SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

THE QUALITY WORKERS COMPENSATION SOLUTION FOR MASSACHUSETTS LUMBER BUSINESSES

2006 Annual Report To The Members

January, 2008

Members of
Self Insured Lumber Businesses Association, Inc.

Dear SILBA Members:

It is a pleasure and an honor to introduce the 2006 Annual Report to the members of Self Insured Lumber Businesses Association, Inc. (SILBA), our fifteenth year serving lumber businesses in Massachusetts.

2006 Financial Results

SILBA members enjoyed strong financial results in 2006. The calendar year net premium base increased $1.18 million to more than $6.9 million. The increase was driven by an increase in Massachusetts workers compensation rates and organic growth of the members coupled with an increase in the group's average experience modification and ARAP factors. Two new members joined SILBA during 2006, two non-renewed at the beginning of the year, and 1 member left during the year, resulting in a year-end membership count of eighty-six. The group's loss ratio decreased by 22.1% to 44.9%, a result primarily of favorable development of prior fund years' (principally the 2004 and 2005 fund years), allowing close to $1.5 million of previously held reserves to be released during 2006. SILBA's expense ratio improved to 13.4% of premium from 17% in 2005. The decrease was due partly to a state-mandated position requiring self-insurance groups to collect certain amounts from members consistent with the voluntary workers compensation market requirements. This resulted in additional revenue coming into the program in 2006, offsetting a portion of the group's expenses. . The net effect of the calendar year results was an extremely healthy combined ratio of 58.2% as compared to a strong 84% in 2005. With the addition of investment income, members earned dividends (equivalent to net income) of over **$3.3 million** or **47.4%** of 2006 premium, compared with 20.6% in 2005. The increase is directly related to the increase in premium and the improvement in the loss ratio.

SILBA's balance sheet remains as strong as ever, with close to $12 million in total assets. Almost 99% of these assets are invested in highly rated debt securities, in accordance with state regulations, or held in cash and short-term investments. This large base of invested assets provides SILBA with a consistent stream of investment income that adds to the members' dividend pool. In 2006, the group earned more than $393,000 on its cash and invested assets.

SILBA's two largest liabilities were dividends due to policyholders and reserves for unpaid losses and loss adjustment expenses. Comprising 42.5% of total liabilities, SILBA held policyholder dividends at year-end of almost $5.1 million for future distribution to members. These dividends payable represent the group's "surplus", and this corresponds to a very healthy premium to "surplus" ratio of 1.37 to 1. SILBA also held approximately $6.5 million in reserves to pay the <u>estimated</u> future costs of claims incurred to date. These reserves include $3.2 million of adjusters' reserves on reported losses for all fund years, and another $3.3 million of actuarial or contingent reserves established to fund potential ultimate losses, representing approximately $1.05 of contingent reserves for every $1 of adjusters' reserves.

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SILBA returned $726,000 in dividends to its members in February of 2006, and an additional $972,000 in January 2007. Distributions in January of 2008 will exceed $1.4 million, bringing total dividends paid to date to $14.3 million, with total dividends earned by the members since program inception of *$17million*, or *29%* of the premiums that members have paid in.

Safety First

As I think back on SILBA's fifteen year history, I am proud that we have remained true to the fundamental purposes that caused SILBA to form so many years ago. Our goal was to band together to provide lumber businesses with an alternative to the traditional workers compensation insurance market. We wanted to ensure that our members were trained in how to keep their people safe and that injured employees would receive the best care possible, in the hopes of returning them to work quickly, but more importantly, to return them healthy. We felt that we could do all this, and still provide our members with a considerable savings in workers compensation costs. It is extremely rewarding and satisfying to say that, with the attention and commitment of our members, we have done this and more, and we have no intention of slowing down.

The "Safety Focus" section of the 2006 Operating Report highlights the safety efforts of SILBA and its members in 2006. It depicts our loss results, comparing trends and cause of loss drivers in 2006 to prior years. This type of trending and analysis helps us to react more quickly and to provide useful and meaningful safety services to our members to mitigate these concerns. The activities of our Claim and Loss Control Committee and the various member and group training sessions are also discussed, outlining SILBA's safety direction, goals and accomplishments. Safety and effective claim management have always been SILBA's primary focus and will continue to be the cornerstone of our success.

The Board of Trustees is very pleased with the results we have achieved over the years, but we will push and challenge ourselves to improve each year. We will continue to raise the bar on our safety efforts with the ultimate goal of maximizing your employees' safety and well being, while helping you to reduce your company's workers compensation and operating costs.

On behalf of the Board of Trustees, I congratulate all members for fifteen years of success and remind you that, when your workplace is a safe place, everyone benefits. Please share the news of SILBA's success and join the Board of Trustees in encouraging potential members to consider SILBA membership.

Thank you for your continued support.

Very truly yours,

Eric B. Johansen
President, Self Insured Lumber Businesses Association, Inc.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

2006 ANNUAL REPORT

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Prepared by Meadowbrook TPA Associates
Program Manager for
SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

SAFETY FOCUS

THE SILBA MISSION STATEMENT:

The Mission Of Self Insured Lumber Businesses Association, Inc. Is To Be The Highest Quality And Most Cost-Effective Workers Compensation Alternative Available to Massachusetts Lumber Businesses.

To keep members' employees safe by preventing or minimizing potential injury is SILBA's primary focus. In 2006, SILBA again devoted significant resources to providing members with the tools necessary to help ensure the safest possible working environment for their employees. SILBA is serious about safety and requires a demonstrated commitment to loss prevention from each and every member.

