SILBA

Self Insured Lumber Businesses Association, Inc.

THE QUALITY WORKERS COMPENSATION SOLUTION FOR MASSACHUSETTS LUMBER BUSINESSES

2010 Annual Report To the Members

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

January, 2012

Members of
Self Insured Lumber Businesses Association, Inc.

Dear SILBA Members:

It is my pleasure to introduce the 2010 Annual Report to the members of Self Insured Lumber Businesses Association, Inc. (SILBA), marking SILBA's nineteenth year serving lumber businesses in Massachusetts.

2010 Financial Results

SILBA returned very favorable results in 2010 throughout a time of sustained downward trend in the economy which once again adversely affected payroll levels and paid-in premiums. Calendar year dividends earned were ***$958,720 or 34.3%*** of 2010 calendar year earned premium, compared with $1.57 million or 47.5% in 2009.

Calendar year net earned premium decreased by approximately $518,000 in 2010 to $2.8 million, driven by an overall decrease in members' payrolls which affected both the current operating year of 2010 and was reflected in the prior year's payroll audits. The group had seventy-seven members at December 31, 2010, up from seventy-five at year-end 2009 as it added two new members effective January 1, 2010.

The group's loss ratio increased from 50.4% in 2009 to 65.7% in 2010 partially due to the lower premium base and partially due to an increase in claim frequency and severity noted in the group's 2010 fund year. During the 2010 calendar year, the group released $484,000 of prior year reserves, as compared to $463,000 in 2009, which added to the group's dividend pool.

On a nominal basis, SILBA's underwriting expenses decreased 9.4% from the previous year (dropping from $611,000 to $553,000) but increased slightly in proportion to premium, at 19.8% of premium in 2010 compared to 18.4% in 2009. This increased percentage

The net effect of the calendar year results was once again favorable combined ratio (losses plus expenses as a percent of premium) of 85.5% compared to 68.8% in 2009. With the addition of investment income, members earned dividends (equivalent to net income) of over $958,720 or 34.3% of 2010 net premium, compared with $1.57 million or 47.5% in 2009.

SILBA's Balance Sheet

At December 31, 2010, SILBA held $10.16 million in total assets, approximately 98% 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 2010, the group's earned approximately $552,000 in net investment income.

SILBA's largest liability, at $6.9 million or 68% of total liabilities, is "Distributions due to members", representing dividends earned and held for future distribution to SILBA members. These dividends payable represent the group's "surplus", corresponding to a healthy premium to "surplus" ratio of .41 to 1.

SILBA also held over $3 million in reserves to pay the estimated future costs of claims incurred to date. These reserves include $886,000 of adjusters' reserves on reported losses for all fund years, and another $2.2 million of net actuarial or contingent reserves established to fund potential ultimate losses. This equates to approximately $2.49 of contingent reserve held for every $1 of adjusters' reserves.

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Since inception of the program in 1992, SILBA members have earned almost $25 million in dividends, an average earned dividend of more than 32.4% per year. At year-end 2010, dividend distributions to members totaled more than $18 million, with an additional $1.76 million in dividends paid to SILBA members in February of 2011. With distributions of $2.16 million scheduled for February 2012, dividend distributions to members will approach $22 million.

SAFETY- The Challenge Continues

While we are pleased with the financial results the group achieved in 2010, we are concerned with the increase in frequency and severity of claims that we have seen in 2010 and into 2011, and the subsequent adverse development of some of these claims. The ongoing pressures of this sluggish economy have made it more difficult for members to bring injured workers back into the workplace in a transitional duty capacity and to maintain the level of diligent safety focus that is crucial, especially in these times. Over the past several years we have challenged our members to meet SILBA's goal of reducing the number of injuries each year. The goal of 20% reduction in the number of injuries was established by the Board 3 years ago, and addresses the two main areas that drive SILBA's losses- slips and falls, and lifting. While we have seen consistent improvement and met our goals in prior years, in 2010 we did not. Improving our safety efforts and results is a challenge that we must continue to meet every day, year after year.

