ONE ROOT SYSTEM

THE REDWOODS GROUP 2009 COMPANY REPORT

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.

For more information, visit www.redwoodsgroup.com.

Redwoods believes community service and charitable giving are essential priorities of a socially responsible business. Our giving and service, as well as our business success, resulted in several accolades in 2009.

Redwoods was one of 33 companies nationwide to be honored as **2009 Best Places to Work in Insurance** by Business Insurance magazine and the Best Companies Group. Redwoods earned **B Corporation** status in 2009 and became **Green-Plus Certified**. The Greater Raleigh Chamber of Commerce gave Redwoods its **Smith Seal of North Carolina Sustainable Business** award. The Triangle Business Journal named Redwoods its **2009 Green For-Profit Business of the Year**. Redwoods won United Way of North Carolina's **2009 Spirit of North Carolina Award** for its overall commitment to United Way and the community. Redwoods also earned United Way of the Greater Triangle's top 2009 award – **Best Overall (Campaign) Performance**.

ONE ROOT
SYSTEM

Letters from Management

A Letter from the CEO

HOW ARE YOU CONNECTED?

Our theme for this year's report, ***One Root System***, is a concept we borrowed from the majestic redwood groves. These groves look like many individual trees, but they have *one root system* that connects and nurtures all of them below ground… *hidden, but there*.

Similarly, the connections we have to each other and the events around us aren't always obvious on the surface, yet they are still there.

In 2009, a global economic meltdown proved that we are all part of one root system. The actions of a few affected many families, organizations and communities around the world. You likely felt it and, by reviewing this report, you'll see our company reported a $389,870 loss. We felt it.

It's important to understand that *we chose to lose money* in 2009, as it's only one criterion we use to measure success. We could have made decisions in 2009 that would have turned that loss into a financial profit. But we could have done so only at the expense of something of equal value, our *social profit*.

Ours is a business model borne out of a conviction to do things differently. **We define ourselves, not by increased shareholder value, but by our place in a larger root system**…one in which we are responsible to our employees (and their families), our customers (and the people they serve) and our global community – as well as to our owners.

So responding to a global recession, sinking insurance rates and aggressive competition, all while protecting our root system, required that we – like Elfaba in *Wicked* – **defy gravity** in our business practices.

Conventional wisdom would have told us to…

- Lay off staff,
- Cut employee benefits,
- Suspend charitable contributions,
- Replace AIG as a partner after their financial troubles, and,
- Postpone developing The Redwoods Institute online training platform (a way to more broadly share our safety knowledge with our customers – at no cost to them)

But conventional wisdom doesn't understand that laid-off employees can't pay their mortgage or send their kids to college. It doesn't get the urgency of training more people to recognize the warning signs of child sexual abuse, so that we catch it early enough to protect a child's innocence. It doesn't realize that those suffering from empty stomachs, failing schools and inadequate shelter can't wait for the market to turn around.

To defy the gravity of conventional wisdom in the bad times requires defying it in the good times as well. For us to sustain our commitments through 2009's challenges, we had to be financially conservative in years past. We had to stick to our principles no matter how great or how poor the market conditions. And because our postponement of gratification in years past meant that we had money in the bank entering 2009, we didn't have to listen to conventional wisdom.

The giant redwoods remain upright – while those around them fall – by intertwining their roots with the roots of their neighbor, thereby supporting one another when the winds come. When one is under the direct pressure of the wind, the others help to hold it in place, not allowing it to succumb to the destructive forces of that wind.

Ours is a business model borne out of a conviction to do things differently. We define ourselves, not by increased shareholder value but by our place in a larger root system…one in which we are responsible to our employees (and their families), our customers (and the people they serve) and our global community – as well as to our owners.

Instead, we…

- Refused layoffs,
- Intensely and responsibly looked at our long-term partnership with AIG, concluding that the insurance side of their operation was still the best choice for our customers,
- Sustained charitable giving at more than $700,000,
- Developed and launched The Redwoods Institute to provide risk management education and training online, on-demand to our customers,
- Served almost 4,000 hours in our community through our employee service requirement (40 hours/year of volunteer time, fully compensated),
- Built homes with our own hands in Durham, NC, and Kawama, Zambia, in partnership with Habitat for Humanity, and,
- Kept all employee benefits intact, including our health benefits and college funding (giving out 16 scholarships for employees' children and providing 50% matching investments for college savings funds).

We don't do what everybody else does

Frankly, both the wisdom and the difficulty of what we do was driven home to me in the middle of 2009: I found myself crewing an old America's Cup yacht in Narragansett Bay…we were in a two-boat race and we were behind. Suddenly, the captain – a crusty old guy – tacked away from the planned route and changed the terms of the engagement. We were all shocked, of course…he looked up and said, matter-of-factly, *"Can't win by followin'…"* Clearly, we did not "follow" in 2009. So to protect our root system, we had to turn our other sustainability dials – most of which are enterprise assets unique to Redwoods.

We generated organic growth by offering a new Workers' Compensation product and by enhancing our offering of Directors and Officers coverage to existing customers. We expanded our market footprint, deepening our relationships with Jewish Community Centers and introducing a new program to serve not-for-profit resident camps beyond the YMCA and JCC communities. This revenue diversification helped us weather the unprecedented fifth straight year of falling rates in the insurance market.

We executed better on our comparatively sophisticated insuring model. We deepened our engagement with our brokers, customers and, in many cases, their volunteers, enabling us to keep our intimate relationships intact. We delivered ever-better operating guidance to our customers more consistently and more efficiently, through the use of technology.

In fact, our new distance learning efforts have spread key safety messages through online trainings, YouTube videos and social media to more staff than ever before. And we continued to perfect our early intervention and empathetic claims case management, which helped our customers, their members and their staff to heal faster and more completely – at less expense to our risk-bearing partners.

And, in a dynamic absolutely unique to Redwoods, we benefited from our customers getting better as well. For example, there were zero deaths by drowning in 2009 at any of the pools or waterfronts managed by our insured organizations. That's zero communities who had to grieve; zero customers facing damaged trust, diminished funds and a weakened ability to deliver on their mission; zero impact on our underwriting profit and the long term sustainability of our business.

Stopping drowning deaths is an amazing accomplishment, but it's not unusual for us. **The longer customers work with us, the lower their losses are, proving that proper root management nurtures all.** Associations we have insured for five years or more have loss results over 20% better than associations who are new to Redwoods. Working with us, over time, means to our customers that fewer people are injured and insurance rates go down… regardless of market conditions.

Renewals are crucial to our success, and we renewed 90% of our partners in 2009. While that's far above the norm for our industry, it's below our historical metrics. Even so, it required an enormous effort from our staff and tremendous confidence from our partners, who sometimes had other, cheaper options but recognized the extra value of our unique services. They know our strategy: we cannot be the least expensive option in a soft insurance market, and we are never the most expensive in a hard market. Instead, we strive for consistency as well as competitiveness in pricing and we invest ourselves in providing the best risk and claims management services. **Every day, our customers demonstrate that they support the intelligence of this approach.**

Redwoods' success is important because our work helps protect the entire root system – our staff, our customers, our communities. When successful, we can "Serve Others®" in more ways. Many examples of this are told via the employee vignettes throughout this report, and I encourage you to read each of them. Like the folks who work for our customers, Redwoods' folks are changing the world for the better every day. We and our customers are a powerful force for positive social change.

Certified B Corporation™ bcorporation.net

One more development to report: 2009 saw us join a growing movement of companies that believe an organization should not define itself solely as being for or against profit. In September, we became a certified B Corporation (http://bcorporation.net/redwoodsgroup). B Corporations operate "for benefit" and are required to do two things: pass a thorough examination of the sustainability and social responsibility of their operations and agree to state in their corporate bylaws that they exist for the benefit of the communities they serve – **for the benefit of our one root system**. Our social audit is, as always, included in this report, and for the second year our performance is based on B-Corp metrics. As you'll see, the report shows that we're very good, but that's not good enough for us. Our world is broken and needs healing, and organizations like ours are called to serve…our work is far from done.

Our short-term financial profit did not meet our expectations in 2009, but our long-term sustainability was not compromised. In 2009 we got better, we connected more deeply to our root system and, through it, we had an impact that stretched far beyond the span of our humble operation. As we give, we receive even more in return: loyal partners willing to forego lower prices to create safer environments, engaged staff who spend years and years in support of our mission, and a caring, supportive community all around us. ***Without our root system, Redwoods wouldn't exist.***

With respect and gratitude,

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

The longer customers work with us, the lower their losses are, proving that proper root management nurtures all.

