THE REDWOODS GROUP

Love. Serve. Transform.

2010 ANNUAL REPORT

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Company Background

The Redwoods Group, a privately held, socially conscious company, provides property and casualty insurance underwriting and risk and claims management services to YMCAs, Jewish Community Centers (JCCs) and nonprofit resident camps across the nation. The company's business and social mission is to protect and improve the quality of life in the communities it serves…to Serve Others®.

Privately owned by company management, Redwoods was formed in 1997 by long-time colleagues experienced in serving complex customer groups. The company has developed extensive expertise in support of child-serving, faith-based organizations and is known for striving to create a culture of safety at YMCAs, JCCs and nonprofit resident camps to prevent accidents, injuries, drownings and abuse.

Redwoods conducts its business in partnership with leading national and international insurance companies that assume the insurance risk. Redwoods acts as a managing general underwriter that prices policies and provides risk management and claims handling services.

Company revenue comes from the commissions and fees paid by the risk bearers on each insurance program for the insurance-related services provided by Redwoods on their behalf. Insurers support Redwoods' efforts because our track record and business model indicate a strong likelihood of outstanding return on the insurers' capital.

Most companies focus solely on making a profit. Serve Others® is at the top of Redwoods' unique business model, proven to be successful over a long period of time. A key component is market selection. We select markets that are underserved and whose decision makers will resonate with our social focus.

Executive Summary *A letter from the CEO and President*

"The reasonable man adapts himself to the world. The unreasonable one persists in adapting the world to himself. Therefore, all progress depends on the unreasonable man."

George Bernard Shaw, who spoke the words above, was a celebrated playwright and an unreasonable man. Shaw saw what was and worked for what was possible—and what was right. One of the founders of the London School of Economics, he was both a pragmatist and a visionary. Shaw spoke often and eloquently about gaining equal rights for men and women, alleviating abuses of the working class, rescinding private ownership of productive land and promoting healthy lifestyles. His moral sensibility is still relevant today: Here in North Carolina, we're still trying to recognize and compensate 50 years of eugenics victims—those people, virtually all black, who were sterilized by the state until as recently as 1970 in an intentional process of "natural selection"—and Shaw spoke and wrote against this brutal practice 125 years ago.

George Bernard Shaw was right, and he often made people feel uncomfortable by speaking the truth.

The late Joseph Cardinal Bernardin, former Archbishop of the Catholic Diocese of Chicago, spoke the truth and often made people feel uncomfortable. On the topic of abortion, here's what he said: "If one contends, as we do, that the right of every fetus to be born should be protected by civil law and supported by civil consensus, then our moral, political and economic responsibilities do not stop at the moment of birth. Those who defend the right to life of the weakest among us must be equally visible in supporting of the quality of life of the powerless among us: The old and the young, the hungry and the homeless, the undocumented immigrant and the unemployed worker." Cardinal Bernardin knew it was right to defend life, but he also knew it was wrong to be selective in one's convictions.

Bryan Stevenson, Executive Director of the Equal Justice Initiative of Alabama, a MacArthur Genius and civil rights attorney, also speaks truth and often makes people feel uncomfortable. Stevenson says, "The opposite of poverty is not wealth. The opposite of poverty is justice." Stevenson fights every day to protect the disenfranchised, and he fights against very powerful forces, against the very structures and systems that make poverty an almost permanent condition.

Shaw, Bernardin, Stevenson. Courageous moral leaders.

About now, you should be asking yourself why you're reading about these guys in a CEO letter within a Company Report. Where, you might ask, is the requisite crowing about enormous profits or, alternatively, the announcement of "reorganization" in the wake of a financial loss?

If you're a regular reader of our Report, you're not surprised. If this is your first exposure to us, you need to know that we're different. In a world where the dominant meta-narrative is "me versus you in a zero sum game," we see the world—and behave—differently. Here's our view: The world is badly damaged, in need of healing, and business can and must be a powerful force for positive social change.

In that context, I'd like to introduce two more courageous, moral leaders. Two Harvard Business School professors: Michael Porter and Mark Kramer. Here's what Porter and Kramer wrote in the January 2011 edition of the Harvard Business Review:

"NOT ALL PROFITS ARE CREATED EQUAL. PROFITS INVOLVING A SOCIAL PURPOSE REPRESENT A HIGHER FORM OF CAPITALISM."

With this simple sentence, they made a lot of people uncomfortable and effectively laid to rest the argument of false equality: that businesses with a social mission at their core are simply different than, not better than, businesses that exist to enrich shareholders. According to Porter and Kramer, social enterprises are not only better, they also "reconnect company success and community success in ways that have been lost in an age of narrow management approaches, short-term thinking and deepening divides among society's institutions."

Now, I have written similar statements in the last nine years of these company reports, but these are Harvard Business School professors, *not a renegade CEO at the lunatic fringe of social entrepreneurship.* In fact, Porter and Kramer go even further in their article, *The Big Idea: Creating Shared Value*: "Shared value focuses companies on the right kind of profits—profits that create societal benefits rather than diminish them. Capital markets will undoubtedly continue to pressure companies to generate short-term profits, and some companies will surely continue to reap profits at the expense of societal needs. But such profits will often prove to be short-lived, and far greater opportunities will be missed."

MEANING, THE OPPORTUNITY TO CHANGE THE WORLD FOR THE BETTER.

I have been thinking a lot lately about false equality. Like why newspapers must always carry a statement from some scientist somewhere who says global warming is a hoax, even though it has been 25 years since there has been a single article refuting climate change—or its human cause—in a peer-reviewed magazine.

Some things are just true, even if they are uncomfortable to hear.

For many years, to avoid being percieved as lacking in humility, I have said the following to existing and prospective customers: "Redwoods is not necessarily better than (fill in the temporary competitor's name), we're just different." I'm going to stop saying that, stop diminishing our model, stop undermining our impact, stop falsely giving equality to our competitors' models… and start sharing why our difference makes us (and those we serve) better. I'll find new ways to be humble.

Redwoods is a social enterprise, formed to protect children from the threats present in today's child-serving organizations: from being sexually abused, from drowning, from many other life-ending or life-altering events. We did not start Redwoods to make money; we started this company to change the world.

For our customers, all of them not-for-profit, all of them formed to serve and improve their communities, it is mission-inconsistent to choose to work with a traditional insurer formed exclusively to increase shareholder value—which is what "C" corporations are required by statute to do.

Now, I understand that all businesses, including nonprofits, must balance mission with economic sustainability. I walk that tightrope myself every day. I know we have to compete on the economics of the deal. So let's add this notion: assuming the terms and conditions of competing insuring proposals are roughly the same, choosing Redwoods—a company that is both robust and good for society—should be an easy decision for staff, brokers and volunteers. Social enterprises should work with social enterprises.

THAT MEANS REDWOODS SHOULD BE THE PARTNER OF CHOICE FOR YMCAS, JCCS AND NON-PROFIT OR FOR-BENEFIT RESIDENT CAMPS. INDEED, FOR THE MOST PART, WE ARE. WE STILL INSURE, FOR EXAMPLE, MORE YMCAS THAN ALL OTHER PROVIDERS COMBINED.

Unfortunately, over the past several years, we have too often allowed market forces, traditional insurance transactional practices and predatory competitors to commoditize us. It's true that, no matter what you may have heard, the vast majority of our customers have stayed with us. In fact, our results in 2010 were far better than they were in 2009 on every metric—fewer of our customers' constituents were injured, more customers renewed and expanded their relationships with us, more new customers came to us and, importantly, we earned a profit for the year. As you'll see in Steve Cook's CFO letter, we had a solid year and are very healthy.

Still, nearly 30 of our 500 customers left us in 2010. Please understand that five would have been too many, because it is very difficult for us to help an organization to reduce the likelihood of injury if it is not working intimately with us. In each case they left because of a combination of attractive pricing, a series of false equality arguments and, in too many cases, our own failure to do our best work.

Myles Horton, the influential 20th century civil rights leader, said, "We make the road by walking." Horton knew what it meant to go forward without a path. He knew it required the moral pioneer to be both creative and patient. And so it is for us. We are making a new road by walking it every day.

The insurance market is cyclical. Traditional insurers raise and lower their rates with the overall market. Redwoods moderates against pricing volatility. We have long taken the position that we will be neither the low price in a soft market nor the high price in a hard market. In the typical pattern of cyclicality, when we are never more than two or three years removed from the pricing peak or trough, this is an easy position for customers to support. Competitive, consistent pricing is a great brand value in uncertain times.

Unfortunately, 2010 was the sixth year of a soft insurance market—an unprecedented circumstance. As a result, it has taken longer for the new, temporary competitors to behave as we expect: raising rates, limiting coverage, not renewing customers. So more customers are shopping for competitive quotes than has traditionally been the case for us (25% shopped in 2010) and, often, they found lower prices. Of those who shopped, 78% stayed with Redwoods—a result consistent with our historic experience. That means that 78% of those customers rejected the allure of a lower price because they valued the services Redwoods provides.

Unfortunately, in too many cases, customers who left us fell for the argument of false equality: A competitor pledges to do everything Redwoods does. Ultimately, they don't, and they can't. Which is why 30 customers who left us in the past few years have already come back to us… they missed our services. When they left, they thought they'd get from the new carrier just what they'd gotten from us—while saving money. They did save money, but they didn't get what they were promised. This is an unfortunate dynamic in business: Competitors pretend to be something they are not.

Another important dynamic of business is that you have to execute well. In 2010, we were better, but we are still not good enough. In the tremendous 1987 film *The Untouchables*, Sean Connery's character says, "Never bring a knife to a gunfight." (For the purists, that's not an exact quote. The exact quote is inappropriate for a family-friendly publication…) When it comes to keeping people safe, we are in a gunfight and, too often, all we bring is a knife. Our customers are expanding programming to build revenues, they are serving communities that are increasingly at risk and they are delivering more services with less staff. Often, this represents a change in operations that can compromise supervision, maintenance and culture, and can increase the risk of injury to program participants.

We have to rise to the challenge. We have to provide better, more immediate, more insightful guidance to customers, and we have to do so more efficiently. I'm thrilled that more than 100,000 people have taken the excellent safety courses on our new Redwoods Institute on-line platform, but, as of early 2011, one-third of our customers had not yet used a single course. Only one-third had used more than 10 courses. We are developing exceptional solutions for resource-constrained organizations, but we're not yet good enough at getting the resources put to use. We'll get better at this, because we have to and because we're called to.

We did get some very important things right:

- We galvanized and mobilized the Massachussetts YMCAs in the wake of the horrific Connors sexual abuse case, turning that event into what will soon be a countrywide community engagement strategy around abuse prevention.
- We maintained our focus on aquatic safety, ensuring a second-straight year with no drowning deaths in Redwoods-insured pools or waterfronts.
- We expanded our workers' compensation customer base to 160 while refining our ability to help customers keep their staff healthy, on the job and serving the mission.
- We emerged from the recession without laying off a single staff member, without reducing salaries or benefits and donating, again, nearly $750,000 and 4,000 paid work hours by our staff to support local, national and global social change.

