SILBA

Self Insured Lumber Businesses Association, Inc.

THE QUALITY WORKERS COMPENSATION SOLUTION FOR MASSACHUSETTS LUMBER BUSINESSES

2011 Annual Report To the Members

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

February, 2013

Members of
Self Insured Lumber Businesses Association, Inc.

Dear SILBA Members:

I thank you for the opportunity to introduce the 2011 Annual Report to the members of Self Insured Lumber Businesses Association, Inc. (SILBA), marking SILBA's twentieth year serving lumber businesses in Massachusetts.

2011 Financial Results

In 2011 SILBA members earned calendar year dividends of $235,313, or 9.9% of 2011 calendar year earned premium, compared with $958,000 or 34.2% in 2010. Excluding investment income and gains totaling $408,184, SILBA had a net underwriting loss of -$172,415 in calendar year 2011, mainly due to the laggard economy which adversely affected member' payroll and the related paid-in premiums, and due to a high level of loss activity impacting both the 2011 and the 2010 fund years during 2011.

Calendar year net earned premium decreased by approximately $426,000 in 2011 to $2.4 million. This was driven by a decrease in Massachusetts workers compensation rates which decreased SILBA members' premiums by approximately 11%, and an overall decrease in members' payrolls which affected both 2011 and was reflected in the 2010 year's payroll audits during 2011. The group ended 2011 with seventy-six members, down one from year-end 2010, with one member non-renewing in 2011, one closing its business during the year, and one new member joining mid-year.

SILBA's loss ratio increased from 65.7% in 2010 to 86% in 2011 driven by the increase in claim activity, particularly claim severity in the group's 2011 and 2010 fund year, against a lower premium base. The 2011 calendar year results include a net release (reduction) of $118,000 of prior years' reserves (related principally to the 2009, 2008, 2007 and 2004 years, partially offset by increases in the 2010, 2006 and 2005 years) as compared to a net $484,000 release of prior years' reserves in 2010.

On a nominal basis, SILBA's underwriting expenses decreased 8.7% from the previous year (dropping from $554,000 to $506,000) but increased in proportion to premium, at 21.3% of premium in 2011 compared to 19.8% in 2010. This increase is driven by the higher cost of excess insurance as a % of premium in 2011, combined with the impact that fixed costs have on a reduced premium base.

The net effect of the calendar year results was a combined ratio (losses plus expenses as a percent of premium) of 107.3% compared to 85.5% in 2010. Investment income earned in 2011 more than offset this operating loss, resulting in members earned dividends (equivalent to net income) of $235,313 or 9.9% of 2011 net premium, compared with $958,264 or 34.2% in 2010.

SILBA's Balance Sheet

At December 31, 2011, SILBA held $8.2 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 base of invested assets provides SILBA with a consistent stream of investment income that supplements the members' dividend pool. As noted above, in 2011 the group earned approximately $408,000 in net investment income.

SILBA's largest liability, at $5.4 million or 65.8% 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 premium to "surplus" ratio of .44 to 1.

SILBA also held just under $2.8 million in reserves to pay the estimated future costs of claims incurred to date. These reserves include $1.29 million of adjusters' reserves on reported losses for all fund years, and another $1.48 million of net actuarial or contingent reserves established to fund potential ultimate losses. This equates to approximately $1.15 of contingent reserve held for every $1 of adjusters' reserves.

Since inception of the program in 1992, SILBA members have earned $25.2 million in dividends, an average earned dividend of 31.6% per year. At year-end 2011, dividend distributions to members to date totaled more than $19.8 million, and an additional $1.87 million was distributed to SILBA members in January of 2012.

SAFETY- ACCEPTING THE CHALLENGE

Over the past few years our members have experienced some very tough decisions due to the down turn in the economy. We have had to cope with the situation by implementing reductions in staff, shelving capital improvements, and delaying purchases of new equipment. Despite the hardships, one thing members cannot lose sight of is the necessity to maintain a safe and healthful workplace.

By joining SILBA, members made the commitment years ago to work toward recognizing and reducing hazards in the workplace by correcting unsafe behaviors and eliminating unsafe acts. SILBA members have worked over the years to address their concerns by conducting safety audits, safety committee meetings and having one on one discussion with workers in the course of the day. Now more than ever, we must remain committed to our safety focus.

It has been shown in safety studies that the occurrence of workplace injuries is reduced when organizations make the effort to engage their employees in safety on a daily basis. In addition to your safety committee meetings, this communication can be as simple as a few words of encouragement, a safety reminder as you walk through the facility, safety emails, and safety signage. This continuous messaging acts as a reminder to employees that the organization truly cares about them and their health and well-being.