A Letter from the CFO

2009 FINANCIAL OVERVIEW

We expected that 2009 would continue to present some financial challenges for The Redwoods Group, and we experienced a net operating loss for the year amounting to ($389,870). Fortunately, we were prepared for this possibility, and the extra capital that we have been retaining in the business enabled us to handle a difficult year in stride.

As we told you last year, at Redwoods we are not willing to take actions that could have undesirable effects on our employees. Once again, we did not lay-off employees or reduce their compensation, cut health insurance benefits or require employees to pay a greater share of the cost, cut our 401(k) match or reduce other benefits to improve our bottom line results. We understand that the ultimate success of our business depends on meeting the needs of our employees, so they can focus on serving our customers and risk-bearers well, while also helping to meet the needs in the community.

We also told you last year that we were not willing to compromise on the quality of customer service to improve results. We achieve that objective by retaining our experienced and highly qualified staff and by continuing to identify and implement new and more efficient ways to deliver state-of-the-art services and training to our customers. We differentiate ourselves in the marketplace by working hard to be the best at every phase of customer service – underwriting, risk management, claims handling, training and policy administrative services. We will continue to strive for the most cost-effective delivery of excellent customer service, so that our customers can receive the best value for their insurance premiums.

Our total revenues declined by 9% last year primarily due to the continuation of very competitive market conditions. We also invested $277,000 in a study of our business processes that was a non-recurring operating expense. Excluding the cost of this study, we were able to reduce expenses by about 7% to help reduce the impact of lower revenues. Without the additional cost of the business process study, our net after-tax loss for 2009 would have been about ($220,000). Despite the operating loss, the Company's working capital position remains solid at $2.0 million, stockholders' equity amounts to almost $3 million, and Redwoods continues to remain debt-free with an unused $500,000 line of credit. We still continue to manage the business conservatively, especially during these economic times, to ensure the sustainability of the Redwoods business model for the long term.

We have planned for and taken actions to achieve improved results at Redwoods for 2010. We continue to earn increased revenues from new product offerings such as Workers' Compensation, and from expansion of our customer groups, while experiencing continued cost savings from our ongoing initiatives to improve operational efficiency and service delivery. We are also excited about the future potential for earnings from our new joint venture investment in Redwoods Managers, Inc. ("RMI"), which was recently formed to invest in smaller managing general underwriters to help them improve their program management expertise and their operating and risk-bearing results.

We look forward with optimism to improved prospects for 2010 for our customers and business partners, and for Redwoods, its employees and the many communities that we help support.

Stephen B. Cook

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

Employee Stories

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“It’s a blessing to work for a company with values that are an extension of how I was raised as a child. How wonderful that part of my work world validates my personal life.”

In order to Serve Others®, we must first understand them. When Fatima participated in a church-sponsored "poverty simulation" that she found life-changing, she knew it would be a great experience for her colleagues at Redwoods. So during the 2009 Redwoods United Way campaign, she arranged for employees to have the unique opportunity of walking in the shoes of someone living in poverty, to gain a real understanding of how the poor face desperation and defeat in their daily lives. Reaction was company-wide: this was an invaluable, eye-opening exercise into the frustration of being poor and trying to navigate through some of the most mundane aspects of life. And, it reaffirmed the importance of supporting United Way, in order to assist people in our community who are caught in the cycle of poverty.

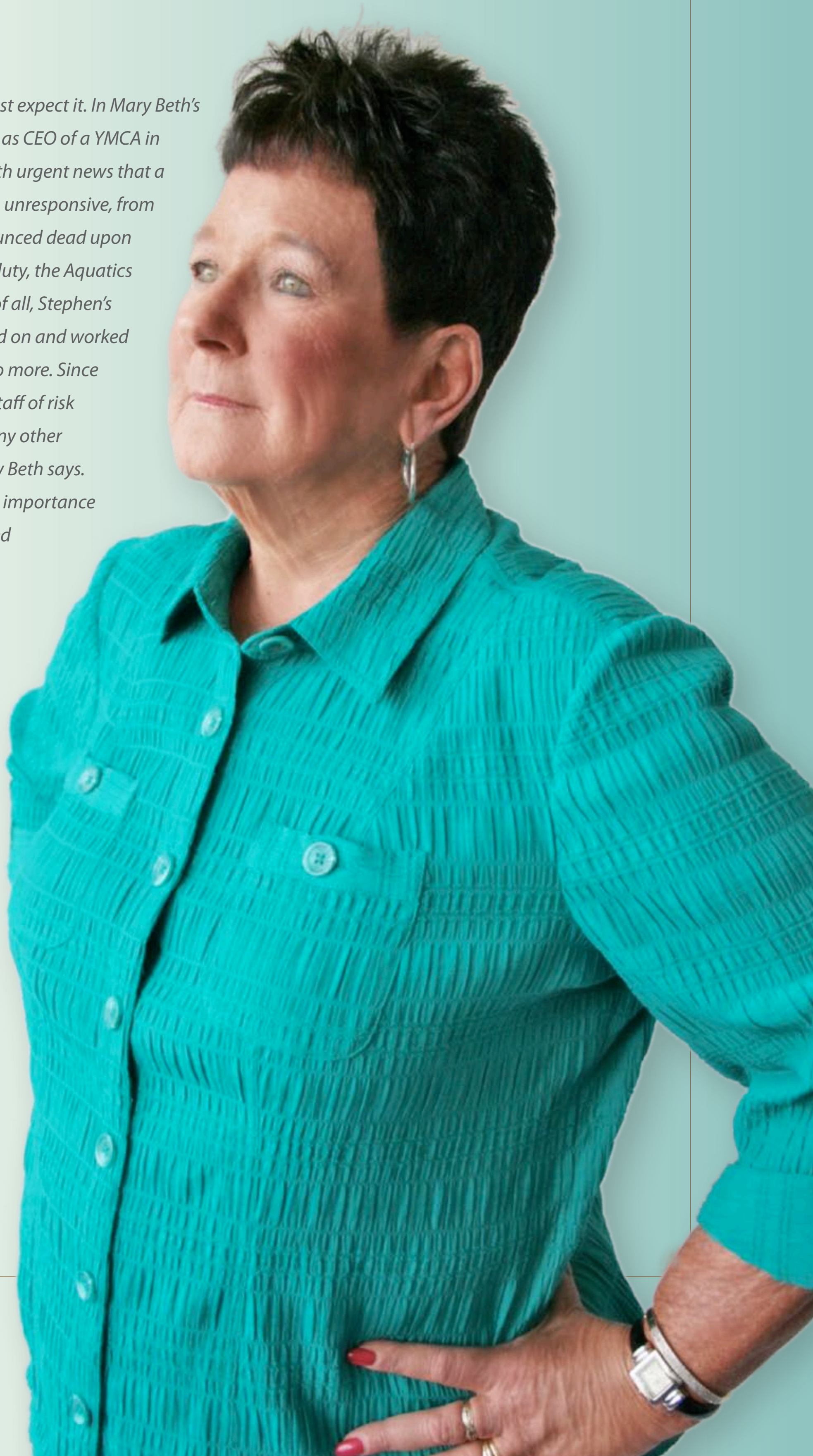
One Root System *means that community service and charitable giving are essential priorities of a socially responsible business. It means that in order to stop disparity, we must first reach out and recognize what is driving it…a philosophy ingrained in Redwoods' employees and in how the company operates.*

Fatima Dean, Director of Underwriting Operations

Joined Redwoods 2002

Chair, United Way of the Triangle 2010 African American Leadership Initiative (AALI)

"I'll never forget it. I'll never forget Stephen, his family or my Y family. It was a life-altering experience."



Transformation often happens when you least expect it. In Mary Beth's case, it came one weekend during her tenure as CEO of a YMCA in the Midwest. The phone rang at her home with urgent news that a 9-year-old boy named Stephen had been pulled, unresponsive, from the bottom of her YMCA's pool. Stephen was pronounced dead upon arrival at the hospital. Mary Beth, the lifeguard on duty, the Aquatics Director, the Health & Wellness Director, and most of all, Stephen's family were transformed instantly. Mary Beth stayed on and worked hard to heal the Y community, but she wanted to do more. Since joining Redwoods, Mary Beth leads our dedicated staff of risk managers in preventing drownings, along with many other serious threats. "Things are so different today," Mary Beth says. "We know so much more about pool safety and the importance of training." In 2009, no one drowned at any guarded pool that is a Redwoods partner. "That's a great accomplishment," says Mary Beth, "but not good enough. We have to sustain our efforts."