Tikun Olam. According to Jewish culture, we are called to "repair the world." The Middle East is awash in the violent establishment of a new social order. The global environment is under assault. The US Gulf Coast is still devastated by the after-effects of Katrina, the BP oil spill and generations of social injustice. Every day, 2000 souls enter this country, more than one-half of them undocumented, in search of a way to support their families and, because we cannot have a civil political discourse on challenging issues, we can't develop a comprehensive approach to the problems and opportunities of immigration. Tens of millions of people in this country alone have inadequate access to nutrition, shelter, health care, education or economic opportunity, yet we continue to develop government programs to reduce taxes on corporations and the wealthy. We continue to believe that what is good for business is good for the country.

I believe what is good for the people is good for the country. And what is good for the country is good for business. I believe that no business can succeed in a community that is failing and, I promise you, our communities are failing.

Together, we have important, transformational work to do. Our collective work in social responsibility is the work of our lifetime and we are called to do it well.

FIFTY YEARS AGO, DR. KING TOLD US, "ALL LABOR THAT UPLIFTS HUMANITY HAS DIGNITY AND IMPORTANCE AND SHOULD BE UNDERTAKEN WITH PAINSTAKING EXCELLENCE."

Amen.

Kevin A. Trapani
President & CEO
The Redwoods Group

Financial Overview 2010 *A letter from the CFO*

We entered 2010 with an action plan and strong commitment to return The Redwoods Group to profitability. I am very pleased to report that, despite ongoing challenges in the insurance marketplace, we achieved our goal, reporting net income of $102,489 for 2010, a notable improvement of $492,359 from the net loss of ($389,870) reported in 2009.

Our total commission and fee revenues were unchanged last year primarily due to the continuation of very competitive market conditions. The new business that we added in 2010 was limited due to competitive market conditions, and the impact of these additions was offset primarily by the combination of (1) reduction in premiums due to loss of accounts where we could not justify responding to the competition's irresponsible pricing, and (2) some reductions in renewal premiums due either to coverage changes or selective lowering of renewal premiums where we thought reductions were warranted. Still, we have successfully stopped the declining revenue trend that began in 2008, and we believe we are now well positioned for some revenue growth in 2011, based upon the high quality book of business that we have successfully cultivated and retained.

Naturally if we increased profits without revenue growth, then we were able to reduce expenses substantially in 2010—reducing them in fact by about 8%. After excluding commission expense, our real operating expense reduction was about 10%, which really drove our $805,040 improvement in 2010 income before income taxes. Significant expense reductions over the last two years were achieved without the typical company-wide layoffs or employee benefit reductions that many companies had to enact, and we have now right-sized the organization over time to be more in line with our current revenue base. The good news from the cost perspective is that the Company's cost structure is more efficient and better positioned to handle revenue growth without proportionate cost increases. In other words, while revenue growth will naturally lead to some cost increases to maintain our high level of customer service, future revenue growth should also lead the way to higher net income.

How have we weathered the competitive and economic storm over the last three years? The Company's working capital position improved a bit in 2010, increasing to $2.1 million; stockholders' equity increased and has now moved back above $3 million; and Redwoods still continues to remain debt-free with an unused $500,000 line of credit that has recently been committed to Redwoods for the 2011 calendar year. As we stated last year, we continue to manage the business conservatively and cost effectively to ensure the sustainability of the Redwoods business model for the long term.

We were optimistic last year that we could achieve profitability in 2010, and thanks to the dedication, hard work and sacrifices by our employees and the continued loyalty and support of our customers and business partners, we achieved that objective. We are stronger today financially than we were a year ago, but we are still not where we want to be. And though significant challenges persist longer than we would all like, we are now better positioned to handle the opportunities that lie ahead and to work toward enhanced profitability in 2011.

Stephen B. Cook

Stephen B. Cook
Senior Vice President & CFO

Foundation Stories

Operation Kid Comfort

Imagine, as a child, saying goodbye to your mother or father and not knowing when, in what condition, or even if he or she will come home. That's the reality that children of our nation's service men and women agonize over when a parent is deployed. To help children cope with a parent deployed overseas, the Armed Services YMCA launched Operation Kid Comfort. Volunteers from across the nation transform pictures of the child's parent into security in the form of a quilt—with nearly 10,000 quilts produced to date. A Redwoods Group Foundation grant helps fund the project.

Love. Serve. Transform.

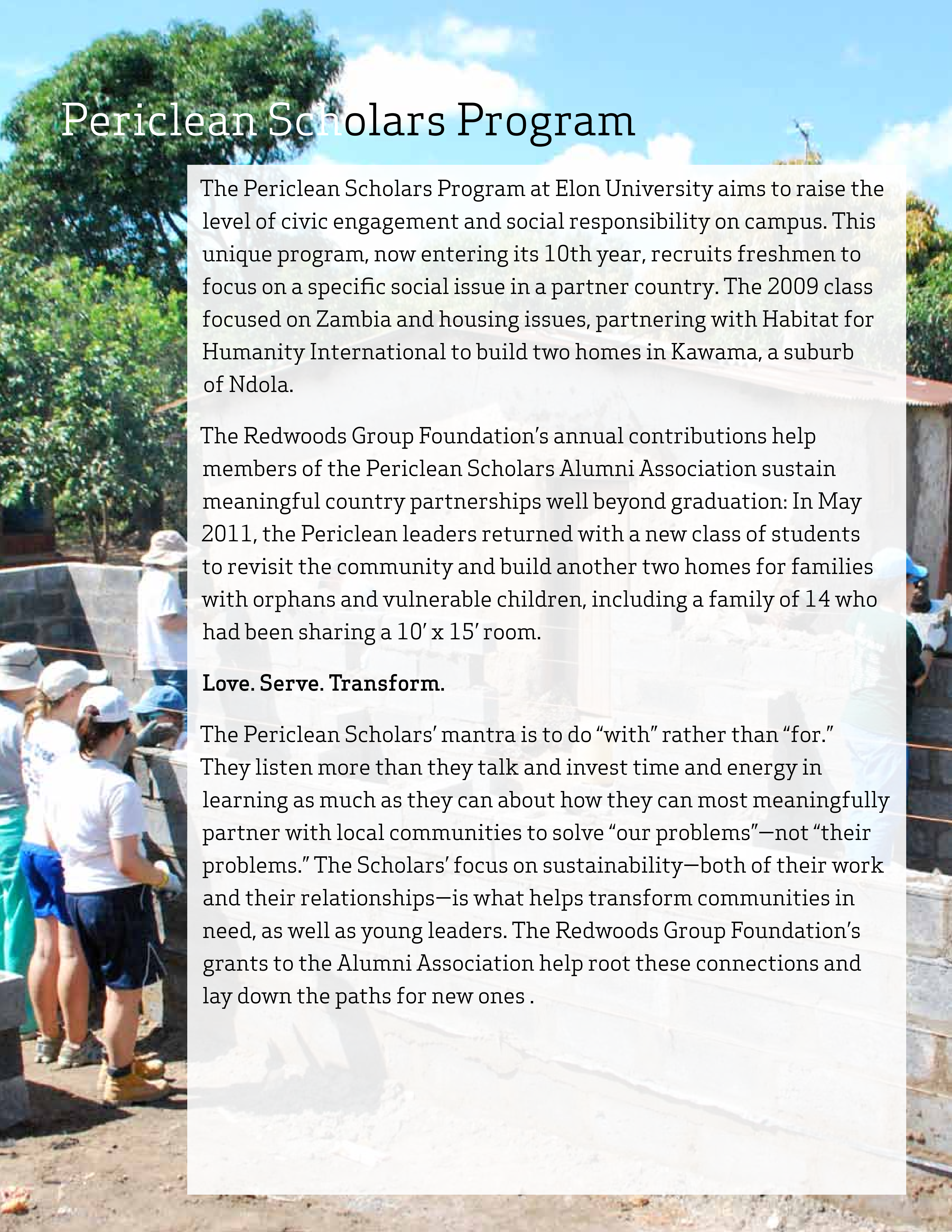
Serving together, we can transform lives. Whether it is preventing harm, keeping kids safe or helping to heal, change happens when people subordinate themselves to and for the good of others. The Redwoods Group Foundation is proud to be helping children cope in the midst of uncertain times.

JCC Maccabi Games

A core Jewish value is *Tikun Olam*, which means to "repair the world." Staying true to their values, 1900 athletes aged 12–16 years old competed and worked together on a range of community service projects during the 2010 Jewish Community Centers Maccabi Games' Days of Caring and Sharing. The Redwoods Group Foundation's financial support enabled scores of energetic youth to work together on a variety of service projects in Denver, CO and Omaha, NE.

Love. Serve. Transform.

Serving is at the core of Redwoods, and it's at the core of the JCC Maccabi Games. We believe in supporting organizations and people with a servant's heart. Working with the JCC Maccabi Games, we are helping equip today's youth for a lifetime of service.



Periclean Scholars Program

The Periclean Scholars Program at Elon University aims to raise the level of civic engagement and social responsibility on campus. This unique program, now entering its 10th year, recruits freshmen to focus on a specific social issue in a partner country. The 2009 class focused on Zambia and housing issues, partnering with Habitat for Humanity International to build two homes in Kawama, a suburb of Ndola.

The Redwoods Group Foundation's annual contributions help members of the Periclean Scholars Alumni Association sustain meaningful country partnerships well beyond graduation: In May 2011, the Periclean leaders returned with a new class of students to revisit the community and build another two homes for families with orphans and vulnerable children, including a family of 14 who had been sharing a 10′ x 15′ room.

