Responsibility

THE REDWOODS GROUP 2008 COMPANY REPORT

2008 Company Report

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Company Background

Nothing strengthens the judgment and quickens the conscience like individual responsibility.

- ELIZABETH CADY STANTON

THE REDWOODS GROUP, INC.

Founded in 1997, The Redwoods Group is a privately held, socially conscious organization that operates as a highly specialized provider of property/casualty insurance underwriting, risk management and claims adjusting services. Our mission is to protect and improve the quality of life in the communities we serve.

Our business is focused on only two customer groups: YMCAs and Jewish Community Centers (JCCs). Redwoods' services are provided under the authority of risk-bearing entities with whom Redwoods has developed direct contractual relationships. In this role, Redwoods is called a "Managing Underwriter" or MGU.

The company's revenue is derived from the fees paid by the risk bearers on each program for the insurance-related services provided by Redwoods on their behalf.

Redwoods' business model has been proven over a long period of time. The Insurance Program for YMCAs began in 1988 and the company, which has developed extensive expertise in support of child-serving, faith-based organizations through its YMCA work, entered the JCC market segment with its first customer on January 1, 2006 through our Insurance Program for Jewish Community Organizations (JCOs). In each program, success depends on careful selection and pricing of customers, intimate and practical risk management, and early intervention and insightful resolution of claims. While Redwoods derives no direct financial rewards from the risk-bearing profitability of these programs, the ongoing efficacy of the model is a crucial element in the sustainability of the company. Simply put, insurers are interested in supporting Redwoods' programs with risk-bearing capital because Redwoods' model and track record indicate a strong likelihood of outstanding return on the insurers' capital.

Letters from Management

Responsibility walks hand in hand with capacity and power.

- JOSIAH GILBERT HOLLAND

A LETTER FROM THE CEO

"A fiddler on the roof. Sounds crazy, no? But here, in our little village of Anatevka, you might say every one of us is a fiddler on the roof trying to scratch out a pleasant, simple tune without breaking his neck. It isn't easy."

These words of wisdom are the first lines from Tevye, the Russian Jew who is the central character of the wonderful play, "Fiddler On the Roof". In 2008, it became obvious that all of us are much like the fiddler, balancing precariously between making a joyful noise and falling from our perch. Unfortunately, in the last two years, nearly 6 million people in the US have fallen, losing their jobs in the midst of the global economic meltdown.

As devastating as it has been, we should have seen the crisis coming.

One reason we are where we are is that our governments – world-wide and for several decades – have failed to adequately regulate financial transactions. In March, 2008, I wrote: "All across the globe, governments have become little more than facilitators of commerce. In too many ways, the mantle of leadership has been left by our elected officials to a new ruling class: lavishly compensated corporate CEOs, hedge fund managers making, literally, billions and banking executives who have built a web of financial instruments so complex that even the most sophisticated regulators can't figure out how to protect the broad community intended to be served by the products."

As important as regulation is, however, there's a bigger lesson in all this:

Moral behavior can't be regulated.

Our business leaders are too often motivated by greed because our society – schools, families, workplaces, the media…even some faith communities – has for too long operated on a "values-neutral" basis. We have intentionally decided either to teach no values or to use values as a political wedge. Neither is right. The values which sustain community must be taught in order for them to be lived. In March of 2006, I wrote in my CEO Letter:

"Unfortunately, in this country, we have evolved into a society where the habits we celebrate in great families are not those we reward in businesses. Great families postpone gratification 'great companies' on the other hand, regularly sacrifice long-term strategies for unsustainable short-term gain."

By the grace of God, we at Redwoods have worked hard to manage our business for the long-term. We lost money in 2008, for the first time in our history and, as you'll learn in Steve Cook's CFO Letter, we did it by choice. We chose to fully fund our customer, community and employee obligations, even at a time when the insurance market conditions, the economic climate and the near-collapse of our main insuring partner – AIG – made it impossible for us to price our product at a level that would allow an adequate profit margin. We were able to operate at a deficit – and we may well do so again in 2009 – because we left enough reserves in the company in prior years to provide us with the cushion we need to weather these unprecedented circumstances. We manage the risks to our enterprise carefully, because our stakeholders depend on us to fulfill our promises without regard to the dynamics beyond our control.

Now, we're certainly looking very hard at our processes to make sure we do our work as

We manage the risks to our enterprise carefully, because our stakeholders depend on us to fulfill our promises without regard to the dynamics beyond our control.

efficiently as possible. You're now experiencing one small example of our assessment: we posted our Company Report on-line instead of printing and distributing it. This is a perfect year for us to build upon our corporate social and environmental responsibility: We saved money and time, we saved 142,500 sheets of paper and we reduced our carbon footprint by 28,500 pounds. You have access to our complete Social and Financial Audits, of course, but there's no glossy book in the mail. We think the message is more important than the package.

We made other, more significant changes in 2008 as well. Virtually all our data input functions are now done beautifully by a Redwoods team in Qingdao, China. That work is now done faster than before and not a single employee lost their job in the US as a result. All the folks who did that work are now in other Redwoods roles, doing work that requires more analysis and insightful, timely communication.

Last May and June, for the first time, we trained at more YMCA and JCC camps with Redwoods Leadership Interns than with Risk Managers. We trained about 35,000 counselors in total and the feedback we got was that the interns were terrific and, no surprise, might even have related a little better to the counselors than our permanent – slightly older – associates. Importantly, more than one-half of those 2008 interns will become full-time Redwoods staff upon college graduation.

There are countless ways our staff made processes not only more efficient, but more effective. I have a good friend who has taken to saying, "A crisis is a terrible thing to waste," and I agree with him. We may never have made some of the changes we've made – and we wouldn't have chosen the circumstances that necessitated the introspection – but we're much better off for the long-term with our new approaches.

Bill Mecklenburg does a good job in his COO Letter this year discussing the competitive situation we faced in 2008 and which continues unabated into 2009, but I want to share an observation here. There are at least seven insuring carriers that have rushed into the YMCA space in the wake of the suspension of Y-Mutual's operations and with the onset of a soft insurance rate cycle. All operate at a lower price point than we do, none have a record of sustaining their appetite for Ys during hard insurance markets and, frankly, none serve customers as intimately or as effectively as we do. There is little debate on any of these points.

Still, forty-two of the five hundred forty-seven YMCAs we insured left Redwoods in 2008 for one of those carriers. While a 92.5% customer retention result is world-class for insurers, it's our worst performance ever. Why did they leave?

In too many cases, we didn't do our best work for the Y and, as a result, the Y's decision-makers didn't think we were worth the extra money. In more cases, Ys under financial pressure ceded a meaningful role in the renewal decision-making process to volunteers who have been brought up to view insurance as somewhat of a commodity. These volunteers serve selflessly and want what's best for the Y, but too often we, the brokers and the Y staff weren't able to help the volunteers see Redwoods as anything more than a vendor. When that happens, we've failed and, because we failed, the Y will be less safe than it otherwise would have been with our involvement. When we allow that to happen, we put people at risk and we compromise our core mission, which is to improve the quality of life in the communities we serve.

You cannot escape the responsibility of tomorrow by evading it today.

- ABRAHAM LINCOLN

The market conditions that spawned temporary competitors and that challenge so many Ys – and JCCs – won't change in 2009. In order for us to have the opportunity to serve as many Ys and Js as would want Redwoods as their operating partner, we must do two things differently:

Manage the sales process more assertively and more effectively.

In our company, our culture is rooted in keeping kids safe, not selling insurance, so this is a challenge that we have not yet mastered. We are beginning to understand, however, that without a good sales effort, we don't get the chance to save lives. That fact tends to focus the mind.

Operate in the market at a lower price point.

There is only one sustainable way to do that: we must reduce injuries at Ys and Js in order to reduce loss dollars. If we were willing to compromise risk-bearing profits, we could lower our rates in the short-term, raising them soon, when the soft market turns later this year or in 2010… but that's not what we promised our customers. We promised that our rates would be both competitive and consistent. For them to be both, we need to work carefully with our customers to help them change their operating behaviors to make injuries less frequent and less severe. That's been our model for over twenty years, of course, but it will have to be executed with even more urgency now, because the market rates are so low.

When all this works, Redwoods-insured Ys and Js will enjoy meaningful insurance cost savings and a safer environment… a classic win-win. It's very good work we're doing – serving Ys and Js, supporting the community, nurturing our employees – but the fiddler's balancing act requires our constant attention. One of my very favorite books is by Norman MacLean, a former fire-jumper from the upper Midwest, who writes about his childhood in "A River Runs Through It". Whether you're doing the miraculous work of a Y, J or other community organization or you're a Redwoods associate, passionately dedicated to our shared mission, or you're just trying to raise a family and live a good, moral life, MacLean's words will ring true:

"My father was very sure about certain matters pertaining to the universe. To him, all good things - trout as well as eternal salvation - came by grace; and grace comes by art; and art does not come easy."

Your continued support for our work is humbling and an honor. May God's grace be with you in these challenging times.

Kevin A. Trapani

Kevin A. Trapani
President & CEO
The Redwoods Group, Inc.

No snowflake in an avalanche ever feels responsible.

- GEORGE BURNS

2008 OPERATIONS REPORT

A LETTER FROM THE COO

It is typically difficult to make a case about having an outstanding operation during a year in which your company lost a fraction of its market share and suffered its first loss in its history, but The Redwoods Group is not a typical company. We could have made a profit, a healthy profit, if we prioritized profits over people, but that is not The Redwoods Way. We ended 2007 by announcing to our staff that we were about to enter one of the most difficult market cycles in our professional insurance careers, but that everyone's job was safe and there would be no lay-offs, irrespective of our short term profit or loss. We finished 2008 with the same announcement.

We could have prioritized short term returns over investments in long term sustainability or we could have made justifiable decisions to freeze salaries or not fulfill our promise to send our employees' children to college. We didn't turn our backs on our commitments to the community nor did we restrict our training sessions and other risk management initiatives at our Ys and Js. Essentially, we did what we do best, protect and improve the quality of life in the communities we serve. Losing $66,000 on a pre-tax basis didn't change anyone's life, but not fulfilling our responsibility to our employees and their families, our customers, and our communities would have altered lives in immeasurable ways.

We believe that the decisions we made enabled our folks to concentrate on the most important part of their jobs – keeping kids safe. The most critical operating statistics I can share with you is that deaths by drowning in the Y Movement are down over 75% since 2002, the incidents of abuse per YMCA Redwoods insureds have dropped by 41% since 2004, and we now have less than 4% of our Ys and Js using 12 & 15 passenger vans. While we are proud of our customers and staff for delivering these results, we were also devastated in 2008 when we had a little boy drown on our watch and another little boy's life taken as a result of an improperly anchored soccer goal crushing his skull. These are events that haunt us on a daily basis and motivate us to improve our operations. Our staff understands that it is our responsibility to eliminate all needless injuries and most certainly deaths at YMCAs and JCOs, and we will continue to work tirelessly to fulfill that responsibility.

In 2008 we also invested heavily in creating a more sustainable, efficient, and insightful Redwoods for the future. These investments came in many forms, but the three most significant investments were developing and launching a workers' compensation product, taking the initial steps in a multi-year integrated systems initiative, and partnering with a dynamic organization that enabled us to establish an international team dedicated to Ys, Js and social responsibility.

We continue to have the honor of serving two of the most important child serving organizations in the world. These organizations have shaped the character of millions of children for over 150 years in the Y Movement and for decades in the J Movement. Our focus over the last 20 years has been on keeping children and members safe, but we recognized over the years that we also had an obligation to serve Y & J staff. It's essential to have a healthy, motivated, engaged, and injury free staff to maximize the mission work performed every day. To accomplish this, we hired a Workers' Compensation Product Manager in late 2007 to build a Redwoods' quality Workers' Compensation Program for YMCAs

There is no truth without responsibility following in its wake.

- KENNETH L. PIKE

which was launched in 2008. This program will be expanded to Js in late 2009. While led by the Product Manager, this initiative required the integrated effort of every discipline in the company. We had to analyze historical workers' compensation claims data provided to us by Y Mutual and tailor a product offering that addressed the most vital workers' compensation concerns of the Y Movement, while demonstrating to our risk bearing partners that we have a high likelihood of delivering a reasonable risk bearing return. We partnered with a leading workers' compensation claim handling company, with a dedicated Redwoods team, to respond to the statutory geographical claim handling requirements of this product under the direction of Redwoods' claim management and our Nurse Case Manager who is integrally involved with and oversees all lost time claims.

In September, we introduced the Y tailored workers' compensation program with The Hartford Insurance Group. This program is designed to ensure that the miracle work performed by Y staff everyday is seldom interrupted by avoidable work related injuries. Of equal importance, our program emphasizes healing the injured staff and re-engaging them in appropriate Y work, so that the mission focused staff will serve children and their community as soon as practicably possible. We were blessed with the confidence our customers placed in our ability to serve the needs of their workforce as they enabled The Redwoods Group to become the largest workers' compensation insurer in the Y Movement by year-end. We take this responsibility to serve the Y Movement in this new discipline very seriously as we feel the health and safety of Y staff is paramount to the Y mission.

