SILBA

Self Insured Lumber Businesses Association, Inc.

THE QUALITY WORKERS COMPENSATION SOLUTION FOR MASSACHUSETTS LUMBER BUSINESSES

2008 Annual Report To the Members

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

February, 2010

Members of
Self Insured Lumber Businesses Association, Inc.

Dear SILBA Members:

It is a great pleasure to introduce the 2008 Annual Report to the members of Self Insured Lumber Businesses Association, Inc. (SILBA), marking SILBA's seventeenth year serving lumber businesses in Massachusetts.

2008 Financial Results

In spite of the weakened economy negatively affecting payroll levels and paid-in premiums, SILBA enjoyed yet another year of strong financial results in 2008. Calendar year dividends earned were ***$1.87 million or 44.5%*** of 2008 calendar year earned premium, compared with $3.49 million or 56.2% in 2007.

Calendar year net earned premium decreased by approximately $2 million in 2008, to $4.2 million. This was driven by a decrease in workers compensation rates in Massachusetts combined with an overall reduction in members' payrolls which affected both the current operating year of 2008 and the previous year's payroll audits. With the non-renewal of one member from 2007, the addition of a new member at the inception of the year, and the closing of three businesses during the year, the group's membership count stood at eighty-one at year end.

The group's loss ratio increased from 36.4% in 2007 to 49.5% in 2008, but overall remained strong. The increase was due to a combination of a decrease in premium generated by final audit of the 2007 payrolls, plus a decline in the amount of prior years' loss reserves released as a result of favorable loss development. Although the group continued to enjoy favorable loss development relating to prior years (releasing close to $786,000 of prior year reserves in 2008), reserves released in 2007 totaled approximately $1.25 million.

SILBA's underwriting expenses decreased 22% in total from the previous year (dropping from $1m to $786,000) although in proportion to premium they increased, from 16.3% of premium in 2007 to 18.7% in 2008, once again as a result of the lower premium base.

The net effect of the calendar year results was once again a very strong combined ratio (losses plus expenses as a percent of premium) of 68.2% in spite of the lower premium base, compared to 52.7% in 2007. With the addition of investment income, members earned dividends (equivalent to net income) of almost $1.87 million or 44.5% of 2008 premium, compared with $3.49 million or 56.2% in 2007.

SILBA's Balance Sheet

At year end 2008, SILBA held $12.8 million in total assets, 97.7% of which were 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 supplements the members' dividend pool. In 2008, the group's net investment gain was $536,000.

SILBA's largest liability, at $8.1million or 63.5% of total liabilities, is "Distributions due to members", representing dividends earned and held for future distribution to members. These dividends payable represent the group's "surplus", corresponding to a very healthy premium to "surplus" ratio of .52 to 1.

SILBA also held approximately $4.4 million in reserves to pay the estimated future costs of claims incurred to date. These reserves include $1.3 million of adjusters' reserves on reported losses for all fund years, and another $3.1 million of actuarial or contingent reserves established to fund potential ultimate losses. This equates to approximately $2.36 of contingent reserve held for every $1 of adjusters' reserves.

Since inception of the program in 1992, SILBA members have earned $22.4 million in dividends, an average earned dividend of 32% per year. At year-end 2008, dividend distributions to members totaled $14.3 million, with an additional $1.6 million in dividends paid to SILBA members in January of 2009. With additional distributions of $2.5 million scheduled for February 2010, dividend distributions to members will exceed $18.4 million.

Safety – A Constant Challenge

At SILBA we know what it means to strive for continuous improvement. Over the last several years, we have challenged ourselves as a group and as individual members to continue to improve our safety efforts and results. As part of this improvement process, two years ago we asked members to make a commitment to reduce their injuries by 20% in the two main areas that drive our losses- lifting injuries and slips and falls. SILBA members not only met, but exceeded this challenge.

One of the ways we can continue to meet and exceed this target, which the Board has now established as an annual goal, is to assure that each of our employees knows that they have a personal responsibility to follow safety guidelines and to avoid unsafe acts which lead to accidents. We can go further with our efforts by helping to ensure that our employees are engaged in the workplace versus being unengaged, or disengaged at work. Employees who are engaged in thinking about safety will work safely. We are all in agreement, I am sure, that we want to send our folks home safely at night to their families. We need to remember, too, that we as principals of our organizations must be engaged in the safety process. It is a top down and bottom up approach to continuously improving our safety programs and our individual and group results.

On behalf of the SILBA Board of Trustees, I wish to congratulate all members on the strong program you have helped build. As always, please share the news of SILBA's success and encourage potential members to consider SILBA membership. And remember, when your workplace is a safe place, everyone benefits.

Thank you for your continued support.

Very truly yours,

Donald Chace
President, Self Insured Lumber Businesses Association, Inc.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

2008 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.

SAFETY FOCUS

SILBA's primary focus is to work to keep members' employees safe by preventing or minimizing the potential for injury. SILBA is serious about safety and requires members to demonstrate their commitment to loss prevention throughout the year. So, as in the past, in 2008, SILBA authorized significant resources so members had the necessary tools to help ensure the safest possible working environment for their employees.

SAFETY ACTIVITIES

The 2008 resources SILBA allocated helped members create and maintain the safest possible working environment for their employees. With this commitment comes a responsibility for all members to continue to commit to controlling their own exposures, which should reduce the potential for employee injury.