Safety Focus

In 2006, members received both individualized and group safety services. Individualized services included on-site safety surveys and safety discussions, and training which focused on members' accident trends and claims costs as well as on SILBA's primary loss drivers - manual material handling issues and fall prevention. SILBA's safety professionals also attended members' safety committee meetings. Members' accidents were investigated throughout the year, and the results were used to direct training to the member as well as used in group discussions at the Claim and Loss Control Meetings for educational purposes.

The Claim and Loss Control Committee met quarterly to discuss safety activities at the members' locations, and claims incurred by members. A new component instituted in 2006 was a "Round-Table" discussion, where Committee members discussed best practices and solicited peer opinions on safety problems/ observations at their own facilities. This was found to be very successful in fostering the sharing of information throughout the group.

The group conducted Safety Workshops in the spring and fall at three regional locations in 2006. Outside guest speakers were brought in to present safety information on the following topics:

- Lean Manufacturing
- Manual Material Handling
- Products to reduce winter-time slips/falls on ice
- Falls from elevations
- Back injury prevention

SILBA also applied for and was awarded a Safety Training Grant from the Massachusetts Department of Industrial Accidents. The funds awarded allowed the group to provide a training day on Forklift Safety. The speaker also presented information on the Massachusetts Hoisting License criteria.

SILBA's other safety resources include quarterly newsletters, which contains pertinent safety topics relevant to all members as well as general safety and health areas, safety news flashes sent via email to members to alert them to important SILBA safety topics or concerns, a video lending library, Massachusetts Safety Council programs, and on-line webinars offered by the group’s reinsurance partner, Midwest Employers Casualty Company.

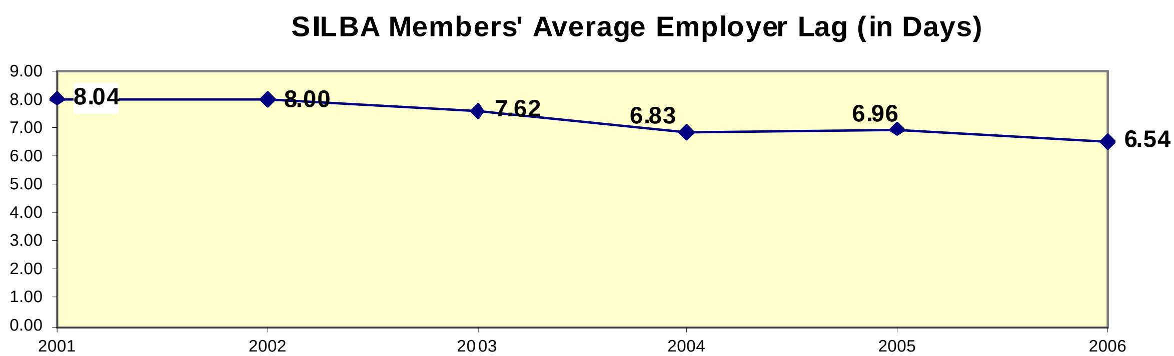
Finally, in order to continue to reinforce the group’s safety focus and to ensure that all members benefit from the wealth of information shared at SILBA’s committee meetings and workshops, the Board of Trustees voted to require attendance by each member at at least one of the group’s committee meetings or workshops during 2007 and going forward.

Keys to SILBA Claims Management

SILBA continues to focus on the cornerstones of pro-active claims management. When both the employer and the injured worker are active in the claims management process, the employee receives the best treatment, recovery time is decreased, and the injured worker is able to return to the workplace more quickly, and more importantly, healthy.

Keys to pro-active claims management are:

1) Report All Claims Early. SILBA regularly monitors the employers’ lag time, defined as the number of days between the date an incident occurs and the date it is reported to the claims adjuster.



SILBA is happy to see progress and steady improvement since 2001, but we know we can do better. Our goal is a reporting lag of 5 days or less. Numerous studies have shown that claims filed five or more days after an injury are significantly more costly than those filed timely. A delay in reporting means a delay in starting the appropriate treatment and adds recovery time. Claims filed a month or more after an injury cost almost twice as much to settle than those reported within the first week.

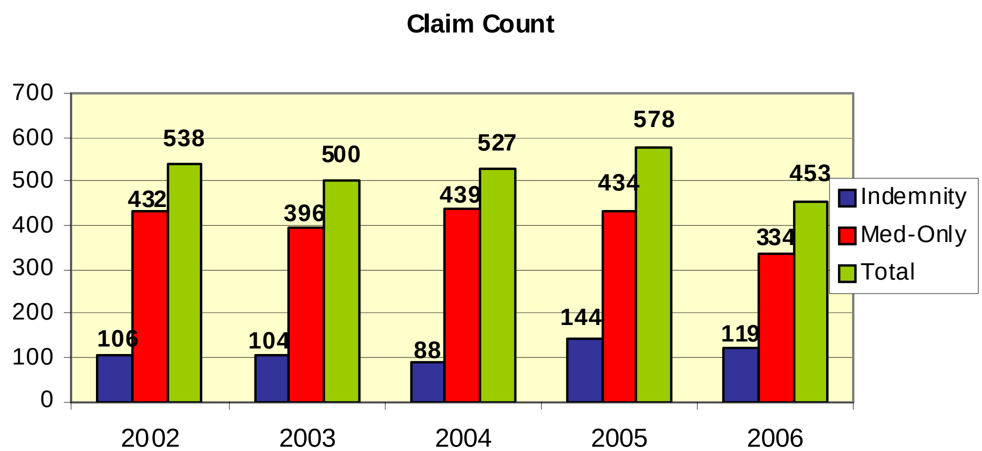
2) Provide Temporary Modified Duty. SILBA expects all members to provide temporary modified duty. When early return to work programs are in place and employees’ restrictions are accommodated, injured employees return to work up to 50% sooner and costs are reduced up to 70%.