The second major initiative was to take an introspective look at our operating processes and systems to better understand consistency and efficacy of our work, redundancy of tasks, elevate the impact our staff's work product, and increase our access to data and the integration of that data in improving operating behaviors at Ys and Js. The first task was to create greater consistency in our work product. We did so through the creation of a technical team to set standards, evaluate skills, provide training and lead innovation in the risk management and underwriting disciplines under the direction of our SVP of Technical Services and Chief Underwriting Officer. A similar technical unit was already in existence for claims. We consolidated our operating units under one Program Director who is responsible for the daily execution of our underwriting, risk management and claims work with our Ys and Js.

These moves created consistency, but they did not address the issues of redundancy of tasks and elevating the impact of our staff's work product let alone access and integration of data. To this end, we partnered with a consulting firm to assist us in understanding how we could purchase or build an IT platform that integrates data between underwriting, claims, risk management and accounting. The objective included substantially reducing the "touch points" to enter the data, exploring web-enabled platforms for customer data entry and analysis, and enhancing our ability to extract and evaluate the data. During the 4th quarter we identified the IT partner to build a Redwoods specific IT platform, and engaged them in a Business Process Analysis to fully identify the needs and costs of this dynamic system by the third quarter of 2009.

Through the above process we discovered efficiency opportunities

in virtually every discipline, but we also discovered that there were a number of tasks that could be performed by a "night shift" across the globe that enabled our employees to be focused on customer interactive activities during the day. We partnered with ReSource Pro to train a team of Redwoods dedicated staff to handle such tasks with two conditions. The first was a commitment that we would not lay-off employees due to the partnership, but we would re-train and re-deploy current staff. The second was that our dedicated team members at ReSource Pro would also be required to adopt our mission and integrate community service as a part of their job responsibilities. Both conditions have been and will continue to be fulfilled. Our employees have come to value the increased impact of their daily work and the quality and quantity of work they receive from our China based team. Of greater importance, we now not only have a small group of Redwoods dedicated staff in China committed to community service as part of their work, but a company of over 600 Chinese citizens engaged in community service due to our influence.

Like any company, there are countless areas for improvement in our operations at The Redwoods Group. We challenge ourselves to be introspective in identifying these areas while prioritizing our responsibility to serve our customers, our employees and our communities. Our employees need to have security in their jobs to concentrate on serving others. We will continue to provide that security with the expectation that they continue to embrace the responsibility to provide innovative and effective ways to improve the safety culture for children, members and staff at Ys and Js throughout our country.

Our staff understands that it is our responsibility to eliminate all needless injuries and most certainly deaths at YMCAs and JCOs, and we will continue to work tirelessly to fulfill that responsibility.

William C. Mecklenburg, Jr.
Executive Vice President & COO
The Redwoods Group, Inc.

We feel it is important to do what is best for our employees and customers.

2008 FINANCIAL OVERVIEW

A LETTER FROM THE CFO

The year 2008 presented many financial challenges for most organizations, and The Redwoods Group was no exception, as we experienced an operating loss for the first time in our history, amounting to ($112,085). Our financial results, however, do not tell the real story.

The real story is that we could have made a profit in 2008, but unlike many other organizations, we were not willing to take actions that would have had detrimental effects on either our employees or our customers. Our total revenues declined by about 3% last year due to very competitive market conditions combined with lower investment income. Instead of reducing costs accordingly, our compensation and benefit expense increased last year.

We were not willing to lay-off some of our employees or cut their compensation, and we were not willing to require employees to increase their contribution toward health insurance costs, cut our 401(k) match or reduce other benefits so that we could make a profit. Not only does this reflect our commitment to our employees, it also reflects our commitment to our customers. We are also not willing to compromise our excellent customer service in order to make a profit. We chose rather to take this opportunity to look for ways to operate more efficiently and deliver excellent service at lower costs, which will have a positive impact on 2009 and subsequent years.

Last year we told you about the formation of The Redwoods Group Foundation. As a result, the majority of the cost of our community support efforts was borne by the Foundation during 2008 and reduced our ongoing administrative expenses by over $440,000, thus helping to offset the loss of operating profit from the 2007 sale of our Dental Program.

The real story here is that in a year when we incurred an operating loss, the combined direct community support payments from Redwoods and the Foundation increased to $745,000 compared with $539,000 the previous year. The Foundation also made contributions of $350,000 to the Triangle Community Foundation to be used for future donor-advised grants.

Admittedly, we are fortunate that we can absorb a small loss without negatively impacting our employees, our customers and our other stakeholders. What we want you to understand is that this was not an accident. We have intentionally been conservative and retained extra capital in Redwoods to provide for the volatile operating cycles of the insurance business. Are operating losses sustainable for the long-term? No, but in these tough times – which continue in 2009 – we feel it is important to do what is best for our employees and customers.

The Company's working capital position remains strong at $3.2 million and Redwoods continues to remain debt-free with an unused $500,000 line of credit. Looking forward to 2009, we have implemented various cost-saving strategies, have initiated a business process study focused on identification of our future systems needs, and are well positioned to take advantage of future business opportunities.

Stephen B. Cook

Stephen B. Cook
Senior Vice President & CFO
The Redwoods Group, Inc.

Social Audit

> You must take personal responsibility. You cannot change the circumstances, the seasons, or the wind, but you can change yourself.
>
> - JIM ROHN

THE REDWOODS GROUP

2008 SOCIAL AUDIT

Social Audit Contents

2008 Social Audit complied by:

Stephanie Poole - *UNC Kenan-Flagler Entrepreneurship Club*

Presented on:

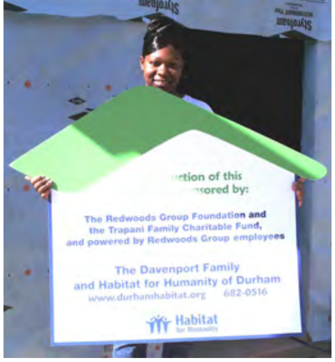
April 13, 2009

About the Kenan-Flagler Entrepreneurship Club:

The mission of the MBA Entrepreneurship Club is to provide educational and practical opportunities to inspire all Kenan-Flagler students towards entrepreneurial thinking.

The eSHIP Club's objectives:

- *To develop a spirit of entrepreneurship throughout Kenan-Flagler regardless of concentration.*
- *To provide educational opportunities through speaker series, student run business, competitions and practicum.*
- *To provide networking opportunities with entrepreneurial alumni and business leaders.*
- *To provide career strategies for MBA entrepreneurs including job search and summer scholarships.*



Freedom is the will to be responsible to ourselves.

- FRIEDRICH NIETZSCHE

EXECUTIVE SUMMARY

The Redwoods Group 2008 Social Audit serves to publicly report on the company's social practices and performance, identify strengths and weaknesses, compare progress versus last year, and make recommendations to management on how to improve going forward. This report draws from standards created by an independent organization, B Lab, which scores companies on their impact to each of their stakeholder groups (Leadership, Customers, Community, Employees, and Environment). The "B Survey" and "B Ratings System" employed here offer standardized, widely accepted metrics of social performance measurement.

After reporting on practices, policies and 2008 results related to each stakeholder group, the Social Audit provides a follow-up to recommendations made in the 2007 Social Audit. Here, the company has followed advice to greatly improve employee engagement in community giving and volunteerism, but has lagged in creating quantifiable baselines and measurement tools.

Results from an employee survey conducted as part of the Social Audit process show greater interest in charitable giving, but declines in interest in volunteerism and the Serve Earth environmental program. The survey also shows that despite the severe macroeconomic and financial conditions of 2008, employees felt that senior management communicated its strategy clearly to them and therefore employees did not greatly fear job loss. TRG management handled 2008's financial situation in a mindful, focused manner and, as promised, did not make lay-offs.

This year's Social Audit, based on the B Ratings System, brought to light areas of notable strength in 2008 and recommendations for future improvement, as outlined in the box to the right. »

STRENGTHS

» Charitable giving and employee volunteerism

» Employee benefits

» Mission-related and socially-responsible investment

» Continued social impact in times of financial adversity

RECOMMENDATIONS

Regarding social impact measurement:

» Build independent board of diverse stakeholders to help set firm direction

» Create short-term and long-term goals and associated measurable metrics

» Annually produce a social report in-house that can be externally reviewed and given focused analysis

Regarding practices related to social mission:

» Increase firm diversity, recruit more from minority populations

» Engage employees in the new TRG Foundation

» Enforce clear foundation objectives and policies, measure social impact

» Become a registered B Corporation

Overall, The Redwoods Group proved itself to be a remarkable social mission-driven company in 2008. It should continually seek to advance its social impact and sustainable practices.

It is the responsibility of leadership to provide opportunity, and the responsibility of individuals to contribute.

- WILLIAM POLLARD

INTRODUCTION AND OBJECTIVES

Founded in 1997, The Redwoods Group is a privately held, socially conscious for-profit organization that operates as a highly specialized provider of property and casualty insurance underwriting, risk management and claims adjusting services.

The Redwoods Group annually commissions an examination and evaluation of its social performance by an external party. The report, a "social audit," serves as a means for the company and its leadership to assess the organization's social impact, including its policies, practices and effects on all company stakeholders. This report will serve as the 2008 Social Audit for The Redwoods Group.

The Social Audit serves to:

- Publicly report on company activities and policies in the previous year
- Identify areas of strength and of weakness in social impact through an impartial review process
- Compare the company's current standing to past performance to assess growth or improvement
- Make recommendations to company leaders on how to continually improve the company's work in meeting its social mission

In an effort to remain impartial as well as to undertake a comprehensive analysis of The Redwoods Group's social performance, this 2008 report draws from a review mechanism created by an independent organization to score companies on their impact to each of their stakeholders. The "B Survey" and "B Ratings System" created by B Lab, a nonprofit organization, use leading open-source performance standards and impact metrics from numerous sources, including the Global Reporting Initiative, Wiser Business (a project of Natural Capital Institute), and the Social Venture Network. The survey has been reviewed and improved upon by over 600 entrepreneurs, investors, experts and academics, and the rating system is governed by an independent, nine-person Standards Advisory Council. By using the B Survey and B Ratings System in the 2008 Social Audit of The Redwoods Group, the company can both employ standardized, widely accepted metrics of social performance measurement and a fair comparison of its practices and policies with other companies who also have internal social missions.

The 2008 Social Audit reports and evaluates The Redwoods Group from the following stakeholder perspectives:

Leadership: Do the company and its leaders promote high levels of accountability and transparency in practices and policies?

Customers: Does the company provide beneficial services and/or beneficial methods of service production to its customers?

Community: Is the company engaged with and valuable to its surrounding community?

Employees: Does the company treat its employees fairly, promote a respectful culture, and provide the resources needed to personally and professionally succeed and grow?

Environment: Does the company work to minimize its negative impact on the environment in the areas in which it operates and leave a sustainable ecosystem to future generations?

God has entrusted me with myself.

- EPICTETUS

LEADERSHIP

Do The Redwoods Group and its leaders promote high levels of accountability and transparency in practices and policies?

Governance & Accountability

The Redwoods Group's social impact is definitely integrated into its written corporate mission "to protect and improve the quality of life in the communities it serves" and into its corporate motto – Serve Others®.

Every employee at The Redwoods Group (TRG) is charged with overseeing and carrying out the social mission of the company. The Redwoods Group does not have a Board of Directors or independent governing group, and Founder and CEO Kevin Trapani, along with the TRG senior leadership team, oversees and sets strategy for the firm. There are 15 owners in the company overall with Kevin Trapani maintaining 80% ownership. Owners are currently all full-time employees, and all but two owners work in TRG's Morrisville, NC headquarters. There is not an audit committee for the firm; CFO Steve Cook is in charge of internally reviewing and approving firm financials before they are presented for external auditing. The TRG leadership team comes to consensus on compensation guidelines for salary bands, salary increase targets and bonuses, and Kevin Trapani sets salaries and bonuses for the leadership team. The stakeholder groups with representation in governance and oversight at TRG include its main owner and CEO, senior employees and the Advisory Council (a group of 12-13 members made up of mostly senior YMCA executives).

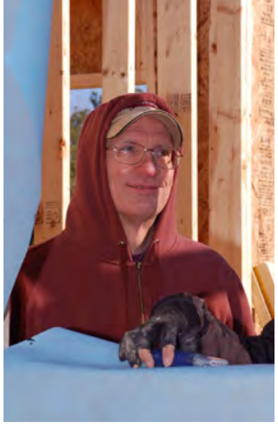
A "whistle-blowing" policy provides a way for employees to report corporate misconduct while explicitly protecting them from retaliation. The Redwoods Group does utilize a whistle-blowing policy in order to foster a company culture of integrity and compliance. TRG uses EthicsPoint, an external service, which offers telephone and web-based anonymous hotline reporting services to TRG employees (www.ethicspoint.com). TRG also has put in place financial controls to ensure the accuracy of reporting and prevention of fraud.

TRG's external stakeholder engagement mainly consists of customer communication. Customers are engaged by their respective TRG coverage departments, which conduct customer satisfaction surveys at various times in the year (some monthly, some semi-annually, etc.) Customers are also represented by TRG's Advisory Council, which meets every 12-18 months to discuss firm strategy. The company's website (www.redwoodsgroup.com) is also a key online point of contact for customers as they can submit feedback, concerns and questions there.