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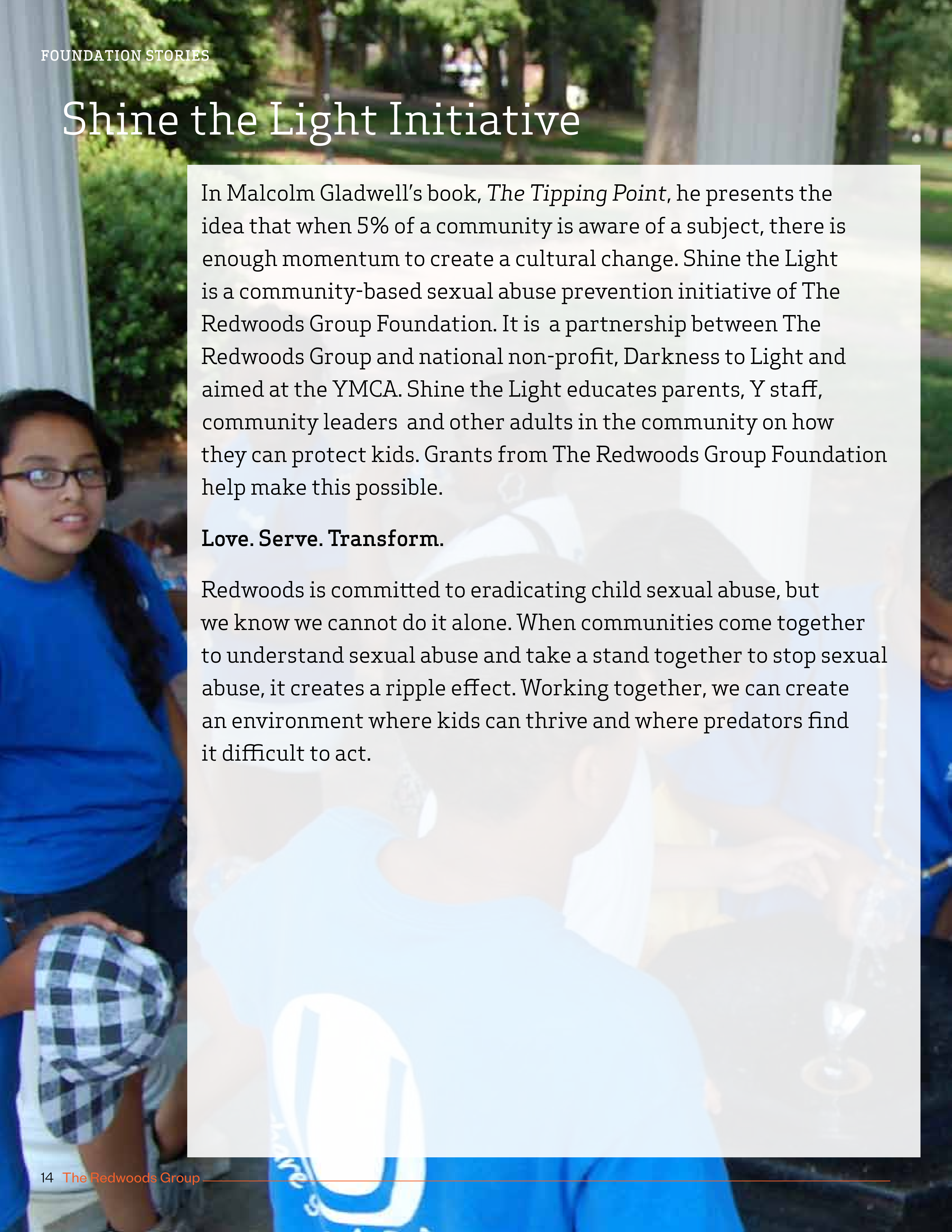
The Periclean Scholars' mantra is to do "with" rather than "for." They listen more than they talk and invest time and energy in learning as much as they can about how they can most meaningfully partner with local communities to solve "our problems"—not "their problems." The Scholars' focus on sustainability—both of their work and their relationships—is what helps transform communities in need, as well as young leaders. The Redwoods Group Foundation's grants to the Alumni Association help root these connections and lay down the paths for new ones .



Shine the Light Initiative

In Malcolm Gladwell's book, *The Tipping Point*, he presents the idea that when 5% of a community is aware of a subject, there is enough momentum to create a cultural change. Shine the Light is a community-based sexual abuse prevention initiative of The Redwoods Group Foundation. It is a partnership between The Redwoods Group and national non-profit, Darkness to Light and aimed at the YMCA. Shine the Light educates parents, Y staff, community leaders and other adults in the community on how they can protect kids. Grants from The Redwoods Group Foundation help make this possible.

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Redwoods is committed to eradicating child sexual abuse, but we know we cannot do it alone. When communities come together to understand sexual abuse and take a stand together to stop sexual abuse, it creates a ripple effect. Working together, we can create an environment where kids can thrive and where predators find it difficult to act.

Student U

All students aren't created equal. The disparity between haves and have-nots is significant and paints a bleak future for kids who lack the tools and support necessary to succeed. Student U offers middle and high school students in Durham, NC a nurturing environment to help them achieve their full academic and personal potential. The Redwoods Group Foundation's financial support fuels the efforts of Student U's teachers who are committed to bringing the promise and potential of deserving students to fruition.

Love. Serve. Transform.

We exist to make a difference, not simply to make a profit. Our future depends on all children—not some—achieving their full potential. By supporting Student U, we are giving children the chance to dream, learn, lead and succeed. Ultimately, how well we care for the communities we serve matters more than our bottom line.

2010 Social Audit

SOCIAL AUDIT: EXECUTIVE SUMMARY

Founded in 1997, The Redwoods Group is a privately held, social enterprise using insurance and risk management solutions to serve YMCAs, Jewish Community Centers (JCCs) and nonprofit residential camps.

The Redwoods Group annually commissions an examination and evaluation of its social performance by an external party. This report, a "Social Audit," serves as a means for the company, its leadership and its stakeholders to assess the organization's social impact.

The Social Audit serves to publicly report on the company's mission-related performance, identify successes in the calendar year 2010, compare progress versus previous years and make recommendations to enhance impact in 2011.

Redwoods annually hires an outside consultant to conduct our Social Audit. Here's the unedited report.

As in last year's Social Audit, Redwoods' 2010 B Impact Report provides a foundation of standardized, mission-related performance measurements for private companies. This Social Audit report also offers frameworks to evaluate and position The Redwoods Group's mission-related progress amid other social enterprises. Additionally, progress is again measured against recommendations presented by third-party evaluators in the Social Audits of 2007, 2008 and 2009. In a persistent soft market, performance against those dozen recommendations varied with notable progress in the areas of customer programs, leadership and administration, employee programs and B Corporation status. Conversely, there was a lack of progress in increasing employee diversity and increasing transparency into The Redwoods Group Foundation.

In an attempt to provide civil discourse in this year's report, interviews were conducted with customers and community partners, in addition to Redwoods employees. Many of these interviews echoed Redwoods' internal efforts to formalize its social capital and power to convene. Anecdotally, Redwoods enabled customers and community partners with additional funding sources, creative solutions and reputation-enhancing partnerships. A majority of interviewees most closely identified Redwoods' efforts with its leader, Mr. Kevin Trapani.

An ongoing component of civil discourse is the anonymous employee survey. This year's employee survey returned fewer responses, 45 out of 86—a response rate of just over 50%—but offered evidence that employees connect daily work responsibilities with the Serve Others® mission. Eighty percent of employees reported satisfied or extremely satisfied levels, though this percentage is lower than 2009 survey results. Results highlight opportunities for senior leadership to engage with employees who are moderately committed to the variety of community and volunteer activities. Survey results also show a diverse assessment of how social enterprise, B Corporation and Green Plus Certified statuses affect The Redwoods Group's business.

Notable Strengths in 2010:

- Greater civil discourse on social enterprise
- Leadership in the community
- Development and application of social capital

Recommendations for 2011:

- Iterate corporate culture to empower employees as Serve Others® ambassadors
- Replicate Shine the Light model
- Strengthen internal sharing of social enterprise strategy

During one of Redwoods' most important years in CEO Kevin Trapani's mind, the Redwoods Group returned to its native language of serving others through business discipline, passionate partnership and committed evolution as a social enterprise.

REPORT METRICS AND FRAMEWORKS

In an effort to use widely-accepted metrics in Redwoods' Social Audits, this report will again utilize frameworks and data from The Redwoods Group's 2010 B Impact Report. Additional metrics are available in the marketplace, including Green Plus Certification, which The Redwoods Group achieved in 2009. However, the nearly 400 nationwide B Corporations, representing more than $1.5B in revenues, suggest that the B Report measurements are most appropriate in the effort to publish fair and standardized year-over-year and market comparisons.

One component of The Redwoods Group's social enterprise efforts that are not captured fully by the B Impact Report is corporate culture. Analysis of Redwoods' corporate culture follows in the civil discourse discussion.

B Corporation—B Impact Report

In 2009, The Redwoods Group became a certified B Corporation, a new type of company representing organizations that are both "for benefit" (B) and for-profit. B Corporations use the power of business to solve social and environmental problems, providing a collective voice for mission-driven firms through a unifying brand. B Corporation certification requires ongoing evaluations of the company, its employees and activities against key performance standards.

The 2010 Social Audit is, in part, based on the B Impact Assessment and B Impact Ratings System created by B Lab, a nonprofit organization. The B Impact Assessment uses 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 B Impact Report has been reviewed and improved upon by over 600 entrepreneurs, investors, experts and academics; the rating system is governed by an independent, nine-person Standards Advisory Council.

The B Impact Report version 2.0, utilized by both the 2009 and 2010 Social Audits, evaluates The Redwoods Group from the stakeholder perspectives of Accountability, Employees, Consumers, Community and Environment.
The Redwoods Group 2009 B Impact Report (Version 2.0)

Analysis: The Redwoods Group's 2010 B Impact Report

In 2009, Redwoods scored 111.3 on its B Impact Report and again earned excellence areas in Accountability, Employees and Consumers. For its 2010 efforts, The Redwoods Group scored a 128 with significantly more points earned in Community and Environment. (Upon confirmation by B Lab, Redwoods will publish its new B Impact Report online.) As in years past, The Redwoods Group earned more than 60% in Accountability and Consumers. Despite a big jump in points earned, employee survey results show that less than 25% of employees interact with B Corporation metrics many times during the week or workday. This suggests that identity as a B Corporation and efforts to improve B Impact Report performance are limited to a handful of The Redwoods Group staff.
The Redwoods Group 2010 B Impact Report (Version 2.0)

PROGRESS ON PRIOR YEARS' SOCIAL AUDIT RECOMMENDATIONS

In addition to the B Impact Report tool, the Social Audit evaluated progress against recommendations made in 2007 through 2009. Some areas of focus experienced a strategic overhaul, while others did not see significant progress. The full comparison on prior years' recommendations is available, starting on page 30, with notable highlights including:

Employee Programs: In 2010, Redwoods increased the training budget and centralized tracking of employee participation: nearly 80% of employees participated in training and development. All employees' performance evaluations continued to feature measurement against the core competency of Serve Others®, enabling quantifiable engagement with the social mission. Despite an inactive Redwoods Community Outreach (RCO) group, nearly 100% of employees participated in Redwoods' 3,414 total volunteer hours. Related, Business Insurance named The Redwoods Group as one of the top twenty places to work in insurance.

Customer Programs: As in years past, The Redwoods Group spent considerable human, financial and social capital in 2010 in efforts to strengthen customers. The Redwoods Group and The Redwoods Group Foundation's 2010 community support totaled more than $880,000, a portion of which customers received to fund additional equipment, online trainings and drowning-prevention initiatives, among many other needs. (It should be noted that The Redwoods Group Foundation provides grants to Ys and JCCs that are not customers; customers clearly understand that grant support is not contingent on continued insuring relationships with The Redwoods Group.) In the immediate future, The Redwoods Group and The Redwoods Group Foundation should strengthen social and financial capital engagement with Jewish Community Centers (JCCs) and nonprofit resident camps as they deepen relationships with those customers, following the model of holistic customer relationships with Ys.

