



2009 Stewardship Report

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Running our company in a manner that is socially and environmentally responsible is core to REI's purpose – we want to ensure that the next generation has a connection to the natural spaces we all enjoy today and tomorrow.

Our work involves employees and members, and extends into the larger community through partnerships with nonprofits and collaboration with our peers in the outdoor industry. We're also using our business to find innovative solutions to some of society's most pressing challenges.

We invite you to read our annual stewardship report, which outlines the co-op's successes and challenges during the 2009 calendar year. The report is structured into the three sections — [Community](#); [Environment](#); and [People](#). A [table of contents](#) is also provided for quick reference.

Comments

We welcome your thoughts on our 2009 stewardship report through the following [survey](#) or email at stewardship@rei.com. Your feedback supports our ongoing goal of providing relevant information that is important to our members, customers, partners, employees and others.

How are we doing? [Give us feedback](#) on this page.

485 volunteer conservation projects hosted by REI



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REI is committed to positive and lasting engagement in the communities where we have a presence.

Our model is built on collaboration with nonprofit partners, targeted outreach programs and education at the local level. These efforts help us engage diverse audiences in the benefits of healthy, active outdoor lifestyles. We also use these efforts to advance our goals to protect and conserve natural spaces while helping the youth of today become the next generation of outdoor stewards. We strive to inspire our employees, members, and customers to take part in volunteer efforts to preserve and protect natural spaces.

While our overall philanthropic efforts decreased in 2009, we continued our dedication to our community outreach efforts through programs such as [PEAK](#) (Promoting Environmental Awareness in Kids) and additional classes and events in our stores. Ultimately, local community engagement and nonprofit partnerships enabled REI to increase participation in outdoor recreation while conserving natural spaces and establishing the framework for continued stewardship in the future. Looking ahead, we are eager to strengthen, solidify and reinforce our community partnerships.

This section of REI's stewardship report details our partnerships in the many local communities we serve. We invite you to read about our [comprehensive giving approach](#), how we encourage new audiences to [participate in outdoor recreation](#), and our efforts to [conserve natural spaces](#). You'll also find information on the [REI Foundation](#) and our [advocacy efforts to protect and enhance the great outdoors](#).

Comments

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“ Our model is built on collaboration with nonprofit partners, targeted outreach programs and education at the local level. ”

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REI provides high quality outdoor gear and apparel — along with expert advice and services — to help our members and customers experience and appreciate the outdoors. Our success depends on our ongoing commitment to stewardship to help protect and enhance the natural world.

We work to reduce our environmental footprint with strategies that help our company thrive while improving the health of the natural spaces we all enjoy. In pursuit of this, we collaborate with our industry partners, the communities we serve, and nonprofit organizations to find ways to connect our economic success with our desire to protect and enhance the environment.

Our environmental strategy targets five areas:

- Reducing our [greenhouse gas emissions \(GHG\)](#)
- Finding sustainable solutions to our [paper usage](#)
- Reducing [waste and optimizing recycling](#)
- Working toward creating [green buildings](#)
- Addressing the challenges of [product stewardship](#)

These focus areas were identified in 2005 when a group of REI leaders took a careful look at the co-op's largest environmental impacts and opportunities. These areas also represent REI's greatest opportunities to collaborate with others to create broader positive impacts. Even as we pursue these opportunities, REI is looking ahead, working on our next generation of environmental stewardship strategies.

Our [methodology](#) for measuring our environmental impacts is based on best practices to assess each area of our environmental footprint.

Comments

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“ We work to reduce our environmental footprint with strategies that help our company thrive while improving the health of the natural spaces we all enjoy. ”

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In the "People" section of REI's 2009 stewardship report, we highlight the co-op's initiatives and programs that make REI a nationally recognized top employer, including [employee benefits](#), [engagement and retention](#), [diversity and inclusion efforts](#). We also look at efforts in our contracted operations through [factory and labor compliance](#).

Every day, REI's more than 9,400 employees represent the co-op's brand, culture and values through their interactions with our members, customers, community partners and the natural world. Their passion for stewardship, knowledge of our products and services, and commitment to customer service help make REI a recognized leader in the outdoor industry.

Our commitment to provide a meaningful, fun and fulfilling workplace has helped make REI one of [Fortune magazine's "100 Best Companies to Work For"](#) for 13 years in a row. While this recognition is an indication of our employee's satisfaction, we strive each day to maintain our [strong culture](#) and high employee engagement so that the co-op remains an employer of choice.

We also work hard to ensure that those who make REI-brand gear and apparel are provided safe, fair and non-discriminatory workplaces. We require our manufacturing partners to provide safe work environments and strive to have their factories and working conditions comply with REI's Code of Conduct. We also partner with our industry peers through the Outdoor Industry Association's Fair Labor Working Group to raise awareness of factory compliance issues.

Comments

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“ REI's more than 9,000 employees represent the co-op's brand, culture, and values... ”

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2009 STEWARDSHIP REPORT

OUR COMMITMENT

Letter from Sally Jewell, president and CEO

August 2010

REI's commitment to stewardship runs deep across the co-op.

One of the important ways our 9,400+ employees share their love of the outdoors is by introducing people – especially youth – to the natural world and taking care of the spaces we all enjoy. We also use a stewardship lens to make informed decisions about our business operations to reduce our impact on the planet while supporting ongoing healthy financial performance for the co-op.

To REI, stewardship is not a competitive advantage or strategic differentiator. We are committed to maintaining and establishing partnerships with community and national nonprofit organizations, industry peers and others. We believe it is essential that organizations work together if we are to achieve healthier communities and a sustainable environment.

Last year we saw continued economic challenges, yet our commitment to stewardship remained steadfast. Market conditions helped us refine our programs to become more nimble and relevant while maintaining acceptable financial performance.

Since 2007, we have published an annual stewardship report to provide an assessment of our social and environmental efforts. While we are pleased with progress in some areas, we recognize our stewardship efforts are a journey and we will continue to improve our impact over time.

I invite you to read the report and provide us with your [candid feedback](#). We welcome the opportunity to hear your insights and suggestions.

Thank you for your interest. I hope to see you on the trail.

Warmly,

Sally Jewell, REI president and CEO



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About the Report

REI's fourth stewardship report covers the co-op's activities and performance related to our social and environmental efforts during the 2009 calendar year. The performance metrics and data contained within this online report include our operations and facilities (headquarters, distribution centers, retail locations and supply chain manufacturing).

The 2009 report provides an update on our progress toward our stated goals, milestones achieved and a discussion of our stewardship priorities. This report is an important part of our continual work to implement our initiatives and programs, apply our learnings, measure against our goals, and share our progress and challenges with REI's stakeholders.

Our objective remains to be transparent in our actions and hold ourselves accountable to our members, customers, communities and employees.

Defining Stewardship

REI's purpose is to inspire, educate and outfit for a lifetime of outdoor adventure and stewardship. At the co-op, being good stewards is reflected in how we care for the world in which we play, work and live, and how we connect people to nature. Specifically, our efforts are designed to:

- Facilitate the active conservation of nature
- Inspire the responsible use and enjoyment of the outdoors
- Enhance the natural world and our communities through responsible business practices
- Foster opportunities to increase participation levels in outdoor recreation, with a focus on young people
- Maintain REI as an employer of choice, where employees are highly engaged in the vision of the company and are reflective of the diversity of our communities where we have a presence

Report Structure

REI's 2009 stewardship report is organized into the three content sections — [Community](#) – philanthropic efforts and nonprofit partnerships centered on outdoor recreation and conservation, and advocacy; [Environment](#) – initiatives and efforts to reduce our overall impact on the planet; and [People](#) – the co-op's workplace and fair labor compliance with vendor factory partners. For additional details on the content of each section, please visit the report's [table of contents](#).

Materiality

To determine the most relevant subjects to include in REI's 2009 stewardship report, we built on the foundation we established in our first three reports. The scope of our reporting is for calendar year 2009, and was informed by internal and external stakeholders: employees, leadership, REI's board of directors, members and customers, local community constituents, nonprofit partners and advocacy groups. REI's board of directors provides broad input into our overall stewardship goals, metrics and measurement.

REI's business objectives and long-term strategic plans also served as a basis for determining relevancy, as did co-op policies, programs and initiatives. While the process for determining relevancy was primarily a cross-functional internal effort, we consulted with external experts to help establish REI's priorities for reporting on our corporate responsibility and stewardship.

All past REI stewardship reports are archived and maintained with open access for future reference, and complement additional information presented on [REI.com/stewardship](#).

Comments

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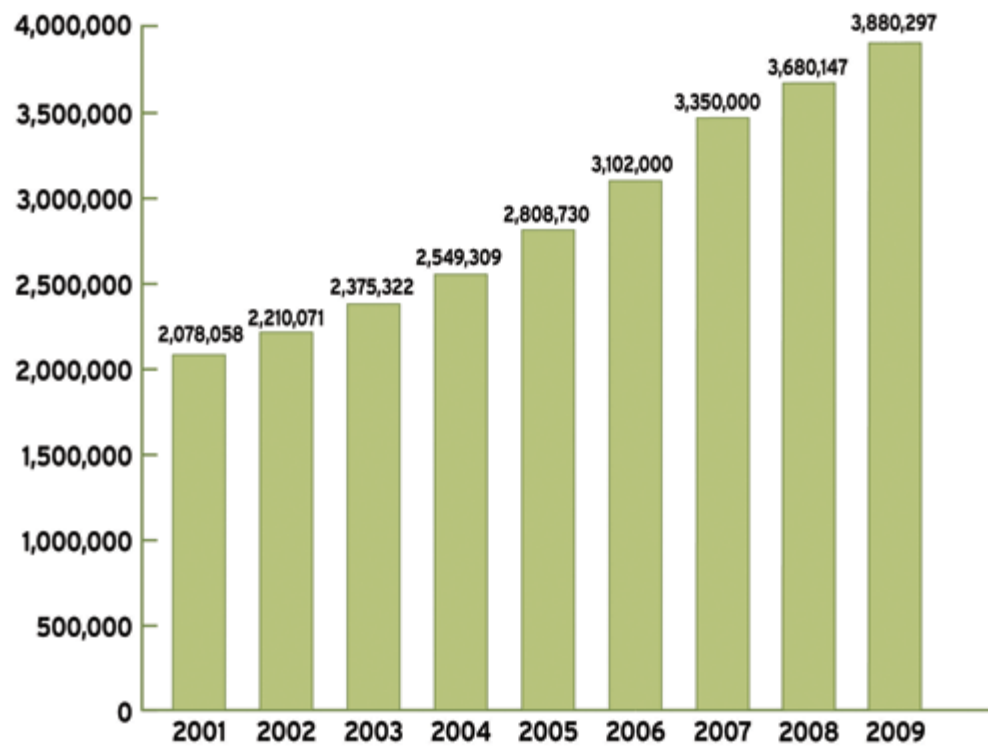
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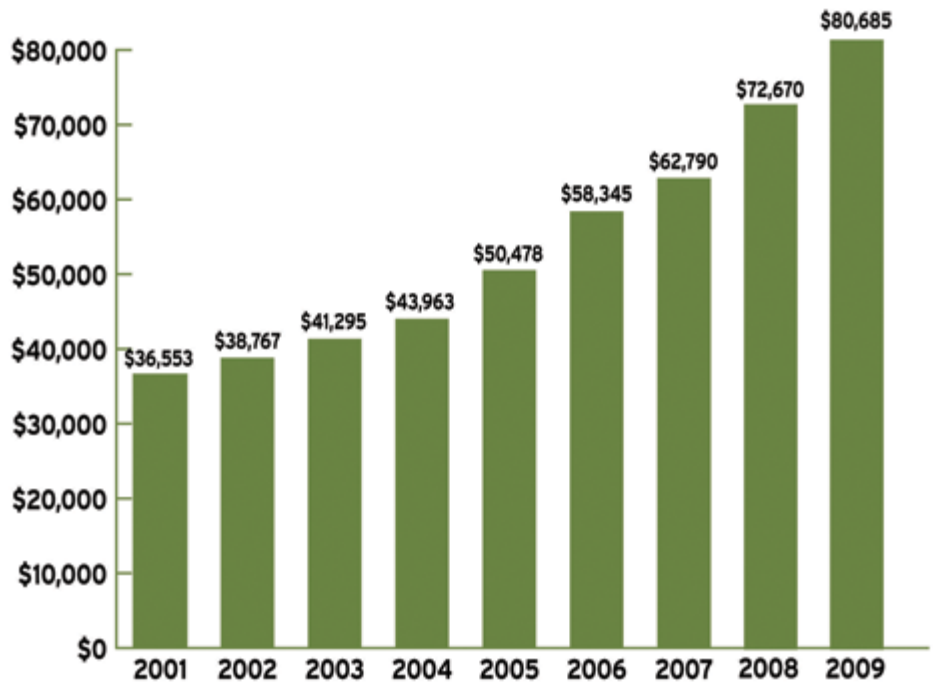
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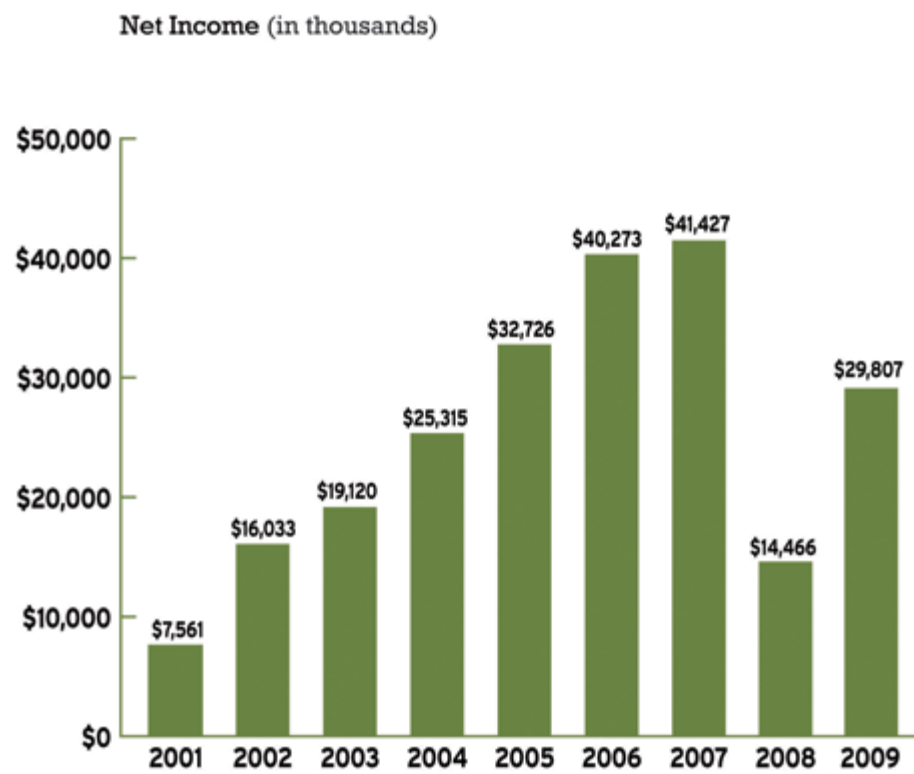
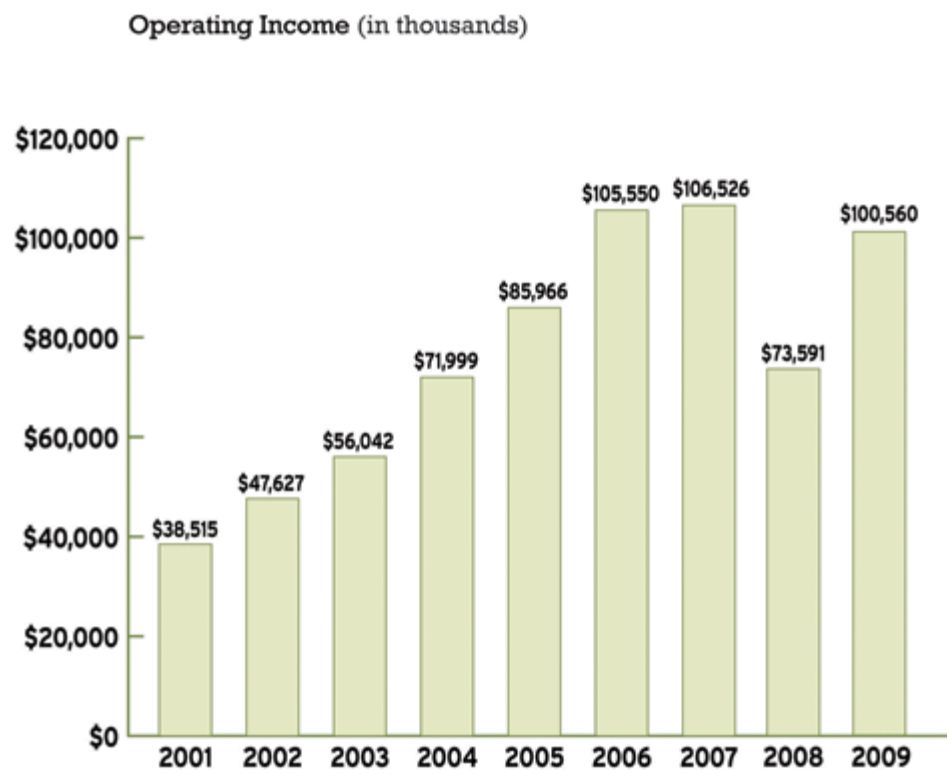
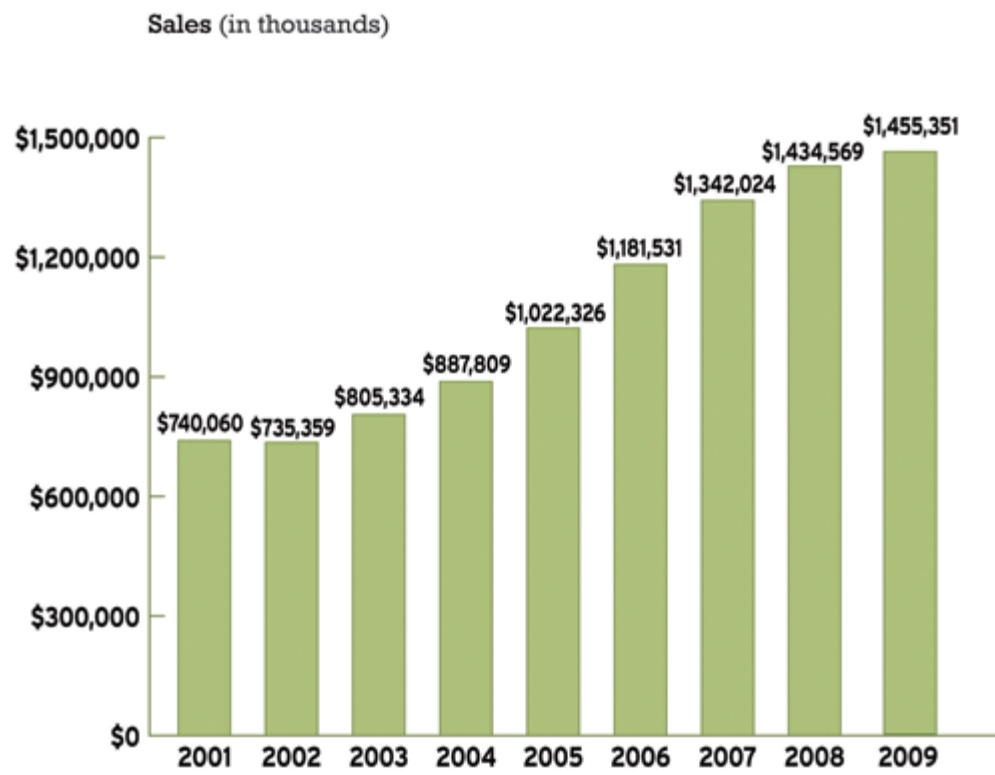
Active Members*



* According to REI's bylaws, an active member is someone who joined the co-op or an existing member that spent at least \$10 during the year.

Member Dividend (in thousands)







STEWARDSHIP AT REI HAS MANY FACES

Our stewardship work engages employees, REI members and customers, and extends into the larger community through partnerships with nonprofits and collaboration with our peers in the outdoor industry.



JOIN US

TOGETHER WE CAN MAKE A DIFFERENCE

To create lasting, positive change for the environment and our communities, strength lies in numbers. By working together we can help others lead healthy outdoor lives and protect the natural spaces we love—today and for generations to come. We invite you to join us. Find out more about our commitment to stewardship at [REI.com/stewardship](https://www.rei.com/stewardship).

GET CONNECTED Learn about stewardship events in your community by visiting [REI.com/stores](https://www.rei.com/stores). You can also visit [REI.com/volunteer](https://www.rei.com/volunteer) to learn about nonprofit volunteer opportunities that match your interests.

WORK AT REI Be with people who share your values and passion for the outdoors. Work in a place where integrity, respect and fun all play a part in our success. To learn more about joining the REI team, please visit [REI.com/jobs](https://www.rei.com/jobs).

BECOME A MEMBER As the country's largest consumer co-op, REI has more than 3.9 million active members who share a love for the outdoors and the health of our planet. To learn about the benefits of membership and become a member, ask an in-store REI sales specialist, call 1-800-426-4840 or visit [REI.com](https://www.rei.com). A lifetime membership is only \$20.



This brochure is printed on Forest Stewardship Council certified recycled paper as part of our commitment to responsible forestry.

HOW DO WE SHARE OUR LOVE FOR THE OUTDOORS?

STEWARDSHIP HIGHLIGHTS

FIND OUT.



OUR COMMITMENT

Stewardship is core to REI's purpose—we work to ensure that the next generation has a connection to the natural spaces we all enjoy.

We use our business to find innovative solutions to some of society's most pressing challenges by operating our company with a sustainable business approach.

Consider this brochure your pocket guide to the many stewardship efforts taking place across REI. We publicly report in three areas: community, environment and people. To read our full report and learn how you can join us, go to [REI.com/stewardship](https://www.rei.com/stewardship).

CONNECTING AND STRENGTHENING OUR COMMUNITY TODAY AND TOMORROW. LOCALLY AND GLOBALLY.

COMMUNITY

INSPIRING THE NEXT GENERATION

REI offers fun, healthy outdoor recreation opportunities through outreach programs and grants. REI's Family Adventure Program helps children develop a love for the natural world by offering information on local hikes and bike rides and activities that encourage kids to learn from nature. The Promoting Environmental Awareness in Kids (PEAK) program encourages children to care for nature. PEAK materials are also available in Spanish.

ENCOURAGING COMMUNITY INVOLVEMENT

REI employees are active in caring for public lands and open spaces, and we invite our members and customers to join us in service projects. In 2009, volunteers teamed with us at REI-hosted conservation projects to donate more than 107,000 hours to help restore trails, plant trees, and clean parks and streams.

ENVIRONMENT

BUILDING GREEN

REI focuses on increasing energy and water efficiency, decreasing energy use and waste, and selecting environmentally responsible building materials for new store construction and remodels. In 2009, three stores that incorporate cutting edge green building technology received LEED Gold certification from the U.S. Green Building Council. We also focused on our existing store locations through an extensive lighting retrofit to further reduce our environmental impact.



MAKING RESPONSIBLE PAPER CHOICES

REI is committed to purchasing and using responsibly manufactured paper and paper products. We endorse the Forest Stewardship Council (FSC) as our standard for responsible forest practices, and work to ensure that we purchase our fiber from environmentally acceptable sources. Our goal is to know the origin of the fiber for all paper we purchase. Last year, 93% of the paper we purchased came from known sources.



