

LEADING THE RETAIL FOOD INDUSTRY TO SUCCESS SINCE 1952

PFMA

Pennsylvania Food Merchants Association

ANNUAL REPORT



2012

Pennsylvania Food Merchants Association 2012 ANNUAL REPORT

The Pennsylvania Food Merchants Association is a statewide trade association representing more than 1,100 food retailers who operate nearly 4,000 retail food stores in Pennsylvania.

Our Mission:

“To improve the public image, effectiveness and profitability of companies in the retail and wholesale food distribution industry.”

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PFMA Membership Benefits with Legislative Success



PFMA Chairman
Louie Sheetz
Sheetz Inc.
Altoona, PA

'As of this writing, we are very optimistic that changes will occur to Pennsylvania's adult beverage sales system this year.'

What a difference two years can make in the opinions of our legislative leaders. During the past two years that I have served as your chairman, several bills have been introduced and failed to make changes to Pennsylvania's adult beverage sales system. In 2011 Mike Turzai's proposal to sell the state stores didn't have much chance of passing in the House, and that bill still didn't move after the House gutted and changed the language in it.

As of this writing, we are very optimistic that changes will occur to Pennsylvania's adult beverage sales system this year. In early 2013, Governor Tom Corbett proposed privatizing alcohol sales in the Commonwealth. His plan was introduced as HB 790 and after it was amended, it passed the Pennsylvania House of Representatives in a historic vote of 105 to 90. The state Senate is currently reviewing the bill and has plans to bring it up for a vote in late June.

Thanks to the efforts of PFMA members and strong public support for customer convenience, Pennsylvania is closer than ever to a modern and convenient alcohol sales system. If you haven't already contacted your senators, now is the time to call or email them about your view on this issue. Visit FreeMyBeer.com today and encourage your customers to contact their lawmakers. For a complete review of the HB 790 and the changes PFMA has proposed, please review the government relations section on pages 10-12 of this report.

In 2012, PFMA members finally saw shut-off valve legislation come to fruition. After nearly four years, Act 144 of 2012 was signed into law allowing stores to build larger and safer fueling stations. Fuel retailers can now expand their store footprint from 125 feet to a maximum of 200 feet. Emergency shut-off valves will be needed every 100 feet in addition to the device inside the store.

The association and its members continue to fight against plastic bag bans, particularly in the city of Philadelphia. Instead of a ban, the food industry favors recycling and encouraging the use of reusable shopping bags. PFMA continued to educate the public about the importance of bag recycling last year. "A Bag's Life in Pennsylvania" features a website that helps consumers locate plastic bag drop-off sites throughout the state. More than 1,400 locations are listed on www.abagslife.com. In addition, PFMA continued to support Keep Pennsylvania Beautiful efforts to promote recycling and education.

Last year, PFMA joined with a coalition of Pennsylvania retailers and other businesses to oppose Governor Tom Corbett's plan to cap the sales tax vendor allowance at \$3,000 per

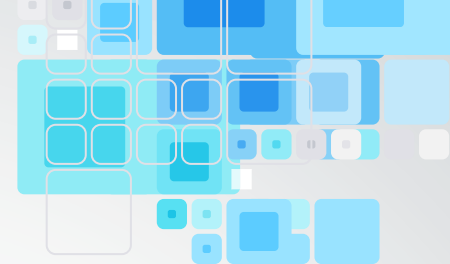
year. Retailers that remit between \$30 million and \$50 million in sales tax revenue to the state typically retain between \$300,000 and \$500,000 in the vendor allowance. Under the governor's plan that amount would dwindle to \$3,000. I met with Governor Corbett to explain the impact this cap would have on PFMA members. Thanks to the efforts of the coalition and PFMA members, HB 2150 did not pass through the Senate and it expired at the end of the 2011-12 session.

Community pharmacists scored a victory to help level the playing field with mail order pharmacy benefit managers as Senate Bill 201 was signed into law. Act 207 of 2012 prohibits health insurance companies, Blue Cross and Blue Shield plans and government-sponsored pharmacy benefit programs from treating patients who use retail community pharmacies any different from those who use mail order pharmacies, while retail pharmacies have to agree to accept the same pricing, terms and conditions or requirements related to the cost of the prescriptions and the quality of care as are established by the insurer for the mail order pharmacies. This legislation helped to level the playing field.

PFMA's business subsidiaries — Merchants Express Money Order Company, Inc. (MEMO) and Pennsylvania Coupon Redemption Services, Inc. (PCRS) — continue to provide valuable products and services to members. MEMO's high quality money services products are available at more than 3,500 retailers in 20 states, while PCRS continues to provide competitively priced coupon processing to 600 retailers in Pennsylvania and surrounding states. These services help retailers achieve greater success by providing a one-stop shopping experience and coupon savings. Descriptions of these products and services are available in this annual report starting on page 22. Please call our office to find out how to get started.

Thank you for your membership during the past year. I hope you find strong value in PFMA's government and regulatory advocacy, information, communications, certification programs, scholarship and business services. PFMA provides one unified voice for the retail food industry, which is of great importance in getting your opinions heard.

In addition, thank you to all PFMA members who volunteer their knowledge, ideas and time to the association's board of directors and committees. I encourage all members to take an active role in the association. Please give David McCorkle a call at 800-543-8207, x5900.



Work in 2012 Will Bring Changes in 2013



David McCorkle
President & CEO
dmccorkle@pfma.net

'As your share of the Pennsylvania beer market grows, the pressure for allowing food stores to sell wine, spirits and beer will grow.'

The year began with national and state elections occupying center stage. The results favored Pennsylvania Democrats as President Obama successfully led a ticket that resulted in wins for democratic candidates for State Treasurer, Auditor General and Attorney General. The latter, Kathleen Kane is the first democrat to hold the elected Attorney General role and will serve at least four years as Pennsylvania's chief law enforcement officer. Democrats gained seats in the Senate where the Republican advantage dropped to 27-23. In the state house the Republican majority is a healthy 112-91.

As the 191st session of the Pennsylvania General Assembly convened on January 1, 2013 the primary issues of legislative policy facing PFMA members included:

- Reform of Pennsylvania's adult beverage sale system
- Plans for funding road and bridge improvements and gas tax increases
- Business tax reductions
- Public employee pension reform to eliminate the \$41 billion unfunded pension liability for state and local governments and school districts
- Timely passage of the FY 14 budget by June 30, 2013
- Stabilization of the social safety net programs at the state and federal level.
- The ongoing need to reduce credit and debit card bank fees and others

On the Issues

The legislative update will provide a review of the excellent work accomplished by PFMA members and staff on each of the above priorities and many other industry initiatives. As 2013 begins the major issues are works in process, but change is coming.

In February 2013 House republicans passed a state store divestiture plan that creates new wine sale opportunities for food retailers and ends the state

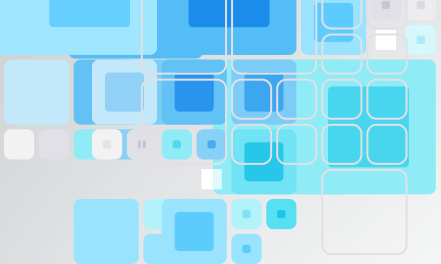
monopoly of wine and spirit sales. Governor Corbett has been instrumental in the vote gathering process and the historic vote to pass the reform legislation moves the issue to the Senate with action expected by June 30, 2013 or before.

There are now more than 200 supermarkets and convenience stores selling beer to customers and the food sale channel will increase rapidly in the next year. As your share of the Pennsylvania beer market grows, the pressure for allowing food stores to sell wine, spirits and beer will grow. To this end the freemybeer.com website has been promoted by many association members as a way of directing consumer demand for change to members of the Pennsylvania General Assembly. The voice of your associates and customers will make a difference and now is the time to engage them in the process.

Industry Innovations

Food industry leaders in southeastern Pennsylvania have worked for more than 15 years with Philadelphia City Council members, state and federal elected officials and non-profit organizations to establish a network of services and initiatives that serve our communities and are models for others. Take the time to review the recent publication by The Food Trust entitled "The Healthy Food Financial Handbook."

The Handbook features companies like Brown's ShopRite, The Fresh Grocer, Kennie's Market and others across the country. The process of educating consumers who are pressed for meal preparation time about the importance of good nutrition is a daunting task. However, the success of The Food Trust's professionals and volunteers to raise funds, hire excellent staff, maintain credibility with consumers and improve communities by improving food shopping opportunities is extraordinary.



PFMA Chairman Louie Sheetz, Secretary Paul Rankin, Vice Chairman Rich McMenamin, Treasurer Jeff Brown, and President David McCorkle

Additional Food Trust programs like the “Philadelphia Healthy Corner Store Initiative” carry the nutrition education process to the neighborhoods where walk in traffic is the mainstay of the retail operation. To date, more than 600 Philadelphia corner stores have committed to sell healthy products and 83 percent of the stores met basic participation requirements. I recently visited a number of the participating stores as a guest of The Food Trust and the Project Manager Kenji Tabery. The store owners and their customers were engaged in the program which clearly benefitted both.

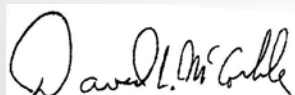
Not far away in Yardley, Pennsylvania another type of program designed to provide locally grown produce year-round has been founded by Jim McCaffery, owner of four high-end supermarkets and New York based BrightFarms, operator of a nearby 56,000 square foot greenhouse. BrightFarms is working with a number of retailers and restaurateurs. The greenhouse operation will provide 20 percent of McCaffery’s fresh-picked and delivered daily produce. In addition, each store offers nutrition labeling, educational sessions and store tours for consumers.

The Bottom Line

2012 was a challenging year for PFMA members and staff. The effort of PFMA directors led by Chairman Louie Sheetz, Vice Chairman Rich McMenamin, Treasurer Jeff Brown, Secretary Paul Rankin and all members of the board has been excellent and greatly appreciated.

As for staff, we celebrate Randy St. John’s semi-retirement and his outstanding work over the last 24 years in the areas of government relations, membership marketing and management, event planning and so many special projects including the administration of the Thomas R. and Laura Ridge Scholarship Fund and the PFMA Education Trust.

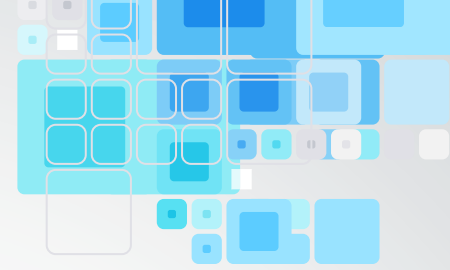
Enjoy the 2012 Annual Report and thank you again to the staff and members who work so hard to meet our annual fiscal and program goals.



David McCorkle
President & CEO

2012 Board of Directors

- | | |
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| Chairman
Louie Sheetz
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| Richard Herrmann
Bozzuto’s Inc., Newtown Square, PA | |



Leadership Changes to Occur in 2013



Randy St. John
Senior Vice President
rstjohn@pfma.net

'The food industry is very fortunate to have such a capable team in place, and I am fully confident that my departure will be a seamless transition to a newer and even stronger government relations team.'

As has been announced in the *Spectrum* newsletter in the past months, I will be retiring from PFMA by the end of 2013, so this will be the last time I will be writing an annual report message. I will be working part-time from now until the end of 2013, but it is my pleasure to report to you that PFMA has hired a new director of government relations. His name is Alex Baloga, and he is a lifetime Harrisburg resident who has worked doing constituent work for one of Pennsylvania's senators and has experience working at the Capitol for a lobbying firm here in town.

We have already begun the transition, and each day Alex and I sit down and have conversations where I give him background on the specifics of our food industry legislative hopes and fears. In the coming months I will introduce Alex to the House and Senate staff members whom he does not already know who are the ones that are involved with committees where our food industry legislation often runs.

I will also introduce him in the coming months to regulatory officials at the various state departments that have responsibility for issues such as weights and measures, underground storage tanks, food safety and the marketing of motor fuels.

As Alex learns our issues and gets to know our friends on the Hill, he will assume responsibility for PFMA's government relations program.

The rest of the Association Services team will remain in place. Annette Knapp will continue to be your primary contact for legislative and regulatory issues. As you know, Annette is a PFMA long-timer and manages our legislative and regulatory information. She is your go-to person when you have a question about PFMA Pennsylvania government issues.

Jenny Hamelin will continue to administer the Thomas R. and Laura Ridge Scholarship program and judging process along with

keeping track of PFMA's dues and billing. She will also continue to assist with PFMA's meeting planning activities including our annual conference.

Ellen Markle is raising two young daughters but still does some typing and note taking for PFMA's meetings.

Meet PFMA's New Director of GR

Alex Baloga joined PFMA in February as its new director of government relations. He will lead PFMA's government relations efforts at the local, state and federal level.



Baloga most recently served as deputy finance director for Robert P. Casey's re-election campaign for U.S. Senator, where he directed the fundraising activities in central Pennsylvania. He has extensive contacts from his experience as an associate lobbyist for Greenlee Partners, LLC, a premier government relations firm with offices in Harrisburg, Philadelphia and Pittsburgh.