The individual safety services members received included accident investigations for key injuries, training for the high loss areas – lifting injuries and slips & falls, on-site surveys, safety committee interaction, safety literature and videos/DVD's, and training focused on members' specific accident trends or other needs. Group services included quarterly claim and loss control committee meetings, including safety literature and videos/DVD's, and semi-annual safety workshops.

SILBA's safety professionals reviewed member incidents, investigating them as deemed necessary. Noted trends helped to identify topics for training, email safety blasts, and committee meeting discussions, so attention could be brought to bear on these issues for educational and preventive purposes.

CLAIM and LOSS CONTROL COMMITTEE MEETINGS

SILBA conducted quarterly Claim and Loss Control Committee meetings in 2008, to which all SILBA members were invited and encouraged to attend. These meetings dealt with group and member safety activities and the progress members were making at controlling their incidents. Specific claims were also a point of discussion so members were aware of outstanding claims and the measures taken to resolve them. "Round Table Discussions", which began in 2006 and continued in 2008, helped members identify best practices in the group and discuss the steps necessary to implement in their own companies. Measures that did not work were also identified and discussed so the complications of the issue were clear to everyone. This process of sharing has proven to be beneficial to all and has strengthened the group. Forklift truck safety and safe lifting techniques were two of the main topics addressed in 2008.

SAFETY WORKSHOPS

SILBA semi annual safety workshops were conducted in the Spring and Fall of 2008 at 3 regional locations. Guest speakers and SILBA claims and safety professionals presented topics on:

- Diabetes Awareness and Prevention
- Automatic External Defibrillator Demonstration
- Slip/Fall Prevention Techniques
- Winter Safety- slip resistant traction devices, and anti-slip indoor/ outdoor walk-off mats, and ice-treatment products

OTHER RESOURCES:

SILBA maintains a safety library of training videos available to all members free of charge. Other safety resources shared include Massachusetts Department of Safety Round Table Workshops, Massachusetts Safety Council programs, and on-line Webinars offered by SILBA's excess insurance partner, Midwest Employers Casualty Company.

SILBA SAFETY FLASH

Monthly safety email flash reports go to each member and should be used for 5 minute safety talks and safety committee meeting material as they focus mainly on the two loss drivers for the Group: Lifting injuries and slips, trips and falls.

2008 GOALS

At the end of 2007, SILBA established a group goal, issuing a challenge to members to reduce the frequency of claims based upon the prior 3 year average. This goal, which was announced at the annual meeting early in the year, emphasized reducing the total number of claims by 20% over the prior 3-year average by focusing on SILBA's two primary loss cause drivers: slips and falls and lifting injuries. The monthly safety flashes noted above included statistics to help members track the group's results compared to this goal. The flashes also offered safety tips relative to these loss drivers.

As a result of this focus and members' efforts, SILBA members not only met the challenge to reduce their claims by 20%, but exceeded it. In 2008, the group's claim count decreased by 36.5% over the prior 3-year average, with indemnity (lost time claims) decreasing by 43.4%. Going into 2009, the SILBA Board of Trustees has established the 20% reduction as an annual group goal.

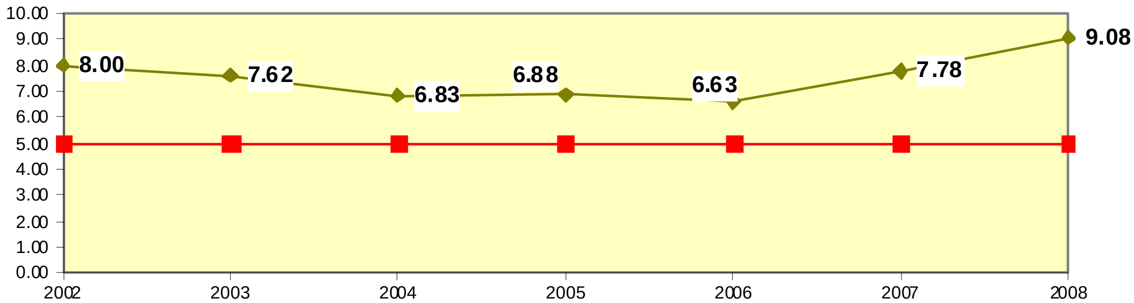
Keys to SILBA Claims Management

SILBA unwaveringly continues to focus on the cornerstones of pro-active claims management, closely involving both the employer and the injured worker in the claims management process. In this way, 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 Members' Average Employer Lag (in Days)