3) Implement Post-Offer/Pre-Hire Physicals. The most pro-active way to manage claims is to stop them before they occur. Implementing and maintaining a post-offer/pre-hire physical program, complete with job descriptions, helps to ensure that only those people physically

capable of performing the job requirements are hired for the position. SILBA requires that all members maintain a safety program that includes post-offer/pre-hire physicals.

Claim Trending

Knowing our exposures and claim trends allows us to better assist our members in controlling their losses.



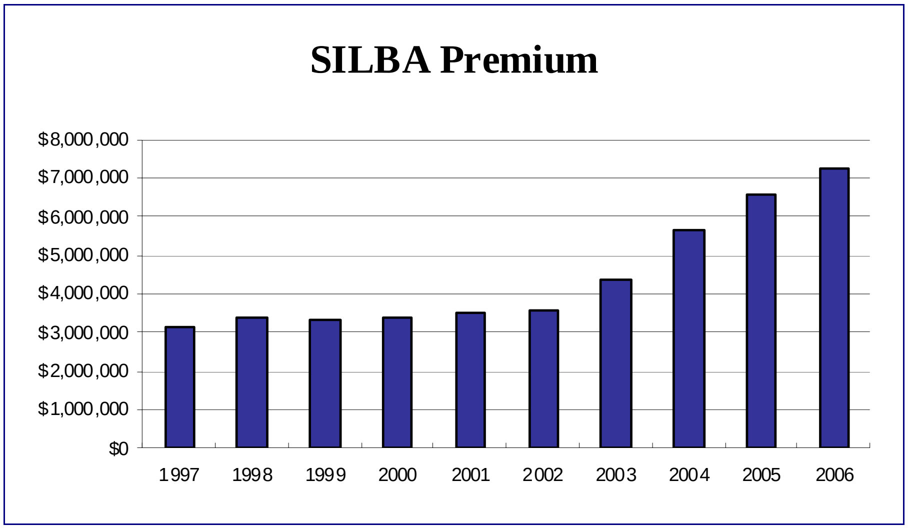
SILBA is pleased to see the improvement in claim frequency in 2006, with a 23% decrease in medical-only claims and a 17% decrease in indemnity claims. SILBA will continue to focus on its primary cause of loss drivers - sprains and strains to backs, shoulders and knees from improper lifting and slips and falls – in order to continue to favorably impact claim frequency and to keep members' employees safe.

SILBA is as committed as ever to its safety and claims management approach, to ensure that SILBA will be around for years to come as the premier workers compensation alternative for the most safety-minded Massachusetts employers engaged in the lumber business.

Operating Report

OUR MEMBERS

During 2006, SILBA added two new members, two did not renew and one left during the year. At year end, SILBA's membership count was eighty-six.



In 2006, SILBA members' premium totaled close to $7.3 million, almost double the Group's premium level in 2002, just four years prior.

DIVIDENDS

SILBA members realize savings and control over their premium costs by controlling their losses and earning dividends. Dividends earned by the members, driven by individual performance, are calculated as premiums paid in, less all costs of running the Group, from the cost of claims to underwriting and other expenses. During 2006, members' generated calendar year net premiums (after reinsurance) of $6.9 million, on which $3,311,532 of dividends (net income) was earned, a return equal to 47.4% of premium. Since program inception, SILBA members have paid in a total premium of $58.7 million dollars and earned dividends of over $17 million, ***an average return of 29%*** over SILBA's fifteen-year history.

SILBA began to return dividends earned to its members in 1995, the earliest date allowed by Massachusetts law and regulation. Through year-end 2006, $11.9 million of the $17 million of dividends earned had been returned to the members. Additional distributions of $972,000 in January, 2007 and $1.4 million in January, 2008 bring total dividends distributed to SILBA members since inception to over $14.3 million. Dividends earned but not distributed are designated as "Policyholders' dividends" on SILBA's balance sheet and set aside for future distribution.

GROUP EXPENSES

SILBA maximizes the dividends it returns to its members through diligent attention to and control of its costs of operation.

SILBA's largest expense is the cost of its claims. Claim costs include not only paid amounts, but also reserves held to pay the estimated ultimate costs of open claims.

	Fund Year Premium	Incurred Losses	Claim Costs as a % of Premium
1997 Fund Year	$3,165	$1,445	45.7%
1998 Fund Year	$3,395	$1,546	45.5%
1999 Fund Year	$3,329	$1,219	36.6%
2000 Fund Year	$3,422	$2,403	70.2%
2001 Fund Year	$3,504	$2,664	76.0%
2002 Fund Year	$3,595	$2,633	73.2%
2003 Fund Year	$4,353	$2,998	68.9%
2004 Fund Year	$5,644	$2,826	50.1%
2005 Fund Year	$6,573	$3,989	60.7%
2006 Fund Year	$7,269	$4,619	63.5%

To ensure ongoing profitability in an environment of decreasing premium rates, the SILBA Board of Trustees and Claim and Loss Control Committee have continually focused their efforts and allocated SILBA premium dollars to safety and to the highest quality claim and loss control services for the Group's members.

