

**patagonia works™**



# **Annual Benefit Corporation Report**

**Fiscal Year 2016  
May 1, 2015 - April 30, 2016**

# Letter from Our CEO

## Dear Friends,

We are living in unprecedented and turbulent times in which the foundations of our democracy are challenged. The planet is being threatened by those who deny the reality of climate science and eagerly pollute our air, water and soil and undermine our treasured public lands for shortsighted private gain. As businesses, we must be vigilant, vocal and, most importantly, willing to take bold action—and so the burgeoning Benefit Corporation community is more vital to our future than ever before.

The good news: Our movement is gaining real momentum around the globe as more and more business leaders take on the challenge of looking beyond profits in defining the values we can and must deliver to people and the planet. There are now more than 4,700 legally designated Benefit Corporations across the country. Becoming a Benefit Corporation means balancing our need to achieve reasonable financial gain with purposeful action to create additional benefits for multiple stakeholders whenever possible. In other words, Benefit Corporations take real steps to ensure business is good for people and good for the planet.

Patagonia became California's first Benefit Corporation in 2012, which made these practices part of our legal charter and embedded our core values into Patagonia's foundation forever. Since then, we've enjoyed continued growth by all measures. Together, the Benefit Corporation structure and B Corp accountability requirements provide a real framework for decision-making at the executive and board level and the key source of the model's power to improve corporate behavior without sacrificing profit.

This is all good news, but it's not enough. If business hopes to rise to this challenge and scale our impact, it will require the entire herd, not just a few quirky unicorns. And it can't take 45 years. Businesses, big and small, around the globe, must take it upon themselves to completely reprioritize how we assess corporate returns.

We must transform a conventional business model that currently places profits above all else to instead ensure every decision we make as business leaders reinforces our commitment to the environment, our workers, our customers and our communities.

And in the end, profits can and will still be made, perhaps at greater levels than ever before, as in Patagonia's case. Adopting a long-term outlook when short-term thinking currently rules the day in nearly every C-Suite and board room is not only in the best interest of people and our planet, it's ultimately in the shareholders' interests as well, because an economy equipped for long-term success only has room for businesses willing to expand the very notion of a bottom line.

This year, I'm proud to see the support Patagonia shows our employees, customers, the environment and the global community involved in every level of our business reflected in a B Corp score of 152—up from 116 in 2014. We have also made significant, measurable progress in advancing our specific benefit purposes. And since becoming a Benefit Corporation, Patagonia has continued to achieve near-record growth each year.

Our Annual Benefit Corporation Report describes what we've been up to this year. Patagonia is proud to be a part of this vital community of businesses, and I look forward to more good news ahead.



Rose Marcario



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# Introduction

Since its inception in 1973, Patagonia has pursued its mission to build the best product, cause no unnecessary harm, and use business to inspire and implement solutions to the environmental crisis. We do so through the design, production, manufacturing and sale of a wide range of technical outdoor apparel and sportswear products under the Patagonia brand. Our Patagonia product offering covers nearly every activity that can be performed outdoors, including alpine climbing, skiing and snowboarding, trail running, mountain biking, fishing, surfing, yoga and swimming. We also design, manufacture and sell surfboards under the brand, Fletcher Chouinard Designs.

In 2012, we extended our product offerings to include food through our subsidiary, Patagonia Provisions, with the goal of repairing the food supply chain by offering healthy products derived from sustainable fishing and regenerative organic agricultural practices. We also launched our corporate venture capital fund, Tin Shed Ventures, to invest in start-ups that offer solutions to the environmental crisis with the goal of proving that business—and investments—can be engines of positive change.

We sell our products around the world in our owned and operated retail stores, on our e-commerce sites, and to third-party wholesale partners primarily focused on the specialty outdoor market who resell our products online and in their own brick-and-mortar stores. North America is our largest market, making up approximately 75 percent of total sales. It’s followed by Japan and Asia Pacific at 15 percent, Europe at 8 percent and Latin America around 2 percent. For our fiscal year, which ended April 30, 2016, products sold

through our direct-to-consumer channels made up approximately 41 percent of our total global sales, with products sold through wholesale partners at around 59 percent of total sales.

We have approximately 2,200 employees, with roughly one-quarter based in our Ventura, California, headquarters, another quarter in our Reno, Nevada, distribution and service center, around 500 employees in our retail stores around the world, and 400 based in our regional offices located in Japan, the Netherlands, South Korea, Australia, Argentina and Chile. Our Patagonia Provisions operations are run out of Sausalito, California.

This report covers Patagonia Works and its U.S. operating subsidiaries—Patagonia, Inc., Patagonia Provisions, Great Pacific Iron Works, and Fletcher Chouinard Designs, Inc.—which are all registered Benefit Corporations.

# Benefit Corporation + Certified B Corp

In 2011, when the Benefit Corporation movement was just getting started, Patagonia's founders took note—not only because it was in line with what the company had been doing for decades, but because it could lock in that behavior for the future. As a Benefit Corporation, Patagonia would be legally required to consider its environmental and social impacts, and could even prioritize those considerations ahead of profits. Patagonia Works became California's first Benefit Corporation on the day the law took effect, January 3, 2012.

Patagonia then went a step further by incorporating specific and detailed obligations into our Articles of Incorporation, protecting the things that might otherwise be cut under a framework dedicated to maximizing profits at the expense of the company's values. These became our six specific benefit purposes. The board of directors fortified these commitments by requiring that any changes can be made only with unanimous shareholder approval.



## Patagonia's specific benefit purpose commitments are:

### 1. 1% for the Planet®

Each year, we contribute one percent (1 percent) of our annual net revenues to nonprofit charitable organizations that promote environmental conservation and sustainability.

### 2. Build the Best Product with No Unnecessary Harm

We endeavor to build the best products and to cause no unnecessary harm to the planet or its inhabitants by: (i) designing and fabricating the highest quality products as defined by durability, multi-functionality and nonobsolescence; (ii) designing and fabricating products that are easily repaired and made from materials that can be reused or recycled; (iii) designing and fabricating products with minimum impacts throughout the supply chain—including resource extraction, manufacturing and transportation—on water use, water quality, energy use, greenhouse gas emissions, chemical use, toxicity and waste; and (iv) partnering with customers to take mutual responsibility for the life cycle of our products, including repair, reuse and recycling.

### 3. Conduct Operations Causing No Unnecessary Harm

We will conduct our operations in a manner causing no unnecessary harm by continually seeking to reduce the environmental footprint and impact of our operations in water use, water quality, energy use, greenhouse gas emissions, chemical use, toxicity and waste.

### 4. Sharing Best Practices with Other Companies

In support of our commitment “to use business to inspire and implement solutions to the environmental crisis,” we will share proprietary information and best practices with other businesses, including direct competitors, when the board of directors determines that doing so may produce a material positive impact on the environment.

### 5. Transparency

We will provide information through our website and print catalogs that describes the environmental impact of representative items across our different product lines based on the best science and data practicably available.

### 6. Providing a Supportive Work Environment

We will endeavor to provide a supportive work environment and high-quality health care through measures, including, but not limited to, providing on-site day care at our corporate headquarters or subsidized child care at our other facilities.

These specific benefit purposes govern Patagonia at the most fundamental level, legally binding the company to its long-held commitment to prioritizing environmental and social values alongside financial return.

## B Corp Certification and Assessment

In addition to our Benefit Corporation status under California law, Patagonia is also a certified B Corp, which means that our company’s overall environmental and social performance is measured and independently verified by a third party, B Lab. B Lab’s standard, known as the B Impact Assessment, scores companies’ environmental and social performance on a 200-point scale. We chose B Lab for the third-party verification required under the California Benefit Corporation statute because we believe their experience certifying hundreds of companies and their social and environmental performance standards are the most comprehensive and aspirational available. Our B Corp score is reassessed every two years. Following the most recent B Impact Assessment in 2016, our score was 152, up 36 points from 2014 and 45 points from our first assessment in 2012.