Continued Foundation Fellow Program: A $100,000 grant from The Redwoods Group Foundation and support of a second Foundation Fellow, Ralph Yohe, expanded the Shine the Light initiative. Shine the Light is The Redwoods Group Foundation's effort to empower Y customers to leverage their community leadership position to achieve community-wide training. This training is in support of the nationwide non-profit, Darkness to Light, and its mission to empower people to prevent child sexual abuse. The financial muscle behind Shine the Light comes from The Redwoods Group Foundation; however, the benefits and outcomes of this relationship are not limited to the foundation. The Shine the Light initiative represents opportunity for The Redwoods Group and The Redwoods Group Foundation to provide and receive mutual benefit.

The initiative and Foundation Fellow Program also represent missed opportunities to clarify the joint foundation and business interests: The Redwoods Group should connect the Foundation Fellow with The Redwoods Group staff to promote social enterprise internally.

Increased Diversity: Despite being recommended by social audits in 2007 and 2008, The Redwoods Group did not implement a written policy to increase recruiting from underrepresented groups. In recent periods of slow job growth, Redwoods had an opportunity to strategically position itself for a restart to hiring. The continuing absence of a written policy remains an opportunity for The Redwoods Group to improve.

2010 persisted as an unprecedented seventh year as a soft property/casualty insurance market. The Redwoods Group recognized the seismic shift to a new normal of business and responded with a $1 million cut in expenses and an important return to profitability. Contributing to reduced expenses were Serve Earth initiatives that sourced recycled-product toners and eliminated paper cups, contributing to bottom-line savings.

SOCIAL ENTERPRISE ENVIRONMENT 2010

As in 2009, the traditional business norm was to privatize profits and socialize costs with layoffs; furloughs; and unfulfilled employee, community and social commitments. In contrast, The Redwoods Group persisted in its commitment to employees. From 2009 to 2010, Redwoods decreased its attrition rate, increased its training and development budget, and enabled an employee to take long-term sabbatical to pursue an MBA degree.

Despite the tough business environment and performance demands on employees, employee participation in volunteerism remained at 99%. As one employee reflected on his leadership of a new social program, “the biggest problem was squeezing it into the calendar.” In 2010, new and continuing social initiatives enjoyed great success, including:

- Soles4Souls (new): collected 227 pairs of shoes, equivalent to 125lbs
- USOC Working Group (new): Redwoods employee participated in Safe Training Environment initiative to implement new policies, safeguards and practices across the United States Olympic Committee
- Habitat for Humanity (continuing): $50,000 from funding sources including The Redwoods Group Foundation; significant volunteer hours from The Redwoods Group

Throughout 2010, The Redwoods Group Foundation continued to make significant grants, totaling $826,015; The Redwoods Group’s total community support amounted to $56,022. These are both increases from 2009 support levels; importantly, these dollar amounts fit strategically within The Redwoods Group’s efforts to make a profit and to thrive as a social enterprise. Going forward, Redwoods should set strategic goals for foundation and business giving levels and communicate those dollar amounts internally. The Redwoods Group should continue to manage the risk of over-funding community support in a passion-driven social enterprise.

As The Redwoods Group, the industry and U.S. businesses recognize a new normal, it is important that Redwoods continues to prioritize the cultural and financial health of its business. 2010 demonstrated that the discipline of Redwoods’ social enterprise business inspires customers and community partners to be better businesses, themselves.

CIVIL DISCOURSE: A 360 VIEW OF THE REDWOODS GROUP

In an effort to diversify the contributing voices to Redwoods' Social Audits, this year's audit included interviews with Redwoods' customers and community partners, in addition to the employee survey.

Customers Customers provided insight to the business decision of partnering with The Redwoods Group: reasons included Redwoods' deep understanding of customers' business, quality risk management services and extraordinary benefits. The Redwoods Group was noted as "stellar" in the partner-vendor model. Customers spoke to Redwoods' social capital and identified CEO Kevin Trapani as the ambassador; however, customers' interaction with B Corporation metrics was less strong, as was distinction between the foundation and the business.

Community partners Equally strong celebrations of Redwoods' persistent commitment position as a beacon to the community and ability to deliver results emerged from community partner interviews. In 2010, many partners benefited from The Redwoods Group employees' continued volunteer support and CEO Kevin Trapani's ability to mobilize resources. Many community partners increasingly benefitted from their Redwoods relationship including human resource, marketing and financial consulting for partner organizations; Redwoods' senior leaders as speakers and staff presence on community Boards. As with customers, community partners were less likely to experience direct effects of Redwoods' B Corporation or Green Plus Certified statuses.

Corporate Culture Across 45 respondents to the 2010 employee survey, many reported that The Redwoods Group's Community Investment Program (CIP) had a positive impact on personal volunteerism and/or financial contributions. The culture of serving others remained strong in 2010: the same percentage of responding employees participated in the Redwoods Community Volunteer Leave Program in 2010 as in 2009. The Redwoods Group is a place where employees motivate and involve each other in serving others: many employees heard about new volunteer opportunities from their colleagues. Service days, lunch and learns and employee-led events attracted the most commitment from survey respondents. Employee survey results demonstrated a positive, active culture; however, results also showed friction between a demanding work environment and the mission-oriented culture. A lower percentage of respondents reported that they would be influenced by CIP on hypothetical employment decisions in 2010 than in 2009. The corporate culture is strong, but The Redwoods Group is vulnerable to trusting too much in its corporate culture reputation: there remain opportunities to engage employees more deeply, strategically and consistently in The Redwoods Group's social enterprise efforts.

Employee Survey In March 2010 The Redwoods Group staff completed an anonymous survey to evaluate and position The Redwoods Group and The Redwoods Group Foundation's social impact efforts and activities in 2010. The survey had a 52% response rate.

Areas of strength versus 2009

- 8% more employees volunteered 3+ hours per month
- 89% of employees used the Redwoods Community Volunteer Leave Program
- 16% fewer employees thought that Redwoods works on too few volunteer and community projects
- 5% more employees drew connection between the Serve Others® mission and daily work responsibilities

Additional 2010 Survey Findings

- Employee participation in Redwoods' Charitable Match Program remains below 65%
- 8% more employees than in 2009 reported that The Community Investment Program would not influence a decision about alternative employment options
- 18% more employees than in 2009 reported their thoughts that employees do not have very much involvement in The Redwoods Group Foundation's grant making
- 17% fewer employees reported high commitment to the Charitable Match and/or Dollars for Doers Programs

Notable Employee Comments about 2010

Evaluation of how well Redwoods maintained mission and upheld its employee commitments...

- "Very well. Fulfilled employee commitments and community commitments."
- "We got a little off focus because of our work on our own sustainability. But that's the only thing that allows us to do the other things."
- "Very well. Although we made a profit, 2010 was a difficult year financially. Redwoods continued to pay for benefits for employees and did not lay off any employees."
- "They maintained their mission to the outside however fall short with employees."
- "Fair. The culture has changed over time where our mission is at odds with our day-to-day processes."
- "Redwoods is right on target maintaining its mission. Highly committed in 2010 to its employees considering full benefits package and commitment during the storm."
- "I believe Redwoods has increased its commitment to its mission throughout 2010 and into 2011."

My recommendation, concern, or idea to strengthen Redwoods employee engagement is...

- "Continue to develop our employees as community volunteers."
- "I think we have lost some of our employee engagement in the decisions and projects that Redwoods engages in during the year. … I would like to see more group events within the company where we can support each others' causes as well as the company's."
- "Focus on one or two main projects or goals per year so that more people are able to connect to the cause, people that already have organizations they are passionate about will continue those efforts, but more information and centralized focus may give employees without a focus more insight into the work that can be done."
- "I feel employee engagement is high. Ways to strengthen it would just be to provide even more information to employees."
- "Explain the RCO and the Discussion Group better. I think folks would join and come if they knew more."

My most positive experience or interaction with The Community Investment Program was...

- "Habitat has been amazing, St. Baldrick's is a highlight every year, and Triangle United Way service/activities are helping me in unexpected ways. I can't pick one."
- "Exposure to charities I would never have known about"
- "Getting to volunteer for the causes I prefer and have interest in."
- "Matching donations. I gave more last year than I've ever given in a 12-month span, and knowing that my dollars were doubled in most cases and partially tripled in United

Way giving is fantastic. Hearing Kevin, Paul Cuadros and several employees talk about the immigration issue and diversity were also great experiences."

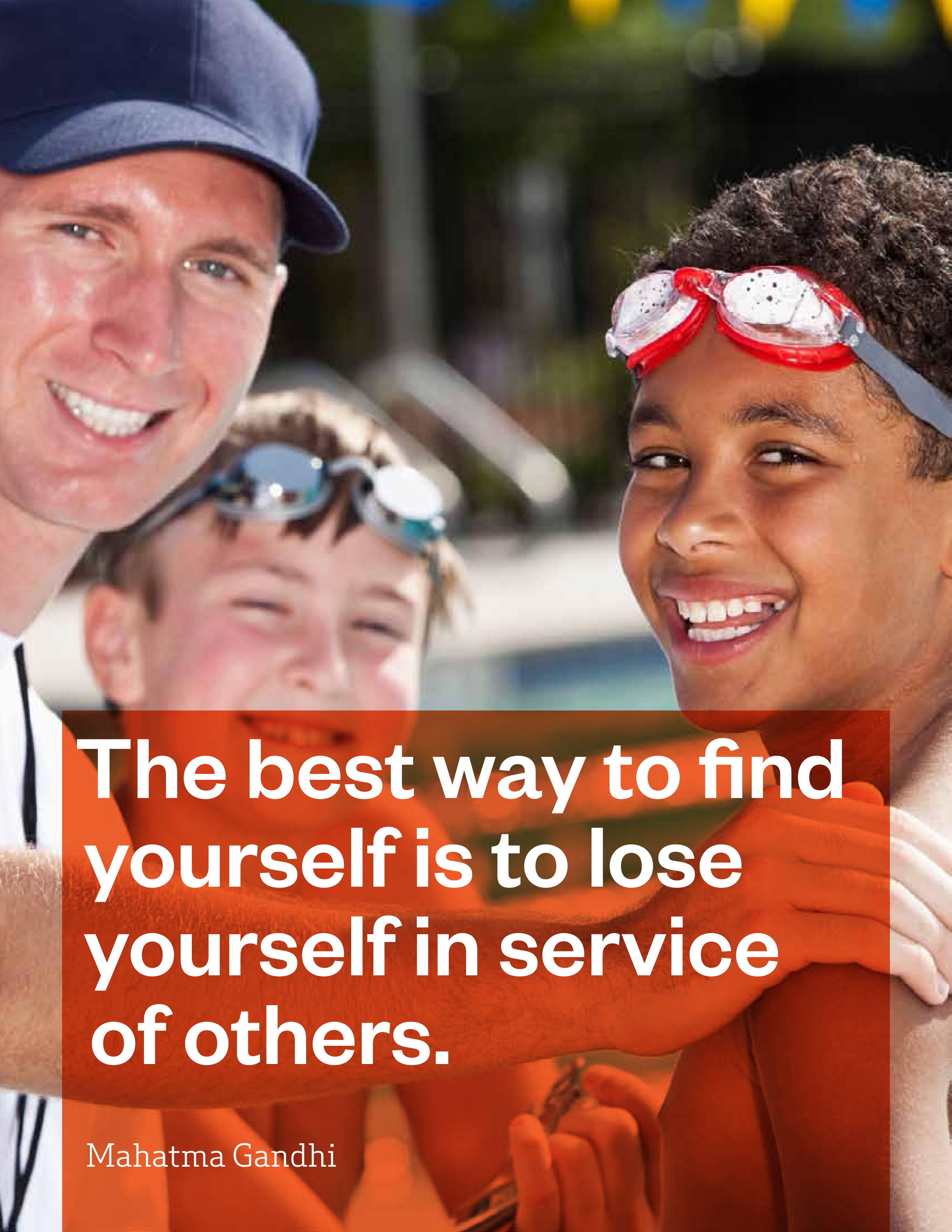
- "My over all involvement each week volunteering at my chosen non-profit. Personal satisfaction."