One Root System *means that we learn better safety practices every time harm occurs, and that we apply that new learning for the future, subsequently contributing to the protection of others and improving the safety of our communities.*

Mary Beth Ormiston,
Director of Risk Management

Joined Redwoods in 2006

Refuses to accept "good enough" safety practices

"I experienced so much personal and emotional growth serving in Zambia. It is the third world there, but that's relative to your perspective. People there want the same things we do, like providing for their families. I know what things are important now. It was so eye-opening."

A psychology major at Elon University, Zach came to Redwoods as an intern in 2008. He had never thought about working for an insurance company, but Redwoods seemed different. The company believed in social responsibility and was focused on community service. Redwoods empowered employees to become concerned citizens of the world. So it wasn't a complete surprise when he learned that The Redwoods Group Foundation provided support to Elon's Periclean Scholars program, established to educate students about social responsibility and the importance of participatory citizenship. What did surprise Zach was an invitation to participate in the Periclean Scholars project in Kawama, Zambia, in Africa building Habitat for Humanity homes for Zambians. It's rare that a company would send its intern across the globe. After his graduation from Elon, Redwoods offered Zach a job as a risk analyst – giving him the start to that "insurance career" he had never considered before his internship.

One Root System *means that Redwoods believes corporate social responsibility is an obligation. That they exist not just to make a profit, but to make a difference in the world. Redwoods encourages its employees to become global citizens and pays their normal salaries to perform 40 hours of community service each year on company time.*

Zach Taylor, Risk Analyst

Joined Redwoods 2008

Appreciates the unique opportunities available at a socially responsible company

"I feel very fortunate to work for a company that values people over profit. In this tough economy, if I'd been employed somewhere else, I could have easily lost my job and my benefits. What would I have done then?"

Furonda describes her dad as a proud, tough guy. So when he showed up at her home in a pink hat and a pink t-shirt with the words "Fight Like a Girl" sprawled across his chest, she was moved. He had driven two hours so that he could take her to chemotherapy, and continued that four-hour round trip until the therapy was completed. She credits the "nagging" of her mom, lovingly called "heart songs" by Furonda, for deciding to get her mammogram in January 2009. Furonda's battle last year was a life-changer, and she fully appreciates the strength and support of her root system. Friends, family, colleagues and affordable access to treatment buoyed and empowered her.

One Root System *means that we provide excellent healthcare insurance to our employees on a sliding scale – fully covered for the lower-paid salaried employees with incremental, but affordable cost sharing for the middle and upper levels. Covering important, basic needs allows our employees to focus their efforts on what matters most.*

Furonda Manneh
Claims Med Pay Specialist

Joined Redwoods 2004

Began battling Breast Cancer 2009

"I really enjoyed sharing the Redwoods story in Massachusetts – what Redwoods' mission is and the fact that I was not out there trying to gain more insurance premiums in the state, but to help keep children safe. We are doing very important work, and I was proud to be part of that."

Amanda's life experiences sound ambitious for someone in their early twenties… growing up on her family's farm in Iowa, a Bachelor's degree in Sociology, joining AmeriCorps, mission trips to third world countries, a Johnson Internship at Redwoods and the first Redwoods Group Foundation Fellow. But then again, Amanda is a pretty extraordinary person. As the first Foundation Fellow, she has spent the last year helping CEOs of a special coalition of YMCAs in Massachusetts protect their children from the scourge of child sexual abuse.

Amanda quickly discovered that it takes an entire community to create awareness and action around such a critical problem. She helped develop a list of best practices and protocols and a tool kit of resources. The goal was to train the community on how to recognize and prevent child sexual abuse, and to that end, Amanda visited Ys throughout the state to train, explain and encourage use of the resources. She then began connecting those Ys with the child sexual abuse prevention organization, Darkness to Light, whose training works to empower adults to prevent child sexual abuse. Because of the success of the program, The Redwoods Group Foundation plans to help replicate it at YMCAs and other child-serving organizations throughout the U.S.

***One Root System** means that improving communication around difficult issues results in policies and procedures that better protect our children and communities.*

Amanda Nieman,
Redwoods Foundation Fellow since 2009

Joined Redwoods as Johnson Intern 2008

On a global life mission to help others

"A small sauna fire can easily shut the doors to the whole facility for months, damaging that organization's ability to serve its membership and to fulfill its mission. So we asked ourselves, 'What if that didn't have to happen?'"

Saunas are made up of two key components for fire – wood and heat – and a sauna located in the middle of a facility is positioned for a fire to do a lot of damage. In fact, that's what occurred at one of our partner Ys, resulting in $500,000 in damage and closing the facility for 120 days…and sparking Doug and Peter to find a way to prevent it from happening again. While retrofitting typical sprinkler systems seemed like a good solution, they knew it was too costly. So, after some research and a little creative thinking, they decided to try tying into existing water pipe systems and adding a 286 degree sprinkler head. Success! The solution works and usually runs about $300 in parts. By implementing this innovation at our partner facilities, we have increased saunas with sprinklers 32%, and mitigated losses and facility closings due to sauna fires.

Word of this simple solution has spread: an engineer in Turkey emailed Doug for design details; the National Fire Protection Association is considering it as a suggested alternative for sauna protection; and Editors of Risk & Insurance magazine honored Doug and Peter with their 2009 Risk Innovator Award and 2009 Responsibility Leader designation.

One Root System *means that innovations should be freely shared when it comes to safety. Entities around the globe, followers of our Redwoods Conversations blog, and our customers are all benefiting from this open-source mindset.*

Peter Kvale, Director of Technical Services

Joined Redwoods 1998

Tinkerer, thinker, technician of safety

Doug Page, SVP

Joined Redwoods 1998

Sharer of successful safety solutions

"Our advice is always to find out exactly what happened and get the word out. New customers are surprised to find we encourage communication about the tragedy, because they're used to being told not to speak with anyone."

When crisis happens, it creates wounds to multiple parties. How you treat the wounds determines whether they heal faster and stronger…or quite the opposite. The JCC of Greater Pittsburgh chose to become a Redwoods customer on July 1, 2009 based on its leadership's desire to increase the safety practices within the organization. But no one could've predicted that 21 days later a tree limb would fall, killing a 14-year-old girl. Amy and Redwoods Claims Director, Steve Kehoe, were on site within hours to provide Redwoods' approach to crisis management and healing. This approach embraces empathy and open communications with all involved, as well as identification and engagement of support services for victims, their families, other members or campers, the staff and the community as a whole.

One Root System *means that injury and crisis can have far-reaching impact, and therefore, healing should begin immediately. Our crisis management practices are counter to almost every other insurance provider, and our data shows that an empathetic, expedited approach that strikes a balance between humanity and justice in a given crisis forges a path to rapid healing for all involved.*

Amy Gantz,
JCC Program Director

Joined Redwoods 2007

Ready responder and safety advocate

Social Audit

The Redwoods Group 2009 Social Audit

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Genuine politics – even politics worthy of the name – the only politics I am willing to devote myself to – is simply a matter of serving those around us: serving the community and serving those who will come after us. Its deepest roots are moral because it is a responsibility expressed through action, to and for the whole.

VACLAV HAVEL

EXECUTIVE SUMMARY

The Redwoods Group 2009 Social Audit serves to publicly report on the company's mission-related performance, identify successes demonstrated in calendar year 2009, compare progress versus last year, and make recommendations on areas of improvement for impact in 2010. In 2009 The Redwoods Group became a certified B Corporation, and this report utilizes the corresponding "B Impact Ratings System" and "B Impact Report," which offer standardized, widely-accepted metrics of mission-related performance measurement for private companies.

This report also presents frameworks to gauge The Redwoods Group's mission-related progress amid the landscape of other companies engaged in social and/or environmental efforts at various levels, as well as to evaluate the potential impact the company can achieve in the future with greater strategic focus. Also, progress is again measured against the recommendations presented by third-party evaluators in the Social Audits of 2007 and 2008. Here in 2009, the company has followed advice from 2008 to become a certified B Corporation, but has yet to employ the recommendations related to greater employee diversity, more employee involvement in grant making and setting annual Foundation impact objectives.

Results from an employee survey conducted as part of the Social Audit process show growth in employee personal connections to the Serve Others® company mission and continued high overall employee satisfaction ratings. Many employees expressed their desire for more direct involvement and employee-to-employee sharing about TRG's mission-related activities, and several noted the high internal stress levels that led to feelings of disengagement in 2009.

The survey also shows that despite the severe economic conditions of 2009, which were deeply felt by The Redwoods Group's business operations, employees felt that senior management communicated its expectations and strategy clearly to them. Management handled 2009's financial troubles while holding strong to its social mission. The company fulfilled previous commitments in job security, pay and benefits, maintained charitable giving and even undertook new social initiatives to grow company impact.