## Patagonia’s Score

	2016	2014	2012
Overall Rating	152	116	107
ENVIRONMENT	45	35	48
WORKERS	25	26	25
CUSTOMERS	6	7	N/A
COMMUNITY	59	31	20
GOVERNANCE	17	17	15

# Patagonia's Performance

**On Achieving Our Six Specific Benefit Purposes**

For Fiscal Year 2016



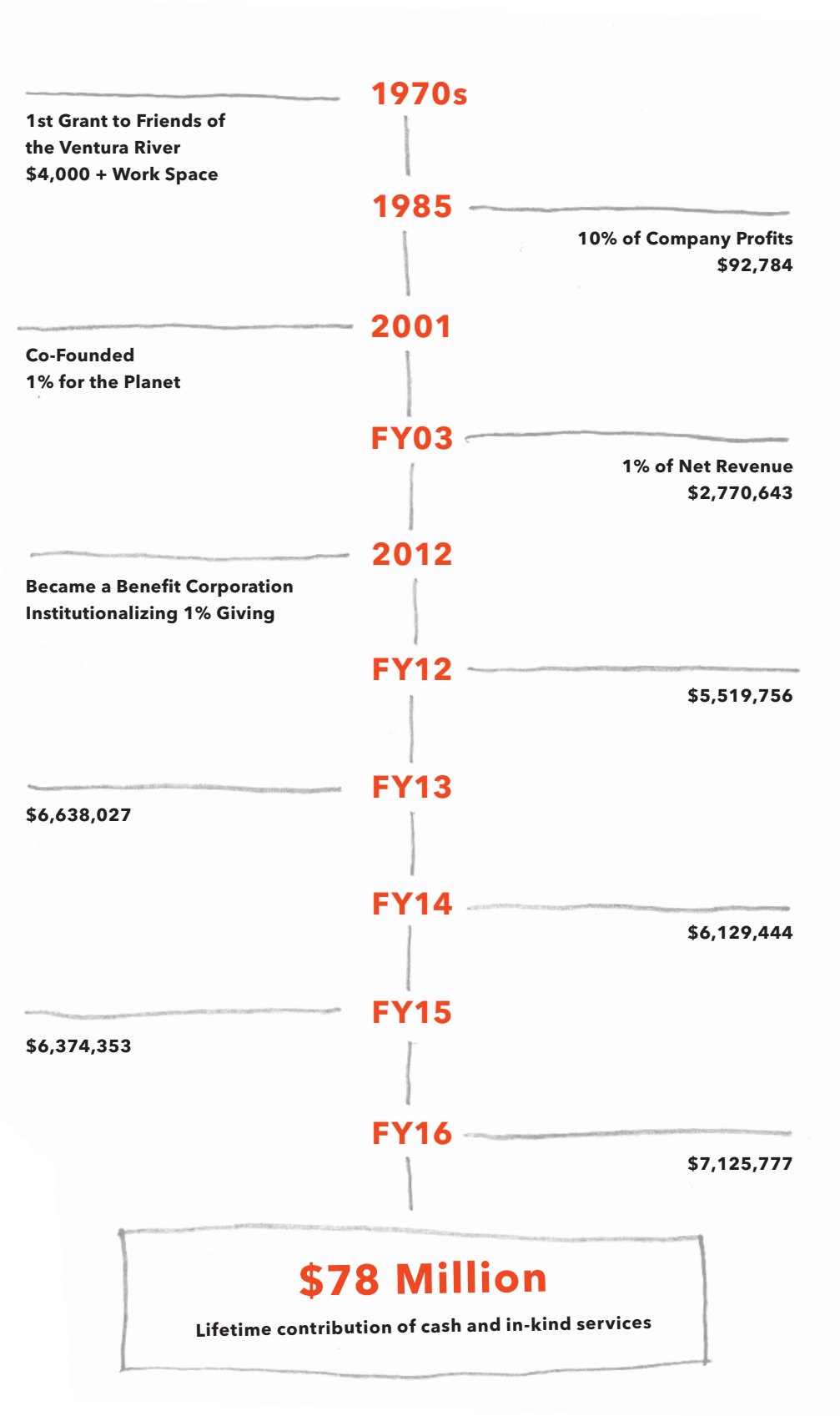


## 1% for the Planet®

Inspired early on through our connection to the outdoors and seeing firsthand how grassroots environmental activists could make a difference, we made our first environmental grant in the early 1970s to Friends of the Ventura River—an amount of \$4,000—along with a desk to use in our Ventura office. In 1985, we formalized our environmental grant-making program through a commitment to donate 10 percent of company profits each year. In 2002, our founder Yvon Chouinard, and Craig Mathews, owner of Blue Ribbon Flies, co-founded the nonprofit, 1% for the Planet®, an organization bringing together and certifying businesses committed to pledging 1 percent of sales to environmental nonprofits, which assures contributions even in an unprofitable year. In 2012, we made this commitment part of our corporate charter when we became a registered Benefit Corporation.







Initiatives

Each year, we distribute 1 percent of our annual net revenue (total sales minus chargebacks and returns) to help support grassroots environmental nonprofits. We do so primarily in the form of cash grants, along with some in-kind and product donations. A portion of these funds is also used to cover the cost of running our internal grants program. These amounts are reviewed and certified annually by 1% for the Planet, and in FY16 totaled \$7.88 million.

Activist- and Employee-Oriented Grant Making

Most companies with substantial charitable giving programs give large grants to a handful of organizations. As a result, corporate environmental grants typically fund only the established, national environmental organizations, which make up just 2 percent of U.S. environmental nonprofits, yet receive more than half the funding. This leaves the smaller, grassroots groups of the environmental movement significantly underfunded.

When we became a Benefit Corporation and institutionalized our 1 percent giving into our corporate governance structure, we directed the company to prioritize giving to these smaller, grassroots environmental organizations operating in places where we do business. While we still fund a handful of larger, national organizations, we prioritize support for activists working on front-line issues in their backyards.

Each year we fund hundreds of groups around the world with small grants averaging \$7,000-\$12,000. Our small donations can have a big impact: 52 percent of the nonprofits we supported last year have annual budgets less than \$300,000, and 75 percent have fewer than 10 employees. Grant recipients and amounts awarded are determined entirely by Patagonia employees working in all areas of the company. These employee-driven grant-making programs are administered by a team of three dedicated, full-time employees who make up our environmental grants department. We have 21 different employee grant-making programs. They include:

Retail Grants

When a grant proposal comes from an organization or project connected with an issue or area in the U.S. where we have a store, it goes to that store for review. Each of our stores has a designated employee acting as the environmental grants lead. This person spends a portion of their paid time off the floor vetting proposals and engaging colleagues in reading and awarding grants. In FY16, employees in our 32 U.S. stores allocated more than \$1 million to more than 250 grassroots environmental groups connected to the communities they serve.

Corporate and Media Grants

If a U.S. grant proposal is not connected to a Patagonia store location, it goes to our corporate grants councils or, if media is a focus, to our media grants council at our Ventura headquarters. These councils are made up of employees who are nominated and elected by their colleagues. Grants councils meet three times a year to review and decide some 225 funding proposals. We estimate that grants council employees devote 120 hours each year to the grant-making process. Our corporate and media grants councils awarded more than \$1.5 million in grants to 188 grassroots organizations around the U.S.

Other Ways We Fund

We run more than a dozen other employee-administered granting programs to fund our 1 percent commitment. These include working with multibrand retailers that sell our products to identify organizations in their communities, which we fund on their behalf, as well as various international grants programs in regions where we do business that are tailored to local communities and cultures.