My recommendation, concern, or idea for The Community Investment Program is...

- "It's too much for one person to handle, bring back and fund the RCO in some form."
- "Continue to refine our focus and strategy on volunteering and philanthropy."
- "Keep doing what we're doing."
- "Get the Volunteer Leadership Development Program introduced asap."
- "Have more communication with the foundation, what is happening where the money is going and what work is being done with it."
- "I recommend that employees be held more accountable for involvement in CIP."

My additional comments are...

- "The concept of this place is amazing, and I don't want to have to leave ever. If I did have to leave though, I wouldn't be able to go back to a life with little or no volunteer work. It would feel unnatural now."
- "I am looking forward to making further gains this year on mission. I think moving to Durham will open even more opportunity."
- [The survey did] "not give me the option for a negative response as I feel some turnover has been created due to the social enterprise focus. It is too complicated and stressful to explain to customers. I know I am getting it wrong. I feel it is asking too much of us to do that and know and sell insurance."
- "We are on a journey. I hope that next year, we are even better versions of ourselves."



The best way to find yourself is to lose yourself in service of others.

Mahatma Gandhi

EVALUATION AND ANALYSIS

Success in Sustainability Compared with the majority of U.S. companies, The Redwoods Group remains well ahead of the curve in sustainability performance. In 2010, Redwoods better articulated its business as a social enterprise. As interviews with employees, community partners and customers revealed, Redwoods' profit is seen to provide shared value to the community. For The Redwoods Group and the Foundation, it is not just philanthropy or generosity; rather, it is also good business. For example, a $10,000 grant from The Redwoods Group Foundation to the Billings, Montana YMCA funds a second lifeguard position, which reduces the risk of drowning and saves lives in the community. As Redwoods' customers mitigate risks and save lives, The Redwoods Group's costs as a managing general underwriter fall. This grant, among the numerous types of financial support to meet a myriad of customer and community needs, demonstrates the value Redwoods creates through its business services and from its Serve Others® mission.

This capacity to execute tactically and strategically places The Redwoods Group's initiatives among "Winners" like GE's Ecomagination and Clorox's acquisition of Burt's Bees.

Activities in 2010 demonstrate The Redwoods Group's ongoing efforts to create, benefit from and share the benefits of a sustainability performance system.

Current Position

The 2009 Social Audit plotted Redwoods' current engagement position as a beacon to others. In 2010, Redwoods grew as an industry beacon by applying social capital to loss-causing issues, which generates profits and serves the community. Similarly demonstrating transformative leadership in the industry, senior leaders shared their experiences with social enterprise in forums beyond customer groups to promote understanding and engagement. As Redwoods applied its social capital in the areas of aquatics, abuse and passenger van transportation, Redwoods deepened its partnership with customers, enhanced the quality of its services and raised barriers to entry for competitors. This iteration of data-driven underwriting elevates Redwoods' social enterprise initiatives to the level of transforming an industry. As customer interviews indicated, Redwoods is already making other insurance providers better at what they do.

The Redwoods Group's strategic growth potential is to transform multiple industries. Already, Redwoods indirectly transforms other industries involved with youth serving organizations through its direct transformation of the insurance industry. However, The Redwoods Group should not move into additional industries in an effort (only) to raise its corporate social responsibility engagement. Chasing social returns without clear and careful analysis of the triple-bottom line return has significant risks:

- Overextending The Redwoods Group senior leaders
- Diminishing the quality of its managing general underwriter services
- Upfront expansion costs and delayed revenue from new industries jeopardizes The Redwoods Group's return to and trajectory of future profitability

The Baby Parable

This parable is a tool to analyze a company's Corporate Social Responsibility (CSR) initiatives to determine what is and what should be its strategic focus. Imagine you find a river flowing downstream full of babies who will drown and need your help. Four major types of ways to save babies, i.e. social impact efforts, are shown in the quadrants below. Though companies engage in charity work, most companies are more strategically aligned to play a major role in one of the other quadrants.

as a platform, and financially catalyzed—through The Redwoods Group Foundation—a nationwide campaign to eliminate child sexual abuse in partnership with a community-focused organization, Darkness to Light.

Redwoods should continue to build its data-based knowledge, share its social capital more with groups beyond Y customers, and enable all customers and community partners to collaborate with Redwoods

SAVE BABIES, ONE AT A TIME *(Charity work: Serve desperate needs)*	**TEACH BABIES TO SWIM** *(Empowerment work: Teach skills, Help people overcome)*
RUN UPSTREAM TO STOP WHOEVER IS THROWING BABIES IN THE RIVER *(Advocacy work: See cause of suffering and work to stop it)*	**ANALYZE WHY PEOPLE THROW BABIES IN RIVERS** *(Problem analysis: "Big picture" view, Educate self and share knowledge)*

According to CSR expert Kellie McElhaney, companies should:

- Recognize marketplace positioning and core competencies
- Choose one key area to create impact
- Trust other companies to take on the responsibilities in the other quadrants

As in 2009, Redwoods performed an incredible amount of volunteer work and charitable giving; however, its business model relies on data analysis and education to prevent accidents and injuries in the communities it serves. Building on momentum created in 2009, Redwoods increasingly articulated its ability to connect and convene "baby savers" by applying its social capital to reducing losses.

For example, The Redwoods Group knows how to achieve progress with Y customers; further, Redwoods has a data-driven understanding of when child sexual abuse occurs. In a blending of the two lower quadrants, Redwoods analyzed abuse-causing factors, utilized its Y partnerships to stop babies from drowning in the river, to return to the parable. It is in these two bottom quadrants that Redwoods should focus more of its impact efforts: build problem analysis skills through enhanced data collection and apply its big picture view to stop suffering.

Notable Strengths, 2010

Greater civil discourse on social enterprise: Internally and externally, Redwoods committed resources and focused attention throughout 2010 on sharing knowledge about social enterprise. While Redwoods exerted a lot of effort on the nuts and bolts of its business and generating a profit, many employees and external stakeholders increasingly recognized the deep linkage between Redwoods' business sustainability and success in serving its mission. Articulation of The Redwoods Group's business model as inherently beneficial, along with focus on business outcomes of no drowning and elimination of child sexual abuse, built understanding of how Redwoods serves as a social enterprise. Evidence of greater civil discourse inspiring actionable knowledge included more sustainability-based supplier decisions and a lower attrition rate.

Leadership in the community: The Redwoods Group continued to prove itself as a critical player in the local Triangle community. Plans to relocate to a green building in Durham, NC progressed, aiding the Greenfire Development-led movement to sustainably revitalize downtown Durham. 2010 was the second year in which The Redwoods Group Foundation co-invested alongside the Trapani Family Charitable Trust in a local Habitat for Humanity house; Redwoods employees contributed significantly to the nearly 2,000 hours needed to build the house in Durham, NC. No different from prior years, Redwoods persisted as a leader in community financial contributions, ranking ninth in charitable giving (first in size) in Triangle Business Journal's Top Corporate Philanthropists. This year, The Redwoods Group convened local businesses and leaders to support community activities including the Durham Latino Initiative; underwriting for The Story, distributed nationally by American Public Media; and advocacy for B Corporation legislation in North Carolina. These new initiatives and ongoing nonprofit engagement illustrate The Redwoods Group and The Redwoods Group Foundation's dedication to the local community.

Development and application of social capital: Increasingly, Redwoods' employees, partners, and leaders served as ambassadors for B Corporations, social enterprises and Green Plus Certification during 2010. One outcome was that customers and partners valued Redwoods as a knowledgeable resource on developing social enterprise competency; increasingly, CEO Kevin Trapani led social enterprise seminars and workshops to share knowledge and inspire action. The Redwoods Group Foundation continued to leverage The Redwoods Group's social capital to prevent child sexual abuse by funding Darkness to Light with a $100,000 grant and appointing a second Foundation Fellow to connect Y customers with the Shine the Light initiative. To date, approximately 25 YMCAs are engaged with Darkness to Light. Importantly, support from The Redwoods Group Foundation has a multiplier effect; in this example, the foundation's funding helped to trigger additional funding from a variety of public and private sources for Darkness to Light. Engagement with this national nonprofit for a second year positions The Redwoods Group as a national convener; it is not simply financial or human resources but the connectivity and convening powers of Redwoods that actively reduce child sexual abuse.

By inspiring stronger discourse on social enterprise and persisting as a leader in the community, Redwoods will continue to build its social capital and elevate its ability to Serve Others®.

Recommendations for 2011

Iterate corporate culture to empower employees as Serve Others® ambassadors: The Redwoods Group has a strong and long history of employee retention, a great work environment and a mission-driven culture. In order to preserve this culture and grow as a social enterprise in 2011, The Redwoods Group should create opportunities for greater employee ownership of social enterprise initiatives. Suggestions include:

- Replicate the success of 2010's Soles4Souls—an employee-led, new initiative—by institutionalizing information on how to identify new opportunities, set up a process and build employee support. Greater process knowledge distributes mission-fulfillment responsibility to all employees, increasing the potential for positive impact.
- Increase application of B Corporation metrics in business decisions: sustainability-based supplier decisions in 2010 set strong examples for additional, sustainability-based business decisions by employees in 2011.
- Fund employees' ideas for social innovation. Financially supporting employees who innovate to improve the human condition generates workplace excitement, productive competition and even greater pride in serving others.

Replicate Shine the Light model: As The Redwoods Group identifies and executes its next big, hairy, audacious goal (BHAG), the company should replicate the Shine the Light model. This model initiative capitalizes on three of The Redwoods Group's strengths:

- Analysis of and access to data
- Ability to inspire action among many entities
- Success in connecting organizations and leaders to produce results

For its next large-scale social initiative, Redwoods should similarly identify a reputable and capable national partner, e.g. Darkness to Light, and enable that partner with financial, human and social capital to achieve nationwide, sustainable impact. It is important that both the business and the foundation work together seamlessly to provide all three types of resource capital; this requires strong buy-in from senior leaders and support from employees who will execute on many of the tasks associated with the next BHAG.