This year's Social Audit brought to light the following areas of notable strength in 2009 and recommendations for 2010 improvement:

2009 Strengths:

- Demonstrated employee charitable giving and volunteerism,
- Local community focus, and,
- Continued internal and external commitments in times of adversity.

Recommendations for 2010:

- Continue TRG Foundation Fellow program for strategic impact opportunity,
- Increase diversity in new hires, and,
- Focus internally, re-engage employees.

Overall, The Redwoods Group succeeded in maintaining its mission in 2009, accomplishing a great deal in a tough year. 2010 offers the opportunity to focus and set an open, strategic agenda.

INTRODUCTION

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

The Redwoods Group annually commissions an examination and evaluation of its social performance by an external party. The report, a "social audit," serves as a means for the company and its leadership to assess the organization's social impact, including its policies, practices and effects on all company stakeholders. This report will serve as the 2009 Social Audit for The Redwoods Group.

No kind action ever stops with itself. One kind action leads to another. Good example is followed. A single act of kindness throws out roots in all directions, and the roots spring up and make new trees. The greatest work that kindness does to others is that it makes them kind themselves.

AMELIA EARHART

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 and provide a collective voice for mission-driven firms through a unifying brand. B Corp certification is no small feat and requires an in-depth evaluation of the company against key performance standards. This report will share The Redwoods Group's "B Report," which allows the company to publish standardized, widely accepted metrics of its social and environmental performance and fairly compare its practices and policies with other companies who also have internal triple bottom line missions.

The "B Report" is based off of the "B Impact Assessment" and "B Impact Ratings System" created by B Lab, a nonprofit organization. B Lab 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, and the rating system is governed by an independent, nine-person Standards Advisory Council.

The B Impact Report behind the 2009 Social Audit reports on and evaluates The Redwoods Group from the following stakeholder perspectives:

- **Leadership**
  Do the company and its leaders promote high levels of accountability and transparency in practices and policies?
- **Employees**
  Does the company treat its employees fairly, promote a respectful culture, and provide employees the resources needed to personally and professionally succeed and grow?
- **Consumers**
  Does the company provide beneficial services and/or beneficial methods of service production to its customers?
- **Community**
  Is the company engaged with and valuable to its surrounding community?
- **Environment**
  Does the company work to minimize its negative impact on the environment in the areas in which it operates and leave a sustainable ecosystem to future generations?
- **Beneficial Business Model**
  Has the company developed a business model that addresses social and environmental issues through its business practices?

TRG 2009 B IMPACT REPORT [VERSION 1.0]

2009 Version 1 Rating: 107.3

Rating Details

	Points Earned	% Points Available
LEADERSHIP *Area of Excellence**	13.6	74 %
Governance / Accountability	8.2	67 %
Transparency / Reporting	5.4	89 %
Fair Trade / Supplier Code of Conduct	n/a	n/a
EMPLOYEES *Area of Excellence**	35.8	66 %
Compensation & Benefits	18.2	74 %
Employee Ownership	2.2	22 %
Work Environment	15.5	79 %
CONSUMERS *Area of Excellence**	29.5	60 %
Beneficial Products / Services	0	0 %
Beneficial Method of Production / Impact	19.7	100 %
Serving Those in Need	9.8	100 %
COMMUNITY	**22.3**	**37 %**
Local	5.4	36 %
Diversity / Broad Ownership	2.2	14 %
Charity / Direct Service	14.7	50 %
ENVIRONMENT	**6.1**	**33 %**
Corporate Offices	6.1	33 %
Transportation / Distribution	n/a	n/a
Manufacturing Facilities	n/a	n/a
TOTAL	**107.3**	**54%**

B Impact Report Analysis

TRG registered in 2009 on Version 1.0 of the B Impact Assessment Tool (formerly known as the "B Survey"). In its qualifying B Impact Report, TRG scored 107.3. It earned three "area of excellence" acknowledgements (by earning over 60% of available points in a category) in the B Impact Report in the areas of "Employees," "Consumers," and "Leadership."

For the purposes of this 2009 report, the B Impact Assessment Tool Version 2.0 was utilized to evaluate The Redwoods Group. Here, TRG scored 111.3 and earned excellence in Accountability (4 stars), Employees (2 stars), and Consumers (5 stars). Upon confirmation by B Lab, TRG can publish its new B Impact Report online soon.

TRG 2009 B IMPACT REPORT [VERSION 2.0]

2009 Version 2 Rating: 111.3

Rating Details

	Points Earned	% Points Available
ACCOUNTABILITY ★ ★ ★ ★	**11.0**	**73 %**
Governance	5.7	71 %
Transparency	5.3	76 %
EMPLOYEES ★ ★	**31.9**	**53 %**
Compensation & Benefits	20.3	56 %
Employee Ownership	2.3	19 %
Work Environment	9.4	78 %
CONSUMERS ★ ★ ★ ★ ★	**47.5**	**100 %**
Beneficial Products or Services	35.0	100 %
Beneficial Business Model	12.5	100 %
COMMUNITY	**16.1**	**36 %**
Suppliers	0.0	0 %
Local	4.2	30 %
Diversity	1.4	11 %
Charity / Service	10.5	81 %
ENVIRONMENT	**4.8**	**26 %**
Facilities	4.6	35 %
Energy Usage	0.2	3 %
Supply Chain	n/a	n/a
Manufacturing	n/a	n/a
TOTAL	**111.3**	**57.6%**

PROGRESS RELATED TO 2007 SOCIAL AUDIT RECOMMENDATIONS

(unrelated to B Report metrics)

PROGRAM TYPE	2007 SOCIAL AUDIT RECOMMENDATIONS	2009 PROGRESS ON RECOMMENDATIONS
EMPLOYEE PROGRAMS	• Increase awareness and education of all social programs, especially the charitable match program and the Serve Earth program • Increase Community Support Leave opportunities for employees to make a year-long commitment to service	• Employees were actively engaged in a poverty simulation in 2009 and produced record employee giving levels • Over 4,100 total volunteer hours contributed in 2009
CUSTOMER PROGRAMS	*Enhance multiplier effect through integrating the following:* • Create Service on the Road program for traveling employees to share their expertise with other organizations through YMCA/JCC contacts; offer service opportunities for employees with YMCAs/JCCs • Enhance partnerships between clients and service groups with which Redwoods is involved	• 2009 offered a new online education initiative (free for TRG customers) to train customers' employees in safety protocols • Launched new initiative in 2009 where TRG Foundation is funding a TRG Fellow to launch a statewide program in Massachusetts dedicated to ending child sexual abuse at YMCAs
COMMUNITY PROGRAMS	• Create and Enhance partnerships between organizations that TRG serves • Create a measurable baseline for what it means to be a Strategic Partnership vs. an Employee Partnership and work to increase Employee Partnerships	• TRG Foundation helped fund a Habitat for Humanity house built in Durham in 2009 • TRG had a record year for its United Way campaign in 2009 • No measurable baseline created
CONTRIBUTIONS	• Increase awareness and use of Charitable Match Program and Dollars for Doers • Create tools to measure impact of giving from Redwoods Community Outreach (RCO) and The Redwoods Group Foundation (TRG Foundation)	• Over 280 Total Volunteer Hours in 2009 Dollars for Doers program • $11,983 contributed as part of Charitable Match Program • No impact metrics or tools created to analyze impact of giving
LEADERSHIP AND ADMINISTRATION	• Institutionalize measurement practices and tools • Design a replicable model for social programs that can be used by other companies of comparable size and brand the model consistently • Inspire employees, do not require participation in new initiatives	• With TRG's certification as a B Corporation, it now has measurement practices and tools to use via the B Report, which is updated bi-annually • Education materials for child and family centers, like YMCAs and JCCs, created for new online platform in 2009 • New poverty simulation offered to inspire and inform employees

PROGRESS RELATED TO 2008 SOCIAL AUDIT RECOMMENDATIONS

(unrelated to B Report metrics)

PROGRAM TYPE	2008 SOCIAL AUDIT RECOMMENDATIONS	2009 PROGRESS ON RECOMMENDATIONS
DIVERSITY	• Create a written recruitment policy and set a strategy to hire from more underrepresented groups • Increase minority representation in firm management and leadership roles	• No recruitment policy created, but also limited hiring was done in 2009 due to economic environment • Minority representation same as in 2008
EMPLOYEE INVOLVEMENT IN TRG FOUNDATION	• Keep employees informed on how the foundation operates and what decisions it makes with regard to social investment • Potentially enhance employee direct involvement in TRG Foundation work	• Employees maintain same levels of understanding of TRG Foundation, according to 2009 survey • Many employees state their desire to more fully understand Foundation decision-making and to become more directly involved
FOUNDATION OBJECTIVES	• Set clear objectives, even while addressing a diverse range of social issues, so TRG Foundation can ensure social impact maximization with the grants it chooses to make	• TRG Foundation has not yet set annual objectives or established a mechanism for impact assessment
BECOME A 'B' CORP	• The Redwoods Group should seek to become a certified B Corporation.	• TRG became a certified B Corporation in 2009 and earned a total of 111.3 points on its B Impact Report

2009 ECONOMIC ADVERSITY

2009 was one of the toughest years in the last decade for U.S. businesses, and it was indeed so for The Redwoods Group. Management asked all employees to work hard and be held accountable for their work, but in doing so, to also trust that their jobs were safe. In a year where the industry norm was to make layoffs, require furloughs and cut company contributions to employee benefits, TRG management did not make layoffs and did not cut pay or benefits. In fact, even specialty benefits, like the TRG higher education reimbursement, were upheld; the company provided over $110,000 towards college tuition expenses to help employees' children go to school in 2009.