Total Number of...	2014	2015	2016
Grant proposals received	1,303	1,234	1,403
Proposals funded	875	857	985
Environmental organizations receiving grants	770	766	824

Fiscal year ended April 30, 2016

## Achievements in supporting grassroots environmental activists over the past year include:



Alaska's Susitna River has been spared—at least for the moment. **TRAVIS RUMMEL**



Basin and Range National Monument, Nevada. **TYLER ROEMER**



Activists work together at Fallen Leaf Lake, California. **AMY KUMLER**



Mile for Mile, Chile. **JAMES Q. MARTIN**

### Stopping the Susitna Dam

For the past few years, we have partnered with the Susitna River Coalition to stop a proposal to construct a 735-foot dam on the Susitna River in Alaska, donating more than \$116,500 to the effort. The project would have resulted in the second tallest dam in the U.S. and significantly impacted fish populations, caribou migrations, recreation and tourism in the area. Through continuous political pressure and public awareness driven by a number of groups, including the Susitna River Coalition, the project was officially denied by Alaska Governor Bill Walker in mid-2016.

### 5 National Monuments Created

For the past year, we have increased our involvement with several environmental groups working for federal designation of a handful of public lands as national monuments. Many of these campaigns move precious ecosystems into permanent protection, keeping wildlife cultural sites and recreational opportunities safe for generations. Through work with the Conservation Lands Foundation, Amargosa Conservancy, Mojave Desert Land Trust, Tuleyome, and California Wilderness Coalition, funded (in small part) by Patagonia donations, five national monuments were created in FY16. These monuments span more than 2.5 million acres and include the Basin and Range, Berryessa Snow Mountain, Castle Mountains, Mojave Trails, and Sand to Snow monuments.

### Tools for Grassroots Activists Conference

To complement our 1 percent giving, since 1994 we've hosted a now biennial Tools for Grassroots Activists conference where environmental activists come to learn best practices to maximize their impact. This past year, we hosted 80 activists from grassroots organizations around the country for training sessions conducted by 14 experts on topics such as community organizing, campaign strategy, communication, lobbying, fundraising, working with businesses, and effectively using social media and other technology to advance issues. Forty Patagonia employees, from store employees to our CEO, participated in the three-day conference.

### 50 Miles of Trail in Chile

Our Mile for Mile campaign was a companywide push to raise funds and awareness to build new trails in Chile's Patagonia Parque—soon to be designated a national park. The campaign kicked off with a Patagonia-produced film featuring three of our ultra-running ambassadors, who subsequently toured with the film to a number of our stores, bringing in donations from customers around the world and a matching grant from Patagonia. We raised over \$90,000 for nonprofit Conservación Patagónica, which will now build more than 50 miles of trails.

## Challenges

### Scaling our 1% Giving and Grant-Making Process

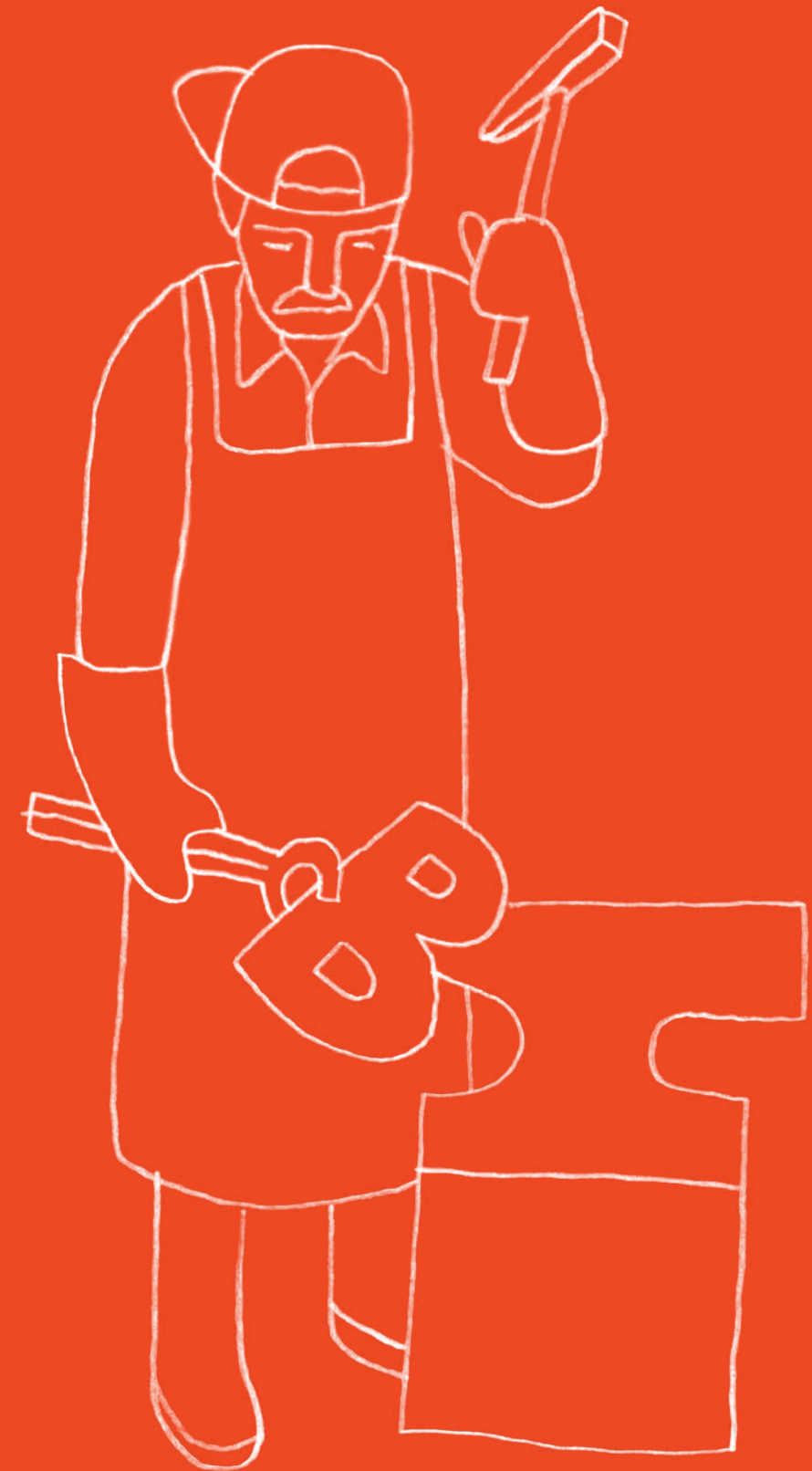
As our sales grow, so do our donations—and the dollars are piling up quickly. Our grants program has increased by 50 percent since we became a Benefit Corporation in 2012, this fiscal year totaling \$7.1 million going to fund environmental work. As we continue to scale, we need to ensure our funding program has the resources to do an efficient job of supporting organizations, big and small, that are making a difference.

### Activism and Brand Reputation

Activism can be polarizing, especially for a business or brand, as it involves choosing a side on often contentious and political issues. People with differing opinions may choose not to buy our products. If something we support creates a significant backlash that impacts our sales, we'll have less to contribute to the fight to protect our planet. Our history indicates that most of our customers support environmental activism and challenging the status quo, but our activism may alienate some potential customers.

# Build the Best Product With No Unnecessary Harm

With a product development calendar that spans nearly 18 months from product conception to completion, and a supply chain made up of hundreds of contracted independent suppliers, we rely on a number of different tools and programs with the goal of embedding the commitments described above into our product life cycle and measuring impacts along the way.





Initiatives

Maximizing Quality

To influence the design process with the goal of making the best product possible, Patagonia developed an internal product-rating system based on our founder Yvon Chouinard’s design quality attributes. Known as the YC Scorecard, this rating system was designed to embed a focus on quality across all teams touching our products and create a common “quality language” to answer the question: “Is it a Patagonia 10?” To get to that answer, an internal team of experts evaluates the functional, social

and environmental performance of every Patagonia product using the 10 Patagonia Design Quality Attributes (next page), assigning a score of 1 to 10 for each.

The product-scoring teams typically consist of five people from a mix of the company’s departments responsible for product design, development, quality, repair, field testing, product category leadership, and corporate social and environmental responsibility.

YC Scorecard Results

We started using the YC Scorecard with our fall 2015 product line and have scored every new or redesigned product since, with 1,315 products scored to date. This process provides our design teams with real-time feedback for improving product quality over time. Average minimum product scores have risen on our 10-point scale from 7.2 to 8.04 since fall 2015. Because it’s an internal measure that can be largely subjective, we use the YC Scorecard for design and development purposes and not as a customer-facing metric.