One area for improvement in this model is to increase employees' engagement with such an important initiative for The Redwoods Group and The Redwoods Group Foundation. In the immediate future, Redwoods should invite Ralph Yohe, the 2010 Foundation Fellow, to make virtual lunch and learn presentations that directly tie Redwoods' financial, human and social capital to measurable outcomes. For the next large-scale social initiative, Redwoods should engage with all of its customer groups, not just Y customers, to achieve more extensive positive impact. As with its corporate culture, constant iteration of a strong model will enable Redwoods to strengthen its social impact.

Strengthen internal sharing of social enterprise strategy: Though 2010 featured greater discourse on social enterprise, there is an opportunity for The Redwoods Group to better internally communicate the strategy for social enterprise.

An inoperable Redwoods Community Outreach (RCO) in 2010 left internal stakeholders without a recognizable mechanism for contributing to Redwoods' social enterprise initiatives. Redwoods should expedite its re-launch of RCO as the mechanism for the new Volunteer Leadership Program to reestablish RCO's brand and internal visibility. An organized and easily-identifiable committee focused on social enterprise performance increases the effectiveness of social activities, which is particularly important when internal stakeholders sense a lack of focus in social enterprise initiatives.

Because The Redwoods Group Foundation funded the great majority of social initiatives and groups in 2010, the company should increase communication about the foundation. Specific recommendations are:

- Better distinguish the foundation from the business
- Share the foundation's financial position
- Articulate grant-making priorities for 2011
- Communicate how employees can leverage The Redwoods Group Foundation as a tool to better Serve Others®

The Redwoods Group must also reinvigorate its employee-driven environmental effort, Serve Earth, which was almost entirely absent from all Social Audit interviews and discussions in 2010. The responsibility, excitement and commitment to social enterprise must be more broadly shared throughout The Redwoods Group staff in order for social enterprise to sustain as its corporate status and cultural identity.

CONCLUSION

The Redwoods Group achieved significant social impact in one of its most important years as a company. As in years past, the company upheld obligations to employees and, in partnership with The Redwoods Group Foundation, upheld obligations to its local community and customers. The year provided many opportunities to celebrate passionate employee commitment and significant business impact that improved the human condition. The year also illuminated opportunities for The Redwoods Group to more strategically evolve as a social enterprise by iterating on its corporate culture, developing more Serve Others® ambassadors, and internally sharing its strategy for social enterprise. The Redwoods Group faces an important opportunity to transform business models and affect positive, social change. Its leaders, employees and partners should continue to take great pride in this important work that will certainly persist in the years ahead.

2007 SOCIAL AUDIT RECOMMENDATIONS

PROGRAM TYPE	2010 ACTION ON PRIOR YEARS' SOCIAL AUDIT RECOMMENDATIONS	YEAR-ON-YEAR PROGRESS 2010 v. 2009
Employee Programs	• Supported long-term sabbatical for Redwoods employee • Matching gifts by The Redwoods Group Foundation of $7,953 • Ranked 15th in category for Best Places to Work in Insurance, Business Insurance • Only company in the Triangle to offer a 200% match on employee donations to the United Way of the Greater Triangle	• Continued 99% employee participation in volunteer hours from 2009 • 3,414 total hours is a decrease from 2009, due to a reduced employee base • Total support by The Redwoods Group Foundation through Matching Gifts and Dollars for Doers lower than in 2009 • Redwoods Community Outreach (RCO) inactive in 2010
Customer Programs	• Persistent support of Y customers through The Redwoods Group and The Redwoods Group Foundation • Second year employing a Foundation • Fellow to make Darkness to Light training and programming available nationwide • Ten new trainings through the Redwoods Institute	• Second year of Foundation Fellow • Reduced live training costs by nearly $50,000 from 2009 with enhanced and expanded training through The Redwoods Institute
Community Programs	• The Redwoods Group Foundation approved—in 2010—full support for three employees' international Habitat 2011 trip • Employee leadership of St. Baldrick's fundraiser, involving more than 430 community members and raising more than $240,000, ranked 9th in worldwide fundraising events • Recognized as convener and resource among community partners • Confusion on definition of strategic v. employee-led initiatives	• The Redwoods Group Foundation increased its United Way matching gift from $100,469 in 2009 to $113,056 in 2010 • As in 2009, The Redwoods Group Foundation contributed financial resources and The Redwoods Group staff took part in the 2,000 volunteer hours to build a Habitat home • As in 2009, $5,000 support for Teach for America (TFA) teacher • Consistent relationships with TFA teachers in the classrooms, regarded as a rare commitment by community partner

PROGRAM TYPE	2010 ACTION ON PRIOR YEARS' SOCIAL AUDIT RECOMMENDATIONS	YEAR-ON-YEAR PROGRESS 2010 v. 2009
Contributions	• Matching Gifts program through The Redwoods Group Foundation raised $7,953 • Ranked 9th in charitable giving (first in size) in Triangle Business Journal's Top Corporate Philanthropists • Best Overall Performance and Spirit of North Carolina awards for 2010 United Way activity • No impact measurement for Foundation giving	• The Redwoods Group Foundation support through Dollars for Doers fell from $2,840 in 2009 to $1,690 in 2010 • The Redwoods Group Foundation support through Matching Gifts fell significantly from $11,982 in 2009 to $7,953 in 2010
Leadership & Administration	• Higher score on B Impact Report, to be published • One of top five Business Week's America's Most Promising Social Entrepreneurs • Increased discourse on use of metrics to evaluate and quantify social enterprise efforts • Second year of Shine the Light is a replicable model for social programs	• No repeat of 2009 poverty simulation • Movement to improve metrics on Serve Others® for all employees' performance evaluations • Significantly increased B Report score from 111.3 to 128, with higher percentage of points earned in Community and Environment

2008 SOCIAL AUDIT RECOMMENDATIONS

PROGRAM TYPE	2010 ACTION ON PRIOR YEARS' SOCIAL AUDIT RECOMMENDATIONS	YEAR-ON-YEAR PROGRESS 2010 v. 2009
Diversity	• No recruitment policy recorded to hire from more underrepresented populations	• Representation of previously excluded populations in management and company ownership same as in 2009
Employee involvement in TRG Foundation	• Employees continue indirect involvement with foundation; employees recommend customers and partners to foundation for support	• No change from 2009
Foundation Objectives	• Funding for Foundation Fellow to expand Shine the Light initiative nationwide • No published, annual objectives for foundation community support • No impact measurement for foundation giving	• The Redwoods Group Foundation not yet set annual objectives or established impact assessment tools • The Redwoods Group Foundation's website not yet published
Become a B Corp	• 2010 B Report score: 128 • Emphasis on quantifiable targets and consistent variables of measurement related to the mission in annual report	• Significantly increased B Report score from 111.3 to 128, with many points earned in Accountability and Consumers • Anecdotally, employees and community partners may serve as ambassadors of B Corporations • Leadership on enacting B Corp legislation in North Carolina

2009 SOCIAL AUDIT RECOMMENDATIONS

PROGRAM TYPE	2010 ACTION ON PRIOR YEARS' SOCIAL AUDIT RECOMMENDATIONS	YEAR-ON-YEAR PROGRESS 2010 v. 2009
Continue Foundation Fellow program	• 10 month funding for Foundation Fellow: focus on elevating Darkness to Light to Y National Partner status • Majority of social initiatives did not move into strategically-advantageous problem analysis skill area	• Increased scope of Shine the Light from Massachusetts to nationwide • The Redwoods Group Foundation's grant of $100,000, led to additional federal and Y funding of Darkness to Light • Recipient of Darkness to Light's Voice of Courage Award
Increase Diversity	• No recruitment policy recorded to hire from more underrepresented populations	• Representation of previously excluded populations in management and company ownership same as in 2009
Focus internally	• Continued performance evaluation of 100% of employees on core competency of Serve Others® • 6% attrition rate remains below insurance industry average • Increased training budget and improved tracking of training participation	• Attrition rate of 6% lower than 8% 2009 rate • 80% of employees participated in training and development opportunities • Increased frequency of employee satisfaction survey from two to three times per year

The following are organizations that Redwoods supported in 2010, with more than $800k in financial support.

2010 Community Support List

A. E. Finley YMCA
Action For Children NC
Allegheny Valley YMCA
ALSA
American Red Cross
Anderson Area YMCA
Ann Arbor YMCA
Armed Services YMCA of the USA
Art Therapy Institute
Assistance League of the Triangle Area
Association of YMCA Professionals
Athens YMCA
Bangor YMCA
Battle Creek Center YMCA
Birmingham Metro YMCA
Bogalusa YMCA
Boothbay Region YMCA
Boyertown Area YMCA
Bridge to the Nations
Brookville YMCA
Burning Coal Theatre Company
Calumet Lutheran Outdoor Ministries
Camp Foster YMCA of Okobojis
Camp Kesem North Carolina
Camp Olson YMCA
Camp Tecumseh YMCA
Camp Wood YMCA
Cannon Memorial YMCA
Central Douglas County Family YMCA
Central Florida Metro YMCA
Chapel Hill-Carrboro YMCA
City of Hope
Cleveland County Family YMCA
Cole Center Family YMCA
Daniel D Cantor Senior Center
Darkness To Light
David Posnack JCC
DAXKO
Decatur Family YMCA
Doctors Without Borders
Dress For Success Triangle NC
Duke University
Durham Academy
DurhamCares
Durham-Chapel Hill Jewish Federation (Levin JCC)
Elon Fund
Emily Krzyzewski Center
Eno River Association
Family Violence Prevention Center
Family YMCA of Emporia/Greensville
Family YMCA of Greater Laurens
Fanwood-Scotch Plains YMCA
Flint YMCA
Food Bank of Central & Eastern NC
Gaston County Family YMCA
Genesis Home
Girl Scouts North Carolina Coastal Pines
Family Partnership Troop 1537
Goldsboro Family YMCA
Greater Burlington YMCA
Greater Missoula Family YMCA
Greater Spartanburg YMCA
Greenville/Hunt County YMCA
Habitat for Humanity of Durham
Hanover Area YMCA
Hidden Villa
Hope For Haiti
Hospice of Wake County
InterAct
Inter-Faith Food Shuttle
JCC Association
JCC of Central New Jersey
JCC of Greater Pittsburgh
JCC of Omaha
JCC of Greater Kansas City
JCC of the Greater Palm Beaches
Jewish Federation of Greater Orlando
Johnson Intern Program
Junior Leadership Durham
Kanuga Conferences, Inc
Keene Family YMCA
Kramden Institute, Inc.
Leadership Triangle
Legacy YMCA
Long Branch Area YMCA
Lutheran Family Services
Marco Island YMCA
Martinsville & Henry County Family YMCA
Merrimack Valley YMCA
Metro YMCA of the Oranges
Mid-Willamette Family YMCA
Mississippi Gulf Coast YMCA
Montgomery County Family YMCA
Montgomery YMCA Metro
National Inclusion Project
N.C. Center For Nonprofits
N.C. Center For Public Policy Research
NC Public Radio WUNC
NC State Alliance YMCA CEO Retreat
New Castle Community YMCA
North Penn YMCA
Ocean Community YMCA
Orphan's Tree
Oshkosh Community YMCA
Penobscot Bay YMCA
Piscataquis Regional YMCA
Pittsfield Family YMCA
Prevent Child Abuse NC
Robert E. Loup JCC
Rockland County YMCA
Ronald McDonald House of Chapel Hill
Ryan Epps Home For Children
Save The Redwoods League
Scott County Family YMCA
Shasta County YMCA
Sheboygan County YMCA
Sherman Lake YMCA Outdoor Center
Shimon and Sara Birnbaum JCC
Shoe4Africa
Silver Bay YMCA of the Adirondacks
Siouxland YMCA
Sisko Foundation
SJF Advisory Services
Somerset Valley YMCA
South Brunswick Family YMCA

