—
Change in provision for sales returns		3,651	1,340
Deferred income taxes, net		97,520	(36,556)
(Gain) loss on sale and disposal of property and equipment		2,247	(335)
Changes in operating assets and liabilities:			
Accounts receivable		12,414	5,294
Inventories		117,163	(131,426)
Prepaids and other assets		(12,852)	(28,540)
Accounts payable and other accrued expenses		(86,407)	(111,971)
Operating lease right-of-use assets and lease liabilities		(5,128)	(7,117)
Net cash used in operating activities		(98,461)	(388,900)
Investing activities:			
Purchases of short-term investments		—	(459,983)
Proceeds from sale of short-term investments		103,986	378,320
Purchases of property and equipment		(125,486)	(135,491)
Proceeds from sale of property and equipment		21	47
Purchases of long-term investments		(2,250)	(1,700)
Net cash used in investing activities		(23,729)	(218,807)
Financing activities:			
Proceeds from sale of memberships		37,378	36,212
Net cash provided by financing activities		37,378	36,212
Net decrease in cash and cash equivalents		(84,812)	(571,495)
Cash and cash equivalents at beginning of period		228,999	800,494
Cash and cash equivalents at end of period	$	144,187	228,999
Supplemental disclosure of cash flow information:			
Cash paid for:			
Income taxes	$	1,262	41,089
Noncash investing activity:			
Property and equipment additions in accounts payable	$	6,143	12,322

See accompanying notes to consolidated financial statements.

(1) Basis of Presentation and Summary of Significant Accounting Policies

(a) Business Overview

Recreational Equipment, Inc. (REI or the Company) operates as a specialty outdoor retail cooperative. REI is dedicated to inspiring, educating, and outfitting its growing community of more than 24 million members to live their most fulfilling life outdoors and engage them in the fight to protect it. REI sells goods and services through more than 185 retail stores located throughout the United States and online through rei.com.

(b) Principles of Consolidation

The consolidated financial statements present the results of operations, financial position, and cash flows of the Company in U.S. dollars, in accordance with U.S. generally accepted accounting principles (GAAP). The consolidated financial statements include the accounts of Recreational Equipment, Inc., and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation.

(c) Fiscal Year

REI reports results on a 52/53-week fiscal year ending on the Saturday closest to December 31. Reported results relate to the 52-week fiscal years ended December 30, 2023 and December 31, 2022, respectively.

(d) Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses and disclosure of contingent assets and liabilities. Uncertainties regarding such estimates and assumptions are inherent and, as a result, actual results could differ.

(e) Cash and Cash Equivalents

Cash equivalents are highly liquid short-term investments with original maturities of three months or less. Cash and cash equivalents include payments due from financial institutions for third-party credit card and debit card deposits, which are typically received within two to four business days. The Company maintains a portion of its cash and cash equivalent balances with financial institutions that exceed federally insured limits. The Company has not experienced any losses related to these balances, and management believes its credit risk to be minimal.

(f) Short-Term Investments

The Company invests cash in accordance with its investment policy. The Company's short-term investments are classified as available-for-sale securities and consist primarily of corporate bonds, municipal bonds, commercial paper, and AAA-rated asset-backed securities. The Company is exposed to credit risk in the event of default by issuers and counterparties of the short-term investments. The Company's available-for-sale securities consist primarily of investments that regularly trade in active markets; as such, the Company has classified the entire available-for-sale portfolio as a current asset on the consolidated balance sheets. The Company's investments are stated at fair value, with any unrealized gains and losses, net of deferred income taxes, reported as a component of accumulated other comprehensive income (loss). Realized gains and losses on these securities are included in other expense, net in the consolidated statements of comprehensive income (loss). The cost of securities sold is determined using the specific-identification method. The Company periodically evaluates unrealized losses in its investment securities for credit impairment, using both qualitative and quantitative criteria. In the event a security is deemed to be impaired as the result of a credit loss, the Company records a charge against net income (loss). No such charges were recorded for the periods ended December 30, 2023 or December 31, 2022.

The cost and fair value of the Company's available-for-sale securities that are carried at fair value at December 30, 2023, by contractual maturity, are as follows (in thousands):

		Cost	Fair value
Due in one year or less	$	121,723	121,099
Due in more than one year		79,736	78,073
Total	$	201,459	199,172

(g) Accounts Receivable

Accounts receivable are primarily due from vendors and landlords. The Company estimates its allowance for credit losses based on historical loss experience and assessment of the collectibility of cash flows.