Fall '15	Spring '16	Fall '16	Spring '17	
8.98	8.81	8.86	8.90	Average quality score
7.20	7.15	7.74	8.04	Lowest score
9.84	9.68	9.61	9.61	Highest score
644	301	192	172	Total number of products scored*

\*The number of products scored was the highest in fall '15, when we started and when we scored all products for the first time. Following that season, we look at only new or redesigned products.

Quality Return Rates

As another measure of quality, we look at return rates for products that our customers tell us did not meet their quality or fit expectations. Product returns for quality or fit reasons as a percent of total sales have declined year-over-year since implementation of the YC Scorecard.

2015	2016	
.44%	.41%	Quality returns as a percentage of sales
1.96%	1.85%	Fit returns as a percentage of sales

Fiscal year ended April 30, 2016

YC Scorecard Questions

Patagonia Design Quality

1. Is it functional?

Does the product fulfill a clear and needed functional purpose? Do the design and materials of the product serve the functional purpose? Without a serious functional demand, we can end up with a product that, although may look great, is difficult to rationalize as being in our line—i.e., “who needs it?”

2. Is it multifunctional?

Is this product able to serve multiple and varied functional applications? Does this one product prevent the user from having to carry or purchase other gear? Is the product designed creatively to allow for multiple different applications? The more you know the less you need. Why buy two pieces of gear when one will do the work of both?

3. Is it durable?

Will the product stand up to hard, prolonged use? Do all the parts of the product wear out roughly at the same time and only after a long life? Will the product go threadbare before any one piece will fail? We test until something fails, strengthen that part, then see what fails next...Until we’re confident that the product is durable as a whole.

4. Can it be easily repaired?

Can the product be easily repaired in the field with little or no tools? Is the product a responsible choice from its birth to death? There’s always going to be a need for repairs, and we make sure that they are possible; a zipper should be replaceable without the entire coat having to be taken apart.

5. Does it fit our customer?

Does the fit of the product meet the needs of our core user, and is it appropriate for the activity it was intended? Is the fit of the product consistent throughout line? Will it fit after repeated wash/care? Does the fit take layering into consideration?

6. Is the product simple?

Is the product as simple as possible? Functionally driven design is often minimalistic. Complexity is often a sure sign that the functional needs have not been solved. Is the product as simple as possible?

7. Is the product globally relevant/appealing?

Will the product fill the functional and aesthetic needs of core users in every locale? Does the design lend itself toward global acceptability, functional needs, sizing and color?

8. Is it easy to care for?

Is the product easy to clean? Does it require any maintenance? Low maintenance of product is a criteria for high quality. No ironing is required. Will it still look acceptable on a plane ride home after washing it in a sink on the way to the airport?

9. Does it have aesthetic appeal (added value, authentic, art)?

Does the aesthetic of the product differentiate it/make it better than other products? Is it beautiful, timeless or authentic? Are we making the “real” thing? Is it the best of its kind? Real art is timeless.

10. Does it cause any unnecessary environmental harm?

Without sacrificing quality, could the product have been made in a less environmentally harmful or more sustainable manner? Is the product a responsible choice from its birth to death?



Minimizing Impacts from Materials

To facilitate a transition away from fabrics made from virgin petroleum-based materials—like polyester and nylon—in early 2015 we quantified the total amount of virgin, recycled and natural fibers used across our entire product line to develop a baseline. In 2016, we decreased the use of virgin materials in our products from 58 percent to 54 percent.



We redesigned our line of Nano Puff® products for fall 2016. While the shell and lining were always 100 percent recycled polyester, the insulation was made entirely from virgin material. So we worked with our supplier Primaloft®, Inc. to develop high-performance insulation containing 55 percent postconsumer recycled fibers, saving the equivalent of two million plastic bottles from the landfill in the first year alone.

We redesigned the shell of our Torrentshell Jacket, replacing 124,000 pounds of virgin material in that product alone with recycled nylon in spring 2016.

We redesigned our wetsuits to replace the traditional neoprene, made from oil with a material made with 85 percent natural rubber by polymer content. The natural rubber comes from plantations managed in accordance with the Forest Stewardship Council® to ensure they aren't contributing to deforestation, maintain the ecological functions and integrity of the forest, and conserve biodiversity and sustainable livelihoods.

2015		2016
58%	Virgin petroleum-based products (polyester/nylon)	54%
24%	Recycled materials	26%
15%	Cotton and other plant-based materials	18%
3%	Wool and other animal products	2%

Minimizing Impacts from Manufacturing

The modern apparel supply chain is complex, with many levels of suppliers. Nearly all products are made from components sewn and assembled by third-party finished-goods manufacturers using materials from other third-party suppliers. Most apparel brands track and audit factory conditions only at their “Tier 1” suppliers—the factories that assemble their finished products—and often only for social compliance as required by the Fair Labor Association. We assess all 81 of our Tier 1 suppliers for a wide range of things, including social, environmental and quality standards.

In 2012, we expanded our social and environmental audit program to include our Tier 2 suppliers, focusing primarily on those providing the raw materials—fabrics and trims—we use in our products. By the end of FY16, we had completed the process of bringing 40 of them into our social audit program, auditing those that supply approximately 80 percent of our fabrics and trims.

Nearly every audit uncovers an opportunity for improvement, and all substandard audit findings must be remediated in a timely manner. What constitutes “timely” can vary, depending on the complexity of the issue. When an audit reveals significant problems that require in-depth analysis, we work with the supplier to identify

the root cause of the problem and then determine whether working with the factory toward a long-term solution will lead to positive change.

Remediating systemic problems can take time, resources and continuous monitoring. But we view sustainable remediation as the most valuable outcome of our monitoring efforts, because it raises standards across the board, improving social, environmental, and health and safety conditions in a factory, not just for us, but for other brands as well. This is important because Patagonia typically represents only a small percentage of a factory's total business. We spend a good deal of time helping factories identify and implement impactful solutions to their biggest challenges. We often require them to participate in specific training, education or continuous-improvement programs, which Patagonia helps pay for in part or full. In FY16, we participated with our suppliers in the following capacity-building programs: fire-safety training; grievance-system training; root-cause-analysis assessments; management-system assessments; fair-compensation assessments; Better Work, a program committed to improving working conditions on global textile and apparel supply chains; Fair Trade USA certification process; and the Fair Labor Association Participating Supplier program.

Improving Workers' Wages

One of the most significant systemic issues in the garment industry that requires a long-term, sustainable remediation effort, is factory wages. For 200 years, garment workers have earned the lowest wages in the industrial economy, often far below a living or even a minimum wage. We believe one of the most effective paths available to raising workers' wages is through Fair Trade, an international certification program that increases the wages of workers directly or indirectly to bring them closer to a living wage. Fair Trade brand partners pay a premium for products made in Fair Trade Certified™ factories, which average 1 to 2 weeks pay. The premium goes directly to workers, who democratically decide how to spend it. Sometimes they take the money as a bonus, or they might spend it on programs to improve their working and living conditions. Workers in our Fair Trade Certified factories have used this money, for example, to open a child care center and establish a health and hygiene program.

We have made the Fair Trade program a focus of our sourcing strategy. In 2014, we offered 10 Fair Trade products from one factory. In FY16, we raised that number to 192 products from six factories, effectively paying the workers an extra \$350,000 that fiscal year. By fall 2017 we expect to offer an estimated 300 products from 13 factories, representing 29 percent of our product styles.

Fair Trade Certification

Fall '14	Spring '15	Fall '15	Spring '16	
10	33	192	190	Number of Fair Trade styles
998	873	964	950	Total number of Patagonia styles
1%	4%	20%	20%	Percentage of total styles that are Fair Trade
FISCAL YEAR 2015		FISCAL YEAR 2016		Premium paid for Fair Trade products
\$76,317		\$355,904		

Reducing Chemicals

To assess and manage the use of chemicals and environmental impacts in our global supply chain, in 2015 we launched our Chemical and Environmental Impacts Program (CEIP). CEIP builds upon our own social and environmental responsibility supply chain programs, and the work we have done with bluesign® Technologies since 2000.

