RugMark is a nonprofit organization working to end exploitative child labor in the carpet industry and offer educational opportunities to children in India and Nepal. The RugMark label is your best assurance that no illegal child labor was used in the manufacture of a carpet or rug.

A few years ago, Man Maya didn’t dare to dream a life beyond the carpet factory. She endured the hardships of homelessness, which led her to work on the looms.

Then RugMark rescued Man Maya and everything changed. She entered school, completed the seventh grade, received vocational training and is now a seamstress and entrepreneur in her home town in Nepal. Man Maya’s smile, seen on page eight of this report, reminds us that we consumers have the power to liberate child workers on the other side of the world. At RugMark we call the exercise of this power “responsible luxury.”

To satisfy the growing desire for buying responsibly, RugMark offers a certification program that gives the rug buyer, whether a designer, retailer or consumer, assurance that the beautiful rug was made free of child labor. And it’s working. This year, RugMark’s U.S. rug sales increased by 22 percent while the overall market was dropping by 19 percent. Every certified rug sold generates funds to educate rescued and at-risk children. In 2008 this amount totaled $126,000, a 20 percent increase over 2007.

But we can do more, especially to bring our message to a broader public. RugMark’s Most Beautiful Rug awareness campaign does just that, deploying the full range of media to publicize both certification and the rescue and education facets of our work in South Asia. Part of the campaign is the Faces of Freedom traveling photo exhibition featuring many of the 3,400 children rescued by RugMark, several profiled in this report.

Since RugMark began, in 1995, the number of children laboring in South Asia’s carpet industry has dropped from 1 million to 300,000.

What will it take to reach zero? We know from crusades in other business sectors that once enough key purchasers, about 15 percent, make a formal commitment to change, the rest of the industry will follow.

We’re approaching that magic 15 percent, and to help reach us in re-branding and expanding our efforts. Next year we will launch GoodWeave to eventually replace the RugMark label. GoodWeave will address an enhanced set of humanitarian and environmental criteria and offer the potential for reaching more industry sectors and producer countries.

GoodWeave will bring a new look and logo, but our core mission and structure will remain the same: To grow the market for child-labor-free rugs and shrink the number of children exploited on the looms. Only then will Man Maya’s story become the exception among South Asia’s children, instead of the familiar one it is today.

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A Message From the Executive Director
American consumers carefully research before spending money on luxury items like jewelry, cars or carpets. It only makes sense to be sure you get the high-quality product you’ve paid for. Now, shoppers are looking beyond the product to the process of its creation: Was this product made responsibly?

To practice “responsible luxury,” however, requires information about which companies are offering ethically made products, and which are instead peddling “conflict diamonds,” “dirty gold” or “unclean” carpets made with illegal child labor.

In the handmade rug industry of South Asia, some 300,000 children slave on rug looms every day. Kidnapped or sold into forced labor, these “carpet kids,” some as young as four years, spend their days not in classrooms or running free in playgrounds, but toiling in factories and loom sheds where they often suffer physical and emotional abuse. For them, childhood is a luxury.

How can socially responsible consumers know which brands to trust? That’s where organizations like RugMark come in. According to a recent report by the branding and marketing agency BBMG, 52 percent of concerned consumers surveyed said they use product certification seals and labels in purchasing decisions.

RugMark® certification provides third-party verification of manufacturing conditions, making the choice easy and assuring a rug buyer that no child had a hand in the carpet’s making. RugMark’s holistic approach to ending child labor, embracing both rescue from the factory and placement in schools, has freed thousands of children from the looms while preventing thousands more from ending up there. Since RugMark introduced its child-labor-free certification in 1995, the number of child carpet workers has fallen by two-thirds.

U.S. consumers have embraced responsible luxury. RugMark’s market share grew 119 percent since the 2006 Most Beautiful Rug launch in 2006, from 1.5 percent to 3.25 percent in 2008, and 60-plus licensed importers retailed an estimated $52 million in certified rugs through some 1,300 outlets.

While the U.S. economy began to sag, and handmade rug imports dropped 19 percent, sales of RugMark certified rugs grew 22 percent.

Each rug sale helps put education within another child’s reach. The following pages trace RugMark’s progress in 2008, and profile some of the children assisted by the organization. Please take a moment to read the compelling stories of children whose lives have been transformed by the simple act of a consumer – maybe you – who asked for a rug reliably certified as free from child labor.
O nly an informed consumer can make an enlightened choice. In 2006, RugMark USA launched *The Most Beautiful Rug*, a national campaign to raise awareness of RugMark certified rugs. Through editorials and advertising in key print and online publications, RugMark’s name reaches millions of readers – who then have the power to choose responsible luxury.