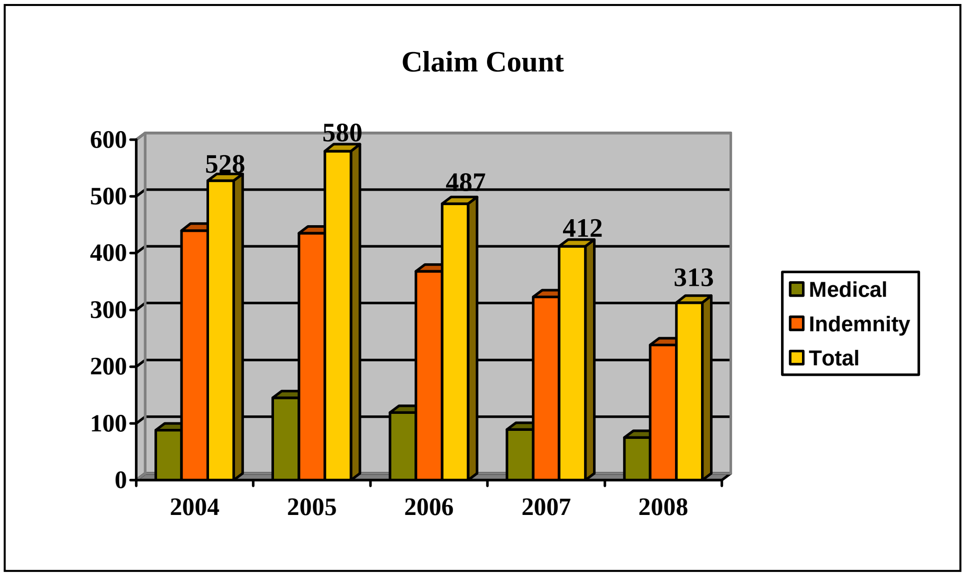
SILBA will continue to work with members to achieve our goal of a reporting lag of 5 days or less, but we have work to do. Why is prompt reporting so important? Numerous studies have shown that claims filed five or more days after an injury are significantly more costly than those filed timely. A delay 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. For Lost Time claims, the reporting lag was 9.08 days and for Medical Only claims, it was 7.70 days. To focus on further improving SILBA's performance, members must improve their overall reporting lag.

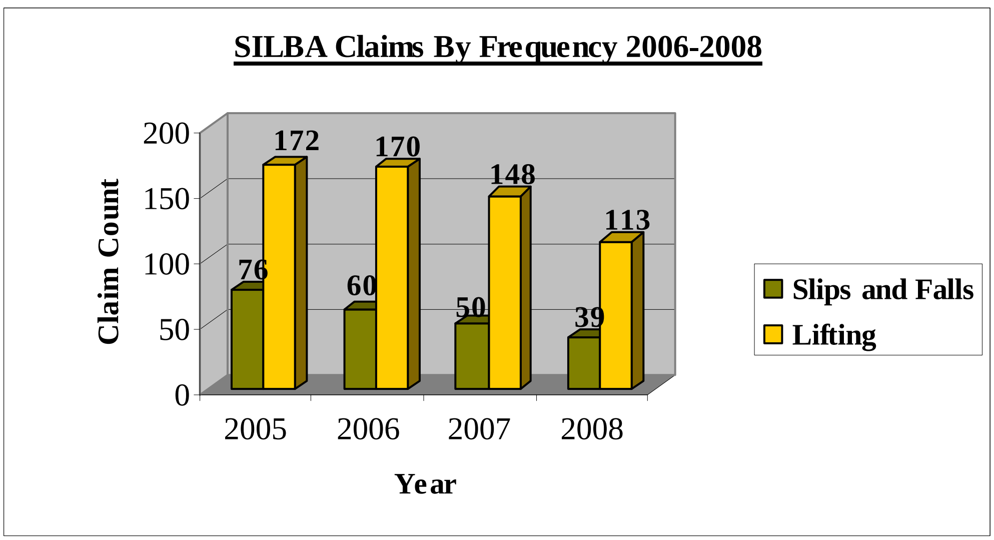
2) Provide Temporary Modified Duty. SILBA expects all members to provide temporary modified duty. When return to work programs are in place and employees' restrictions are accommodated, injured employees return to work up to 50% sooner and costs are reduced up to 70%.

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 our claim trends has allowed us to better assist our members in controlling their losses.





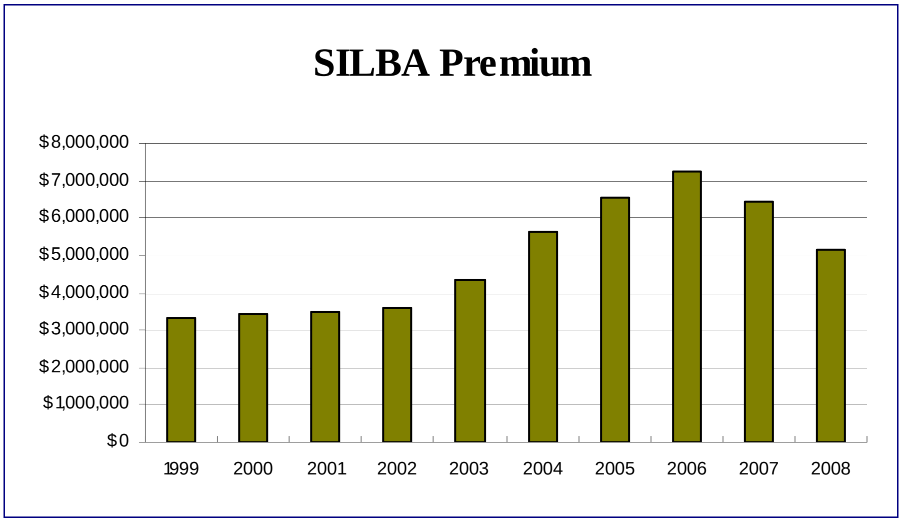
By focusing on SILBA's primary cause of loss drivers year after year- sprains and strains to backs, shoulders and knees from improper lifting and slips and falls - SILBA has been able to continually favorably impact claim frequency and help members to keep their employees safe. From 2005 through 2008, claims resulting from slips and falls and improper lifting accounted for approximately 46% of SILBA's total number of claims. In 2009, SILBA will again challenge members to reduce claim frequency by 20% over the prior three year average by focusing on these two areas.