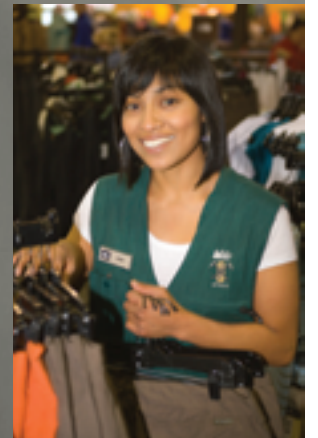
ADDRESSING CLIMATE CHANGE

Because global warming is a real and significant environmental risk, we are seeking innovative ways to reduce our greenhouse gas emissions. Solar panels on 11 of our stores generated more than 1.1 million KWh of clean, carbon-neutral energy in 2009. We utilize shipping methods that reduce greenhouse gas generated from transportation, including packing methods that allow us to transport more items in fewer shipments. When possible, we transport goods by water, which has a significantly

PEOPLE

CREATING A WELCOMING AND DIVERSE WORKPLACE

REI is committed to ensuring a workplace that is inclusive, welcoming and respectful for our employees and customers. Our goal is to serve a diverse spectrum of people who enjoy the outdoors and active lifestyles with a staff that reflects and connects with our community. Each year, REI conducts a company-wide survey asking employees for their candid feedback around key tenets that foster an inclusive and engaging work environment. The results are published and acted upon to ensure REI continues to be a great place to work.



76,355 people cared for natural spaces through volunteering with nonprofits that received REI funding

485 volunteer conservation projects hosted by REI

110,858 youth taught Leave No Trace ethics

LEED Gold certification for our Round Rock, Texas, Lincoln Park, Ill., and Boulder, Colo. stores

More than **300** products with the ecoSensitive designation

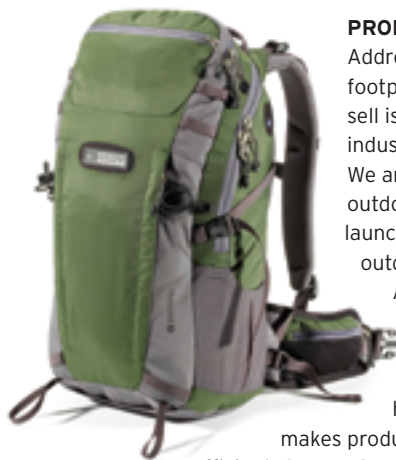
38.2% of the paper we purchased was FSC certified

87% of REI employees said they are positively engaged in our workplace through our annual survey

14th overall rank on Fortune magazine's 2010 "100 Best Companies to Work For" list

INVESTING IN STEWARDSHIP

In 2009, REI provided \$2 million in grants to more than 250 organizations that share our commitment to conservation and recreation. Our grants program helps engage communities, especially youth. Because REI employees work, play and volunteer where we do business, their nominations help determine which nonprofits receive grants.



PRODUCT STEWARDSHIP

Addressing the environmental footprint in the products we sell is one of our—and the industry's—biggest challenges. We are collaborating with our outdoor industry peers to launch a green index for outdoor gear and apparel.

And, we remain focused on decreasing the packaging used for our products, which helps reduce waste and

makes product shipping more efficient. Our ecoSensitive designation continues to identify REI-brand gear and apparel made with a high percentage of recycled, rapidly renewable and/or organic fibers.



smaller environmental impact than products shipped by air or land.

MANAGING WASTE

Solid waste represents significant environmental impact and financial costs for REI. That's why managing and reducing our waste remains a high priority. For all the operational waste we generated in 2009, such as paper, cans, cardboard and wooden pallets, we recycled 84% when measured by weight and 88% by volume.



ETHICAL SOURCING AND MANUFACTURING

REI's sourcing standards help ensure that REI-brand products are made under safe and appropriate conditions for the workers who produce them. Third-party auditors monitor the factories we do business with, and we take corrective action when necessary. We work with the Fair Factories Clearinghouse to identify opportunities to improve factory conditions. And, we remain dedicated to sharing information with our peers, because collaboration is an effective way to help ensure healthy, safe and fair workplaces.





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Giving Philosophy

REI dedicates 3 percent of the previous year's operating profit to its annual giving budget to help conserve natural spaces and create opportunities for outdoor recreation. Since 1976, we have given \$29 million to organizations aligned with our goals to protect our natural heritage and promote the benefits of outdoor recreation. In 2009, we donated \$2 million to more than 250 like-minded local and national groups. While the percentage we gave compared to our annual budget is consistent with years past, the economic downturn impacted our earnings, reducing 2009's giving budget to a level below what we were able to contribute in 2008. For a list of 2009 local and national grants made to conservation and recreation nonprofits, [click here](#).

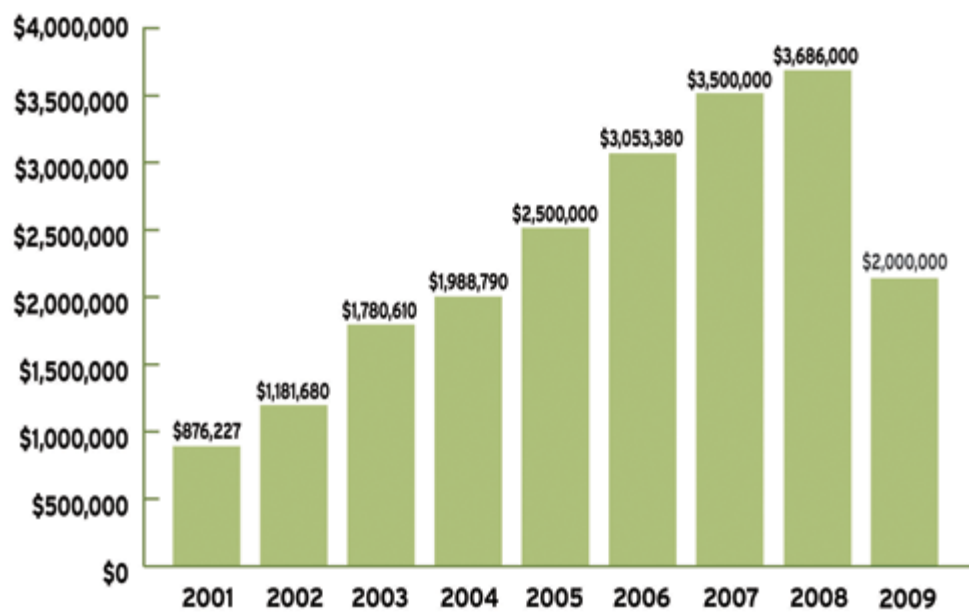
The majority of REI's giving is focused on grassroots efforts that engage our members and customers in the communities we serve. Our grants program is predominantly guided by employee nominations. We believe that this approach is the most authentic way to invest in communities because REI's nearly 9,500 employees have the strongest connections to the communities where they work, play and volunteer. Because of our community-based approach, we do not accept unsolicited requests and proposals.

While we are pleased to provide financial support to nonprofit organizations, our most important measure of success is the quality of our philanthropic efforts. To best ensure that our giving efforts lead to positive change, we work closely with every grantee to leverage our resources and relationships. We measure every proposal against a set of five criteria – impact, substance, involvement, relevance and accountability. Each proposal is also evaluated according to its impact on our goals to increase outdoor recreation and conservation. This helps ensure that our grants are strategic, and create the greatest positive outcome.

The funds REI invested in nonprofit organizations in 2009 delivered the following outcomes:

- 35,306 acres of land and 6,042 miles of trail maintained
- 663,323 hours donated through 76,355 volunteers (via nonprofit grant support)

Annual Giving Budget



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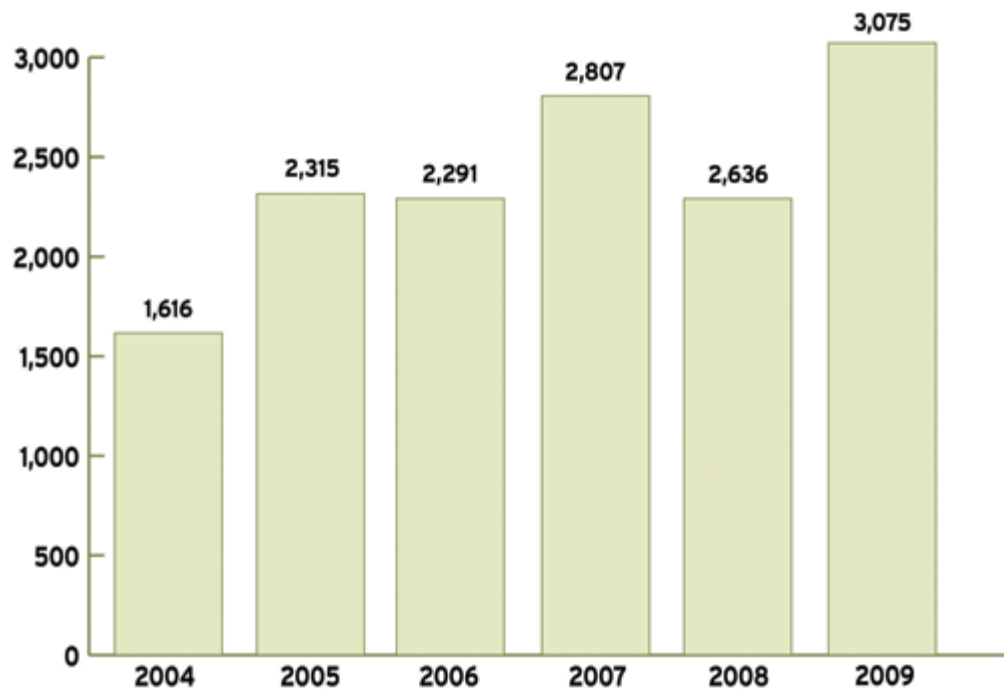


Recreation

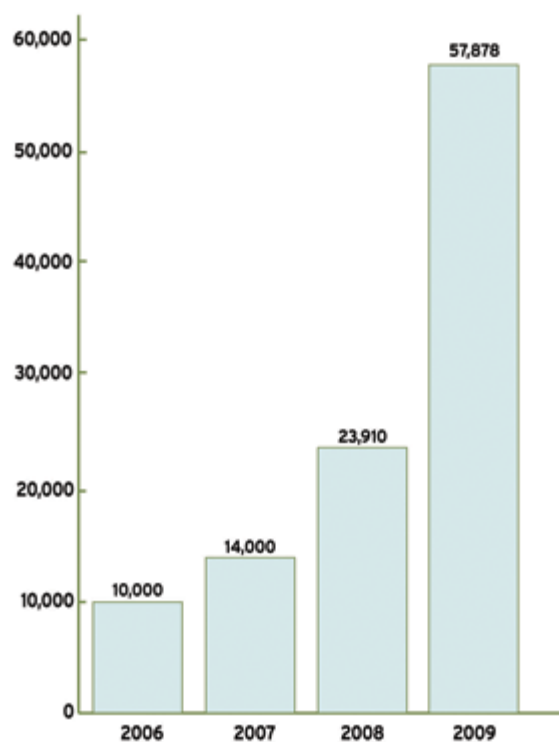
At REI, we strive to help our members and customers have rich outdoor experiences while leading active, healthy lives. Achieving this has become increasingly challenging in recent years. According to the [Outdoor Foundation](#), the amount of time American youth spend outdoors continues to decrease. But reversing the trends can create benefits for children's health through their contact with outdoors and nature, according to a review of research conducted by the [Children & Nature Network](#).

Many of our community outreach efforts, therefore, are focused on reducing the barriers to accessing natural spaces while helping to ensure that each outdoor experience is an enjoyable one that will likely be repeated. In 2009, our outreach efforts included outdoor clinics; Passport to Adventure Program (designed to help get children and their families into the outdoors); [REI's Outdoor School](#); and equipment rentals, which allow people to try an outdoor activity for the first time without having to make an investment of owning the gear.

Gear Bank (Youth Participants)



Kids Passport to Adventure (participants)



Highlights

With less money to give in 2009, we focused our efforts on developing high quality relationships with organizations dedicated to involving young people in outdoor recreation. We worked with organizations like the Appalachian Mountain Club, Big City Mountaineers, and YMCA of Greater Seattle, reaching out to youth and children in diverse urban and rural areas.

We added additional resources to our Gear Bank program, which is available at several of our retail locations, and last year introduced it in the San Diego market. The program provides free outdoor gear rentals to nonprofit organizations so that young people can have access to the equipment they need to help them have a positive outdoor experience. Importantly, many of our stores allow the free use of our rental equipment even if they don't have a formal Gear Bank established. The decision to lend is made at the store level and is based on equipment availability.

Our efforts at the national and local levels are focused on getting children and their families active and connected with nature to foster a new generation of environmental stewards and outdoor enthusiasts. Some of the specific outcomes from our work in 2009 include the following:

- More than 250 grants provided across the United States to help increase participation in outdoor recreation and conservation
- 3,075 youth were served by REI's Gear Banks, totaling 16,475 youth supported since the program's inception
- 57,879 youth participated in REI's Passport to Adventure Program, by receiving an adventure journal through our local outreach efforts

Challenges

While there has been progress made through collaborative partnerships to provide outdoor experiences for young people and their families, we recognize the challenge of addressing the true magnitude of the issue through our company's actions. Further, a solution to the lack of active outdoor lifestyles in today's population needs to take into consideration a number of limiting factors – overscheduled families, lack of experience or confidence, cultural differences, safety concerns, ease of access and others. These factors can compound on each other, making it increasingly difficult to get individuals and families active outdoors. As a result, the co-op is assessing how we can best utilize our philanthropic efforts and resources to appropriately address the issue.

We also face challenges in supporting our Gear Bank program as demand increases and we work to provide enough staffing and equipment storage.

Looking Ahead

REI is looking forward to developing long-term, dynamic strategies to reverse the trend of decreased participation in outdoor activities, especially among young people. We will look to foster partnerships where we see the potential for the greatest positive impact at both the national and local levels.

How are we doing? [Give us feedback](#) on this page.



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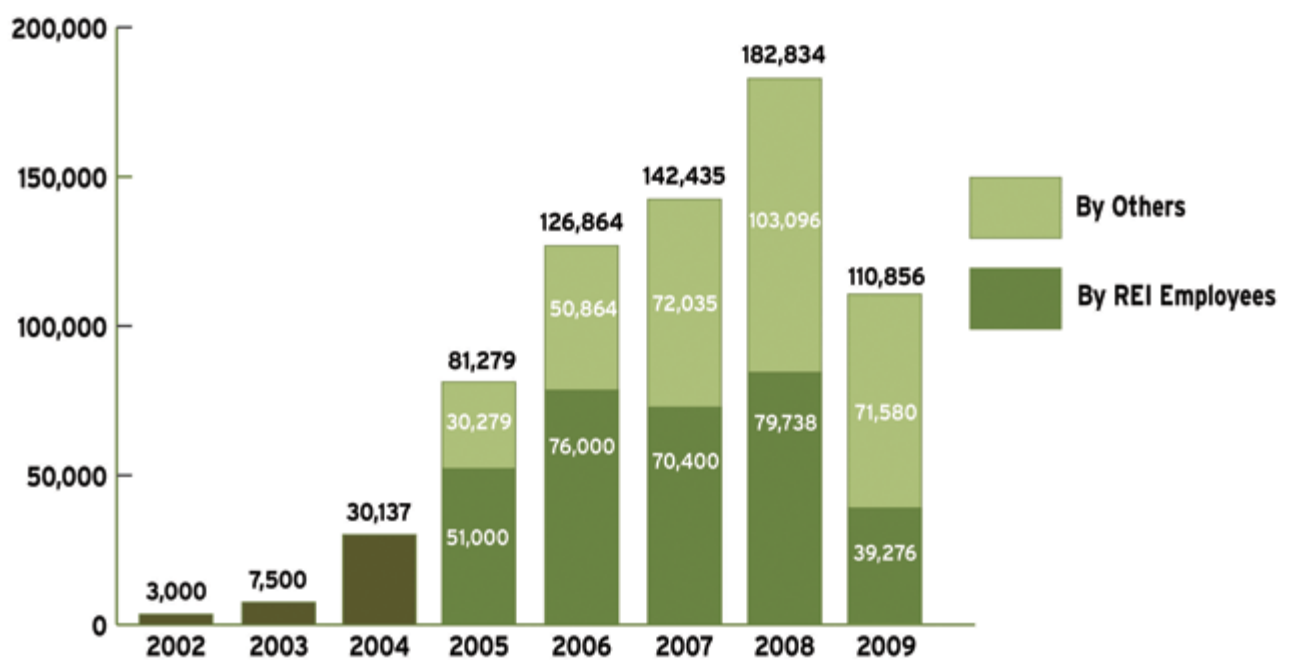
Conservation

REI helps people seek recreation and adventure in the outdoors and become lifelong outdoor enthusiasts. As participation rates increase, the need for outdoor enthusiasts to take an active role in protecting natural spaces will grow as well. Further, as public funding to protect the environment decreases, we need to come together to help take care of our natural heritage.

At REI, we are dedicated to caring for the natural spaces that help define our quality of life, community connections, health and wellness.

In this section we provide information about REI's conservation efforts and programs. These include our store-based community involvement efforts, partnerships with organizations focused on stewardship and the Promoting Environmental Awareness in Kids (PEAK) program, which teaches environmental ethics to instill positive behaviors that shape, educate, inform and equip the next generation of environmental stewards.

Youth Reached Through PEAK



Highlights

REI provided more than 250 grants in 2009, totaling \$2 million, with a focus on outdoor conservation and recreation. And, as in years past, REI helped mobilize individuals and families in active outdoor stewardship by supporting volunteer activities and events. Some highlights of our efforts in 2009 include:

- 76,355 volunteers cared for natural places to the non-profits supported by REI's funding
- 663,323 volunteer hours provided to working on trails, in parks and along waterways on conservation projects on REI-funded nonprofits
- 485 volunteer conservation projects hosted by REI that featured 28,939 volunteers
- 107,116 volunteer hours on REI-hosted conservation projects
- 110,856 youth reached through the PEAK program (of these, 39,276 were reached directly by REI)

Utilizing our social media resources, we posted a series of videos on REI's YouTube Channel (www.youtube.com/reifindout) to raise awareness of our partnerships and inspire others. We highlighted the partnership between our Bay-Area stores and the Bay Area Ridge Trail Council as they worked together to protect and enhance trails throughout the Bay Area. We also highlighted our efforts to protect shoreline in Southern California with the Heal the Bay Foundation.

REI continued its partnership with the American Camp Association in the Northeastern United States (now in its second year). Through grant funding, a train-the-trainer style program provides resources to help campers learn and embrace the PEAK principles, teaching them how to enjoy the great outdoors while minimizing their impact on the natural world. By introducing camp counselors to PEAK, there was increase the program's reach, use and impact.

Challenges

We recognize that REI does not have the resources to address all of the conservation needs created in the face of reduced federal and state funding. However, we can take an active role in the stewardship of the natural spaces in the communities we serve. We also are challenged by the number of qualified trainers available to help implement the PEAK program, as this limits our ability to share the program's benefits with children. And, we recognize the challenge inherent in the fact that not everyone connects outdoor recreation with the personal need to be an active volunteer and

steward of natural spaces.

Looking Ahead

We have seen the benefits of our efforts particularly in the area of volunteerism, and will increase our efforts to encourage even more people to donate their time and energy to protect and preserve the natural world. For example, we are revising our approach with the PEAK program and dedicating our time to train-the-trainer style efforts that enable others to bring the program to young people across the country and to increase that program's reach.

We see our role in increasing the capacity of our nonprofit and community partners as an especially important need to assist in the protection of natural spaces.

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The REI Foundation

The REI Foundation focuses on supporting efforts get more young people, including youth from diverse populations, into nature. Through this work, The REI Foundation's goal is to help inspire the next generation of outdoor enthusiasts and environmental stewards.

With this targeted approach, The Foundation's work is still in its formative state. Presently, activities are primarily concentrated on grant making. However, The Foundation will continue to evolve to become a funder, convener and overall leader in the movement to connect youth to the outdoors.

The REI Foundation researches and invites grant proposals connected to its mission; it does not accept unsolicited proposals.

Highlights

In 2009, The REI Foundation provided major support to three projects endorsed by The National Forum on Children and Nature. The Forum, which was held in 2007 and 2008, began with the support of dozens of organizations from a variety of sectors with a shared interest in identifying, promoting and helping to fund pilot efforts to engage young people in nature and the outdoors.

The Foundation's support was directed to the following Forum-endorsed programs:

The National Audubon Society – \$110,000. REI provided funding to Audubon for the organization to study Audubon's existing offerings and community collaborations, and design future nature programs that better support the needs and interests of culturally diverse individuals and families. The Foundation grant will help Audubon build on the success of Latino-focused nature programs at three urban Audubon Centers in East Los Angeles, Seattle and Phoenix. These centers will work to strengthen connections with local community organizations to expand environmental education and outdoor experiences to diverse populations.

The NYC Green Stops Partnership – \$100,000. REI provided funding for a citywide campaign aimed at connecting New York City's more than two million youth and families with the outdoors and nature. The program encourages youth and their families to take advantage of the city's "Green Stops" – green spaces such as kid-friendly parks and community gardens – as well as outdoor events and programs. The program highlights the availability, accessibility and attractiveness of the city's Green Stops through an interactive website and Green Stop-branded signage posted at parks and gardens throughout the five boroughs. The partnership is a collaboration among four of New York City's most respected environmental organizations, including the New York Restoration Project (NYRP), Solar One, Sustainable South Bronx (SSBx) and Mount Sinai Center for Children's Environmental Health.

EarthTeam Environmental Network – \$14,000. The REI Foundation provided support for this organization's "Eco-Stewards," an environmental education and restoration program that integrates classroom instruction and hands-on fieldwork with student-created multi-media outreach. The grant supports outreach to 300 students aged 12 to 17 from seven middle and high schools in Richmond, Oakland and Pittsburg, California.

The Foundation also continued a third year of funding in San Diego to reach more diverse communities in order to build interest in the outdoors. These programs align with our efforts to increase participation in outdoor activities and among communities of color. For more information, read about REI's efforts surrounding [Diversity and Inclusion](#).

The Foundation provided support to the following San Diego-based organizations:

Ocean Discovery Institute – \$20,000. The Foundation's funds will help this organization (formerly Aquatic Adventures) develop a series of inter-connected after-school and summer programs. These programs will provide 90 middle and high school students from diverse backgrounds with hundreds of hours of ocean science education, nature experiences, scientific research and environmental stewardship.

Outdoor Outreach – \$20,000. This non-profit organization is dedicated to providing high quality outdoor programs for at-risk youth. The Foundation provided support for its internship program. Through the program, 10 interns (and former program participants) will plan and coordinate the organization's outdoor outings, providing valuable leadership experience. In 2009, the program served 822 youth on 257 outdoor trips.

WILDCOAST – \$20,000. This organization works to protect and preserve coastal ecosystems and wildlife in California and Latin America. The Foundation provided support for its Border Clean Water and Otay River Valley campaign. The grant will connect more people to the natural areas in South Bay San Diego through guided tours, stewardship events and recreational activities, involving nearly 700 volunteers in 4,000 hours of service.