(h) Inventories

Inventories are carried at the lower of cost or net realizable value, defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation, on an average cost basis. The Company records a write-down of inventories, which are obsolete or slow-moving, based upon historical experience.

(i) Property and Equipment

Property and equipment are recorded at historical cost, less accumulated depreciation and impairments. Depreciation is computed primarily by using the straight-line method based on the assets' estimated useful lives, which are 10 to 30 years for buildings and improvements and 3 to 10 years for software, equipment, furniture, and fixtures. Renewals and betterments that add to the productive capacity or extend the useful life of the asset are capitalized. Capitalized software includes the costs of developing or obtaining internal-use software, including external direct costs of materials and services and internal payroll costs related to each software project.

Leasehold improvements made at the inception of the lease are amortized over the shorter of the initial lease term or the asset life. Leasehold improvements made during the lease term are amortized over the shorter of the asset life or the remaining lease term of the initial lease, plus any renewals that are reasonably certain at the date the leasehold improvements are made.

Maintenance and repairs are charged to expense as incurred.

(Continued)

(j) Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.

The Company has elected the private company alternative to amortize goodwill over a period of seven years. The Company has elected to follow the authoritative guidance available to private companies to assess goodwill impairment at the entity-wide level. The Company will assess goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount of goodwill may not be fully recoverable. There was no impairment recognized for the periods ended December 30, 2023 and December 31, 2022.

(k) Long-Lived Assets

When facts or circumstances indicate that the carrying values of long-lived assets, including buildings, equipment, and internal-use software may not be recoverable, an evaluation for impairment is performed. An asset is considered impaired when estimated undiscounted future cash flows are less than the carrying amount of the asset. If the carrying amount of such asset is not deemed recoverable, the asset is adjusted to its estimated fair value. Fair value is generally determined based upon a discounted future cash flow model. Property and equipment assets are grouped at the lowest level in which there are identifiable cash flows when assessing impairment. Cash flows for retail assets are identified at the individual store level. Impairment is reflected within occupancy, general, and administrative expenses. No material impairment was recognized for the periods ended December 30, 2023 and December 31, 2022.

(l) Customer-Related Obligations

Sales return reserves and deferred revenue for unredeemed gift cards are reflected within customer-related obligations. In 2022, the Company entered into a new REI cobrand credit card program agreement and the liability for rewards earned by cardholders has transferred to the issuing bank.

(m) Co-op Member Reward

The Company declares and issues a Co-op Member Reward: Dividend Portion (dividend) as a patronage dividend to members based on the level of qualifying member purchases during each calendar year. As required by the Company’s bylaws, the dividend is limited to annual income on a cooperative basis (as defined).

The Company may elect to issue a Co-op Member Reward: Promotional Portion (promotional reward), which is intended to deliver a benefit and experience similar to that of the patronage dividend.

The Co-op Member Reward in any given year may be comprised of only the dividend portion, only the promotional portion, or a combination of the two.

In 2023 and 2022, the Company issued a Co-op Member Reward: Promotional Portion. At December 30, 2023 and December 31, 2022, the net balance of Co-op Member Reward Payable: Promotional Portion was $178.1 million and $173.3 million, respectively.

The Company records the Co-op Member Reward Payable based upon its estimate of rewards that will be redeemed by co-op members prior to the expiration date. The Company has historical experience demonstrating that less than 100% of members redeem their entire reward within the time period these rewards are available to them. In 2023 and 2022, the Co-op Member Reward Payable: Promotional Portion was issued net of an estimated $34.3 million and 36.6 million, respectively, which will not be redeemed.

(n) Sabbatical Leave

The Company provides paid leave to employees with service of 15 or more years. The Company records the compensation cost associated with sabbatical leaves over the requisite service periods.

(o) Leases

Lease agreements cover certain retail locations, office space, warehouse and storage space, and equipment. All leases are categorized as operating leases. Operating leases are included in operating lease right-of-use assets and current and long-term lease liabilities in the consolidated balance sheets.

Leased assets represent the Company's right to use an underlying asset for the lease term, and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The Company uses the 10-year Treasury interest rate as the discount rate for present value of lease payments when the rate implicit in the contract is not readily determinable. The Company determines and updates the discount rate on a quarterly basis, accordingly.