TRG employee volunteerism and charitable giving grew in 2009 after a company-sponsored poverty simulation showed employees firsthand the struggles of escaping the cycle of poverty in America. The Redwoods Group Foundation continued to make significant grants, totaling $675,000 in 2009, and the company still provided paid time off to learn about social issues and give back to local communities during the year. The company also sent personnel (Dan Baum, Amanda Nieman and Zach Taylor) to Zambia in January 2009 to volunteer alongside Elon University Periclean Scholars as part of the company's first international service work.

The employee survey reveals the success of TRG's management in providing employees with income stability in 2009. Overall employee satisfaction levels remain very high; there were no drop-offs in interest nor in demonstrated activity in community service and charitable giving. Employees reported that overall TRG was honest about expectations and strategy during the tough financial time, and most did not regularly fear losing their jobs.

Despite the truly impressive accomplishments of surviving 2009's financial downturn, there is evidence of some employee disengagement and strong stated desires for re-engagement initiatives to be undertaken in 2010. The employee survey comments box overflowed this year as people made suggestions on how to achieve greater employee engagement in both business operations and impact initiatives.

The roots of true achievement lie in the will to become the best that you can become.

HAROLD TAYLOR

2009 SOCIAL AUDIT EMPLOYEE SURVEY

In February 2010, as part of the social audit process, TRG employees were surveyed to determine their perspective on TRG's social impact efforts and practices in 2009. The survey had a 75% response rate.

Highlights of the survey include:

Areas of Strength versus 2008 Survey

- 7% more employees volunteering 8+ hours per month
- 13% more employees say if they were in the job market again, the Redwoods Community Investment Programs would influence their decision to accept a position at TRG
- 10% more employees draw a connection between the Serve Others® mission and their daily work responsibilities for a total of 88% having this connection
- Same high level of employees stated that during the economic difficulties of 2009, management communicated their expectations, plans and strategy to employees (98%)

There were no noticeable declines or areas of weakness in the comparable metrics of the 2009 employee survey versus those of 2008.

Other 2009 Survey Findings

- Regarding the new 2009 Poverty Simulation, 67% of employees found it to be somewhat or extremely personally impactful and all but 2% found it to be at least interesting
- 83% of employees say they are either "satisfied" or "extremely satisfied" with their overall TRG experience and 0% report being "unsatisfied"

Notable employee comments about 2009

My most positive experience or interaction with the Redwoods Community Investment Program in 2009 was…

- "Connections made between agencies, United Way, and my community. Getting a more in-depth understanding of the good work being done by agencies in the area."
- "My most positive experience had to be the Poverty Simulation Project. I am so glad I had a chance to be involved; it really opened my eyes to what people struggle with each day."
- "Working on the Trapani/TRG Foundation H4H house in Durham."
- "Bonding with coworkers."

My one most important recommendation, concern, or idea for the Redwoods Community Investment Program is…

- "I would like to see more direct feedback on how the money and time that is donated is serving the local communities."
- "I think it would help employees if we could have a better understanding of how the Foundation works and how grants get approved. It currently seems as though it is done behind closed doors and the employees only hear about it after the fact."
- "Continuing to provide opportunities for education and engagement, like the Charity Caucus and Poverty Simulation."
- "Continue to find ways to engage employees."

- "Get the employees more involved"
- "I believe we need to seek more opportunities to engage employees in this Program."

My one most important recommendation, concern, or idea for TRG employee engagement is…

- "It is like we all know we have to get 40 hours in, but other than that, community involvement is never discussed. Maybe if we had people give lunch and learns on what it is they volunteer for, it would prompt others to become more involved."
- "Develop a culture of respect and recognition for employees."
- "For opportunities to come from Senior Leaders as much as possible and make sure employees are well informed."
- "Conduct a Passion day, where every employee must participate in a presentation of a charity/program. Present by yourself or team up but give a 5 minute synopsis of the mission and how it may align with TRG."
- "Motivation is contagious... help others get inspired"

My additional comments are…

- "I love that I work for a company that allows and encourages employees to get involved in the community to help those in need. I also love that every time I turn around I am told my job is safe, a lot of people can't say that. It is so nice not to worry everyday that my job might be in jeopardy."
- "The pressure internally is overbearing at this time though we have been told our jobs are "safe". Employees are extremely concerned that one wrong choice that reflects on their performance, and we are all gone. If we are all adults and have the same goal and are on the same team, then why are so many people fighting all the time about where this company is going and how things are being handled?"
- "I LOVE Redwoods' social mission and engagement programs. I think we do a GREAT job of putting the mission first...I simply think we can do more to 1) invite more engagement, 2) include more people in the process, and 3) share information more frequently and freely."
- "This is a tough year to judge because people were so worried about keeping our business and working as hard as we possibly could – many things fell off the plate. There was very little balance this year…yeah we met our commitments but people struggled to walk away feeling good about the work they did either in the office or in other organizations. It was just a very stressful year."

The roots of all living things are tied together. Deep in the ground of being, they tangle and embrace. If we look deeply, we find that we do not have a separate self identity…

JOAN HALIFAX ROSHI

SOCIAL AUDIT EVALUATION

Compared with the majority of U.S. firms, The Redwoods Group remains well ahead of the curve in regards to its corporate social responsibility (CSR) initiatives. Borrowing the following frameworks from CSR expert and Haas School of Business Professor Kellie McElhaney, TRG's strategic positioning is evident.

TRG on Range of CSR Engagement Levels

Potential for Growth

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*

The Baby Parable

The "Baby Parable" is a tool to use to analyze a company's 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. A company usually is engaged in many diverse impact contribution efforts (i.e. many different ways to "save babies"). Four major types of social impact are shown in the four quadrants above. Though virtually all companies do and should engage in the charity work of diving in to "save some babies" one at a time, most are more strategically aligned to play a major role in one of the other quadrants. According to CSR expert Kellie McElhaney, companies should realize their positioning and core competencies, choose one key area to create impact, and trust other companies to take on the responsibilities in the other quadrants.

In what quadrant should The Redwoods Group make its mark? It currently does an incredible amount of volunteer work and charitable giving to serve desperate needs, but its inherently beneficial business model relies on data analysis and education to prevent accidents and injuries at the locations it insures. Additionally, the creation of the new TRG Foundation Fellow in 2009 to work to understand best practices in child sexual abuse prevention and to extensively share that knowledge to solve the problem plays the same analysis role. The bottom right quadrant of analysis and problem-solving is the space in which TRG has strategic fit and special capabilities. It is here that the company should seek to drive at least 80% of its impact efforts.

2009 STRENGTHS

Demonstrated employee charitable giving and volunteerism: TRG employees set themselves apart in 2009 by strongly responding to local community needs. Employees participated in the new Poverty Simulation at TRG headquarters in 2009 and reported strong feedback about its impact. Over two-thirds of employees found the simulation to be personally impactful or extremely impactful to them. As President and CEO Kevin Trapani explained, when employees saw firsthand how very difficult it is to escape poverty even when trying desperately, they realized the importance a helping hand can provide. This explains why employee charitable contributions to United Way grew in 2009; employees saw greater value in what their charitable giving could provide to those in need. Employee volunteerism was also up in 2009. Human Resources & Community Investment Programs Director Erin Garney stated that in a year where other company benefits remained relatively flat, many employees began to see the paid time-off for volunteering as a new benefit to utilize for personal well-being and satisfaction. Ultimately, TRG employees stepped up their contributions of time and money at a time when the need was perhaps at its greatest level since the company was founded.