YMCA Camp Surf – \$19,775. This program received support for its Friends/Family Adventures in Nature (FAN) Clubs. The club will serve 700 children and adults in the coming year at 20 school sites throughout San Diego. Funds from The REI Foundation will help incorporate hands-on activities and outdoor curriculum into the youth program.

The REI Foundation also supported a pilot program developed by the **Outdoor Foundation** through a \$20,000 grant for an online community designed to engage and involve youth in setting an agenda of their future involvement in the outdoors.

While The Foundation shifted its focus of its work to emphasize getting more young people into nature, it made three grants to the American Red Cross (national and local chapters) in support of disaster relief, as well as three grants of \$1,000 each in memory of REI employees who passed away in 2009.

Challenges

While the current economy presents challenges to funders and nonprofit organizations across all sectors, The REI Foundation is developing its long-range strategic plan to more effectively and powerfully pursue its mission. The organization is also working to refine its success measures and continue to develop evaluation criteria.

Looking Ahead

The Foundation will continue to expand its efforts as a funder, supporter and convener of activities that provide programs, awareness and increased public engagement in the outdoors. In 2009 and years' past, The REI Foundation also provided assistance for disaster relief and for memorials in the name of employees who have passed away. However, these efforts will become part of REI's larger corporate giving program, beginning in 2010. This will allow The Foundation to keep its focus on helping more youth become involved with outdoor recreation and stewardship.

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Advocacy for the Outdoors

During 2009, REI worked to address two key areas as part of its public policy agenda, including advocacy for public lands and trade issues relevant to REI's interests. Over the course of the year, we focused a great deal of time and activity toward advocating for public lands. We took action primarily at the federal level, but efforts were also pursued at the state level, with the greatest emphasis in Washington State, where REI is headquartered.

Highlights

Throughout 2009, REI continued to lobby for the funding of federal public lands and supporting programs. Central to this effort was REI's support for the Land and Water Conservation Fund (LWCF) with an emphasis on the fund's 2009 and 2010 Stateside Grants Program. This program provides states with federal matching funds for the development of recreation opportunities. Our interest in this program is tied to our strong belief that access to outdoor experiences close to home provide an important first step in creating lifelong outdoor enthusiasts. In addition to lobbying both as a company and in coordination with the Outdoor Industry Association for the LWCF, REI staff also participated in a congressional staff briefing to launch a new coalition report, "Conserving America's Landscapes," demonstrating the benefits of the grants program.

REI's advocacy work in 2009 also included lobbying for appropriations for the Forest Service, the National Park Service and the Bureau of Land Management, as well as for programs within these agencies' budgets in support of recreation. These efforts helped to ensure Congress heard a strong constituency for federal funding of outdoor recreation programs.

REI also supported the passage of the Omnibus Public Lands Bill which offers significant protections to quality public lands and rivers across the country. REI president and CEO Sally Jewell testified on behalf of the Public Lands Service Corp Act in her role as company CEO and board member for the National Parks and Conservation Association. She also spoke in support of the confirmation of Jon Jarvis to serve as the director of the National Park Service.

At the state-level, REI continued its ongoing engagement and leadership in the Washington Wildlife and Recreation Coalition (WWRC). The WWRC is a broad-based coalition of government agencies, nonprofits and businesses working together to support capital budget funding of the WWRC program. This funding, in turn, supports the acquisition and protection of recreational lands, habitat and farms in Washington State. One member of REI's leadership team serves on the executive committee for the WWRC board of directors. In 2009, the coalition helped secure \$70 million in the state's capital budget for the WWRC. Recognizing the significant threat of eliminating and restricting access to public lands, REI also joined other outdoor industry companies in communicating its support of keeping state parks open in California.

REI continued to support the Outdoor Industry Association to reduce tariffs placed on imported recreational performance outerwear. Currently this unique product group is classified in a very broad, antiquated category that is not reflective of current manufacturing realities. This was supported by a report from the International Trade Commission, which concluded that there is no commercially viable recreational performance outerwear industry in the United States within the defined categories. The tariffs in this product category run as high as 27 percent and increase the cost of goods to consumers while limiting innovation and addition of performance features. Efforts to forward a bill eliminating these tariffs in 2009 were unsuccessful.

Challenges

The recession and the significant focus on major issues such as health care have pushed many issues in need of attention, including several of our key issues, to the back burner and this has made for slow progress. Increasing pressure on financial resources has also made funding outdoor recreation programs increasingly difficult.

Looking Ahead

REI believes that the economic and social benefits of the outdoors make support and funding of outdoor recreation and conservation critical. To achieve this, REI will continue to develop a broad coalition in support of the natural spaces and outdoor exploration. REI is also looking at ways to connect public policy with the goal of increasing participation in the outdoors, especially among young people. This includes looking at how outdoor recreation can help with employment, health and wellness, more livable communities, climate change and protection of our natural resources.

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Greenhouse Gas Emissions

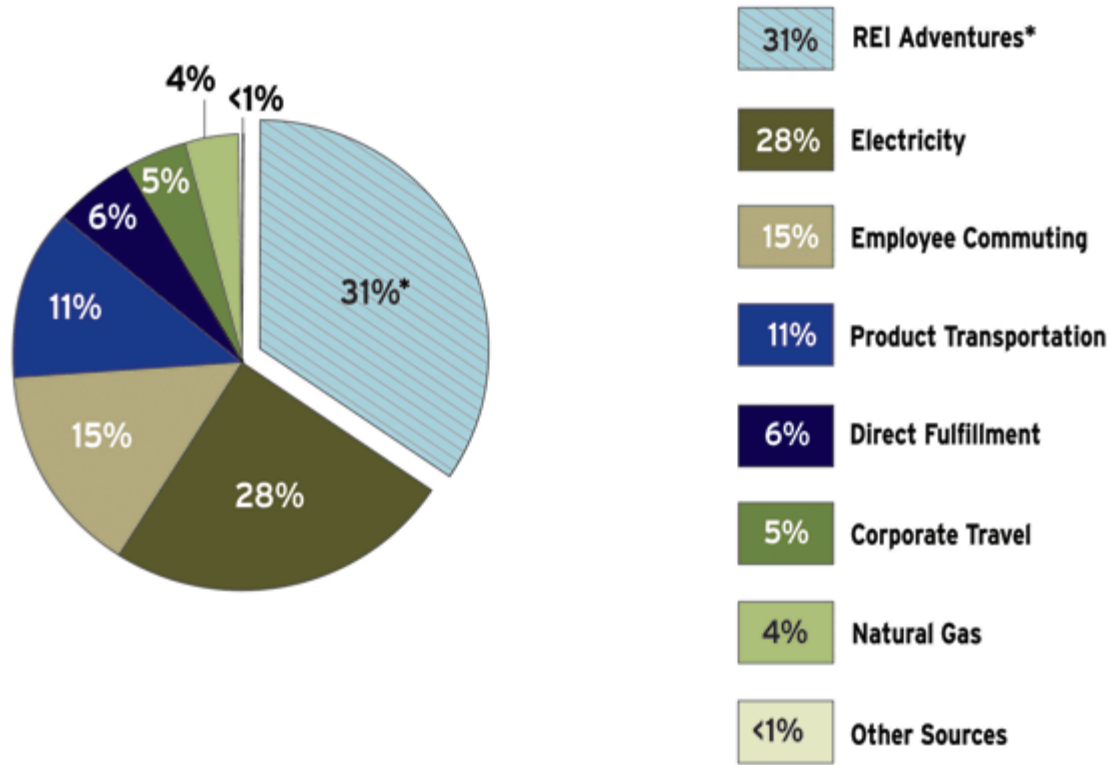
REI measures and works to reduce our greenhouse gas (GHG) emissions to minimize business risks, identify cost reduction opportunities and further align with our mission and vision. Our core human-powered activities and the natural places we love are at significant risk as climate change accelerates.

As with other sustainability metrics, using the sustainability lens of GHG emissions to re-examine our business allows us to see strategic risks and opportunities. Measuring and understanding REI's carbon footprint gives us a window into facts that are sometimes counter to our business intuition, allowing us to use GHG emissions as a leading indicator to make more informed business decisions.

It is useful to understand two terms we use to refer to climate change at REI. "Greenhouse gas footprint" is the total amount of GHGs that REI is responsible for converted into the equivalent amount of carbon dioxide. Our "climate impact" is the net contribution REI has on climate change, after our [carbon offsets](#) are subtracted.

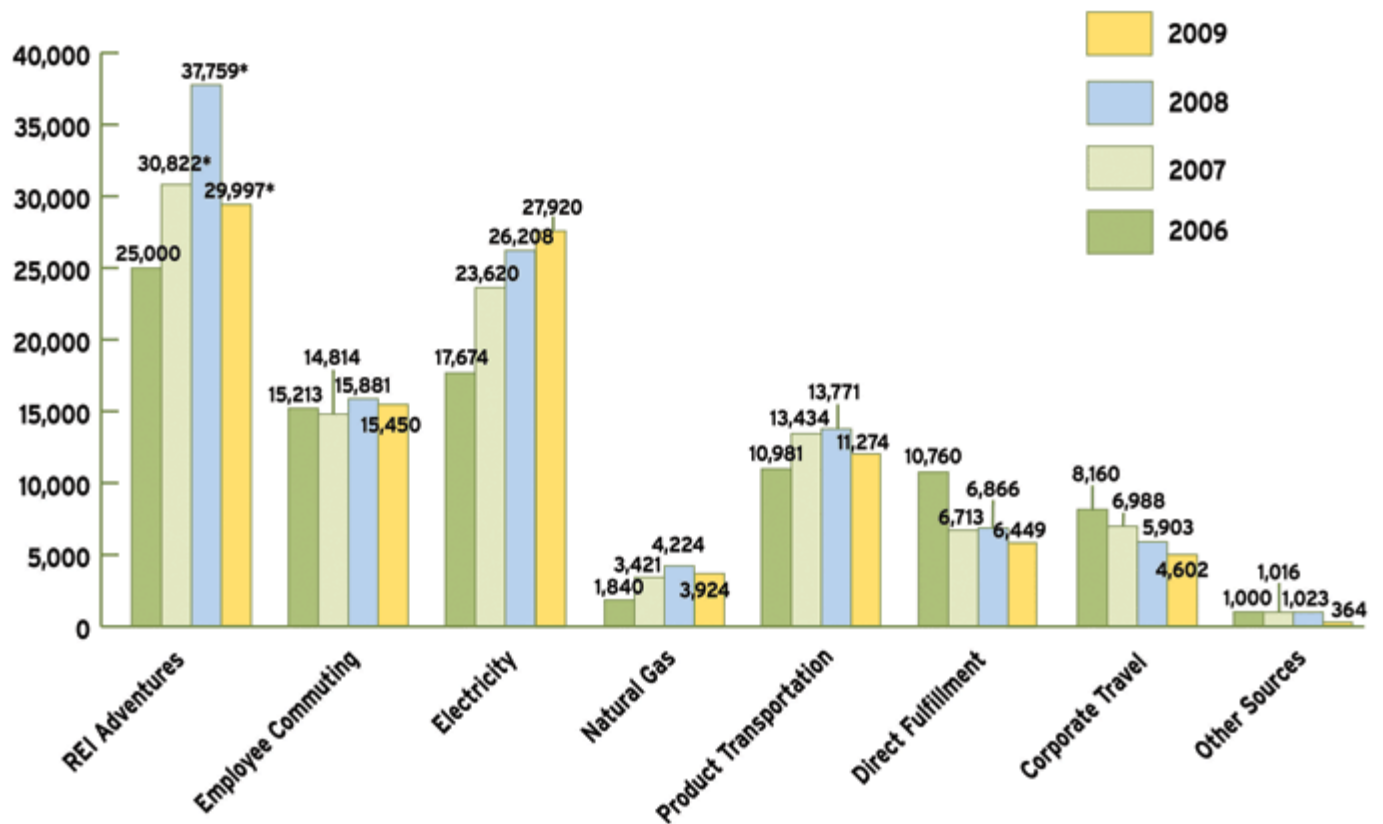
The details of how we measure our environmental impacts can be found in the [methodology appendix](#).

REI's 2009 Greenhouse Gas Emissions



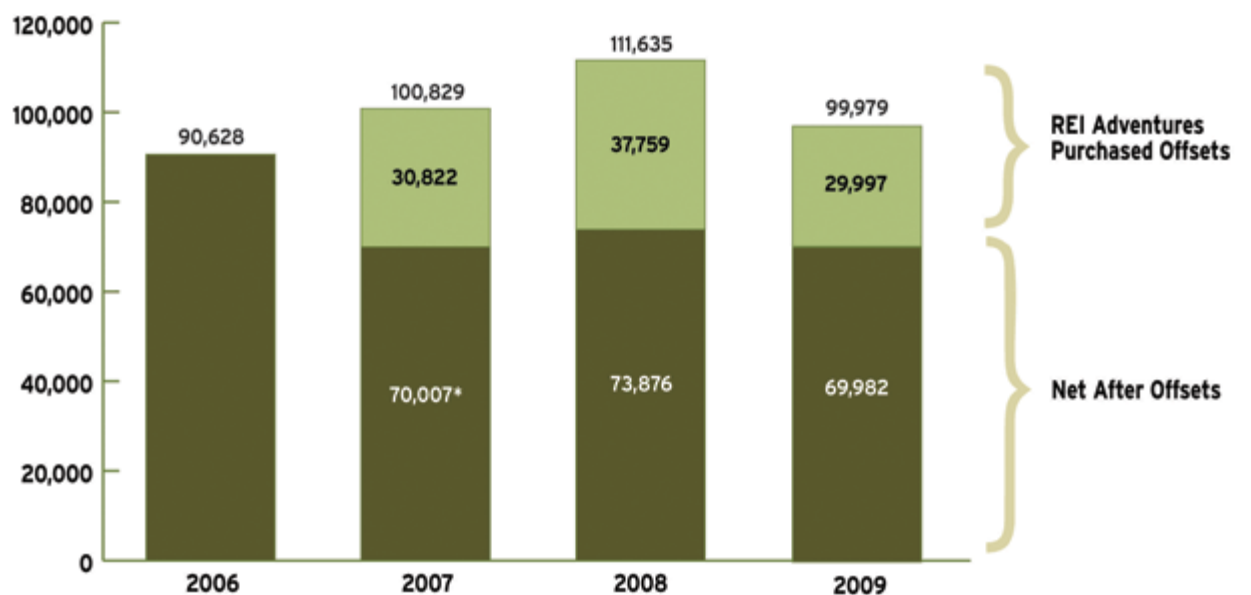
**Offset using Renewable Energy Credits from Bonneville Environmental Foundation.*

Greenhouse Gas Emissions (Tons CO2)



* Offset using Renewable Energy Credits from Bonneville Environmental Foundation.

Carbon Footprint (Tons CO2)



Highlights

In 2009, we reduced our absolute climate impact by 10 percent (from 111,000 tons of GHG emissions, or CO₂e, to less than 100,000 tons CO₂e) from 2008 levels. This reduction brought us under our 2007 climate impact, and came close to meeting our interim goal of a one third reduction in climate impact from 2006 to 2009. Between 2006 and 2009, our business grew 23 percent, while our climate impact dropped by 22.8 percent.

To put this into context, at the beginning of 2006 we had a total of 81 stores, whereas at the end of 2009 we had 110. In addition, we also had one distribution center in 2006. In 2009, our second distribution center located in Bedford, Pa. was fully operable, representing an additional 525,000 square feet of facility. This means that our overall square footage grew by a total of 40 percent between 2006 and 2009, and the amount of goods we transported and sold also increased significantly.

As a result, we are learning how to grow while maintaining, or even reducing, our GHG emissions. We have also learned that some of our efforts have longer return when it comes to GHG reductions. For example, when we invest in energy efficiency we don't see the full impacts until the improvement has been in place for a full calendar year.

Looking at our carbon impact for 2009 and previous years, we made most of our GHG reductions as a result of strategic business management, efficiency and investments. In 2009 we also saw a reduction in corporate travel, and this contributed to a reduction in GHGs, but there is a potential that this and other categories could rebound in 2010 as the economy recovers.

It is important to note that we don't directly control most of our climate impacts. As such, we actively partner with vendors to understand impacts and efficiencies and to look for breakthrough opportunities. For example, in 2008 and 2009 we saw first-hand the impact of CO₂ exposure in REI's supply chains as unbudgeted fuel surcharges were tacked onto shipping invoices in response to a volatile petroleum market. In response, we found ways to ship our products from overseas to our distribution centers that were more cost efficient and reduced our GHG emissions.

During 2009, REI's climate program was audited by [Climate Counts](#), a nonprofit organization that scores companies annually on the basis of their voluntary actions to reverse climate change. Our participation and resulting score qualified the co-op to be a charter member in their [Industry Innovators \(i2\)](#) program, along with other leading companies working to find solutions to climate change. Our full 2009 Climate Counts assessment can be found in our [methodology](#)

section.

Challenges

Many sources of REI's GHG emissions are difficult to address because reasonable, GHG-free or reduced GHG alternatives aren't widely available or simply don't exist. Because corporate travel remains a necessity, reducing the GHG emissions associated with air travel will continue to be a challenge.

Looking Ahead

We are carefully examining our largest single source of GHG emissions — air travel associated with REI Adventures — and our use of [carbon offsets](#) to address this source. Our focus is on whether this approach maximizes business value for the co-op while minimizing environmental impact.

As we look at our operations to manage and reduce our carbon footprint, our efforts will include continued efficiencies in our logistics and energy use, and using our employee commuting data to prioritize strategic employee benefit programs. We are also working to incorporate key performance indicators into our business goals.

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Climate-Neutral Travel



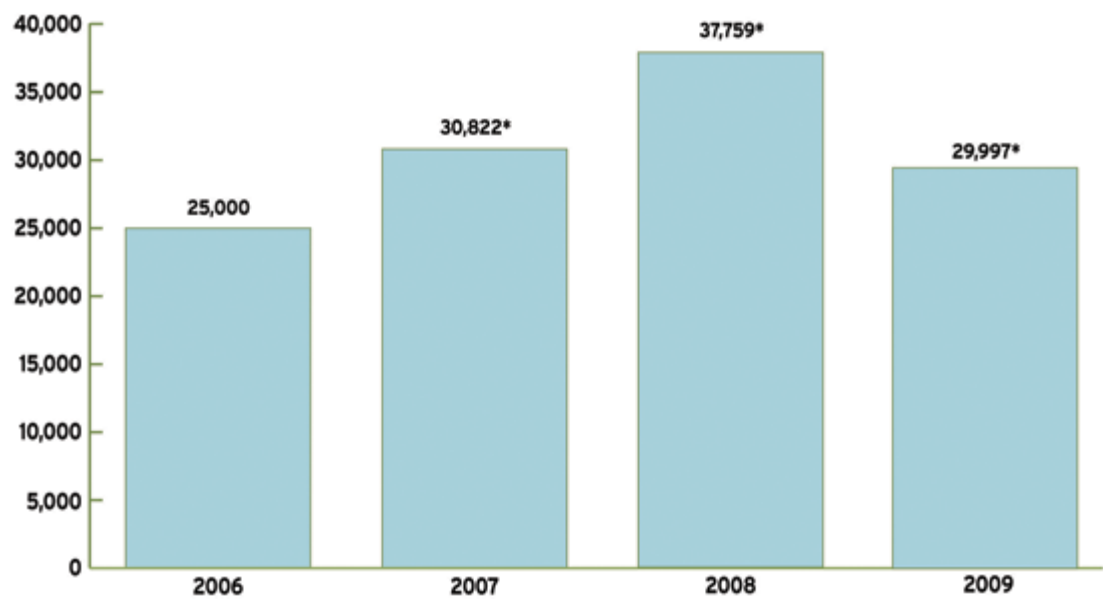
Climate-Neutral Travel

By analyzing our greenhouse gas inventories, we understand the largest opportunities to prioritize our efforts and make changes with greater certainty. Customer travel associated with REI Adventures accounts for our largest single source of GHG emissions and was the source of 31 percent of our overall footprint in 2009.

To address the climate change impacts from REI Adventures' customer travel, we partner with the Bonneville Environmental Foundation to offer one of nation's leading carbon-neutral travel programs through certified Green-e offsets. Our choice of partner is deliberate because their offering meets our standards for validation. When we purchase carbon offsets, they are verifiable under a credible third-party certification system and contribute to long-term systemic change. REI recognizes that offsets are not the preferred solution; we seek to reduce our core emissions wherever possible throughout the rest of our operations.

Because approximately 90 percent of the climate impact from an international trip comes from the air travel to the destination, this action allows us to shift this travel from being the largest contributor to our greenhouse gas footprint to a climate-neutral activity. The co-op also offsets the ground transportation for all REI Outdoor School programs. The action to offer climate-neutral trips is done with no additional cost to our customers.

REI Adventures (Tons CO2)



*Offset using Renewable Energy Credits from Bonneville Environmental Foundation.

Highlights

In 2009, REI Adventures saw a decrease in international travelers and an increase in domestic travel. This lowered the overall GHG footprint generated through our travel program. However, we recognize that this was due in part to the economic downturn. In the first months of 2010, we have experienced an upswing in customers booking international travel to participate in our offerings.

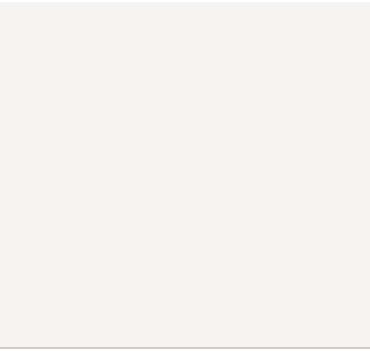
Challenges

No solution currently exists to eliminate or significantly reduce the climate impact created by air travel, so we continue to use carbon offsets as the best available option to address this source. While we don't own or operate the airplanes that create the GHG emissions associated with our travel program, we have chosen to own and offset these GHG emissions. We expect that as REI Adventures continues to grow it will continue to represent the largest single source of the co-op's climate impact. Because of this, we have had begun a dialogue regarding whether offsetting is the right strategy. While some feel that offsetting offers the best available solution, others feel it is simply a justification to allow for a significant source of GHG emissions.

Looking Ahead

While there is climate impact with every REI Adventures trip, we remain committed to this offering because our adventure travel division reinforces the co-op's purpose to educate and inspire others for a lifetime of loving the outdoors. Additionally, we see a positive benefit in how REI Adventures trips connect travelers to unique and vibrant cultures and eco-systems around the world. Further, REI Adventures is an important service offering valued by our members.

To emphasize the benefits that travel can bring to the world, REI has introduced a [new travel offering](#) through a partnership with Conservation Volunteers International Program (Conservation VIP). These trips, which began in 2010, provide travelers the opportunity to volunteer their time during an REI Adventure expedition to help preserve and



protect iconic natural and cultural sites around the world.

How are we doing? [Give us feedback](#) on this page.