In addition, he worked in U.S. Senator Bob Casey's Government office as a regional field manager, serving as the senator's liaison to government, community and constituent groups in central Pennsylvania; monitoring local issues and developments, and representing Senator Casey at civic meetings and community events.

Baloga earned his bachelor's degree in History with a specialty in Political Science from West Virginia University. Additionally, he is working toward a master's degree in Public Administration.

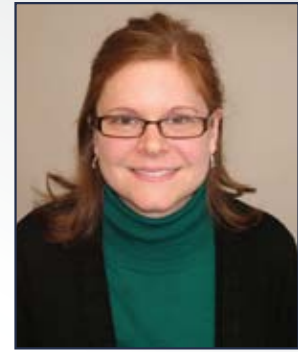
Baloga can be reached at 800-543-8207, extension 5918 or via email at abaloga@pfma.net.



Annette Knapp
 Manager of Legislative Research
 aknapp@pfma.net



Elizabeth Peroni
 Director of Communications
 eperoni@pfma.net



Jennifer Hamelin
 Administrative Assistant
 jhamelin@pfma.net

David McCorkle continues as our President and CEO and will work with Alex on legislative issues. Dave frequently travels to Philadelphia to work with our members there on City Council issues.

Elizabeth Peroni, while working from the Scranton area, heads up our communications efforts while also working to assist with marketing and communications for PCRS and MEMO.

The food industry is very fortunate to have such a capable team in place, and I am fully confident that my departure will be a seamless transition to a newer and even stronger government relations team.

Let's look at the highlights of the Association Services Division for 2012.

PFMA's legislative activity in 2012 is thoroughly reported starting on page 10. Please see that section for a discussion of pharmacy and WIC issues from the past year as well as information about PFMA's Fuels Committee.

Emergency Preparedness

Annette Knapp kept a close watch on emergency issues throughout 2012 and alerted PFMA members through our email communication system. More than 50 alerts in 2012 advised members of storms, weather-related driving restrictions, power outages and updates, fuel rationing, price gauging declarations, and other announcements. Her efforts helped keep members abreast of serious situations that resulted from the impact of Super Storm Sandy in November and she got answers to member questions from regulatory agencies. She also assisted in obtaining a commercial driving waiver so that members could get product back on the shelves to serve customers following the storm.

Food Protection

In 2012, retailers were faced with foodborne illness outbreaks in cantaloupes, pine nuts and nakochi scrape tuna used for spicy tuna rolls. PFMA's Food Protection Committee met in April and September to discuss a number of important issues, including these outbreaks and the Food Safety Modernization Act, which directs the FDA to issue guidance documents to reduce the risk from the most significant foodborne contaminants and establishes minimum standards for safe production and harvesting of fruits and vegetables based on known safety risks. They also received updates on the transition to global Food Safety Initiative (GFSI) benchmarked standards and audit systems, harmonizing

Good Agricultural Practices (GAP) standards and safety trainings offered throughout Pennsylvania.

Loss Prevention

Last year, PFMA worked with the Pennsylvania Retailers Association (PRA) to get HB 1000 passed. The bill would have lowered the felony threshold for retail theft cases from \$2,000 to \$1,000. The bill passed the House of Representatives on December 20, 2011 and sat in Sen. Stewart Greenleaf's (R-Bucks, Montgomery) Senate Judiciary committee. Sen. Greenleaf was not interested in allowing for the passage of legislation that would increase prison capacity and would exacerbate the financial constraints facing the state. The bill expired at the end of the session, but was reintroduced in 2013.

The Loss Prevention Committee met in February 2012 where they heard from U.S. Secret Service agents on the topic of identifying counterfeiting currency and technological advancements to make it more secure. The group also discussed driver safety and they went through steps taken in a live shooter scenario at Alvernia University.

The group continues to share information on retail theft.

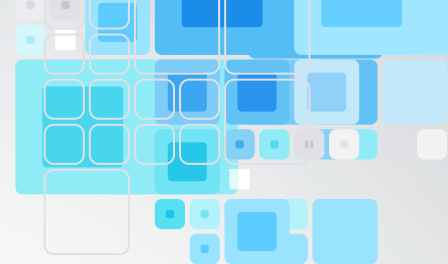
Pennsylvania Milk Marketing Board Activity

Luke Brubaker continues as chairman of the Pennsylvania Milk Marketing Board with Lynda Bowman as the consumer member and Richard Kriebel as the third Milk Marketing Board member. Tim Moyer became the permanent board secretary.

Difficulties are beginning to arise for both the dairy farmer and milk dealers. The milk dealers have asked the board to reduce the Over-Order Premium in each of the last several hearings in response to competitive pressures from non-Pennsylvania milk dealers. The milk dealers are seeking the largest reduction to date, over one dollar, to the Over-Order Premium. The board has scheduled a hearing on the matter for May 22 – 23, 2013. Given the difficulties faced by dairy farmers with high feed and other costs, this hearing could become quite contentious.

The board did not change any aspect of the retail milk price buildup formula during the last round of cost replacement hearings. It continues to allow retailers to adjust their costs in accordance with the consumer price index.

If you have any questions regarding milk related matters, please feel free to contact Kevin M. Lutkins, Esquire, klutkins@memoco.com, at the Pennsylvania Food Merchants Association.



Association Services

Ridge Scholarship Program

In 2012 we received 170 applications for 22 Ridge scholarships of \$2,000 each. During the 2013 Annual Conference, PFMA will host a VIP cocktail reception with former governor Tom Ridge to raise money for the scholarship program.

Longtime Ridge Scholarship advocate and application judge, Lewis S. Kunkel, Jr. passed away on April 8, 2013 after a short illness. Lew was a Princeton University graduate and completed his law degree at the University of Pennsylvania. A partner at Pepper Hamilton LLP, he represented PFMA on many industry issues before his retirement in 2000 and traveled with PFMA members to present legal seminars at fishing locations booked by his friend Randy St. John on several occasions. He was an articulate defender of the free enterprise system and of corporate and individual rights. He served on every Ridge Scholarship selection panel from 1997 until his death which occurred just days before the 2013 judging. Lew Kunkel will be missed by his friends in the food industry, his wonderful family and his next door neighbors, the David and Kathy McCorkle.

PFMA Hosts 2012 Annual Conference

The Antique Automobile Museum in Hershey, Pennsylvania offered a unique venue for the Pennsylvania Food Merchants Association (PFMA) annual conference on May 15 and 16. Attendees had ample opportunities to explore the museum's vintage automobile collection, which spans eight decades and features vehicles in scenes from New York to San Francisco.



Greg TenEyck
Genuardi's/Safeway

PFMA hosted a cocktail reception and dinner among the exhibits on Monday, May 15. The association honored the work of Genuardi's Markets, since Safeway sold the stores in 2012. Maryanne Crager, John Vuotto and Greg TenEyck of Genuardi's/Safeway were honored for their strong support of the association through the years.



Maryann Crager
Genuardi's/Safeway

On Tuesday, May 16, Sauder's Eggs served omelets for breakfast and handed out Buffalo flavored hot wing eggs to attendees.

George Latella, professor of food marketing at Saint Joseph's University, discussed the latest social media trends in the first seminar. His message included starting with what you know; developing objectives; deciding the best way to communicate your message; engaging the consumer and getting them to respond. He also reminded the group that just because you build a social media identity doesn't mean people will follow you. He encouraged attendees to ask themselves if it's worth the investment.

Despite the predicted demise of coupons, they are a thriving part of business today. Autumn Thomas, president of Pennsylvania Coupon Redemption Services (PCRS), provided the latest coupons trends during her conference presentation.

Thomas noted the biggest change to coupons is the move from the UPC code to the GS1 Databar. The new databars, which provide more information and take up less space, are now being used on coupons, allowing marketers to precisely code complex offers and reduce the need for the 922 bypass. One catch is that retailers have to upgrade their POS systems to read the new data. "Print at home" coupons have made fraud more prevalent. Thomas suggested retailers create and post a coupon policy for customers and upgrade their POS systems to scan to the family code level. Coupons that won't scan, could be fraudulent. She also noted that smartphones are the future of couponing. Estimates predict mobile coupons will account for \$43 billion in redemption value by 2016.

PFMA and the Pennsylvania Convenience Store Council held a board meeting during the conference where they voted to combine the groups and their board of directors into one organization. Directors serving on the Executive and Budget and Finance Committees recommended merging the boards to ensure that chair and co-chairs of the Legislative Committee, Political Action Committees (PACs) and the Fuels Committee are all represented on the newly combined board. The amendment expands the PFMA board from a maximum of 29 members to 37.

Thank you to all the sponsors and attendees who supported the 2012 conference.

25th Anniversary Pennsylvania's Best Bagger Championship

Justine Schnepf of Giant Eagle's Market District store, Bethel Park, Pa., won the 25th Annual Pennsylvania's Best Bagger Championship on Friday, October 19 at Strawberry Square, Harrisburg, Pa.

Schnepf, 21, out-bagged 16 other competitors from across the state to earn the title, \$250, a trophy and a trip to compete at the national contest during the National Grocers Association convention in Las Vegas on February 10, 2013. Her win marks Giant Eagle's second state championship, which it last won 15 years ago when Cathy Lee Laughlin won the title.



She had the best overall scores for speed, weight distribution, proper bag building technique and style, attitude and appearance. Participants in the 2012 contest were from Bill's Shoprites, Boyer's Food Markets, Giant Eagle, Giant Food Stores, Henning's Market, McCaffrey's Markets, and McMenamin Family Shoprite.

PFMA encourages all retailers to send contestants to the 2013 Pennsylvania's Best Bagger Championship in October.

Randy St. John
Senior Vice President, Association Services

Scanning Certification Program Helps Retailers Maintain Price Accuracy in 2012



Autumn Thomas
Executive Director
athomas@pfma.net

'The SCP is meeting its main goal of helping its members improve their price accuracy. Supermarket accuracy rose from 96.90 percent in 1991 to 98.70 percent in 2012.'

Since 1991, the Scanning Certification Program (SCP) has helped participating retailers provide price accuracy and appropriate pricing information to consumers in Pennsylvania and surrounding states. The main goals of this voluntary price accuracy program are to clearly identify for customers the prices of all items in the store and to ensure that shoppers are charged the lowest advertised price at checkout.

Program guidelines require stores to adopt and advertise a price accuracy policy, provide employees with price accuracy training, document and correct errors promptly and ensure that shelf tags are accurate and legible.

SCP auditors conduct unannounced in-store inspections to measure compliance with program standards. Certification is awarded to stores that have implemented program requirements and achieve an accuracy rating of at least 98 percent on a random sampling of items.

The Scanning Certification Program provides public recognition to stores that achieve and maintain a high level of price accuracy. Adherence to program standards helps prevent overcharges that erode consumer confidence and undercharges that cost stores money. Certified stores also fulfill the Pennsylvania state requirement of Act 155 for the annual inspection of checkout scanning systems.

The program has grown significantly over the past 22 years. Membership has increased from 10 study participants in 1991 to 950 supermarkets and convenience stores today. Inspection activity has also expanded, with 1,045 inspections performed last year.

Most importantly, the SCP is meeting its main goal of helping its members improve their price accuracy. Supermarket accuracy rose from 96.90 percent in 1991 to 98.70 percent in 2012. Convenience stores made strides too — improving overall average accuracy 1.21 percent since 2000.

Program staff completed an ambitious set of projects during the past 12 months including enhancing data capture and analysis capabilities; leveraging technology to contain costs and increase operational efficiency, and providing price accuracy training for new enrollees.



As we look ahead to fiscal 2013, the SCP remains focused on its core priorities of helping its retail members reach and sustain the highest level of price accuracy and ensuring customer satisfaction with checkout scanning systems.

The Scanning Certification Program was developed by a board of advisors, which continues to set policy and oversee all aspects of the program.

The current members of the board of advisors are:

Edward D. Arnoldi, Pennsylvania Association of Weights and Measures

Mary Bach, Consumer Advocate

Murray Battleman, Richboro Shop 'n Bag

Dean Ely, Pennsylvania Association of Weights and Measures

Dr. Drew Hyman, Pennsylvania State University

Ric LeBlanc, Pennsylvania Office of Attorney General

David McCorkle, Pennsylvania Food Merchants Association

Kevin Mullen, SuperValu, Inc., Eastern Region

Peg Rhodes, United Food and Commercial Workers

Pattie Shekiro, Acme Markets

Steve Swan, Retailix

To learn more about the Scanning Certification Program, contact SCP Executive Director Autumn Thomas at 888-722-6727 or athomas@pfma.net.



2012-2013 State Budget

Governor Tom Corbett signed the 2012-2013 general fund budget just in the nick of time on June 30, 2012. The \$27.66 billion plan included no new taxes, no tax increases, nor the removal of the retail sales tax vendor allowance. It did include a provision to continue the phase-out of the Capital Stock and Franchise Tax (CSFT).