TRG communicates to the community at-large via its website and company press releases; external groups or individuals are also encouraged to read and post comments on TRG's external blog (blogs.redwoodsgroup.com/blogs/serveothers). On this site, CEO Kevin Trapani posts thoughts and messages specific to TRG's social mission, theory of change and perspectives on current events. Employees and outside parties can post messages and thoughts on these topics as well as directly communicate with TRG's senior management via this public forum. TRG also annually participates in the externally-conducted Winning Workplaces survey and brings in external parties to conduct its annual Social Audit, which it publishes for community viewing.

Transparency & Reporting

Every year Johnson Lambert & Co. audits the financial statements of The Redwoods Group, and the financial reports are internally approved by CFO Steve Cook and reviewed by senior management.



I believe that we are solely responsible for our choices, and we have to accept the consequences of every deed, word, and thought throughout our lifetime.

- ELIZABETH KUBLER-ROSS

Financial results are shared with employees as well as customers and other external stakeholders in the company's Annual Report and in quarterly meetings with management and all employees. The Annual Report also publicizes mission-related performance information that is taken from a separately conducted Social Audit. TRG does not itself produce a report detailing its mission-related performance, and instead employs an independent party, often connected with the local academic community, to annually audit its social impact.

This 2008 report will serve as TRG's fifth Social Audit, having conducted one every year since 2004. In the past five years, TRG has given each audit author(s) the flexibility to evaluate the company in any way seen appropriate and the audits have therefore reflected diverse frameworks and given the company many unique perspectives from which to view their social performance. Past Social Audits have contained:

For the mission targets the company has set, all employees, including managers, are evaluated on their performance with regard to TRG's social mission. All are required to complete at least 40 hours of volunteer work per year and are evaluated on keeping TRG's Serve Others mission in their daily work.

TRG does not have ready access for employees to written information that identifies all owners. There does not appear to be any conflicts of interest between the company and its owners that need to be disclosed to employees. As a firm, TRG has not made direct political contributions or lobbying efforts. The company has not reduced or minimized taxes through the use of a corporate shell or other structural means and has not faced any tax negligence penalties.

Solid leadership has led TRG to business growth, as seen in its 2008 21st place accomplishment in the Triangle Business Journal's "Fast 50" rankings (based on revenue and profit metrics).

CUSTOMERS

Does The Redwoods Group provide beneficial services and/or beneficial methods of service production to its customers?

Delivers Beneficial Services

TRG provides YMCAs and Jewish Community Centers (JCCs) with property and casualty insurance, as well as workers compensation insurance for customers' employees. Insurance in general is a service that is beneficial to users, and for YMCAs and JCCs, insurance is critical to their operations.

TRG's services inherently promote economic equality for individuals and communities via YMCAs and JCCs. Property and casualty insurance provides these faith-based community organizations the financial security they need to be

	2004	2005	2006	2007
Clear statements of TRG mission, goals, and the change it seeks	X	X	X	X
Clear descriptions of mission-related activities	X	X	X	X
Quantifiable targets for mission performance				
Quantifiable results from mission (e.g. lbs of carbon offsets)			X	X
Consistent variables of measurement which allow comparisons to previous years				X*
Third-party validation of any part of TRG's mission performance	X	X	X	X

*In categories reported, not in standard metrics

Life is a gift, and it offers us the privilege, opportunity, and responsibility to give something back by becoming more.

- ANTHONY ROBBINS

able to provide their own services to individuals and surrounding communities. Without insurance, these nonprofits would not be able to serve their respective members as there would too much risk. Risk ties up assets, which must be held as reserves to protect an organization and therefore cannot be used for mission-related or operational purposes. For example, YMCAs have a stated goal to build "strong kids, strong families and strong communities." Given their business model, YMCAs would not be financially able to operate without insurance, and communities would ultimately suffer.

Insurance, provided properly, also inherently improves health as it allows injured persons to seek needed medical attention that they may not otherwise be able to afford. As previously mentioned, insurance frees up an organization's assets for operational use (versus reserves) and thus increases the flow of capital toward the organization's operational function and mission. Since The Redwoods Group only serves nonprofit clients, its insurance services increase the flow of capital specifically to purpose-driven enterprises.

TRG's insurance service promotes economic equality, health and capital to purpose-driven enterprises; it does not inherently promote the environment, the arts or education. 100% of TRG's total company revenues were generated in 2008 by providing the above intrinsically beneficial services to its customers.

Beneficial Methods of Production

Better Service

Beyond the intrinsic benefits of insurance offerings, The Redwoods Group employs positive methods of service delivery that go beyond the industry norm. First, TRG's method promotes economic equality for individuals because its services are delivered by employees who are treated extraordinarily well in terms of company culture, compensation and benefits (page 16).

Secondly, the process by which TRG's insurance services are delivered is unique. In terms of claims handling, the company is unlike other insurance companies who fight, question or delay service of claims. TRG has a written policy of claim handling and service and trains employees to treat claimants in an empathic manner with personal connection and quick response. For instance, TRG investigates abuse claims right away, is empathetic to claimants, and encourages claimants to seek professional help immediately, while traditional insurance providers often put off any response until legal action is taken by the victim. Additionally, the company has found that it is rare for an adult predator to abuse only a single child, so when it learns of a potential abuser, TRG actively searches for other victims in order that they can be identified, treated and healed. Other insurance companies hope the other victims never come forward.

TRG's methods of service delivery also promotes economic equality for communities in that the company's overall mission is to Serve Others®, while its competition maintains solely profit maximization missions. TRG's company strategy (illustrated below) is built around this and management seeks to use this mission to drive all company operations, including how it delivers its insurance services.

The company is also a dedicated service provider to community-based nonprofits (YMCAs and JCCs) versus other organizations, a selective service methodology that seeks to build economic equality in communities served by YMCAs and JCCs.

Let us not seek the Republican answer or the Democratic answer, but the right answer. Let us not seek to fix the blame for the past. Let us accept our own responsibility for the future.

- JOHN F. KENNEDY

Healthy and Sustainable Insurance Delivery

TRG's insurance delivery also improves health through an approach it calls the "virtuous cycle." While many insurers remain only passively involved with customers, raising rates as they assess greater risk, TRG actively works to reduce risk. TRG's insurance service is delivered alongside a great deal of education materials, training and on-site, active risk management. The company has 15 risk managers who identify and improve high-risk areas and work on-site to train YMCA and JCC employees in order to prevent accidents and injuries by employees or organization members. TRG also offers customers a special summer camp training program to reduce injuries and accidents during high-volume participant summer activities. Additionally, TRG now provides training to its customers' employees on healthy and risk-reducing behaviors in order to reduce employee injury as part of its employee workers' comp insurance services.

A deeply social mission-driven company, TRG has also incorporated environmental benefits into its method of service delivery. It has become almost paperless in how it provides contracts and maintains records in its service provision. The company has moved from sending customers large paper contracts to sending customers a contract on CD. It also has almost completely replaced its paper records with electronic records through an e-filing system that will be the primary method used going forward.

Generous Profit and Conscious Asset Utilization

TRG's methods of service delivery greatly increase the flow of capital to purpose-driven enterprises. First, the company has worked diligently to provide stable pricing for its customers over time and through several insurance market cycles when market pricing creates price volatility, which is difficult for nonprofit customers to deal with. Furthermore, TRG has many partnerships with local nonprofits and a remarkable charitable giving record and philosophy. Some of these 2008 TRG charitable programs include:

- Dollars for Doers
- Community Investment Program
- The Redwoods Group Foundation
- 2008 Charity Caucus
- 2008 Summer of Giving

TRG also has an established partnership with the United Way and has a two-for-one matching program for employee donations to the United Way. The company also regularly contributes to St. Baldrick's, Teach for America, local YMCAs and JCCs, and Habitat for Humanity.

Many companies contribute profits to charitable giving to some degree, and therefore leverage their income statements to create social impact. TRG, however, has sought to go beyond its income statement and its Foundation and to additionally employ its balance sheet, specifically investable assets, to generate a larger impact. TRG's investment portfolio now holds around $300,000 in bonds chosen for their positive education and health projects. Also in 2008, the company made a direct real estate investment in Durham, NC, seeking to promote economic development and downtown revitalization in the underserved area. CFO Steve Cook estimates that to date 25-30% of total investable assets are invested in such impact investments.

The Redwoods Group Foundation ("Foundation"), created in 2007 and subsequently funded with $3.7 million that resulted from the sale of the company's dental practice unit, also is pursuing a mission-related strategy in its investments. In 2008, TRG management met with investment advisors regarding socially-responsible investment (SRI) offerings. However, management was not pleased with the negative screen methodology

> The willingness to accept responsibility for one's own life is the source from which self-respect springs.
>
> - JOAN DIDION

often used by such funds. TRG feels these SRI funds too narrowly evaluate corporate sustainability and generally ignore socially positive proactive corporate practices and policies. The Foundation is actively looking for alternative socially beneficial investments and in 2008 invested in two real estate properties with this mission in mind located in downtown Durham, NC. Durham's downtown area is actively undergoing a powerful economic and community development revitalization that the Foundation wishes to support. The Foundation, through its partnership with Greenfire Real Estate Holdings, plans to house nonprofits in one Durham building and provide regular technical assistance to the nonprofits as a part of their tenancy, which offers a future triple play impact opportunity.

The Redwoods Group's methods of service delivery promote economic equality for individuals and communities, reduce environmental impact, improve health, and generate capital for purpose-driven enterprises (non-profits and social ventures). 100% of TRG's total company revenues were generated in 2008 by using the above intrinsically beneficial service methods.

Targeting Underserved Populations

TRG's insurance services specifically target the following underserved populations:

- Low-income households in U.S. - 56.5% of YMCAs serve communities where the median family income is below the U.S. average. 36.9% of JCC members are below the U.S. median income level and 42% have a highest education level of a high school degree or less.
- Women - 50% of YMCA members are women.
- Ethnic minorities - JCCs provide "educational, cultural, social, Jewish identity-building, and recreational programs for people of all ages and backgrounds" and work to strengthen Jewish communities across the U.S.
- Children & elderly - 45% of YMCA members are 17 or younger and YMCAs are the largest national providers of child care. JCCs largely serve older populations as 35.6% of JCC members are 65 or older.

TRG's services do not specifically target low-income households outside the U.S. or people with disabilities (although many YMCAs do offer specific classes for people with disabilities). It is difficult to measure the percentage of underserved population beneficiaries of TRG's insurance services as insurance benefits are shared by all YMCA and JCC members. 100% of TRG's total company revenues in 2008 were generated by service delivered to JCCs and YMCAs, both of which actively serve underserved groups.

COMMUNITY

Is The Redwoods Group engaged with and valuable to its surrounding community?

Local Involvement

The Redwoods Group's headquarters and office building is located in Morrisville, NC, part of the Research Triangle metropolitan region. TRG has 85 employees who work at this location, including the majority of the company's owners. Five TRG employees work from home, and TRG has a dedicated team of 5 people who work in China for ResourcePro, a remote staffing firm.

TRG does not have a written purchasing or service policy, but the company does try to use local, independent caterers and restaurants who buy locally. As a small service company, TRG does not rely on component part suppliers and estimates that 10% of its expenditures (other than labor) are directed towards independent suppliers. For banking services, the company uses Wachovia (national

You are not only responsible for what you say, but also for what you do not say.

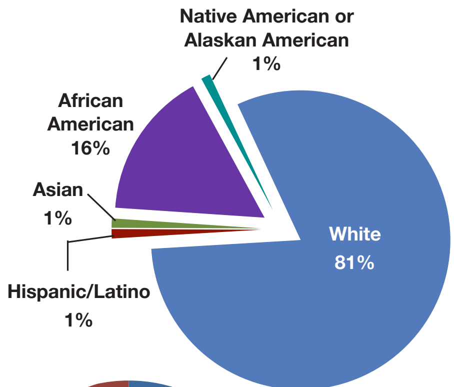
- MARTIN LUTHER

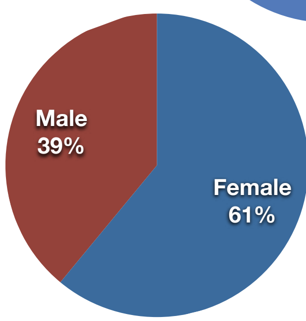
bank based in Charlotte, NC), and the TRG Foundation uses BB&T (regional bank headquartered in NC and operating in 11 states). TRG's customers span the U.S., although a small portion of its clients are local YMCAs and JCCs. Also, over 90% of the company's volunteer hours and much of its giving benefits its local community.

Diversity

29% of TRG executive management and 40% of mid-level management are women and 0% of executive management and 10% of mid-level management represent ethnic minorities, totaling 41% of management from previously excluded populations. The company is entirely owned by individuals and 5% of the company is owned by non-accredited investors.