Safety is an on-going, daily commitment that we believe in most sincerely. It means our Members are concerned for the health and safety of their employees. This concern is demonstrated by management by conducting safety audits, safety meetings, and by frank discussions with employees about how they can work better and safer. Members must also make a commitment to recognize and eliminate hazards in the workplace, and to correct unsafe behaviors and acts as they are happening.

The safety commitment also means engaging the employees every day in some kind of safety communication, whether through your company intranet, safety posters, emails, morning meetings, or discussions as you walk through the yard. After all, your employees are the ones out there everyday working hard for you and your company. Show them you care about their well-being and make sure their families know and believe that you are providing a safe place for their loved ones to work, and from where they will return home safely.

One of the benefits to being a SILBA Member is the educational opportunities provided by the Group, in conjunction with our risk control partners at Meadowbrook. Each year we hold the group's Annual Meeting in January or February, a Spring Safety Day Workshop in April, and three Fall Workshops in October. Outside Safety experts are engaged to present safety information at these meetings on topics such as Personal Protective Equipment, Anti- slip footwear, Snow and ice treatments, "Back School", and safe lifting techniques. Individual Member training is also provided.

An additional educational opportunity is for members to participate in the Group's quarterly Claim and Loss Control Meeting. Representatives from the claim and loss control committee provide an update on claims that have occurred and the results of accident investigations and keep members up to date with regulatory changes. The Round Table Discussion segment provides good dialogue amongst the committee members to help address concerns and safety issues, and to discuss solutions that members have used to control losses at their locations.

I have long been a believer and supporter of education and providing the tools necessary to our members and their employees to help us all achieve success in meeting our safety goals.

The hallmark of our organization has always been that each one of us is truly engaged and believes in the safety process. Let's make sure we are all doing everything we can in our individual safety and claim management efforts.

On behalf of the SILBA Board of Trustees, I would like to thank all of you for your safety focus and for the strong program that we have created together. And please remember our SILBA motto: When your workplace is a safe place, everyone benefits.

Thank you for your continued support.

Very truly yours,

Thomas A. Dennison, Jr.
President

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

2010 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

Since its' inception, SILBA has taken safety seriously. As it was then, the focus continues to be assisting members to acquire and use the tools necessary to keep their employees safe at work.

Members have access to SILBA's significant resources to help them meet the challenges of providing a safe workplace in today's world.

SAFETY ACTIVITIES

Member services continue to include individual on-site safety surveys, accident investigations for key injuries, and safety training as well as attending Member's Safety Committee meetings. Safety Blasts are sent on a regular basis, as well as special alerts developed as a result of a serious incident or important regulatory information to pass on immediately. Members also receive a quarterly newsletter that outlines issues that affect all concerned.

Group services continue to include quarterly Claim and Loss Control Committee meetings, semi-annual safety workshops, maintenance of the video/ DVD library.

SILBA's safety professionals help Members reduce losses, by reviewing accidents, to determine root causes, and help members identify and address deficiencies as well as training members on pertinent topics. Topics for training, email safety blasts and committee meeting topics are chosen to address trends or other issues of note.

CLAIM and LOSS CONTROL COMMITTEE MEETINGS

Quarterly Claim and Loss Control Committee meetings were conducted in 2010, and 2011 to which all SILBA members were invited to attend and participate. A popular segment of the meeting is the "Round Table Discussions", which have been in place for 5 years. Members continue to help fellow members identify best practices and discuss the steps necessary to implement them in their own companies. This sharing process has proven to be beneficial to all and has strengthened the group. Accident investigation, near- miss reporting, and unsafe acts were some of the topics discussed in 2010/2011.

SAFETY WORKSHOPS

In 2010 and continuing into 2011, the Spring workshops have evolved into the SILBA Safety Day. The Fall workshops continue to be held in three regional settings during October.
Guest speakers and SILBA safety professionals presented topics on:

- Near misses and Accident Investigation
- Slip/Fall Prevention Techniques
- Safe lifting/ Physical therapist back school
- Sleep Apnea and its' effect on job safety
- Nutrition and health
- Personal Protective Equipment-selection to match the task
- Winter Safety- slip resistant traction devices, and ice-treatment products

OTHER RESOURCES:

SILBA maintains a safety library of training videos available to all members free of charge. Other shared safety resources include Massachusetts Department of Safety Round Table Workshops, Massachusetts Safety Council programs.