Placements of *The Most Beautiful Rug* ad increased dramatically in the campaign’s third year, as RugMark developed new relationships with leading design magazines. This outreach was reinforced at the point of sale through posters and brochures bearing the RugMark name and logo. Many prospective consumers and clients took the next step and visited our website, www.RugMark.org, to locate retail outlets, link to online shopping, trace the origins of a certified rug or learn about child labor around the world.

Although the *Most Beautiful Rug* campaign is consumer-focused, it also reaches out to market influencers such as interior designers and architects through trade show events, private presentations and other vehicles. For example, RugMark USA Executive Director Nina Smith spoke about “A Beautiful Purchase That Makes a Difference” to designers at the 2008 International Contemporary Furniture Fair, one of many important industry events where RugMark was represented.

*The Most Beautiful Rug* saw an increase in media mentions in 2008, 20 percent over 2007, with coverage by high-profile media like *Family Circle*, *Domino*, *Pasadena*, the *Washington Post*, the *BBC* and the *CBC*. Meanwhile, RugMark’s media sponsors ran the campaign’s hallmark ad pro-bono in *Dwell*, *Interior Design*, *Modern Luxury* and *Western Interiors & Design*, among other national and regional publications.

After 15 years of promoting ethical rug production with the RugMark certification label, RugMark will introduce a new brand that will strengthen its work and help its member companies become even more responsible in their practices.

Slated to hit stores in fall 2009, GoodWeave will be positioned in the broader context of environmental and social responsibility to symbolize more than child-labor-free. Through a new set of standards under development with input from a multi-stakeholder committee, the GoodWeave label directives will be more rigorous, transparent and defined. Specifically, member companies will be required to move toward greater environmental responsibility in manufacturing facilities and practices, and improved labor conditions for adults. The standards will be progressive, with graduated levels of compliance.

RugMark’s core mission and structure will remain the same, but GoodWeave will become the consumer-facing brand and label. With the help of industry partners and supporters, the GoodWeave label will become a widely recognized symbol of integrity, authenticity and social justice. It will advance working conditions for the largely overlooked informal sector of workers who are among the world’s poorest and most vulnerable to labor abuses.

For more information about GoodWeave policies and procedures or to comment on standard-setting, please consult the new RugMark International website, www.GoodWeave.net.

**The Most Beautiful Label: GoodWeave™**

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Behind every certified rug sold and market share point gained for RugMark stands a child whose life has been touched. In the weaving communities of India and Nepal, RugMark inspectors identified 135 child carpet weavers in 2008, while the total number of rescued children surpassed 3,400. Reunited with their families or given safe and secure housing at a RugMark rehabilitation center, the children are offered non-formal schooling in literacy and numeracy and then long-term educational support through grade 10 or the age of 18, whichever comes first.

After turning age 14, children can continue on a path of formal education or enter a vocational training program to learn locally marketable skills, such as auto and motorcycle repair, tailoring or electrical wiring. In 2008, RugMark programs also provided daycare for 182 children and scholarships for 300 out-of-school kids.

Sales of certified rugs pay for part of the programs for children and families. In 2008, $126,000, representing 0.5 percent of U.S. retail sales of RugMark rugs, was dedicated to continuing and expanding these initiatives. This marks a 22 percent increase over 2007. The deterrent effect of RugMark inspections, coupled with better educational opportunities in the rug-making capitals of South Asia, has resulted in dramatically improved labor practices. An estimated 700,000 children have been protected from exploitation on the looms during the past 15 years.

Weaving A Better Future for the People Behind the Looms

• Centre for Child Studies and Development
• Children Welfare and Rural Development Service
• Education, Protection and Help for Children
• Helpless Rehabilitation Society
• Laboratory Higher Secondary School
• Little Angel’s Higher Secondary School
• Underprivileged Children’s Education Programme (UCEP) - Nepal

RugMark delivers its educational programs through partnerships with local non-governmental organizations. Our partners in 2008 were:

Kathmandu’s Motorcycle Girl

Nineteen-year-old Saraswoti’s determined look captures her desire to make a good life for herself and her family, despite all obstacles. Growing up in Amoura village in far western Nepal, the eldest of five children in a household that struggled to make ends meet, she had no reason to think she could escape the poverty of her surroundings. Yet today she is a student of the Sanctuary motorcycle repair and maintenance workshop—a remarkable achievement that might not have happened without critical and timely assistance from the Nepal RugMark Foundation and other local organizations.