TRG does not have a written policy for active recruitment of people from previously excluded populations (women, ethnic minorities, people with disabilities, and/or individuals from low-income households), but the company does actively try to recruit people from these groups. 61% of total TRG employees are women. 19% of TRG employees are ethnic minorities versus 25-26% of surrounding metro area (Morrisville, NC) residents are ethnic minorities. The company does not track employees with disabilities or the income levels of the communities in which its employees live. Total TRG employee diversity is represented here:





TRG again does not employ component part suppliers or rely on a sizable supply chain. For the suppliers it does buy from, TRG does not have a policy for active recruitment of women or ethnic minority suppliers and does not track the diversity or locations of its small supplier base.

Civic Engagement Policy

TRG has a strong community service policy, which focuses on "strengthening neighborhoods and supporting the needs of children, the elderly, the hungry, the homeless and other disadvantaged populations." Direct employee involvement in implementation and management of the Community Service Policy is carried out via the Redwoods Community Outreach committee (RCO). The RCO is a body of employees who promote fellowship, increase volunteer options, and allow employees to choose which organizations receive RCO funding or volunteer support. RCO members serve one or two-year terms, a system which allows many employees to rotate into this leadership role.

There are many programs in place to encourage and facilitate employees to volunteer in their communities, and employees are required to contribute 40 work hours (paid time) to volunteering each year. Additional volunteer hours performed during personal time over the required 40 generate donations made by TRG on the employee's behalf on a $10 per hour basis up to $300 per employee per year. There are also many company-wide events, campaigns and designated service days.

TRG also has a written policy allowing two hours of paid time for employees to vote in elections, which it promoted in the 2008 elections. TRG's external stakeholders, including suppliers and customers, are made aware of its

I believe in trying to get a balance between individual freedom on the one hand and social responsibility on the other.

- CHRIS PATTEN

service mission and are encouraged to participate. One example of this can be seen with ResourcePro, the remote staffing agency TRG uses in Qingdao, China. Since TRG employees in the United States are required to volunteer 40 hours per year, the company asked its China-based team to do the same. The result was meaningful. ResourcePro established a Community Outreach Committee to involve the entire office, not just its Redwoods team. In 2008, ResourcePro's community service included a charity run for Project Hope Schools, an orphanage visit where employees donated a new water heater and toys, and childcare at the Elim Autism Recovery Center.

Civic Engagement Practices

Erin Garney, Director of Human Resources & Community Investment Programs, annually collects and reports volunteer hours. In 2008, TRG employees reported a total of 3,386 Community Service Leave hours, up from 3,116 hours in 2007. The Community Service Leave program had a 96% employee participation rate versus 91% in 2007. Participating employees averaged 37 hours of service time in 2008, up from 30 in 2007 but still below the required 40 annual hours per person. Only 47% of participant employees reported they completed the 40-hour requirement, though it is possible additional hours were unreported. Also, TRG believes many people stop reporting after hitting the 40-hour target. CEO Kevin Trapani himself contributed over 183 volunteer hours in 2008.

75% of employees participated in company-wide community service days. 2008 company-wide service activities included leading children's activities and maintenance projects at the Brentwood Boys and Girls Club in Raleigh, NC and organizing an environmental clean-up for the Neuse River Foundation.

TRG regularly partners with several charitable organizations, including the United Way, Frankie Lemmon Foundation and Habitat for Humanity. It also undertook a partnership in 2008 with Elon University's Periclean Scholars program, which focuses on civic engagement and social responsibility and includes a global experience trip for participant students. TRG partnered with Elon in 2008 to send two TRG employees with Elon students to Zambia in January 2009 for a service project with Habitat for Humanity. This venture in Zambia marked the first official international employee volunteer program for the company, although several employees have used their paid volunteer time to perform mission trips.

In 2008, TRG also completed a 15-month service engagement it began in 2007 to adopt a National Guard unit deployed in Kuwait that flew missions exclusively in Iraq. Employees were designated specific soldiers to whom to write letters and send care packages and many developed strong bonds with their overseas partners. The unit sent the company a U.S. flag as a gift of appreciation for its service.

Charitable Giving

In 2008, The Redwoods Group contributed $97,559 to charitable organizations from its company budget. 2008 also served as the inaugural year of The Redwoods Group Foundation giving as the Foundation was launched in late 2007. The Foundation's mission is "to ensure safe, adequate access to shelter, nutrition, healthcare, education, economic opportunity and a sustainable environment for all God's children" and it has a global reach with a specific U.S. focus on central and rural North Carolina. In 2008, the foundation awarded grants totaling $997,909. 2008 was the first year in TRG's history in which it was not profitable. Therefore, it gave away more money than it retained as net income. Including Foundation giving, combined donations to charitable organizations were $1,095,468, an exceptional amount for a small organization.

Accept responsibility for your life. Know that it is you who will get you where you want to go, no one else.

- LES BROWN

Nonprofits supported in 2008 by TRG include individual YMCAs and JCCs, the United Way (received $140,000 in 2008 corporate and employee donations) and St. Baldrick's (5 employees shaved their heads and TRG raised over $136,000 in 2008). TRG matches all employee charitable giving dollar for dollar up to $1,000 per employee as well as matches 200% of employee donations to the United Way. In 2008, 36 employees participated in the match program, increasing the program participation rate from 25% in 2007 to 38% in 2008. TRG employees participating in the match program gave a total of $15,960 in 2008.

TRG's Redwoods Leaders Program recognizes employees who give at least 1% of their salary to the United Way, and in 2008, the company had 19 employees achieve this giving level. Also 28% of TRG employees were designated as Leadership Givers by the United Way and 77% of all TRG employees gave an individual donation.

In 2008, TRG held two special employee programs dedicated to inclusive charitable giving, the Summer of Giving and the Charity Caucus. The Summer of Giving involved all employees in the company's charitable giving by presenting each employee with $135 in corporate funds with which to donate to nonprofits of his or her own choosing. Over $11,000 was given away to more than 40 different nonprofit organizations. The Charity Caucus, a RCO initiative held in October 2008, allowed employees the opportunity to nominate and "campaign" for their favorite nonprofits to be chosen to receive part of the last $5,000 in grant giving for 2008. Every employee had one vote for which campaigning employees were encouraged to solicit. Employees could also personally donate in order to become a "super-delegate" (with double voting power) for their selected nonprofit candidates, which 50 employees did, raising an additional $1,105. The Foundation pledged $300 to each runner-up, and total donations from the Caucus were $7,005. Mission Haiti (1st place), FirstBook (2nd place), and WaterPartners International (3rd place) were the winning nonprofits.

2008 was the first full calendar year of the RCO's micro-lending initiative via Kiva.org, which provides direct online user-to-entrepreneur lending of interest-free small loans. In 2008, the company made 419 loans totaling $11,150 (of which $6,050 was invested in 2008 by RCO and $5,100 came from funds from previous loan repayments.) Additionally, in 2008, Kiva asked The Redwoods Group, and Redwoods agreed. to act as a consultant with them regarding the establishment of lending teams. The Redwoods Group lending team was subsequently created. TRG also made a $700 donation to Kiva in 2008 to help defray loan transaction costs.

Additionally, in late 2008, $50,000 in grants were provided from the Foundation and the Trapani Family Charitable Fund to build a Redwoods Habitat House in Durham, which is set to begin Spring 2009. Also, for the second year in a row, United Way of North Carolina awarded The Redwoods Group its 2008 Corporate Spirit Award.

EMPLOYEES

Does TRG treat its employees fairly, promote a respectful culture, and provide the resources needed to personally and professionally succeed and grow?

Communication

TRG's company goals and priorities are clearly and systematically communicated to all employees via company-wide meetings held at least two times per year. In 2008, these company-wide communication meetings took place on March 18 and August 1. There is also an established, formal and consistent process for providing performance feedback to all employees through individual performance reviews.

Success on any major scale requires you to accept responsibility. In the final analysis, the one quality that all successful people have... is the ability to take on responsibility.

- MICHAEL KORDA

These reviews are held annually, and a six-month conversation with direct managers is also highly encouraged. Depending on the manager, peer and subordinate input may or may not be solicited and taken into account in employee performance reviews. TRG works to advance career development and promotion for its employees. Though no written policy was in place in 2008, a new policy has recently been created to offer regular training and development opportunities to employees.

TRG does have an established mechanism for worker representation in decision-making and management, and employee input is sought from senior management. Every year each employee has 1-2 lunch discussions with the company's two top officers to identify ways to enhance the business and employee job satisfaction. CEO Kevin Trapani and COO Bill Mecklenburg routinely hold lunch meetings with 10 non-managers every month, which results in every TRG employee attending this feedback meeting once or twice every year. Also, Erin Garney and Rachel Kendall are Human Resource representatives designated to mediate any employee complaints or issues. Both maintain open-door policies to allow employees to raise any concerns without fear of reprisal.

TRG maintains written, easily-accessible web-based information for employees including:

- Employee Handbook - a guide to personnel practices, policies and benefits
- Code of Conduct - vigorously enforced discrimination and harassment policies
- Code of Ethics - enforced via EthicsPoint

By participating in an annual competition of top workplaces, TRG employs anonymous employee satisfaction/engagement surveys conducted by an outside party. In 2008, the employee survey showed:

- 80% of employees satisfied with current role
- 78% agree they are valued at work
- 85% agree they have an alignment with personal and company goals
- 88% agree they have trust in company senior leaders
- 90% agree they have great company benefits

Employee metrics are regularly collected and monitored at TRG. 2008 was an unusually high turnover year for the company with a 14% turnover rate, of which 11% was voluntary, 3% was involuntary. These metrics and results are kept and are open to employee inquiry through an open information request policy but are not publicly announced.

Training/Continuing Education

TRG recently started its formal employee training and development program, though beforehand and in 2008 many employees already participated in training. TRG estimates in 2008 50% of its employees were provided opportunities to enhance performance skills and expects 100% employee provision under the new program. TRG also maintains an offer for reimbursement for Continuing Education for all of its employees. The company does not however provide formal outplacement services for any terminated employees.

Additional training and education programs for TRG's social mission in 2008 included optional diversity awareness and engagement activities as part of the company's honoring of the Martin Luther King, Jr. holiday. TRG actually held a week of MLK Celebration events, which were internally generated and led by Risk Manager Dan Baum. Programs included open employee discussions, historic readings, a presentation of the civil rights movement history, and paid time-off to visit the North

Hold yourself responsible for a higher standard than anybody expects of you.

- HENRY WARD BEECHER

Carolina Museum of History to view a civil rights photography exhibit. Four employees also took a company-paid trip to the National Civil Rights Museum in Memphis, TN and shared their experiences with colleagues upon return.

Additionally, the company hosted a 2008 Leadership Luncheon for middle and senior level managers to educate managers on local nonprofit needs and develop leadership for TRG's partnership with the United Way.

Job Flexibility/Corporate Culture

TRG seeks to maintain a unique culture and provide employees with extraordinary resources to succeed. The company offers part-time/flex-time work schedules and estimates around 10% of employees currently work part-time or flex hours. Most employees cannot telecommute given their job responsibilities as there is not a telecommunication technology at TRG. However, on a special basis, five employees currently work from home. TRG does not offer employee job share or a non-medical sabbatical or leave of absence program with job guarantee upon return.

The following supplementary services are offered to employees:

- Flexible Spending Accounts for childcare: FSAs allow employees to set aside pre-tax dollars to pay for non-reimbursed medical expenses and dependent care expenses
- Health and wellness: small on-site gym free and available to all employees and a subsidized Weight Watchers program
- Counseling services: Employee Assistance Program provided by Frank Horton Associates, which includes a 24-hour hotline and online services at fhahelps.com
- Other:
    - Leave: for military service, bereavement, family and medical needs, jury duty, court appearances and to comply with juvenile court orders
    - Bus program: part of Serve Earth initiative, reimburses public transportation costs
    - CSA: In 2008, TRG had fresh vegetables from a local Community Supported Agriculture program delivered to its office for employees to weekly select and take home vegetables for free or opt in to purchase whole boxes of vegetables for themselves.

Accessibility

TRG facilities are physically accessible to people with disabilities, and the company follows the Americans with Disabilities Act (ADA) to provide reasonable accommodation for employees and job applicants with disabilities. TRG also offers employee comp and injury prevention guidance (to alleviate back problems, carpel tunnel, etc.).

Compensation

TRG also aims to provide fair compensation to its employees. A living wage is defined as the wage a full-time worker would need to earn to support a family above the federal poverty line in a given locality. Living wages vary by region and by city and range from $8 - $14 per hour in the U.S. According to Poverty in America's Living Wage Calculator, the living wage in Morrisville, NC is $9.76 per hour (about $20,000 per year). TRG pays all full-time and part-time employees wages above its area living wage, keeping a policy to pay employees no less than $27,500 per year. The company has preformed an analysis of its compensation and has determined that its compensation structure is in-line with that of the local region. TRG has an established and public policy that the base salary of its highest compensated individual is no more than 10 times its lowest paid full-time worker. In 2008, the company did not award bonuses but estimates 10% of net profits are included in an employee bonus plan in a typical year.

I believe that every right implies a responsibility; every opportunity, an obligation; every possession, a duty.

- JOHN D. ROCKEFELLER, JR.