SILBA remains as committed as ever to its safety and claims management approach to ensure that SILBA will be able to continue to serve its members as the <u>premier</u> workers compensation alternative for safety-minded Massachusetts employers engaged in the lumber business.

OPERATING REPORT

MEMBERSHIP AND PREMIUM

At year end 2008, SILBA's membership count remained at eighty-four, with one new member joining at the inception of the year and one non-renewing from the previous year.



Members' premium totaled $5.1 million in 2008, representing a 20% decrease from the prior year, a result of the reduction in workers compensation rates in Massachusetts and members' lower payrolls.

DIVIDENDS EARNED

Dividends earned by the members are driven by both group results and individual performance. Members maximize savings for themselves and other members of the group by controlling their losses. Dividends are calculated as premiums paid in, less the cost of claims and all costs of running the Group, plus investment income. During 2008, members' generated calendar year net earned premiums (after reinsurance) of $4.2 million, on which $1.87 million of dividends was earned, a return equal to 44.5% of premium. Since program inception, SILBA members have paid in a total premium of $70.3 million dollars and earned dividends of $22.4 million, ***an average return of 32%*** over SILBA's seventeen-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 2008, $14.2 million of the $22.4 million of dividends earned had been returned to the members, including close to $1.3 million distributed to SILBA members in January of 2008. Additional distributions of $1.62 million in February 2009 bring total dividends distributed to SILBA members since its inception to over $15.9 million. Dividends earned but not distributed are designated as "Distributions due to members" on SILBA's balance sheet and set aside for future distribution.

GROUP EXPENSES

SILBA's Board of Trustees remains focused on safety, on actively managing claims and mitigating costs when injuries do occur, and on controlling the overall costs of the program in order to maximize the dividends it returns to its members.

SILBA's largest expense is the cost of its claims. Losses and loss adjustment expenses incurred include both amounts paid and reserves held to pay the estimated ultimate costs of open claims.

Losses and Loss Adjustment Expenses Incurred

	Fund Year Premium	Losses Incurred	Losses Incurred as a % of Premium
1999 Fund Year	$3,329	$1,210	36.3%
2000 Fund Year	$3,422	$2,332	68.1%
2001 Fund Year	$3,504	$2,597	74.1%
2002 Fund Year	$3,595	$2,598	72.3%
2003 Fund Year	$4,353	$2,802	64.4%
2004 Fund Year	$5,644	$2,864	50.7%
2005 Fund Year	$6,561	$3,304	50.4%
2006 Fund Year	$7,252	$4,014	55.3%
2007 Fund Year	$6,447	$3,127	48.5%
2008 Fund Year	$5,154	$2,866	55.6%

To help ensure ongoing profitability the SILBA Board of Trustees and Claim and Loss Control Committee have continually focused their efforts and allocated resources to safety and to the highest quality claim and loss control services for the Group's members.

SILBA maintains high quality excess insurance coverage for the protection of its members. Excess insurance protects members by capping the Group's potential claim costs on both an individual 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. Over the last 5 years, SILBA's excess and operating costs combined have consistently been below 28% of premium.

Other Operating Costs as a Percentage of Premium

	Excess Insurance	Other Operating	Total Costs
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%	13.8%	25.3%
2006 Fund Year	10.3%	13.4%	23.7%
2007 Fund Year	9.7%	14.1%	23.8%
2008 Fund Year	10.3%	15.2%	25.5%

Premium dollars not needed to cover claims and other operating costs are set aside and, combined with investment income earned, fund the members' dividend pool. Because of members' commitment to maintaining a safe workplace, to working closely with SILBA's claim adjusters, and to bringing injured workers back into the workplace as quickly as it is safe to do so, SILBA's results year after year have been such that the total costs to run the program have ultimately been less than the premium dollars collected. Dollars left over in each fund year are ultimately returned to members in the form of dividends.

FINANCIAL HIGHLIGHTS

At December 31, 2008 SILBA's assets totaled $12.8 million, almost 98% of which were in the form of cash and invested assets, on which SILBA earns investment income to supplement its dividend pool. In 2008, invested assets yielded $536,220 of net investment gain.

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

	Cash and Invested Assets	Total Assets	Percentage to Total
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%
2007 Fund Year	$12,869	$13,571	94.8%
2008 Fund Year	$12,509	$12,801	97.7%

Assets are invested in highly rated fixed income securities:

Valued at December 31, 2007:	Amortized Cost	Market Value
Corporate Securities	$5,502,247	$5,268,623
US Government Agency Securities	$4,182,970	$4,436,057
Mortgage-backed securities	$2,360,870	$2,536,839
Subtotal	$12,046,087	$12,241,519
Cash & Cash Equivalents	$462,680	$462,680
Total	$12,508,767	$12,704,199

SILBA's principal liabilities, comprising 98% of its total liabilities in 2008, were distributions due to members (dividends payable) and reserves for losses and loss adjustment expenses.