The program covers: chemicals, waste, water use, energy use, greenhouse gasses and other air emissions based on the strictest local legal standards. It requires our suppliers to comply with the most stringent international consumer products legislation, as well as local laws. It also utilizes the latest industry-wide tools—including both the Facility Environmental Module and Chemicals Management Module of the Higg Index® and criteria from the bluesign® System—to evaluate environmental performance in our supply chain. We assessed all of our Tier 1 suppliers and 20 of our largest Tier 2 suppliers for compliance with our CEIP requirements, focusing on facilities with the highest potential for environmental harm due to the nature of their processes. Based on the results, we developed continuous improvement plans with our suppliers that often include training, implementing policies and establishing management programs at our supplier facilities.



Allowed to graze as they do in nature, buffalo are helping to restore the Great Plains. **Jon Levitt**

Fixing the Food Supply Chain

We believe there is great opportunity—and an urgent need—for positive change in the food industry, which is why we launched a food line called Patagonia Provisions in April, 2013. Patagonia Provisions is dedicated to finding solutions to repair the food supply chain starting with sourcing. In some cases, this means looking to current best practices, but, more frequently, it means turning back to the old ways of farming to produce food.

In FY16, Patagonia Provisions offered 10 products made with organic ingredients sourced and manufactured by like-minded partners working to help improve the food supply chain. They include:

**Wild salmon** caught from healthy salmon runs using selective-fishing techniques, which allow less abundant species to avoid capture and continue their migration unharmed. These techniques are often old-fashioned and more labor-intensive than modern industrial fishing, but they also produce higher quality fish and support the wild salmon ecosystem. Through our support of fishermen willing to fish more responsibly, we believe we can help rebuild endangered salmon populations and boost local economies.

**Buffalo jerky** from grass-fed buffalo raised on the prairies of ranches managed by Wild Idea Buffalo, which is guided by a shared conservation ethic and a commitment to producing the highest quality meat. Instead of following the conventional livestock model, which undermines the nutrition and flavor of the meat and has a negative impact on the environment, Wild Idea-affiliated ranches raise buffalo that live, feed and roam the land freely and are harvested and processed in the field with mobile, USDA-approved equipment. This process, along with the local production of the jerky itself, provides employment and economic benefits to small communities in the Great Plains. Grazing naturally and roaming freely, the buffalo also help to improve the land by recycling nutrients and tilling the soil.



Benefit Purpose Performance

Build the Best Product With No Unnecessary Harm



Worn Wear: Repairing and Reusing Our Products

We believe that one of the most responsible things we can do as a company is to make high-quality products that last for years and can be repaired so you don't have to buy more. Our multifaceted Worn Wear program is designed to extend the useful life of apparel by repairing damaged products, and encouraging reuse and responsible recycling practices.

Patagonia Repairs

We provide no-cost repairs in our Reno customer repair center for Patagonia products that still have a useful life. We also have installed mini-repair centers in eight of our stores to provide on-site service for simple repairs and faster turn-around times. And we have three mobile repair vehicles that tour the globe, repairing our apparel, as well as that of other brands, and teaching participants to fix their own. In FY16, we repaired 44,000 garments in Reno and another 56,000 globally.

Do-It-Yourself Repairs

On our website, we offer customers instructions in six languages for repairing products, including step-by-step videos describing over 40 different care and repair processes in detail. We also bring slightly damaged Patagonia products to our Worn Wear events, where we provide participants with the equipment, materials and instructions to repair them. In exchange, we let participants keep them. Last year, we gave away 1,182 of these repair-it-yourself products.

Trade-Ins

Customers can trade in their used Patagonia items at our Portland store in exchange for Patagonia gift cards. We fix them, when needed, and resell them in the Worn Wear shop within the store. In FY16, we sold 2,300 used items.

Worn Wear Program

2014	2015	2016	
31,000	37,000	44,000	Number of garments repaired
\$1.47M	\$1.85M	\$2.16M	Total cost of repairs (in U.S. dollars)
950	1,414	2,300	Number of repaired items sold in Portland Worn Wear store

Fiscal year ended April 30, 2016

53,065

Number of garments repaired in the U.S. (We also helped customers repair 1,532 products themselves at no cost to them.)

13,902

Number of garments we recycled. (We take back any Patagonia product at the end of its useful life at no charge to the customer.)

8,281

Number of miles our mobile-repair centers logged in 2016.

6,878

Number of Patagonia products returned for recycling that were instead upcycled (turned into usable merchandise), such as beer koozies from old wetsuits and scarves from down jackets, which we sell at our stores.

4,923

Number of used Patagonia items we helped to resell.

50

Number of states our mobile repair centers drove through to repair people's damaged apparel (both Patagonia products and that of other brands), and teach them to do the same.

8

Number of Patagonia stores in which we've installed mini repair centers to make simple repairs and provide easier access for customers.

3

Number of mobile-repair centers that tour the U.S. and Europe.

Challenges

Conflicts Between Performance and Environmental Sustainability

We strive first to make durable, quality products that deliver maximum performance. But sometimes, those objectives run counter to our environmental values. For example, we use a durable water repellent (DWR) to disperse surface moisture from some of our clothing, which serves the critical function of helping to keep customers dry. Yet the byproducts of DWR, a fluorocarbon-based treatment, are toxic and persist in the environment. We've spent the past decade researching and testing fluorocarbon-free alternatives that have less of an impact on the environment, but still meet our durability standards. And we've made strategic investments in companies developing alternative waterproof treatments that are not harmful to the environment. We've yet to find a perfect alternative, as many still pose significant environmental issues, and none meet our standards for quality. We're always looking to eliminate conflicts between performance and environmental harm, but we inevitably have to balance these considerations and make trade-offs. Sometimes the replacement has its own problems.

Conflicts Between Performance and Social Responsibility

We strive to develop the highest social and environmental practices in our supply chain. Sometimes, however, we find that the factory best qualified to produce the highest quality technical product may not be a leader in social or environmental responsibility. In the event this happens, we work hand in hand with the factory to help it comply with our standards before we place an order. At times this means shifting product launch seasons, and sometimes it requires significant investment to help the factory improve.



# Conduct Operations Causing No Unnecessary Harm

As Patagonia's physical footprint continues to grow, we try to do so in a way that minimizes overall impact to the earth and its inhabitants. In all new construction, retrofit and expansion projects, we try to incorporate responsible building design and material selection as much as possible, retrofit old buildings rather than build new ones, source materials close to our building sites, reuse old fixtures and materials, and install energy- and water-efficient appliances. We have generally done this as a matter of course, but are currently formalizing design standards we can apply to Patagonia-owned and operated facilities around the world.



Initiatives

Measuring Our Footprint

In FY15, we took steps to improve our collection, measurement and analysis of energy, greenhouse gas emissions, water and waste at our 134 owned and/or operated offices, stores and distribution centers around the world. We also began mapping and measuring the impacts of our Tier 1 and Tier 2 suppliers, which have the biggest environmental footprint, but are outside our direct control. This data established the baseline numbers we used to set reduction targets.

In FY16, we began working to improve and simplify data collection and analysis by implementing a customized software platform that will facilitate year-over-year comparisons of each facility’s performance and the company’s overall portfolio. This will allow us to further refine areas of improvement, track trends of our footprint, and develop long-term goals related to year-over-year improvements in these metrics.

Global Corporate Energy Use and GHG Emissions

Energy Use (kWh)	Emissions (tonnes CO2e)	
5,165,556	2,679	North America
941,604	519	Asia (Japan)
662,238	260	Europe
130,435	104	Australia
114,239	55	South America
7,014,072	3,617	Total

Sustainable Building and Operating Principles

In FY16, we began developing sustainable building principles to provide guidance to the architects and contractors we hire to design and build our facilities. These principles address site location, energy, water, waste, materials and human health. Whether a new construction or a retrofit, the building principles emphasize the life cycle of the project from design to demolition or deconstruction.