Saraswoti attended a local school until her early teen years, when she had to drop out and work as a domestic. Her life changed decisively six months later, after she learned of a local vocational training program for girls and young women. Despite opposition from her father, Saraswoti enrolled in “Gainful Employment Opportunities for Young Women at the Risk of Trafficking and Trafficking Survivors,” a program launched jointly by the Nepal RugMark Foundation and the Underprivileged Children’s Education Programme (UCEP)-Nepal.

Why did Saraswoti choose motorcycles as her field of interest? “When I came to UCEP, I found that there were many types of training for girls and boys,” she says. “Among them was motorcycle repair and maintenance, which is in a country like Nepal is still thought to be only a boy’s trade. But I thought it would not be too difficult.”

Her course began in December 2005, and soon many other girls were following her. Saraswoti’s family and friends were astonished that a girl, especially one from a poor background, could become a motorcycle mechanic. “My father, pointing at a motorcycle, said, ‘If you have learnt about motorcycle repairing, then prove it by driving it!’”

And she did. She coolly went to the motorcycle and drove it around the village.

In 2008, RugMark programs also provided daycare for 182 children and scholarships for 300 out-of-school kids.

W EA VING A BETTER FUTURE FOR THE P EOPLE BEHIND THE LOOMS
At the age of five, Manju was already working in a rug factory. Three years ago, a local Indian civil society organization freed Manju from the loom. RugMark partners with local human rights groups to rescue, rehabilitate and educate such former child laborers. - Jaipur, India, 2007

Babloo, Chotu Rishi and Raju peek through the loom warp at RugMark’s Balshraya Center for Bonded Laborers. Former child workers, they can now choose to learn the craft of carpet weaving or opt for other vocational training to complement formal education. - Bhadohi, India, 2000

Born into a family too poor to afford school fees, Uma dropped out of the second grade in 1999. RugMark inspectors identified her as at risk for entering the workforce and facilitated her long-term educational scholarship. Today, 16-year-old Uma is in the 10th grade. - Kathmandu, Nepal, 2000

Out of economic desperation, Sunita’s family sold her to a thekedar (broker) for the equivalent of $2.50. She was made to work 18 hours a day as a carpetweaver and domestic servant to pay off the “loan.” RugMark rescued her in 2005. - Kathmandu, Nepal, 2007

The Power of Responsible Luxury

A few years ago, Man Maya was working long hours weaving carpets. Poor and illiterate, she became homeless as a result of her father’s alcoholism. Not daring to dream of a different life, she simply endured the hardships. Then she was rescued and everything changed. She entered school and completed the seventh grade. Next, after taking a vocational-training and job-placement program, she accepted work as a seamstress in her hometown. Man Maya’s smiling face is now a testament to the power of our choices.

“Most of the images you see here in Faces of Freedom are a celebration and an affirmation that hope is not extinguishable and that dreams of a better future are always realizable, no matter how long deferred. I hope these faces stay with you as a reminder that your continued support of RugMark can make a difference.”

– U. Roberto Romano

‘Faces of Freedom’: Visions of Hope

Responsible consumption opens paths to better lives. RugMark’s traveling photo exhibition, Faces of Freedom, was launched in New York City in fall 2008 to put a human face on the often-invisible issue of child labor in the handmade rug industry. Captured by award-winning photographer U. Roberto Romano, this collection depicts carpet weaving and its cultural context along with engaging images of former child weavers who are now in RugMark schools and centers.

Co-sponsored by the U.S. Fund for UNICEF, the exhibit connects consumers to the real-life impact of purchasing a RugMark certified rug. The stories of Man Maya and the other children highlighted in Faces of Freedom show that another way of doing business is possible, one based on ethics rather than exploitation. Look for images and stories from Faces of Freedom throughout this report.

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It is scheduled to cross the country through 2009 and beyond, perhaps somewhere near you. Please visit FacesofFreedom.RugMark.org to see the full collection, view the tour schedule and read more stories of the thousands of children RugMark has saved from exploitative labor.