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

	Distributions due to Members	Reserves For Losses and LAE	Total Dividends and Reserves	Total Liabilities	Percentage to Total
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%
2007 Fund Year	$7,602	$5,618	$13,220	$13,571	97.4%
2008 Fund Year	$8,130	$4,447	$12,577	$12,801	98.3%

SILBA's largest liability in 2008 at $8.1 million, distributions due to members represent dividends earned by members and held for future distribution. These distributions payable are the equivalent of the Group's surplus. With $4.2 million of net calendar year premium earned, SILBA's premium to "surplus" ratio in 2008 was .52 to 1, underscoring SILBA's financial strength.

Reserves for losses and loss adjustment expenses are held to pay claims and claim-related expenses. The adequacy of reserves is reviewed annually and certified by an independent actuarial firm. Reserves include case reserves, which are the claim adjusters' estimates of the future amounts necessary to resolve open claims, and bulk reserves. Bulk reserves provide for the following 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 2008, reserves held were comprised of $1.32 million of case reserves and $3.12 million of bulk reserves (net of reserve discounts). That equates to more than ***$2.36*** held in bulk reserves for each $1 of case reserves.

While it must be emphasized that reserves represent estimates of claim costs, and that the risk exists that the reserves could prove to be insufficient, 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. In 2008, SILBA's losses and loss adjustment expenses incurred include the release of $785,000 of prior years' reserves resulting from subsequent favorable loss development, and in 2007 $1.24 million of prior years' reserves were released.

Year in and year out, SILBA has been fulfilling its mission to be the highest quality and most cost-effective long term solution for the workers compensation needs of lumber business in Massachusetts.

Feeley & Driscoll, P.C.
Certified Public Accountants / Business Consultants

Board of Trustees
Self Insured Lumber Businesses Association, Inc.
Andover, Massachusetts

Independent Auditors' Report

We have audited the accompanying balance sheet - statutory basis of Self Insured Lumber Businesses Association, Inc. as of December 31, 2008, and the related statements of operations - statutory basis and cash flows - statutory basis for the year 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. The financial statements of Self Insured Lumber Businesses Association, Inc. as of December 31, 2007 were audited by other auditors whose report date June 19, 2008 expressed an unqualified opinion on those financial statements as they relate to the accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts. The other auditors, in their report dated June 19, 2008 expressed an adverse opinion on those same financial statements as they relate to accounting principles generally accepted in the United States of America.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

As described in Notes 2 and 3, Self Insured Lumber Businesses Association, Inc. 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 practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, 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 in the first paragraph 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, 2008 or the results of its operations or its cash flows for the year then ended.

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However, in our opinion, the statutory basis financial statements referred to in the first paragraph present fairly, in all material respects, the balance sheets - statutory basis of Self Insured Lumber Businesses Association, Inc. as of December 31, 2008 and the results of its operations and its cash flows for the year then ended, in conformity with accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts.

As discussed in the notes to the financial statements, the reserve for unpaid losses and loss adjustment expenses reflected in the accompanying financial statements is based upon an evaluation by the Group's independent actuary. Management believes that this estimate is reasonable. However, changes in this estimate may occur from year to year which 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.

June 15, 2009

Feeley & Driscoll, P.C.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC

Balance Sheets - Statutory Basis

December 31, 2008 and 2007

	2008	2007
Admitted assets:		
Cash and cash equivalents	$ 462,680	$ 2,221,880
Bonds	12,046,087	10,647,445
Reinsurance recoverable	35,926	424,044
Accrued interest income	196,397	271,413
Other assets	59,860	6,765
Total admitted assets	$ 12,800,950	$ 13,571,547
Liabilities:		
Reserve for losses and loss adjustment expenses, net	$ 4,447,592	$ 5,618,176
Distributions due to members	8,129,596	7,601,927
Policyholders' surplus	34,675	41,967
Accounts payable and accrued expenses	189,087	309,477
Total liabilities	$ 12,800,950	$ 13,571,547

See accompanying notes.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC

Statements of Operations - Statutory Basis

For the years ended December 31, 2008 and 2007

	2008	2007
Premiums earned, net	$ 4,199,790	$ 6,205,689
Losses and loss adjustment expenses incurred	2,079,827	2,257,622
Other underwriting expenses incurred	785,709	1,010,175
Total underwriting expenses	2,865,536	3,267,797
Net underwriting income	1,334,254	2,937,892
Net investment income	434,788	537,562
Net realized investment gains	101,432	15,235
Net investment gain	536,220	552,797
Income before distributions to members and income taxes	1,870,474	3,490,689
Distributions to members	(1,870,018)	(3,490,233)
Income before income tax expense	456	456
Income tax expense	456	456
Net income	-	-
Policyholders' surplus - beginning of year	41,967	39,374
(Increase) decrease in non-admitted assets	(7,292)	2,593
Policyholders' surplus - end of year	$ 34,675	$ 41,967

See accompanying notes.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC

Statements of Cash Flows - Statutory Basis

For the years ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Premiums collected	$ 4,149,292	$ 6,191,645
Losses and loss adjustment expenses paid, net of reinsurance	(2,862,293)	(3,588,255)
Other underwriting expenses paid	(784,503)	(995,876)
Net investment income	593,672	443,380
Distributions to members	(1,342,349)	(981,671)
Net cash (used in) provided by operating activities	(246,181)	1,069,223
Cash flows from investing activities:		
Proceeds from sales or maturities of bonds	5,850,449	2,805,324
Purchase of bonds	(7,231,526)	(4,887,002)
Net cash used in investing activities	(1,381,077)	(2,081,678)
Cash flows from financing activities:		
Contributed surplus (applied) recaptured	(7,292)	2,593
Other cash applied	(124,650)	-
Net cash (used in) provided by financing activities	(131,942)	2,593
Net decrease in cash and cash equivalents	(1,759,200)	(1,009,862)
Cash and cash equivalents at beginning of year	2,221,880	3,231,742
Cash and cash equivalents at end of year	$ 462,680	$ 2,221,880

See accompanying notes.