For the protection of its members, SILBA has continually obtained and maintained quality excess insurance coverage, despite a difficult marketplace. Excess insurance is coverage purchased by SILBA to protect its members by capping the Group's potential claim costs on both a per-claim as well as an aggregate (total cost of all claims for the year) basis.

Other operating costs include costs for administration, claims management, loss control services, and marketing. SILBA's dedication to controlling its costs has allowed SILBA to keep other operating expenses low as a percent of premium.

	Excess Insurance	Other Operating	Total Costs
1997 Fund Year	11.4%	18.0%	29.4%
1998 Fund Year	9.5%	18.9%	28.4%
1999 Fund Year	10.8%	17.9%	28.7%
2000 Fund Year	12.0%	18.1%	30.1%
2001 Fund Year	7.6%	20.2%	27.8%
2002 Fund Year	9.5%	18.2%	27.7%
2003 Fund Year	9.9%	15.7%	25.6%
2004 Fund Year	12.9%	15.0%	27.9%
2005 Fund Year	11.5%	13.7%	25.2%
2006 Fund Year	10.2%	13.2%	23.3%

Because of the commitment to safety and cost control, SILBA's results year after year have been such that the total costs to run the program have ultimately been less than premium dollars collected. Premium dollars not needed to cover claims and other operating costs are set aside and, when combined with investment income earned, serve to fund the members' dividend pool.

FINANCIAL HIGHLIGHTS

SILBA's balance sheet remains strong year after year. At the end of 2006, SILBA's asset base totaled $12 million. In 2006 and consistently since 1994, 92% or more of all assets were in the form of cash and invested assets, providing a substantial base on which SILBA earns investment income to supplement its dividend pool. In 2006, its invested assets yielded $393,512 of investment income.

Cash and Invested Assets (in 000's) as a Percentage of Total Assets

	Cash and Invested Assets	Total Assets	Percentage to Total
1997 Fund Year	$8,195	$8,335	98.3%
1998 Fund Year	$8,816	$8,972	98.3%
1999 Fund Year	$8,568	$8,712	98.3%
2000 Fund Year	$7,644	$7,847	97.4%
2001 Fund Year	$7,288	$7,551	96.5%
2002 Fund Year	$6,317	$6,842	92.3%
2003 Fund Year	$6,655	$7,147	93.1%
2004 Fund Year	$7,376	$7,716	95.6%
2005 Fund Year	$9,166	$9,535	96.1%
2006 Fund Year	$11,823	$11,991	98.6%

Assets are invested in highly rated fixed income securities:

Valued at December 31, 2006:	Amortized Cost	Market Value
US Treasury Securities	$3,127,307	$3,088,142
Corporate Securities	$3,488,399	$3,432,943
US Government Agency Securities	$1,950,275	$1,939,389
Foreign Securities	$24,996	$25,117
Subtotal	$8,590,977	$8,485,591
Cash & Cash Equivalents	$3,231,742	$3,231,742
Total	$11,822,719	$11,717,333

SILBA's liabilities consist primarily of two components, dividends payable to members (policyholders' dividends) and reserves for unpaid losses and loss adjustment expenses.

Dividends and Reserves (in 000's) as a Percentage of Total Liabilities

	Policyholders' Dividends	Reserves For Losses and LAE	Total Dividends and Reserves	Total Liabilities	Percentage to Total
1997 Fund Year	$6,158	$2,035	$8,193	$8,335	98.3%
1998 Fund Year	$6,526	$2,261	$8,787	$8,972	97.9%
1999 Fund Year	$5,344	$3,106	$8,450	$8,712	97.0%
2000 Fund Year	$4,234	$3,364	$7,598	$7,847	96.8%
2001 Fund Year	$3,605	$3,703	$7,308	$7,551	96.8%
2002 Fund Year	$2,844	$3,679	$6,523	$6,842	95.3%
2003 Fund Year	$1,846	$4,938	$6,784	$7,147	94.9%
2004 Fund Year	$1,905	$5,362	$7,267	$7,716	94.2%
2005 Fund Year	$2,508	$6,379	$8,887	$9,535	93.2%
2006 Fund Year	$5,093	$6,554	$11,647	$11,991	97.1%

The policyholders' dividends balance represents dividends held for future distribution to members, and is the equivalent of the Group's surplus. At year-end 2006, policyholders' dividends totaled almost $5.1 million. With $6.9 million of net calendar year premium, SILBA's premium to "surplus" ratio in 2006 was a very healthy 1.37 to 1, further underscoring SILBA's financial strength.

SILBA holds reserves for unpaid losses and loss adjustment expenses to pay the estimated ultimate costs of open claims and claim-related expenses. The adequacy of reserves held is reviewed annually and certified by an independent actuarial firm. These reserves include claim adjusters' estimates of the costs of open claims (case reserves) as well as bulk reserves.

Bulk reserves fund the contingencies:

- That the adjuster's estimates may understate the ultimate cost of a claim (that is, an injury could prove to be more severe, and benefits more costly, than is known at the time of the adjuster's estimate);
- That an injury which occurred before year-end has yet to be reported;
- That a previously closed claim is reopened.

In 2006, of the $6.55 million of reserves held, $3.18 million represented adjuster's estimates of ultimate claim costs on reported claims, while $3.37 million was held in bulk reserves (net of reserve discounts). That equates to more than ***$1.05*** held in bulk reserves for each $1 of case reserves.