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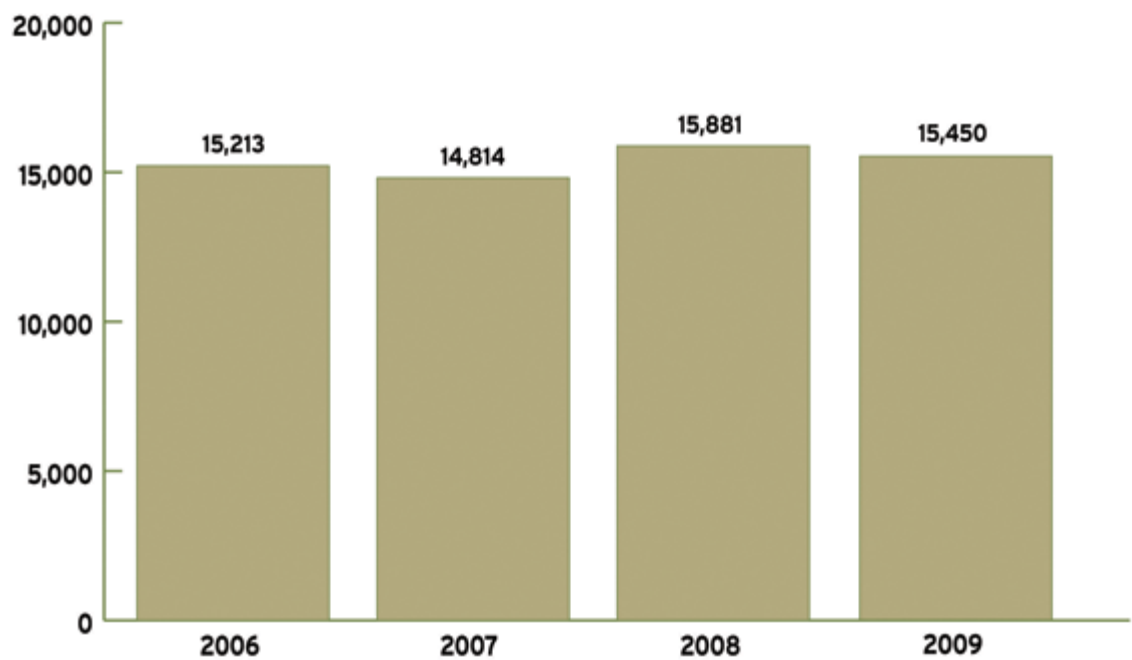
Employee Commuting

Our employees must commute to get to our stores, distribution centers and headquarters. Depending on an employee's scope of work, work location and schedule, we have created programs that help diminish the environmental impacts of commuting, such as GHG emissions, while supporting our economic bottom line.

REI has long provided incentives to help our employees reduce the environmental impacts of commuting. These include a 50 percent transit subsidy and in almost every REI location employee bike storage and showers.

In 2007, REI began a formal effort to reduce the impacts of employee commuting. In addition to creating a staff position to coordinate our employee commuting efforts, we launched a program called Customized Work Environment (CWE). This program includes options for telecommuting, flextime and a compressed work week for employees whose jobs allow for this level of flexibility. REI has also received grants in recent years to help us find ways to reduce the climate impacts from commuting in our western Washington locations. We've taken the lessons learned to create innovative strategies to reduce employee commuting impacts across all our operations. Ultimately, these will help us understand how we can best reduce GHG emissions from REI employee commuting nationwide and identify scalable solutions to this challenge.

Employee Commuting (Tons CO2)



Highlights

To further reduce impacts from commuting, REI implemented pre-tax commuting benefits for employees. Specifically, employees who take advantage of REI's 50 percent public transportation subsidy can pay for their share with pre-tax dollars from their regular compensation.

We also increased our focus across the organization on bike commuting through our [giving efforts](#) and the marketing of our branded commuter-friendly gear and apparel. Part of this effort focused on supporting causes such as Bike-to-Work Day and the Bikes Belong Bicycle Friendly Communities grants program. We also continued the integration of alternative commuting infrastructure into our new stores, such as bike racks and employee showers, to decrease our climate impact.

Challenges

In 2008 we saw an increase in alternative commuting that led to a reduction in carbon impact per employee. In some instances this was in response to rising gasoline prices. As gas prices came down in 2009, there was less incentive for employees to continue alternative commuting methods, and so our climate impact per employee went up.

At the same time, the slow economy also meant that we had fewer employees in 2009, our climate impact from employee commuting dropped slightly. However, as the economy improves and we hire more employees, we will be challenged to maintain current levels of GHG emissions associated with employee commuting. And we recognize that other factors, such as future volatility in gas prices, could impact recruitment and retention of employees.

We are also challenged by the fact that many of our stores are not located within easy access of public transportation. As a result, some employees are not able to take advantage of alternative commuting.

Looking Forward

We will continue to address barriers to alternative commuting at all locations across REI. These barriers include education and support of infrastructure improvement projects and bike-to-work initiatives.

We will also continue our ongoing efforts to standardize support of alternative commuting in all of our locations. We will continue to assess alternative commuting incentives, such as bike commuting, as we work to implement tracking and recognition systems to voluntarily gather commuting data from all employees.

How are we doing? [Give us feedback](#) on this page.



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2009 STEWARDSHIP REPORT

ENVIRONMENT

Energy

Energy use is one of the largest contributors to REI's climate impact. By actively managing our energy consumption and expenses, we gain insight into fundamental risks and opportunities, and minimize our exposure to financial and business continuity risks. The energy choices we make now will have business impacts for decades to come.

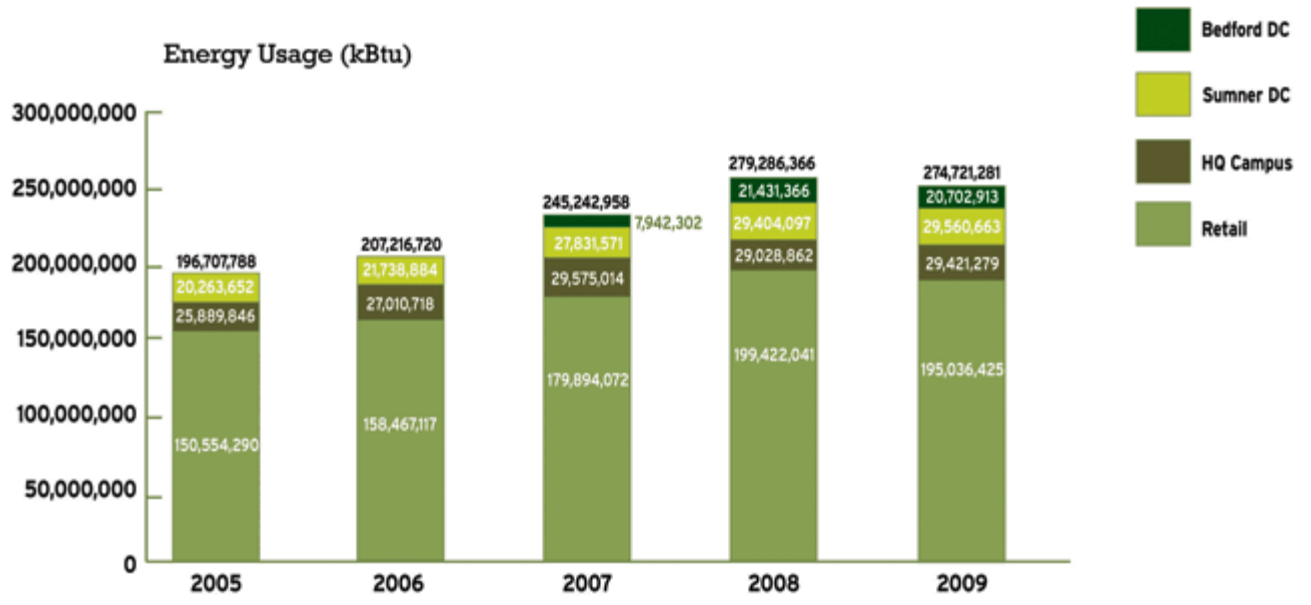
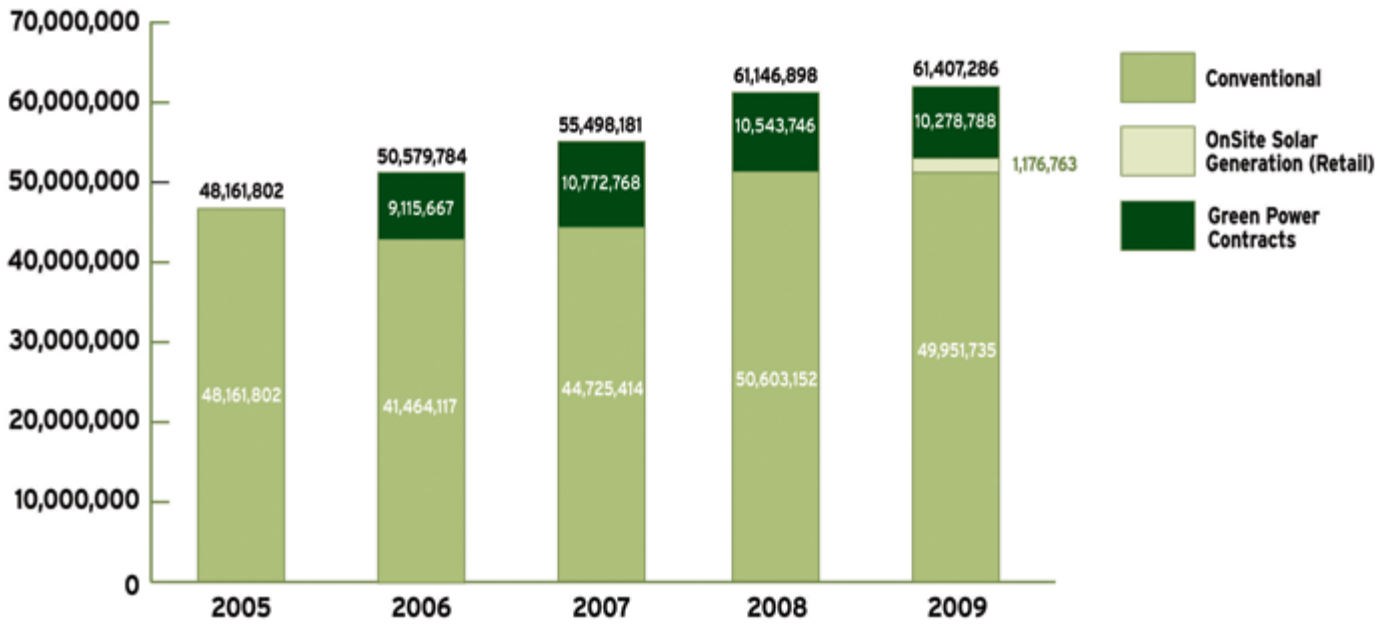


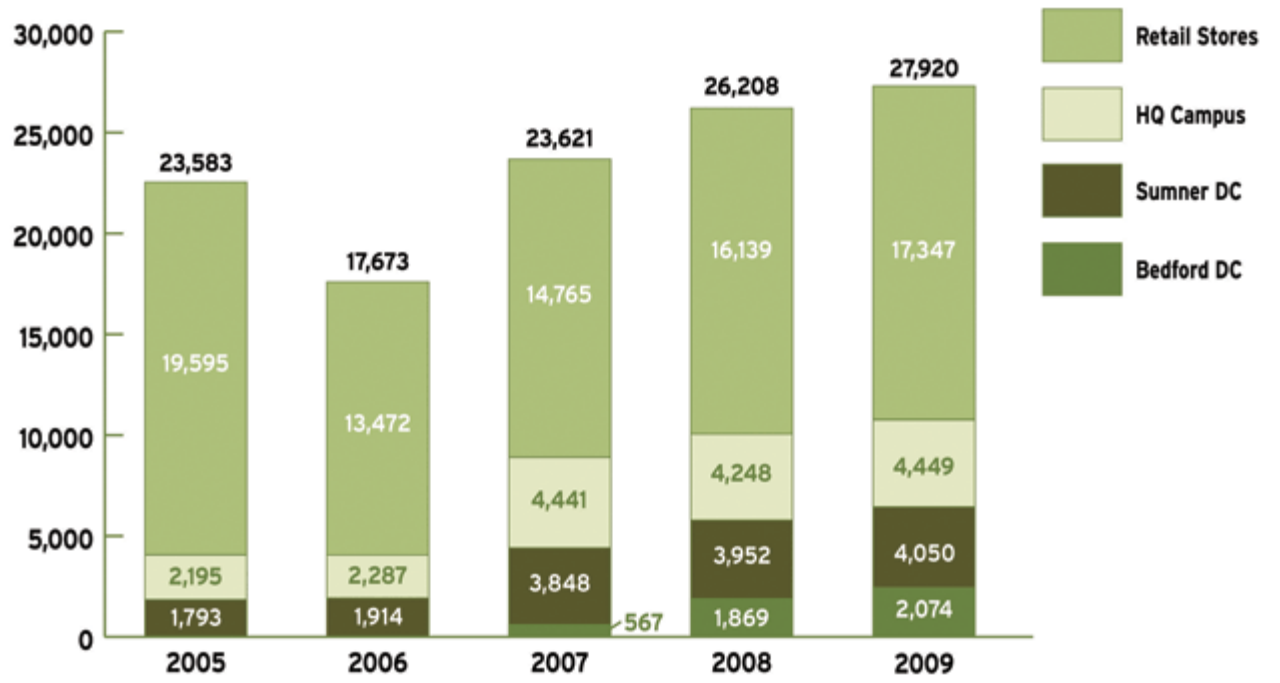
Chart combines natural gas and electricity into a common unit to illustrate total energy usage.



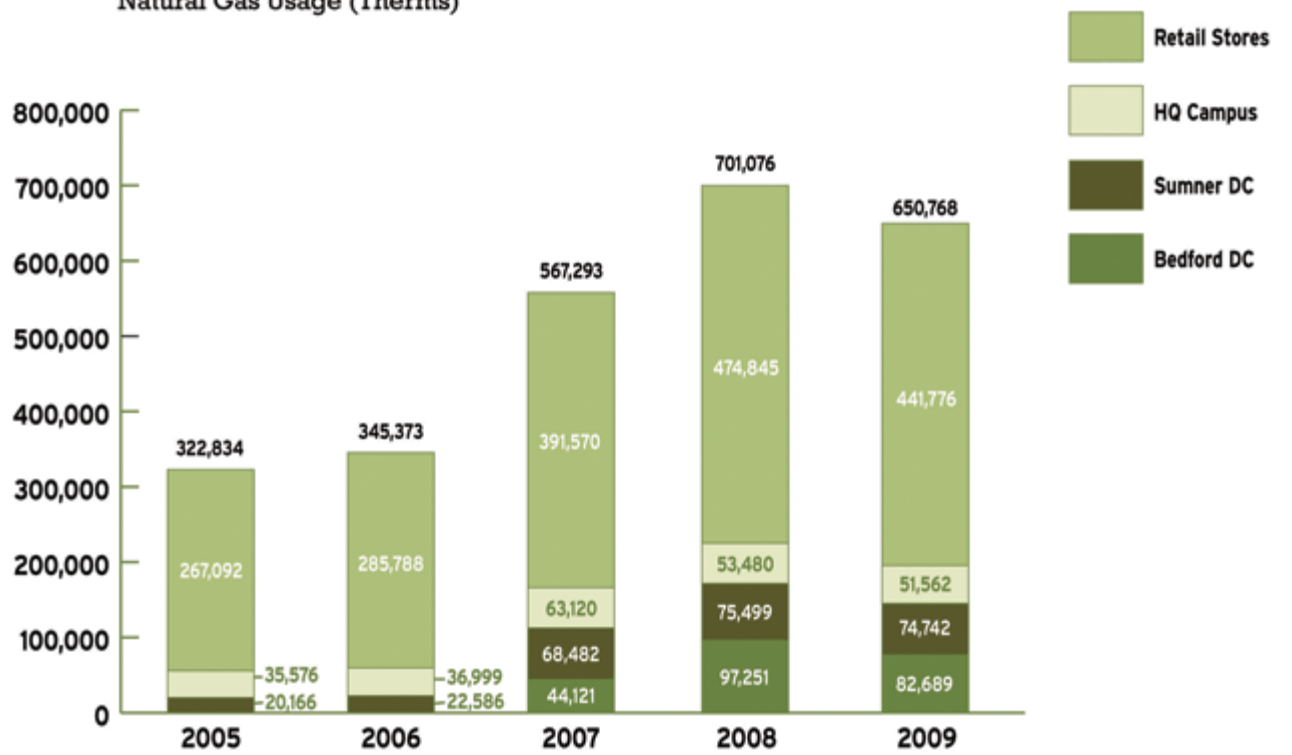
Electricity Consumption by Source (kWh)



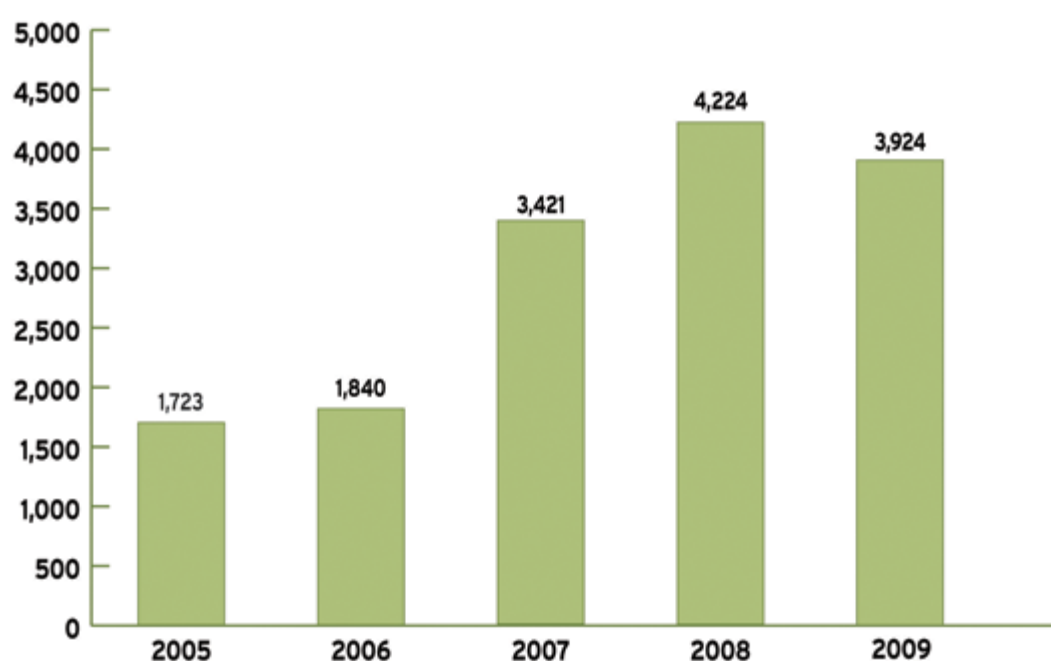
Electricity Impacts (Tons CO2)



Natural Gas Usage (Therms)



Natural Gas (Tons CO2)



Highlights

In 2009, we used less electricity and natural gas throughout our operations than in 2008, despite company-wide growth, including the addition of five new stores. We accomplished this by driving down our retail store energy density through significant energy efficiency upgrades including lighting retrofits and other green building efforts such as day lighting and installing more efficient HVAC units.

REI's total electricity use crept up only 0.4 percent in 2009, and this represents a significant improvement over previous years when we saw increases of up to ten percent. In 2009, our self-generation and green power purchases provided over 18 percent of our total electricity usage.

While our total energy cost increased slightly in 2009, this was due mainly to higher energy costs in certain markets as opposed to higher usage in our operations. REI's energy usage generally stabilized due to efficient growth and retrofits in our retail operations along with other energy efficiency projects throughout the co-op. All facilities also showed a reduction in the use of natural gas.

REI's natural gas use went down across all facilities and this helped balance the increase in CO2 from electricity usage. However, our decrease in the use of natural gas may be due in part to a warmer winter, and our usage may bounce back up if the 2010 winter is colder than 2009.

Retail

In our retail operations, we reduced overall energy use, despite continued store growth. It is significant that our retail energy efficiency projects (lighting retrofits, HVAC upgrades and other efficiency investments) more than compensated for new store energy needs. 2009 was the first full year we self-generated solar electric power from our 11 stores with solar panels. This produced approximately 2.6% of our electricity needs for our retail operations. These rooftop photovoltaic panels generated 1.1 million kWh of electricity.

Many of our stores produce some of their hot water through solar hot water heaters, reducing our use of natural gas. Most importantly, all of our self-generated power produced zero GHG emissions.

In addition, we retrofitted 51 REI stores to increase lighting efficiency while reducing energy usage.

In 2009 we continued our commitment to use green power (energy generated from renewable resources such as wind and solar). However, we ceased buying green power from Xcel Energy's Windsource program in Colorado because the company's new product did not meet our green power procurement criteria. We added NextEra as a vendor to provide green power for other REI stores where available. At the end of 2009, 21 stores were 100 percent powered from green energy sources.

Distribution Centers

At REI's distribution center in Bedford, Pa., we maintain a solar electric power purchase agreement, whereby REI leases

photovoltaic panels on the Bedford rooftop from a third party. This agreement was up and running for most of 2009, allowing us to purchase a small percentage of Bedford's energy from a long-term, cost-stable source. Because Bedford's contract is for the energy—not the environmental benefits—the CO2 content of the electricity is counted at the same level as the electric grid in that area, so we do not count this as a CO2 benefit.

At our distribution center in Sumner, Wash., electricity use grew just over two percent while natural gas usage dropped by over four percent.

Headquarters

At our headquarters in Kent, Wash., we installed lighting sensors and sub-metering in REI's data center in the Anderson Building on our headquarters to better understand our energy usage and opportunities for improved energy efficiency. This building accounts for 64 percent of all energy usage at our headquarters campus. An energy audit was completed on this building and plans are in place to continue energy efficiency work throughout our campus.

In addition, we conducted other work to limit energy growth at our headquarters, such as adjusting heating and cooling set-points. Because of the slow economy, we had a slight reduction in the number of employees at our headquarters in 2009 and this likely contributed to a slight decrease in the energy usage as well.

At REI's fixture shop near our headquarters, we reduced electricity usage by about 20 percent, due mainly to decreased production volume of the shop and a late year retrofit of the building.

Challenges

Direct rebates from government programs and utilities, as well as incentives and tax deductions associated with green energy are changing rapidly. While these programs often open up new opportunities, the rate of change makes it difficult to determine how to best take advantages of these opportunities at our locations. This is especially challenging because green energy rebates, incentives and tax deductions typically differ from state to state.

We still face hurdles when it comes to finding green power utility programs that meet our environmental and financial needs. And, we expect there may be significant rate increases in certain markets in 2010 and 2011 so we will continue to implement energy efficiency measures. At the same time, REI's continued growth makes it difficult to achieve overall reductions in energy usage each year.

Looking Ahead

As we look to 2010 and beyond, REI will continue to focus on increasing energy efficiency and green building in all of our new construction and building retrofits. We will use the U.S. Environmental Protection Agency's [ENERGY STAR benchmarking tool](#) to identify short-term opportunities to improve our performance throughout our operations.