The budget-related tax code bill maintained the current Vendor Sales Tax Collection Allowance so that Pennsylvania's employers can continue to be reimbursed for the administrative costs they incur for collecting the tax for the state. The business coalition that included PFMA, the PA Retailers Association, Verizon and AT&T has saved members literally millions of dollars. Had the vendor allowance removal actually happened, not only would retailers have lost millions of dollars this past year, but they would have lost millions of dollars in each future year.

Alcohol Sales Reform

To provide adequate background on this issue, we must go back to 2011. In July 2011, state House Majority Leader, Rep. Mike Turzai (R-Allegheny) had introduced a bill that would allow the sale of the Pennsylvania Liquor Control Board (PLCB) wholesale and retail assets. By the close of 2011, HB 11 had been gutted and an entirely new scheme was put in its place. In this "new" HB 11, the state stores would not be sold. The bill that was voted out of the House Liquor Control Committee contained the following concepts:

- Beer distributors would be able to sell wine;
- Beer distributors would be allowed to sell beer down to the six-pack level, but the bottle size for a six-pack bottle would be 16 ounces;
- Taverns and restaurants would be allowed to sell beer up to a 30-pack;
- Restaurants would see an increased discount on their purchases from the PLCB from 10 to 15 percent; and,
- The prohibition against selling alcohol where gasoline is sold would be partially removed by amendment.

Within the new HB 11, Rep. Turzai created a private wine wholesaler license. For the cost of \$100 million, a wine wholesaler licensee could sell to the PLCB and to beer distributors that would in turn be able to sell wine to taverns and restaurants.

The revised bill gave new privileges to the PLCB that would remain in place as a wine and spirits wholesaler and retailer. The PLCB would be the exclusive wholesaler and retailer for spirits and would continue to wholesale and retail wine.

It allowed the PLCB to create a consumer relations marketing program that would include concepts that parallel supermarkets' loyalty programs with discounts and "frequent drinker" rewards. Finally, the bill allowed the PLCB to sidestep the state's regular procurement process to acquire goods and services in whatever fashion it saw fit.

Alcohol Sales Reform Continues to Headline Retailer Concerns

The PFMA Government Relations Team includes, from left, David McCorkle, president and CEO; Randy St. John, senior vice president, association services; Annette Knapp, manager of legislative research, and Alex Baloga, director of government relations.

In this budget, the CSFT rate was reduced to 1.89 mills on January 1, 2012 and to 0.89 mills on January 1, 2013, with full elimination targeted for January 2014. The House pushed hard for \$13 million to finish phasing out the single sales factor. That move finally based state corporate income taxes on sales by corporations, not on their assets. In addition, there was no change in the state income or sales taxes.

The budget also included an expansion of the state's successful Educational Improvement Tax Credit (EITC) program, which uses business donations to provide scholarships to low- and moderate-income students in exchange for a tax credit.



Although the bill contained some enhancements for many of the interested stakeholders, it also created enhancements for the stakeholders' competitors. For instance, malt beverage distributors would have been able to sell wine and sell beer down to the six-pack level, but they were unsatisfied because the mandate prohibiting the sale of alcohol where gasoline is sold was no longer included in the bill. The taverns and restaurants would have received an enhanced discount on wine and liquor that they purchase from the state and get to sell up to 30-packs, but they were unhappy that the beer distributors would get to sell wine and be able to sell down to six-packs. Rep. Turzai intended to bring HB 11 up for a vote on the House floor before the close of 2012. However, no vote occurred because no interested party was in favor of the bill.

By the start of 2012, more than 45 amendments to HB 11 had been offered, and they ranged from eliminating the removal of the gas and alcohol sales prohibition to allowing restaurants to sell up to six bottles of wine.



In April 2012, PFMA had obtained a copy of one particular proposed amendment to HB 11 which purportedly was backed by Rep. Turzai and the Governor. Amendment highlights included the following:

- Sell the right to wholesale wine and spirits to private industry.
- Following the sale of the wholesale system, 1,500 licenses to sell wine and spirits at retail would be created.
- In the first six months of the sale process, beer distributors would have the right to purchase the 1,500 licenses at a fixed price which would be determined by the profitability of the existing stores. After the initial six-month period, any remaining licenses would be allocated county by county and would be auctioned off to any qualified buyer.
- Buyers of the license would need to provide hours, service and product availability reasonably equivalent to those of the existing state stores.
- Certain restrictions would continue to apply to the location of the new retail stores. They could not be located in a dry municipality or within 300 feet of a school. Licensed retailers could not be within a quarter of a mile from another wine and spirits store.
- Stores would need to be a “self-contained” unit and not have an interior connection to another business except “as approved by the Board.”
- A single owner could hold no more than ten licenses in the state, and no more than ten percent of the licenses in a county where there are more than ten licenses and no more than one license in a county with less than ten.
- No one under age 18 would be permitted to work in the licensed premises and no one under the age of 21 would be permitted to sell alcoholic beverages.
- Seventy-five percent of the employees would need to complete RAMP training.
- No customer under the age of 21 would be permitted in the licensed premises unless with an adult, and all purchasers would need to have their age verified by a “swipe card” if they appear to be under 35 years old.
- No below cost sales would be permitted.
- A distributor could own no more than 10 distributor licenses. Representative Mike Turzai (R-Allegheny) wanted HB 11 passed by the House of Representatives before the 2012 summer recess, but the bill was not supported by the beer manufacturers, the importing beer distributors, the retail beer distributors, the Tavern Association or PFMA. PFMA sent a letter to Rep. Turzai expressing our appreciation in being included as a stakeholder in the process and that we understood the difficulty in trying to craft a bill which satisfies the wishes of the stakeholders and also addresses the wants of consumers in Pennsylvania. However, these new proposals would not create the kind of free enterprise system that we think consumers want. Selling a very limited number of licenses at

a very high cost and barring convenience stores from purchasing wine-only or wine and spirits licenses would not create the kind of free market solution we were hoping for. As a result, we could not support his efforts of privatization in their present form.

On June 19, 2012, House Majority Leader, Rep. Turzai and Gov. Corbett announced that they were giving up on privatizing the state store system at that time.

In the fall of 2012, lawmakers discussed moving alcohol sales reform legislation on their own. However, the House, Senate and Governor failed to create a unified proposal to privatize the stores by the close of the year. The following summaries outline a proposed amendment making the rounds last fall for possible use in 2013.

The highlights of the late 2012 grocery store amendment were:

- A case of beer would be defined as six 12-ounce bottles, which would permit beer distributors to sell six packs.
- A grocery store would be defined as a store of more than 10,000 feet selling groceries that constitute seventy percent of their sales, excluding prescriptions and tobacco.
- The PLCB would sell wine at wholesale from its retail locations to grocery stores at an 18 percent discount from the retail cost.
- Restaurants would get to sell 30-packs.
- Grocery stores could also purchase wine directly from wineries in Pennsylvania.
- Restaurants would be permitted to sell five bottles of wine and one bottle of spirits for carry out.
- Clerks would need to be 18 years of age and need to be RAMP trained.
- Clerks would need to card everyone under the age of 35.
- All beer and wine would need to be sold from one aisle, no more than 150 feet long and no more than 15 feet wide.
- Beer and wine could be sold in any quantities, but beer could not be sold in a package larger than an 18-pack.
- A grocery store chain could not self-distribute.
- Grocery stores could not make the importing distributor, from whom they buy their beer, rotate the stock or stock the shelves.
- Delivery to stores would need to be received by an employee at least 21 years of age, and claims for breakage would have to be settled at the dock.
- Store hours for the sale of beer and wine would be 7 a.m. – 11 p.m. Monday through Saturday and with the issuance of a special permit, from 9 a.m. – 11 p.m. on Sunday.
- Tastings would be permitted.
- No below cost sales would be permitted.

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Alcohol Sales Reform Leads Association Agenda in 2012-13



2012 Proposal for Grocery Store License, continued

- Grocery stores could also possess an “R” License.
- Costs for licenses would vary by county. First and second class counties would be \$120,000; second class A counties and third class counties would be \$140,000; fourth and fifth class counties would be \$100,000; and sixth and seventh class counties would be \$80,000.
- Licenses would be renewed annually with costs ranging from \$2,000 - \$4,000 depending on the county.
- Grocery store licenses would be issued at a rate of one per 15,000 citizens allowing for roughly 800 licenses to be created.
- Convenience stores would be eligible to acquire a restaurant or eatery license if their fuel pumps were more than 75 feet from the point of sale inside the store.

The highlights of the late 2012 convenience store amendment were:

- A convenience store is defined as a store with less than 10,000 square feet with sales - minus lottery, liquid fuels and tobacco — that is 50 percent grocery items.
- A license called a “Convenience Store Retail Malt and Brewed Beverage License” would be created.
- Beer would need to be delivered by an importing distributor.
- Stores would qualify for a license that allows liquid fuel pumps on the premises that are at a minimum 75 feet away from the point-of-sale in the physical building.
- Beer would need to be sold from one aisle only. The aisle could not exceed 50 feet long and could be sold from both sides of the aisle.
- Licensees would be able to sell up to 192 fluid ounces of carryout beer in one sale to one person. One hundred ninety-two fluid ounces is two six-packs comprised of 16 ounce bottles.
- Clerks would need to be 18 years of age.
- Clerks would need to scan identification for everyone who appears to be under the age of 35.
- Clerks would need to be RAMP trained.
- Chain stores would not be allowed to self-distribute.
- Convenience stores could not make the importing distributor, from whom they buy their beer, rotate the stock or stock the shelves.
- Delivery to stores would need to be received by an employee at least 21 years old, and claims for breakage would have to be settled at the dock.
- Store would be allowed open from 7 a.m. – 11 p.m. Monday through Saturday and from 9 a.m. – 11 p.m. on Sunday with the use of a special permit.
- No below cost sales would be permitted.
- Licenses would cost \$90,000 for counties in the first and second class; \$110,000 for second class A counties and class three counties; \$70,000 for fourth and fifth class counties; \$50,000 for sixth and seventh class counties; and \$30,000 for class eight counties.
- There would be a renewal fee of \$2,000 – \$4,000 depending on the county.
- The number of licenses would be limited to the ratio of one to every thirty thousand residents, which is approximately 400 statewide.

At the beginning of 2013, Governor Corbett decided to offer a brand new plan to fully divest the PLCB of its retail and wholesale functions in a two-step process taking not more than four years.

Highlights of the plan include:

- Private entrepreneurs will own the entire liquor retail and wholesale system.
- Pennsylvanians will enjoy the convenience and selection available to virtually every other American.
- 1,200 retail licenses for wine and spirits will be auctioned by county.
- Grocery stores, convenience stores, pharmacies, large retailers, and beer distributors can apply to sell beer and wine and/or bid on one of the 1,200 licenses for wine and spirits.
- Businesses may be a one-stop retail shop where beer, wine, and spirits are sold under one roof.
- Six-packs of beer may be sold by local beer distributors.
- Pennsylvanians will be able to ship wine to their homes.
- Fines for selling to minors and visibly intoxicated persons will be significantly increased.
- State Police and PLCB liquor law enforcement programs will receive a \$5 million, or 22 percent, funding increase.
- Alcohol treatment and prevention efforts will receive a \$1.5 million, or 75 percent, increase in funding.
- Measures for affected PLCB employees, including tax credits for businesses that hire separated workers, educational credits, civil service credits, individual employment plans and a multi-agency committee to help displaced workers find employment will be put into place.

Governor's Plan: Privileges for Alcohol Sales Privatization for Retailers				
Retailers	Square Feet	Beer Sales Privileges	Wine Sales Privileges	Ann. License Costs
Grocery Stores	10,000 - 100,000 sq. ft.	2 six-packs	6 bottles of wine	\$25,000-\$30,000
Convenience Stores	1,000 - 10,000 sq. ft.	1 six-pack	N/A	\$10,000
Pharmacies	Over 8,000 sq.ft.	2 six-packs	6 bottles of wine	\$17,500
Big Box Stores	Over 100,000 sq. ft.	Up to & Incl 1 case	6 bottles of wine	\$35,000
Restaurants (with enhanced license)		Up to & incl 30-pack	6 bottles of wine	
Beer Distributors		Down to a 6-pack	Ability to bid on wine & spirits license	



Food Protection

The PFMA Food Protection Committee met on April 27 and September 13, 2012 to discuss a number of important issues. Dr. André Weltman, public health physician at the Pennsylvania Department of Health, provided a presentation on recent foodborne illness outbreaks including listeria in cantaloupes, salmonella in pine nuts and salmonella in nakauchi scrape tuna used for spicy tuna rolls. Luke Laborde, associate professor within the Department of Food Science, Penn State University, spoke to Quality Assurance Committee members on the Food Safety Modernization Act (FSMA). The law directs the FDA to issue guidance documents to reduce the risk from the most significant foodborne contaminants and establish minimum standards for safe production and harvesting of fruits and vegetables based on known safety risks. He also provided updates on the transition to global Food Safety Initiative (GFSI) benchmarked standards and audit systems, harmonizing Good Agricultural Practices (GAP) standards and safety trainings offered throughout Pennsylvania.