It should be emphasized that reserves represent <u>estimates</u> of claim costs, and while it has been SILBA's objective that reserves be established and maintained on a cautious basis, the risk exists that the reserves could prove to be insufficient. In 2006, SILBA's results include the release of $1.47 million of prior years' reserves resulting from subsequent favorable loss development, and in 2005 $876,000 of prior years' reserves were released. It has been SILBA's history that, overall, reserves established have exceeded the amounts ultimately required to fulfill claim liabilities. As a result, excess amounts are eventually released, increasing members' dividends.

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Self Insured Lumber Businesses Association, Inc.

We have audited the accompanying statements of financial position - statutory basis of the Self Insured Lumber Businesses Association, Inc. (the Group) as of December 31, 2006 and 2005, and the related statements of operations and changes in surplus - statutory basis and of cash flows - statutory basis for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the Group prepared these financial statements using the accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Self Insured Lumber Businesses Association, Inc. as of December 31, 2006 and 2005, or the results of its operations or its cash flows for the years then ended.

In our opinion, the statutory basis financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and policyholders' surplus of Self Insured Lumber Businesses Association, Inc. at December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts.

INDEPENDENT AUDITORS' REPORT - CONTINUED

As discussed in the notes to the financial statements, the reserves for unpaid losses and loss adjustment expenses reflected in the accompanying financial statements are based upon evaluations by the Group's independent actuary. Management believes that these estimates are reasonable. However, changes in these estimates may occur from year to year and can be material in relation to the financial statements taken as a whole. No assurance can be given that the actual losses will not be more or less than the current estimate.

Shaw, Tessman, Butler & Company, P.A.

May 22, 2007

Self Insured Lumber Businesses Association, Inc.

STATEMENTS OF FINANCIAL POSITION - STATUTORY BASIS

ADMITTED ASSETS

	December 31, 2006	December 31, 2005
CASH AND INVESTED ASSETS		
Bonds	$ 8,590,977	$ 8,228,522
Cash and short-term investments	3,231,742	937,533
Total cash and invested assets	11,822,719	9,166,055
Reinsurance recoverables on loss and loss adjustment expenses	29,338	251,921
Interest income due and accrued	136,786	116,945
Other admitted assets	2,588	--
Total admitted assets	$ 11,991,431	$ 9,534,921

LIABILITIES AND POLICYHOLDERS' SURPLUS

	December 31, 2006	December 31, 2005
LIABILITIES		
Reserve for unpaid losses and loss adjustment expenses	$ 6,554,103	$ 6,378,970
Other expenses	49,702	101,233
Taxes, licenses and fees (excluding income taxes)	109,914	88,678
Ceded reinsurance premiums payable	144,973	415,988
Policyholders' dividends	5,093,365	2,508,085
Total liabilities	11,952,057	9,492,954
POLICYHOLDERS' SURPLUS	39,374	41,967
Total liabilities and policyholders' surplus	$ 11,991,431	$ 9,534,921

The accompanying notes are an integral part of these statements.

Self Insured Lumber Businesses Association, Inc.

STATEMENTS OF OPERATIONS AND CHANGES IN SURPLUS - STATUTORY BASIS

	Year Ended December 31, 2006	2005
UNDERWRITING INCOME		
Premiums earned, net of ceded reinsurance	$ 6,982,643	$ 5,802,175
UNDERWRITING EXPENSES		
Losses and loss adjustment expenses	3,132,274	3,887,073
Other underwriting expenses	932,349	985,142
	4,064,623	4,872,215
NET UNDERWRITING GAIN	2,918,020	929,960
NET INVESTMENT GAIN	393,512	267,612
NET INCOME BEFORE DIVIDENDS TO POLICYHOLDERS AND FEDERAL INCOME TAXES	3,311,532	1,197,572
Dividends to policyholders	(3,311,532)	(1,197,572)
NET INCOME AFTER DIVIDENDS TO POLICYHOLDERS AND BEFORE FEDERAL INCOME TAXES	--	--
Provision for Federal income taxes	--	--
NET INCOME	--	--
Policyholders' surplus - beginning of year	41,967	30,703
(Increase) Decrease in non-admitted assets	(2,593)	11,264
POLICYHOLDERS' SURPLUS - END OF YEAR	$ 39,374	$ 41,967

The accompanying notes are an integral part of these statements.

Self Insured Lumber Businesses Association, Inc.

STATEMENTS OF CASH FLOWS - STATUTORY BASIS

	Year Ended December 31, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums collected, net of ceded reinsurance	$ 6,711,627	$ 5,914,660
Losses and loss adjustment expenses paid, net of reinsurance	(2,734,558)	(2,884,879)
Underwriting expenses paid	(965,232)	(889,797)
Net investment income	407,602	315,925
Dividends paid to policyholders	(726,251)	(594,982)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,693,188	1,860,927
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of bond investments	(3,975,107)	(4,524,140)
Proceeds from sale or maturity of bond investments	3,578,721	2,328,685
NET CASH USED IN INVESTING ACTIVITIES	(396,386)	(2,195,455)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributed surplus applied	(2,593)	11,264
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(2,593)	11,264
NET INCREASE (DECREASE) IN CASH AND SHORT-TERM INVESTMENTS	2,294,209	(323,264)
Cash and short-term investments - beginning of year	937,533	1,260,797
CASH AND SHORT-TERM INVESTMENTS - END OF YEAR	$ 3,231,742	$ 937,533

The accompanying notes are an integral part of these statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared on the basis of accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts. Statutory accounting practices vary from accounting principles generally accepted in the United States of America (GAAP). Significant variances from GAAP include, but are not limited to, the following:

Policy Acquisition Costs

The cost of acquiring and renewing business (principally commissions) is charged to operations as premiums are written rather than being deferred to the extent recoverable and charged to operations ratably over the periods covered by the related insurance contracts.