For operating leases with variable payments dependent upon an index or rate, the Company applies the active index or rate as of the lease commencement date. Variable lease payments not based on an index or rate are not included in the operating lease liability, as they cannot be reasonably estimated and are recognized in the period in which the obligation for those payments is incurred. Leases that have a term of 12 months or less upon commencement date are considered short-term in nature.

Accordingly, short-term leases are not included in the consolidated balance sheets and are expensed on a straight-line basis over the lease term, which commences on the date the Company has the right to control the property.

(p) Memberships

The Company is a cooperative made up of members. Each eligible member is entitled to vote in the election of the Company's board of directors. To be considered eligible to vote, a member must have purchased at least $10 worth of merchandise, paid a shipping charge of at least $10, or become a new member in the previous calendar year. In 2023, the one-time fee for a nonrefundable, nontransferable membership was $30. As of December 30, 2023, there were 8.4 million voting eligible members.

(q) Net Sales

The Company recognizes revenue from product sales when products are purchased or picked up by customers at the Company's stores or when products are shipped to customers. Revenue is recorded net of sales taxes and estimated allowances for returns. The allowance for sales returns is based on historical information and reduces both sales and cost of sales. The Company records, on a gross basis, a refund liability and an asset for recovery, which are included in customer-related obligations and other current assets, respectively, in the consolidated balance sheets. Shipping revenue is included in net sales, and the related costs of shipping are included in cost of sales.

Substantially all of the Company's sales are single performance obligation arrangements for which the transaction price is equivalent to the stated price of the product or service, net of any stated discounts applicable at a point in time. The Company is the principal for the majority of its transactions and recognizes revenue on a gross basis. The Company is the principal when it has control of the merchandise or service before it is transferred to the customer.

The Company offers no-fee, non-expiring gift cards to its customers. At the time gift cards are sold, no revenue is recognized; rather, the Company records an accrued liability to customers. The liability is relieved, and revenue is recognized equal to the amount redeemed at the time gift cards are redeemed for merchandise. The Company records revenue from unredeemed gift cards (breakage) in net sales in proportion over the time period gift cards are redeemed. Historical redemption data is used to determine actual redemption patterns.

As discussed in note 1(m), in 2023 and 2022, the Company issued a Co-op Member Reward: Promotional Portion to its members. The Company reduced revenue to reflect the deferred revenue associated with the reward, and a corresponding liability was established. The deferral is based on the estimated value for which the reward is expected to be redeemed, net of estimated unredeemed rewards (breakage). When a reward is redeemed, revenue is recognized for the value of the reward, and the liability is reduced.

The Company records consideration received under the REI cobrand credit card program agreement to net sales.

(r) Cost of Sales

Cost of sales includes the cost to purchase and transport merchandise to the Company. The Company receives rebates, allowances, and cooperative advertising funds from vendors. Amounts received related to the reimbursement of costs incurred, such as advertising, are recognized as a reduction in the related expense when the vendor receives a specific incremental, identifiable benefit. Other consideration received from vendors in the form of cash and credits are recorded as a reduction of cost of sales as the related merchandise is sold.

(s) Occupancy, General, and Administrative Expenses

Occupancy, general, and administrative expenses consist primarily of advertising, rent, information technology, bankcard fees, depreciation, and other miscellaneous expenses.

(t) Advertising Costs

Advertising production costs for internet, photo, video, direct mail, and other media are expensed the first time the advertisement is delivered. Other advertising costs are expensed as incurred. Advertising expense for 2023 and 2022 was $109.2 million and $133.6 million, respectively, and is included in occupancy, general, and administrative expenses.

(u) Income Taxes

The Company operates as a cooperative subject to taxes on all income not distributed to members. The Company computes income taxes using the asset-and-liability method, under which deferred income taxes are provided for the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax basis. The deferred tax assets and liabilities are calculated using the enacted tax rates that are expected to be in effect when the differences are expected to reverse. The Company establishes a valuation allowance for deferred tax assets, if it is more likely than not that these items will expire before the Company is able to realize the benefit or future deductibility is uncertain.