SILBA is in the process now of having a website constructed and a pilot will be available soon. Members will have access to the website via password, and will be able to download safety information, check dates, times and venues of safety workshops and meetings.

SILBA SAFETY BLAST

Monthly safety blasts via email are sent to each member and may 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. Other pertinent, seasonal topics are also covered as needed.

2010/2011 GOALS

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 2009 annual meeting, 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. Safety blasts were sent to all members which offered safety tips relative to these loss drivers.

SILBA members did not meet the challenge to reduce the total number of claims in 2010. As payroll decreased due to economic conditions we compared 2009 to 2010 as a more accurate evaluation. This evaluation indicated that not only the total number of losses increased, so too did the lifting injuries by 18%. However, a positive effect was noted for the slip and falls, a reduction of 33%. We also noted that hand injuries due to contact with and being struck against objects has been rising substantially and needs members' attention. This will be a topic at upcoming workshops and claim and loss control committee meetings.

SILBA members need to redouble their efforts on safety in an effort to bring about a positive result for the benefit of their employees and for the bottom line. The emphasis here should be on a holistic approach which covers:

- Focus on finding all hazards in the workplace and developing a plan for preventing and controlling those hazards;

- Management leadership and active worker participation to ensure that all hazards are identified and addressed;

- Management and workers educated and trained about how to make this work. The program should be reevaluated periodically to determine if improvements need to be made.

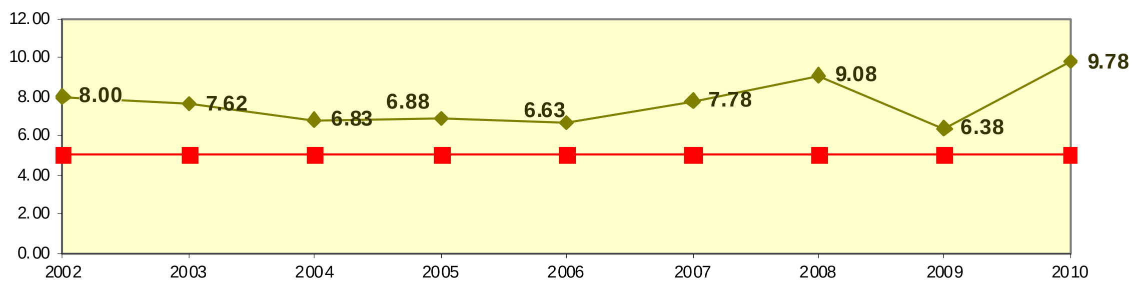
- Some specific areas on which to work: (1) to completely enact Restricted Duty Programs to bring injured employees back to work ASAP, and (2) develop Job Safety Analyses on jobs causing injuries to determine the best methods to use to prevent injury.

<u>Keys to SILBA Claims Management</u>

Pro-active claims management, closely involving both the employer and the injured worker in the claims management process, is the cornerstone of SILBA's claims management philosophy. From the employer's perspective, SILBA focuses on three keys in the claims management process: early reporting of claims, temporary modified duty, and post-offer/pre-employment physicals. By concentrating on these areas, SILBA helps to ensure that members' injured employees receive the best treatment, their recovery time is decreased, and the injured worker is able to return to the workplace more quickly, and more importantly, healthy.

1) <u>Report All Claims Early</u>. 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)



2010 saw a sharp increase in lag time among the membership to almost double its stated goal of 5 days. Studies have shown the greater the lag time in reporting a claim, the higher the claims will cost. 2010 was no exception unfortunately for SILBA. While the bulk of the claims were reported timely as evidenced by the median lag time of 3 days, the number of late reports increased over prior years as did the number of days they were reported late.