Reserve for Unpaid Losses and Loss Adjustment Expenses

Under statutory accounting practices, the reserve for unpaid losses and loss adjustment expenses is discounted for the time value of money utilizing a rate and payout pattern prescribed by the Internal Revenue Service for Federal income tax purposes.

Reinsurance Balances

Under statutory accounting practices, reinsurance balances related to unpaid losses and loss adjustment expenses are presented as a reduction to the reserves. Under GAAP, such amounts are presented as reinsurance recoverables, and the loss reserves are gross of any such recoverables.

Valuation of Investments

Under statutory accounting practices, the investments owned by the Group are generally valued at amortized cost. However, under GAAP, certain of these bonds may have been valued at fair market value.

Cash and Short-term Investments

Cash and short-term investments include those items with an original maturity of one year or less at the date of acquisition for purposes of the statutory basis financial statements. However, under GAAP, cash and short-term investments includes those items with an original maturity of three months or less at the time of acquisition.

Short-term investments consist primarily of a certificate of deposit and certain government agency and corporate securities. Certain short-term investments have been valued at amortized cost.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Statement of Cash Flows

Under statutory accounting practices, a reconciliation to the indirect method of cash flows is not presented. This would be required under GAAP.

Unearned Premium Reserves

Unearned premium reserves, if any, are reduced by ceded unearned premiums. However, under GAAP, these amounts would be recorded as a prepayment.

Non-Admitted Assets

Under statutory accounting practices, certain assets are considered non-admitted assets. As such, they are excluded from the statements of financial position - statutory basis. Changes to non-admitted assets are recorded directly in unassigned policyholder surplus. Common examples of non-admitted assets include premiums receivable over ninety days old, certain prepaid expenses, certain fixed assets, and certain deferred tax charges.

Comprehensive Earnings

Under statutory accounting practices, a reconciliation of net earnings to other comprehensive earnings is not required as it is under GAAP.

Other significant accounting policies are as follows:

Earned Premiums

Earned premiums as reflected herein are based upon estimated payrolls as submitted by the insured employers. The Group conducts annual payroll audits of the payroll records of insured employers. Any premium changes resulting from these payroll audits are recognized during the year of the payroll audit.

Premiums are recorded as earned on a pro rata basis over the term of individual policies. Premiums earned are reported net of premiums ceded.

Earnings of the Group

Earnings of the Group are used to provide for potentially uncollectible receivables, any uninsured deficits and other expenses. As required by the Group's governing documents and as required by Board action, any remaining earnings will be distributed to the insured employers. The timing of this distribution is subject to limitations imposed by applicable law and regulations and discretion of the Board of Trustees. All current year earnings have been declared as payable to the members.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes

Under applicable provisions of the Internal Revenue Code, the Group is liable for income taxes on earnings not ultimately distributed by the Board of Directors as well as certain other temporary differences as more fully discussed in Note 7. The Group files with the Internal Revenue Service as a property and casualty insurance company.

Realized Gains and Losses on the Sale of Bonds

Gains and losses resulting from the sale of bonds are determined using the specific-identification method. Premiums paid and discounts taken on the purchase of bonds are amortized and recognized in investment income using the effective interest method over the period to maturity.

Management Estimates

The preparation of financial statements in conformity with statutory accounting practices requires management to make estimates and assumptions that affect the reported amounts in the statements of financial position - statutory basis and statements of earnings and changes in surplus - statutory basis, as well as the disclosure of contingent liabilities. Actual results could differ from these estimates.

Reclassification

Certain amounts reported in the prior year financial statements may have been reclassified to conform with the current year classification.

NOTE 2 - ORGANIZATION

Self Insured Lumber Businesses Association, Inc. (the Group) was organized as a workers' compensation self insurance group under Massachusetts General Law, Chapter 152. The Group was created to make a self insured workers' compensation program available for lumber businesses in Massachusetts. Its purpose is to meet and fulfill employers' obligations and liabilities under applicable Massachusetts Workers' Compensation Statutes through the effective use of cost efficient claims service, loss control and safety programs. The Group is governed by the Board of Trustees, all of whom were elected by and represent the members. The day-to-day operations are administered by a third-party administrator who is paid a management fee based upon a percentage of premiums earned.

NOTE 3 - EXCESS INSURANCE

To minimize the Group's exposure to loss, it has purchased specific excess and aggregate excess insurance. Specific excess insurance is purchased to protect against large individual losses. Aggregate excess insurance is purchased to protect against an overall high level of losses. Retentions and limits differ by policy year and are based upon the individual contracts the Group has entered into.

Excess insurance contracts do not relieve the Group from its obligations to its members. Failure of excess insurers to honor their obligations could result in losses to the Group. Accordingly, the Group evaluates the financial condition of its excess insurer to minimize exposure to significant losses from excess insurer insolvency.

Approximately $29,000 and $379,000 was recoverable from the excess insurers on paid and unpaid losses and loss adjustment expenses at December 31, 2006 and 2005, respectively, the full amount of which was due from a single excess insurer.