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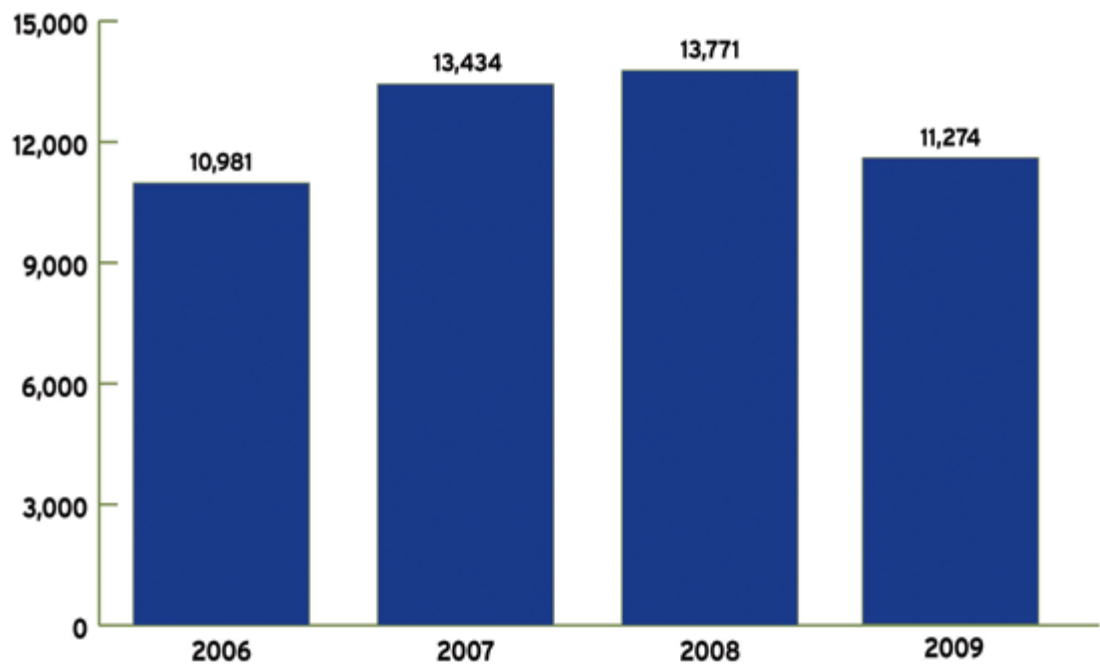


Product Transportation

REI's success depends on getting products manufactured around the world into our distribution centers, stores and to our customers. Transporting product efficiently requires coordination among many aspects of REI's operations and vendors, and contributes to our environmental footprint.

Therefore, it is essential for our logistics team to understand the risks of climate impact as well as the opportunities to reduce climate impact from our supply chain. To reduce our climate impact in this category, we rely heavily on our third-party shipping and merchandise vendors.

Product Transportation (Tons CO₂)



Highlights

In 2009, product transportation accounted for 11.3 percent of our GHG emissions. This represents an 18.1 percent decrease from 2008. We achieved this reduction even as the volume of REI-brand gear and apparel shipped internationally increased from the previous year. We accomplished this reduction by continuing practices we began in 2008, such as reducing the amount of freight we ship by air, which had the biggest single impact in reducing our GHG emissions in this category.

We also started having some manufacturers ship their goods directly to our distribution centers, bypassing their distribution centers in the process. And, we continued to consolidate shipments into fewer containers through practices such as origin consolidation and more efficient utilization of containers.

For any strategy that reduces an environmental impact – including our carbon footprint – to truly be sustainable, it must make financial and environmental sense. By implementing shipping strategies that reduce costs such as fuel surcharges or multiple shipping containers, we can reduce our environmental impacts while contributing positively to our financial performance. For example, in 2008, we cut costs and GHGs by choosing to ship products entirely by water to our Bedford, Pa. distribution center. While it took creative work to balance the needs of our business, this decision, coupled with optimizing how we pack shipping containers, reduced shipping-related greenhouse gases by 600 tons.

Challenges

In 2009, part of our success in reducing our carbon impact from product transportation was due to a slower economy, which led to the generation of fewer GHG emissions. We expect to see an increase in shipping over the course of 2010 as the economy improves.

Getting real climate impact data from vendors can be very difficult. Without this data, we cannot differentiate efficiency and environmental performance between logistics vendors. With this data, we would expect to see an even greater decrease in GHG emissions in this category.

Looking Ahead

Moving forward, we will continue to focus heavily on improving efficiencies in product transportation that will provide economic and environmental benefits. First, we will continue to focus on finding greater efficiencies to ensure we are transporting the highest volume of goods with the least amount of carbon-generating fuels, in the fewest possible trips. To do this, we will work to improve visibility of our actual shipping costs and impacts as we move to an enterprise-wide data management system to provide better visibility into allocating actual shipping costs and environmental impacts.

In addition, we will work with vendors to receive real data (rather than industry averages) about fleet performance and the impacts of initiatives such as "slow shipping" of ocean freight – a practice that greatly reduces GHG emissions. It will remain difficult to quantify resultant GHG reductions because we are reliant on industry averages to calculate our impact.

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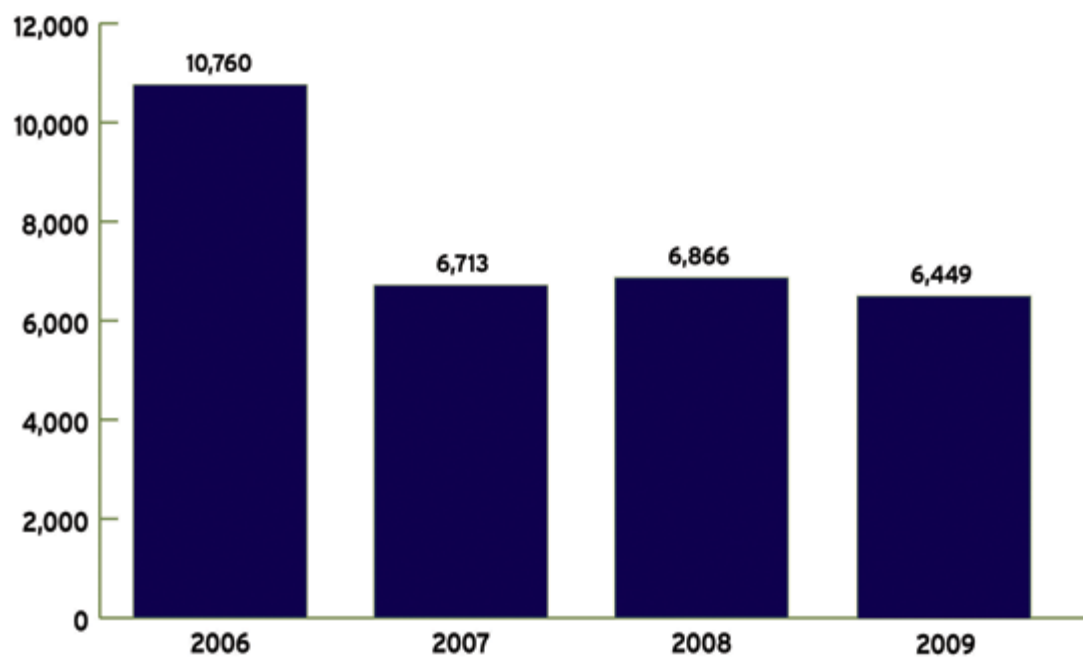
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Direct Fulfillment

When we deliver products directly to our customers, our climate impact grows as a result of CO2 generated by air and ground shipping. Direct sales – mainly from REI.com – accounts for a healthy percentage of our revenue.

Direct Fulfillment (Tons CO2)



Highlights

To address the potential growth to our CO2 impact caused by direct fulfillment, we continue to market our free retail store pick-up program for orders made through REI.com, the REI catalog or our 800 number. This has limited the growth of direct shipping to customers as we were able to ship their orders to our stores along with other replenishment shipments, versus the use of a parcel package company. In addition, we continue to increase efficiencies in our logistics systems, reducing the need for expedited shipping to meet customer demand.

We are also working to fulfill mail orders from both of our distribution centers, which help reduce cross-country shipping.

Challenges

We continue to balance inventories at our distribution centers on the east coast and west coast to minimize the number of cross-country shipments and to consolidate packages we send directly to our customers. A more balanced inventory, where we have the right mix of products available at our distribution centers and stores, will enable us to reduce the number of shipments we make to fill customer orders, and therefore reduce the carbon impact from direct fulfillment.

We are also reevaluating how we measure GHG emissions associated with shipping products. Specifically, we are working to get real emissions data from our vendors. At present, much of the data we receive is based on industry averages.

Looking Ahead

We have introduced a new free shipping program as a benefit for our members on orders of \$75 or more, thus creating a decrease in the number of customer orders sent to our stores through our retail store pick up program. As a result, we expect to experience a reduction of our product transportation emissions, but yet an increase in the emission in direct fulfillment.

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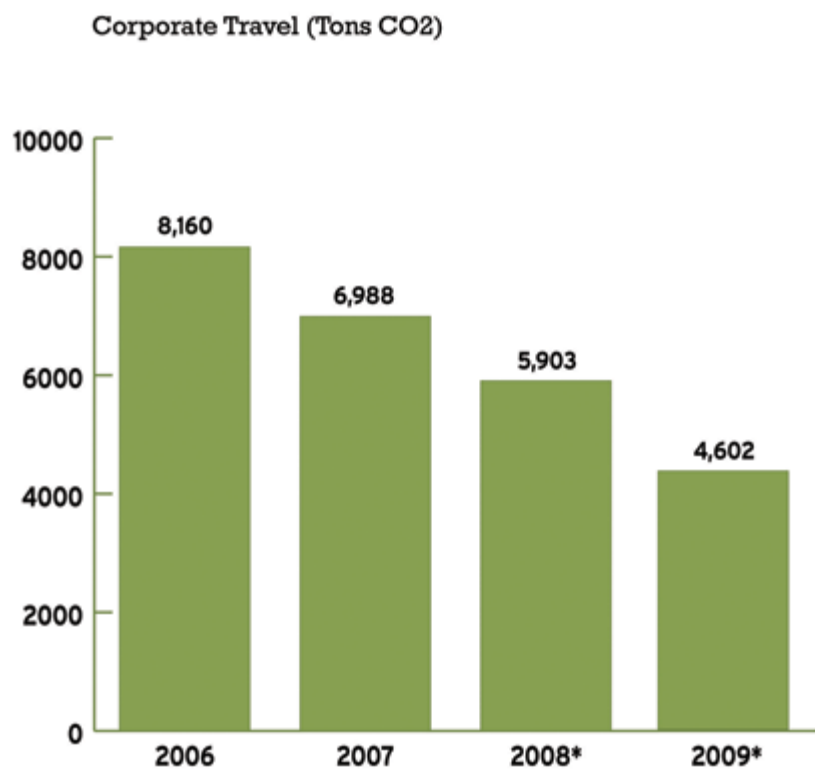
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Corporate Travel

Corporate travel is important to our business as it connects REI employees with our industry partners, community partners and each other. Because corporate travel is an ongoing aspect of our business, managing it well is necessary to understand and reduce its environmental impacts.



* 2008 and 2009 include the impact of air miles, rental car miles and employee mileage.

Highlights

As the economy continued to weaken in 2009, we saw a significant reduction in corporate travel across our operations. This led to an increase in tools such as Web conferencing, which allowed us to connect with key partners without travel. While we expect some of these practices will continue, as the economy improves we expect to see more corporate travel associated with certain functions such as new store openings.

Challenges

Our year-over-year reduction in corporate travel may be an anomaly as we decreased travel budgets in 2009 to reduce costs in the challenging economy and retail environment.

Looking Ahead

A strengthening economy will mean positive growth in the number of employees working at the co-op and the number of stores we open. With this in mind, we will continue to implement technological solutions to reduce the need to travel, thereby reducing our overall climate impact.

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Miscellaneous Greenhouse Gas Emissions

REI generates a small percentage of GHG emissions from sources such as the fuel used in our fleet vehicles and refrigerants that may escape from one of our building's HVAC systems. While these miscellaneous emissions represent a very small percentage of our total climate impact, they present their own set of unique risks.

Highlights

In 2009, we implemented more accurate accounting of the climate impacts from HVAC refrigerants, and this led to a reduction in reported impacts compared with previous years.

Challenges

While these sources of GHGs represent a very small percentage of our total climate impact, they are difficult to eliminate. Attempting to eliminate these sources with readily-available tools would require disproportionately high efforts.

Looking Ahead

For the foreseeable future, we will continue to address these small sources of GHG emissions on a case-by-case basis.

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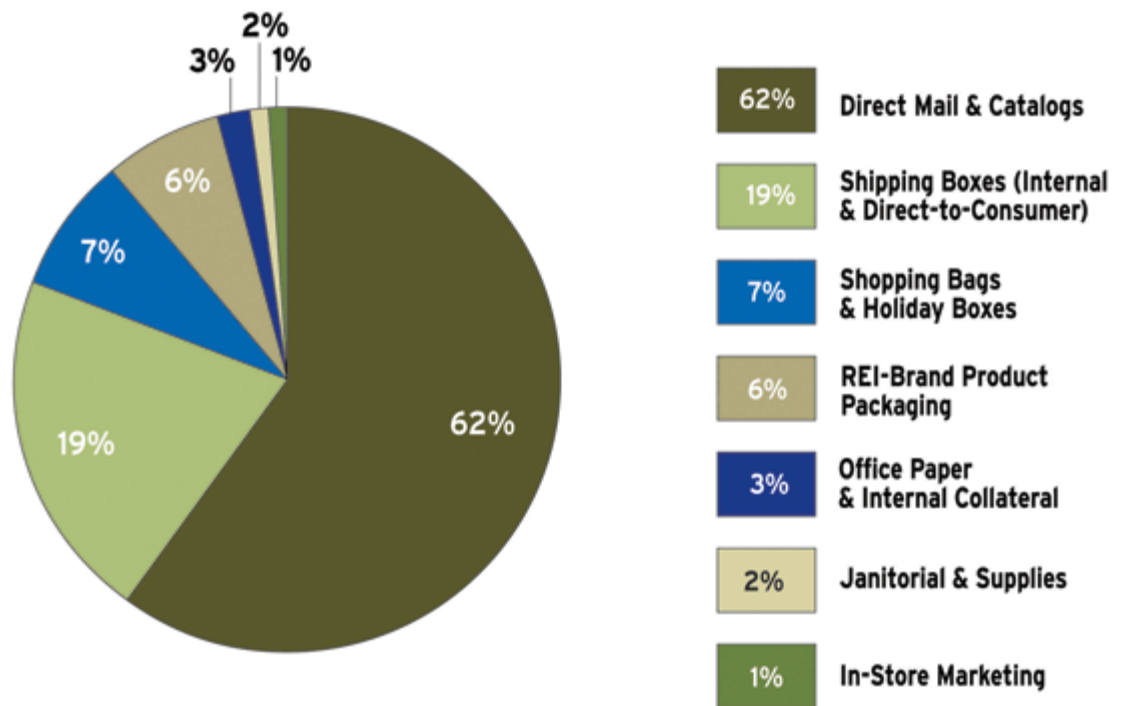


Paper Usage

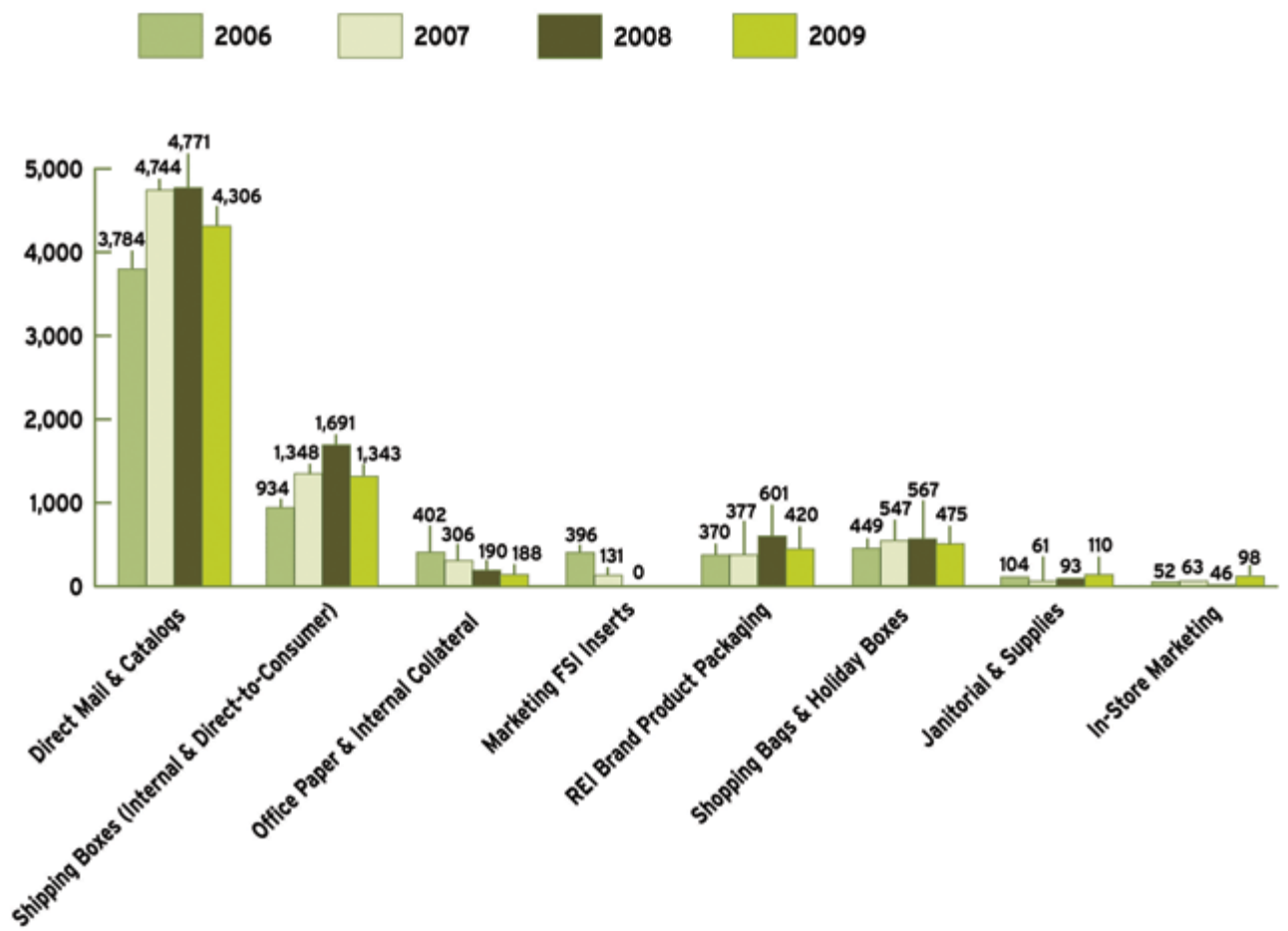
Paper products at REI — whether cardboard used in shipping products, paper used in our catalogs, or packaging materials for our gear and apparel — contribute significantly to our environmental footprint. The connection between healthy forests, outdoor recreation, and the paper fiber we use in our operations is clear.

REI's [paper and paper products purchasing policy](#) is designed to positively influence our own environmental footprint, the paper supply chain including and beyond our purchasing practices, and align our operations with our values and aspirations. When we purchase paper products, we strongly prefer post-consumer waste or virgin fiber harvested from Forest Stewardship Council (FSC)-certified forests. We work to avoid buying products where the fiber comes from unknown or unwanted sources.

2009 Estimated Paper Usage



Paper Usage (Tons)



Paper Efficiency

	2005	2006	2007	2008	2009
Annual Sales (MM\$)	\$1,022	\$1,182	\$1,342	\$1,440	\$1,455
Total Paper (Tons)		6,491	7,577	7,969	6,940
Total Paper Efficiency (MM Sales \$ / Tons)		0.182	0.177	0.181	0.210
Total Virgin Fiber (Tons)		4,828	5,974	5,806	5,314
Virgin Fiber Efficiency (MM Sales \$ / Tons)		0.245	0.225	0.248	0.274
Direct Mail (Tons)		3,769	3,785	4,744	4,771
Direct Mail Efficiency (MM Sales \$ / Tons)		0.270	0.310	0.283	0.302

Chain of Custody Goals

	Est. 2005	2006	2007	2008 Goal	2008 Actual	2009 Goal	2009 Actual
Unknown	29.0%	20.0%	10.8%	10.0%	9.0%	< 2%	6.7%
Known	71.0%	79.0%	72.4%	80.0%	65.3%	83.0%	55.1%
Certified	0.0%	<1%	16.8%	10.0%	25.6%	15.0%	38.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source of Fiber Goals

	Est. 2005	2006	2007	2008 Goal	2008 Actual	2009 Goal	2009 Actual
Unknown	16.0%	19.8%	11.5%	7.0%	6.4%	< 2%	6.7%
Undesirable		1.8%	5.6%	8.0%	8.5%	< 5%	6.0%
Recycled	20.0%	25.6%	21.2%	27.0%	27.1%	30.0%	23.4%
Acceptable	64.0%	52.8%	50.0%	48.0%	39.0%	48.0%	36.5%
Certified		0.0%	11.7%	10.0%	19.0%	15.0%	27.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Highlights

During 2009, we far exceeded REI's goal for FSC-certified paper fiber, increasing our total volume from 25.6 percent in 2008 to 38.2 percent in 2009. At the same time, we were able to significantly reduce our total paper usage. Between 2006 and 2009, REI made headway in understanding and managing our paper usage, making significant reductions in paper fiber from unknown sources along with large increases in the use of preferred fiber.

Much of our FSC-certified fiber in 2009 was used for marketing collaterals, such as catalogs. As of today, nearly all of our marketing materials are printed on known and acceptable paper sources, many of them FSC-certified. In 2009, REI's marketing team also made a significant shift away from smaller direct mail pieces, focusing instead on the higher performing marketing materials such as catalogs and flyers.

During 2009 almost all REI-brand packaging was redesigned with our paper goals in mind. These more efficiently packaged products began to arrive in our stores in early 2010. We also packaged many of our REI-brand gear and apparel products in paper made from 75 to 100 percent post-consumer waste fiber paper. And, our product hangtags and several product packages were printed utilizing FSC paper stock.

REI works with its vendors to understand challenges they face in their supply chains. This has been a shared educational process, and allows us to collaborate on more sustainable solutions. Through this process we were able to work with our shopping bag vendor who received FSC chain-of-custody certification in 2009. This is in addition to the vendor's work in 2008 to make their bags out of 100 percent post-consumer waste fiber.

Challenges

While we made significant progress improving our paper supply chain in 2009, we fell short of our aggressive goal to bring the combination of unknown and undesirable paper fiber sources at REI under 7 percent, with 12.7 percent of our paper fiber coming from these sources. Many of the items made with these fiber sources are necessary to our business, such as cardboard boxes used to ship gear and apparel from Asia. However, there are currently few alternatives to these materials.

The challenge of sourcing cardboard boxes from Asia represents a larger challenge in our supply chain. As we look at our entire paper footprint, we need to work with industries that are not as well versed in paper-fiber sourcing as others (such as printing paper companies from whom we source paper for our direct marketing materials). When it comes to addressing our paper sourcing, much of the low-hanging fruit has been picked, and we are now focusing on incremental changes that require significant effort. This is due in part to the fact that we need to get REI's voice, as a customer, heard several levels up the supply chain to where decisions about paper fiber sourcing are made.

Looking Ahead

As we work past the first set of goals we set for ourselves to improve our paper usage, we are looking at a new set of goals for 2010 and beyond. This work begins as we continue our partnership with our stakeholders to create new milestones so that we can continue building a more sustainable supply chain. To achieve our goals we must also robustly engage all of our vendors and suppliers in our paper footprint at a higher level. Our greatest challenges will be in areas where our purchasing power is small compared to other clients, meaning we will have less financial leverage. In these cases, intensive collaboration and vendor education will be the keys to our success.

REI is also considering the use of Metafore's Environmental Paper Assessment Tool (EPAT). Metafore is a non-profit organization that works with businesses to evaluate, select and manufacture environmentally preferable wood and paper products. EPAT provides buyers and sellers of paper products a consistent language and framework to evaluate and select environmentally preferable paper.