This is an area of concern as it has directly affected the group's performance in 2010 as the severity (ie: cost of claims) has risen dramatically as well. The means by which we can mitigate the exposures for SILBA have not changed and our focus needs to be on timely reporting so we can positively impact the outcome of the claims.

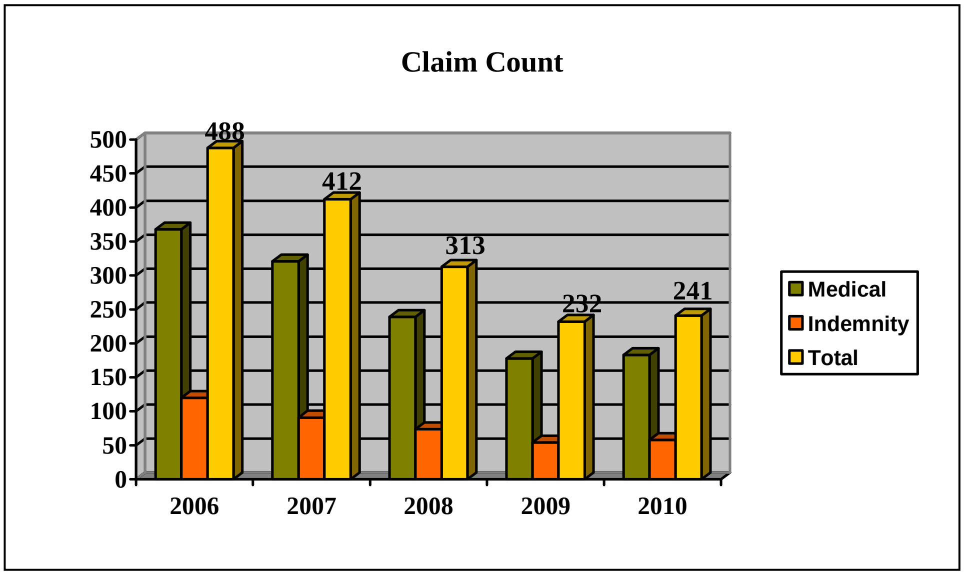
2) <u>Provide Temporary Modified Duty</u>. During these economic times, modified or transitional duty is not always easy to accommodate. However, we have introduced a new product, the Job

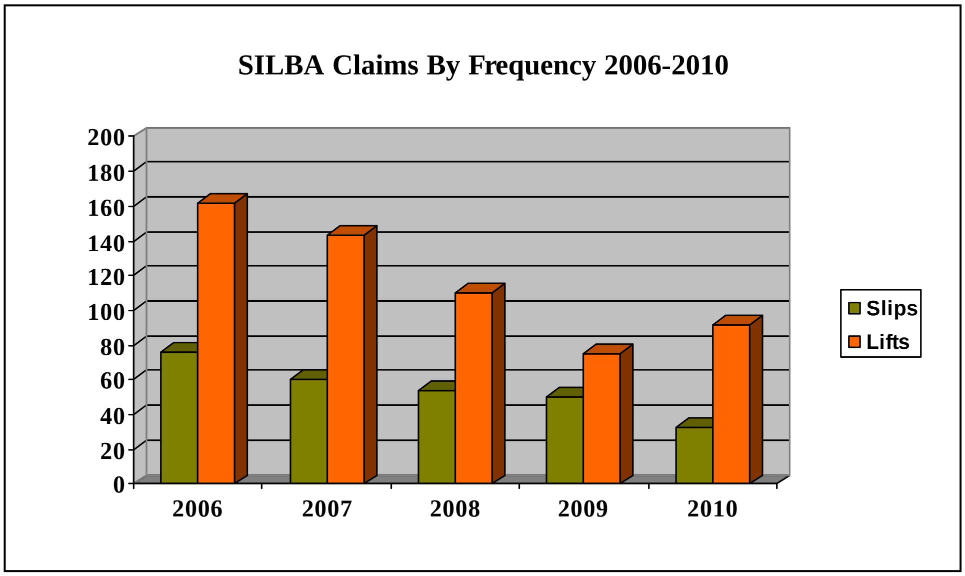
Fit Analysis through the Windham Group, which can assist employers in identifying modified duty. While nothing can be 100% effective, their results have assisted members in bringing injured employees back to work much sooner than anticipated, resulting in cost savings for the claim. As always, Meadowbrook remains an active partner in assisting SILBA in this area through the efforts of its Claim and Loss Control departments.