Note 1 - Organization

Self Insured Lumber Businesses Association, Inc. (the Group) was organized as a workers' compensation self-insurance group on January 1, 1993 under Massachusetts General Law, Chapter 152. The Group is comprised of Massachusetts lumber businesses (the members) who have entered into agreements to pool their liabilities for workers' compensation benefits and employers' liability in Massachusetts. 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.

Note 2 - 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. Significant variances from accounting principles generally accepted in the United States of America (GAAP) include, but are not limited to, the following:

Policy Acquisition Costs - Under statutory accounting practices, the cost of acquiring and renewing business (principally commissions) is charged to operations as premiums are written. Under GAAP, such amounts are 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. Under GAAP, the discount for reserves on unpaid losses and loss adjustment expenses is computed based upon the Group's anticipated payout pattern using a discount rate determined by management to approximate the Group's investment yield during the payout period.

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 Bonds - Under statutory accounting practices, the bonds owned by the Group are generally valued at amortized cost. Under GAAP, such debt securities are designated at purchase as held to-maturity, trading or available-for-sale. Held-to-maturity debt securities are reported at amortized cost; the remaining debt securities are reported at fair value, with unrealized gains and losses reported in operations for those designated as trading and as a separate component of equity for those designated as available-for-sale.

Note 2 - Summary of Significant Accounting Policies - Continued

Cash and Cash Equivalents - Cash and cash equivalents include those items with an original maturity of one (1) year or less at the date of acquisition for purposes of the statutory basis financial statements. However, under GAAP, cash and cash equivalents include those items with an original maturity of three (3) months or less at the time of acquisition. Cash equivalents consist of various money market accounts and have been valued at amortized cost.

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 balance sheets - statutory basis. Changes to non-admitted assets are recorded directly in unassigned member surplus. Common examples of non-admitted assets include premiums receivable over ninety (90) days old, certain prepaid expenses, certain fixed assets and certain deferred tax charges.

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 members. Any premium changes resulting from these payroll audits are recognized during the year of the payroll audit. Under GAAP, an estimate of earned but unbilled premiums expected to result from payroll audits would be recorded.

Premiums are established annually based on Massachusetts workers' compensation rates and adjusted for individual experience. Premium rates are intended to be sufficient to cover all operating costs, and to maintain and continue the Group in full force and effect. The Group's practice is to make additional premium assessments of any member whose case-incurred losses and allocable expenses exceed the original premiums charged for a fund year or in the event that sufficient funds are not available for the sound financial operation of the Group.

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

Premiums Receivable - Premiums receivable over ninety (90) days past due are considered nonadmitted assets. Under GAAP, an allowance for amounts deemed uncollectible would be established through a charge to earnings.

Note 2 - Summary of Significant Accounting Policies - Continued

Distributions to Members - The Group typically has declared distributions payable to members equivalent to income before provision for distributions to members. The Board of Trustees will determine the timing of these distributions. In accordance with Massachusetts self-insurance group regulations, the Group will not begin to distribute this balance until twenty-four (24) months after the end of the fund year in which the distribution is declared, at which point, twenty-five percent (25%) of the calculated amount may be distributed. Thereafter, up to thirty-three percent (33%), fifty percent (50%) and one-hundred percent (100%) of the recalculated distributions may be distributed in each of the successive twelve (12)-month periods.

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 Trustees. The Group files with the Internal Revenue Service as a property and casualty insurance company.

New Pronouncements - In accordance with FASB Staff Position (FSP) 48-3, the Company has elected to defer the application of FASB Interpretation (FIN) 48, *Accounting for Uncertainty in Income Taxes*, to fiscal years beginning after December 15, 2008. The Company has not evaluated its tax positions in accordance with FIN 48 and, therefore, cannot determine its effect. The current tax positions have been evaluated using Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies*.

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.

Bonds - Bonds are carried at amortized cost, adjusted for accrual of discount or amortization of premium. For disclosure purposes, fair values for debt securities are based on quoted market prices, where available. For debt securities not actively traded, fair values are estimated using values obtained from independent pricing services, or, in the case of private placements, are estimated by discounting the expected future cash flows using current market rates applicable to the coupon rate, credit and maturity of the bonds.

Loan-backed debt securities are valued at amortized cost using the interest method, including anticipated prepayments. Prepayment assumptions are internal estimates based on the current interest rate and economic environment. The retrospective method is used to value all loan-backed debt securities.

Note 2 - Summary of Significant Accounting Policies - Continued

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 balance sheet - statutory basis and statements of operations - statutory basis, as well as the disclosure of contingent liabilities. Actual results could differ from these estimates.