To help our stores reduce their footprint, we developed a set of guidelines for purchasing, transportation and community engagement, along with ways to use less energy and water, and reduce waste and resource consumption. Each store will be responsible for developing and implementing its own sustainability plan, tailored to its particular operations and conditions, based on an internal sustainability audit and the guidelines.

Renewable Energy Planning

Currently, we operate a 98.4 kW solar energy system over the parking lots of our Ventura, California, headquarters, as well as a 71.6 kW rooftop system on one of our Ventura office buildings. In FY16, these systems produced 126,634 kilowatt hours of electricity. Fifteen percent of our global operations are currently powered with renewable electricity, 3 percent of which was generated on-site through our own solar arrays. Our goals for FY17 include improving solar efficiency, increasing on-site generation and adopting market mechanisms, like community solar, to reach our goal.

Reducing Single-Driver Commutes

We encourage our employees to carpool, bike, walk or use mass transit to get to and from work by paying them \$4 for each single-occupancy vehicle round-trip they avoid–up to \$500 per year. In FY16, we paid our employees \$263,318 through this program and averted 800,000 single-occupant vehicle miles traveled.

Challenges

Verifying Data

One of the biggest challenges in measuring impact is gathering complete and verified data. On the supply chain side, not all of our suppliers report environmental metrics for their operations, and those that do report enter their own information, which we can’t verify. As a result, we rely on the data we have, and use it to extrapolate the rest. Even where industry-wide tools are available, factories are slow to adopt them because reporting can be burdensome, and factories are not incentivized to do so for a relatively small customer like Patagonia. Widespread adoption of verifiable reporting on environmental metrics throughout our supply chain will depend on industry collaboration to increase efficiencies and leverage. This is already happening, but not as quickly as we’d like. As a result, the data we have is imperfect, but still provides a working baseline.

Generating Renewable Energy

Ideally we could generate enough renewable energy to power all of our operations, rather than purchase renewable energy certificates, to ensure we are not emitting greenhouse gases and depleting the earth’s finite supply of fossil fuels. Space constraints and lack of control over our supply chain and most of our retail locations make this difficult. We’re currently exploring community solar programs and virtual power-purchase agreements, in addition to increasing on-site systems where possible. Through our Tin Shed Ventures fund, we have invested \$62 million in two solar funds to help support the expansion of solar as a cost-effective and readily available source of renewable energy. In structuring our second fund, we brought in four certified B Corps: Kina’ole Capital Partners, LLC as fund manager, Sungevity, Inc. as project developer/maintenance provider, and New Resource Bank and Beneficial State Bank to provide financing.

# Sharing Best Practices with Other Companies

Manufacturers have long relied on industry standards to provide their supply chains with a consistent framework to ensure certain specifications are met. Historically, standards focused on quality and performance, but increasingly they are being developed to also ensure meeting environmental and social requirements. We work with a number of industry groups– including the Sustainable Apparel Coalition, the Outdoor Industry Association, the Fair Labor Association, and others–on developing a wide range of industry standards.

Much of this work requires sharing information–often proprietary, and often with our direct competitors–to develop efficient and effective standards that can be used across the apparel industry. We believe the long-term benefits of creating meaningful, universal measurement tools and standards outweigh the near-term competitive advantage we would gain by keeping our approach confidential and working alone to improve the system.



## Initiatives

Collaboration is a critical part of improving the overall supply chain, but industry action occurs through consensus, which can be slow and cumbersome. We develop our own supply chain standards when the industry is too slow or shows insufficient interest in tackling a controversial issue that could negatively impact sales. We then share those standards with the industry and hope to influence change. Recent efforts include:

### Migrant Worker Employment Standard

We developed a comprehensive migrant worker standard for our suppliers that covers every aspect of employment, including: pre-hiring interactions, labor contracts, wages and fees, retention of passports, living and working conditions, grievance procedures and repatriation to workers' home countries.

As part of the development process, we partnered with Verité, a nonprofit expert in this area, and invited 40 apparel brands to attend a forum we hosted in San Francisco to talk about human trafficking (seven attended). In December 2014, we finalized and released the new standard to our Taiwanese suppliers and organized a forum in Taiwan hosted by our chief operating officer.

Since that time, we've engaged with a number of government agencies and nongovernmental organizations. We met with Taiwan's Ministry of Labor Workforce Development Agency to discuss ways to improve the system for all companies in Taiwan. We traveled to Washington, DC, to participate in a White House Summit on Human Trafficking, where we shared our work. We participated

in a symposium on modern-day slavery conducted by the International Labour Organization. And we met with the California Attorney General's office to discuss the standard and California's Supply Chain Transparency Act. We also posted the standard on our website and have made it available throughout the industry.

Throughout FY16, we have sought opportunities that strengthen and support our multiprong approach to improve the lives of the workers who make our products. We are committed and fully engaged in eliminating all human trafficking in our supply chain and, to the degree possible, in our industry.

### Wool Sourcing Standard

In 2011, we partnered with The Nature Conservancy and the Ovis 21 network of 160 ranchers in Argentina on a new program to grow merino wool that, through the use of holistic grazing practices, helped restore long-degraded grasslands in Patagonia to health. In 2014, while in the process of developing a wool sourcing standard with the Textile Exchange designed to minimize the harmful impacts of sheep on the environment and more comprehensive animal welfare

guidelines, we learned that some of the Ovis 21 sheep in our existing supply chain were being mistreated. In response, we spent much of FY16 working with animal welfare experts to develop a new Patagonia Wool Standard that combines best practices on animal welfare with grazing standards designed to regenerate the grasslands ecosystem. We published the standard in July 2016.

### Traceable Down Standard

Two percent of our raw material supply (by weight) is made up of virgin down. Down provides excellent insulation, but inhumane practices are sometimes used to maximize the commercial value of geese and ducks, including force-feeding to produce *foie gras* and plucking feathers from live animals to increase yield. We learned this the hard way during a campaign by Four Paws, an animal welfare nonprofit that targeted our down supply chain. In response, we worked closely with Four Paws, down suppliers and other animal welfare and traceability experts to develop our Traceable Down Standard, which provides third-party verification with full chain of custody to ensure animal welfare compliance from farm to factory.

We then partnered with NSF International—an independent, accredited organization that tests, audits and certifies products and systems, to achieve global, independent certification of our down supply chain—and NSF adopted our standard as its highest tier certification. Following this standard, by the end of 2016, we had certified more than 350 entities—including parent farms, hatcheries, raising farms, slaughterhouses, down pre-processors, down processors and finished goods factories—across five countries. Four Paws now considers Patagonia to be one of the best brands in the outdoor industry regarding animal-welfare practices in the down supply chain.

### Sharing Materials

For a number of years, we worked with PrimaLoft®, Inc. to develop a synthetic insulation made from post-consumer recycled fibers that meets our performance requirements. Those efforts came to fruition this fiscal year, resulting in the launch of PrimaLoft Gold Eco Insulation. It has 55 percent recycled content and is now the insulation we use in our entire line of Nano Puff® products. While our original deal with PrimaLoft included an exclusive right to use Gold Eco Insulation, together we saw an opportunity to reduce the industry's footprint by shifting PrimaLoft's entire category of top performance synthetic insulation to this environmentally superior alternative. Beginning in 2017, PrimaLoft will replace all of its Gold Insulation, anywhere it's used, with the new 55 percent recycled Gold Eco Insulation.

### Sharing Our Business Model

This past year, we shared our business model and operational practices through books, including a 10th anniversary revised edition of Yvon Chouinard's 2006 memoir, *Let My People Go Surfing: The Education of a Reluctant Businessman*, which lays out Patagonia's philosophies and business practices. The first edition of the book, published in 2006, sold 250,000 copies. It was translated into 11 languages and is widely used at colleges and universities. The revised edition includes a Teacher's Guide, with questions and projects inspired by the book.

We also published a book capturing stories and teachings from our Tools for Grassroots Activists conferences, which we've been holding since 1994.