Faces of Freedom shows viewers the ancient craft of carpet weaving while bringing them face to face with grim images of weavers too young to be at the looms, toiling in inhumane conditions. It is scheduled to cross the country through 2009 and beyond, perhaps somewhere near you. Please visit FacesofFreedom.RugMark.org to see the full collection, view the tour schedule and read more stories of the thousands of children RugMark has saved from exploitative labor.
RugMark Members: Catalysts for Change

Responsible consumers are voting with their pocketbooks, and rug sellers are taking note. RugMark’s market-driven approach met an unprecedented response in 2008: a 32 percent growth in the membership of North American importers and designers. In the bad economy of 2008, the total import of handmade rugs declined over 19 percent for the year, according to government data. But the import of rugs certified child-labor-free increased almost 22 percent.

Designers and Importers

In 2008, 61 North American rug design and import companies participated in RugMark’s certification program. Despite varied marketing strategies and distribution channels, RugMark members share a common commitment to transforming labor practices and providing social and educational programs within weaving communities. RugMark now certifies almost 3.4 percent of all handmade rugs imported into North America, a 52 percent increase from 2007.

“We care about the people that make [our] rugs. It’s a natural responsibility for us to be part of RugMark.”

— Julie Arcari-Cook, Landry & Arcari

“E ve point out [to customers] that it’s not just industry people saying they’re doing a good thing, it’s an outside, independent group providing verification. That’s the important point.”

— Drew Carlson, Rug Source in Denver

RugMark Retailers and Marketing Partners

RugMark’s success in promoting responsible luxury draws on its Marketing Partnership program, which provides special tools and recognition to retailers who wish to support RugMark’s mission and contribute financially to help children in weaving communities. These retailers receive exposure through RugMark’s print advertising and co-branded materials, access to RugMark’s consumer photo library, partnership opportunities for industry events, media outreach, dedicated point-of-sale materials and more. RugMark also promotes its Marketing Partners through prominent placement on its website, which plays a key role in educating prospective rug consumers about how, where and why to buy a RugMark certified rug. RugMark’s website gained visibility through search engine optimization and marketing. It generated an average of 2,500 unique visitors each week, or 130,000 annually, an increase of more than 100 percent over 2007. Marketing Partners and other industry members benefited from this increased traffic, with one in three visitors clicking through to a partner company’s website.

What it Means to be a RugMark Licensee

When rug design or import companies are licensed by RugMark USA, they sign a legally binding contract to produce carpets without illegal child labor. The contract also requires that they:

- Register looms in India and Nepal with RugMark
- Allow access to looms for unannounced inspections
- Pay unsecured license fees

57 percent of RugMark’s North American license fees are dedicated to funding child rehabilitation and education in South Asia. The remainder goes to raising consumer awareness and demand for child-labor-free rugs.

Visit www.RugMark.org for more information on how to become a licensee and view a sample license agreement.

“We point out [to customers] that it’s not just industry people saying they’re doing a good thing, it’s an outside, independent group providing verification. That’s the important point.”

— Drew Carlson, Rug Source in Denver
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<th>RugMark Licensees in North America</th>
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<td>Amp Melland</td>
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<td>Angela Adams Design</td>
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<td>Aperture Design LLC</td>
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<td>Asa Carpets</td>
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<td>Barbara Jacobs/Nik Road Weavers</td>
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“When you’re in the Peace Corps you are immediately drawn to how beautiful the children are and, at the same time, saddened by how their lives are limited by poverty... [and] when you see an organization such as RugMark that directly affects the lives of children, you have to support it!” — Maureen Orth, RugMark Advisory Board Member and Vanity Fair correspondent
STATEMENT OF FINANCIAL POSITION For the Year Ended 12/31/2008 with Comparative Totals for 2007

ASSETS 2008 2007

Current Assets
Cash and Equivalents $847,952 $704,109
Investments 185,287 11,164
Licensing Fees Receivable 106,029 91,500
Grants Receivable 435,000 –
Other Accounts Receivable 8,530 4,034
Prepaid Expenses and Other Assets 4,130 4,050
Total Current Assets 1,586,008 821,105
Grants Receivable, Net of Current Portion 415,434 –
Property and Equipment, Net 60,099 76,860
TOTAL ASSETS 2,061,541 897,965

LIABILITIES AND NET ASSETS

Current Liabilities
Accounts Payable and Accrued Expenses 28,216 16,098
Social Welfare Transfers 112,593 116,047
Funds Held as Fiscal Sponsor 138,044 23,377
Deferred Revenue 4,000 6,000
Total Liabilities 282,853 161,522
Net Assets
Unrestricted 563,688 531,356
Temporarily Restricted 1,215,000 205,087
Total Net Assets 1,778,688 736,443
TOTAL LIABILITIES AND NET ASSETS $2,061,541 $897,965