Sheri Morris, food program manager for the Pennsylvania Department of Agriculture, provided the group with a Conference for Food Protection (CFP) update. There were a record 111 issues covered during the April 14-18, 2012 council sessions. All issues can be referenced on the <http://foodprotect.org/> website.



In September, Brian Harty of Stericycle, a recall audit company that has participated in 400 recall investigations, provided a presentation on recalls and their impact on retailers. The importance of taking swift action during a recall was emphasized in order to aid product manufacturers and keep costs down on reimbursement. Sheri Morris addressed changes to the Pennsylvania Food Code and provided an overview on changes with Food Safety Certification jurisdictions in grandfathered areas of the state. Most programs are evolving toward five-year full certification periods while abandoning abbreviated recertification trainings. Other presentations included an overview of egg safety inspections based on the recent FDA rule as carried out by Michael Mero Jr., an investigator with the FDA/ORA/PHI-DO/Harrisburg Resident Post.

Fuel Issues

The PFMA Fuels Committee met on March 23 and August 24, 2012 to discuss the following issues:

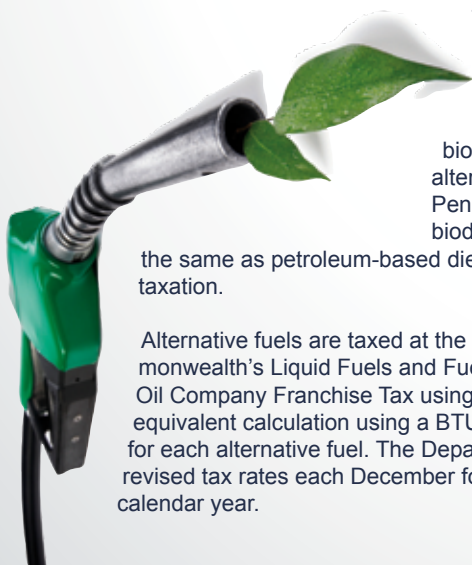
Alternative Fuels Tax

On April 19, 2012, the Pennsylvania Department of Revenue issued a Motor Fuel Tax bulletin reminding all retailers engaged in the sale of alternative fuels in Pennsylvania of the licensing, tax, and reporting responsibilities related to alternative fuels. Pennsylvania defines "alternative fuels" as including: natural gas, compressed natural gas (CNG), liquefied natural gas (LNG), liquid propane gas and liquefied petroleum gas (LPG), alcohol, gasoline alcohol mixtures containing at least 85% alcohol by volume, hydrogen, hythane, electricity, and any other fuel used to propel motor vehicles on the public highways which is not taxable as fuels or liquid fuels under Title 75. For taxation, each alternative fuel is converted to a gasoline gallon equivalent, and the tax rate applied to

the gasoline gallon equivalent equals the current gas tax. Note that biodiesel is not an alternative fuel. Under Pennsylvania law, biodiesel is considered

the same as petroleum-based diesel for purposes of taxation.

Alternative fuels are taxed at the rate of the Commonwealth's Liquid Fuels and Fuels Tax, plus the Oil Company Franchise Tax using a gasoline gallon equivalent calculation using a BTU conversion factor for each alternative fuel. The Department publishes revised tax rates each December for the following calendar year.



For 2012, the tax rates for alternative fuels were as follows:

Alternative Fuel	Rate of Conversion (BTU/gal of alternative fuel)	Amt. Equivalent to One Gallon of Gasoline @ 114,500 BTU per gallon	Tax Rate per Gallon of Alternative Fuel
Ethanol	76,400	1.499	\$0.208
Methanol	56,560	2.024	\$0.154
Propane/LPG	83,500	1.371	\$0.228
E-85	80,460	1.423	\$0.219
M-85	65,350	1.752	\$0.178
Compressed Natural Gas (CNG) @ 3,000 PSI	29,000	3.948	\$0.079
Liquefied Natural Gas (LNG)	66,640	1.718	\$0.182
Electricity	3,412 BTU/	33.558 KWH	0.0093/ KWH

Biofuels

The "Biofuel Development and In-State Production Incentive Act" was enacted in 2008 and required that all diesel fuel sold in Pennsylvania for on-road use must contain at least two percent biodiesel. The mandate would go into effect after in-state production of biodiesel reached 40 million gallons. The mandate went into effect in May 2010. The law states that the amount of biodiesel in fuel would increase to five percent when in-state production reaches 100 million gallons; ten percent when production reaches 200 million gallons and twenty percent when production reaches 400 million gallons.

Rep. Curt Sonney's (R-Erie) House Bill 807 amended the Biofuel Development and In-State Production Incentive Act to provide for:

- A registration requirement for any person that transfers, offers for sale or sells biodiesel;
- A blending requirement that the biodiesel blend for on-road use must be created using an approved blending method;

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Fuel Issues 2012-13

Biofuels, continued

- A bill of lading or shipping manifest must be provided each time biodiesel is sold or transferred. DEP registers biodiesel producers and creates a bill of lading format;
- For cellulosic ethanol content in gasoline requiring compliance with the American Society for Testing and Materials International (ASTM) specifications;
- Authority for the Pennsylvania Department of Agriculture (PDA) to enforce the act by conducting unannounced inspections, taking samples of products and auditing books and records;
- Authority for PDA to issue orders and notices, initiate criminal prosecutions, seek injunctive relief, impose civil penalties and enter into consent agreements; and,
- Establishing the Biofuel Development Account for administration

Boutique Fuel

Mike Rader, executive director of the state Senate Agriculture and Rural Affairs Committee, was the opening speaker at a March 23, 2012 Fuels Committee meeting. He had been actively trying to mitigate the problem of supplying boutique summer fuel to western Pennsylvania due to upcoming supply issues. The closure of three Philadelphia area refineries and a Hess refinery in the Virgin Islands had increased the chance of short supplies.

Between June 1 and September 15 of each year, a summer "boutique" blend of gasoline containing a minimum oxygen content of 2.7 percent by weight per gallon must be sold in the seven county Pittsburgh-area of Allegheny, Armstrong, Beaver, Butler, Fayette, Washington and Westmoreland counties. This special blend is routinely more expensive than gas sold in the rest of Pennsylvania and also in neighboring Ohio and West Virginia. The slightest bit of refining disruption puts the gasoline supply at risk.

Senators Timothy Solobay (D-Allegheny, Beaver, Greene, Washington and Westmoreland) and Elder Vogel (R-Allegheny, Beaver and Lawrence) introduced a bipartisan bill (SB 1386) which would remove the low Reid Vapor Pressure (RVP) summer fuel requirement for the Pittsburgh area and the surrounding area. The bill managed to pass the Senate on March 7, 2012. However, the Governor and the Department of Environmental Protection (DEP) would not support the abolition of the summer blend requirement. Instead, the bill was gutted on June 6 to instead remove the requirement for Stage II Vapor Recovery in both western and eastern Pennsylvania. The bill requires the DEP to review and reevaluate the State Implementation Plan (SIP) to address compliant fuel requirements for low Reid Vapor Pressure (RVP) gasoline as required under the Federal Clean

Octane Testing

In January 2007, the Auditor General recommended that the state begin testing gasoline octane levels following an audit of retail gas pumps. In January 2011, Senator Stewart Greenleaf's (R-Montgomery) Senate Bill 341 was introduced to authorize the Pennsylvania Department of Agriculture to establish an Automotive Fuel Testing and Disclosure Program. The program is not mandatory, but does authorize the department to test automotive fuel for octane levels on a random, unannounced basis, at the same time testing at the pump is conducted for proper volumes. The department may enter into agreements with city and county sealers of weights and measures, and those entities that conduct weights and measures inspections are required to perform any duties of fuel quality testing implemented by the department.

and enforcement of the Act.

- There are exceptions in the bill for meeting the biodiesel blend requirements. Those exceptions are for: aviation fuel, home heating fuel, fuel stored at nuclear power plants and diesel fuel produced from 100 percent Pennsylvania grade crude oil by a small refiner.

PFMA found the bill to be satisfactory and treats fairly both consumers and business interests. On June 14, 2011, HB 807 passed out of the House of Representatives and moved to the Senate. The bill received final passage in the Senate on June 19, 2012, received a concurrence in the House on June 22 and was signed into law as Act 96 of 2012 by Governor Corbett on July 5, 2012.

Air Act. The purpose of the review will ensure compliance with the act and DEP shall do the following:

1. Conduct meetings to consult with impacted organizations, including gasoline refining and distribution companies, gasoline retailers, pipeline owners, impacted businesses, public utilities, local governments and other interested entities; and
2. Provide updates within three months after the enactment of the bill to the Chair and Minority Chair of the Environmental Resources and Energy Committee of the Senate and the House respectively.

Under the amended version, if a supply disruption occurs, the Governor can submit a request to EPA to waive the summer blend requirements. A "supply disruption occurs" when the department learns of a supply disruption of compliant gasoline to the nonattainment area and would reasonably qualify for a waiver of the RVP compliant gasoline. A disruption would also apply if five percent of all existing gasoline retailers in Allegheny, Armstrong, Beaver, Butler, Fayette, Washington and Westmoreland counties are unable to obtain an adequate supply of RVP gasoline.

The bill also repeals Section 6.7 of the Air Pollution Control Act (Act 95 of 1992) that requires DEP to implement testing and certification requirements specified in the Federal Environmental Protection Agency (EPA) Stage II vapor recovery enforcement and technical guidance documents developed under section 182 of the Federal Clean Air Act requirements for areas classified as moderate, serious, severe or extreme ozone nonattainment. The amended bill version passed the House on June 26. SB 1386 was signed in the House and Senate on June 30 and the governor signed it into law on July 5, 2012 as Act 135 of 2012.

Gasoline offered for sale must be properly labeled with the appropriate octane rating or, in the case of alternative fuel, the principal components of the fuel. Procedures for investigations, stop sale notices and citations are outlined.

Governor Corbett signed the bill into law on November 1, 2012 as Act 208 of 2012.

PDA does not currently have the extra funding in place to run such a testing program. SB 341 included no fees from Pennsylvania's fuel retailers to be collected to fund a program should PDA decide to enact one. Because the bill does not provide a revenue stream for the department to initiate this process, it is unlikely that the department will actually create a program.

Natural Gas Vehicle Funding

Representative Stan Saylor (R-York) introduced HB 2251 on March 14, 2012, legislation that would create a funding stream for vehicle owners to convert to natural gas. The bill, which had more than 30 co-sponsors, would have tasked a portion of the Clean Air Fund to be used for grants encouraging the use of natural gas vehicles (NGVs) and growing Pennsylvania's compressed natural gas filling station network. It would have created a \$6 million grant program which would offer funding to companies that are converting from gasoline or diesel to CNG or LNG as a major fuel source.

While the bill did not manage to pass the House, the Pennsylvania Department of Environmental Protection (DEP) held a series of regional seminars across the state in 2012 on Pennsylvania's Natural Gas Energy Development Program. Attendees were provided information on natural gas vehicle grants, vehicle technology, fueling technology and strategies, and how best to assess the opportunity to convert their heavy duty fleets to compressed or liquefied natural gas.

DEP offered natural gas heavy-duty vehicle grants, the applica-

Shut Off Valve Legislation

Shut off valve legislation, an initiative that had been in the works for almost four years, was finally signed into law on October 8 as Act 144 of 2012. The bill languished in Senator John Gordner's (R-Columbia, Dauphin, Luzerne, Montour, Northumberland and Snyder) Labor and Industry Committee for a long time, but PFMA members were helpful in pressuring other senators to finally have the bill moved.

This non-controversial legislation allows stores to build larger

UST Cleanup

On June 27, 2012, Governor Corbett signed into law Senator John Yudichak's (D-Luzerne) SB 1398, which included extensions of two important programs that enable the Department of Environmental Protection (DEP) to prevent and clean up contamination due to leaking underground storage tanks (USTs).



UST Operator Training Requirements

On Dec. 26, 2009, amendments to Chapter 245, Administration of the Storage Tank and Spill Prevention Program, were published in the *Pennsylvania Bulletin*. This rulemaking required that underground storage tank (UST) operators must be designated by tank owners and trained no later than Aug. 8, 2012. Compliance with the operator training requires that each owner of an UST facility must

tions for which were due on February 1, 2013. The program is expected to reopen in July. A natural gas vehicle grant program for medium to light-weight vehicles is expected to open in April. The grant funds available will include an opportunity to propose projects which will convert or purchase natural gas vehicles weighing less than 14,000 pounds as well as convert or purchase electric, propane, or other alternative fuel vehicles of any size.