(v) Recent Accounting Pronouncements Adopted

The Company adopted Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which introduced an expected credit loss model for the impairment of financial assets measured at amortized cost. The model replaces the probable, incurred loss model for those assets and, instead, broadens the information an entity must consider in developing its expected credit loss estimate for assets measured at amortized cost.

On January 1, 2023, the Company adopted ASU 2016-13 and concluded the ASU has no material impact on the consolidated financial statements and related disclosures.

(w) Recent Accounting Pronouncements Not Yet Adopted

There have been no other new accounting pronouncements issued, but not yet adopted that are expected to materially affect the Company’s financial condition or results of operations.

(x) Reclassifications

The Company has reclassified certain amounts relating to its prior period results to conform to its current period presentation. These reclassifications have not changed the results of operations or cash flows of prior periods.

(2) Fair Value

The Company applies fair value accounting for certain financial assets and liabilities that are recognized at fair value in the financial statements, including cash equivalents and investments. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for certain assets and liabilities, which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as risks inherent in valuation techniques, transfer restrictions, and credit risk. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement.

The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Other inputs that are directly or indirectly observable in the marketplace

Level 3 – Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

As of December 30, 2023 and December 31, 2022, there were no liabilities within Level 1, 2, or 3 and no financial instruments within Level 3 of the hierarchy. Nonfinancial assets, including property and equipment and goodwill, are reported at carrying value and are not required to be measured at fair value on a recurring basis. However, on a periodic basis, or whenever events or changes in circumstances indicate their carrying value may not be recoverable, the Company assesses long-lived assets for impairment.

Nonrecurring assessments use significant unobservable inputs and, therefore, fall under Level 3 of the fair value hierarchy.

In accordance with the fair value accounting requirements, companies may choose to measure eligible financial instruments and certain other items at fair value. The Company has not elected the fair value option for any eligible financial instruments. The carrying amount of the Company's accounts receivable and accounts payable on the consolidated balance sheets approximate fair value due to their short-term nature.

Assets measured at fair value consist of the following as of December 30, 2023 (in thousands):

	Cost basis	Unrealized losses	Fair value	Cash and cash equivalents	Short-term investments
Cash	$ 40,526	—	40,526	40,526	—
Level 1:					
Money market	103,661	—	103,661	103,661	—
U.S. Treasury securities	106,124	(1,282)	104,842	—	104,842
Subtotal	250,311	(1,282)	249,029	144,187	104,842
Level 2:					
Asset-backed securities	6,391	(163)	6,228	—	6,228
Mortgage backed	1,399	(48)	1,351	—	1,351
Corporate bonds	85,545	(794)	84,751	—	84,751
Municipal bonds	—	—	—	—	—
Commercial paper	—	—	—	—	—
Other	2,000	—	2,000	—	2,000
Subtotal	95,335	(1,005)	94,330	—	94,330
Total	$ 345,646	(2,287)	343,359	144,187	199,172

Assets measured at fair value consist of the following as of December 31, 2022 (in thousands):

	Cost basis	Unrealized losses	Fair value	Cash and cash equivalents	Short-term investments
Cash	$ 24,604	—	24,604	24,604	—
Level 1:					
Money market	204,395	—	204,395	204,395	—
U.S. Treasury securities	115,183	(4,449)	110,734	—	110,734
Subtotal	344,182	(4,449)	339,733	228,999	110,734
Level 2:					
Asset-backed securities	26,015	(567)	25,448	—	25,448
Mortgage backed	1,398	(83)	1,315	—	1,315
Corporate bonds	151,386	(3,376)	148,010	—	148,010
Municipal bonds	5,547	(7)	5,540	—	5,540
Commercial paper	2,494	—	2,494	—	2,494
Other	3,250	—	3,250	—	3,250
Subtotal	190,090	(4,033)	186,057	—	186,057
Total	$ 534,272	(8,482)	525,790	228,999	296,791

(3) Property and Equipment

Property and equipment consists of the following as of December 30, 2023 and December 31, 2022 (in thousands):

	2023	2022
Land, buildings, and improvements	$ 449,512	387,265
Equipment, furniture, and fixtures	477,785	409,498
Software	264,929	293,228
Leasehold improvements	367,060	332,684
Construction-in-progress	37,901	99,327
	1,597,187	1,522,002
Less accumulated depreciation	1,031,023	993,757
Total	$ 566,164	528,245

The Company’s depreciation expense was $80.1 million for 2023 and $80.1 million for 2022.