The book is called *Patagonia's Tools for Grassroots Activists: Best Practices for Success in the Environmental Movement*. It was selected as the main text for an environmental policy course to be taught next year at Stanford University.

Patagonia's co-founder Malinda Chouinard, together with Jennifer Ridgeway, Patagonia's first director of marketing and advertising, authored a book in July 2016, to share Patagonia's experience providing company-run child care at our Ventura headquarters during the past 30 years. *Family Business* illustrates what this looks like and serves as an instruction manual for child care operators interested in Patagonia's philosophy on early childhood education. It's also an advocacy piece for business leaders interested in providing the highest level of family-friendly benefits to employees.

## Challenges

### Developing Standards for Adoption

We've devoted substantial financial and staffing resources to develop, implement and publicize environmental and social standards. Our hope is that competitors will join us, moving the market further than we could alone. So far, the results have been mixed and progress slow, in large part because of the need to build consensus across the apparel industry, which can be cumbersome and often results in standards less rigorous than we would like. We frequently have to decide whether we can have a greater impact by working alone toward a more stringent standard, or by working collectively toward a broader industrywide system or standard.

### Exclusivity vs. Sharing

Common practice for a business like ours is to develop an exclusive raw material or proprietary system to gain market advantage. Over the past years, we have gone against that norm, cultivating innovative products, materials and processes, and sharing them with others soon after. We may be sacrificing a competitive edge by sharing innovation in this way.



# Transparency

The conventional corporate approach to communications is to promote the good and keep quiet about the bad. Characteristic of our founders, we've taken the alternative approach that it's better to put everything out there and then work to fix it—the idea being that transparency will keep us honest and keep our team focused on constant improvement. We hope that sharing good and bad information makes it easier for other brands to do the same, which should help to drive collective action to raise the bar.



# Initiatives

We communicate about issues in a number of ways, including through our catalogs, at conferences and seminars, at industry forums, on government panels, by hosting visitors, by working with journalists, etc. Our primary communication vehicle, however, is online, where we can reach the largest number of people and have the space to tell often complex stories.

## The Footprint Chronicles (website), The Cleanest Line (blog), and E-mails to Customers

We publish the name and address of each of our finished goods factories online in *The Footprint Chronicles*. In FY16, we wrote about the environmental problems with the durable water repellent (DWR) finish applied to some of our apparel, and the difficulties finding quality alternatives. We also wrote about the difference between a living wage and a minimum wage. We try to publish one article a month discussing a challenge we face in making our products. We post articles on our website under *The Footprint Chronicles* to highlight environmental and social issues relating to the apparel industry and our products.

We use our blog, *The Cleanest Line*, to write about challenges, problems and solutions with respect to various issues, ranging from government policies, such as the Trans-Pacific Partnership (TPP) and the FAMILY ACT, to migrant workers, animal cruelty and problems we've found in our own supply chain. We posted 11 stories in FY16 related to challenges in our business. For example, when we learned that laundering synthetic fabrics might be causing a significant source of plastic pollution, we wrote about the issue, raising awareness and triggering outreach from others also working on it.

This led to a research project we commissioned from the University of California, Santa Barbara (UCSB), for the purpose of gathering what is known throughout the scientific community and performing initial experiments to assess the seriousness of the issue and identify solutions.

Their report, which was released in early 2016, found that synthetic fabrics do shed microfibers during the wash cycle and those fibers can pass through water-filtration systems and end up in the world's oceans. We reported those findings and are currently working with others in the apparel industry, as well as washing machine manufacturers and the scientific community, to expand understanding and action on this issue and come up with solutions. Discussion on the topic and a link to the full UCSB report is published on *The Cleanest Line*.

Periodically, we send our customers e-mails notifying them of new products, sales and other promotions, while also including a brief discussion of substantive issues related to our products.

## Social Media, Journalism and Op-Eds

Like many organizations, we have a growing social media presence. At the end of 2016, Patagonia had 2,322,444 followers on Instagram; 843,272 followers on Facebook; 326,969 followers on Twitter; 118,524 followers on Tumblr; 112,355 followers on LinkedIn; and 46,528 followers on Pinterest. Our CEO, Rose Marcario, became an "influencer" on LinkedIn and periodically posts on various topics, such as voting the environment, Fair Trade and the B Corp movement.

We work with journalists to engage deeply on topics related to the impact of our business. For example, we shared information with *The Atlantic* magazine that contributed to an article published in June 2015 highlighting the migrant worker issue in the apparel supply chain as a form of human trafficking. Our hope is that by shining a spotlight on issues, we can influence change. Additionally, in FY16, we published a number of op-eds on topics that included the TPP, the FAMILY ACT and dam removal.

## Films & Books

We are continuing to raise the awareness of environmental issues through films. Over the past year, we produced films about environmental conservation, paid leave, our Fair Trade program and regenerative organic agricultural practices used to produce our Patagonia Provisions products. In addition to film, for years we have been partnering with authors and publishing books through our Patagonia Books business. This year, we continued to grow this business as a means to inspire other businesses and customers, including releasing a revised version of *Let My People Go Surfing*, a new book on child care and working families called *Family Business*, and a toolkit for nonprofits and businesses alike titled *Tools for Grassroots Activists*.

# Challenges

## Enough Information or Information Overload?

Many of the issues we highlight on our website, blog and e-mails are complex. We recognize that most of our customers probably don't want to read a lengthy analysis, so in many cases, we present the highlights and provide links where customers can go for more information. Finding the right balance between transparency and information overload can be a challenge.

## Full Transparency Isn't Yet Possible

When we started *The Footprint Chronicles*, our goal was to show every step of the entire supply chain for all of our products. This proved impossible because although we know all of our suppliers, we don't know all of our suppliers' suppliers, or their suppliers further down the line. The supply chain is deep, complicated and constantly changing, and we will never know what is going on everywhere at every moment. If we did, there wouldn't be enough time or space to talk about it all. So we audit our suppliers regularly and share key findings along the way.

## Opening Ourselves Up to Criticism

We work to be openly transparent about our business with our customers, nongovernmental organizations and other stakeholders, because we believe they deserve to know where and how our products are made—the good, the bad and the ugly. But airing our dirty laundry exposes us to criticism.

# Providing a Supportive Work Environment

For Patagonia, a supportive work environment is one that seamlessly blends life and work. Parents can have their kids on-site at work. Activists and environmentalists can work off-site protecting the places they love. With flexible hours, athletes can get out to surf, ski or climb. "Remember, work has to be fun." –Yvon, in *Let My People Go Surfing*





Initiatives

Child Care

The heart of our headquarters and the anchor of Patagonia’s supportive work environment is our company-run, on-site child care facility, the Great Pacific Child Development Center (GPCDC). Founded in 1983 by Malinda Chouinard and Jennifer Ridgeway, GPCDC offers a full-time, Patagonia-subsidized child development program serving children, ages 8 weeks through 9 years. As of April 30, 2016, GPCDC had 81 kids enrolled in seven classrooms spanning over 20,000 square feet of indoor and outdoor space on our Ventura, California, campus. Since GPCDC opened its doors in 1983, more than 1,500 kids have gone through the program.

In January 2016, we opened the Truckee River Child Development Center (TRCDC) for employees’ children at our Reno, Nevada, distribution and service center. TRCDC began operations with one infant/toddler classroom for up to 15 children ages 8 weeks to 36 months, and opened a second, multi-aged preschool classroom in March 2017 to serve 45 children.

While operating on-site child care is expensive, the benefits to our employees and the company outweigh the cost. This is reflected most directly in retention rates for new moms. At Patagonia, 100 percent of our mothers return to work, compared to the U.S. average of around 64 percent. Replacing employees is expensive, ranging

from 35 percent of annual salary for a non-managerial employee, to 125 percent of salary for a manager, to a couple of years pay for a director or vice president. Based on the moms who returned to work following their maternity leave, we estimate the value attributable to Patagonia’s post-maternity leave retention rates in FY16 to be around \$300,000.