For a map of CNG fueling locations in Pennsylvania, log onto http://www.portal.state.pa.us/portal/server.pt/community/dep_external_redirect/9131?externalurl=http://www.cngprices.com/station_map.php.

and safer fueling stations. Fuel retailers may now expand the footprint of their stores from 125 feet to a maximum of 200 feet with no variances. HB 728 does not require retrofitting, but allows stations to expand beyond the current 125-foot distance to 200 feet via the use of an emergency shut off device every 100 feet in addition to the shut off mechanism inside the store. The legislation was modeled after National Fire Protection Association (NFPA) standards and these standards have been implemented in several neighboring states.

The programs, which were set to expire June 30, 2012, are extended through June 30, 2017.

Amendments to the Storage Tank and Spill Prevention Act in 1998 created the Underground Storage Tank Environmental Cleanup Program and the Underground Storage Tank Pollution Prevention Program. The cleanup program authorizes DEP to use money from the Underground Storage Tank Indemnification Fund (USTIF) to clean up sites contaminated by old or leaking USTs, typically when there is no financially solvent responsible party. USTIF is supported by fees paid by tank owners on petroleum products, such as gasoline, diesel and kerosene.

The cleanup program also allows DEP to provide reimbursement grants of up to \$4,000 to owners of USTs, with a capacity of 3,000 gallons or less, for cleaning up heating oil releases. The pollution prevention program provides funding of up to \$2,500 per tank to individuals who have small underground tanks on their property that need to be pumped out, cleaned and plugged.

have a list of their designated Class A, B and C operators, and a copy of the certificates of training for the Class A and Class B operators. The department incorporated operator training requirements into Chapter 245 to meet one of the mandates of the Federal Energy Policy Act of 2005. Training UST operators should result in increased compliance with regulatory requirements.

Issues 2012-13

Loss Prevention



Brian Fantom, AWI loss prevention, joins other PFMA-PCSC Loss Prevention Committee members in inspecting the mirroring on counterfeit money with a loop during a presentation by the U.S. Secret Service.

The Loss Prevention Committee met on February 17, 2012 to hear a presentation by U.S. Secret Service agents on counterfeit bill technology. Other topics included how members handle driver safety and how accidents are handled and investigated at the retail grocery level, pin pad security initiatives, a Crime Stoppers overview and steps taken during an active shooter case that took place in the fall of 2011 at the Alvernia University Campus. A meeting scheduled for November 2012 was postponed due to fallout from Hurricane Sandy and was rescheduled for April 2013.



Special agents Brian Keslick, Jamal Huff and Joe Davis of the U.S. Secret Service discussed counterfeiting currency and the government's technological advancements and efforts to make U.S. currency more secure.

Retail Theft Threshold Level

Retailers in Pennsylvania and surrounding states have been plagued by teams of criminals that steal valuable products from supermarkets and convenience stores for resale through organized retail crime networks. PFMA worked with the Pennsylvania Retailers Association (PRA) to push for the passage of HB 1000 which would have lowered the felony threshold for retail theft cases from \$2,000 to \$1,000. The bill passed the House of Representatives on December 20, 2011 and sat in Sen. Stewart Greenleaf's (R-Bucks, Montgomery) Senate Judiciary committee.

In October 2012, PFMA offered to amend HB 1000 to create a retail crime unit solely focused on retail crime investigations paid for by a small annual fee. Unfortunately, the bill expired at the close of the 2011-2012 legislative session. This change would have made retail theft cases easier to prosecute. However, Sen. Greenleaf was not interested in allowing for the passage of legislation that would increase prison capacity and financial constraints facing the state.

Lottery Privatization

At the close of 2012, PFMA was invited to testify on behalf of the PFMA membership at a January 14, 2013 Finance Committee meeting on the issue of privatizing the management of Pennsylvania's Lottery.

On December 31, 2012 the Department of Revenue announced a 10-day extension on a bid by Camelot Global Services, the firm that runs the British lottery, to manage the lottery for 20 years and produce more than \$34 billion in profits during its contract.

The Senate Finance Committee sought to hear more about the future of lottery employees, expansion of lottery games to include keno and online games, and impact on other types of legalized gambling if privatization occurred. On February 14, 2013, Pennsylvania Attorney General Kathleen Kane rejected the Lottery Management Privatization contract between the Commonwealth and Camelot Global Services. Kane cited the State Lottery Act, Gaming Act and other case law as reasons why the contract did not meet the test for form and legality.



Pharmacy

Pennsylvania Pharmacy Council Activity

In October 2011, Pennsylvania Pharmacy Council (PPC) members discussed their opposition to an Express Scripts/MEDCO merger. The PPC joined a national coalition called

PCPAN (Preserve Community Pharmacy Access Now) which urged the Federal Trade Commission (FTC) to oppose the merger. Unfortunately, the FTC approved the merger in April 2012 despite protests.

Other Pharmacy Legislation

Pharmacy bills that did see some legislative activity but did not ultimately pass in 2012 included:

HB 727 – Fair Audit Bill - The bill sought to create standards for pharmacy audits requiring a two-week notice and a statement that clerical errors are not fraud. Had it passed, audits could not have gone more than 18 months back into the past and extrapolation audits would have been prevented. The bill should be reintroduced in the 2013-2014 session.

HB 1651 – Pharmacy Accountability Monitoring System (PAMS) - This bill would create a database for Schedule II – V drugs and would require that pharmacists consult the database before filling prescriptions for these kinds of drugs. This bill was reintroduced on January 24, 2013 as House Bill 317.



Dispensing Fees

On February 9, 2012, former Department of Public Welfare (DPW) Secretary Gary Alexander announced that the state's Medicaid (MA) Fee-for-Service (FFS) reimbursement rates would experience cuts on April 1. Alexander said the changes sought to normalize payments through fee-for-service with those made by the state's private insurers and HealthChoices, the commonwealth's Medicaid managed care program. As part of the state budget for the 2011-2012 fiscal year, the DPW was given the ability to write new welfare rules through an expedited regulatory process.

The PPC joined a coalition of other pharmacy service providers – representing more than 2,300 retail pharmacies – and urged the department not to proceed with the rulemaking because

the regulations would have severe adverse impacts on Medicaid patients and pharmacies. Letters objecting to these changes were sent on February 23 and March 8.

PPC's protest ultimately fell on deaf ears and on April 14, 2012 new regulations announcing the cuts were published in the *Pennsylvania Bulletin* and they went into effect immediately. The DPW reduced the non-compound drug dispensing fee for Medicaid patients from \$4 to \$2. Compound drugs went from \$5 to \$3.

At an October 2012 meeting PPC members said this change had minimal effect on them overall because few of their member stores operate in the fee for service arena.

Mail Order Pharmaceuticals

Concerns within the local pharmacy industry about insurers making mail-order pharmacy use mandatory have been mounting for over a decade. HB 511, introduced by Rep. Tim Hennessey (R-Chester), attempted to level the playing field between community pharmacies and mail order by prohibiting incentives to drive customers away from community pharmacies to mail order. Although HB 511 was supported by the Pennsylvania Pharmacy Council (PPC), Pennsylvania Association of Chain Drug Stores (PACDS) and the Pennsylvania Pharmacists Association (PPA), it was not supported by the Governor's staff and therefore, did not see any further action after February 9, 2012.

Senator John Rafferty (R-Chester) had introduced a companion bill in Senate Bill 201 which outlined that a health insurance policy or government program providing benefits for prescriptions shall not impose on a covered individual using a retail community pharmacy a copayment, deductible, fee, limitation on benefits or other condition not otherwise imposed on the covered individual when using a mail order pharmacy. The bill essentially allowed

for fairer competition between mail order and community pharmacies by not allowing mail order incentives. This bill passed the Senate on October 2, the House on October 24 and was signed into law by Governor Corbett as Act 207 of 2012 on November 1.

Senate Bill 201 prohibits health insurance companies, Blue Cross and Blue Shield plans, and government-sponsored pharmacy benefit programs from treating patients who use retail community pharmacies any different from those who use mail-order pharmacies, but only if the retail community pharmacies agree to accept the same pricing, terms, conditions or requirements related to the cost of the prescriptions and the quality of care as are established by the insurer for mail-order pharmacies.

The Act also calls for a study to be done 18 months after the bill was enacted to evaluate the impact of the measure on access to prescription drugs at both independent and chain retail pharmacies, as well as any impact on the cost of the prescriptions to consumers and health insurance plans.

SNAP – Supplemental Nutrition Assistance Program

EBT Card Restrictions

On April 30, 2012, the state House of Representatives' Health Committee voted to report out Rep. Tim Krieger's (R-Westmoreland) HB 1948, legislation that sought to curb waste, fraud and abuse of electronic benefits transfer (EBT) Access card benefits. Among other things, the bill allowed the Department of Public Welfare (DPW) to develop a process to determine what types of purchases are inappropriate uses of the benefits

welfare recipients can access with their EBT card. PFMA opposed this bill as it would potentially lead to a nightmare of confusing and arbitrary restrictions which would have created operational difficulties for stores and place store associates on the front lines of conflict as they would be forced to become "food police". The legislation saw little movement after June 11, 2012 and eventually died in committee.

SNAP Asset Test

In early 2012, the Pennsylvania Department of Welfare (DPW) announced a plan to implement an asset test for those state citizens qualifying for Supplemental Nutrition Assistance Program (SNAP) benefits beginning May 1, 2012. At that time, there was only an income test in place. The DPW sought to give benefits to no one under age 60 holding more than \$2,000 in savings or other assets, and to no one over 60 with more than \$3,250 in assets.

level would increase the cost of running the program and actually keep those tax dollars sent to Washington from being returned to Pennsylvania via the USDA's Food and Nutrition Service (FNS) that administers the program funding. After receiving a blizzard of criticism regarding its proposal, the Corbett administration decided to soften its harsh initial standard. The savings cutoff for those under 60 was raised to \$5,500 and for those older or disabled to \$9,000. Exempt from the total would be a person's home, car, household contents, burial plot, life insurance and pension plan. Counted toward the limit would be cash, bank accounts, stocks, bonds and additional vehicles. The asset test was put in place on schedule and potentially affected 4,000 households. The state's cash assistance program serving approximately 61,000 people was eliminated as part of the budget beginning August 1, 2012.

On March 15, David McCorkle and Randy St. John joined hunger advocates and testified at a hearing held by the House Health and Human Services Committee to voice our strong opposition to the planned asset test implementation. The testimony made clear that an asset test would keep some people who would have been approved for SNAP benefits from actually qualifying. Implementing the asset test at the state

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Regulatory Reform

Rep. Tina Pickett's (R-Bradford) HB 1349 which provides for consideration of small business impact as part of the state's regulatory review process was signed into law by Gov. Corbett on June 29, 2012. Rep. Pickett has been advocating the passage of this regulatory reform for many years. The Small Business Regulatory Reform Act requires state agencies to identify the types of small businesses that would be impacted as well as the potential administrative costs of proposed regulations. If a proposed regulation is determined to have an adverse impact on small businesses, the Independent Regulatory Review Commission (IRRC) must provide a less costly alternative that still achieves the intended purpose.

Roll Your Own Tobacco



In the spring of 2012 there were a number of retailers in Pennsylvania who were renting roll your own (RYO) machines to customers to create cigarettes. Because these cigarettes were made with pipe and not cigarette tobacco, they were not subject to state

taxation and were selling at least \$16 less than brand name cigarettes. While the issue was on the radar of the Pennsylvania Office of Attorney General, action took place on the federal level with President Obama signing a federal transportation bill on July 6, that upheld a provision that states that retailers who operate roll-your-own (RYO) cigarette machines are manufacturers of cigarettes and therefore must seek all permits, pay all applicable taxes and bonding. Effective upon signage, all retailers who possessed a roll-your-own machine to make cigarettes that are sold to the general public were treated as tobacco manufacturers. These retailers had to, among other things, remit all applicable federal and state excise taxes, put health warnings on packages, use fire-safe tubes and register with the Food & Drug Administration. For those operators that did not meet these requirements, they had to shut down their machines effective immediately. Those that remained open sold roll-your-own tobacco only, cigarette tubes and equipment to make cigarettes at home.

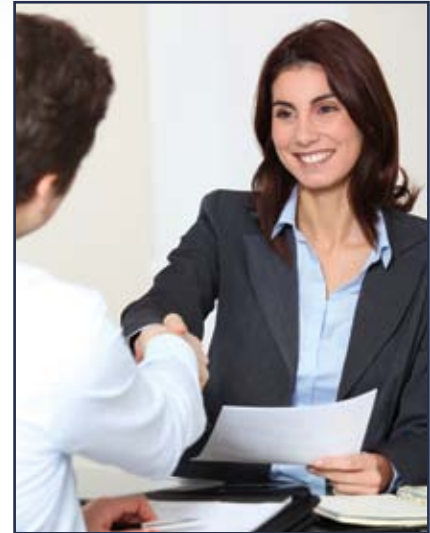
Vendor Allowance

Governor Tom Corbett intended to cap the retail sales tax vendor allowance at \$3,000 per year in his 2012-2013 proposed budget. For retailers that remit between \$30 million and \$50 million per year to the state in sales tax revenue, they typically retain between \$300,000 and \$500,000 in the vendor allowance. Had this proposal been enacted, that \$500,000 amount would have dwindled to \$3,000. Fortunately, a coalition was already in place to oppose a change in the vendor allowance. The coalition included the Pennsylvania Retailers Association, Verizon, AT&T and other businesses.