Local community focus: The Redwoods Group is proving itself to be a critical player in the local Triangle community. Last year, the company announced it will be moving its company headquarters into a new green building in Durham, NC, being developed by Greenfire Development. The building is part of a growing renaissance in downtown Durham and will house a Black Wall Street Museum on its ground floor to honor Durham's historic heritage. The Redwoods Group and TRG Foundation have already invested in real estate in Durham to aid in redevelopment efforts there. Additionally, 2009 was the first year TRG Foundation co-invested alongside the Trapani Family Charitable Trust in a local Habitat for Humanity house. These new undertakings, along with continued local nonprofit engagement, illustrate the company's dedication to the health of its local community.

Continued internal and external commitments in times of adversity: Though 2009 proved to be an extremely difficult year for the economy and The Redwoods Group's financial performance, the company should be lauded for its decision to fulfill previous commitments to both internal and external stakeholders. TRG did not make layoffs, pay cuts or benefit retractions in order to achieve near-term financial goals which shows an impressive dedication to its people and the company's long-term objectives. Additionally, by funding the highest-ever amounts for higher education for employee children and maintaining mission-related programming, as well as charitable giving, TRG again proved out its mission to Serve Others® and not be judged by a single bottom line.

When the root is strong, the fruit is sweet.

BOB MARLEY

RECOMMENDATIONS FOR 2010

Continued Fellow program is unique impact opportunity: The new TRG Foundation Fellow position held by Amanda Nieman with the objective of ending child sexual abuse in YMCAs is one of TRG's best initiatives to date. Following the model of the baby parable, this initiative takes advantage of TRG's unique capabilities in data analysis and knowledge-sharing to solve a serious societal problem and directly impact the company's business model. Since TRG has both the positioning and business interest in this issue, it is one where the company can make a truly unique impact. The company should continue to progress its efforts in Massachusetts and then seek to share the results and relevant materials across the U.S. to truly help solve the national problem. Moreover, the company and Foundation should seek to move the majority of its social initiatives into the skill areas of problem analysis in order to most effectively and efficiently make use of its resources to create impact.

Increased diversity: Very limited new hiring was undertaken in 2009, which may be a key reason the recommendation of the 2008 Social Audit to "create a written recruitment policy and set a strategy by which to hire from more underrepresented groups" was not implemented last year. This year's audit recommends the diversity recruitment policy be implemented ahead of any new hiring which may or may not be made in 2010 so the company is prepared to seek out more minority candidates, especially for management roles, when hiring does resume. This new commitment to internal diversity will help the company further connect to its local community by representing the actual ethnic make-up of its local community within TRG's employee population.

Focus internally in 2010: Based on the direct commentary and responses from TRG employees in this year's employee survey, it is recommended that the company spend the next year focusing on its internal assets, specifically re-engaging its employees. TRG should seek to reinvigorate employees to the TRG mission and employee opportunity to contribute in various ways to fulfill the mission. More education initiatives, like the 2009 Poverty Simulation, should be undertaken to allow employees to learn and collaborate in impact initiatives. A few employees suggested an event where employees learn of the impact results from past company engagements as well as share with each other their experiences, which is a great idea for 2010. TRG management should listen carefully to the stated employee concerns and desires for engagement going forward.

CONCLUSION

The Redwoods Group faced a tough year in 2009 and should be proud of its mission-related performance. It upheld its obligations to employees and its local community despite pressures and competition that did otherwise. As a certified B Corporation, TRG has proven its commitment to have an impact as a for-profit business and with the new B Impact Rating System, its successes can now be annually tracked, publicized and compared to other B Corps. Other 2009 successes include the company's employees' demonstrated service and giving as well as the company's growing efforts to help the local community prosper. 2010 recommendations in the areas of strategic focus towards problem analysis impact work (like the TRG Foundation Fellow initiative), increased diversity and employee engagement and development are made to help the company continue its mission in more effective ways.

Overall, The Redwoods Group and its employees should take the time to reflect on accomplishments achieved, take pride in their work amidst the daily economic struggles and reinvigorate themselves for the year ahead.

2009 Social Audit compiled by:

Stephanie Poole

MBA Class of 2010

UNC Kenan-Flagler Business School

Presented on:

April 27, 2010

Community Support List

The roots of all goodness lie in the soil of appreciation for goodness.

DALAI LAMA

Action for Children NC
Allegheny Valley YMCA
Alpert Jewish Family & Children's Services
Altavista Area YMCA
American Red Cross - Disaster Relief
American Red Cross - Triangle Chapter
Anchorage Community YMCA
Ann Arbor YMCA
Armed Services YMCA of the USA
Art Therapy Institute
Association of YMCA Professionals
Austin Metropolitan YMCA
Bangor YMCA
Battle Creek Family YMCA
Bethesda Christian Academy
Big Brothers Big Sisters of the Triangle
Birmingham Metro YMCA
Boyertown Area YMCA
Brewton Area YMCA
Bridge to the Nations
Brookville YMCA
Burning Coal Theatre Company
Camp Foster YMCA of Okobojis
Camp Kesem North Carolina
Camp Olson YMCA
Cannon Memorial YMCA
Central Douglas County Family YMCA
Central Florida YMCA
Chapel Hill-Carrboro Public School Foundation
Chapel Hill-Carrboro YMCA
Children's Craniofacial Association
Club Nova Community, Inc.
Danville Family YMCA
Decatur Family YMCA
Duke University
Duke University - Purpose Project
Durham Academy
Durham-Chapel Hill Jewish Federation
Durham Literacy Center
Elon University (Anita Issacs)
Elon University Periclean Scholars
Eno River Association
Family YMCA of Emporia/Greensville
Family YMCA of Greater Laurens
Family YMCA of Marion and Polk Counties
Fanwood-Scotch Plains YMCA
Flint YMCA
Food Bank of Central & Eastern NC
Forsyth Health Foundation
Foundation for a Sustainable Community
Frankie Lemmon Foundation
Goldsboro Family YMCA
Grass Roots Events
Great Miami Valley YMCA
Greater Burlington YMCA
Greater Manchester Family YMCA
Greenwich Family YMCA
Habitat for Humanity of Durham
Hanover Area YMCA
Heifer International
Hensel Eckman YMCA
Heritage YMCA Group
Hopkins County Family YMCA
Hospice of Wake County
Hunterdon County YMCA
InterAct
Jackson Family YMCA Tennessee
JC Raulston Arboretum
JCC Association
JCC of Greater Kansas City
JCC of Greater Monmouth County
JCC of Houston
JCC of the Greater Palm Beaches
Jewish Federation of Palm Beach County
Jimmy V Foundation
Joseph Meyerhoff Senior Center
Kalamazoo County Family YMCA
Kettle Moraine YMCA
Kishwaukee Family YMCA
La Porte Family YMCA
Long Branch Area YMCA
Make a Wish Foundation - Eastern NC
Marco Island YMCA
Mariposa School for Children with Autism
Martinsville-Henry County YMCA
McPherson Family YMCA
Metro YMCA of the Oranges
Metuchen Edison Woodbridge YMCA
Mid-Delmarva Family YMCA
Monroe Family YMCA
Montgomery County Family YMCA
Mt. Diablo Region YMCA
NC Center for Nonprofits
NC Center for Public Policy Research