STATEMENT OF ACTIVITIES For the Year Ended 12/31/2008 with Comparative Totals for 2007

UNRESTRICTED SUPPORT AND REVENUE 2008 2007

Foundation Grants $454,934 $236,501
Licensing Fees 228,933 187,436
Marketing Partnership Fees 39,070 13,780
Contributions from Individuals 78,891 99,282
Interest and Other Revenue (9,315) 23,946
In-Kind Contributions 486,538 407,322
Net Assets Released from Restrictions 265,087 429,875
Total Unrestricted Support and Revenue 1,544,138 1,398,142

EXPENSES

Program Services
Consumer Campaign 579,129 512,482
Carpet Trade Outreach 375,439 295,288
International Programs 343,851 211,250
Total Program Services 1,298,419 1,019,020
Supporting Services
General and Administration 84,242 79,168
Fundraising 129,145 142,360
Total Supporting Services 213,387 221,528
Total Expenses 1,511,806 1,240,548

CHANGE IN UNRESTRICTED NET ASSETS

32,332 157,594

TEMPORARILY RESTRICTED SUPPORT

Grants and Contributions 1,276,978 1,096,232
Total Temporarily Restricted Support 1,276,978 1,096,232

CHANGE IN TEMPORARILY RESTRICTED SUPPORT

1,244,646 (248,640)

CHANGE IN NET ASSETS

1,042,245 (62,756)

Net Assets at the Beginning of the Year 736,443 799,199
Net Assets at the End of the Year $1,778,688 $736,443

2008 FINANCIAL HIGHLIGHTS

• License fees, a fixed percentage of RugMark certified rug imports in North America, generated $230,000 — $126,000 to rehabilitate and educate children in weaving communities and $104,000 to create a child-labor-free marketplace—a 22 percent year-on-year increase.

• One quarter of 2008 cash revenue was generated from industry fees, meaning 25 percent of the budget is self-sustaining.

• Home design, trade and shelter magazines continue to partner with RugMark to inform readers about purchasing certified rugs. They provided more than $455,000 of in-kind advertising, a 21 percent increase over 2007.

• RugMark spent 86 percent of its total expenses on program, meaning that just 14¢ of every dollar was spent on overhead and fundraising.

RugMark USA was audited by Cocchiaro & Associates, LLC, Certified Public Accountants of Alexandria, Virginia. Full audited financial statements are available upon request.
2008 RugMark Supporters Listing

RugMark Foundation USA is grateful to its charitable supporters.

<table>
<thead>
<tr>
<th>Amount Range</th>
<th>Supporters List</th>
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<tr>
<td>$10,000 - $19,999</td>
<td>P&amp;G Live, Learn and Thrive</td>
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<tr>
<td>$20,000 - $49,999</td>
<td>Anonymous</td>
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<td>$50,000 - $99,999</td>
<td>The Skoll Foundation, Humanity United</td>
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<td>$100,000+</td>
<td>Katharine &amp; Mark Dickson, CariniLang</td>
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<tr>
<td>$1,000 - $1,999</td>
<td>Angelo Troiani, Kerry Smith &amp; Lani Baker, Pamela Ruebusch, Rudolph Steiner Foundation, Ramsay Merriam Fund, Presbyterian Hunger Program, Sara Goodman &amp; David Hyerle, Elizabeth Tepper Gatfield, Charitable Lead Annuity Trust</td>
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<td>$2,000 - $4,999</td>
<td>UL WT of Gladys S. Borrus, America, Steve Graubart &amp; Hilary, Glenn Gissler, Sandra Gebhardt, Susan Fowlie, Stephen Fein, David Eynon, Kimberly Elliott, Robin Broad &amp; John Cavanagh, Lisa Brahms, Patricia &amp; Dennis Zerega, Phyllis Taylor</td>
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<tr>
<td>$500 - $999</td>
<td>Jesty &amp; Suja Thomas, UL WT of Gladys S. Borrus, America, Steve Graubart &amp; Hilary, Glenn Gissler, Sandra Gebhardt, Susan Fowlie, Stephen Fein, David Eynon, Kimberly Elliott, Robin Broad &amp; John Cavanagh, Lisa Brahms, Patricia &amp; Dennis Zerega, Phyllis Taylor</td>
</tr>
</tbody>
</table>