Rep. Florindo Fabrizio (D-Erie) authored an amendment to HB 2150 which was approved. The amendment capped the amount of the sales and use tax vendor allowance discount at \$300 per year for the amount of sales tax collection that could be used by

Unemployment Compensation

On June 12, Governor Tom Corbett signed Senate Bill 1310, a reform bill that modernizes Pennsylvania's Unemployment Compensation (UC) law. The new law enables Pennsylvania to repay a nearly \$4 billion UC Trust Fund debt to the federal government. Pennsylvania was one of 36 states that borrowed from the federal government to keep UC benefits flowing during the recession.



The measure also updates certain aspects of the state's UC law, including some relating to benefits and eligibility that had been neglected for nearly 40 years.

Specifically, the new law:

- Refinanced the UC Trust Fund debt by issuing bonds at a low, fixed rate.
- Reformed employer taxes by increasing the taxable wage base from \$8,000 to \$10,000 and lowering the State Adjustment Factor.
- Modernized benefit eligibility by increasing the base-year wage requirement from an average of 37 percent outside the high quarter to at least 49.5 percent. This change will not affect any current claimants, and will affect less than 10 percent of all claimants when the law went into effect in January 2013.
- Used five percent of employee taxes collected to establish a Re-employment Fund for training initiatives to help jobless Pennsylvanians return to work.

Enacting these reforms ensured the UC Trust Fund's return to solvency and the UC system's long-term availability for those who need it.

retail vendors to offset their tax obligations. Rep. Fabrizio said the amendment would bring approximately \$70 million of public funds back to the General Fund. Rep. Fabrizio argued that the discount is an anachronism, because it was enacted in the 1950s and it is now much easier to collect and remit sales taxes. A retailer would have to do \$500 million in sales to reach the cap. Rep. Fabrizio said that only 19 percent of the largest corporations would see any reduction in their discount.

On May 2, the bill was amended to remove the Fabrizio amendment. The bill was then passed and was sent to the state Senate Finance Committee on May 11. Due to an effective push to suppress the bill, HB 2150 saw no further movement and expired at the close of the 2011-2012 legislative session.

Regulatory Issues 2012-13

Weights and Measures

Passage of HB 2366 enabled the Department of Agriculture's weights and measures inspectors to inspect a greater volume of weighing devices which would have otherwise gone uninspected. For instance, scanner inspections would go from being required once per year to being required once every three years. The

bill changes the time frame that the department must inspect all commercially used vehicle scales and other fuel dispensers from a 12-month period to intervals not greater than 18 months. Gov. Corbett signed the bill on October 24 as Act 169 of 2012 and its provisions took effect immediately.

WIC

Pennsylvania WIC Vendor Advisory Workgroup meetings took place on April 11 and October 3, 2012. At the meetings the WIC two-year food list was discussed. Four extra pages were added to the food list to include fruits and vegetables. The list was also re-arranged to sort by product groups.



conversion at the end of 2017 and early 2018. Stores will be able to accept both check and eWIC benefits during the three-year roll out until the whole State is certified and there are no more checks.

There are changes on the horizon for WIC regulations and some will be enacted to accommodate eWIC which allows transactions via Smart Card. The Pennsylvania Department of Health expects eWIC to start in May of 2014 with a four county pilot program in central Pennsylvania (Blair, Centre, Clinton and Lycoming). Each rollout area is planned to last three months. Philadelphia will start

The minimum number of participants that stores serve is being amended in the regulations. Currently 25 participants must be served monthly. Under new regulations, the minimum number of participants served will be changed to correspond with the participant density in each county. As a result, the minimum number of participants each WIC authorized store must serve monthly in Delaware County will be increased to 50; and Philadelphia will be increased to 100 participants per month. Stores that are disqualified can reapply within a year.

2013 Expectations

Governor Corbett has pledged that he will pass no tax increases, but in 2013 he faces significant budget shortfalls caused by the underfunding of the Pennsylvania State Employees' Retirement Fund and the Pennsylvania State Teachers' Retirement Fund. Therefore, PFMA's prime objectives are:

- We will work to preserve the one percent sales tax vendor allowance. In 2012 Governor Corbett attempted to cap the vendor allowance at \$3,000, but PFMA and other retailer groups were able to defeat his proposal.
- We will oppose any uncapping of the Oil Company Franchise Tax (OCFT).
- We will oppose any property tax relief efforts that would broaden and/or increase the state sales tax or allow individual counties to raise the sales tax.
- We will oppose any efforts that would negatively impact pharmacies such as reductions in prescription reimbursement under the Medicaid prescription programs.
- We will oppose any minimum wage increases.
- We will oppose any changes to gift card or money order escheat laws.

Privatization of the State Stores – Governor Corbett has pledged to privatize the state liquor stores and the Republican Party controls both the House and the Senate in Pennsylvania. In 2013 we will continue to work cooperatively with the governor to modernize the sale of adult beverages in Pennsylvania.

Corporate Net Income Tax Rate – We will work with the Corbett administration to continue to reduce the corporate net income tax rate.

Organized Retail Theft – We will once again try to pass legislation that would reduce the felony threshold for retail theft from \$2,000 to \$1,000.



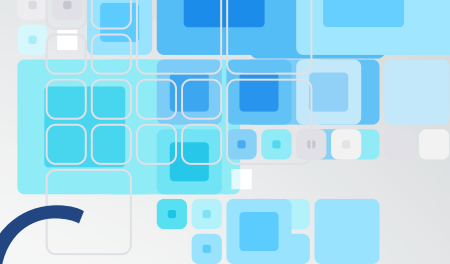
Highway Occupancy Permits – We will work with the Pennsylvania Department of Transportation to try to speed up and expedite the issuance of highway occupancy permits.



Plastic Bags – We will monitor and oppose any efforts to restrict plastic bags or impose a tax on plastic bags on the state or Philadelphia-level.



If you have questions or concerns about any of these issues, please contact Alex Baloga, director of government relations, at abaloga@pfma.net or Annette Knapp, manager of legislative research, at aknapp@pfma.net.



DFIC

Delaware Food Industry Council

2012 Productive Year for Delaware Retailers

Strategic Planning Session Sets Agenda for the Year

The Delaware Food Industry Council (DFIC) held a strategic planning session with board members in December 2011. In addition to taking the day to plan priorities for 2012, DFIC board members met with Deputy Attorney General Caterina Gato and then had a briefing from the USDA about its Food Rescue Program.

DFIC hosted its annual Winterfest event at the Christiana Hilton



and awards were presented to: **Advocate of the Year:** The Honorable Tom Cook, who embodies the principles of good government and fosters relationships with businesses to promote growth and success. DFIC worked closely with Secretary Cook over the years to streamline the gross receipts tax for supermarkets.



Retailer of the Year: The Kenny Family ShopRites of Delaware currently operates five supermarkets and will open its 6th store in early 2013. They were recognized by their peers for their commitment to quality, the community and the environment.

Pharmacist of the Year:

Ambrose Delpino, a licensed pharmacist for Walgreens. He serves on the board of directors for the Delaware HIV Consortium and has been instrumental in building relationships with the community and other providers to better serve those living with HIV.



Lottery — HB 333, the Delaware Gaming Competitiveness Act, improves the Delaware Lottery and Delaware's video lottery agents' ability to offer services to lottery players in an increasingly competitive marketplace by authorizing internet gaming under the control and operation of the Delaware Lottery. The Delaware Lottery Office can now conduct traditional lottery games over the internet. Delaware's video lottery agents are also authorized to offer internet versions of the table games and video lottery offerings. The Delaware Lottery operates all the games. These offerings capitalize on a recent United States Department of Justice ruling clarifying that wagering within a state's boundaries does not violate federal law.

Partnership of the Year: Food

Bank of Delaware and Acme. The Food Bank of Delaware, through a network of agencies and food-pantries, serves 241,600 Delawareans each year. Delaware's population is just over 845,000, which means a staggering 1 in 4 Delawareans receive food assistance from the Food Bank of Delaware. To help combat food insecurity in the state, Acme began a new partnership with the Food Bank in March. Between March and October 5, 2012, Acme stores were able to help fight hunger by donating 151,000 pounds of food to the Food Bank of Delaware.



An amendment requires that a pre-paid card or other mechanism be purchased at a lottery retailer in order for a person to play online. DFIC worked hard to have the amendment passed and included in the bill. Commissions to retailers remain intact.

Pharmacy Lobbying Laws — SB 185 requires lobbyists to disclose the bill, resolution, or regulation on which they are lobbying through an electronic filing with the Public Integrity Commission within five business days of contact with a relevant public official. For budget appropriations bills and bond and capital improvements bills, it requires identification of the subject in the bill being lobbied. The bill passed both House and Senate and at presstime was waiting for the Governor's signature.

The Delaware Elections Disclosure Act

HB 300 would reform and modernize Delaware’s election disclosure laws by requiring all people who engage in “electioneering communications” before an election to disclose the sources of funding for the ads. Under current law, persons who buy campaign ads that are not coordinated with any candidate (known as “independent expenditures”) must file disclosure reports, but only if the ads expressly advocate for the election or defeat of a clearly identified candidate. i.e. third party advertisements that refer to a clearly identified candidate and are publicly distributed within 30 days before a primary or special election, or 60 days before a general election. This requirement will provide crucial information to voters in the days before an election and help them make informed choices.

HB 300 would require all third-party ads valued at \$500 or more to include the following statement: “Learn more about [name of person] at [Commissioner of Elections’ web address].” In addition, those who placed the ads are required to file a report with the Elections Commissioner within 24 hours of the expenditure.

Entities that contribute more than \$1,200 to political action committees or political parties during an election cycle are required to disclose the name and address of a “responsible party” – that is, someone who shares or exercises direction or control over the entity’s activities. It would also enhance and clarify the disclosure requirements for the filing of Statements of Organization by political committees.



Healthcare

HB 170 allows qualified individuals, who are covered by Small Employer plans, to continue their coverage at their own cost, for up to nine months after termination of coverage. The provisions of this Act shall have no effect if the Health Care bill passed by Congress and signed by the President in 2010 is declared unconstitutional by the U.S. Supreme Court, or the provisions addressed by this Act are pre-empted by federal law on January 1, 2014, whichever occurs first. HB 170 was signed by Governor.

Delaware Health Care Commission

HB 328 removes party affiliation and geographic location requirements for the Speaker’s and Pro Tem’s appointments to the Delaware Health Care Commission (“DHCC” or “Commission”), and requires that of the five members appointed by the governor,

there be at least one member from each county and no more than three members of the same political party. The commission may call upon any state agency for any assistance, information or data that may be necessary to carry out its purpose. It is currently limited to seeking assistance from a limited number of agencies. The Commission is placed within the Department of Health and Social Services, Office of the Secretary. It was signed by the Governor.

Plastic Bags

SR 24 requests that the Delaware Solid Waste Authority, Delaware Department of Natural Resources and Environmental Control and the Zero Waste Working Group, work with all interested parties to develop a plan with proposed legislation to be delivered to the Senate of the 147th General Assembly in January of 2013. The Senate passed the resolution and DFIC will be active in the committee to draft the report.



Minimum Wage

SB 163 phases in a \$1.00 increase in the state minimum wage through January 1, 2014. It passed the Senate, but was never taken up in the House. It has already been introduced this year.

The Delaware Association of Chain Drug Stores (DACDS), which has a separate membership from the Delaware Food Industry Council, represents 147 of 171 pharmacies in the state. The legislative and regulatory priorities of the DACDS are:

- Work with the Board of Pharmacy to better define the documentation use by dates for re-packaged prescription drugs.
- Draft legislation to lower the threshold for drug theft violations.
- Recommend tougher punishments for career criminals and armed robberies of pharmacies.
- Advocate for the expansion of pharmacy inoculation services for Medicare/Medicaid patients and reimbursement for pharmacy immunizations.
- Develop a medication therapy management pilot program for state employees. Once successful the project could be expanded to other clients.
- Monitor the meetings of the Pharmacy Board and the Controlled Substance Committee with the support and advice of appointed members.

Legislative Priorities for 2013

- Beer and Wine sales for retailers
- No new taxes or fees

Association Objectives

- Membership recruitment
- Development of an Organized Retail Crime (ORC) committee

Contact DFIC

If you have questions about the Delaware Food Industry Council or you would like to become a member, please contact Julie Miro Wenger, executive director, at juliemirowenger@gmail.com or call her at 302-545-8305.

PFMA's For Profit Business Providing Retailers Key Money Services Products



Tanya Butler
President, Merchants Express
Money Order, Company, Inc.
tbutler@memoco.com

'MEMO is committed to providing our business stakeholders with products and services that meet their financial needs. We appreciate your support and patronage and look forward to your continued dedication.'