3) Implement Post-Offer/Pre-Hire Physicals. The most pro-active way to manage claims is to prevent 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. We have taken the additional step of assisting members with developing an effective relationship with Occupational Health facilities for this purpose.

Claim Trending

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





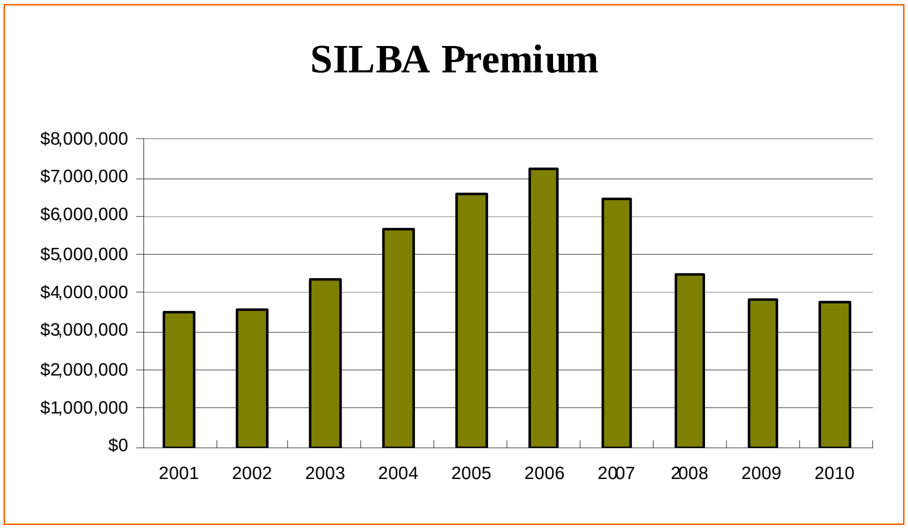
As noted, two areas of focus for SILBA – slips/falls and lifting injuries – continued to be concerns in 2010. Lifting injuries *increased* by over 18% over 2009 indicating that training on proper techniques and awareness of how to perform these acts needs constant reinforcement. Many companies are asking their employees to perform more work with less help often leading employee to rush or 'do what it takes' to perform their job, putting them at more risk for injury. Slips and falls reduced 33%, representing a great effort made by the membership given the weather we experienced in 2010.

SILBA's commitment to safety needs to remain the focus of its members. As more companies are working with leaner staffing numbers, safety becomes more prevalent to avoid the rising costs of claims. Through the efforts of <u>every</u> member, SILBA will continue to set the standard for the lumber industry.

OPERATING REPORT

MEMBERSHIP AND PREMIUM

At year end 2010, SILBA's membership count stood at seventy-seven, with two new members joining January 1, 2010.



Members' fund year premium totaled $3.7 million in 2010, representing a 1.8% decrease from the prior year, due to an overall decrease in group payroll.

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 2010, members' generated calendar year earned premiums (net of excess insurance purchased) of $2.8 million, on which $958,720 of dividends was earned, a return equal to 34.3% of premium. Since program inception, SILBA members have paid in a total premium of $77.1 million dollars and earned dividends of $24.9 million, ***an average return of 32%*** over SILBA's nineteen-year history.

SILBA began to return dividends earned to its members in 1995, the earliest date allowed by Massachusetts law and regulations. Through year-end 2010, $18 million of the $24.9 million of dividends earned had been returned to the members, including more than $2.1 million distributed to SILBA members in February of 2010. Additional distributions of $1.7 million in February 2011 bring total dividends distributed to SILBA members since its inception to over $19.8 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.