Reclassification of Prior Year's Balances - Certain account balances have been reclassified to enhance financial statement presentation and ensure comparability with the current year.

Note 3 - Statutory Accounting Practices

The financial statements of the Group are presented on the basis of accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance (the Division). The Division recognizes only statutory accounting practices prescribed or permitted by the state of Massachusetts for determining and reporting the financial condition and solvency of an insurance company under Massachusetts Insurance laws and regulations. The National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the Commonwealth of Massachusetts, along with certain prescribed accounting practices specifically related to self-insurance groups that differ from those found in NAIC SAP.

Those differences include the following:

Earned but Unbilled Premiums: Estimated earned but unbilled premiums based on premium audits are not recorded unless an audit has been completed indicating that additional premiums will be billed within the following thirty (30) days. Under NAIC SAP, an estimate of earned but unbilled premiums expected to result from payroll audits, less ten percent (10%) non-admitted, would be recorded.

Discounting of Loss Reserves: Loss reserves are discounted at rates currently used by the Internal Revenue Service. Under NAIC SAP, discounting of loss reserves is not permitted, except for tabular reserves under IRS guidelines.

Income Taxes: The Group is not required to record deferred tax assets and deferred tax liabilities on its financial statements.

Note 4 - Excess Insurance Coverage

The Group has purchased excess insurance for protection against unusually high losses. Specific excess insurance protects against large individual losses. Aggregate excess protects against a high overall level of losses. For each accident that is in excess of a specific retention, the coverage takes effect subject to the limits as imposed by the various contracts.

The following table summarizes the reinsurance activity for the years ended December 31:

	Premiums Earned		Reserves for Losses and Loss Adjustment Expenses		Loss and Loss Adjustment Expenses Incurred	
	2008	2007	2008	2007	2008	2007
Direct	$ 4,758,490	$ 6,874,349	$ 4,447,592	$ 5,618,176	$ 2,101,006	$ 2,652,328
Ceded	(558,700)	(668,660)	-	-	(21,179)	(394,706)
Net	$ 4,199,790	$ 6,205,689	$ 4,447,592	$ 5,618,176	$ 2,079,827	$ 2,257,622

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 insolvency.

Nonaffiliated, unsecured, and aggregate reinsurance recoverables for paid and unpaid losses, including incurred but not reported losses, unpaid loss adjustment expenses, and unearned premiums that exceed three percent (3%) of the Group's undistributed dividends are as follows at December 31:

	2008	2007
Midwest Employers Casualty Company	$ 98,000	$ 387,000

Note 5 - Bonds

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

	2008			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. Government securities	$ 4,182,970	$ 253,087	$ -	$ 4,436,057
Corporate securities	5,502,247	47,399	(281,023)	5,268,623
Mortgage backed securities	2,360,870	175,969	-	2,536,839
	$ 12,046,087	$ 476,455	$ (281,023)	$ 12,241,519

	2007			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. Government securities	$ 4,516,396	$ 138,680	$ -	4,655,076
Corporate securities	4,601,540	36,534	(77,613)	4,560,461
Mortgage backed securities	1,529,509	39,473	(100)	1,568,882
	$ 10,647,445	$ 214,687	$ (77,713)	$ 10,784,419

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.

Note 5 - Bonds - Continued

	December 31, 2008		December 31, 2007	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
Due in one year or less	$ 693,261	$ 694,100	$ 101,705	$ 101,185
Due in one year though five years	7,606,156	7,643,446	5,735,931	5,831,371
Due after five years through ten years	3,746,670	3,903,973	3,280,300	3,282,981
Mortgage-backed securities	-	-	1,529,509	1,568,882
	$ 12,046,087	$ 12,241,519	$ 10,647,445	$ 10,784,419

Proceeds from sales or maturities of bonds during 2008 and 2007 were $5,850,449 and $2,805,324, respectively. Gross gains of $197,620 and $20,742 were realized during 2008 and 2007, respectively. There were $96,188 and $5,509 of gross realized losses in 2008 and 2007, respectively.

Note 6 - 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 $3,900,000 and $4,900,000 on an undiscounted basis as of December 31, 2008 and 2007, respectively.

During the year ended December 31, 2008 and 2007, actuarially calculated losses and loss adjustment expenses incurred in excess of the Group's retention levels were approximately $221,000 and $370,000, respectively. Accordingly, these amounts were recorded as a reduction to 2008 and 2007 losses and loss adjustment expenses, respectively.

Any increases or decreases in ultimate incurred losses on a net basis as compared to the prior year will result in a direct increase or decrease in the current year's net earnings. During the year ended December 31, 2008 and 2007, the Group experienced a net decrease in the estimate of ultimate incurred losses and loss adjustment expenses and change in reserve discount for prior years as a result of claim development. These amounts have been charged or credited to losses and loss adjustment expenses in the corresponding years.

Note 6 - Reserve for Unpaid Losses and Loss Adjustment Expenses - Continued

For the years ended December 31, 2008 and 2007, 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 $804,674 and $1,025,508 at December 31, 2008 and 2007, respectively.