In its 27th year in business, Merchants Express Money Order Company, Inc. (MEMO) continues to forge ahead as an industry leader, with high quality money services products available to more than 3,500 retailers who represent more than 10 million consumers. MEMO has a marketing presence in 20 states on the east coast, Michigan and Texas.

The MEMO target consumer base are the "unbanked" and "underbanked" portion of the U.S. population who prefer the convenience of handling their personal financial transactions utilizing the services offered at local retail locations. The MEMO money order and bill payment products offer a low cost and convenient alternative method for consumers to pay their bills, send as a gift or save as cash for the future.

MEMO also offers industry competitors equipment maintenance and depot service, as well as a customized turn-key/back office money order processing service and Anti- Money Laundering Program training and consultation services.

The MEMO products are available as a stand alone option on a Verifone Vx570 terminal and connected to a proprietary PI23 secured printer and operates on a real-time web based application. MEMO Bill Payments are also available as a stand alone on a PC and real-time web-based application. Additionally, the money order product can be offered through POS integration software with the retailer host application and the MEMO proprietary Electra money order printer.

MEMO utilizes its state-of-the art, efficient processing and reconciliation application by offering a turn-key solution to industry counterparts. Independent retailers can offer consumers a white-label money order product by using MEMO's secure equipment and proprietary software. MEMO manages the back office controls by providing:

- Custom branded secure money order forms
- Inventory replenishment



MEMO's board of directors are Dwight Cromer, secretary/treasurer; Tanya Butler, president; and David McCorkle, vice president. They ensure that MEMO's strategic goals are met throughout the year.

- Clearing bank processing
- Employee training
- Customer service
- Sales reporting
- Federal and state license reporting
- Service charge processing
- Unclaimed property/escheat reporting
- Anti-money laundering compliance training
- Suspicious activity monitoring and reporting
- Replacement money order processing
- Photo copy requests
- Stop payment and voided transactions processing
- Supplies replenishment
- Machine maintenance and depot service

The business objectives are focused on four core strategies: Continuous Growth, Market Development, Business Alliances/Joint Marketing and New Product Development. These core strategies and approach will position us to accomplish our business goals and objectives. The goal is to ensure a path toward growth and ongoing success.

MEMO is committed to providing our business stakeholders with products and services that meet their financial needs. We appreciate your support and patronage and look forward to your continued dedication.

Compliance Staff Ensures Adherence to Regulatory Requirements



The Compliance staff monitors and implements federal and state regulations relative to licensing, reporting and Anti-Money Laundering (AML). From left, Clayton Seifried, compliance examiner; Tiara Banks, compliance analyst; Judy Johnson-Ward, licensing & compliance specialist; and Kevin Lutkins, corporate counsel/compliance officer.



Three bilingual customer service representatives assist MEMO's Spanish speaking agents and their customers. From left, Wendy Shunk, bilingual operations coordinator; Yazmin Kubull, bilingual call center representative; and Jeanette Tagliaferro, bilingual imaging clerk.



The Risk Management Committee evaluates all MEMO accounts to ensure financial success. From left, Dwight Cromer, chief financial officer; Tanya Butler, president; Kevin Lutkins, corporate counsel/compliance officer; Autumn Thomas, vice president, sales and marketing; and Dan Oliva, credit manager.



MEMO's Operations Team includes, from left, Jeanette Tagliaferro, bilingual imaging clerk; Lesa Althoff, operations coordinator; Tonia Milliken, agent service representative; Wendy Shunk, bilingual operations coordinator; Terry Smith, manager of money services; Angela Beck, operations coordinator; Shelly Harris, operations analyst; Yazmin Kuball, bilingual call center representative; and Nancy Keefer, call center representative.



Business and Product Development Director Missy Wellington seeks new relationships with vendors to enhance MEMO's product suite.



MEMO's Research and Development Committee develops and implements new products and services to add to the company's financial service line. Pictured from left, Tanya Butler, president; Bryan Hannan, national sales director; Autumn Thomas, vice president of sales and marketing; and Missy Wellington, business and product development director. Not pictured is Pete Stuart, director of information technology.

PFMA/MEMO Sales and Marketing Provides Exceptional Product Lines



Autumn Thomas
Vice President,
Sales & Marketing
athomas@memoco.com

‘Our high-quality, low-cost products are available at more than 3,500 retail locations in 20 states and used by 10 million consumers annually.’

PFMA/MEMO’S Experienced Sales Team

The PFMA/MEMO Sales and Marketing team’s primary goals are to expand participation in PFMA’s wholly-owned business subsidiaries, MEMO and PCRS, and enroll new members in the association. We do that by listening to, and then working to meet, the needs of our retail clients. All of our sales professionals, led by National Sales Director Bryan Hannan, have extensive food industry experience, outstanding business service product knowledge and significant tenure with PFMA. Perhaps most important is the focus we place on building relationships with our members and business service clients — personalized and prompt service is the top priority for the Sales and Marketing team. We are here to offer ongoing support and guidance on everything from how to set retail fees or use in-store promotional materials to build money order and bill payments volume to how to develop a coupon handling procedure to minimize chargebacks. For more information on our business services, and how they can help you satisfy customer needs and increase your profitability, please contact us at 800-922-8079 or sales@memoco.com.

Pennsylvania Coupon Redemption Services, Inc. (PCRS)

PCRS is PFMA’s original for-profit business subsidiary. Established in 1956 for retailers who needed an efficient reimbursement process for the then new coupon promotional tool, PCRS is the largest retailer coupon clearinghouse owned and operated by a retail association. We are your solution for manufacturer coupon processing, handling both paper and electronic coupon offers.

PCRS provides a competitively-priced, superior redemption program that is geared toward meeting the needs of independent food retailers. You can count on fast and accurate coupon processing, on-time reimbursements, multiple payment plans for added convenience and flexibility and expert and attentive customer service support. And as an added bonus, PCRS profits are returned to PFMA to help fund important government relations and membership activities.

Coupon usage nationwide remains at near historic highs. According to manufacturer representative Inmar, coupon distribution was up 7.6 percent in Q3 of 2012 vs. the same period the previous year. And NCH’s annual consumer survey finds that more than three quarters



of consumers report redeeming coupons regularly, with 41 percent of respondents using them on almost all shopping trips. While the economy has shown some improvement, underemployment remains comparatively high and the USDA predicts rising “food-at-home” prices. That means coupons will continue to be a “go-to resource” in the long term. So if you’re not accepting coupons, or if your current coupon processor isn’t meeting your expectations, check out PCRS. Our enrollment process is fast and easy and we’d be happy to help you get started today.

Merchants Express Money Order Company, Inc. (MEMO)

There are approximately 60 million “un” and “underbanked” consumers in the U.S. today—people that don’t have a bank account or relationship with a traditional financial institution — either because they cannot afford to maintain required minimum balances or prefer to deal outside the traditional banking sector. These consumers need alternative ways to pay bills and purchase goods and services and demand the convenience of one-stop shopping. Since its inception in 1986 as a money order company, MEMO has provided retailers with profitable, easy-to-use, secure and convenient products that provide these much desired financial services to their customers.

MEMO selling outlets include supermarkets, convenience stores, pharmacies, check cashers and many other types of retail formats. Our high-quality, low-cost products are available at more than 3,500 retail locations in 20 states and used by 10 million consumers annually. MEMO’s product line includes money orders and walk-in bill payments.

You can count on superior service from MEMO — dedicated sales team support; expert assistance from our bilingual customer service and tech desk personnel; experienced compliance professionals to help you comply with all state and federal regulatory requirements and a sophisticated disaster recovery and business continuity program to ensure you uninterrupted access to MEMO services. With MEMO, you’ll get the respect and support you deserve.

MEMO Products Can Help Bring in More Customer Traffic to Your Store

MEMO Money Orders

Every day, tens of thousands of cash-preferring shoppers purchase money orders at retail outlets and make additional purchases at the stores they get this service from. MEMO's full-service money order program can help you satisfy this large consumer demand; increasing your store traffic, repeat business and sales.

MEMO's fees, which are based on the number of money orders sold, are extremely competitive, and as sales increase, your fee decreases. We'll get you up and running quickly with our easy-to-use, fast and secure money order delivery system; simple procedures; complete training and free money order forms and in-store promotional materials. MEMO's vendor payment option provides the added convenience of enabling you to issue money order payments for up to ten approved POD vendors.

Help and support are always just a phone call or click away via MEMO's website and our bilingual customer service and help desk teams at our Pennsylvania call centers. Unlike some other money order companies, we don't outsource our relationship with you. Join the 3,500+ retailers who have chosen MEMO as their money order provider – your regional sales manager would be happy to explain all of what MEMO has to offer.

MEMO Bill Payments

Walk-in bill payments is a highly in-demand service that will help increase your customer loyalty and grow your business. MEMO Bill Payments offers your customers a fast and simple way to pay multiple bills with one trip to your store. With our program, you can collect payments from hundreds of utilities and other billers, both authorized and non-contract. Consumers simply present their bills at a MEMO Bill Payments location along with their payment and a small processing fee. They leave your store with a payment receipt and the comfort of knowing that the payment will post in as little as 30 minutes depending on the payment option chosen. All payments are processed electronically, virtually eliminating customer service issues.

We offer the flexibility of both web-based and stand-alone PC applications, with all equipment and training provided to you at no upfront cost. You may also elect



The sales and marketing team is supported by Michele Weaver, sales support specialist; and Brenda Hicks, sales coordinator.



Bryan Hannan
National Sales Director
866-340-7792
bhannan@memoco.com

Service area: Baltimore, Western MD, Southwestern PA, Northwestern WV, TX, FL, GA, and MI



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Sales Manager
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Service area: Virginia, NC, SC, and Southern MD



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Service area: OH, KY, Southern WV and Western PA



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Service area: Northeastern PA, NY, RI, MA and CT



Terry Quigley
Sales Manager
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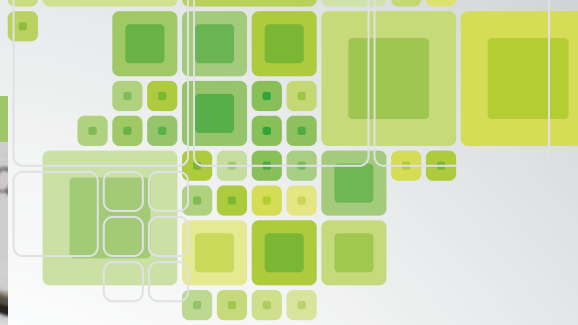
Service area: Philadelphia, Eastern PA, NJ, DE, Eastern MD, Long Island and NYC

to use your own pre-existing equipment with our real-time web-based system, freeing up valuable counter top space. Our web-based application includes customizable biller lists and MEMO's "Pay a Card" option to streamline credit card bill processing. As a MEMO Bill Payments agent, you'll receive immediate access to generous commissions, generally 50 percent of the retail fee, depending on the biller.

MEMO Bill Payments will satisfy your customers' desire for one-stop shopping and fast, reliable paperless payment solutions. We invite you to contact one of our sales professionals to learn more about the benefits of being a MEMO Bill Payments agent.

A Special Note of Thanks

Long-time MEMO Sales Manager Mac Dixon has announced plans to retire in May 2013. He has served MEMO agents in Virginia for more than 20 years and in the past 10 years has assisted agents in North Carolina, South Carolina and Southern Maryland. Thank you Mac for your hard work and best wishes on your retirement.



Pete Stuart
Director of
Information Technology
pstuart@memoco.com

'The IT group looks forward to the coming year where we will continue to meet new challenges and provide high quality technological services to all of PFMA's staff, members and business partners.'

IT Department Working to Refine and Streamline Business Processes

In 2012, the Information Technology department completed a large number of complex and exciting projects. Several application initiatives have been implemented to aid our agents and improve our system redundancy. In order to best serve our members, we continue to always look for strategic system improvements and other means to deliver increased efficiency in an ever evolving technological environment.

Our programming team has worked hand in hand with the research and development staff of Merchants Express Money Order Company, Inc. (MEMO) to investigate, develop and integrate new products and lines of business. IT staff continues to work in tandem with the MEMO compliance team to keep current with regulatory changes in our operating states as well as federal requirements.

For Pennsylvania Coupon Redemption Services (PCRS), IT improved computer systems and operations through infrastructure upgrades and application refinement. IT will continue to work with PCRS personnel to enhance their systems needs as business requirements dictate.

2013 will usher in many new opportunities to refine and streamline business processes through consolidation and strategic re-engineering. The IT group looks forward to the coming year where we will continue to meet new challenges and provide high quality technological services to all of PFMA's staff, members and business partners.



PFMA's Information Technology staff provides its expertise to PFMA, MEMO and PCRS projects. They are, seated from left, Chuck Harber, enterprise systems manager; Steve Orner, information systems specialist; and standing Scott Thomas and Brian Grey, programmer/analysts.