	Fund Year Premium	Losses Incurred	Losses Incurred as a % of Premium
2001 Fund Year	$3,504	$2,696	77.0%
2002 Fund Year	$3,595	$2,518	70.1%
2003 Fund Year	$4,353	$2,724	62.6%
2004 Fund Year	$5,644	$2,740	48.6%
2005 Fund Year	$6,561	$3,334	50.8%
2006 Fund Year	$7,252	$3,783	52.2%
2007 Fund Year	$6,446	$3,340	51.8%
2008 Fund Year	$4,488	$2,460	54.8%
2009 Fund Year	$3,798	$1,778	46.8%
2010 Fund Year	$3,730	$2,323	62.3%

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 also 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 ten years, SILBA's excess and operating costs combined have consistently totaled 30% or less of group premium.

Other Operating Costs as a Percentage of Premium

	Excess Insurance	Other Operating	Total Costs
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%	23.8%
2007 Fund Year	9.7%	14.1%	23.9%
2008 Fund Year	10.3%	15.5%	25.8%
2009 Fund Year	10.9%	16.9%	27.8%
2010 Fund Year	10.7%	17.3%	28.1%

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. With members' commitment and dedication 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. Remaining dollars from each fund year not needed to cover claims and operating expenses are ultimately returned to members in the form of dividends.

FINANCIAL HIGHLIGHTS

At December 31, 2010 SILBA's assets totaled $10.16 million, 97.9% of which were in the form of cash and invested assets, on which SILBA earns investment income to supplement its dividend pool. In 2010, invested assets yielded $551,996 of net investment gain.

	Cash and Invested Assets	Total Assets	Percentage to Total
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%
2009 Fund Year	$12,083	$12,432	97.2%
2010 Fund Year	$9,946	$10,156	97.9%

Assets are invested in highly rated fixed income securities:

Valued at December 31, 2010:	**Amortized Cost**	**Market Value**
Corporate Securities	$3,879,015	$4,168,532
US Government Agency Securities	$3,839,063	$3,931,605
Mortgage-backed securities	$1,724,500	$1,753,932
Subtotal	$9,442,578	$9,854,069
Cash & Cash Equivalents	$503,875	$503,875
Total	$9,946,453	$10,357,944

SILBA's principal liabilities, comprising 98.4% of its total liabilities in 2010, were distributions due to members (dividends payable) and reserves for losses and loss adjustment expenses.

	Distributions due to Members	Reserves For Losses and LAE	Total Dividends and Reserves	Total Liabilities	Percentage to Total
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	$4,448	$12,577	$12,801	98.3%
2009 Fund Year	$8,096	$4,166	$12,262	$12,432	98.6%
2010 Fund Year	$6,905	$3,090	$9,995	$10,156	98.4%

SILBA's largest liability in 2010 at just over $6.9 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 $2.8 million of net calendar year premium earned, SILBA's premium to "surplus" ratio in 2010 was .41 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 2010, reserves held were comprised of $866k of case reserves and $2.2 million of bulk reserves (net of reserve discounts), approximately $2.49 of bulk reserve for each $1 of case reserve.

While it must be emphasized that reserves represent <u>estimates</u> 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 2010, SILBA's losses and loss adjustment expenses incurred include the release of $483,800 of prior years' reserves resulting from subsequent favorable loss development, and in 2009 $463,300 of prior years' reserves were released.

SILBA remains true to 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 sheets - statutory basis of Self Insured Lumber Businesses Association, Inc. as of December 31, 2010 and 2009, and the related statements of operations - statutory basis and 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 audits.

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 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 audits provide a reasonable basis for our opinion.

As described in Notes 2, 3, and 9, 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, 2010 and 2009 or the results of its operations or its cash flows for the years then ended.

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Independent Auditors' Report - Continued

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, 2010 and 2009 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.