(4) Goodwill

Goodwill activity is as follows for the periods ended December 30, 2023 and December 31, 2022 (in thousands):

		2023	2022
Goodwill, beginning balance	$	1,972	2,612
Goodwill amortization during the period		(639)	(640)
	$	1,333	1,972

(5) Line of Credit

The Company has a credit agreement that permits borrowings up to $400 million, which expires on September 14, 2026. Interest expense related to the credit facility was $2.1 million for the period ended December 30, 2023, and $0.3 million for the period ended December 31, 2022. No amounts were outstanding under the line of credit at December 30, 2023 or December 31, 2022. At December 30, 2023, approximately $6.2 million of the amount available under the line of credit was reserved for outstanding letters of credit. The Company was in compliance with all covenants imposed by the line of credit agreements as of December 30, 2023 and December 31, 2022.

(6) Income Taxes

The provision for income taxes is as follows for the periods ended December 30, 2023 and December 31, 2022 (in thousands):

		2023	2022
Current:			
Federal	$	(1,199)	(12,288)
State		1,677	(3,696)
Deferred:			
Federal		75,819	(32,049)
State		23,312	(6,728)
Total provision (benefit) for income taxes	$	99,609	(54,761)

A reconciliation from the U.S. statutory rate to the effective tax rate is as follows for the periods ended December 30, 2023 and December 31, 2022 (in thousands):

	2023		2022	
	Amount	Percent	Amount	Percent
Tax at federal statutory rate	$ (44,419)	21.0 %	$ (46,089)	21.0 %
State income taxes, net of federal tax benefit	(20,604)	9.7	(8,235)	3.8
Tax credits	(5,276)	2.5	(1,793)	0.8
Unrecognized tax benefits	2,376	(1.1)	—	—
Change in valuation allowance	168,652	(79.7)	—	—
Other	(1,120)	0.5	1,356	0.6
	$ 99,609	(47.1)%	$ (54,761)	26.2 %

Significant components of the Company's deferred income taxes as of December 30, 2023 and December 31, 2022 are as follows (in thousands):

	2023	2022
Deferred tax assets:		
Co-op member reward: Dividend portion	$ —	1,564
Co-op member reward: Promotional portion	4,329	—
Inventory basis differences	19,377	22,175
Gift cards	9,647	9,500
R&D expenses	25,456	5,496
Operating lease liabilities	139,563	140,748
Deferred income	5,287	3,049
Nonqualified retirement plan accrual	6,575	5,732
Employee benefits and compensation	9,311	11,368
Net operating loss	64,927	25,912
Charitable contributions carryforward and other credits	14,840	5,398
Valuation allowance	(168,652)	—
Other	5,730	8,105
Total deferred tax assets	136,390	239,047
Deferred tax liabilities:		
Operating lease right-of-use assets	(122,367)	(123,914)
Fixed asset depreciation and basis differences	(14,023)	(16,002)
Total net deferred tax assets	$ —	99,131

The Company's blended future expected tax rate is 26%, comprised of the enacted 21% federal rate and an expected 5% state rate.

Significant judgment is required in evaluating the Company’s tax positions and determining the Company’s provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate determination is uncertain. The Company establishes reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when Company management believes that certain positions might be challenged despite the Company’s belief that their tax return positions are fully supportable. These reserves are adjusted in light of changing facts and circumstances, such as the outcome of tax audits. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in tax expense and tax liabilities. As of December 30, 2023, the liability for uncertain tax positions included an immaterial amount related to interest and penalties. Tax years 2019-2023 remain open to examination by the major taxing jurisdictions to which the Company is subject. Management does not anticipate any potential settlement or examination to result in a material change to the Company’s financial position.

The Company assesses the recoverability of deferred tax assets under ASC Topic 740. The Company assesses the available positive and negative evidence to estimate whether the Company will generate sufficient future taxable income to utilize its existing deferred tax assets. The Company has a limited carryback ability for certain state losses and credits and, therefore, must rely on future taxable income, including tax planning strategies, to support the realizability of its deferred tax assets. Under current accounting standards, a cumulative loss incurred over the three-year period ended December 30, 2023 is considered a significant piece of objective negative evidence in the assessment of recording a valuation allowance for a company’s deferred tax asset balance. While the Company believes its financial outlook remains positive and it has adequate financial and tax planning strategies to support the future realizability of its long-lived and indefinite-lived deferred tax assets, due to the cumulative loss position, the Company has established a valuation allowance for its deferred tax assets.