Cash Benefits

TRG prides itself on providing a benefits package above and beyond those of its industry and of most for-profit companies. It offers an Employee Retirement Plan (401k) for all full-time, tenured employees, matching 100% of an employee's contributions up to 6% of his or her annual salary. Health insurance is also offered to all full-time employees and their families. For employees who earn $35,000 per year or less, TRG provides free medical and dental coverage for the employees and their children. For employees earning between $35,000 and $40,000 per year, the company pays 90% of health and dental insurance costs and for employees earning over $40,000 per year, it covers 80%. TRG also offers and pays for life insurance, AD&D and long-term care insurance for all full-time employees, provides Flexible Spending Accounts (FSAs) for medical and dependent care, and offers domestic partner benefits (including same-sex domestic partners).

TRG offers short-term and long-term disability insurance, paid by employees, to all full-time employees. All full-time employees are given unlimited sick days. The company's severance is not set; but TRG does give severance packages that are decided on a case-by-case basis. In 2008, TRG had 11 paid holidays. Full-time employees of 1-4 years employment receive 15 days of vacation, employees of 5-9 years receive 20 days and employees of 10-15 years receive 25 days. The company offers family and medical leave time for all employees that meets the requirements of the Family and Medical Leave Act. One week of paid maternity leave (plus six weeks of paid short-term disability leave totaling seven weeks of leave) and one week of paid paternity leave are offered to full-time employees.

Additionally, TRG now includes unique education benefits for both employees and their children. Eligible employees are reimbursed for 100% of the cost of tuition for courses taken at degree-granting institutions up to $3,000 per calendar year. Eligible employees (after one year of employment) also qualify for the Redwoods Scholarship Program, which provides up to $5,500 per year towards the cost of higher education for employees' children. This covers virtually all NC public university tuition for TRG employees as median NC public university full-time tuition for the 2008-2009 school year was $4,118 and the highest tuition was $5,228. The company has also started an education savings program for employees with 529 plans. TRG will match 50% of employee contributions up to 6% of annual salary for 529 plans and also starts a 529 plan with a one-time $500 contribution for employees' newborn babies.

Employee Ownership

15 of TRG's 95 employees own stock in the company. The company does not award stock or stock options as part of its employee compensation plan, though most of its owners attained their stock through grants. 9 of the 15 company owners are considered non-executive management.

In 2008, The Redwoods Group was named one of 15 national winners of the 2008 Top Small Workplaces award. TRG is the first N.C. company to be a Top Small Workplaces award winner. The contest is sponsored by the *Wall Street Journal* and the nonprofit organization Winning Workplaces, committed to helping small and mid-sized organizations create high-performance workplaces. The application process took almost a year, and TRG competed against 800 companies across the nation for this honor. After Winning Workplaces selected TRG as a finalist, it interviewed company employees, customers and advisors, which were reviewed by a panel of workplace and small business experts. After announcing TRG's win, the *Wall*

Responsibility is the price of greatness.

- WINSTON CHURCHILL

Street Journal ran a report on the company and interviewed CEO Kevin Trapani for the WSJ blog.

ENVIRONMENT

Does The Redwoods Group work to minimize its negative impact on the environment in the areas in which it operates and leave a sustainable ecosystem to future generations?

In addition to its Serve Others® mission and programs, TRG has established a separate program, Serve Earth, which is dedicated to the firm's environmental efforts. The company does not have a formal written environmental policy, but Serve Earth works to make gradual changes to improve the company's environmental footprint. TRG does not conduct comprehensive environmental audits, though the Serve Earth program does informal investigations or reviews around certain issues.

TRG has not developed collective written strategies with suppliers, business partners, or customers to reduce the environmental impact of their activities, but is making steps in this direction. The company is creating an informal listing of preferred restaurants to use for catering services because of their environmental policies, either for locally grown foods or biodegradable supplies. Additionally, as the company's work requires a great deal of travelling, it has invested in carbon offsets from Terrapass. TRG is also a member of the GreenPlus program, a certification program for sustainable small businesses offered by the Institute for Sustainable Development.

TRG's Morrisville company facility is located in an area that does not adversely impact local animal or plant diversity; excluding the energy required to light and heat/cool the building as well as to power employee computers, the company's headquarters has little impact. The company's facilities are leased and not LEED certified or constructed according to other green building standards. TRG does not regularly monitor indoor environmental quality, but does seek to ensure a healthy and comfortable workspace. TRG uses recycling to reduce material usage at its office, recycling paper, plastic, and aluminum.

The company's headquarters (and only office site) is located in a previously constructed building and is located very near public transportation (on a local bus transit line). There are incentives in place to encourage employee carpooling or using public transportation to commute. TRG covers up to $30 per month of the cost of employee public transportation. It has also strongly encouraged carpooling and has worked to help employees find convenient carpool partners. In other years, it has conducted contests to encourage alternative transportation, giving prizes for usage, though the company did not hold this contest in 2008. TRG also has showers on site to encourage exercise programs such as biking to work, and there are a handful of employees who do bike to work. There is a Redwoods Cycling Team; team members were given a Redwoods jersey in exchange for riding to work at least four times per year and doing at least one charitable bike ride each year.

The company does not currently have policies or practices in place to minimize corporate travel through teleconferencing, telecommuting, travel planning, etc., but is working on this effort for 2009 implementation. TRG did once conduct a carbon inventory of company activities, but does not routinely conduct carbon assessments. In 2008, the company did not purchase certified carbon credits as offsets. Energy usage (electricity and natural gas) of total company activities is not measured annually, though there are policies in place to increase energy efficiency. The company in past years subsidized employee purchase of compact fluorescent light bulbs (CFLs) for home

> The happiest people in the world are those who feel absolutely terrific about themselves, and this is the natural outgrowth of accepting total responsibility for every part of their life.
>
> - BRIAN TRACY

personal use and gave employees a reusable Redwoods shopping bag to encourage moving away from paper or plastic bags. The company's computer servers were also replaced, significantly reducing the energy required to run them. The company has not ever used energy from renewable sources (external or on-site).

TRG also participated in Carbonrally, an online competition where people register as Carbonrally members, join teams and compete to reduce the most carbon emissions. TRG created a company team, which now has 51 members and 626 challenges and has reduced 37.15 tons of carbon. The company sponsored a lunch for Carbonrally participants in honor of its win as the top Carbonrally company team in 2008. Carbonrally's 2008 year-end blog praised TRG, stating, "The Redwoods Group was one of the first company teams to appear in Carbonrally. Along with Casto Travel, Google, and Beyond.com, they provided an early example of how groups of employees can band together to have an impact."

2008 FINANCIAL AND ECONOMIC ADVERSITY

Overall, 2008 was a tough year for most people and most businesses in the United States. Americans saw severe declines in the housing market, the broader economy and the financial markets. The credit markets froze, and several financial firms came to the brink of bankruptcy, needing billions of U.S. government bail-out money to survive. The S&P 500 fell 34% and the Dow Jones index fell 30% in 2008. The United States lost 2.6 million total jobs in 2008, the highest job loss level in six decades. The Redwoods Group's own partner and risk-bearer AIG almost went under due to the financial crisis pull on its balance sheet and required an $85 billion government bail-out in September 2008. The insurance industry overall experienced a soft market, and TRG faced stiff competition from firms looking to grab business through increasingly lower rates. 2008 was the first year in TRG history that it was not profitable.

In this climate, TRG management made conscious decisions to be open and frank with employees on the state of its business, its expectations, and the likely impact on employees. TRG let its employees know early on that their jobs were safe so they could continue to focus on their work and not spend time worrying over job security. Indeed, as part of audit research, TRG employees were surveyed with regard to their confidence or fear at work in 2008. 98% said that "during the economic difficulties of 2008, management communicated their expectations, plans and strategy to employees" and 98% said they did not often worry they would lose their jobs unexpectedly. In a macro-environment where the unemployment rate grew to almost 7% as firms daily made large layoffs, this is a striking testament to TRG leadership and employee conviction that they are an important stakeholder in the company.

Action springs not from thought, but from a readiness for responsibility.

- DIETRICH BONHOEFFER

YEAR-OVER-YEAR PROGRESS

Program Type	2007 Social Audit Recommendations	2008 Progress on Recommendations
Employee Programs	• Increase awareness and education of all social programs, especially the charitable match program and the Serve Earth program • Increase Community Support Leave opportunities for employees to make a year-long commitment to service	• 2008 offered employee engagement programs in charitable giving and an active Serve Earth effort • Matching program participation increased from 25% to 38% • 2 employees took a week off to volunteer internationally with the Elon Periclean Scholars program
Customer Programs	Enhance multiplier effect through integrating the following: • Create Service on the Road program for traveling employees to share their expertise with other organizations through YMCA/JCO contacts; offer service opportunities for employees with YMCAs/JCOs • Enhance partnerships between clients and service groups with which Redwoods is involved	• During TRG's 2008 United Way campaign, the company led employees on a bus tour to local communities and nonprofits • TRG also sent employees to Iowa after the floods to serve alongside other YMCA folks in clean-up efforts
Community Programs	• Create and Enhance partnerships between organizations that TRG serves • Create a measurable baseline for what it means to be a Strategic Partnership vs. an Employee Partnership and work to increase Employee Partnerships	• TRG's Foundation gave $20,000 to the Triangle Land Conservancy to explore regional needs and partner with other similar organizations in process • No measurable baseline created
Contributions	• Increase awareness and use of Charitable Match Program and Dollars for Doers • Create tools to measure impact of giving from the RCO and the Redwoods Foundation	• 2 large new employee engagement programs related to giving, Dollars for Doers promoted via RCO but participation remains low • Foundation grant guidelines created but no impact metrics or tools created to analyze impact of giving
Leadership and Administration	• Institutionalize measurement practices and tools • Design a replicable model for social programs that can be used by other companies of comparable size and brand the model consistently • Inspire employees, do not require participation in new initiatives	• No standard metrics or measurement practices approved • Many programs (and new ones) that could be replicated, but no official model or education materials for other companies created or shared • Employees engaged via optional participation in new programs

2008 SOCIAL AUDIT EMPLOYEE SURVEY

In March 2009, as part of the social audit process, TRG employees were surveyed to determine their perspective on TRG's social impact efforts and practices in 2008. The survey had a 64% response rate, the same rate as in 2007.

Highlights of the survey include:

Areas of Growth versus 2007 Survey

- More people making charitable contributions regularly (+13%) versus 1-2 times per year
- 8% more employees using the Redwoods Community Support Leave program
- 10% more employees who say they hear about new volunteer opportunities from other TRG employees
- Virtually same levels of employees who think TRG Community Investment Programs make them better employees (66%) and who draw a connection between the Serve Others® mission and daily work responsibilities (80%)

Areas of Weakness versus 2007 Survey

- Less people volunteering 3-7 or 8+ hours per month (-14%), more 1-2 hours per month (+17%)
- More employees who have a low level of interest in the continued Community Support Leave program (+14%)
- More employees who have a low level of interest in the Serve Earth program (+14%)

New 2008 Survey Findings

- Of the two new employee programs involving charitable giving (Summer of Giving and Charity Caucus), the Summer of Giving was voted most popular (46% preferred versus 20% for Caucus and 20% for both equally preferred)
- 86% of employees do not think they have much involvement/ input in the newly created TRG Foundation
- 18% of employees understand most aspects of how the Foundation operates, 46% understand the basics, and 22% do not understand but would like to know
- The biggest limiting factor to increasing employee volunteerism is time as 66% say they are limited given personal or family commitments
- The biggest limiting factor to increasing employee charitable giving is limited funds as 66% say they are limited by personal or family budgets
- 80% of employees say they are either "satisfied" or "extremely satisfied" with their overall TRG experience and 0% report being "unsatisfied"

We must recognize that as the dominant power in the world we have a special responsibility. In addition to protecting our national interests, we must take the leadership in protecting the common interests of humanity.

- GEORGE SOROS

Utilizing the B Survey and B Ratings System uncovers many areas of strength for The Redwoods Group's policies and programs involving all stakeholders. It also highlights some areas for future improvement.

Whatever happens, take responsibility.

- ANTHONY ROBBINS

SOCIAL AUDIT EVALUATION

The following visual framework (developed by Cornell University Professor Stuart Hart to identify the strengths and weaknesses of a firm's sustainability strategy) also highlights the areas in which The Redwoods Group is currently active and where improvements can be made: »

Strengths:

TOMORROW

INTERNAL / EXTERNAL

TODAY

Internal – Tomorrow

- Scholarship program and education benefits
- Socially-responsible and mission-related investing
- Profitable growth

External – Tomorrow

- Real estate investment in Durham
- Advisory Council
- YMCA & JCC injury prevention research, advice and training
- Elon Periclean Scholars program
- Kiva & microfinance participation

Internal – Today

- Employee benefits
- Employee engagement in social mission activities
- Company culture
- Transparency in decision-making
- Serve Earth program (energy and waste reduction)

External – Today

- Company & Foundation giving
- Employee volunteerism
- Non-profit partnerships
- YMCA & JCC active risk management
- Social Audit

Recommendations for Improvement:

TOMORROW

INTERNAL / EXTERNAL

TODAY

Internal – Tomorrow

- Specific and visionary goals with annual targets
- Employee leadership development

External – Tomorrow

- Insurance industry engagement in beneficial practices and social mission
- Independent advisory body with many stakeholders represented
- Become a B Corp

Internal – Today

- Metrics to regularly monitor
- Ability to judge progress
- Greater employee diversity
- Foundation grant guidelines
- Employee involvement in TRG Foundation

External – Today

- Company-produced social report and external audit & analysis

We are made wise not by the recollection of our past, but by the responsibility for our future.