NC Pottery Museum Inc.
New Castle Community YMCA
Northern York County YMCA
Nourish International
Ocean Community YMCA
Okmulgee County Family YMCA
Old Town-Orono YMCA
Olean YMCA
Oshkosh Community YMCA
Ozarks Family YMCA
Paris-Bourbon County YMCA
Peninsula Metropolitan YMCA
Penobscot Bay YMCA
Piscataquis Regional YMCA
Plainfield Area YMCA
Rockland County YMCA
Rogue Valley YMCA
Ronald McDonald House of Chapel Hill
Ryan Epps Home for Children
Salem Family YMCA
Sanford-Springvale YMCA
Sarasota Family YMCA
Scott County Family YMCA
Shasta Family YMCA
Sheboygan County YMCA
Sherman Lake YMCA Outdoor Center
Siouxland YMCA
Sisko Foundation
South Brunswick Family YMCA
South Shore YMCA
South Wood County YMCA
Southeast Ventura County YMCA
Southington-Cheshire Community YMCA
Special Olympics NC
Springfield, IL YMCA
St. Baldrick's Foundation
Stop Hunger Now
Taylor's Tale
Teach for America
The Center for Volunteer Caregiving
The Community YMCA - Eastern Delaware County
The Healing Place of Wake County
The Jorge Posada Foundation
The Serving Cup
Triangle Community Foundation
Triangle Land Conservancy
Triangle Tomorrow
Two Rivers YMCA
United Way of the Greater Triangle
Valley of the Sun YMCA
Waterbury YMCA
WaterPartners International
Wenatchee Valley YMCA
West Morris Area YMCA
Westport Weston YMCA
Wilderness Trace Family YMCA
Winning Workplaces
WUNC - NC Public Radio
YES! Solutions, Inc.
YMCA Blue Ridge Assembly
YMCA of Beaufort County
YMCA of Callaway County
YMCA of Central Kentucky
YMCA of Central Maryland
YMCA of Central Ohio
YMCA of Central Virginia
YMCA of Centre County
YMCA of Coastal Georgia
YMCA of Elkhart County
YMCA of Frederick County
YMCA of Grand Island
YMCA of Greater Boston
YMCA of Greater Dayton
YMCA of Greater Des Moines
YMCA of Greater Erie
YMCA of Greater Fort Wayne
YMCA of Greater Grand Rapids
YMCA of Greater High Point
YMCA of Greater Indianapolis
YMCA of Greater New Orleans
YMCA of Greater Oklahoma City
YMCA of Greater Omaha
YMCA of Greater Providence
YMCA of Greater Richmond
YMCA of Greater Saint Paul
YMCA of Greater San Antonio
YMCA of Greater Seattle
YMCA of Greater Syracuse
YMCA of Greater Toledo
YMCA of Greater Williamson County
YMCA of Honolulu
YMCA of Kewanee
YMCA of Lee County
YMCA of Lenawee County
YMCA of Long Island
YMCA of Metro Chattanooga
YMCA of Metro Dallas
YMCA of Metro Detroit
YMCA of Metro Hartford
YMCA of Metro Huntsville
YMCA of Metro Milwaukee
YMCA of Metro Washington
YMCA of Metropolitan Minneapolis
YMCA of Michiana
YMCA of Middle Tennessee
YMCA of Montgomery
YMCA of Northwest NC
YMCA of Orange
YMCA at Pabst Farms
YMCA of Philadelphia & Vicinity
YMCA of Ridgewood
YMCA of Saginaw
YMCA of San Diego County
YMCA of Snohomish County
YMCA of South Hampton Roads
YMCA of South Palm Beach County
YMCA of Southwest Illinois
YMCA of Springfield
YMCA of Tacoma-Pierce County
YMCA of the Fox Cities
YMCA of the Greater Tri-Valley
YMCA of the Inland Northwest
YMCA of the Palms
YMCA of the Pikes Peak Region
YMCA of the Rockies
YMCA of the Triangle
YMCA of Waycross
YMCA of Western Monmouth County
YMCA of Western NC
YMCA of Western Stark County
YMCA of Wichita
YMCA Southcoast
York and York County YMCA
YWCA of Bergen County

$720,829

The Redwoods Group &
The Redwoods Group Foundation

Audited Financial Statements

The Redwoods Group, Inc.

Audited Financial Statements

Years ended December 31, 2009 and 2008

CONTENTS

JOHNSON LAMBERT & CO. LLP
CPAs AND CONSULTANTS

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, 2009 and 2008, 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, 2009 and 2008, 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 29, 2010

Balance Sheets

	As of December 31, 2009	2008
Assets		
Cash and cash equivalents	$ 360,837	$ 1,247,263
Investments	1,044,482	1,217,911
Restricted cash	3,460,572	2,380,915
Premiums and commissions receivable	6,653,826	7,071,566
Prepaid expenses	71,711	75,651
Income taxes receivable	202,480	256,652
Deferred income taxes, net	192,351	103,929
Other current assets	109,728	93,771
Total current assets	12,095,987	12,447,658
Property and equipment, net	340,429	497,243
Investment in affiliate	733,490	-
Deferred income taxes, long term, net	150,757	208,176
Other long-term assets	734,161	415,431
Total assets	$ 14,054,824	$ 13,568,508
Liabilities and stockholders' equity		
Liabilities:		
Accounts payable	$ 84,739	$ 172,684
Funds held for others	3,460,572	2,380,915
Premiums and commissions payable	4,936,127	5,304,120
Accrued expenses	328,707	175,466
Due to affiliate	200,000	-
Deferred revenue	1,083,066	1,220,736
Total current liabilities	10,093,211	9,253,921
Due to affiliate, long-term	300,000	-
Deferred revenue, long-term	195,800	216,100
Other long-term liabilities	527,300	430,900
Total liabilities	11,116,311	9,900,921
Stockholders' equity:		
Common stock; $0.01 par value, 1,000,000 shares authorized and 527,045 and 539,103 shares issued and outstanding, respectively	5,270	5,391
Additional paid-in capital	1,006,231	1,067,663
Retained earnings	1,922,240	2,623,420
Accumulated other comprehensive income (loss)	4,772	(28,887)
Total stockholders' equity	2,938,513	3,667,587
Total liabilities and stockholders' equity	$ 14,054,824	$ 13,568,508

See accompanying notes to financial statements

Statements of Income

	Years ended December 31, 2009	2008
Revenues		
Commissions and fees	$ 11,202,374	$ 12,515,984
Investment and other income	400,512	239,264
Total revenues	11,602,886	12,755,248
Expenses		
Commission expense	1,552,685	1,544,732
Compensation and benefits	7,823,985	8,276,714
Operating and administrative	2,669,102	2,801,361
Depreciation and amortization	181,967	198,668
Total expenses	12,227,739	12,821,475
Loss before income taxes	(624,853)	(66,227)
Income taxes	(234,983)	45,858
Net loss	$ (389,870)	$ (112,085)

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, 2008	$ 6,239	$ 1,116,237	$ 4,400,155	$ -	$ 5,522,631
Net loss	-	-	(112,085)	-	(112,085)
Stock grants, including realized income tax benefits of $14,018	176	141,846	-	-	142,022
Stock redeemed	(1,024)	(190,420)	(1,664,650)	-	(1,856,094)
Change in unrealized gains (losses) on securities classified as available for sale, net of deferred income tax benefit of $18,469	-	-	-	(28,887)	(28,887)
Balance at December 31, 2008	5,391	1,067,663	2,623,420	(28,887)	3,667,587
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

See accompanying notes to financial statements

Statements of Cash Flows

	Years ended December 31, 2009	2008
Cash flows from operating activities		
Net loss	$ (389,870)	$ (112,085)
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation and amortization expense	181,967	198,668
Amortization of bond discount	(3,389)	(1,225)
Stock grants	(21,255)	142,022
Deferred tax effects of unrealized capital (gains) losses	(21,520)	18,469
Gain on sale or disposal of assets, net	(687)	(9,173)
Net realized loss on investments	8,392	-
Net gain from investment in affiliate	(233,490)	-
Net change in operating assets and liabilities:		
Decrease in premiums and commissions receivable	417,740	757,459
Decrease in prepaid expenses	3,940	75,912
Decrease (increase) in income taxes receivable	54,172	(256,652)
Increase in other assets	(92,286)	(97,439)
Increase in deferred income taxes	(31,003)	(41,906)
Decrease in accounts payable	(87,945)	(45,503)
Decrease in premiums and commissions payable	(367,993)	(370,506)
Increase (decrease) in accrued expenses	249,641	(523,350)
Decrease in income taxes payable	-	(1,387,230)
Decrease in deferred revenue	(157,970)	(318,967)
Net cash from operating activities	(491,556)	(1,971,506)
Cash flows from investing activities		
Purchase of property and equipment	(17,717)	(106,207)
Proceeds from disposal of property and equipment	850	11,500
Purchase of investments	(288,907)	(3,014,043)
Proceeds from sale of investments	262,512	3,250,000
Net cash from investing activities	(43,262)	141,250
Cash flows from financing activities		
Cost of common stock repurchased	(351,608)	(1,856,094)
Net cash from financing activities	(351,608)	(1,856,094)
Net change in cash and cash equivalents	(886,426)	(3,686,350)
Cash and cash equivalents, beginning of year	1,247,263	4,933,613
Cash and cash equivalents, end of year	$ 360,837	$ 1,247,263
Supplemental disclosures		
Income taxes paid	$ 3,532	$ 1,706,277

See accompanying notes to financial statements

Notes to Financial Statements

Years ended December 31, 2009 and 2008

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 $47.5 and $51.5 million during calendar year 2009 and 2008, 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.

Certain 2008 amounts have been reclassified to conform with 2009 presentation.

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, 2009 and 2008 were $687,306 and $1,519,004, respectively. The inclusion of such accounts in the balance sheets would result in an increase to restricted cash and a corresponding increase to funds held for others, with no net impact on reported stockholders’ equity.

Fair Value of Investments

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).

