

Workshop W4

Wednesday, October 29, 9:00 a.m.–noon

AWARD-WINNING RISK MANAGEMENT

Presented by



Alan J. Ruben
Chief Financial Officer
DRI Companies

Contractors operating on thin margins must aggressively manage the cost of risk. Successful contractors, therefore, must stay abreast of state-of-the-art risk management techniques. This workshop highlights two recent risk management initiatives to be recognized with the Gary E. Bird Horizon Award as innovative and effective techniques for managing some of the contractors' most pervasive risks.

- Outlines an integrated risk/safety management process for improving safety, quality, and employee wellness.
- Reviews one company's actual plan to reduce losses and improve worker safety, which converted a cost center into a competitive advantage.

Risky?

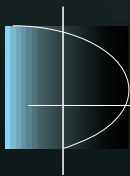
We don't think so.



The Construction Industry has experienced a variety of Insurance challenges recently. The legal environment has dramatically changed the Insurance marketplace for Residential Construction projects. For over twenty years, insurance brokers representing Construction Risks have relied on our market knowledge and expertise in satisfying the unique coverage requirements of the Construction Industry.

We represent the specialty underwriters who are ready and willing to provide Insurance for your coverage challenge - whether Artisan or General Contractor. We also have Builders Risk markets - including Frame and Coastal exposures!

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Alan J. Ruben
Chief Financial Officer
DRI Companies

Mr. Ruben is copresenting Workshop W4, "Award-Winning Risk Management," on Wednesday morning. He is the chief financial officer for all of the DRI Companies. Mr. Ruben joined the organization in 2001 after working as the chief financial officer at a publicly held high-technology enterprise. Previously he was employed as the CFO at a large multinational transportation conglomerate and at a small medical device software entity. Mr. Ruben began his career with Coopers & Lybrand, leaving there as an audit manager to form his own CPA practice. He later merged his practice into a CPA firm and served as partner in charge of audit and accounting at that firm and another firm that specialized in providing services to construction contractors, for a combined 9 years. Mr. Ruben earned a bachelor's degree in Business Administration from the University of Southern California and a master's in Business Administration from California State University—Long Beach. He is also a CPA licensed in the state of California.

Mr. Ruben currently conducts in-house training for the Companies in areas such as risk management, insurance, and understanding financial statements. Previously, he was a part-time instructor of accounting at California State University, Fullerton, and taught in-house national training courses at Coopers & Lybrand. He also taught numerous accounting courses at the local CPA firm level. He is a member of the American Institute of CPA's, the California Society of CPA's, and the Construction Financial Manager's Association. He has also served as the chairperson of the Orange County Financial Counsel of the California Association of Specialty Trade Contractors.

As chief financial officer, Mr. Ruben is responsible for overseeing all financial, tax, IT, legal, human resources, and insurance matters. Risk management responsibilities also fall under his direction. He brought a new perspective to the entire risk management process and has been instrumental in implementing new risk management concepts to the Companies. These included not only all of the workers compensation and safety initiatives but changes in other coverages (general liability, excess coverage, employment practices, etc.). He has also been extremely involved with the Companies' strategic planning efforts. The Companies' combined revenue has grown by more than 150 percent since Mr. Ruben joined the organization. Mr. Ruben recognized the importance of proper strategic planning and control and has achieved great success in this regard with the Companies.

Notes

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DRI's Safety Program:
Reduce losses, improve worker safety,
and gain competitive advantage