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Waste and Recycling

At REI, our goal is to become a zero waste-to-landfill organization by 2020. This aspiration drives us towards more efficient business and environmental practices as we seek ways to reduce solid waste and the costs associated with it, such as packaging, disposal and shipping.

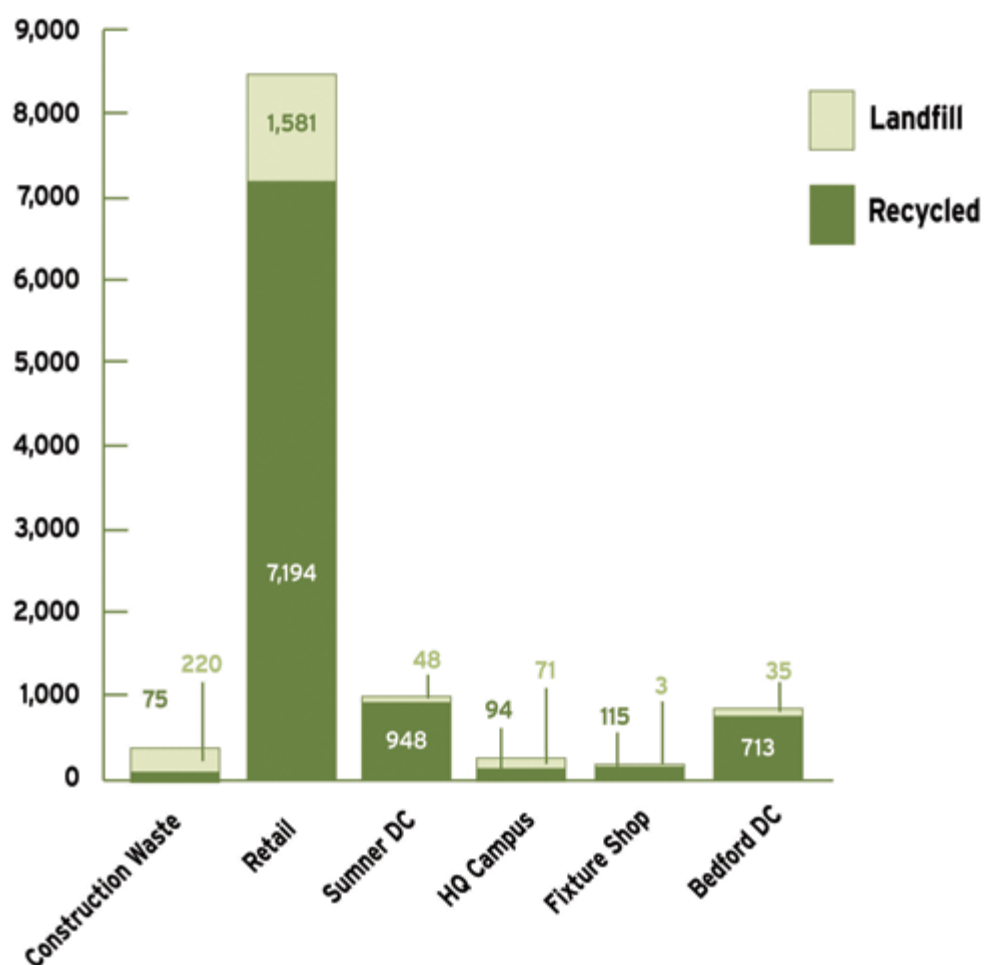
Reducing solid waste and eventually eliminating landfill disposal make both economic and environmental sense. This is because we typically pay for waste we send to the landfill at least twice. For example, we pay for both the cost to ship goods with excessive packaging and the cost of labor associated with waste storage and preparation for disposal. We then pay the costs of actually sending the waste to the landfill.

The actions we take must go beyond the traditional “reduce, reuse, recycle” model and address challenges such as packaging redesign to eliminate waste at the front end of the manufacturing process. And, we must carefully examine and reengineer practices attached with waste generation throughout our operations — from the manufacturing process to product placement in our stores, to our work with local waste utilities and haulers.

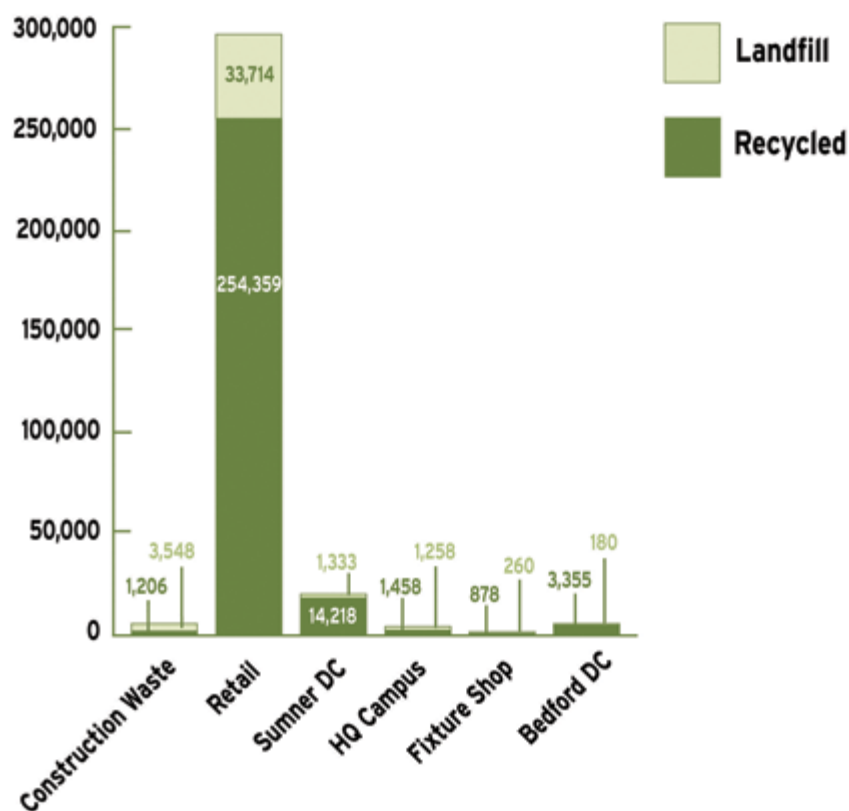
2009 Waste Summary

	Tons			Yards			
	Recycled	Landfill	Percent Recycled	Recycled	Landfill	Percent Recycled	
Construction Waste	75	220	25%	Construction Waste	1,206	3,548	25%
OPERATIONAL WASTE				OPERATIONAL WASTE			
Retail	7,194	1,581	82%	Retail	254,359	33,714	88%
Sumner DC	948	48	95%	Sumner DC	14,218	1,333	91%
Bedford DC	713	35	95%	Bedford DC	3,355	180	95%
HQ Campus	94	71	57%	HQ Campus	1,458	1,258	54%
Fixture Shop	115	3	97%	Fixture Shop	878	260	77%
Overall Operational Waste	9,064	1,737	84%	Overall Operational Waste	274,268	38,745	88%

2009 Waste Stream (Tons)



2009 Waste Stream (Cubic Yards)



Highlights

The majority of waste we generate at REI comes from our operations, including cardboard, plastic and compostables; waste generated from new construction; and waste generated from remodels to existing REI facilities. In 2009, we recycled 88 percent of our operational waste by volume (274,268 yards) and 84 percent by weight (9,064 tons). This represents an increase from 2008, when we recycled 74 percent of our waste by volume and 85 percent by weight. These results surpass our 2009 mid-term goal that was communicated in our 2006 stewardship report.

In 2009, we were able to build on data gathered from REI's 2007 and 2008 comprehensive waste audits and correct some assumptions to determine more accurate numbers. We also conducted a more refined waste stream study of our retail stores in 2009, giving us a much clearer view of our retail waste stream. Because of this, the reduction in total waste reported between 2008 and 2009 comes from obtaining more accurate data as opposed to large changes in the quantity of waste we generated. Similar to previous years, the vast majority of REI's waste stream consists of cardboard, loose plastics and construction waste.

Distribution Centers

In 2009, our distribution centers (Bedford, Pa., and Sumner, Wash.) successfully reduced waste and increased recycling. Waste at both REI distribution centers is dominated by cardboard, and the centers have long recycled cardboard as a sheer operational necessity to manage their waste stream.

Importantly, REI sees the opportunity to address a significant volume of waste "upstream" at its distribution centers as a way to reduce waste at each of our more than 100 stores. Diverting waste at the distribution centers is likely a far more efficient and cost-effective way to handle waste and off-set disposal expenses.

Headquarters

As with our distribution centers, REI's headquarters in Kent, Wash., is home to a large concentration of employees within one municipality. However, compared to our distribution centers and stores, our headquarters generates a low percentage of the overall waste in the co-op's waste stream. Also, headquarters' wastes are more typical of an office complex versus a distribution center or retail location. Because of this, paper tops the list of materials our headquarters generates, along with cafeteria wastes and a few other miscellaneous waste streams. To manage these wastes, REI headquarters has a significant recycling program in place, able to handle recycling for paper and rechargeable batteries, along with composting for organic wastes.

Retail Stores

At most of our stores, measuring waste accurately is difficult as waste haulers typically do not track weight or volume; rather, they pick up dumpsters — whether empty or full — based on a regular schedule. This means that our data from our retail stores is based on best estimates of how full our dumpsters are on average when they are unloaded. We do know that our highest waste costs come from our stores in shopping malls because in these locations our leases lock us into a standard charge per square foot, regardless of how much waste we reduce or divert from the landfill.

All of our stores have bicycle repair shops, and we are in a multi-year process of retrofitting each with ultrasonic cleaners that use water and sound waves to clean bike parts. This eliminates the need for hazardous waste disposal from the traditional chemical solvents used to clean bike parts. It also limits our employees' exposure to hazardous chemicals and frees them up from labor-intensive parts washing.

Our retail locations are an important priority because collectively they represent the largest source of waste for the co-op. However, the solutions to reducing and eliminating retail waste aren't at the store level. The stores are the end of the pipe when it comes to waste; the majority of waste at the store level is a consequence of decisions made further up the supply chain. And while we address waste diversion in our stores, we must also focus throughout our operations to minimize opportunities for waste generation in our retail locations.

Packaging

One of the greatest opportunities we have to reduce waste from our supply chain and in our stores is to reduce the packaging used for the products we sell. To achieve significant waste reductions, we worked diligently in 2009 to redesign how our REI-brand gear and apparel is packaged. We also identified opportunities to optimize shipping efficiency and to reduce the amount of labor required in our stores to stock our own brand of gear and apparel. And, we worked with a team of students to understand the lifecycle environmental impacts and direct costs of bike packaging for our Novara brand bicycles. This research will allow us to redesign packaging for our bikes, reducing our environmental

footprint further while significantly reducing costs associated with packaging and shipping.

We are also working closely with the [Outdoor Industry Association's Eco-Working Group](#) initiative to identify shared industry solutions that will reduce packaging waste throughout the supply chain, while significantly reducing the packaging at our retail stores.

Construction

Construction waste is another significant source of waste, but it varies more than other waste streams. This is due mainly to the number new facilities we build each year, as well as the number of renovations we conduct throughout our facilities each year. During 2009, we were challenged to recycle as much construction waste as possible because recycling options varied in the municipalities where we built new facilities or renovated existing facilities, which led to a lower percentage of construction waste recycled compared with 2008.

Challenges

The nature of the waste industry and our operations make measuring our waste stream difficult, at best. This is because the waste industry generally charges for the cost of a single pickup (for example, the cost to empty and haul the contents of a single dumpster) as opposed to charging for the cost of waste disposed (the volume of waste in the dumpster).

To establish the 2006 baseline waste data, we took a representative sample of 14 stores, to arrive at a figure that would encompass our 85 stores. Our 2009 goals were to reduce our waste by 50 percent of our 2006 baseline. The extrapolated data has since presented a challenge in comparing year-over-year data. In our commitment to provide transparency in our performance, we made significant progress toward our goal to reduce our 2009 waste to landfill in yards by 50 percent (72,395 in 2006 versus 36,745 in 2009). However, we did not reduce the tons of waste in 2009 against our 2006 estimated baseline (1,737 tons in 2009 versus 825 tons in 2006).

One of our biggest solid waste challenges is reducing the excess packaging from products manufactured by vendors outside of REI. This includes plastic film used in large quantities to protect products in transit to our distribution centers and stores. Our stores then need to manage this waste stream, and it is not recyclable in many municipalities.

Along these lines, there are few options outside of landfills to manage several types of plastics, as well as compostable waste in different markets across the country. And, we are faced with the internal challenge of the time and resources required to educate our employees on managing numerous waste streams and finding space in our facilities to store large quantities of recyclables and compostables.

Looking Ahead

We are focused on creating and implementing a consistent process for capturing waste stream metrics including the amount and type of waste and the final destination — such as landfill, recycling or composting — at all REI locations.

We will also continue to collaborate with other companies and municipalities to increase the availability of recycling and commercial composting. This includes creative approaches such as collecting cardboard and teaming with other retailers and vendors to offer product take-back programs to ensure proper management of certain wastes.

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Green Building

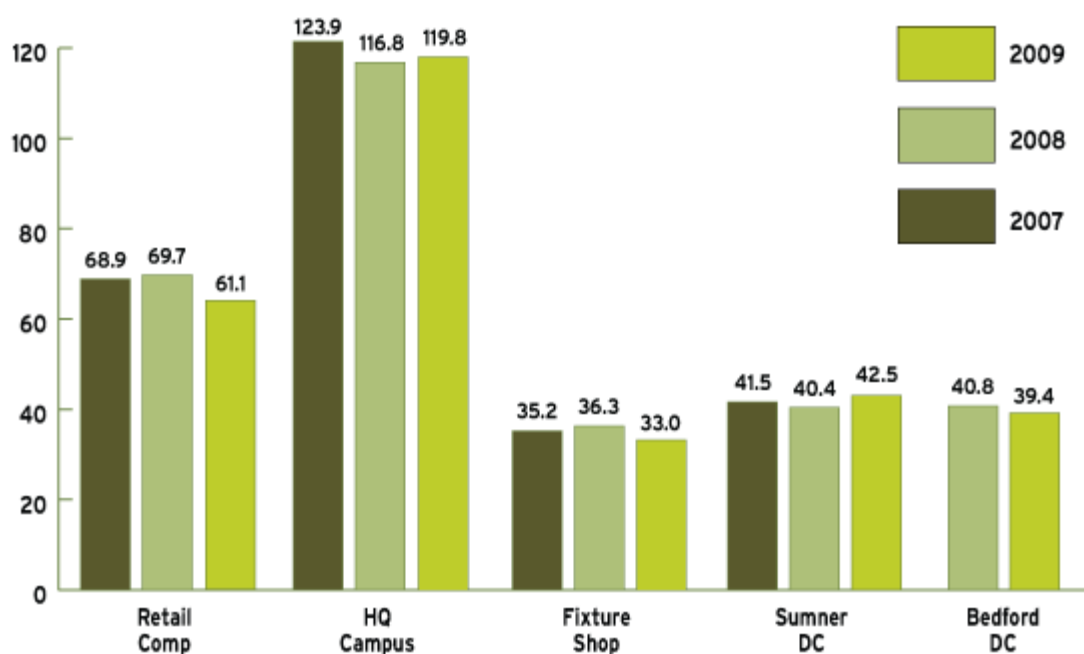
REI's built environment — our stores, headquarters and distribution centers — connect us with our communities and engage our members, customers and employees. Collectively, they also account for one of our largest environmental impacts and offer opportunities to reduce our environmental footprint.

Green building provides an opportunity to address several of our environmental priorities, including energy efficiency, renewable energy and waste reduction.

We strive to create buildings that reflect REI's mission and values, and we work to integrate sustainable design elements into our new stores and existing buildings. Whether we are retrofitting an existing facility or building a new store from the ground up, our goal is for all REI facilities to be as energy efficient as possible.

We design and operate all of our buildings to reduce environmental impacts and operating costs.

Facility Energy Density (Kbtu / Square Foot)



Highlights

Our knowledge of U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) Rating System™ helps us to create buildings with minimal environmental impacts.

In 2009, we received LEED certification for our green building prototype stores in Boulder, Colo. and Round Rock, Texas as well as for our store in Lincoln Park, Ill., which is a standard designed location. To date, six REI facilities are LEED certified, totaling over 690,000 square feet, or approximately 15 percent of REI's total square footage.

- [Portland, Ore. store](#) (LEED™ Gold for Commercial Interiors)
- [Pittsburgh, Pa. store](#) (LEED™ Silver for Commercial Interiors)
- [Boulder, Colo. store](#) (LEED™ Gold for Retail — Commercial Interiors)
- [Bedford, Pa. distribution center](#) (LEED™ Silver for New Construction)
- [Round Rock, Texas store](#) (LEED™ Gold for Retail — Commercial Interiors)
- [Lincoln Park, Ill. store](#) (LEED™ Gold for Retail — Commercial Interiors)

Our prototype stores have served as a learning laboratory for green building, and we now apply the lessons learned to new and retrofitted REI locations. They feature energy-efficient design, including solar panel installations, solar hot water system and passive solar design. The results have been promising: Our Round Rock location consumes 48 percent less energy than stores that meet industry standards. In addition, the fixtures feature recycled and sustainable materials made from products such as sunflower seed husks, recycled tennis shoes, and reclaimed wood.

We took our Lincoln Park store through the LEED certification process to understand how a store with a more standard REI design would fare in the LEED rating system. With some minor changes to our traditional store design elements, Lincoln Park received LEED Gold certification. This experience served as a solid reinforcement of the choices we make in all of our store design and construction.

Much of our green building success in 2009 is discussed in the [energy section](#) of this report. For example, our work with ceramic metal halide lighting retrofits in 51 locations and other energy efficiency improvements helped our retail stores significantly drop their energy density (energy used per square foot of space).

In 2009, we continued to integrate green design into new stores built with traditional architecture and construction

methods. 2009 was also the first full year of production for our 11 solar power systems, and they produced over 1.1 million kWh in 2009. (See the [greenhouse gas emissions section](#) of this report for more information on our [solar initiative](#).)

Challenges

As we learn where the largest opportunities for green building exist, we continue to uncover many more choices we can consider. We are influenced by green building standards, but don't pursue LEED certification for all stores because we don't have the resources necessary for each project. This is because LEED certification requires significant additional budget and time from designers and other experts who are experienced in LEED certification.

We will always increase our environmental footprint when we add new stores and facilities, even when we design with resource conservation in mind. And, while several energy efficiency technologies make financial sense, several others are not yet financially viable. In addition, incentives such as tax credits to install solar panels provide opportunities but can also present challenges as they are subject to change in the face of political realities. This shifting landscape makes future planning difficult.

Looking Ahead

As we move ahead, we will continue to apply the lessons we learn to both new and existing buildings with energy as a prime focus. All of our design choices must make both environmental and economic sense to be truly sustainable.

We are creating systems to formalize how we measure operational efficiencies over time, including enterprise-wide energy metrics tied to budgeting. These efforts will help us understand environmental impacts across all REI facilities, and allow us to create strategies to reduce our environmental footprint across all operations.

Opening new stores in challenging economic times presents certain barriers, and could result in impacts to our green building efforts. For example, we may need to locate new stores in existing buildings rather than newly constructed locations. In such cases, energy efficiency could be more challenging if we don't have a "clean slate" from which to start. However, we will realize certain benefits from utilizing existing space, such as less construction waste.

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Product Stewardship

The gear and apparel we sell to our members and customers have environmental impacts at each stage of their life cycle — from raw materials to production to end-of-life. For the past couple of years, we have been working to better understand and measure the environmental impacts of products throughout their life cycle and looking for ways to improve.

Fortunately, we are not alone. Many retailers and manufactures are beginning to recognize both their responsibility and the business opportunity presented by addressing the life cycle of products. We have been working with many of them to tackle this complex challenge.

Highlights

REI-brand products

REI EcoSensitive®

In 2007, we introduced REI's ecoSensitive label, identifying products that met specific criteria and that demonstrate improved environmental attributes compared to their conventionally-manufactured counterparts. To qualify as ecoSensitive, a product must be made with a high percentage of organic fibers — such as organic cotton, hemp, wool — and/or a high percentage of renewable or recycled fibers such as post-industrial recycled polyester, recycled polyethylene terephthalate (PET) plastic and polylactic acid (PLA).

The number of ecoSensitive products we offer has increased from 40 in 2007 to more than 300 in 2009. We also expanded beyond apparel for the first time by offering gear, including backpacks.

Packaging

In 2008, REI began the process of redesigning our packaging to comply with new, more stringent [packaging specifications](#) set by our company. These guidelines reduced the package volume, improved transportation efficiency and eliminated unwanted materials such as PVC clamshells. We also switched to all FSC-certified paper for hangtags and paperboards. In 2009, we completed design changes for all REI-brand products, including Novara bicycles and accessories.

The results are very promising: we purchased less material, experienced cost savings and reduced transportation-related GHG emissions. We also reduced the packaging waste that goes to landfill at our distributions centers and retail stores.

bluesign™

In late 2008, REI became a member of bluesign technologies ag. We consider the bluesign standard as the strongest global solution available to proactively address textile environmental, health and safety issues. As a member, our design teams have access to the database and information and can use bluesign's independent standard to make informed textile supply chain choices for our branded apparel and cycling brands during the product design and sourcing processes.

In 2009, we converted our entire polyester base layer products (underwear) line, one of our highest volume product families, to use materials which are bluesign certified.

Other Brands

About 80 percent of the products we sell at REI come from other brands and manufacturers rather than our privately owned and managed labels. One of the greatest opportunities we have as a prominent retailer is to be a connector of other like-minded organizations to influence entire supply chains regarding product stewardship. We have been very involved with Outdoor Industry Association (OIA) [Eco-Working Group](#), a collaboration of more than 150 outdoor industry brands, suppliers, manufacturers and other stakeholders working to create a shared methodology for measuring and reporting product impacts.

The Eco-Working Group made considerable progress in 2009. The number of organizations participating more than doubled and now includes major industry groups from outside of the Outdoor Industry, including the American Apparel and Footwear Association. Most importantly, the OIA has announced that a beta version of the index will be released in the summer of 2010.

Challenges

The complexity of measuring the environmental impacts of products can be overwhelming. There are typically many companies involved in the process from raw materials to production, and gathering environmental data at each stage is new to most of them.

We have also learned that without good measurements it is difficult to implement changes without running the risk of unintended negative consequences.

We have seen that creative product designers armed with the right information can often improve the environmental impacts of products. However, the pace of change is frequently slower than we would like, the product development cycle is as much as 18 months. The development of new fabrics and materials can be even longer.

Another challenge has been the proliferation of "green" product claims by manufacturers. It is difficult for consumers to sort through these claims and determine the benefits and validity. Some polls suggest that consumers are skeptical of such claims and, as a result, real product innovation is difficult to differentiate.

Looking Ahead

Although product stewardship represents one of our biggest challenges, we will continue our work to provide products that are manufactured in an environmentally and socially responsible way.

We will continue to invest into the development of environmentally-preferred products and reliable metrics. As we are better able to identify and quantify the environmental impacts of products, we are committed to sharing that information. We will focus on collaboration with other members of the OIA Eco-Working Group and support the resulting tools that emerge from that collaboration.

In 2010, we plan to evaluate our ecoSensitive program and consider ways to improve it by adopting the methods and tools from the Eco-Working Group.