During the year ended December 31, 2006, the net ultimate losses and loss adjustment expenses incurred in excess of the Group's excess insurance retention levels increased approximately $12,000. Accordingly, this amount was credited to losses and loss adjustment expenses. During the year ended December 31, 2005, the net ultimate losses and loss adjustment expenses incurred in excess of the Group's excess insurance retention levels decreased approximately $85,000. Accordingly, this amount was charged to losses and loss adjustment expenses.

NOTE 4 - BONDS

Bonds are stated at amortized cost and consist of the following:

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Treasury securities	$ 3,127,307	$ 13,946	$(53,111)	$ 3,088,142
U.S. Government agency securities	1,950,275	4,650	(15,536)	1,939,389
Corporate securities	3,488,399	14,775	(70,231)	3,432,943
Foreign securities	24,996	121	--	25,117
	$ 8,590,977	$ 33,492	$(138,878)	$ 8,485,591

NOTE 4 - BONDS - CONTINUED

	December 31, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Treasury securities	$ 3,275,392	$ 42,665	$(35,988)	$ 3,282,069
U.S. Government agency securities	1,746,115	--	(24,267)	1,721,848
Corporate and foreign securities	3,207,015	17,777	(70,274)	3,154,518
	$ 8,228,522	$ 60,442	$(130,529)	$ 8,158,435

The amortized cost and estimated market value of bonds, by contractual maturity, are shown below. In some instances, actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Due within one year or less	$ 1,358,601	$ 818	$(3,555)	$ 1,355,864
Due after one year through five years	3,933,734	21,638	(56,537)	3,898,835
Due after five years through ten years	3,298,642	11,036	(78,786)	3,230,892
	$ 8,590,977	$ 33,492	$(138,878)	$ 8,485,591

	December 31, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Due within one year or less	$ 1,515,941	$ 931	$(10,848)	$ 1,506,024
Due after one year through five years	4,015,657	43,971	(61,646)	3,997,982
Due after five years through ten years	2,671,946	15,364	(58,035)	2,629,275
Due after ten years through twenty years	24,978	176	--	25,154
	$ 8,228,522	$ 60,442	$(130,529)	$ 8,158,435

NOTE 4 - BONDS - CONTINUED

Proceeds from the sale of bonds for the years ended December 31, 2006 and 2005 were $3,578,721 and $2,922,030, respectively. Gross gains and losses of $28,195 and $12,555, respectively, were realized on sales during the year ended December 31, 2006. Gross gains and losses of $60,442 and $130,529, respectively, were realized on sales during the year ended December 31, 2005.

At December 31, 2006 and 2005, the Group had pledged certain bonds with amortized cost of $717,034 and $734,908, respectively, to the Massachusetts Division of Insurance as a security deposit.

NOTE 5 - RESERVE FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The reserve for unpaid losses and loss adjustment expenses is based upon an evaluation of the Group's losses as prepared by the Group's independent actuary. This evaluation of the Group's losses is a significant estimate which is subject to change. These changes can be material in relation to the financial statements taken as a whole. The reserve for unpaid losses and loss adjustment expenses includes an estimated provision for incurred but not reported losses (IBNR) as well as reported losses. The IBNR provision totaled approximately $4,500,000 and $4,050,000 on an undiscounted basis as of December 31, 2006 and 2005, respectively.

Any increases or decreases in the estimate of net ultimate incurred losses as compared to the prior year will result in a direct increase or decrease in the current year's net earnings.

During 2006 the Group experienced a net decrease in the estimate of ultimate incurred claims and change in reserve discount for the prior years. During 2005 the Group also experienced a net decrease in the estimate of ultimate incurred claims and change in reserve discount for the prior years. Losses and loss adjustment expenses has been decreased accordingly during the years ended December 31, 2006 and 2005.

For the years ended December 31, 2006 and 2005, the reserve for unpaid losses and loss adjustment expenses has been discounted to its net present value in the accompanying financial statements. The reserves have been discounted utilizing interest rates and payout patterns based upon nationwide losses, both of which were promulgated by the Internal Revenue Service. The unpaid losses and loss adjustment expenses were discounted by approximately $1,100,000 and $1,160,000 at December 31, 2006 and 2005, respectively.

The following table sets forth a reconciliation of beginning and ending reserves for losses and loss adjustment expenses for the years ended December 31, 2006 and 2005:

NOTE 5 - RESERVE FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES - CONTINUED

	December 31, 2006	December 31, 2005
Reserve for losses and loss adjustment expenses, beginning of year	$ 6,378,970	$ 5,362,301
Incurred losses and loss adjustment expenses:		
Provision for insured events of the current year	4,602,000	4,762,819
Provision for insured events of the prior year	(1,469,726)	(875,746)
	3,132,274	3,887,073
Losses and loss adjustment expenses paid:		
Current year	1,379,000	1,259,532
Prior year	1,578,141	1,610,872
	2,957,141	2,870,404
Reserves for losses and loss adjustment expenses, end of year	$ 6,554,103	$ 6,378,970

NOTE 6 - THIRD-PARTY ADMINISTRATOR

The Group has entered into an agreement with a third party administrator to provide certain accounting and administrative services as well as claims adjusting and loss control services to the Group in exchange for a fee, which is a percentage of manual premium. During the years ended December 31, 2006 and 2005, the Group incurred management fee expenses totaling approximately $840,000 and $760,000, respectively.