Presented By:
Alan J. Ruben
CFO



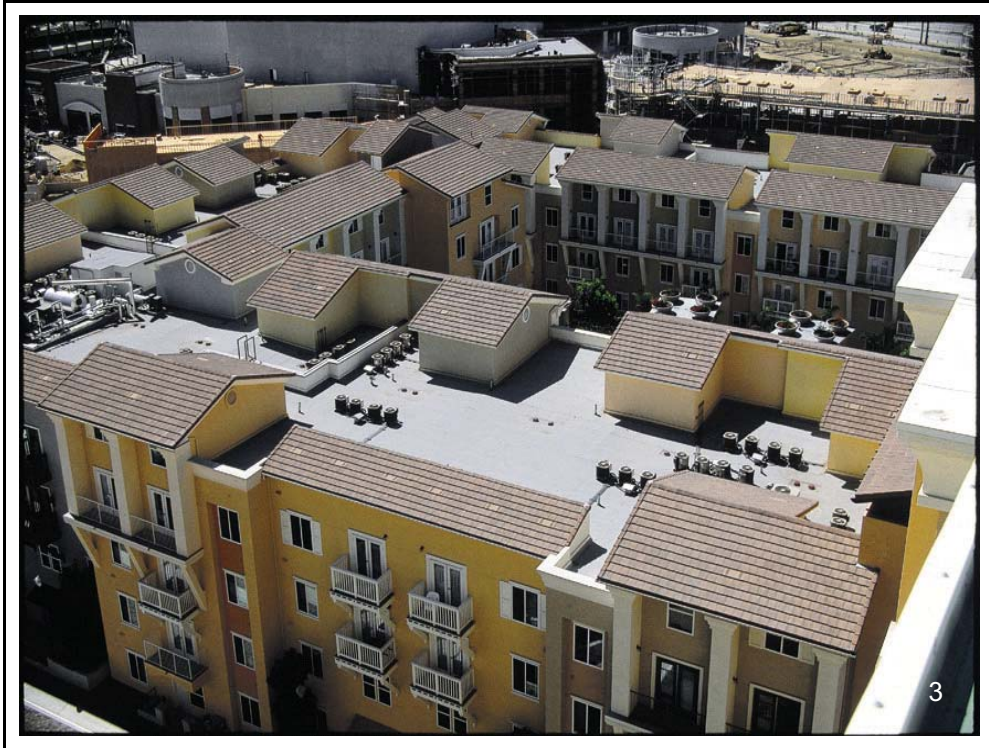
Irvine, California

1

Who Is DRI?

- Roofing, waterproofing, and energy contractor
 - New residential & commercial
- Headquartered in Irvine, CA
 - Offices in Irvine, San Leandro, North Hollywood, Corona, & San Marcos, CA; Las Vegas, NV; Puyallup, WA; and Honolulu, HI
- Safety is a core value

2







Why Safety Is Important to DRI

- Money
 - Large deductible program started Feb. 2003
 - We have a lot at risk
 - \$500,000 per claim
- Financial incentive to employees
 - Potential for substantial bonuses for operations management, safety and field personnel
- It's important to our customers
- It's the right thing to do
 - We operate in dangerous industries – life changing/ending events can happen

8

Why Is Safety Important?

- “Safety [health & environmental] work is today recognized as an economic necessity, and one of the most constructive movements that has ever come into our National life. It is the study of the right way to do things and is ... one of the greatest aids to shop efficiency and economy.”

– Robert W. Campbell (1914)

9

Historical Perspective

- Previously with State Compensation Insurance Fund prior to 2/1/03
- Facing substantial premium increases –
 - Policy year 5/1/00 to 4/30/01 \$1,000,000
 - Policy year 5/1/01 to 4/30/02 \$2,000,000
 - Policy year 5/1/02 to 4/30/03 \$2,700,000
 - Policy year 5/1/03 to 4/30/04 \$4,300,000 – projected
- Payroll was flat in the first 3 years –
 - Projected to increase 20% 03/04 year
- Losses were not well controlled
- Mod rate grew from 81 to 135
 - We were in jeopardy of losing work because of safety

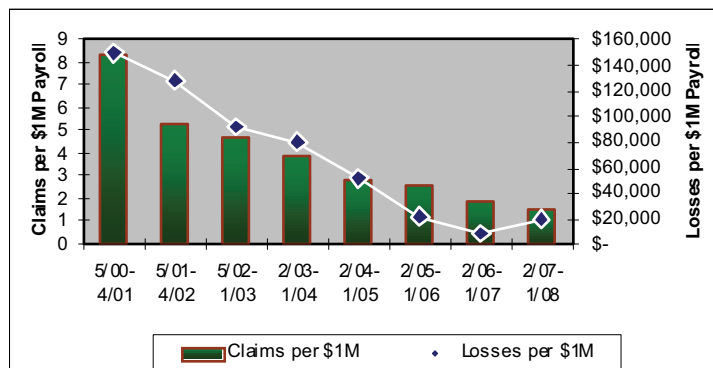
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Safety Results