MEMO's Help Desk technicians provide technical support to agents. From left are Rich Beaston, machine maintenance/ help desk technician; Travis Wrobbel, help desk operations coordinator; John Rodgers, help desk and warehouse operations manager; Kevin Null, lead machine maintenance/help desk technician; and Matt Sholley and David Ulsh, machine maintenance/help desk technicians.

Finance



Dwight Cromer
Chief Financial Officer
dcromer@memoco.com

'The key financial ratios for the association and business subsidiaries have been identified and the business maintains a solid equity position that is consistent with its financial goals and objectives.'

Finance Manages Sound Policies & Internal Controls for PFMA & Subsidiaries

PFMA's Finance Division includes the Accounting and Credit and Collections Departments. Chief Financial Officer Dwight Cromer leads a combined staff of five, who are responsible for all aspects of financial management and internal controls of the association and the following for profit business subsidiaries: Merchants Express Money Order Company, Inc., MEMO Money Order Company, Inc., MEMO Money Order Company of New York, Inc., Merchants Express USA, Inc., Merchants Express Holdings, LLC, and Pennsylvania Coupon Redemption Services, Inc.

The company must have sound policies and internal controls to minimize risk and exposure. The goal of the Finance division is to provide information and support to management that will keep the company a national leader. The Finance Division provides the preparation of financial statements, cash management, investment management, budget preparation, fixed asset management, capital expenditure management, risk management through the enforcement of prudent credit and collections policies and procedures. Additionally, all human resources functions for the association and the business subsidiaries are managed by staff in the Finance Division.

The key financial ratios for the association and business subsidiaries have been identified and the business maintains a solid equity position that is consistent with its financial goals and objectives. As of December 31, 2012, the consolidated net worth is \$5.96 million with assets of \$51.33 million. Revenues total \$6.87 million are generated from service fees of the for profit business subsidiaries, investment income and association membership dues.

The Credit and Collections Department works closely with the Compliance Department to ensure that the business enforces stringent policies that minimize risk and exposure.

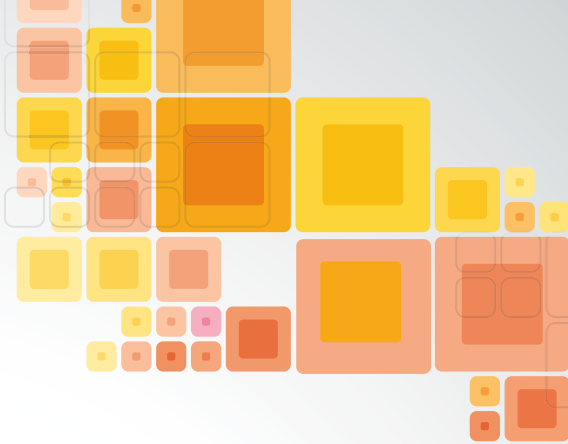


The Accounting and Human Resource staff includes Reggie Burrows, staff accountant; Gail Bryner, accounting/human resource manager; and Dwight Cromer, CFO.



Credit and Collections includes Dan Oliva, credit manager, left, Robin Harner, credit clerk; and David Bush, credit coordinator.

Credit staff manage the processing of more than 900 money services applications for all MEMO business products. Daily monitoring of financial transactions, regular agent credit reporting updates, financial statement analysis and ongoing risk assessments assist with managing the Accounts Receivables, which is the largest asset of the business. Additionally, the Credit Department handles all collections and legal accounts, working in collaboration with corporate counsel and third party firms.



Autumn Thomas
President, PCRS, Inc.
athomas@pfma.net

‘PCRS provides a competitively priced, superior quality redemption service that is geared toward meeting the needs of the independent food retailer.’

PCRS Provides a Competitively Priced, Superior Quality Coupon Redemption Service

Pennsylvania Coupon Redemption Services, Inc. (PCRS), serving PFMA members since 1956, is the association’s longest-operating business service. It is also the largest retail coupon clearinghouse owned and operated by a retail association. Six hundred retailers in Pennsylvania and adjoining states entrust their coupon processing needs to PCRS.

PCRS provides a competitively priced, superior quality redemption service that is geared toward meeting the needs of the independent food retailer. Features of the program include:

- Fast and accurate processing utilizing barcode scanning technology;
- Prompt payment for the full face value and 8-cent manufacturer handling allowance for all coupons redeemed;
- Three payment plan options (two, 10 and 20 working days) for maximum convenience and flexibility;
- No service charges or volume minimums;
- Experienced and professional customer service support and;
- A commitment to obtaining fair treatment for independent grocers in the often complicated redemption process.

PCRS can also help its clients process the electronic coupons that shoppers select from retailer or digital coupon publisher websites and download to their frequent shopper cards. Through our strategic alliance with ProLogic Redemption Solutions, PCRS has access to a digital coupon clearing process that delivers the same accuracy, effectiveness and oversight that PCRS provides for paper coupon clearing. Retailers implementing digital coupon



**PENNSYLVANIA COUPON
REDEMPTION SERVICES, INC.**

programs are assured of maximum reimbursements, high accuracy, low processing cost and a single integrated clearing solution for the processing and reporting for both digital and paper coupons.

PCRS’ Autumn Thomas serves on the ProLogic Board of Advisors, which works to advance and protect retailer interests on key industry issues. Current topics before the group include coupon handling costs, chargeback reason codes, extreme couponing, and GS1 DataBar migration.

The profits earned from PCRS operations are returned to the association to help offset the costs of other PFMA programs, providing members with added value for each coupon submitted for processing.



Laurie Savoy
Account Manager, PCRS
lsavoy@pfma.net | 717-760-5908

Facilities



Office Location Convenient to Downtown Harrisburg and the State Capitol Building

The Pennsylvania Food Merchants Association operates from a 43,647 square foot office building, which is conveniently located two miles from downtown Harrisburg and the state capitol building. The two-story office building features more than 16,000 square feet of gross building area, plus more than 4,700 square feet of below grade area with 1,583 square feet of finished office space. The building houses three conference rooms, which are comfortable for meetings, and three kitchen areas for employees to enjoy their lunch. PFMA headquarters is situated on just over an acre of land, providing ample parking for staff members, visitors and tenants.

CFO Dwight Cromer is the association's facilities manager. He ensures that the office on Mumma Road is well maintained and at full occupancy. As PFMA's space needs have decreased through the years, the association leases office space to other companies. Currently, one tenant leases space in the building.

The warehouse/help desk operations are located on Ritter Road in Mechanicsburg. MEMO leases a 5,250 square foot warehouse to house its help desk, machine maintenance, equipment, signs and point-of-sale material.

PFMA has three conference rooms available for association, staff and business subsidiary meetings.

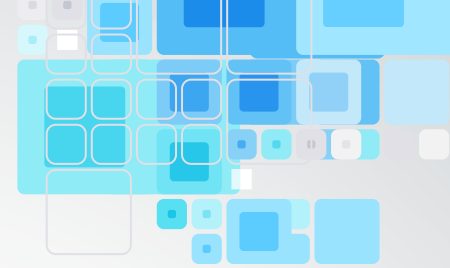


PFMA's offices are maintained by Dave Gramm, left, and Lenny Semick, right.

Below, Dave Ulsh, machine maintenance technician, repairs equipment at the warehouse location.



Association Leadership



2012 Board of Directors



Chairman
Louie Sheetz
Sheetz, Inc.
Altoona, PA



Vice Chairman
Richard McMenamin
McMenamin Family ShopRites
Philadelphia, PA



Treasurer
Jeff Brown
Brown's Super Stores, Inc.
Westfield, NJ



Secretary
Paul Rankin
Country Fair Stores, Inc.
Erie, PA

Samuel Anderson
Pump n Pantry, Montrose, PA

Jeff Beaulieu
Giant Food Stores, LLC, Carlisle, PA

Jim Bello
Bello's Shurfine, Erie, PA

Carole Bitter
Friedman's Supermarkets, Butler, PA

Bill Bracey
Bill's ShopRites, Daleville, PA

Brad Chivington
Turkey Hill Minit Markets,
Lancaster, PA

Michael Cotheman
McLane Company, Shippensburg, PA

Steve Culver
Delhaize America Stores
Scarborough, ME

David Daniel
Giant Eagle/GetGo, Pittsburgh, PA

Joseph Della Noce
Supervalu, Inc., Mechanicsville, VA

Ron Fish
Reading Consumer Products,
Valley Forge, PA

Wendell Hahn
Four Seasons Produce, Ephrata, PA

Scott Hartman
Rutter's Farm Stores, York, PA

Dave Heisler
CoGo's, Pittsburgh, PA

Richard Herrmann
Bozzuto's Inc., Newtown Square, PA

John Hodnett
S&D Coffee, Concord, NC

Craig Hoffman
Wegmans, Inc., Allentown, PA

Bret Hoffmaster
ShIPLEY Energy, York, PA

Tom Jamieson
Shop 'n Save & Save-A-Lot,
Uniontown, PA

Gary Lauer
Associated Wholesalers, Inc.
York, PA

Dan McNabb
Castle Shannon Shop 'n Save,
Castle Shannon, PA

J. Christopher Michael
Associated Wholesalers, Inc.,
Robesonia, PA

Chuck Miller
Ellis Coffee, Philadelphia, PA

Mike Mitchell
Amelia's Grocery Outlet,
New Holland, PA

Gabe Olives
Rutter's Farm Stores
York, PA

Richard Russell
Giant Eagle, Inc., Pittsburgh, PA

Paul Sauder
R.W. Sauder, Inc., Lititz, PA

Gordon Seiber
Kellogg's Specialty Channels/
Convenience, Harrisburg, PA

Joseph Tripi
Tripifoods, Inc., Buffalo, NY

Dean Walker
Boyer's Food Markets,
Orwigsburg, PA

Jonathan Weis
Weis Markets, Inc., Sunbury, PA

Richard Wood III
Wawa, Inc., Wawa, PA

Keith Wyche
Acme Markets, Inc., Malvern, PA

Association Leadership



2012 Committee Chairmen



Chairman
Food Protection Committee
Steve Oswald
Wakefern Food Corp.
Elizabeth, NJ



Co-Chairman
Legislative Committee
Craig Hoffman
Wegmans Inc.
Allentown, PA



Co-Chairman
Legislative Committee
Gabe Olives
Rutter's Farm Stores
York, PA



Chairman
Loss Prevention Committee
Brett Garber
Turkey Hill Minit Markets
Lancaster, PA



Chairman
Fuels Committee
Gabe Olives
Rutter's Farm Stores
York, PA



Chairman
Pa. Pharmacy Council
Paul Granger
Associated Wholesalers Inc.
Robesonia, PA

For information on PFMA's committees or to participate, contact Annette Knapp at aknapp@pfma.net or 717-760-5922.



PFMA Partner Council

Chairman
Richard Kenny
Kenny Family ShopRites

Vice Chairman
Greg TenEyck
Safeway, Inc./Eastern Division

Treasurer
Craig Clarke
Walgreens, Inc.

Secretary
Lorelei Mottese
Wakefern Food Corp.

Board Members

Teross Young
Food Lion

Paula Janssen
Janssen's Market, LLC

Mike Long
Giant Food Stores, LLC

Diana O'Donoghue
7-Eleven

Angela Perez
Acme Markets, Inc.

Karen Sisson
Walgreens, Inc.

Ellen Vallentino
Delaware Beverage Association

Rich Wood
Wawa, Inc.

Executive Director
Julie Miro Wenger

PFMA

Pennsylvania Food Merchants Association

Pennsylvania Food Merchants Association

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P. 717-731-0600 or (Toll Free) 800-543-8207
E. pfma@pfma.net | W. www.pfma.org

\$ MEMO

Merchants Express Money Order Company, Inc.

Merchants Express Money Order Company, Inc.

P.O. Box 8863 | Camp Hill, PA 17001
P. 800-922-8079 | E. cc@memoco.com
Website: www.memoco.com

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David L. McCorkle

Government Relations
*Senior Vice President,
Association Services*
Randy St. John

Director of Government Relations
Alex Baloga

Manager of Legislative Research
Annette Knapp

Association Services
*Senior Vice President,
Association Services*
Randy St. John

Administrative Assistant
Jennifer Hamelin

Director of Communications
Elizabeth Peroni

Programs
Scanning Certification Program Manager
Autumn Thomas

Finance
Vice President of Finance
Dwight Cromer

Accounting/Human Resource Manager
Gail Bryner

Credit Manager
Dan Oliva

Merchants Express Money Order Company, Inc. (MEMO)
President
Tanya Butler

Corporate Counsel/Compliance Officer
Kevin Lutkins

Manager of Money Services
Terry Smith

Business and Product Development Director
Missy Wellington

Director of IT
Pete Stuart

Help Desk and Warehouse Operations Manager
John Rodgers

Sales & Marketing
Vice President of Sales & Marketing
Autumn Thomas

Sales Support Specialist
Michele Weaver

Pennsylvania Coupon Redemption Services (PCRS)
President
Autumn Thomas

National Sales Director
Bryan Hannan

Sales Coordinator
Brenda Hicks

Account Manager
Laurie Savoy