South Shore YMCA
Southeast Ventura County YMCA
Southern High School
Southside Virginia Family YMCA
Special Olympics NC
St. Baldrick's Foundation
Stroum JCC of Greater Seattle
Sumter YMCA
Sustainable North Carolina, Inc.
Teach For America
The Center for International Understanding - UNC
The Community YMCA
The Great Miami Valley YMCA
The Heart of The Valley YMCA
The Jorge Posada Foundation
The Serving Cup
The V Foundation for Cancer Research
Third Sector New England
Triangle Community Foundation
TROSA
UNICEF USA
United Jewish Federation of Tidewater
United Way of the Greater Triangle
Upper Main Line YMCA
Valley of the Sun YMCA
Valley Points Family YMCA
Victory Junction Gang Camp
Wenatchee Valley YMCA
West Morris Area YMCA
Wood River Community YMCA
World Wildlife Fund
YMCA Blue Ridge Assembly
YMCA Camp Kanata
YMCA Camp Kon-O-Kwee Spencer
YMCA Camp Ockanickon
YMCA of Anchorage Alaska
YMCA of Attleboro
YMCA of Beaufort County
YMCA of Broward County
YMCA of Calhoun County
YMCA of Callaway County
YMCA of Cass and Clay Counties
YMCA of Central Kentucky
YMCA of Central Ohio
YMCA of Central Virginia
YMCA of Coastal Georgia
YMCA of Dane County
YMCA of Danville
YMCA of East Tennessee
YMCA of Garfield
YMCA of Greater Boston
YMCA of Greater Cleveland
YMCA of Greater Dayton
YMCA of Greater Erie
YMCA of Greater Fort Wayne
YMCA of Greater Grand Rapids
YMCA of Greater Manchester
YMCA of Greater Miami
YMCA of Greater Oklahoma City
YMCA of Greater Omaha
YMCA of Greater Richmond
YMCA of Greater Rochester
YMCA of Greater Seattle
YMCA of Greater Syracuse
YMCA of Greenwich Inc.
YMCA of Honolulu
YMCA of Iredell County
YMCA of Jackson
YMCA of Kewanee
YMCA of Lafayette Indiana
YMCA of LaPorte Indiana
YMCA of Lee County
YMCA of Melrose Massachusetts
YMCA of Metro Dallas
YMCA of Metro Denver
YMCA of Metro Detroit
YMCA of Metro Hartford
YMCA of Metro Milwaukee
YMCA of Metropolitan Chattanooga
YMCA of Metropolitan Washington
YMCA of Metuchen, Edison, Woodbridge & South Amboy
YMCA of Michiana
YMCA of Middle Tennessee
YMCA of Northwest Florida
YMCA of Northwest North Carolina
YMCA of Philadelphia & Vicinity
YMCA of Ridgewood
YMCA of Roanoke Valley
YMCA of Saginaw
YMCA of Salina Kansas
YMCA of San Diego County
YMCA of Snohomish County
YMCA of South Hampton Roads
YMCA of South Palm Beach County
YMCA of Southern Arizona
YMCA of Springfield
YMCA of St. Joseph Missouri
YMCA of Summit New Jersey
YMCA of the Brandywine Valley
YMCA of the Capital Area
YMCA of the Fox Cities
YMCA of the Inland Northwest
YMCA of the North Shore
YMCA of the Prairie
YMCA of the Triangle Area
YMCA of the USA
YMCA of Western Stark County
YMCA of Westfield
YMCA of Westport/Weston CT Inc.
YMCA of Wichita Kansas
YWCA of Bergen County

JOHNSON LAMBERT & CO. LLP
CPAs AND CONSULTANTS

The Redwoods Group, Inc.

Audited Financial Statements

Years ended December 31, 2010 and 2009
with Report of Independent Auditors

The Redwoods Group, Inc.

Audited Financial Statements

Years ended December 31, 2010 and 2009

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, 2010 and 2009, 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, 2010 and 2009, 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 18, 2011

The Redwoods Group, Inc.

Balance Sheets

	As of December 31, 2010	As of December 31, 2009
Assets		
Cash and cash equivalents	$ 403,097	$ 360,837
Investments	1,184,366	1,044,482
Restricted cash	3,357,692	3,460,572
Premiums and commissions receivable	6,684,864	6,653,826
Prepaid expenses	117,963	71,711
Income taxes receivable	-	202,480
Deferred income taxes, net	106,273	192,351
Other current assets	105,399	109,728
Total current assets	11,959,654	12,095,987
Property and equipment, net	263,656	340,429
Investment in affiliate	667,531	733,490
Deferred income taxes, long-term, net	213,524	150,757
Other long-term assets	770,380	734,161
Total assets	$ 13,874,745	$ 14,054,824
Liabilities and stockholders' equity		
Liabilities:		
Accounts payable	$ 161,790	$ 84,739
Funds held for others	3,357,692	3,460,572
Premiums and commissions payable	4,887,676	4,936,127
Accrued expenses	123,310	328,707
Due to affiliate	150,000	200,000
Income taxes payable	61,593	-
Deferred revenue	1,091,063	1,083,066
Total current liabilities	9,833,124	10,093,211
Due to affiliate	242,496	300,000
Deferred revenue	204,175	195,800
Other	570,765	527,300
Total liabilities	10,850,560	11,116,311
Stockholders' equity:		
Common stock; $0.01 par value, 1,000,000 shares authorized and 526,021 and 527,045 shares issued and outstanding, respectively	5,260	5,270
Additional paid-in capital	1,029,009	1,006,231
Retained earnings	1,988,201	1,922,240
Accumulated other comprehensive income	1,715	4,772
Total stockholders' equity	3,024,185	2,938,513
Total liabilities and stockholders' equity	$ 13,874,745	$ 14,054,824

See accompanying notes to financial statements

The Redwoods Group, Inc.

Statements of Income

	Years ended December 31, 2010	2009
Revenues		
Commissions and fees	$ 11,199,241	$ 11,202,374
Investment and other income	222,503	400,512
Total revenues	11,421,744	11,602,886
Expenses		
Commission expense	1,629,388	1,552,685
Compensation and benefits	7,083,380	7,823,985
Operating and administrative	2,381,740	2,669,102
Depreciation and amortization	147,049	181,967
Total expenses	11,241,557	12,227,739
Income (loss) before income taxes	180,187	(624,853)
Income tax expense (benefit)	77,698	(234,983)
Net income (loss)	$ 102,489	$ (389,870)

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, 2009	$ 5,391	$ 1,067,663	$ 2,623,420	$ (28,887)	$ 3,667,587
Net loss	-	-	(389,870)	-	(389,870)
Stock grants, including realized income tax benefits of $5,988	84	(21,339)	-	-	(21,255)
Stock redeemed	(205)	(40,093)	(311,310)	-	(351,608)
Change in unrealized gains (losses) on securities classified as available-for-sale, net of deferred income tax expense of $21,520	-	-	-	33,659	33,659
Balance at December 31, 2009	5,270	1,006,231	1,922,240	4,772	2,938,513
Net income	-	-	102,489	-	102,489
Stock grants, including realized income tax expense of ($1,138)	18	28,276	-	-	28,294
Stock redeemed	(28)	(5,498)	(36,528)	-	(42,054)
Change in unrealized gains (losses) on securities classified as available-for-sale, net of deferred income tax benefit of $1,955	-	-	-	(3,057)	(3,057)
Balance at December 31, 2010	$ 5,260	$ 1,029,009	$ 1,988,201	$ 1,715	$ 3,024,185

See accompanying notes to financial statements

The Redwoods Group, Inc.

Statements of Cash Flows

	Years ended December 31, 2010	2009
Cash flows from operating activities		
Net income (loss)	$ 102,489	$ (389,870)
Adjustments to reconcile net income (loss) to net cash from operating activities		
Depreciation and amortization expense	147,049	181,967
Amortization of bond discount	(76)	(3,389)
Stock grants	28,294	(21,255)
Deferred tax effects of unrealized capital losses (gains)	1,955	(21,520)
Gain on sale or disposal of assets, net	(11,337)	(687)
Net realized (gain) loss on investments	(21,453)	8,392
Net loss (gain) from investment in affiliate	65,959	(233,490)
Net change in operating assets and liabilities:		
(Increase) decrease in premiums and commissions receivable	(31,038)	417,740
(Increase) decrease in prepaid expenses	(46,252)	3,940
Decrease in income taxes receivable	202,480	54,172
Increase in other assets	(25,490)	(92,286)
Decrease (increase) in deferred income taxes	23,311	(31,003)
Increase (decrease) in accounts payable	77,051	(87,945)
Decrease in premiums and commissions payable	(48,451)	(367,993)
(Decrease) increase in accrued expenses	(161,932)	249,641
Increase in income taxes payable	61,593	-
Increase (decrease) in deferred revenue	16,372	(157,970)
Decrease in due to affiliate	(107,504)	-
Net cash from operating activities	273,020	(491,556)
Cash flows from investing activities		
Purchase of property and equipment	(94,814)	(17,717)
Proceeds from disposal of property and equipment	29,475	850
Purchase of investments	(343,423)	(288,907)
Proceeds from sale of investments	220,056	262,512
Net cash from investing activities	(188,706)	(43,262)
Cash flows from financing activities		
Cost of common stock repurchased	(42,054)	(351,608)
Net cash from financing activities	(42,054)	(351,608)
Net change in cash and cash equivalents	42,260	(886,426)
Cash and cash equivalents, beginning of year	360,837	1,247,263
Cash and cash equivalents, end of year	$ 403,097	$ 360,837
Supplemental disclosures		
Income tax (received) paid	$ (210,455)	$ (240,837)

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"), Jewish Community Centers ("JCCs"), and not-for-profit camps ("Camps") throughout the United States.

Premiums written under the Company's YMCA, JCC, and Camps programs amounted to $48.5 and $47.5 million during calendar year 2010 and 2009, 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.

Basis of Presentation
The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Preparation of financial statements in accordance with U.S. 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.

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, 2010 and 2009 were $2,201,999 and $687,306, 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.