NOTE 7 - INCOME TAXES

The Group is subject to Federal income taxes as a property and casualty insurance company under the provisions of Sub-chapter L of the Internal Revenue Code. However, no income taxes were incurred attributable to net income and temporary differences between the book and tax basis of assets and liabilities. Therefore, there were no Federal income taxes incurred at December 31, 2006 and 2005.

The Group's income tax returns are subject to examination by taxing authorities. Because the application of tax laws and regulations to many types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be revised at a later date upon final determinations by taxing authorities. Although the tax treatments reflected in the financial statements are believed to be appropriate, material adjustments could result if some treatments are successfully challenged by the taxing authorities.

NOTE 8 - PRESCRIBED OR PERMITTED STATUTORY ACCOUNTING PRACTICES

The Group is domiciled in Massachusetts and prepares its statutory financial statements in accordance with accounting principles and practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts. Prescribed statutory accounting practices include state laws, regulations and general administrative rules, as well as a variety of publications of the NAIC. Permitted statutory accounting practices encompass all accounting practices that are not prescribed. Such practices differ from state to state, may differ from company to company within a state, and may change in the future.

NOTE 9 - MEMBER INDEMNIFICATION

The Group has entered into an agreement with each participating employer to provide risk management services, workers' compensation and employers' liability coverages for the participating employers. The agreement includes a provision that each member is jointly and severally liable for the workers' compensation and employers' liability obligations of the Group and its members which were incurred during the period of time that the participating employer was a member of the Group. Accordingly, any claims or expenses after the Group has exhausted available reserves and excess insurance will be the financial responsibility of the members.

NOTE 10 - CONCENTRATIONS

The majority of the insured members who participate in the Group are lumber businesses exclusively in the Commonwealth of Massachusetts. The Group does not insure any other members outside of Massachusetts.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

Member Listing

ABG Corporporation/Beacon Lumber Company & Beacon Rental
Anderson & McQuaid Company, Inc.
Arlington Coal & Lumber Co.
Atlantic Plywood Corporation
Attleborough-Rehoboth Building Supply, Inc.
Belletetes, Inc.
Bellingham Lumber Co., LLC
Better Cabinet Distributors
Biss Lumber Company, Inc.
Boston Cedar, Inc.
Braintree Lumber Co., Inc.
Brockway-Smith Company
Bucksworth Enterprises, Inc.
Building Center, Inc. of Gloucester
Building Materials, Inc.
Burnett & Moynihan, Inc.
C & S Retail Lumber Co., Inc.
Cambridge Lumber & Supply, Inc.
Cape Cod Lumber
Chace Building Supply
Chairtown Lumber Company
Colonial Fence MFG, Inc.
Concord Lumber Corp.
Cooperative Reserve Supply, Inc.
Curtis-Newton Corp.
Denison - Cannon Co.
Dettinger Lumber Co. Inc.
Doherty Lumber Co./DBS Lumber Co.
Dorchester Door & Window
Duxbury Hardware Corp./Goodrich Lumber
E.C. Cottle, Inc. & E.C. Cottle Corp.
E.G. Barker Lumber Co. Inc.
Edwin L. Morse Co., Inc.
F.D. Sterritt Lumber Co.
Fairhaven Lumber Company
Fairview Millwork Inc. & Value Millwork Inc.
Falmouth Lumber, Inc.
Franklin Lumber Co.
Friend Building Center of Burlington Inc.
G.V. Moore Lumber Co. Inc.
Gilbert & Cole Building Products Inc.
Gilfoy Distributing Company, Inc.
Gove Lumber Company
H. Greenburg & Son, Inc.
H.N. Hinckley & Sons, Inc.
High Standard Inc
Hingham Lumber Company Inc.
Horner Millwork Corp./Design Door Openings, Inc.
Howe Lumber Company Inc.
Island Lumber Company, Inc.
Jackson Lumber & Millwork Co. Inc.
John Foster Lumber Co., Inc./Pine Products
Johnson Lumber Co.
Keiver Willard Lumber Corp.
Kelly Fradet Lumber Co. Inc.
Koopman Lumber Co., Inc.
Larkin Lumber Company
Linden Forst, Inc.
Lynn Lumber Company
Maki Corporation
Moynihan-N. Reading Lumber Inc. & Moynihan Lumber of Beverly
Mozzone Lumber Company, Inc.
National Lumber Company, Inc.
Nickerson Lumber Co.
North Atlantic Corporation
Northeast Treaters, Inc.
Pelletier's Building Supply Co., Inc.
Plywood Supply, Inc.
RB Negus Lumber Company
R.S. Lamson & Sons
Ralph Esty & Sons, Inc.
Rugg Lumber Co., Inc.
Ryan Seamless Gutter Systems, Inc.
Shepley Wood Products
Southeastern Millwork Company, Inc.
Squier & Company, Inc.
St. Denis Products, Inc./Lumber Center
Taylor Lumber & Oil Co. Inc./Harmony Realty Trust ATIMA
Timberline Enterprises, Inc.
Wachusett Lumber & Building Supply Inc
Warren Trask Company
Westwood Lumber, Inc.
Wholesale Doors, Inc.
William T. King Lumber Company
Wilmington Builders Supply Co.
Wood Lumber Company
Yankee Pine Corporation

Includes all active members of the Self Insured Lumber Businesses Association (SILBA) as of November 1, 2007.

SELF INSURED LUMBER BUSINESSES ASSOCATION, INC.

The above listing is as of December 31, 2006.