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

	2008	2007
Reserve for losses and loss adjustment expenses, beginning of year	$ 5,618,176	$ 6,554,103
Incurred losses and loss adjustment expense:		
Provision for insured events of the current year	2,865,741	3,504,000
Provision for insured events of prior years	(785,914)	(1,246,378)
Total incurred losses and loss adjustment expenses	2,079,827	2,257,622
Losses and loss adjustment expense payments related to:		
Current year	808,899	1,020,000
Prior years	2,441,512	2,173,549
Total losses and loss adjustment expense payments	3,250,411	3,193,549
Reserves for losses and loss adjustment expenses, end of year	$ 4,447,592	$ 5,618,176

Note 7 - Management Fees

The Group has entered into a management agreement, expiring December 31, 2011, with the Administrator under which the Administrator provides various services including loss control, claims management, marketing, accounting and general administration. The administrator also receives a commission for obtaining excess insurance coverages for the Group. The Group paid management fees and commission expense of approximately $622,000 and $810,000 for the years ended December 31, 2008 and 2007.

Note 8 - Income Taxes

The Group is subject to Federal income taxes as a property and casualty insurance company under the provisions of Subchapter L of the Internal Revenue Code.

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 determination 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 9 - 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 10 - Deposit with Massachusetts Division of Insurance

The group is required to provide security amounting to $473,000 and $556,000 at December 31, 2008 and 2007, respectively (see Note 12). An escrow account, which includes approximately $742,000 and $759,000 in short-term investments, is pledged to the Massachusetts Division of Insurance as a security deposit pursuant to Section 211CMR67.08(2)(9d) at December 31, 2008 and 2007, respectively. The pledged security exceeds the amount of security required by the state.

Note 11 - 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 reserves and reinsurance shall be the financial responsibility of the members.

Note 12 - Statutory Requirements

Among other requirements outlined in the Commonwealth of Massachusetts Self-Insurance Group regulations, the minimum financial requirements are as follows:

<u>Security</u>: The Group is required to provide to the Commissioner of Insurance of the Commonwealth of Massachusetts security equal to the greater of ten percent (10%) of the Group's standard premium, or $100,000. At December 31, 2008 and 2007, the Group was required to provide security amounting to $473,000 and $556,000, respectively (see Note 10).

<u>Liquidity</u>: The Group is required to provide security to the extent of undiscounted loss reserves and unearned premiums exceed liquid assets. The Group was not required to provide security because undiscounted loss reserves and unearned premiums did not exceed liquid assets.

<u>Net Worth</u>: The net worth of all the members of the Group combined is required to exceed the greater of four-hundred percent (400%) of the Group's standard premium, or $1,000,000.

<u>Reinsurance/Excess Insurance</u>: The Group is required to obtain specific excess reinsurance coverage of at least $5,000,000 per occurrence and aggregate excess insurance attaching at one hundred five percent (105%) of standard premium.

Note 12 - Statutory Requirements - Continued

The retention limit for the Group's excess reinsurance coverage shall not be more than thirty percent (30%) of the net premium of the Group. Reinsurers shall be licensed, admitted or otherwise authorized to transact insurance or reinsurance in the Commonwealth of Massachusetts and at least be rated by two of the following rating agencies: A.M. Best & Company (A-), Fitch (AA), Moody's Investors Services (AA2) and Standard & Poor's Corporation (A).

As of December 31, 2008 and 2007, the Group was in compliance with all statutory financial requirements, or received waivers via permitted practices as noted herein.

Note 13 - 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.

The Company has a potential concentration of credit risk in that it maintains deposits with a financial institution in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC). On October 3, 2008, the FDIC formally approved and increased the insurance limit to $250,000 per banking institution per account owner from its previous limit of $100,000 for all interest bearing accounts. All non-interest bearing accounts are fully insured. The temporary increase is in effect until December 31, 2009. The total amount of uninsured deposits approximated $396,000 at December 31, 2008.

Premiums with three (3) members accounted for approximately forty percent (40%) of the Company's premiums as of December 31, 2008.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

Member Listing

Anderson & McQuaid Company, Inc.
Arlington Coal & Lumber Co.
Atlantic Plywood Corporation
Attleborough-Rehoboth Building Supply, Inc.
Belletetes, Inc.
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.
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
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
John Pagliazzo DBA Plywood Supply
Johnson Lumber Co.
Keiver Willard Lumber Corp.
Kelly Fradet Lumber Co. Inc.
Koopman Lumber Co., Inc.
Larkin Lumber Company
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.
RB Negus Lumber Company
R.S. Lamson & Sons
Ryan Seamless Gutter Systems, Inc.
Shepley Wood Products
Squier & Company, Inc.
St. Denis Products, Inc./Lumber Center
Taylor Lumber & Oil Co. Inc./Harmony Realty Trust
Wachusett Lumber & Building Supply Inc
Warren Trask Company
Westwood Lumber, Inc.
Wholesale Doors, Inc.
Wilmington Builders Supply Co.
Wood Lumber Company
Yankee Pine Corporation

Includes all active members of the Self Insured Lumber Businesses Association (SILBA) as of December 31, 2009.

SELF INSURED LUMBER BUSINESSES ASSOCATION, INC.

Professional Management

Meadowbrook / TPA Associates - Program Management,
Claim Management, and Loss Control Services
Midwest Employers Casualty Company - Excess Insurance
Feeley & Driscoll, P.C. – Financial Audit
Towers Perrin Company – Actuary
Ropes & Gray - Legal Counsel
Standish Mellon Asset Management - Investment Management

The above listing is as of December 31, 2008.