- Losses per \$1 million of payroll (fully incurred loss dollars)
 - \$149,311 (2000/01) to \$19,771 (2007/08)
 - DRI loss development factor for 4 open years between 2/1/07 and 6/30/08 was negative 7%
- Number of claims per \$1 million of payroll
 - 8.31 (2000/01) to 1.51 (2007/08)
- Mod Rate
 - 104 (2001) to 57 (2008)
 - High was 135
 - Predicted to further decline for 2009
- Total payroll grew by 138% during this period
 - Field payroll grew by 80% during this period
 - Revenue grew 164% during this period

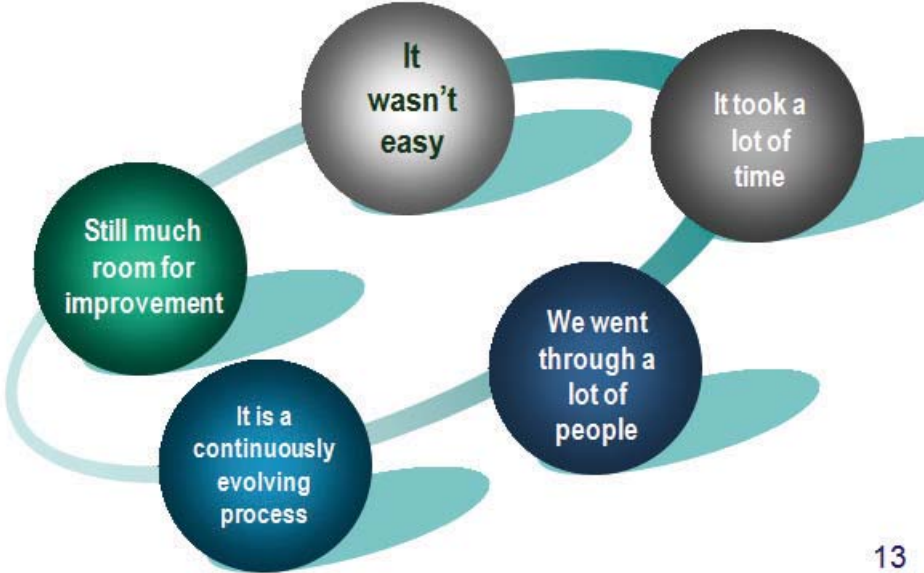
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Loss Summary: CA Workers' Comp



12

How did we get these results?



“Selling” Safety Inside the Business

- Starts from the top
 - **Must have top-level agreement**
 - Easiest step to do
 - We implemented safety processes that cost us money up front

“Selling” Safety Inside the Business

- Starts from the top
- This is a *team effort*
- Buy-in from operations management
 - This was difficult for some, made their jobs more difficult
 - New requirements, more procedures, fewer qualified workers, more time spent in training than on the job
 - Made their jobs less profitable
 - Many were “old school” – grew up in the industry without a true regard for safety
 - Scars were badges of honor
 - Cultural issues regarding reprimanding employees
 - We let go a lot of excellent technicians
 - They must realize a safer job is a better job

15

“Selling” Safety Inside the Business

- Starts from the top
- This is a *team effort*
- Buy-in from operations management
- Sales support
 - First reaction was negative
 - More safety = lower margins = lower commissions
 - Needed to convince them this was an opportunity to differentiate ourselves & sell safety alongside quality
 - More and more customers will buy and pay for safety
 - Customers link quality and safety

16

“Selling” Safety Inside the Business

- Starts from the top
- This is a *team effort*
- Buy-in from operations management
- Sales support
- Field employees
 - Required a change in culture
 - Many poorly educated employees
 - Some employees have “this won’t happen to me” attitude
 - Foremen are the key to success
 - Foremen often supervise family members & they don’t want to get them in trouble

17

“Selling” Safety Inside the Business

- Starts from the top
- This is a *team effort*
- Buy-in from operations management
- Sales support
- Field employees
- Major change – safety no longer reported to Operations