- GEORGE BERNARD SHAW

Strengths

Charitable giving and employee volunteerism: TRG has been praised for many years for its community focus and its giving of time and money. 2008 built on this base and showed two strong new programs that directly engaged employees in the donation process while using company funds. This action follows a recommendation from the 2007 Social Audit and demonstrates excellent progress in employee engagement.

Benefits: TRG employees are presented with one of the best benefits packages compared to companies of any size or industry. TRG has made access to health care, child care and other resources available to all employees and has taken a leadership stance in providing free healthcare coverage to employees who make below $35,000. Moreover, TRG's additional offerings in education for both employees and their children are impressive. TRG is educating its employees on how to save for future child education needs via 529 plans and is directly contributing towards making higher education an affordable achievement.

Mission-related and socially-responsible investing: As stated before, many companies contribute profits to social causes, but TRG is now moving beyond charitable giving to also using its assets to multiply its social impact. TRG's investigation into socially-responsible investment opportunities and its rejection of simple negative screening are commendable. Most companies do not think of the power they employ in where they invest capital. TRG and its Foundation are extraordinarily progressive in their 2008 alternative investments in Durham real estate projects as part of their mission-related investment strategies. The two new real estate investments offer them the opportunity to invest in the local community and economy. Additionally, the Foundation's ideas for active use of its new real estate investment by non-profits hold even greater promise for increased future impact.

Continued social impact in times of adversity: 2008 was a tough year financially for TRG in that the larger economy showed continuing weakness, partner risk-bearer AIG almost went bankrupt, the insurance industry faced a soft market, and it was the first year in company history that TRG was not profitable. Nonetheless, TRG's leadership and senior management made careful, long-term focused decisions and communicated their expectations and strategy to all company employees. As a result, employee morale remained steady and TRG kept its promise not to lay off any employees. Moreover, it is important to note that despite these very large financial problems, TRG remained committed to its social mission. Actions speak louder than words, and in 2008, TRG proved that it is at its core a social mission-driven organization.

Recommendations

There are several areas in which The Redwoods Group can consider making changes or improvements to existing practices, policies or programs. These can be divided into two categories: one regarding the company's social impact measurement, reporting and evaluation and one regarding specific firm stakeholder activities.

Recommendations on Social Impact Measurement Process

Independent Stakeholder Board: TRG currently relies on its CEO and senior management team, using feedback received from the customer Advisory Council, to set direction for the firm. One recommendation on this policy would be to employ other internal and external stakeholders in the strategy and governance advisory process, including customers, employees, insurance partners, nonprofit management and key community leaders. This could be achieved by simply expanding the stakeholders involved in the current Advisory Council. A TRG independent board of stakeholders would bring in new perspectives and work together to

The salvation of this human world lies nowhere else than in the human heart, in the human power to reflect, in human meekness, and in human responsibility.

- VACLAV HAVEL

determine firm priorities, especially related to the company's social mission. Currently, TRG is involved in many diverse activities, making it difficult to measure impact or judge effectiveness. An independent board would draw a list of priorities over the short and long term and then create needed metrics to watch progress over time. For example, perhaps such a board would choose to continue to apply the B Ratings System metrics (used in this 2008 audit) along with more detailed charitable giving and volunteerism performance metrics for the firm to benchmark its progress over time. Additionally, an independent board of stakeholders would help institutionalize TRG's mission beyond its owner base and provide even greater transparency and dialogue.

Clear Goals: Once social mission priorities are established for the next 5 to 10 years, TRG will be in a good position to establish specific, measurable, attainable, realistic and timely goals. This is an area of its social mission where TRG can really expand its impact if it can set specific targets and measure results. TRG is doing amazing things right now, but goals inspire people to reach higher than they might have initially thought possible and to remain motivated and focused. Once long-term larger goals are set and communicated, especially to internal employees who will carry out the work, annual milestones can also be put in place to gradually move towards goal achievement and track success in a timely fashion. With short-term milestones, TRG can monitor specific metrics to truly evaluate impact and growth and regularly report against its goals. For example, perhaps TRG would decide employee diversity was an area of focus for the next five years and set a goal to increase minority diversity to match that of its surrounding community (25%). With this goal, the company could establish explicit annual hiring targets that are more easily achievable than trying to employ quick dramatic changes or trying to vaguely carry out the goal over time. Moreover, goals combined with consistent metrics allow for simple, unbiased year-over-year comparison and performance evaluation.

TRG Corporate Social Report: Every year TRG recruits members of the academic community to create a social audit for the previous year in an effort to measure performance and impact, track progress, identify areas for improvement, and hear new ideas for mission achievement. Much time is devoted by the auditors to determine what is important to report on and measure, choose an audit framework, pick metrics that reflect performance, find those internal TRG metrics if it's possible to do so, report and write about what is found, provide subjective analysis of strengths and weaknesses, and finally put forth new ideas and suggestions. While it is highly commendable for TRG to engage external participants, the process could be simplified and more impactful if TRG generated its own reports of social achievement that were then put forth for external review and commentary. If TRG had generally accepted priorities and metrics, as well as specific goals and measurable annual milestones to track progress, the audit process could become more meaningful to the company. Once a scientific, fair way to measure results is established and reported against, an external party can audit the data and then spend much more time assessing the results and providing recommendations on ways to meet or exceed goals. The auditor will have enhanced capabilities to introduce new ideas and perspectives as well, including potential new goals and areas of engagement to consider. Bringing the reporting process in-house allows more external time to be devoted to deep analysis and new ideas versus time spent trying to understand TRG goals and evaluation criteria. Just as the company presents its financial reports for review and set its own goals for achievement, so too can the social report and audit process function.

It is easy to dodge our responsibilities, but we cannot dodge the consequences of dodging our responsibilities.

- JOSIAH CHARLES STAMP

Recommendations on Mission-Related Practices

Diversity: TRG currently does not have any ethnic minority diversity in its senior leadership and only has a 10% minority population in other firm management roles. This is an area in which the company should create a written recruitment policy and set a strategy by which to hire from more underrepresented groups. TRG's work in diversity education for its employees is excellent, but the firm should also set an example of minority leadership within its own organization.

Employee involvement in TRG Foundation: It is unclear whether the Foundation was planned to include employee engagement or involvement. However, given its interconnectedness with the company, the Foundation should at least try to keep employees informed on how the Foundation operates and what decisions it makes with regard to social investment. Even as an independent decision-making body in charitable giving, the Foundation can serve as a key tool for employee education and raising awareness of important causes.

Foundation objectives: The Foundation has room to set clear objectives, even while addressing a diverse range of social issues, so it can ensure social impact maximization with the grants it chooses to make. This will allow the Foundation to analyze requests for funds in a standardized manner and compare the social return on investment for presented opportunities.

Become a B Corp: The B Survey and B Ratings System employed in the 2008 Social Audit are also used in the process of becoming a B Corporation, which is a new type of company. B Corporations use the power of business to solve social and environmental problems and provide a collective voice for mission-driven firms through a unifying brand. Becoming a B Corp would allow The Redwoods Group to differentiate itself as a leader in sustainable enterprise, embed its values into governing documents to maintain mission over growth and time, share best practices with other like-minded companies, and gain a standardized ratings system.

In sum, internal process recommendations to TRG include bringing together a diverse independent board to help set firm direction, generating short-term and long-term goals based off those priorities, setting up measurable metrics and recording progress against goals, and annually producing a report that can be externally reviewed and given focused analysis. Social mission practice recommendations include increasing firm diversity, engaging employees in the new Foundation, enforcing clear Foundation objectives and policies, and becoming a B Corporation.

CONCLUSION

The Redwoods Group is a unique company. In past social audits, the firm has been called "really good," aspiring to be "great" (2006) and then officially "great" (2007). In truth, The Redwoods Group is indeed a great social mission-driven organization, but it can and should aim higher by challenging itself to continually improve. Sustainability and social impact are active engagements, not a finish line. The Redwoods Group is in a position to push the bar ever higher and lead other firms to follow in the ongoing pursuit of excellence.

Community Support

I think of a hero as someone who understands the degree of responsibility that comes with his freedom.

\- BOB DYLAN

COMMUNITY SUPPORT LIST

Action for Children
Allegheny Valley YMCA
Altavista Area YMCA
Alzheimer Association
American Diabetes Association
American Foundation for Suicide Prevention
American Red Cross
American Red Cross Disaster Relief Fund
Angels Gate Hospice for Animals
Archdale-Trinity Family YMCA
Armed Services YMCA of the USA
Assistance League Triangle Area
Association of YMCA Professionals - Chapter 81
Association of YMCA Professionals - National
Athens YMCA Camp for Boys
Augusta Jewish Community Center
Avon Walk for Breast Cancer
Bangor YMCA
Battle Creek Family YMCA
Beaufort County YMCA
Beaver County YMCA
Bikes Not Bombs, Inc.
Birmingham Metro YMCA
Blue Ridge Parkway Foundation
Boyertown Area YMCA
Brentwood Boys and Girls Club
Bridge to the Nations
Builders Without Borders
Burlington Family YMCA
Cadillac Area YMCA
CAIR - Florida Chapter
Callaway County YMCA
Camp Foster YMCA of Okoboji's
Camp Kesem
Camp Kesem NC
Camp Ockanickon YMCA
Camp Olson YMCA
Camp Ralph Mason YMCA
Camp Wood YMCA
Cape Cod YMCA
Central Bucks Family YMCA
Central Douglas County Family YMCA
Central Florida YMCA
Chapel Hill-Carrboro YMCA
Charlotte County Family YMCA
Cheyenne Family YMCA
Children's Craniofacial Association
Cleveland County Family YMCA
Community Foundation of the Low Country
Council on Aging of Johnston County
Cumberland YMCA
Cure Alzheimer's Fund
Danville YMCA
Depression Bipolar Support Alliance - Boston
Donors Choose
Dress for Success Triangle NC
Dryades YMCA
Duke University
Durham Chapel Hill Jewish Federation
Durham Wake Counties Research and Production Service District
Elon University (Namibia)
Elon University (River Reach Project)
Elon University (Zambia)
Elon University Periclean Scholars
Emily K Foundation
Eno River Association
Family YMCA of Greater Laurens
Family YMCA of Marion and Polk Counties
Fanwood-Scotch Plains YMCA
First Book
Flint YMCA
Food Bank of Central & Northeastern NC
Food Bank of NC
Forsyth Health Foundation
Fort Worth Metro YMCA Camp Carter
Frankfort YMCA
Frankie Lemon Foundation
Friends of Alamance County Public Libraries
Friends of UN World Food Program
Germantown YMCA
Great Miami Valley YMCA
Greater Burlington YMCA
Greater Green Bay YMCA
Greater Kingsport Family YMCA
Greater St Paul YMCA
Greater Syracuse YMCA
Greater Waterbury Family YMCA
Greensboro Metro YMCA
Greenwood YMCA
Habitat for Humanity - Hilton Head Regional
Habitat for Humanity - Wake County
Hanover Area YMCA
Heart of the Valley YMCA
Heifer International
Heritage YMCA Group
Hermitage
Hodding Carter Memorial YMCA
Honolulu YMCA
Horne Memorial United Methodist Church (Mission to Haiti)
Hospice of Wake County
Hospice of Wake County - Building Fund
House of Healing
Hunterdon County YMCA
Indiana County YMCA
Institute of Art Therapy
InterAct
Intrepid Fallen Heros Fund

Man must cease attributing his problems to his environment, and learn again to exercise his will — his personal responsibility in the realm of faith and morals.