Note A - Organization and Significant Accounting Policies (continued)

Fair Value of Investments
U.S. GAAP 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 designates investments in common stock and debt securities as available-for-sale and, accordingly, reports these investments at fair value with unrealized holding gains and losses reported as other comprehensive income, net of estimated tax. Fair values for the Company's common stock 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. The Company's investment in affiliate (see Note C) is recorded under the equity method of accounting. The Company's investment in real estate held for sale (see Note B) is carried at cost and is reported within investments in the accompanying balance sheets. The Company's investment in a real estate venture (see Note B) is carried at cost and is included with other long-term assets in the accompanying balance sheets.

Realized gains and losses on the disposition of investments are determined using the specific identification basis. Gross realized gains on the disposition of investments of $21,453 and $53,475 were recognized during the years ended December 31, 2010 and 2009, respectively.

Unrealized losses on investments in common stock and debt securities, which are deemed other-than-temporary, are charged to income when such determination is made. Factors considered in identifying other-than-temporary impairment ("OTTI") include: (1) for debt securities, whether the Company intends to sell the investment or whether it is more likely than not that the Company will be required to sell the security prior to an anticipated recovery in value; (2) for equity securities, the Company’s ability and intent to retain the investment for a period of time sufficient to allow for an anticipated recovery in value; (3) the likelihood of the recoverability of principal and interest for debt securities (i.e., whether there is a credit loss) or cost for equity securities; (4) the length of time and extent to which the fair value has been less than amortized cost for debt securities or cost for equity securities; and (5) the financial condition, near-term and long-term prospects for the issuer, including the relevant industry conditions and trends, and implications of rating agency actions and offering prices. Any such write downs are reported as realized losses on investments.

Note A - Organization and Significant Accounting Policies (continued)

Investments (continued)
The Company recognized an other-than-temporary impairment charge on a common stock security for $61,867, and a corresponding deferred tax asset of $24,128, during the year ended December 31, 2009. The common stock security was sold in 2010 for a gain of $18,999.

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 commission, regardless of whether or not the Company has collected such premiums when due. Management continually monitors the collectability 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 amounted to $147,049 and $172,768 for the years ended December 31, 2010 and 2009, respectively.

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 U.S. 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. The Company considers uncertain tax provisions during the preparation of its income tax provision and management does not believe there are any significant income tax uncertainties.

Note A - Organization and Significant Accounting Policies (continued)

Stock Grants

As discussed in further detail in Note I, the Company has 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.

Subsequent Events

The Company evaluates subsequent events for matters that require recognition or disclosure in the Company's financial statements. Subsequent events have been evaluated through March 18, 2011.

Note B - Investments

As of December 31, 2010 and 2009, the Company's investments included investments in certificates of deposit of $780,224 and $738,907, respectively, which mature in 2013. In 2010, the Company purchased a real estate property in Chapel Hill, North Carolina for $302,106, which is available-for-sale. The Company's investment in a limited liability company real estate venture in downtown Durham, North Carolina amounted to $250,000 as of December 31, 2010 and 2009.

Book and fair value of the Company's investments in common stock and debt securities, at December 31, 2010 and December 31, 2009 are summarized as follows:

At December 31, 2010:	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Bonds -Obligations of states, municipalities and political subdivisions	$ 99,225	$ 2,811	$ -	$ 102,036
Total available-for-sale	$ 99,225	$ 2,811	$ -	$ 102,036

At December 31,2009:	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Common stock securities	$ 48,807	$ -	$ -	$ 48,807
Bonds -Obligations of states, municipalities and political subdivisions	248,946	7,822	-	256,768
Total available-for-sale	$ 297,753	$ 7,822	$ -	$ 305,575

Bonds mature in 2020; 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 C - Investment in Affiliate

Effective October 1, 2009, the Company entered into a joint venture with Risk Specialists Companies, Inc. (a Chartis U.S. company), and William C. Mecklenburg, Jr. (a Company shareholder/executive), to form Redwoods Managers, Inc. ("RMI"). RMI's primary business plan is to invest in program administrators ("PAs"), and to help them improve their program management expertise and their operating and risk-bearing results. One such investment was made by RMI during 2010. The capital infusion and access to resources provided by RMI is expected to help the partner PAs' achieve sustainable growth and profitability. In addition, through Chartis, RMI will bring a reinsurance partner to their program, which will reduce the enterprise risk most PAs face by having an exclusive insurance carrier relationship.

The Company owns 30% of RMI's common stock, which it received in exchange for future services to be provided to RMI valued at $500,000. The book value of the Company's RMI shares was $750,000 at closing. As a result, the Company recorded a gain in 2009 of $250,000, which is included in investment and other income in the accompanying statements of income. Mr. Mecklenburg exchanged shares of the Company's common stock for shares of RMI common stock, and accordingly RMI now owns 29,138 shares of the Company's common stock. Services valued at $107,504 were provided during 2010. The remaining liability for future services as of December 31, 2010 amounts to $392,496 and is reflected on the accompanying balance sheets as due to affiliate, of which $150,000 is included in current liabilities and $242,496 is in long-term liabilities.

RMI has a Management Agreement with the Company, whereby Mr. Mecklenburg works full time for RMI as its President and CEO and other Company employees provide services to RMI as requested by RMI. The cost of services provided by Mr. Mecklenburg are reimbursed by RMI and offset against related Company expenses. The Company's expense reimbursements during 2010 and 2009 amounted to $328,952 and $79,365, respectively, of which $33,305 and $28,209 were included in accounts receivable at December 31, 2010 and 2009, respectively. The cost of services provided by other Company employees, which began in 2010 and amounted to $107,504, are recorded as Company revenues and reduce the aforementioned liability for future services related to the Company's acquisition of RMI stock. The Company also has a Services Agreement with RMI, which began in 2010, whereby RMI provides certain consulting and other program business services to the Company. These service fees to RMI for 2010 amounted to $166,405, of which $44,859 was included in accounts payable at December 31, 2010.

RMI represents a variable interest entity ("VIE"). The Company is not the primary beneficiary of the VIE, but it holds a 30% interest and therefore the Company's investment therein is recorded under the equity method of accounting. As expected, RMI has incurred operating losses during this start-up phase of its business. The Company's 30% share of RMI's net operating losses, which are reported as a reduction in revenue from investment and other income in the accompanying statements of income, amounted to net losses of $65,959 for the year 2010, and $16,510 for its one quarter of operations in 2009. The carrying value of the Company's investment, which represents its maximum exposure to loss from the investment, amounted to $667,531 and $733,490 as of December 31, 2010 and 2009, respectively.

Note D - Property and Equipment

Property and equipment as of December 31, 2010 and 2009, consists of the following:

	2010	2009
Furniture and equipment	$ 417,260	$ 437,205
Computer equipment	290,475	309,283
Vehicles	294,696	295,002
Leasehold improvements	137,547	137,547
Computer software	88,413	85,318
Property and equipment, gross	1,228,391	1,264,355
Accumulated depreciation	(964,735)	(923,926)
Property and equipment, net	$ 263,656	$ 340,429

Note E - Line-of-Credit

In December 2010, the Company obtained a new $500,000 working capital line-of-credit bearing interest at the prime rate plus 1%. At December 31, 2010, no funds have been drawn on the line-of-credit. The terms of the promissory note require that outstanding advances, if any, must be paid down to a zero balance for a minimum of 45 consecutive days every six months, and the Company must maintain unencumbered liquid assets of not less than 1.5 times the amount of any outstanding loans. The line-of-credit is secured by personal property of the Company.

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 expenses related to the Plan during the years ended December 31, 2010 and 2009 amounted to $245,737 and $277,472, 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 rates of 4.50% 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, 2010 and 2009 amounted to $554,933 and $482,578, respectively, and is included in other liabilities on the accompanying balance sheets. At December 31, 2010 and 2009, the aggregate cash surrender value of life insurance policies on such executives, amounting to $468,848 and $375,375, 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 (benefit) for 2010 and 2009 are as follows:

	2010	2009
Current	$ 52,579	$ (183,228)
Deferred	25,119	(51,755)
Total income tax expense (benefit)	$ 77,698	$ (234,983)

Actual income tax expense reported during the years ended December 31, 2010 and 2009 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 have been examined by the Internal Revenue Service. The tax returns for years 2007 through 2010 remain subject to examination.

The tax effects of temporary differences that give rise to the deferred tax assets and liabilities at December 31, 2010 and 2009 are as follows:

	2010	2009
Deferred tax assets:		
Deferred compensation	$ 216,424	$ 188,205
Deferred revenue	76,362	84,318
Accrued expenses	6,175	63,757
Charitable contribution carry-forward	30,517	32,180
State tax NOL carry-forward	34,599	41,813
Investment losses	-	24,128
Other	33,759	18,609
Gross deferred tax assets	397,836	453,010
Valuation allowance	4,000	-
Net deferred tax assets	393,836	453,010
Deferred tax liabilities:		
Gain from affiliate, net	65,337	91,061
Other	8,702	18,841
Total deferred tax liabilities	74,039	109,902
Deferred tax assets, net	$ 319,797	$ 343,108

Note I - Stock Grants and Repurchases

The Company has a stock award plan (the "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 65,758 shares are available for future grants. The shares vest over periods up to four 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 $29,432 and $(27,243) for the years ended December 31, 2010 and 2009, respectively. During the year ended December 31, 2010, the Company granted 5,000 shares with aggregate grant date fair values amounting to $47,850. During the year ended December 31, 2009, the Company granted 5,500 shares with an aggregate grant date fair value of $61,380 and there were forfeitures of 10,794 shares. Shares vested during the years ended December 31, 2010 and 2009 were 1,833 and 8,432 shares, respectively. Shares granted but not vested amounted to 8,667 shares as of December 31, 2010, which will vest in years 2011 to 2014. The remaining cost to be recognized in future years for these nonvested awards amounts to $62,748 as of December 31, 2010. There were 5,500 nonvested granted shares as of December 31, 2009.

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 December 31, 2010, 2,857 shares were redeemed by shareholders at repurchase values totaling $42,054. During the year ended December 31, 2009, 13,205 shares were redeemed by shareholders at repurchase values totaling $226,598, and the Company purchased 7,285 shares, from a charitable organization that had received donated shares, at a purchase price of $125,010. Shares repurchased by the Company have been subsequently retired.

As of December 31, 2010, 50,575 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, 2010, 25%, or 12,644 shares, are eligible to be put to the Company during the year ending December 31, 2011. Based on the repurchase value of the shares as of December 31, 2010, such put options have an estimated value of $210,523.

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-cancellable leases with unrelated parties. The aggregate rent expense for the years ended December 31, 2010 and 2009 was $499,220 and $498,713, respectively.

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

Year ending December 31,	
2011	$ 490,184
2012	41,227
Total minimum lease commitments	$ 531,411

Note L - Risks and Uncertainties

The Company is a managing underwriter of property, casualty, liability and workers' compensation insurance coverage for YMCAs, JCCs, and Camps 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.

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