18

Training and Hazard Review

- **Post-incident review meetings**
 - Held after all events, including near misses
 - Attended by senior management, safety reps, operations management, and applicable field personnel
 - We look for root cause of incident
 - Equipment/Tool issue
 - Training issue
 - Employee aptitude or attitude
 - Policy/Operational practice issue

19

Training and Hazard Review

- **Post-incident review meetings (cont'd)**
 - Many hazards and training needs identified at such meetings
 - Corrective actions identified
 - Mechanism added to ensure all corrective actions taken
 - Conducted for all vehicular and equipment incidents
 - Recently implemented post- suspension/termination reviews
 - Communication was lacking about such occurrences

20

Training and Hazard Review

- Post-incident review meetings
- Safety is a topic at all major corporate functions
 - Semi-annual Fiestas for field personnel
 - Foremen meetings
 - Semi-annual DRIVE (DRI Vision Exchange) meetings –for administrative personnel

Training and Hazard Review

- Post-incident review meetings
- Safety is a topic at all major corporate functions
- **Problem – how could we make learning safety more proactive or engaging?**
 - We wanted to avoid that “glazed over” look
 - What’s wrong with this picture – prizes for first to answer question
 - Real-life examples of what can happen
 - Both good – if following procedures and bad if not following procedures
 - Nontraditional videos

Training and Hazard Review

- Post-incident review meetings
- Safety is a topic at all major corporate functions
- Problem – how could we make learning safety more proactive or engaging?
- New hire orientation
 - Safety focused
 - Classroom & hands-on training – it must be interactive
 - Testing for comprehension – new for classroom
 - Commercial training – newly developed program in 2008
 - Pre-employment drug screen

23

Training and Hazard Review

- Post-incident review meetings
- Safety is a topic at all major corporate functions
- Problem – how could we make learning safety more proactive or engaging?
- New hire orientation
- On-the-job training
 - Toolbox talks – topics updated to reflect current needs
 - Training by safety reps
 - Goal was for safety to visit every foreman on at least a bi-weekly basis
 - We focused on foremen as opposed to jobs or individual employees
 - Training by superintendents during job site visits

24

Positive Reinforcement vs. Punitive Talks

- An evolving system
- The pendulum has swung from a police state – very punitive – to an overly positive reinforcement system, with little downside risk to employees
- **Needs to be somewhere in the middle**
- We implemented a point system to simplify the process
 - Unfortunately, it did not work
 - We simplified it beyond all comprehension
- **Change attitude to catching people being safe**

25

Positive Reinforcement vs. Punitive Talks

- STaR (Safety Tracking and Recognition) Program
 - STaR notices, evaluated at a crew level
 - STaR notices given out if all of the following are met
 - All members of the crew are operating in a safe manner
 - All equipment is properly maintained
 - All members of crew know weekly toolbox talk topic
 - **If one person and/or piece of equipment fails test, no one on crew receives STaR notice – creates peer pressure for improved safety**
 - Person not meeting standards given violation or warning

26

Positive Reinforcement vs. Punitive Talks

- STaR (Safety Tracking and Recognition) Program
 - STaR notices, evaluated at a crew level
 - STaR notices turned into lottery tickets for prize drawings at semi-annual Fiestas
 - Multiplier effect for those with a long history of safety – improved odds of winning

27

Positive Reinforcement vs. Punitive Talks

- STaR (Safety Tracking and Recognition) Program
 - STaR notices, evaluated at a crew level
 - STaR notices turned into lottery tickets for prize drawings at semi-annual Fiestas
 - Program discontinued in 2007
 - Employees wanted more immediate recognition
 - Lucky employees won prizes – some of the safest did not win
 - Superintendents gave out varying levels of STaR notices

28

Positive Reinforcement vs. Punitive Talks

- STaR (Safety Tracking and Recognition) Program
 - STaR notices, evaluated at a crew level
 - STaR notices turned into lottery tickets for prize drawings at semi-annual Fiestas
 - Program discontinued in 2007
 - Need to keep the safety program fresh

DRI Dollar Program Replaced STaR Program 2007

- Awarded using same criteria as STaR notices
- DRI dollars used to purchase tools, DRI apparel, or gift certificates
 - We use a "DRI dollar catalogue"