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 3, 2011

Feeley & Driscoll, P.C.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC

Balance Sheets - Statutory Basis

December 31, 2010 and 2009

	2010	2009
Admitted assets:		
Cash and cash equivalents	$ 503,875	$ 600,516
Bonds	9,442,578	11,482,498
Reinsurance recoverable	37,120	39,533
Accrued interest income	105,992	164,928
Other assets	66,861	144,515
Total admitted assets	$ 10,156,426	$ 12,431,990
Liabilities:		
Reserve for losses and loss adjustment expenses, net	$ 3,090,370	$ 4,165,812
Distributions due to members	6,905,390	8,096,152
Policyholders' surplus	24,541	32,067
Accounts payable and accrued expenses	136,125	137,959
Total liabilities	$ 10,156,426	$ 12,431,990

See accompanying notes.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC

Statements of Operations - Statutory Basis

For the years ended December 31, 2010 and 2009

	2010	2009
Premiums earned, net	$ 2,799,177	$ 3,316,959
Losses and loss adjustment expenses incurred	1,838,767	1,671,911
Other underwriting expenses incurred	553,686	611,083
Total underwriting expenses	2,392,453	2,282,994
Net underwriting income	406,724	1,033,965
Net investment income	361,002	468,008
Net realized investment gains	190,994	73,717
Net investment gain	551,996	541,725
Income before distributions to members and income taxes	958,720	1,575,690
Distributions to members	(958,264)	(1,575,234)
Income before income tax expense	456	456
Income tax expense	456	456
Net income	$ -	$ -
Policyholders' surplus - beginning of year	$ 32,067	$ 34,675
Increase in non-admitted assets	(7,526)	(2,608)
Policyholders' surplus - end of year	$ 24,541	$ 32,067

See accompanying notes.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC

Statements of Cash Flows - Statutory Basis

For the years ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Premiums collected	$ 2,896,333	$ 3,239,369
Losses and loss adjustment expenses paid, net of reinsurance	(2,911,796)	(1,957,299)
Other underwriting expenses paid	(555,976)	(653,791)
Net investment income	477,704	587,991
Distributions to members	(2,149,026)	(1,608,678)
Net cash used in operating activities	(2,242,761)	(392,408)
Cash flows from investing activities:		
Proceeds from sales or maturities of bonds	5,904,634	2,956,156
Purchase of bonds	(3,731,802)	(2,407,363)
Net cash provided by investing activities	2,172,832	548,793
Cash flows from financing activities:		
Contributed surplus applied	2,374	(2,608)
Other cash applied	(29,086)	(15,941)
Net cash used in financing activities	(26,712)	(18,549)
Net (decrease) increase in cash and cash equivalents	(96,641)	137,836
Cash and cash equivalents at beginning of year	600,516	462,680
Cash and cash equivalents at end of year	$ 503,875	$ 600,516

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 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 policyholders' 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.

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.

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.

Subsequent Events - Management evaluated events or transactions subsequent to the balance sheet date for potential recognition or disclosure in the financial statements through June 3, 2011, which is the date the financial statements were available for issuance.

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		Reserve for Losses and Loss Adjustment Expenses		Loss and Loss Adjustment Expenses Incurred	
	2010	2009	2010	2009	2010	2009
Direct	$ 3,109,527	$ 3,721,545	$ 3,119,962	$ 4,241,706	$ 1,628,428	$ 1,400,012
Ceded	(310,350)	(404,586)	(29,592)	(75,894)	210,339	271,899
Net	$ 2,799,177	$ 3,316,959	$ 3,090,370	$ 4,165,812	$ 1,838,767	$ 1,671,911

Note 4 - Excess Insurance Coverage - Continued

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.

There are no 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.