- ALBERT SCHWEITZER

James L Camp Jr YMCA
JCC Association
JCC of Central NJ
JCC of Delaware
JCC of Greater Kansas City
JCC of Greater Monmonth
JCC of Houston
Jimmy V Foundation
Joplin Family YMCA
Joseph Meyerhoff Senior Center
Kalamazoo County Family YMCA
Kindness in a Box
Kishwaukee Family YMCA
KIVA
Kramden Institute, Inc.
Lafayette YMCA
Lebanon Valley Family YMCA
Lee County YMCA
Lock Haven Area YMCA
Lockport YMCA
Long Branch Area YMCA
Make a Wish Foundation - Eastern NC
Make A Wish Foundation of America
Marco Island YMCA
Maria Parham Healthcare Foundation
Mariposa School for Children with Autism
Marley's Cat Tales
Marshall Area YMCA
Meadowlands Area YMCA
Meals on Wheels of Wake County
Merrimack Valley YMCA
Metro YMCA of Jackson MS
Metuchen Edison Woodbridge YMCA
Mid-Willamette Family YMCA
Miracle League of the Triangle
Monroe Family YMCA
Monroeville Area YMCA
Montgomery County Family YMCA
Morris Center YMCA
Mt. Diablo Region YMCA
NC Pottery Museum Inc.
New Castle Community YMCA
New Jersey YMCA State Alliance
New Rochelle YMCA
Nickelby Project
North Jersey Skating
North River Family YMCA
Northern York County YMCA
Nourish International - Banco Palmas
Ocean Community YMCA
Ohio-West Virginia YMCA
Okmulgee County Family YMCA
Olean YMCA
Operation Smile
Oshkosh Community YMCA
Pawtucket & Central Falls Metro YMCA
Penobscot Bay YMCA
Pittsfield Family YMCA
Plainfield Area YMCA
Pocono Family YMCA
Racine Family YMCA
Raleigh Rescue Mission
Regional YMCA of Western CT
Rex Blood Services
River Valley Regional YMCA
Ronald McDonald House of Chapel Hill
Sarasota Family YMCA
Schools for Chiapas
Scott County Family YMCA
Seattle's Union Gospel Mission
Serving Cup
Sheboygan County YMCA
Sherman Lake YMCA Outdoor Center
Siouxland YMCA
Sisko Foundation
Skagit Valley Family YMCA
Somerset Valley YMCA
South Brunswick Family YMCA
South Dakota General Convention of Sioux YMCAs
South Shore YMCA
Southcoast YMCA
Southeast Ventura County YMCA
Southeastern Indiana YMCA
Southington-Cheshire Community YMCA
SPCA International
SPCA of Wake County
Special Olympics NC
St. Baldrick's Foundation
St. Jude Children's Research Hospital - ALSAC
State College Area Family YMCA
State YMCA of Pennsylvania
Sterling-Rock Falls Family YMCA
Student U
Susan G. Komen Breast Cancer Foundation
Sustainable North Carolina, Inc.
TEACCH- Treatment & Education of Autistic & Related Communication-handicapped Children
Teach for America
The Community YMCA
The Jorge Posada Foundation
Tom A Finch YMCA
Triangle Community Foundation
Triangle Down Syndrome Network
Triangle First Book
Triangle Foundation Organization
Triangle Land Conservancy
Triangle United Way
Tri-Cities Family YMCA
TROSA - Triangle Residential Options for Substance Abusers

Let us all take more responsibility, not only for ourselves and our families but for our communities and our country.

- WILLIAM J. CLINTON

United States Diving
Unitus
Valley of the Sun YMCA
Valley Points Family YMCA
Victory Junction Gang Camp
Wake County Fraternal Order of Police #41
WaterPartners
Wee Care Children's Enrichment Program
Wenatchee Valley YMCA
Wendell P Clark YMCA
West Morris Area YMCA
Westfield Area YMCA
Wilmington Family YMCA
Women for Women International
WUNC - NC Public Radio
YMCA Blue Ridge Assembly
YMCA Camp Greenville
YMCA of Abilene Texas
YMCA of Austin
YMCA of Calhoun County
YMCA of Central KY
YMCA of Central Massachusetts
YMCA of Central Ohio
YMCA of Central Stark County
YMCA of Central VA
YMCA of Coastal Georgia
YMCA of Dane County
YMCA of Emporia/Greensville
YMCA of Frederick County
YMCA of Glendale
YMCA of Grants Pass Oregon
YMCA of Greater Dayton
YMCA of Greater Des Moines Iowa
YMCA of Greater Erie
YMCA of Greater Fort Wayne
YMCA of Greater Grand Rapids
YMCA of Greater Indianapolis
YMCA of Greater Manchester
YMCA of Greater Miami
YMCA of Greater New York
YMCA of Greater Oklahoma City
YMCA of Greater Omaha
YMCA of Greater Providence
YMCA of Greater Richmond
YMCA of Greater Rochester
YMCA of Greater Seattle
YMCA of Greater St. Petersburg
YMCA of Greater Toledo
YMCA of Harrison County
YMCA of Iredell County
YMCA of Jackson TN
YMCA of Kewanee
YMCA of LaPorte IN
YMCA of Long Island
YMCA of Madison
YMCA of Mayfield Graves County
YMCA of Metro Dallas
YMCA of Metro Denver
YMCA of Metro Detroit
YMCA of Metro Hartford
YMCA of Metro Lansing
YMCA of Metro Milwaukee
YMCA of Metro Minneapolis
YMCA of Metro Washington
YMCA of Middle Tennessee
YMCA of Montgomery
YMCA of Nashua
YMCA of Northwest NC
YMCA of Philadelphia & Vicinity
YMCA of Port Arthur
YMCA of Portsmouth
YMCA of Ridgewood
YMCA of Roanoke Valley
YMCA of Saginaw
YMCA of Salina Kansas
YMCA of San Antonio
YMCA of San Diego County
YMCA of Selma
YMCA of Silicon Valley
YMCA of Snohomish County
YMCA of South Hampton Roads
YMCA of Southern Arizona
YMCA of Southwest Illinois
YMCA of Springfield
YMCA of St Joseph Missouri
YMCA of Tacoma-Pierce County
YMCA of the Brandwine Valley
YMCA of the Cedar Rapids Metropolitan Area
YMCA of the Fox Cities
YMCA of the Greater Tri-Valley
YMCA of the Mid-Peninsula
YMCA of the Oranges
YMCA of the Palms
YMCA of the Rockies
YMCA of the Sierra
YMCA of the Treasure Coast
YMCA of the Triangle
YMCA of the Triangle - Camp SeaGull
YMCA of the Upper Main Line
YMCA of the USA
YMCA of Western Monmouth County
YMCA of Western NC
YMCA of Western Stark County
YMCA of Wichita
YMCA of Woodson
York and York County YMCA

$1,095,468

The Redwoods Group &
The Redwoods Group Foundation

Audited Financial Statements

THE REDWOODS GROUP, INC.

The Redwoods Group, Inc.

Audited Financial Statements

Years ended December 31, 2008 and 2007

Contents

Report of Independent Auditors

Board of Directors
The Redwoods Group, Inc.

We have audited the accompanying balance sheets of The Redwoods Group, Inc. ("the Company") as of December 31, 2008 and 2007, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Redwoods Group, Inc. at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Johnson Lambert & Co. LLP

Raleigh, North Carolina
March 12, 2009

The Redwoods Group, Inc.

Balance Sheets

	As of December 31, 2008	As of December 31, 2007
Assets		
Cash and cash equivalents	$ 1,247,263	$ 4,933,613
Investments	1,217,911	1,500,000
Restricted cash	2,380,915	3,502,273
Premiums and commissions receivable	7,071,566	7,829,025
Prepaid expenses	75,651	151,563
Income taxes receivable	256,652	-
Deferred income taxes, net	103,929	185,729
Other current assets	93,771	65,738
Total current assets	12,447,658	18,167,941
Property and equipment, net	497,243	582,832
Deferred income taxes, long term, net	208,176	84,470
Other long-term assets	415,431	355,223
Total assets	$ 13,568,508	$ 19,190,466
Liabilities and stockholders' equity		
Liabilities:		
Accounts payable	$ 172,684	$ 218,187
Funds held for others	2,380,915	3,502,273
Premiums and commissions payable	5,304,120	5,674,626
Accrued expenses	175,466	852,597
Income taxes payable	-	1,387,230
Other current liabilities	-	22,119
Deferred revenue	1,220,736	1,482,303
Total current liabilities	9,253,921	13,139,335
Other long-term liabilities	430,900	255,000
Deferred revenue, long-term	216,100	273,500
Total liabilities	9,900,921	13,667,835
Stockholders' equity:		
Common stock; $0.01 par value, 1,000,000 shares authorized and 539,103 and 623,865 shares issued and outstanding, respectively	5,391	6,239
Additional paid-in capital	1,067,663	1,116,237
Retained earnings	2,623,420	4,400,155
Accumulated other comprehensive loss	(28,887)	-
Total stockholders' equity	3,667,587	5,522,631
Total liabilities and stockholders' equity	$ 13,568,508	$ 19,190,466

See accompanying notes to financial statements

Statements of Income

	Years ended December 31, 2008	2007
Revenues		
Commissions and fees	$ 12,515,984	$ 12,818,007
Investment and other income	239,264	326,431
Total revenues	12,755,248	13,144,438
Expenses		
Commission expense	1,544,732	1,594,392
Compensation and benefits	8,294,000	7,806,400
Operating and administrative expense	2,784,075	3,385,699
Depreciation and amortization	198,668	221,437
Total expenses	12,821,475	13,007,928
(Loss) income from continuing operations before income taxes	(66,227)	136,510
Income taxes	45,858	90,677
(Loss) income from continuing operations	(112,085)	45,833
Discontinued Operations:		
Income from operations of discontinued dental business (including gain on sale of $3.7 million)	-	4,014,412
Income taxes	-	1,559,795
Income from discontinued operations	-	2,454,617
Net (loss) income	$ (112,085)	$ 2,500,450

See accompanying notes to financial statements

The Redwoods Group, Inc.

Statements of Changes in Stockholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2007	$ 5,819	$ 866,541	$ 1,899,705	$ (8,683)	$ 2,763,382
Net income	-	-	2,500,450	-	2,500,450
Stock grants	420	249,696	-	-	250,116
Change in unrealized gains (losses) on securities classified as available for sale, net of income tax expense of $5,550	-	-	-	8,683	8,683
Balance at December 31, 2007	6,239	1,116,237	4,400,155	-	5,522,631
Net loss	-	-	(112,085)	-	(112,085)
Stock grants, including realized income tax benefits of $14,018	176	141,846	-	-	142,022
Stock redeemed	(1,024)	(190,420)	(1,664,650)	-	(1,856,094)
Change in unrealized gains (losses) on securities classified as available for sale, net of income tax benefit of $18,469	-	-	-	(28,887)	(28,887)
Balance at December 31, 2008	$ 5,391	$ 1,067,663	$ 2,623,420	$ (28,887)	$ 3,667,587

See accompanying notes to financial statements

Statements of Cash Flows

	Years ended December 31, 2008	2007
Cash flows from operating activities		
Net (loss) income	$ (112,085)	$ 2,500,450
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization expense	198,668	221,437
Amortization of bond discount	(1,225)	-
Stock grants	142,022	250,116
Deferred tax effects of unrealized capital losses	18,469	(5,550)
(Gain) loss on sale or disposal of assets, net	(9,173)	6,889
Net change in operating assets and liabilities:		
Decrease in premiums and commissions receivable	757,459	264,615
Decrease in prepaid expenses	75,912	69,109
Increase in refundable taxes	(256,652)	-
Increase in other assets	(97,439)	(187,861)
Increase in deferred income taxes	(41,906)	(8,819)
(Decrease) increase in accounts payable	(45,503)	119,952
(Decrease) in premiums and commissions payable	(370,506)	(565,287)
(Decrease) increase in accrued expenses	(677,131)	592,368
Increase in other liabilities	153,781	97,343
(Decrease) increase in income taxes payable	(1,387,230)	1,375,072
(Decrease) increase in deferred revenue	(318,967)	394,150
Increase in net assets of discontinued operations	-	(380,425)
Net cash from operating activities	(1,971,506)	4,743,559
Cash flows from investing activities		
Purchase of property and equipment	(106,207)	(174,666)
Proceeds from disposal of property and equipment	11,500	18,000
Purchase of investments	(3,014,043)	(2,500,000)
Proceeds from sale of investments	3,250,000	2,521,262
Net cash from investing activities	141,250	(135,404)
Cash flows from financing activities		
Cost of common stock repurchased	(1,856,094)	(48,576)
Net cash from financing activities	(1,856,094)	(48,576)
Net change in cash and cash equivalents	(3,686,350)	4,559,579
Cash and cash equivalents, beginning of year	4,933,613	374,034
Cash and cash equivalents, end of year	$ 1,247,263	$ 4,933,613
Supplemental disclosures		
Income taxes paid	$ 1,706,277	$ 424,876

See accompanying notes to financial statements

Note A - Organization and Significant Accounting Policies

Organization
The Redwoods Group, Inc. ("the Company") was formed in 1997. The Company is a managing underwriter of property, casualty, liability and workers' compensation insurance coverage provided by insurance carriers for the Company's programs for Young Men's Christian Associations ("YMCAs") and Jewish Community Organizations ("JCOs") throughout the United States.

Premiums written under the Company's YMCA and JCO programs amounted to $51.5 and $55.4 million during calendar year 2008 and 2007, respectively. The Company has agreements with insurance carriers through which it provides underwriting, policy administration and claims administration services and receives commissions and fees which are normally paid when policy premiums are collected. The Company's home office is in Morrisville, North Carolina.

The Company was previously a managing underwriter of malpractice insurance for dentists. In July 2007, the Company formed a wholly-owned subsidiary, Redwoods Dental Underwriters ("RDU") and contributed the net assets of its dental malpractice insurance program to this new subsidiary. Shortly thereafter, the Company donated 49% of the stock of RDU to its newly-formed private charitable foundation, The Redwoods Group Foundation, Inc. The Company realized a $3.6 million gain from the donation of the RDU stock to the Foundation. The gain from the donation of RDU stock was offset by charitable contribution expense valued at $3.675 million.