DRI Dollar Program Replaced STaR Program 2007

- Awarded using same criteria as STaR notices
- DRI dollars used to purchase tools, DRI apparel, or gift certificates
- DRI dollars also given out at Fiestas for perfect safety records
- Same challenges as STaR notices regarding superintendent participation
- Initial response was less than overwhelming
 - Gaining more acceptance as employees accumulate more dollars & catalogue expands

31

DRI Dollar Program Replaced STaR Program 2007

- Awarded using same criteria as STaR notices
- DRI dollars used to purchase tools, DRI apparel, or gift certificates
- DRI dollars also given out at Fiestas for perfect safety records
- Same challenges as STaR notices regarding superintendent participation
- Initial response was less than overwhelming
- Difficult system to maintain
 - Distributing prizes resulted in logistical issues
 - Administrative issues regarding tracking of dollars

32

DRI Dollar Program Replaced STaR Program 2007

- Awarded using same criteria as STaR notices
- DRI dollars used to purchase tools, DRI apparel, or gift certificates
- DRI dollars also given out at Fiestas for perfect safety records
- Same challenges as STaR notices regarding superintendent participation
- Initial response was less than overwhelming
- Difficult system to maintain
- Outside services administer prize programs

33

Other Safety Recognition

- Perfect Safety Records
- Golden Hard Hats
- Serve on customers' safety counsels

34

Violations and Training Opportunities

- Steps taken when unsafe actions/conditions are found
 - Warning, with retraining
 - Written violation, with retraining
 - Suspension, followed by re-attending safety orientation
 - Termination
 - Fall protection, ladder safety, and hot asphalt personal protective equipment result in suspension or termination
 - These pose greatest hazards for employees
 - Same with failure to report injuries
 - How to deal with repeat offenders
 - Suspended employees meet with senior operations management before returning to work to evaluate their safety attitude

35

Violations and Training Opportunities

- Steps taken when unsafe actions/conditions are found
 - What about foremen?
 - Should a foreman be treated the same as employees on his crew if a violation is given or injury occurs?
 - Our answer – it depends
 - We discussed requiring suspended employees to ride along with safety rep for a day upon return to work
 - How to treat an employee injured because of his safety violation

36

Monetary Incentives

- Foremen safety bonus
 - Potential for quarterly or job end
 - Perfect safety records required
 - **Make sure employees know why they are getting bonus**
 - Issue bonus as a separate check
 - Hand delivered by operations management
 - Say “thank you” for being safe

37

Monetary Incentives

- Foreman Safety Bonus
- Administrative Safety Bonus Plan
 - Covers all superintendents, safety personnel, and claims administrators
 - Tied to total estimated losses as percentage of field payroll
 - **Includes first-aid costs – ensure all injuries are reported**
 - One program covers all locations and DRI entities
 - We are all in this together
 - Changed to ½ formula based and the other ½ subjective
 - **Continuously toughened goals**
 - Over \$1.8 million paid out in these bonuses over last 4 years
 - Re-compute bonus payments every 6 months, to encourage closing claims
 - We have 3 open claims remaining for 2003 through 2006

38

Tools & Safety Systems

- 100% tie off on sloped roofs – we believe we are first in industry to do so
 - WhirlieBird™
 - Best device available – designed in-house
 - Patented

39



WhirlieBird™ Installation

40

WhirlieBird™ Utilization



41

WhirlieBird™ Utilization



42

Tools & Safety Systems

- 100% tie off on sloped roofs – we believe we are first in industry to do so
 - WhirlieBird™
 - Best device available – designed in-house
 - Patented
 - Higher cost to build and install
 - Flaws with alternative systems
 - Customers are specifying use on jobs
 - Other trades asking to use device
 - Beware of potential liabilities

43

Tools & Safety Systems

- 100% tie off on sloped roofs – we believe we are first in industry to do so
 - WhirlieBird™
 - Tri-cable System
 - **Removes most of the human element**
 - Reliance not placed on warning lines or monitors
 - Workers always secured outside of cables

44



Tools & Safety Systems

- 100% tie off on sloped roofs – we believe we are first in industry to do so
 - WhirlieBird™
 - Tri-cable System
 - Cable Perimeter Safety System