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Methodology

This report covers REI's 2009 fiscal year, and is our fourth annual report (following our [2006](#), [2007](#), and [2008](#) reports).

- We report on all of our operations, almost all of which are all U.S.–based. The exceptions to our US–based operations are our international REI Adventures trips that run in 41 countries.
- We include the impacts from both owned and leased facilities.
- In one notable case, we report directly on third–party vendors to address our fair labor and factory compliance work, which details our efforts with our REI–brand gear and apparel supply chain. We contract all of our manufacturing to third–party vendors.
- Also, our report covers our operational footprint (both direct and indirect aspects) but it does not tackle accounting the embedded environmental attributes of products in our [GHG](#) or [energy sections](#), for example.

Links to REI's specific environmental methodology and policies, and the Climate Counts scorecard are as follows:

- [Greenhouse Gas Methodology](#)
- [Renewable Energy Specification](#)
- [Paper Policy and Definitions](#)
- [Waste Methodology](#)
- [Climate Counts Industry Innovators Scorecard \(pdf\)](#)

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Greenhouse Gas Methodology

REI's estimated greenhouse gas (GHG) footprints are based on the best practice carbon reporting standards of the Greenhouse Gas Protocol, developed out of a joint partnership between the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD). The Greenhouse Gas Protocol serves as the foundation for nearly every GHG standard and program in the world.

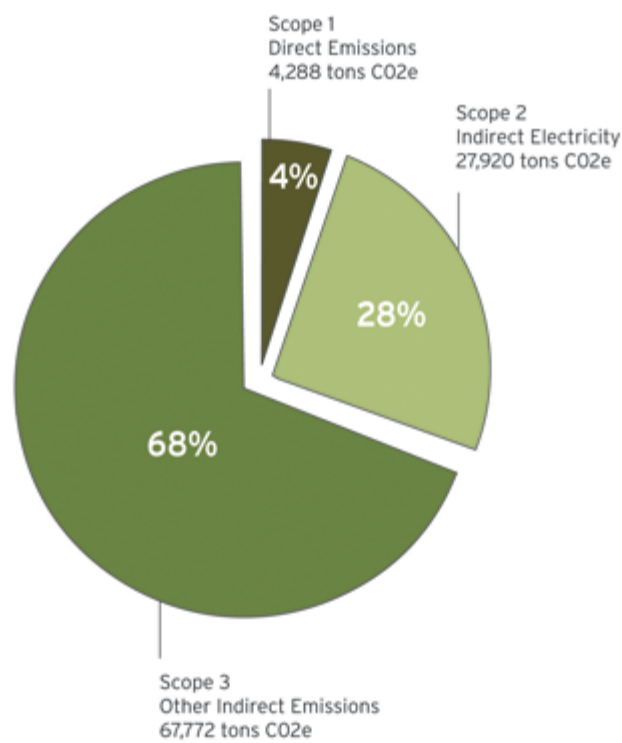
REI's carbon footprinting is based on WRI's GHG Protocol, though there are some variations in our use of WRI emissions factors; specifically, if we have direct information about our climate impact that is more accurately representative of our footprint.

As a retailer that doesn't directly burn fossil fuels or own production facilities, we have very few direct (Scope 1) greenhouse gas emissions, and our carbon footprint falls mostly with Scope 2 and Scope 3 indirect emissions. REI includes several significant Scope 3 emissions in our GHG inventory, as we decided that they were material and significant to our business operations. We report significant detail in our accounting of Scope 3 emissions, where the majority of our impact occurs.

In defining the boundaries for a company's climate footprint, the Greenhouse Gas Protocol methodology differentiates between direct and indirect emissions.

- Direct GHG emissions: emissions from sources that are owned or controlled by the reporting entity, known as Scope 1.
- Indirect GHG emissions: emissions that are a consequence of the activities of the reporting entity, but occur at sources owned or controlled by another entity. The impacts of purchased electricity are known as Scope 2, and other indirect emissions are known as Scope 3.

2009 Carbon Footprint (WRI Guidelines)



Scope 1: Direct Emissions

4 percent of REI's 2009 impact (4,288 tons CO2e):

- Natural gas usage
- Fleet emissions
 - Outdoor School passenger vans
 - Mail and courier vehicles
- Other
 - Refrigerant leakage from HVAC systems

Our only significant non-CO2 greenhouse gases in our footprint are the refrigerants that escape through normal operations used in our HVAC systems in our facilities. No other Kyoto gases show up in REI's footprint.

Scope 2: Indirect Emissions from Electricity:

28 percent of REI's 2009 impact (27,920 tons CO2e):

- Electricity usage

Scope 3:

68 percent of REI's 2009 impact (67,772 tons CO₂e):

- REI Adventures' customer travel
- Employee commuting
- Product transportation
- Direct fulfillment shipping
- Corporate travel
 - Air travel
 - Rental car usage
 - Employee mileage

Moving Products

To create our GHG inventory, we claim the carbon impacts for the shipment of goods that we own, or in cases where we schedule and control the transportation. Thus, we take responsibility when a vendor ships products from their location to our distribution centers because we control the method and timing of deliveries. We also include the emissions that result from sending product by truck from our distribution center to our stores, or when we fulfill a direct sales order by shipping a package via a carrier such as UPS. This approach means that REI assumes responsibility for emissions in three areas: goods inbound (from vendors or factories to our distribution centers or stores); intra-company transfers (shipments from our distribution center to our stores, between stores, or from stores back to our distribution centers); and direct fulfillment (Internet and catalog sales shipped directly to customers).

Increases in REI's GHG impacts can result from the growth of our business, such as increasing the number of stores we operate or the factories that supply our goods, and by using additional air transport to fulfill direct next day customer orders. However, the opening of our Bedford, Pa. distribution, which provides the distribution point for stores east of the Mississippi, helps to reduce total truck miles as REI continues to grow, resulting in smaller GHG emissions and lower logistical costs.

Goods Inbound

This category has three sub-sections:

Truck transportation: Truck transportation from vendors to our distribution centers is computed by a ton-mile calculation using the vendor location, the distance of the shipment and the freight weight to arrive at a total ton-miles of freight. The CO₂ impact per ton-mile is derived from the average values published for "less than truckload" freight shipments consistent with our method in inter-company transfers. Because the average density of our product is less than other shipped goods, we adjust this average value to more accurately represent the CO₂ impact of our shipments. Without adjustment, our impact would be significantly lower.

Direct delivery to our stores: Our product vendors also deliver some product directly to stores, and this occurs via parcel post and "less than truckload" (LTL) freight shipments. The CO₂ impacts from these deliveries have been computed based on total ton-miles of freight multiplied by the average impacts of parcels or average impact of LTL freight.

Goods Outbound

Truck transportation from our distribution centers to our stores is computed by a ton-mile calculation using the distribution center location, the distance of the shipment and the freight weight to arrive at a total ton-miles of freight. The CO₂ impact per ton-mile is derived from the average values published for "less than truckload" freight shipments consistent with our method in inter-company transfers. Because the average density of our product is less than other shipped goods, we adjust this average value to more accurately represent the CO₂ impact of our shipments. Without adjustment, our impact would be significantly lower.

Intra-Company Transfers

This category is dominated by less-than-truckload freight transportation of goods between our two distribution centers, goods moved between stores, and shipments from our stores back to our distribution centers. These shipments are via common carrier freight services.

Our method of calculation is to measure the total tons of cargo, the number of deliveries and the distance from the distribution center to each store. We use these factors to compute a total freight "ton-miles." To calculate CO₂ impact, we use a national average for fuel mileage of truck fleets (seven miles/gallon) and truck hauling weight based on the density of our shipments. Our shipments are less dense than the shipping industry norm, so our factor adjusts for this. We then apply a standard conversion from diesel fuel gallons to pounds of CO₂ (22.2 pounds/gallon), which gives us a CO₂ factor per freight ton-mile. We then multiply our total freight ton-miles by this factor to give a reasonable calculation of our CO₂ impact.

Direct Fulfillment

This category includes fulfillment of customer orders placed through the REI catalog or through REI.com. The majority of these shipments go through the United Parcel Service (UPS) or other carriers such as FedEx or the U.S. Postal Service. To compute our CO₂ impact we separated shipments between ground and air transportation.

For ground shipments, we assume a delivery directly from our fulfillment centers to the customer. While this eliminates the possible shipment routes to and from the carrier's logistical system, we think it is a fair representation of the distance traveled. To simplify calculations, we have assumed the average shipping distance is 1342 miles (delivery to Denver). We computed the total CO₂ impact based on our average package weight shipped for the average distance and we used the same CO₂ factor computed for truck delivery.

For shipments by air, we omitted any ground component because the air impacts are so large that it makes the ground portion negligible. To account for the CO₂ per air mile, we used the passenger air travel factor developed by the Climate Neutral Network. However, we adjusted the impact for the average weight of a package compared to a person. This may overstate the impact because cargo transportation is more efficient in terms of pounds per aircraft, but it has the benefit of consistency with our other reported metrics. As our carbon reporting evolves, we continue to seek best practices in carbon footprinting and its methodologies and emissions factors.

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Renewable Energy Specification

We have established both environmental and financial/contractual minimum requirements for green power offerings. REI strongly prefers Green-e certified products and requires both transaction audits and source verification based on the Green-e standard.

Environmental

The source must be new renewable energy generation qualifying under the most recent Green-e certification requirements.

Financial

The product must offer a financial "hedge" against future energy price escalation, particularly risks associated with fossil fuel costs. This may be accomplished via a medium to long-term fixed price energy contract, contractual protection from fuel cost surcharges or other contractual means. This requirement favors direct energy contracts and some bundled energy products but generally excludes Renewable Energy Certificate (REC) options.

Audit

The source and chain of custody must have a clear and independently verified audit trail at least as robust and transparent as Green-e certification.

Pricing

REI is willing to pay a premium for green power contracts. The maximum premium is usually greater than 1 cent per KWhr but may vary by location depending on factors such as underlying cost volatility, avoided generation mix and other factors.

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Paper Policy

Defining Paper and Fiber Chain of Custody

Chain of Custody: The linked set of companies or entities that have held legal ownership or physical control of a given paper product between the point of harvest and point of purchase by REI.

Known, but not certified: The chain of custody will be deemed "known" if each supplier from fiber source to REI is under contractual obligation and is able to disclose proof of their source including purchase agreements, inventory records, etc., sufficient to demonstrate that the product purchased by REI can be followed through each step of the supply chain back to the source. In addition, this chain of documentation is subject to audit by REI or its designated auditor. A certificate of conformance should accompany each delivery of material from the supplier attesting to the source.

Certified: The chain of custody will be deemed "certified" if each party in the supply chain has received certification by the Forest Stewardship Council (FSC) or a system deemed equivalent.

Definitions:

Undesirable: Paper and wood fiber that is the product of illegal logging or is obtained from controversial sources in areas that:

- Contribute to human rights violations;
- Drive armed conflict from timber operations;
- Actively convert natural forests to plantations or non-forest uses, or;
- Use timber from genetically modified trees or sourced from high conservation value forests (HCVF), unless the source is certified under a credible certification program such as FSC.

Acceptable: Acceptable sources of fiber are those that are not undesirable sources, although they have not been formally certified.

Certified: Sources that have received certification by FSC are automatically considered to come from acceptable sources.

REI Paper Policy

September 21, 2006

Preamble

The REI co-op is committed to stewardship as a core value of our business. Part of stewardship is the responsible use of resources and an interest in using our purchasing leverage to help motivate sound practices within our supply chain. We are committed to responsible use of forest resources and the mitigation of negative environmental impacts from the harvest and processing of paper products that we purchase. REI fully supports responsible forest management practices that promote forest sustainability, biodiversity and long-term shared environmental, social and economic benefits.

REI will achieve the goals of this policy through a step-wise, continuous improvement approach to responsible purchasing of paper products. This offers a pragmatic and workable mechanism while valuing our long term relationships with supply chain partners.

REI will measure performance against established goals and timelines and will report progress to our board of directors, co-op members and the public.

REI has established the following policy commitments:

1. **Responsible/ Efficient Use of Forest Products**

Wood and paper are renewable natural resources that, when sourced under a responsible program, can represent a sustainable material choice. We will create and maintain purchase specifications for the responsible sourcing of each category of paper products, and we will always strive to use paper products responsibly. Recycled content and alternative fiber sources will be evaluated on a total life cycle assessment basis and will be our preferred source whenever business criteria, product performance and other category specific metrics, as well as environmental and social impact trade-offs, are favorable.
2. **Known Origins (Chain of Custody)**

REI will strive to know with reasonable, verifiable certainty the source of our paper including the source of all virgin wood fiber we purchase. This will be accomplished through contractual supply chain agreements, audits and supplier oversight. The most desirable assurance is a credible, third party certified chain of custody such as that provided by Forest Stewardship Council (FSC) certification.
3. **Sources of Fiber**

REI will strive to assure that all paper and wood fiber is legally harvested and traded and is not obtained from controversial sources such as harvesting and processing in areas that violate human rights; areas where the timber trade is driving armed conflict; areas that are being actively converted from natural forests to plantations or non-forest uses or which use timber from genetically modified trees. We will also strive to eliminate wood or fiber harvested in ways that promote environmental degradation, and we will not knowingly source from High Conservation Value Forests (HCVF) unless such forests are certified under a credible certification program such as FSC.
4. **Environmental/Social performance of supply chain partners**

REI is committed to sourcing from supply partners, sub-tier suppliers and mills who uphold a high level of environmental and social performance. Compliance with applicable regulations is a minimum; however, we will give preference to suppliers who can demonstrate a commitment to minimum impact operations and have a track

record of continuous improvement through a formal environmental management system. Tools such as the Environmental Paper Assessment Tool (EPAT) will facilitate our ability to measure and compare supplier performance.

5. Commitment to recycling at REI—"Closing the loop"

REI is committed to the principal of "closing the loop" for paper and paper products. We will strive to assure that paper and wood products used in our operations are recycled or reused.

6. Reporting/Evaluation

REI will publish an annual report of our key performance indicators showing our progress toward meeting the goals of this policy and will annually evaluate the policy, goals and acceptable certification/validation systems.

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Waste Methodology

In 2009, we gathered data for our entire operations on the amount of waste we produce, the percentage we recycled and which materials make up our waste stream. Our retail data was compiled through work with an outside consultant to assess the landfill and recycling streams for each of our stores. During the year we continued to refine our estimations for times when we can't get accurate data and are forced to estimate our data based on density calculations.

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Employee Engagement & Retention

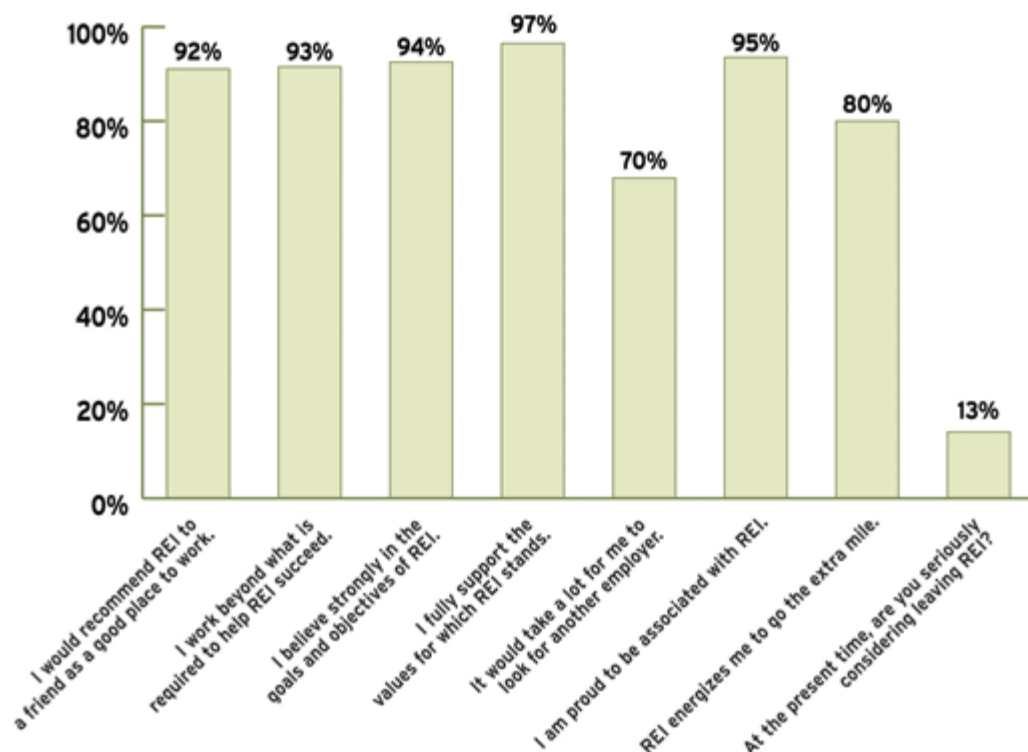
At REI, we strive to create a work environment where engaged employees contribute to our strong culture and values, and demonstrate pride and enthusiasm in their work. For REI, engaged employees are those who believe in the goals of the co-op and support our company values, take great pride in being part of the company, will go above and beyond to help us be successful, and intend to stay with us.

To make sure we are doing our best to keep employees engaged, we survey our employees every year. The survey is made available to every employee, is completed anonymously and solicits feedback on key topics, including REI's benefits package, operational and leadership effectiveness, and communications.

Highlights

In 2009, 85 percent of our employees provided valuable feedback, including the following key findings that lead to our overall engagement score of 87 percent:

2009 Employee Engagement Index (Total Favorable)



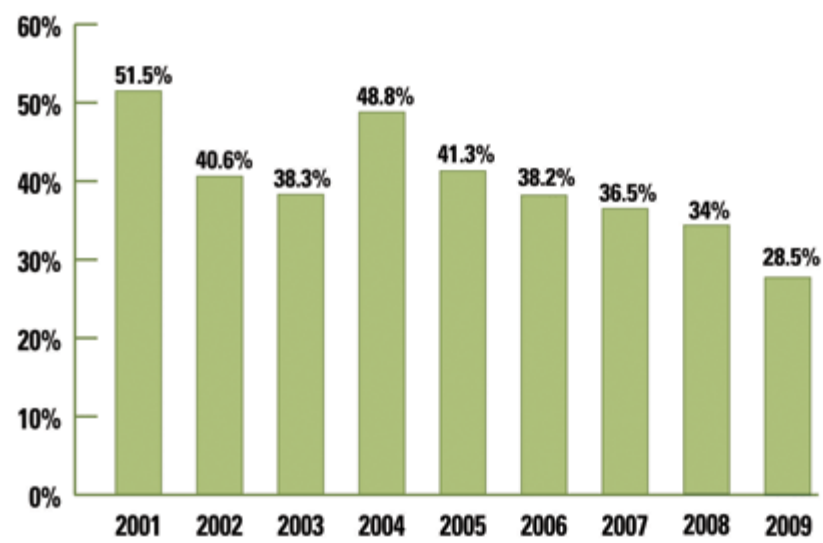
It is worth noting that high employee favorability was sustained across all categories covered in the 2009 survey, despite the challenging economy. Towers Watson (formerly Towers Perrin/ISR), the independent firm that conducted our 2009 employee survey, also provided comparison results from our business peers. The average employee engagement level in the U.S. retail industry in 2009 was 78 percent favorable, while "global high performing companies" had an 82 percent favorable rating. "Global high performing companies" are those with above-industry-averages on return on invested capital, net profit, and employee engagement scores. By comparison, REI employees had an 87 percent favorable response rate. REI continued to outperform the U.S. retail industry in all survey categories, and outperformed global high performing companies in most categories.

In 2009, REI's employee turnover rate was 28.5 percent companywide, well below the retail industry rate of 47 percent, an improvement from our 2008 turnover rate of 34 percent. Further, our retention rate in 2009 was 75 percent, as compared to 70 percent in 2008. To measure employee retention we calculate the percentage of new hires from a particular year that are still employed at year-end. Our annual turnover percentage rate is measured by dividing terminations (voluntary and involuntary) in a particular year by average headcount across all months of that year.

We strive for a workplace that encourages employees to stay and grow professionally. REI's turnover rate has declined steadily over the past six years, and was at its lowest in 12 years in 2009. Survey data from 2009 also revealed that employee engagement has stayed high and the percentage of employees whose intent to stay at REI continues to rise.

While our 2009 employee survey revealed positive employee feedback, we view this feedback through the lens of a struggling economy and concerns for job security. As we worked to address the impacts of the economy on our business in 2009, we also increased communication with our employees, consistently and candidly keeping them informed of and involved in our actions to address the challenging business environment.

Overall Company Turnover*



**Annual turnover percentage rate is calculated by dividing terminations (voluntary and involuntary) in a particular year by average headcount across all months of that year.*

Challenges

In 2009, the soft economy continued to negatively impact many retailers, including REI, and we continued to carefully manage our business. This required our leaders to make several tough decisions, including reducing our workforce across all operations, delaying pay increases for headquarters employees and all managers, and allowing bonus payouts to remain unearned for those divisions that didn't meet the criteria to receive incentive pay. Throughout the year, REI leaders frequently updated their teams to keep them focused on providing the levels of service people expect from the co-op despite leaner teams. Additionally, the co-op's retirement contribution to eligible employees remains an industry-leading benefit. While at a reduced percentage of 10 percent from historical levels of 15 percent, the co-op continues to invest in its employees regardless to their individual contributions via pre-tax payroll deductions.

Looking Ahead

REI's leadership is committed to creating an environment that fosters high levels of employee engagement across the co-op. We know that genuine, transparent communication is the key to making that happen.

Ultimately, our goal is to ensure that all employees recognize how their individual contributions support REI's mission and success. To accomplish this goal, we will continue to keep our employees engaged, involved and supported by maintaining open lines of communication, fostering genuine dialogue and responding to employee concerns.

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Diversity & Inclusion

Since 2006, REI has been working to increase participation in outdoor activities among diverse populations and to establish stronger, local ties so that our stores, our distribution centers, and our headquarters reflect the communities we serve.

We view diversity as the wide range of differences that make each employee, co-op member, customer and community member distinct. Those characteristics that are often top of mind include age, gender, race, ethnicity, religion, physical abilities and sexual orientation. We also recognize several additional or "secondary" differences that contribute to diversity. These include marital status, parental status, education level, work experiences, personal values, belief systems, and individual goals and ambitions.

To us, inclusion means creating a welcoming environment for all people — at work, in our stores and in the outdoors. Inclusion and diversity go hand-in-hand; together they enable an open environment, promote healthy dialogue and create a sense of united purpose among all people, while recognizing, embracing, and celebrating individual differences.

The co-op has three strategic diversity and inclusion initiatives:

1. Diversity in the Outdoors — Inspire and increase outdoor participation across diverse communities of color.
2. Employee Diversity — Attract, develop, promote and retain a workforce in balance with the cultural and personal dimensions that make up the communities we serve.
3. Inclusion — Create a workplace environment and customer experience that is welcoming and respectful of all people.