Basis of Presentation
The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents
The Company considers all highly liquid investments with original maturities of three months or less, including money market funds, to be cash and cash equivalents. The Company maintains certain cash and cash equivalent balances that exceed FDIC insured limits.

Note A - Organization and Significant Accounting Policies (continued)

Restricted Cash and Funds Held for Others
Restricted cash represents premiums collected by the Company that are not yet due to the insurance carriers. The corresponding liability to the insurance carriers is reported as Funds Held for Others. The Company also maintains certain cash accounts, which consist of insurance carrier funds advanced for the payment of claims, that are not reflected in the accompanying balance sheets. The amount of such balances at December 31, 2008 and 2007 were $1,519,004 and $818,608, respectively. The inclusion of such accounts in the balance sheets would result in an increase to restricted cash and a corresponding increase to funds held for others, with no net impact on reported stockholders' equity.

Fair Value of Investments
On January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements*, which provides guidance for measuring assets and liabilities at fair value and establishes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), the next priority to quoted prices for identical assets and liabilities in inactive markets or similar assets and liabilities in active markets (Level 2), and the lowest priority to unobservable inputs (Level 3).

Investments
The Company has designated its investments in equity and debt securities as available for sale and, accordingly, reports these investment at fair value with unrealized holding gains and losses reported as other comprehensive income, net of estimated tax. Fair values for the Company's equity holdings are based on quoted market prices for identical assets in active markets (Level 1). Fair values for the Company's debt securities are based on average bid prices of identical or similar issues with the same life and expected yields (Level 2). Bond premiums or discounts are amortized over the life of the bond using the constant yield method. The Company's investments in certificates of deposit are reported at cost.

Realized gains and losses on the disposition of investments are determined using the specific identification basis. There were no realized investment gains or losses during the year ended December 31, 2008. Realized investment losses of $14,024 were recognized during the year ended December 31, 2007.

Unrealized losses on investments in equity and debt securities, which are deemed other-than-temporary, are charged to income as incurred. Factors considered in evaluating whether a decline in value is other than temporary include a periodic assessment of the changes in value relative to cost, the Company's ability and intent to retain the investment for a period of time sufficient to allow for an anticipated recovery in value, and the financial condition, credit analysis, and future prospects of the issuer. There were no impairment charges recognized during the years ended December 31, 2008 and 2007.

Note A - Organization and Significant Accounting Policies (continued)

Premiums and Commissions Receivable
The Company generally bills and collects insurance premiums for the insurance carriers. For the applicable insurance policies, the Company is required to remit premiums to the insurance carriers, net of the Company's commisssion, regardless of whether or not the Company has collected such premiums when due. Management continually monitors the collectibility of receivables, and amounts specifically identified as uncollectible are charged to expense in the year the determination is made. Based upon the Company's past history of negligible uncollectible accounts and management's assessment of its current receivables, no allowance for doubtful accounts has been provided in these financial statements.

Property and Equipment
Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of assets, which range from 3 to 7 years. Depreciation expense for continuing operations amounted to $189,468 and $212,238, respectively, for the years ended December 31, 2008 and 2007.

Commission Revenue and Expense Recognition
The Company records commission and fee revenues on policies and commission expense to be paid to agents as of the date that the policies are written. Policy cancellations are not material; therefore, a provision for potential refunds of commissions has not been provided. Premium adjustments, including policy cancellations, are recorded as they occur.

Claim Administration Fees
The Company is paid a fee by insurance companies to administer policy claims for the duration of the claims. The Company defers these fee revenues and earns the fees over the period that claims services are expected to be provided, based upon actual historical data.

Income Taxes
Current income taxes are based upon the fiscal year's income that is taxable for federal and state tax reporting purposes. Deferred tax assets and liabilities are recognized for the tax consequences attributable to temporary differences between the GAAP carrying value of assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

On December 30, 2008, the FASB issued Staff Position ("FSP") FIN 48-3, deferring the effective date of FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), for certain non-public entities for an additional year. The amended effective date for non-public entities is for fiscal years beginning after December 15, 2008. The Company has elected to defer its adoption of FIN 48 in accordance with FSP FIN 48-3. The Company considers uncertain tax positions during the preparation of its income tax provision. The Company does not expect that the adoption of FIN 48 will have a significant impact on its financial statements.

Note A - Organization and Significant Accounting Policies (continued)

Stock Grants
As discussed in further detail in Note I, the Company issued stock grant agreements to certain management personnel. The fair value of shares granted is determined on the date shares are awarded, and compensation expense is recorded over the requisite vesting period with a corresponding credit to additional paid in capital. Share valuation at the date of grant is estimated based upon the Company's annual financial statements, using industry multiples, and is discounted to reflect the stock's limited marketability.

Note B - Discontinued Operations

On December 31, 2007 the Company sold its 51% interest in its subsidiary, RDU, and therewith the dental malpractice insurance program. The Company realized a 2007 pretax gain from the sale of $3.74 million.

Results of operations for the discontinued dental business segment for the year ended December 31, 2007, which include the 2007 operating results of RDU, included operating revenues of $3.3 million, and resulted in pretax income of $270,205. Pretax income from discontinued operations does not include an allocation of the Company’s ongoing general corporate overhead costs that will be borne by future operations. Accordingly, the income from continuing operations presented in the Statement of Income for the year ended 2007 has been reduced by corporate overhead costs previously allocated to the discontinued dental business segment.

Note C - Investments

As of December 31, 2008 and 2007, the Company's investments included investments in certificates of deposit of $700,000 and $1,500,000, respectively.

Cost and fair value of the Company's investments in equity and debt securities, at December 31, 2008 are summarized as follows:

At December 31, 2008:	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
Equity securities	$ 110,719	$ -	$ 59,579	$ 51,140
Bonds -Obligations of states, municipalities and political subdivisions	298,356	1,428	15,993	283,791
Corporate debt	156,193	26,787	-	182,980
Total available for sale	$ 565,268	$ 28,215	$ 75,572	$ 517,911

All debt securities mature in 2015 and thereafter; however, the expected maturities may differ from the contractual maturities because certain borrowers may have the right to call or prepay obligations with or without penalty.

Note D - Property and Equipment

Property and equipment as of December 31, 2008 and 2007, consists of the following:

	2008	2007
Furniture and equipment	$ 434,674	$ 413,324
Computer equipment	328,239	293,276
Vehicles	295,002	327,054
Leasehold improvements	137,547	137,547
Computer software	83,920	41,930
Property and equipment, gross	1,279,382	1,213,131
Accumulated depreciation	(782,139)	(630,299)
Property and equipment, net	$ 497,243	$ 582,832

Note E - Line of Credit

The Company maintains a $500,000 working capital line-of-credit bearing interest at the prime rate. At December 31, 2008 and 2007 no funds have been drawn on the credit line.

Note F - 401(k) Defined Contribution Plan

The Company maintains a 401(k) defined contribution plan ("the Plan") that covers substantially all employees with more than one month of service. The Company matches 100% of each employee dollar contributed, up to a maximum contribution of 6% of an employee's eligible compensation. The Company's continuing expenses related to the plan during the years ended December 31, 2008 and 2007 amounted to $249,946 and $262,976, respectively.

Note G - Deferred Compensation

The Company has non-qualified deferred compensation agreements with certain executives under which future defined benefits are expected to be funded by individual life insurance policies owned by the Company. The deferred compensation benefits are forfeited if future service requirements are not met. The present value of future benefits, discounted using a rate of 4.5% to 4.75%, is recognized over the requisite service periods of the individual executives. The accrued present value of future benefits under these agreements as of December 31, 2008 and 2007 amounted to $397,000 and $255,000, respectively, and is included in other long-term liabilities on the accompanying balance sheets. At December 31, 2008 and 2007 the aggregate cash surrender value of life insurance policies on such executives, amounting to $285,377 and $205,635, respectively, is included in other long-term assets on the accompanying balance sheets.

Note H - Income Taxes

The significant components of the Company's income tax expense for continuing operations for 2008 and 2007 are as follows:

	2008	2007
Current	$ 67,497	$ 72,342
Deferred	(21,639)	18,335
Total income tax expense	$ 45,858	$ 90,677

Actual income tax expense reported during the years ended December 31, 2008 and 2007 differs from that which would result from applying the statutory tax rates to pretax income, primarily due to certain non-deductible expenses, tax exempt investment income, and adjustments related to under or over accrual of the prior year income tax provision. The Company’s tax returns through the year 2006 were examined in 2008 by the Internal Revenue Service. Temporary differences identified by the IRS exam resulted in interest payments of $110,778. This deductible interest expense, net of the related tax benefits, amounted to $67,575 and has been included in the Company’s current income tax expense for 2008.

The tax effects of temporary differences that give rise to the deferred tax assets and liabilities at December 31, 2008 and 2007 are as follows:

	2008	2007
Deferred tax assets:		
Accrued expenses	$ -	$ 166,140
Stock grant expense	38,441	59,588
Deferred compensation	154,830	99,450
Charitable contribution carry-forward	26,789	27,892
Deferred claims revenue	104,130	-
Unrealized loss on investments	18,469	-
Other	25,542	7,175
Gross deferred tax assets	368,201	360,245
Valuation allowance	-	-
Net deferred tax assets	368,201	360,245
Deferred tax liabilities:		
Depreciation	48,129	80,831
Other	7,967	9,215
Total deferred tax liabilities	56,096	90,046
Deferred income taxes, net	$ 312,105	$ 270,199

Note I - Stock Grants and Repurchases

The Company has a stock award plan ("Plan") under which certain management personnel receive stock grant awards subject to shareholder agreements. Up to 125,000 shares have been authorized for awards under the Plan, of which 59,606 shares are available for future grants. The shares vest over periods up to three years. The fair value of each stock grant is calculated at the date the grant is awarded, and is recognized as compensation expense using the straight line method over the requisite vesting periods. Compensation expense amounted to $128,004 and $250,116 for the years ended December 31, 2008 and 2007, respectively. During the years ended December 31, 2008 and 2007, there were no stock grants awarded and there were forfeitures for 2,598 and 1,170 shares, respectively. Shares vested during the years ended December 31, 2008 and 2007 were 17,793 and 44,416 shares, respectively. Shares granted but not vested amounted to 19,226 shares as of December 31, 2008, all of which will vest in 2009. The remaining cost to be recognized in 2009 for these nonvested awards amounts to $54,218 as of December 31, 2008. There were 39,617 nonvested granted shares as of December 31, 2007.

Shares issued under the Company’s stock agreements are eligible to be put back to the Company, at the option of the shareholders, once qualifying time periods have been met per the underlying agreements, with up to 25% of qualified shares eligible for put options in any calendar year. During the year ended 2008, the Company's majority shareholder redeemed 35,389 shares at a purchase value of $660,004. For other Company shareholders, a one-time waiver of the 25% annual put option limit was granted, and put options for 39,409 shares were exercised by the other shareholders at repurchase values totaling $734,978. The Company has no plans to grant any future such put option waivers. During 2008, the Company also purchased 26,441 shares from a charitable organization that had received donated shares from the Company's majority shareholder, at a purchase value of $440,000, and purchased 1,132 shares from charitable organizations that had received donated shares from other shareholders at purchase values totaling $21,112. Shares repurchased by the Company have been retired. There were no share repurchases during the year ended December 31, 2007.

In February 2009, the Company paid $175,000 to purchase 10,204 shares of the Company's common stock from an officer of the Company. The shares were purchased at estimated fair value using the Company's normal valuation method.

As of December 31, 2008, 46,168 shares that were issued under stock agreements have qualified for 25% put options to the Company in accordance with the terms of the underlying stock agreements. The purchase price, in the event the put options are exercised, is based upon the fair value of the shares as of the calendar year end immediately preceding the year in which the Company is notified of the intent to exercise the put option. As of December 31, 2008, 25%, or 11,542 shares are eligible to be put to the Company during the year ending December 31, 2009. Based on the repurchase value of the shares as of December 31, 2008, such put options have an estimated value of $198,061.

Note J - Stockholders' Equity

The Company's shareholders are subject to certain rights and limitations, as documented in the underlying shareholder agreements.

Note K - Lease Commitments

The Company leases office space and certain equipment under non-cancelable leases with unrelated parties. The aggregate rent expense for continuing operations for the years ended December 31, 2008 and 2007 was $494,806 and $468,262, respectively.

The following is a schedule of future minimum lease obligations under the Company's non-cancelable operating leases:

Year ending December 31,	
2009	$ 477,691
2010	482,245
2011	489,045
2012	41,227
Total minimum lease commitments	$ 1,490,208

Note L - Risks and Uncertainties

The Company is a managing underwriter of property, casualty, liability and workers' compensation insurance coverage for YMCAs and JCOs throughout the United States. The Company has several insurance carriers that underwrite its insurance policies, although a majority of these policies are underwritten by one carrier. If this carrier should discontinue providing this insurance coverage, the Company would have some exposure related to finding another primary underwriting company. This risk is mitigated by the fact that the Company's principal carrier is rated A (excellent) by A. M. Best Company. This risk has been further reduced by limiting the share of risk born by the primary carrier and spreading the excess risk among one or more "A" or better rated reinsurers with which the Company has maintained long term relationships.

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