(7) Employee Benefits Plan

The Company has a defined-contribution retirement plan covering employees meeting certain eligibility requirements (generally, one year of employment and 1,000 hours of service). Company contributions are based on 5% of eligible participant compensation. The retirement plan Company contributions were approximately $26.6 million and $23.2 million for 2023 and 2022, respectively.

The Company also has a nonqualified deferred compensation plan, which provides a voluntary pay deferral option enabling eligible participants to contribute a portion of their respective annual base salary and bonus plan payments. Compensation is charged to expense in the period earned. In order to fund the nonqualified deferred compensation plan’s future obligations, the Company has purchased investments held in irrevocable trusts commonly referred to as “Rabbi Trusts.” As the Company is the owner of the investments and in order to reflect the Company’s policy to pay benefits equal to the accumulations, the assets and liabilities are reflected in the consolidated balance sheets. At December 30, 2023 and December 31, 2022, assets and liabilities recorded in connection with deferred compensation plan benefits totaled $25.3 million and $22.0 million, respectively.

The nonqualified deferred compensation plan also provides the Company’s highly compensated employees with a contribution equal to that which would have been allocated to them under the qualified retirement plan were it not for the limitations imposed by Internal Revenue Code Section 401(a)(17) and Section 415

(Continued)

and one-time eligibility limitations due to hire date. The Company's contributions to the nonqualified deferred compensation plan are based on 5% of eligible participant compensation. Total Company contributions were $0.2 million and $0.3 million for 2023 and 2022, respectively.

(8) Leases

The Company leases more than 170 retail store locations, office spaces, and equipment. All leases are classified as operating leases and expire within the next 20 years, but contain various renewal options. Certain lease agreements include rental payments based on an index or rate, and others include rental payments based on a percentage of sales.

All lease costs are included within occupancy, general, and administrative under operating expenses. The components of lease cost are as follows (in thousands):

		2023	2022
Operating lease cost	$	89,866	84,905
Variable lease cost		47,185	43,728
Sublease income		(1,040)	(1,057)
	$	136,011	127,576

ASU No. 2016-02, *Leases (Topic 842)*, allows private companies to use a risk-free interest rate as the discount rate for the present value of lease payments when the rate implicit in the contract is not readily determinable. The Company determines a risk-free rate on a quarterly basis. Lease terms and discount rates are as follows:

	2023	2022
Weighted-average remaining lease term (years)	7.3	7.9
Weighted-average discount rate	2.3 %	1.9 %

The approximate future minimum lease payments under operating leases as of December 30, 2023 are as follows (in thousands):

2024	$	97,511
2025		93,533
2026		94,060
2027		67,418
2028		52,589
Thereafter		182,480
Total lease payments		587,591
Less imputed interest		(50,809)
Present value of lease liabilities	$	536,782

Reduction in the carrying amount of right-of-use assets, and the change in the lease liability are included under operating lease right-of-use assets and lease liabilities in the consolidated statements of cash flows. Supplemental cash flow information related to leases is as follows (in thousands):

		2023	2022
Cash paid for amounts included in measurement of liabilities:			
Operating cash flows from operating leases	$	94,587	90,836
Right-of-use assets obtained in exchange for new operating liabilities		79,771	113,377

(9) Commitments and Contingencies

The Company is subject from time to time to various claims and lawsuits arising in the ordinary course of business. Some of these lawsuits purport or may be determined to be class or collective actions and seek substantial damages or injunctive relief, or both, and some may remain unresolved for several years. In management’s opinion, the recorded reserves in the Company’s consolidated financial statements are adequate in light of the probable and estimable liabilities. As of the date of this report, management does not believe any currently identified claim, proceeding, or litigation, either alone or in the aggregate with other claims, will have a material impact on the Company’s results of operations, financial position, or cash flows. Because these matters are subject to inherent uncertainties, management’s view of them may change in the future.

(10) Subsequent Events

The Company evaluated subsequent events through April 1, 2024, the date the consolidated financial statements were available to be issued. There were no material subsequent events or transactions that required recognition or disclosure in these consolidated financial statements.