Employee Demographics

	2007 Employee Count	2007 Percentages	2008 Employee Count	2008 Percentages	2009 Employee Count	2009 Percentages
Status						
Full Time	3,543	35.0%	3,720	36.6%	3,410	36.1%
Part Time	6,580	65.0%	6,450	63.4%	6,023	63.9%
Gender						
Female	4,164	41.1%	4,317	42.4%	4,043	42.9%
Male	5,959	58.9%	5,853	57.6%	5,390	57.1%
Ethnic Identity*						
Black or African American	190	1.9%	200	2.0%	173	1.8%
White	8,849	87.4%	8,886	87.4%	8,211	87.0%
Asian	555	5.5%	550	5.4%	513	5.4%
Hispanic or Latino	376	3.7%	421	4.1%	386	4.1%
American Indian / Alaska Native	76	0.8%	67	0.7%	61	0.6%
Native Hawaiian / Pacific Islander	9	0.1%	6	0.1%	13	0.1%
Two or More Races	68	0.7%	40	0.4%	76	0.8%

*Ethnic categories have been updated per federally mandated EEOC (equal employment opportunity commission), classifications.

Highlights

Our commitment to diversity and inclusion is being conducted with a long-term perspective. Progress in 2009 includes:

Diversity in the Outdoors

Through our Diversity in the Outdoors efforts, we supported partner organizations in diverse communities with [REI Foundation](#) grants totaling nearly \$205,000. Grants were awarded to the New York Restoration Project Green Stops Partnership, National Audubon Ocean Discovery Institute, Outdoor Outreach, Outdoor Foundation, WILD Coast and the YMCA of San Diego County.

We also continued outreach efforts in San Diego and Atlanta through the expansion of REI's [Gear Bank](#), a program that offers free equipment loans to nonprofits focused on helping children and teens experience the outdoors. In addition, we provided classes to diverse populations through REI's Outdoor School programming.

In 2009, REI partnered in or sponsored more than 50 events in San Diego and Atlanta to help families and children from diverse communities make lasting connections with the outdoors. These efforts are the result of having outreach staff in place that is dedicated to working in local diverse communities in both San Diego and Atlanta.

We also created and distributed 1,200 copies of the first Spanish-language version of our Family Adventure Journal postcard in 2009 for use as part of a pilot in our stores in Southern California.

During the year, REI was also a lead sponsor and participant in the "Breaking the Color Barrier in the Great Outdoors" conference held in Atlanta. The conference was designed to introduce leaders from the Obama Administration to the culture of outdoor recreation, conservation and restoration among communities of color, while building the relationship

between environmental leaders at the national and grassroots levels.

Employee Diversity

Within REI's operations, our hiring managers focus their efforts on networking with groups that advocate for and support diverse communities. As a result of this work, REI has established relationships with nearly 190 organizations across the country. This network helps ensure we consider a diverse candidate pool as we recruit new employees.

Inclusion

In addition to high [engagement](#) scores obtained through our internal annual employee survey, REI continues to be recognized of its highlight engaged workforce and culture of inclusion. In 2009, we received the highest possible ranking of 100 points on the [Human Rights Campaign's](#) "Corporate Equality Index." This annual survey scores U.S. companies on how they treat their gay, lesbian, bisexual and transgender employees, consumers and vendors.

Additionally, increasing the ability of leaders throughout the co-op to lead and advance inclusion in our workplace created the need for a common set of behaviors and shared language. To address this, we designed the REI Inclusion Toolkit. The tactics in the Toolkit are based on lessons learned and successes realized from our work at staffing for our new stores in Santa Fe, New Mexico, and Lincoln Park in Chicago.

Challenges

We have learned several valuable lessons from our focus on diversity and outdoor recreation in Atlanta and San Diego. Our goal is to convert these lessons into best practices for use in other REI markets. Through this work we have learned that each community we serve is different, and we will look to our partner organizations — those nonprofits we work with — to help ensure our work is relevant in each community.

When it comes to increasing diversity among our own employees, the economic downturn that began in late 2008 significantly reduced our hiring activities across all of the co-op's operations, limiting our efforts to hire from a more diverse talent pool. Adding to that challenge, REI is building brand recognition in some of our newer markets. This means we need to conduct extensive outreach in each of these communities to attract prospective employees from a broad and diverse talent pool.

And, we recognize that we have a long journey ahead to become truly reflective of the communities we serve. We are still learning the most effective ways to engage with diverse communities to create long-term, mutually beneficial relationships.

Looking Ahead

In May 2010, we expanded the REI Outdoor School program into Atlanta to create more opportunities for diverse communities and families to experience the outdoors. As part of that launch, we are training our Outdoor School and retail store employees on inclusion, based on the lessons we learned from our outreach efforts in San Diego and Atlanta.

Also in 2010, we are expanding the Spanish language [Family Adventure program](#) postcards available to our Southern and Northern California stores, along with our stores in Arizona, Texas and New Mexico. As a result, 4,000 Spanish language Family Adventure postcards will be available in 27 stores.

In addition, we are piloting a community outreach program in partnership with the American Diabetes Association and the American Academy of Pediatrics in San Diego to introduce children and families to the health benefits of outdoor activities. Also in San Diego, we are expanding our support of service projects to provide more opportunities for people to engage in the preservation and enhancement of public lands in their own communities.

We recognize that to best achieve our goals for diversity and inclusion, we must continually work to increase awareness and confidence among our leadership through skills building and training. In 2010, we will implement a new Diversity and Inclusion Awareness and Skills Training to all leaders at REI's headquarters. This workshop will help us to sustain and expand REI's respectful and inclusive workplace and shopping experience. Our goal is to ensure that everyone who walks through our doors — whether to work, shop or seek our expert advice — feels welcome and is treated with respect.

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Employee Pay and Benefits

At REI we are committed to the professional growth, health and [retention](#) of our employees. To help achieve these aspirations, we provide our employees with comprehensive benefits and pay packages that include several features that are unique in the retail industry. For a complete overview of the employee benefits program, visit [REI.com/jobs](#).

Highlights

One of our top priorities is to offer quality, affordable health coverage for all REI employees, regardless of the number of hours worked. In 2009, approximately 1,000 part-time REI employees were covered through our Part-Time Healthcare program (PaTH). The program is exceptional in the retail industry; most companies do not offer or subsidize coverage for their part-time employees. This program is in addition to our Flex Plan offered to full-time employees and to those part-time employees meeting a minimum service threshold and averaging 20 hours or more per week.

To recognize their hard work, all of our employees share in the co-op's financial success. Despite a challenging economy the company ended the fiscal year in a solid position. As a result, in early 2010 REI distributed more than \$19 million to eligible employees through our retirement and profit sharing plan. Eligible employees received a 12 percent company contribution to their plan, whether they contributed to it themselves or not. This amount far exceeds the retail industry norm of 3 percent and represents a 7 percent discretionary company contribution on top of the 5 percent guaranteed contribution to each eligible employee's retirement account.

Challenges

Like many companies, REI was faced with a year of difficult decisions as a result of the economic downturn. In 2009, we reduced our full-time workforce by less than 3 percent, and we also reduced the overall number of hours worked by retail staff. These decisions were made in areas in which diminished growth reduced the volume of work required to operate the business. In addition, because of our weaker 2008 revenues, we eliminated 2008 bonus payouts for some divisions and postponed merit and pay increases for all managers and headquarters employees, including leaders, until mid-year. Our hourly employees in retail, distribution centers, and direct sales continued to be eligible to receive merit increases on their anniversary date. We also reduced our potential 2009 bonus payments.

We are committed to providing comprehensive healthcare benefits to our employees in the face of rising healthcare costs. To continue to provide healthcare to all REI employees, we have taken strong, proactive measures to ensure we manage benefit administration costs effectively and fairly. With the uncertainty of the 2010 federal healthcare reform, planning for the future proved difficult. However, it's clear that the future of healthcare will depend on partnerships among the company, its providers and employees. Focusing and incenting prevention and reducing addressable healthcare risks will be increasingly important.

Looking Ahead

The health of our employees is vital to the ultimate success of the co-op. To that end, we provide our employees with a competitive benefits package that promotes staying healthy, preventative care and early detection. With this in mind, we place a strong focus on wellness and prevention, and this helps us control escalating healthcare costs.

We view healthcare as a partnership and in 2010 we invited our employees to embark on Health Quest, a comprehensive program promoting holistic health and well-being. Through Health Quest, we are inviting our employees in taking an active role in managing their overall well-being. We expect this will result in lower healthcare costs for both our employees, and the co-op. In addition, employees benefit from prevention and early detection and can earn Healthy Lifestyle Dollars to help to reduce their annual healthcare contributions.

In 2009, we began a comprehensive look at our total compensation programs, gathering information and feedback through focus groups and benchmarking studies. The findings help us evaluate our pay and benefits package to ensure we continue to offer relevant and meaningful programs for our diverse workforce while fostering employee engagement.

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Factory & Labor Compliance

The gear and apparel we sell come from sources around the world. At REI we expect workers in the global supply chain to experience safe, fair, and non-discriminatory working conditions. We also know that reliance solely on local laws and enforcement may not be enough to achieve this goal. In 1993, using the International Labor Organization and sound industry practices as our guides, REI introduced a factory Code of Conduct, which establishes standards of workplace conduct for the factories that produce products sold at REI.

As a specialty retailer, REI sells products sourced and branded by third parties like Patagonia and The North Face. REI also sells products carrying the REI brands "REI" and "Novara" that are produced by factories we do not own. REI-brand products represent approximately 20 percent of our sales. While we have influence over the manufacturers of our products, we do not own any factories, and, therefore, cannot directly control their operations. Instead, we designed a program to assess, monitor and report on compliance with our Code of Conduct at the factories producing REI-brand products. We monitor and verify through our own factory visits and through factory audits by a qualified and independent third-party.

We view our contract factories as sourcing partners with whom we strive to create and maintain supportive and open relationships. Many of these relationships are long-term and some partners have worked with REI for more than 20 years. From our own experience and that of other leading brands, we believe that long-term business relationships with factories promote higher quality products, consistency and timeliness of product delivery, greater productivity, and better working conditions for factory employees.

With respect to the third-party brands we sell, we have limited visibility into their respective supply chains and no control over the conduct of their factories. In this context, the most effective approach to addressing factory working conditions is to collaborate with other companies, industry groups, and suppliers to (i) establish shared awareness and understanding of the issues; (ii) establish common expectations for factory conduct; and (iii) develop shared tools, expertise, and compliance programs.

In 2006, we began a partnership with the Outdoor Industry Association (OIA) to develop, publish and maintain the [Fair Labor Toolkit](#) to assist companies with sourcing while raising awareness of labor compliance issues throughout our industry. Since that time, we have continued to raise awareness and work with peers inside and outside of our industry to address fair labor and factory compliance issues. In 2009, we expanded our efforts by joining the [Fair Factories Clearinghouse](#) (FFC) as a means of fostering and supporting deeper collaboration across several industries.

Highlights

In 2009, we continued our collaboration with other companies to monitor and improve factory performance and fair labor compliance. We took a significant step forward last year when we joined the Fair Factories Clearinghouse (FFC). FFC uses collaborative technology to facilitate continuous improvements in social, environmental and security standards — and safe, humane working conditions for workers — at facilities around the world. We worked to adjust our processes and administrative tools to align with FFC systems and software. By year's end, we were able to use the automated features of the FFC system with our own audit data. We expect these improvements to deliver benefits for both REI and our factory partners, including reduced operating costs, improved efficiency, and improved ability to collaborate with others.

Through our work over the years in collaboration with other brands, we began to recognize there would be a great benefit in sharing audit results with other companies that work with the same factory. While simple in concept, implementation of shared auditing and audit results has been difficult to accomplish. There are a host of challenges in a variety of dimensions — organizational cultures, program administration and legal contracting are just a few. Ultimately, making progress on a collaborative approach requires a high level of trust among all participants. In 2009, under a prototype effort with FFC partners, we successfully shared and used the results for six factory audits. This effort holds solid promise in reducing factory "audit fatigue" (where numerous audits negatively impact productivity and drive up costs) while improving performance of factories overall.

The concept of "vendor-owned compliance" is a potential next-generation approach to fair labor efforts. The goal of this conceptual approach is a meaningful commitment by the factories themselves to creating progressive work environments for and relationships with their employees. The observation of many non-profit organizations, brands, and factories is that a traditional compliance program leads to negative unintended consequences. This type of program emphasizes compliance with a mandated set of prescriptive behaviors. This is a "check the box," rules-oriented approach, rather than a thoughtful, principles approach that focuses on and addresses the root causes or underlying issues. The idea of "vendor-owned compliance" comes from the success of similar approaches designed to address product quality, where ever-increasing levels of product inspection have given way to factory-owned continuous improvement programs that deliver both lower costs and better quality. In 2009, our efforts to engage several of our factories at this more progressive level led to greater candor and responsiveness from factory partners in the form of timely self-disclosure of potential violations in the absence of an audit. We will continue to develop this approach to see if it leads to vendors proactively working to address the root-causes of compliance issues.

Challenges

Internal

In 2008, REI's board of directors commissioned an independent audit review of our fair labor compliance program at REI. The audit was completed in 2009 and the board accepted the results. While the results generally confirmed the adequacy of our program, they identified several important opportunities for improvement. Specifically, the auditor recommended that, consistent with prevailing practices and for prudent risk management, REI's board should have more direct line of sight to the co-op's fair labor compliance efforts. The auditor also recommended that we (i) consider a

change in reporting structure to introduce greater independence of the compliance team from the business teams, and (ii) implement better technology solutions to enable faster and more comprehensive reporting of audit results. The audit conclusions were not based on any specific incidents or findings, but rather represented very helpful recommendations for improving REI's compliance program. The board's Audit and Finance Committee accepted the recommendations and charged management with implementing appropriate changes to respond to the recommendations. Program changes responding to the audit findings will be implemented in 2010 and reported on in the next stewardship report.

External

Compared with previous years, our 2009 audit results demonstrate improvements in findings and the success of corrective actions. While we are pleased with the success in specific factories, we do not feel this represents an overall trend. We continue to believe that additional investments in new approaches are needed to address the underlying root causes of non-compliance.

Through our active involvement in auditing for more than 10 years we realize the limitations of the current model and anticipate the point where the audit and compliance process reaches a plateau in effectiveness. While some areas have improved (health and safety practices), others continue to be a challenge (wage and hour violations).

Non-profit organizations and other experts are reporting that factories in some areas are responding to auditing by hiding their actual behavior rather than implementing changes. In response, leading companies are considering augmenting the audit process by engaging suppliers to help them realize the benefits of cultivating positive work environments.

While we believe this concept holds great potential, it represents a significant shift in approach that will take time and collaboration throughout the entire supply chain.

Looking Ahead

To document on-the-ground conditions in our contract factories, we will continue our third-party audit program. At the same time, our successful collaboration with factories and peers via FFC is very encouraging. As we move ahead with audit sharing, we will continue to improve the alignment of our audit process and procedures with those of FFC. We will also continue to expand our "vendor-owned compliance" effort with selected partners; we see this as the best way to engage factories in achieving better outcomes for both their business and their employees.

Audit Results, Data and Methodology

Process for Sourcing Standards Compliance

Before we begin working with a new factory or vendor, they must be prequalified. To achieve prequalification a vendor must provide a self-evaluation that demonstrates compliance with REI's factory Code of Conduct.

A factory can provide evidence of compliance by demonstrating certification with one of the global social accountability standards, such as the Worldwide Responsible Apparel Production (WRAP) initiative, SA8000, or Fair Labor Association (FLA), or by providing a recent audit from an independent audit firm. In the absence of this evidence, we will analyze a set of risks factors and determine whether an initial full audit is warranted.

Once established as a supplier, a factory must maintain a program of compliance with our Code of Conduct. The factory will be subject to a full audit by the independent audit firm and the timing of the audit within a three-year cycle depends on the factory's overall performance within the fair labor compliance program. This includes the nature and severity of any non-compliance issues and the progress the factory makes on the corrective action plan for those issues. Whenever audit reports show violations we require implementation of a corrective action plan and a follow-up audit. Once all corrective actions have been verified, the factory will be put on a three-year audit rotation.

In 2009, contract factories representing approximately 96 percent of the dollar value of REI-brand products had undergone an independent audit under the co-op's compliance program.

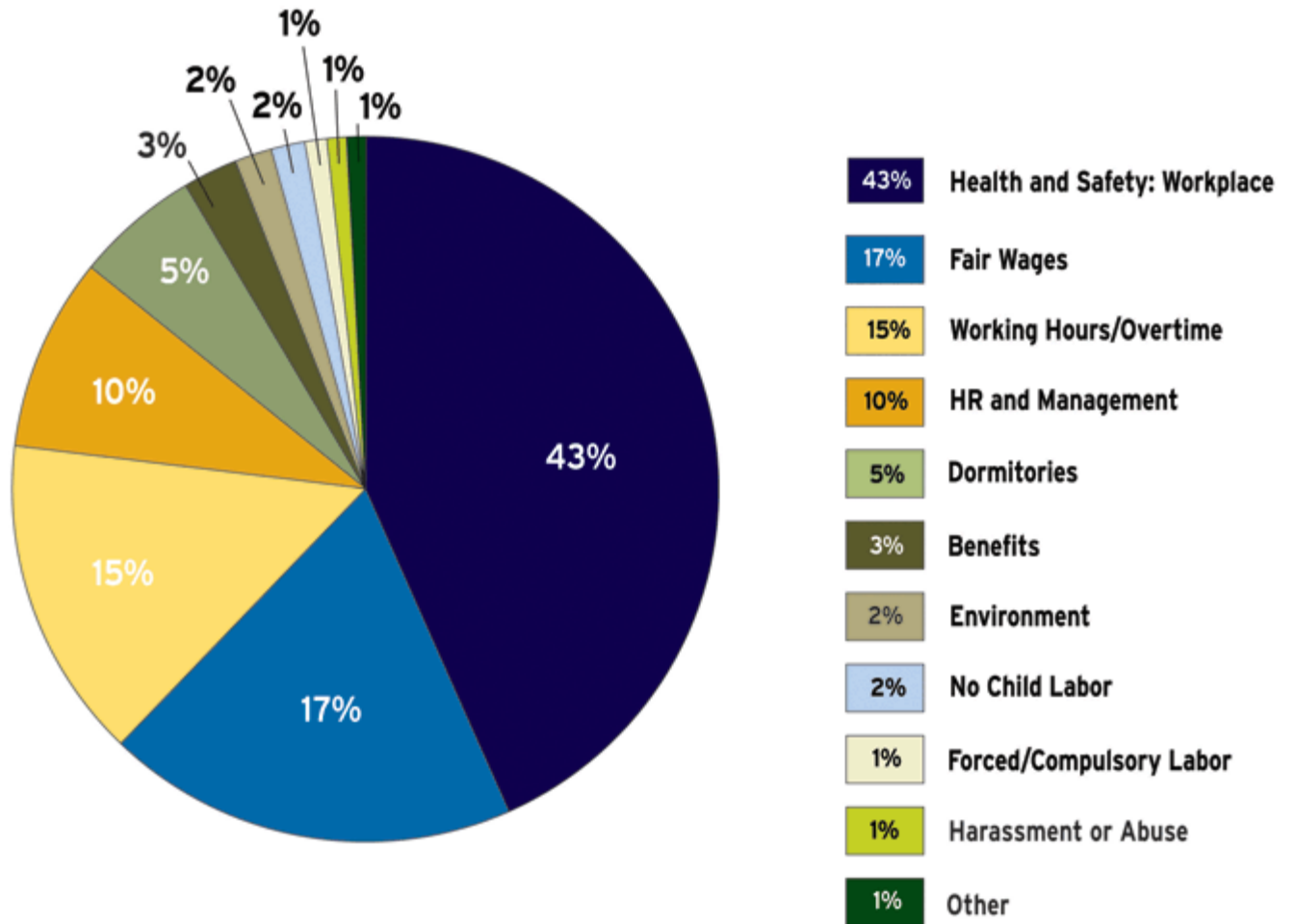
2009 Audit Results

Auditors routinely identify issues and opportunities in the course of their factory visits, interviews, and audits. This is true whether the factory is in Asia, Europe, or North America. REI employees then work with the factory to address the issues through a corrective action process. In the context of a constructive business relationship, the corrective action process helps the factory improve performance and address issues large and small. A follow-up audit is done to demonstrate effective corrections or to identify systemic failure to meet the requirements.

In general, we believe that working with engaged factories to correct issues is better for employees and our business than abandoning the relationship with the factories. Our ultimate recourse, however, is to move our business to factories that are more accountable in the area of fair labor practices. As with any change in a primary business relationship, a change in factories requires time and cooperation and involves business risk, financial investment, and an impact on employees. For these reasons, we approach a decision of this magnitude very thoughtfully.

REI has reported the compiled results of our annual audits for the last four years. In 2009, we had 79 active vendors with a total of 127 active factories. We conducted 15 third-party audits (results of these audits follow). In addition to third-party audits, REI employees visited more than half of the factories and had first-hand experience on the manufacturing floor.

2009 Audit Violations
(percentage of total violations)



Major vs. Minor Violations
(number of violations per audit)



While the audit findings in 2009 show substantial improvements over previous years, we are very cautious not to draw conclusions from this data. We believe these results indicate specific factory performance improvements and are skewed by successful re-audits. In other words, factories with previous violations were re-audited following corrective action and, as expected, they were found to be in compliance. We are pleased with these results, but we do not see this as an indication that similar performance improvements have been achieved across all factories.

Example Violations Found Per Code Provision

To better explain the types of infractions represented in these charts, we have provided the following examples of actual violations reported by our auditors over the past few years. Every violation registered in an audit report is the subject of some type of corrective action process and resolution.

Compliance with Applicable Laws

Major

- Willful violation of the law

Minor

- Not implementing up-to-date laws
- Contracts not provided or out-of-date

Health and Safety

Major

- None found

Minor

- Insufficient emergency procedures
- Insufficient fire drills
- Blocked aisles

- Missing or inadequate first-aid
- Evacuation routes not marked or well-lit
- Injury logs not maintained
- Sewing needle and other guards not in use
- Personal protective equipment not issued or used (examples might include eye or ear protection)

Wages and Benefits

Major

- Non-payment of applicable wages
- Not providing legally required benefits
- Manipulation of payroll records

Minor

- No system to track hours worked
- Work done off-the-clock
- Missing time records
- Incorrect overtime computations
- Minor record keeping violations
- No pay slips for workers
- Payment of wages delayed

Hours of Work

Major

- Required and routine seven day workweek
- Denial of legally required holiday and vacation leave
- Not compensating employees at the premium wage rate for all overtime hours
- Not providing one day off in seven on a regular basis

Minor

- Abuse of peak hours provisions

Environmental Commitment

Major

- None found

Minor

- Inappropriate storing/handling of chemicals
- Missing material safety data sheets
- Lack of secondary storage areas

Child Labor

Major

- None found (for example the discovery of underage persons working in the factory)

Minor

- 16- to 18-year-olds denied access to health care checkups as required by local law
- Insufficient hiring procedures to ensure compliance with local law
- Incomplete or missing age documentation records verifying the age of all employees

Disciplinary Practices

Major

- None found

Minor

- Fines as a disciplinary practice
- Non-existence of progressive disciplinary system

Subcontracting

Major

- None found

Minor

- Use of subcontractor not approved by the company

Compliance & Record Keeping

Major

- Willfully inaccurate record keeping

Minor

- Inaccurate record keeping
- Not posting legally required notices
- Incomplete/missing personnel policies

Prison or Forced Labor

Major

- None found (this would include imprisoned persons working in the factory)

Minor

- Monetary deposits required on starting job

Discrimination

Major

- None found

Minor

- Failure to provide gender separated bathrooms (an example would be a garment factory not providing a separate men's room on the production floor where the vast majority of workers are women).

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