Note 5 - Bonds

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

	December 31, 2010			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government securities	$ 3,839,063	$ 96,622	$ (4,080)	$ 3,931,605
Corporate securities	3,879,015	294,731	(5,214)	4,168,532
Mortgage backed securities	1,724,500	51,948	(22,516)	1,753,932
	$ 9,442,578	$ 443,301	$ (31,810)	$ 9,854,069

	December 31, 2009			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government securities	$ 4,864,263	$ 44,971	$ (38,835)	$ 4,870,399
Corporate securities	4,878,382	269,974	(6,280)	5,142,076
Mortgage backed securities	1,739,853	61,290	(720)	1,800,423
	$ 11,482,498	$ 376,235	$ (45,835)	$ 11,812,898

The amortized cost and estimated fair 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, 2010		December 31, 2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 617,603	$ 626,303	$ 1,655,606	$ 1,665,574
Due in one year through five years	4,892,079	5,116,637	5,307,413	5,527,366
Due after five years through ten years	3,902,945	4,082,509	4,405,086	4,502,511
Due after ten years	29,951	28,620	114,393	117,447
	$ 9,442,578	$ 9,854,069	$ 11,482,498	$ 11,812,898

Proceeds from sales or maturities of bonds during 2010 and 2009 were $5,904,634 and $2,956,156, respectively. Gross gains of $194,494 and $103,546 were realized during 2010 and 2009, respectively. There were $3,500 and $29,829 of gross realized losses in 2010 and 2009, 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 $2,700,000 and $3,600,000 on an undiscounted basis as of December 31, 2010 and 2009, respectively.

During the year ended December 31, 2010 and 2009, actuarially calculated losses and loss adjustment expenses incurred in excess of the Group's retention levels were approximately $210,000 and $272,000, respectively. Accordingly, these amounts were recorded as an increase to 2010 and 2009 losses and loss adjustment expenses.

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 years ended December 31, 2010 and 2009, 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 credited to losses and loss adjustment expenses in both years.

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

For the years ended December 31, 2010 and 2009, 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 $529,461 and $762,679 at December 31, 2010 and 2009, respectively.

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

	2010	2009
Reserve for losses and loss adjustment expenses, beginning of year	$ 4,165,812	$ 4,447,592
Incurred losses and loss adjustment expense:		
Provision for insured events of the current year	2,322,565	2,135,251
Provision for insured events of prior years	(483,798)	(463,340)
Total incurred losses and loss adjustment expenses	1,838,767	1,671,911
Losses and loss adjustment expense payments related to:		
Current year	835,294	506,134
Prior years	2,078,915	1,447,557
Total losses and loss adjustment expense payments	2,914,209	1,953,691
Reserves for losses and loss adjustment expenses, end of year	$ 3,090,370	$ 4,165,812

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 incurred management fees and commission expense of approximately $483,000 and $543,000 for the years ended December 31, 2010 and 2009, respectively.

Note 8 - 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 under the provisions of Subchapter L of the Internal Revenue Code.

The Group recognizes tax benefits only in the event that a position is more likely than not to be sustained upon examination by the applicable taxing authority. Tax years from 2007 through the current year remain open for examination by federal and state tax 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 and Restricted Cash

The Group is required to provide security amounting to $401,000 and $387,000 at December 31, 2010 and 2009, respectively (see Note 12). An escrow account, which includes approximately $401,000 and $726,000 in bonds, is pledged to the Massachusetts Division of Insurance as a security deposit pursuant to Section 211CMR67.08(2)(9d) at December 31, 2010 and 2009, 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:

Security: 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, 2010 and 2009, the Group was required to provide security amounting to $401,000 and $387,000, respectively (see Note 10).

Liquidity: 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.

Net Worth: 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.

Reinsurance/Excess Insurance: 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.

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, 2010 and 2009, the Group was in compliance with all statutory financial requirements, or received waivers via permitted practices as noted herein.

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.
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.
Devon Lumber
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.
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
Lynn Lumber Company
Maki Corporation
Moore Lumber & Hardware, Inc.
Moynihan-N. Reading Lumber Inc. & Moynihan Lumber of Beverly
Mozzone Lumber Company, Inc.
Nickerson Lumber Co.
North Atlantic Corporation
Northeast Treaters, Inc.
Plywood Supply and Lumber, 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
Sudbury Lumber
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 January 1, 2012.

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 Watson Company – Actuary
Ropes & Gray - Legal Counsel
Standish Mellon Asset Management - Investment Management

The above listing is as of December 31, 2010.