Patagonia subsidizes tuition for our company-run child care programs based on need. In FY16, these subsidies totaled \$38,000. For employees who don’t have access to a Patagonia-run program, we offer a child care stipend, ranging from \$50 to \$250 per month, to offset the cost. In FY16, 31 employees received stipends, totaling approximately \$37,000.

When work travel is required for parents of infants up to 12 months (and for moms who are nursing babies of any age), Patagonia pays for the cost of a caregiver to travel with the employee parent and child. We estimate that the cost of this benefit in FY16 was around \$8,585. We also reimburse employees who adopt children for up to \$10,000 of related costs, spending \$17,697 on this benefit in FY16.

Yvon has been known to point out, that the kids who come through our child care programs are Patagonia’s “best product.”

GPCDC in FY16

Costs		Benefits
Cost to Patagonia	\$1,000,000	<ul style="list-style-type: none"><li>• More Women In Management</li><li>• Greater Employee Loyalty</li><li>• Stronger Workplace Culture of Trust</li><li>• 100% Post-Maternity Leave Return to Work Rate</li><li>• Raising the next generation of environmentalists</li></ul>
Federal Tax Credit	(\$150,000)	
Income Tax Reduction	(\$350,000)	
Retention Savings*	(\$300,000)	
Employee Engagement*	(\$110,000)	
Net Cost to Patagonia	\$90,000	

\*Estimates



Families are an integral part of corporate culture at Patagonia. **Tim Davis**



Moy Hill Community Garden, Ireland. **Allison Allen**

Paid Leave

In March 2016, we expanded our paid-leave policies, increasing maternity leave for birthing mothers from 12 weeks to 16 weeks at full pay, giving 12 weeks of paid leave to adoptive moms, and increasing paternity leave from 8 to 12 weeks at full pay. We also introduced 12 weeks of paid medical leave for employees who experience a serious medical condition or who need to care for a family member with a serious medical condition. And we added 12 weeks of full pay for employees called to active military duty or for an employee who needs to care for a member of the military. These benefits are available to all employees working full- or part-time (at least 29 hours per week) after nine months of working for Patagonia in any of our U.S. locations.

We can see the impact of providing a supportive work environment in a number of ways. It allows us to retain and advance female employees and, regardless of gender or role, Patagonia employees are less likely to quit their jobs here than they would somewhere else. In 2015, according to research conducted by Comp Data Surveys (a compensation survey and consulting firm that researches turnover trends), the average annual turnover for corporate jobs in America was 10.1 percent; annual turnover at our Ventura headquarters in FY16 was 5.4 percent. For retail jobs, the national average turnover is around 72 percent; turnover in our U.S. stores in FY16 was 34 percent.

And Patagonia employs more women than men. And at a time when female full-time employees earn about \$0.79 for every dollar made by full-time male employees (this according to the Institute for Women’s Policy Research), the average base pay for women at Patagonia is slightly higher than for men. We also have more women (54 percent) than men in executive roles, compared to a national average of just 27 percent. And we have a female CEO, as do only 4.4 percent of all companies in the U.S.

Health Care

At a time when health insurance premiums continue to rise and the future of government provided health care is uncertain, Patagonia pays all medical premiums for full- and part-time employees, starting their first day of work. Compared to the average U.S. company of comparable size, which covers only 75 percent of the premium cost, this benefit costs Patagonia an additional \$2.3 million per year. Patagonia’s health care coverage also includes a wide range of benefits, such as acupuncture, massage therapy, chiropractic treatments, naturopathic care, infertility and transgender benefits.

Volunteering

Patagonia employees with at least one year’s tenure are given the opportunity to take a fully paid leave of up to two months to work for the nonprofit environmental group of their choice. Patagonia continues paying the employee’s normal salary and benefits during this time. Through our environmental internship program, 63 individuals and several groups of employees volunteered about 14,000 hours in FY16 at a cost to the company of around \$164,000.

Activism

Patagonia encourages activism by giving employees paid time off to participate in nonviolent civil disobedience protests. To do so on work time, employees must first complete nonviolent civil disobedience training put on by the Ruckus Society, which we offer periodically on the company dime. If a Patagonia employee is arrested during an act of nonviolent civil disobedience in support of an environmental or social justice issue after completing the Ruckus training, Patagonia will reimburse the cost of bail.

Continuing Education

Patagonia offers all employees who have been with the company for more than one year, a tuition reimbursement up to \$500 per year for classes and books. This extends to any type of continuing education, and has, in the past, included programs ranging from college or postgraduate coursework to professional and personal development classes, like avalanche safety and mindfulness training. Total tuition costs reimbursed in FY16: \$38,000.

Saving for Retirement

Patagonia encourages employees to save for retirement by matching employee contributions to their 401(k) accounts at a rate of 50 percent of every dollar contributed up to 5 percent of annual income. In FY16, on top of the company match, we contributed an additional 6 percent to every U.S. employee with an active 401(k) account. Those who took full advantage received an additional 8.5 percent annual income at a cost to Patagonia of \$5,891,478.

Challenges and Threats

Potential Changes in Federal Income Tax Benefits

The tax benefits currently provided to businesses that offer on-site child care pay nearly 50 percent of our overall operating costs. If these benefits are repealed or changed, our program—and others like ours—could become significantly more expensive.

Saving for Retirement or Paying Down Student Debt

We know that many of our employees struggle to pay their student loans and that some would prefer student debt assistance that would benefit them today rather than contributions toward retirement savings accounts for tomorrow. But current tax programs incentivize retirement contributions over student debt, presumably because retired people without a safety net cost more than students defaulting on loans. We’re currently looking at ways to help ease the burden of student loans for our employees while continuing to encourage saving for retirement.

Providing Comparable Benefits Packages on a Global Scale

In countries outside the U.S. where we have offices, including Japan and the Netherlands, the optimal range of benefits may vary based on different cultural norms, government programs and local laws. We continuously work to improve Patagonia employee benefits around the world to achieve a fair, consistent and supportive work environment for all.

The Experiment Continues

In his book, *Let My People Go Surfing*, Patagonia’s owner and founder Yvon Chouinard describes his company as an “experiment.”

“Patagonia exists to challenge conventional wisdom and present a new style of responsible enterprise,” Yvon Chouinard wrote in his book, *Let My People Go Surfing*. “We believe the accepted model of capitalism that necessitates endless growth and deserves the blame for the destruction of nature must be displaced. Patagonia and its two thousand employees have the means and the will to prove to the rest of the business world that doing the right thing makes for a good and profitable business.”

The Benefit Corporation movement grew out of this same idea, introducing a new legal framework that allows companies to do more than just maximize profits.

This report is a retrospective on how we sought to address our six specific benefit purposes in fiscal year 2016. But it doesn’t end here. As we look to the future, we plan to build on our success of 2016, and continue to deliver on our benefit purposes in fiscal year 2017.

You’ve already seen some of this with our commitment to donate \$10 million, 100 percent of our global retail and online Black Friday sales, directly to grassroots environmental nonprofits working on the front lines to protect our air, water and soil for future generations. And we shifted our focus from working to help expand the protection of public lands through the designation of national monuments like Bears Ears in Utah, to the fight to preserve them.

Patagonia’s founders are deeply committed to supporting grassroots activism as a means of pushing policy makers, government and citizens to act. In the last few years, our voice and reach has grown louder and stronger. And we won’t stop—we’ll only push harder.

We continue to focus on building the best product, while causing the least environmental harm, as demonstrated by our introduction of recycled down in our fall 2016 product line. In our own operations, we’re working to procure more renewable energy and reduce our use of natural resources. In fiscal year 2017, we have plans to reimagine the work week to provide an even more supportive work environment—one that allows our employees more time with family and more time in the great outdoors. As always, we will seek ways to share our learnings and standards with the industry, while being honest and transparent with our customers and critics about the business, social and environmental challenges we face in meeting our mission and delivering on our benefit purposes.

The Patagonia experiment is far from over, but we feel confident in saying that financial success and the social and environmental health of the planet are not in conflict, and we plan on proving that year over year.