Tools & Safety Systems

- 100% tie off on sloped roofs – we believe we are first in industry to do so
- Other tools
 - 100% hard hat policy
 - Different gloves for different applications
 - Working with metal
 - Loading tile
 - Regular roofing
 - Kevlar
 - Fingertipless
 - Backpacks for carrying small tools up ladders
 - **Step-through ladders to minimize greatest risk**

47



48



Tools & Safety Systems

- 100% tie off on sloped roofs – we believe we are first in industry to do so
- Other tools
 - 100% hard hat policy
 - Different gloves for different applications
 - Working with metal
 - Loading tile
 - Regular roofing
 - Kevlar
 - Fingertipless
 - Backpacks for carrying small tools up ladders
 - Ladder step-through to minimize greatest risk when using a ladder
 - Starting to use mobile self-assembled stair systems
 - Training about stretching

50

Tools & Safety Systems

- 100% tie off on sloped roofs – we believe we are first in industry to do so
- Other tools
- Can we eliminate 100% of all risks of injury?

51

Job-Specific Safety Plans

- **Collaborative effort**
 - Operations, Sales, & Safety
- Written safety plans done in advance of work
- **Audit to the safety plan**
- **Empower all field employees to be safe**
 - Any employee must be allowed to raise concerns over safety
 - Implemented 24/7 Anonymous Hotline – handed out wallet cards with 800 number so employees can raise concerns regarding any observed unsafe, illegal, unethical, or inappropriate conduct

52

Claims Management & Cost Control

- Effective claims management is integral to successful program
 - Claims will happen
- Relationships with clinics
 - Protocols
 - Available work assignments
- Return to work programs/Modified duty
 - Beware of change of job assignments
 - Office and yard
- Communication with/Accommodation for injured employee AND family
- Transportation to follow-up appointments

Claims Management & Cost Control

- HCO and MPN to manage claims
 - Networks are only as good as their worst physician
- Quarterly face-to-face meetings with carrier/TPA
 - Local office is better – we go to their location
 - We had a number of tension-filled meetings early in the relationship
 - Now run smoothly
 - A lot of advance preparation by both sides
 - We hold internal pre-review meetings
 - In time for unit stat filing
- Aggressively pursue questionable claims
 - Surveillance
 - Other legal resources
 - We want a reputation as a company that can't be scammed
 - “Our kettles sparkle”

Benefits of Our Safety Program

- Lower claims history and cost = competitive advantage
- Increased sales opportunities
 - Safety is a critical key qualifier for many major companies
 - GC's and builders are buying safety
 - They recognize utilizing safe contractors drives profits
 - **Safety** and **Quality** go hand in hand
- Safer employees leads to ...
 - Improved recruiting
 - Increased retention
 - Happier workforce
 - Healthier workforce

55

What's Next?

- Automated tracking of safety in the field via hand-held devices
 - Audit results
 - Violation/Warning history
 - Attendance at training, including toolbox talks

R5505001A

Version DRI0006

Employee Profile Report (Createform)

From 1/1/2007 Thru 7/31/2008

7/28/2008 8:18:18

Page - 6 of 10

Home Company 00014 DRI Residential

Employee : Original Hire Date Active Employment Duration : Days

Violation List

Date	Violation Category	Sub-Category Code	Type	Foreman Name	Job Number and Name	Comments
2/21/2007	Housekeeping	Debris on roof			716008001	
4/18/2007	Work Access	Ladder-unsafe minor			709101011	
4/25/2008	PPE	Hard hat - not used			716008031	
5/13/2008	Other	Other			766029011	Rope & Whccl Training

General/Serious Violation: 4 / 0

Audit History From 7/1/2008

0 # of Audits as Job Foreman
 7 # of Audits as Employee
 0 # of Audits with Perfect Audit as Job Foreman
 0 # of Audits with Violations as Job Foreman
 0 # of Audits with Violations only as Employee

56

What's Next?

- Automated tracking of safety in the field via hand-held devices
 - Audit results
 - Violation/Warning history
 - Attendance at training, including toolbox talks
- Looking at overall records – not just negative results
- Leading vs. Lagging indicators
 - What does our data tell us?
- Selling *safety*
- Safety program must be ever changing

57

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CFO
DRI Companies

Irvine, California

58