Note A - Organization and Significant Accounting Policies (continued)

Investments

The Company has designated its investments in common stock and debt securities as available for sale and, accordingly, reports these investment at fair value with unrealized holding gains and losses reported as other comprehensive income, net of estimated tax. Fair values for the Company's 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 a real estate venture (see note B) is carried at cost and is reported within other long-term assets in the accompanying balance sheets. In April 2009, new U.S. GAAP guidance was issued, changing the recognition, measurement and presentation standards for other-than-temporary impairments (OTTI) of debt securities and requiring additional disclosure requirements for both debt and equity securities. The initial adoption of this guidance had no significant impact on the Company's financial statements.

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 $53,475 were recognized during the year ended December 31, 2009. There were no realized investment gains or losses during the year ended December 31, 2008.

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 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.

The Company recognized an other-than-temporary impairment charge on a common stock security for $61,867 during the year ended December 31, 2009. There were no impairment charges recognized during the year ended December 31, 2008. A deferred tax asset of $24,128 resulting from the 2009 impairment charge was recorded for the year ended December 31, 2009, and a deferred tax asset of $18,469 resulting from unrealized capital losses was recorded for the year ended December 31, 2008.

Note A - Organization and Significant Accounting Policies (continued)

Premiums and Commissions Receivable
The Company generally bills and collects insurance premiums for the insurance carriers. For the applicable insurance policies, the Company is required to remit premiums to the insurance carriers, net of the Company's 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 $172,768 and $189,468 for the years ended December 31, 2009 and 2008, 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.

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

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 29, 2010.

Note B - Investments

As of December 31, 2009 and 2008, the Company's investments included investments in certificates of deposit of $738,907 and $700,000, respectively. In 2009, the Company invested $250,000 in a limited liability company real estate venture in downtown Durham, North Carolina.

Book and fair value of the Company's investments in common stock and debt securities, at December 31, 2009 and December 31, 2008 are summarized as follows:

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

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

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

Note 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 smaller managing general underwriters ("MGUs"), and to help them improve their program management expertise and their operating and risk-bearing results. The capital infusion and access to resources provided by RMI is expected to help the partner MGUs' 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 MGUs 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 liability for future services is reflected on the accompanying balance sheet as due to affiliate, of which $200,000 is included in current liabilities and $300,000 is in long-term liabilities. The book value of the Company's RMI shares was $750,000 at closing. As a result, the Company recorded a gain of $250,000, which is included in investment and other income in the accompanying statements of income for 2009. 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.

RMI has entered into a Management Agreement with the Company, whereby Mr. Mecklenburg will work full time for RMI as its President and CEO and other Company employees will provide services to RMI as may be requested by RMI. The cost of services provided by Mr. Mecklenburg are reimbursed by RMI and offset against related Company expenses, while the cost of services provided by other Company employees, up to agreed upon amounts, will be recorded as Company revenues and reduce the aforementioned liability in payment for the Company's RMI stock. The Company's expense reimbursement for 2009 amounted to $79,365, of which $28,209 was included in accounts receivable at year end. The Company did not record any service revenues from RMI in 2009. The Company has also entered into a Services Agreement with RMI, whereby RMI will provide certain consulting and other program business services to the Company beginning in 2010.

RMI represents a variable interest entity, and the Company's investment therein is recorded under the equity method of accounting. Due to the start-up of the joint venture on October 1, 2009, RMI reported a net operating loss for 2009. The Company's share of RMI's net operating loss was a net loss of $16,510 and has reduced the carrying value of the Company's investment to $733,490 as of December 31, 2009. The net equity in losses of $16,510 was reported as a reduction in revenue from investment and other income on the accompanying statements of income for 2009.

Note D - Property and Equipment

Property and equipment as of December 31, 2009 and 2008, consists of the following:

	2009	2008
Furniture and equipment	$ 437,205	$ 434,674
Computer equipment	309,283	328,239
Vehicles	295,002	295,002
Leasehold improvements	137,547	137,547
Computer software	85,318	83,920
Property and equipment, gross	1,264,355	1,279,382
Accumulated depreciation	(923,926)	(782,139)
Property and equipment, net	$ 340,429	$ 497,243

Note E - Line of Credit

The Company maintains a $500,000 working capital line-of-credit bearing interest at the prime rate. At December 31, 2009 and 2008 no funds have been drawn on the credit line.

Note F - 401(k) Defined Contribution Plan

The Company maintains a 401(k) defined contribution plan ("the Plan") that covers substantially all employees with more than one month of service. The Company matches 100% of each employee dollar contributed, up to a maximum contribution of 6% of an employee's eligible compensation. The Company's expenses related to the plan during the years ended December 31, 2009 and 2008 amounted to $277,472 and $249,946, 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 4.25% 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, 2009 and 2008 amounted to $482,578 and $397,000, respectively, and is included in other long-term liabilities on the accompanying balance sheets. At December 31, 2009 and 2008 the aggregate cash surrender value of life insurance policies on such executives, amounting to $375,375 and $285,377, respectively, is included in other long-term assets on the accompanying balance sheets.

Note H - Income Taxes

The significant components of the Company's income tax expense for 2009 and 2008 are as follows:

	2009	2008
Current	$ (183,228)	$ 67,497
Deferred	(51,755)	(21,639)
Total income tax expense	$ (234,983)	$ 45,858

Actual income tax expense reported during the years ended December 31, 2009 and 2008 differs from that which would result from applying the statutory tax rates to pretax income, primarily due to certain non-deductible expenses, tax exempt investment income, and adjustments related to under or over accrual of the prior year income tax provision. The Company's tax returns through the year 2006 were examined in 2008 by the Internal Revenue Service. Temporary differences identified by the IRS exam resulted in interest payments of $110,778. This deductible interest expense, net of the related tax benefits, amounted to $67,575 and has been included in the Company's current income tax expense for 2008.

The tax effects of temporary differences that give rise to the deferred tax assets and liabilities at December 31, 2009 and 2008 are as follows:

	2009	2008
Deferred tax assets:		
Deferred compensation	$ 188,205	$ 154,830
Deferred claims revenue	84,318	104,130
Accrued expenses	63,757	-
Stock grant expense	6,650	38,441
Charitable contribution carry-forward	32,180	26,789
State tax NOL carry-forward	41,813	-
Investment losses	24,128	18,469
Other	11,959	25,542
Gross deferred tax assets	453,010	368,201
Valuation allowance	-	-
Net deferred tax assets	453,010	368,201
Deferred tax liabilities:		
Gain from affiliate, net	91,061	-
Depreciation	8,165	48,129
Other	10,676	7,967
Total deferred tax liabilities	109,902	56,096
Deferred income taxes, net	$ 343,108	$ 312,105

Note I - Stock Grants and Repurchases

The Company has a stock award plan ("Plan") under which certain management personnel receive stock grant awards subject to shareholder agreements. Up to 125,000 shares have been authorized for awards under the Plan, of which 67,901 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 $(27,243) and $128,005 for the years ended December 31, 2009 and 2008, respectively. During the year ended December 31, 2009, the Company granted 5,500 shares with aggregate grant date fair values amounting to $61,380, and there were forfeitures for 10,794 shares. During the year ended December 31, 2008, there were no stock grants awarded and there were forfeitures for 2,598 shares. Shares vested during the years ended December 31, 2009 and 2008 were 8,432 and 17,793 shares, respectively. Shares granted but not vested amounted to 5,500 shares as of December 31, 2009, all of which will vest in years 2010 to 2012. The remaining cost to be recognized in future years for these nonvested awards amounts to $44,330 as of December 31, 2009. There were 19,226 nonvested granted shares as of December 31, 2008.

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 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 value of $125,010. During the year ended 2008, the Company's majority shareholder redeemed 35,389 shares at a purchase value of $660,004. For other Company shareholders, a one-time waiver of the 25% annual put option limit was granted, and put options for 39,409 shares were exercised by the other shareholders at repurchase values totaling $734,978. During 2008, the Company also purchased 26,441 shares from a charitable organization that had received donated shares from the Company's majority shareholder, at a purchase value of $440,000, and purchased 1,132 shares from charitable organizations that had received donated shares from other shareholders at purchase values totaling $21,112. Shares repurchased by the Company have been retired.

As of December 31, 2009, 51,599 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, 2009, 25%, or 12,900 shares, are eligible to be put to the Company during the year ending December 31, 2010. Based on the repurchase value of the shares as of December 31, 2009, such put options have an estimated value of $189,888.

Note J - Stockholders' Equity

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

Note K - Lease Commitments

The Company leases office space and certain equipment under non-cancelable leases with unrelated parties. The aggregate rent expense for the years ended December 31, 2009 and 2008 was $498,713 and $494,806, respectively.

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

Year ending December 31,		
2010	$	485,663
2011		490,184
2012		41,227
Total minimum lease commitments	$	1,017,074

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 with which the Company has maintained long term relationships.

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