One of the benefits of membership in SILBA is the educational opportunities provided. Through our safety partners at Meadowbrook, SILBA offers a variety of tools to help members meet the challenge of maintaining their safety focus. We conduct a SAFETY DAY in the Spring and 3 Fall Workshops open to all members and their employees. Presenters have included Physical Therapists, Physicians, Nurses, and Safety professionals, with topics including Forklift Safety, Personal Protective Equipment, Hazard Communication, Slip/Fall prevention, Proper Lifting Techniques, Back School, Anti-slip footwear and Snow and Ice treatment products. We also distribute quarterly Newsletters and monthly Safety Blasts that are disseminated electronically to all members to allow you to easily circulate the information to your staff. Safety Alert bulletins are issued for new, critical safety issues as they arise.

Another opportunity for members to become further engaged in the safety process is participation in the Quarterly Claim and Loss Control Meetings, which are also open to all members. The claims and risk control representatives provide updates on the claims and accident investigations that have occurred during the previous quarter. Committee members discuss safety concerns, issues and solutions to problems encountered at their locations.

A major undertaking during 2012 was the development of the SILBA Website which offers a great deal of safety resources for the benefit of members. Members may also report a claim or request a certificate of insurance online, and there is even a Blog section where members may leave comments, or solicit assistance from other members if they have an issue or a question. This is a work in progress, so enhancements will continue to be made on an on-going basis. Please visit the site at www.silba-wc.com and let us know what you think!

SILBA, as an organization, truly believes in the safety process. I've said it before, but it bears repeating. As principals of our companies we have a moral obligation to ensure a safe working environment for all of our employees. SILBA is dedicated to working with you to strengthen and enhance your safety program and culture.

Very truly yours,

Thomas A. Dennison, Jr.
President

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

2011 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:

Over the past 20 years, SILBA has taken safety very seriously. When members strive toward having safe workplaces, the group as a whole derives benefits.

There are significant resources available from SILBA to help members reach the goal of an injury-free workplace.

SAFETY ACTIVITIES:

Members receive tailored safety services which include on-site surveys, safety representatives participating in members' safety committee meetings, and development and dissemination of safety literature. Safety alerts are created and sent when a serious condition is noted, such as cold weather alerts, or a serious injury has occurred.

SILBA's safety professionals from Meadowbrook review accidents on a daily basis. Accident investigations are completed when a serious injury occurs in order to determine the root cause, and steps are taken to help the member prevent future loss. This important information is then shared with the membership with the idea that each member will use this information to prevent similar injury at their locations.

Safety training topics are selected for safety training sessions, safety articles and workshops based on the trends noted during accident investigations, and deficiencies noted during on-site surveys.

CLAIM AND LOSS CONTROL COMMITTEE MEETINGS:

All members are invited and encouraged to attend SILBA's quarterly Claim and Loss Control meetings. This is an excellent opportunity to become aware of current safety and claims information that might assist an organization with their own safety efforts, as well as a chance for members to discuss what has and has not worked for them with regards to safety activities. The committee is comprised of both members and Meadowbrook claims and safety professionals who meet to discuss claims that have occurred in the previous quarter, and accident investigations conducted during that timeframe.

One of the highlights of the meetings is the Round Table Discussion segment. This part of the meeting serves as a forum to discuss problems, products, and solutions to address safety issues, and generates some excellent discussion amongst the committee.

SAFETY WORKSHOPS

The SPRING Workshops have been compressed into one SPRING SAFETY DAY which is held in mid-April. We have had some great speakers including: Doctors, Physical Therapists, Nurses, Safety Product vendors, and Mass DOL/OSHA presenters. Supplementing this are 3 excellent safety workshops offered in the Fall. The educational topics at these workshops have included:

- Slip/Trip/Fall prevention techniques
- Back school/safe lifting
- Health/wellness/strengthening exercises
- Near Misses/Accident Investigation
- Hiring practices

OTHER RESOURCES:

The newest and best resource for members is the new SILBA Website. This website was launched in September 2012, and contains both SILBA-specific and industry-wide safety information along with links to other sites such as OSHA, CDC, Truck Safety sites, etc. Safety articles are posted regularly, and the website includes archives for past Safety Newsletters and Safety Blasts. You can also report a claim on-line and request a certificate of insurance. Please check out the website at www.silba-wc.com.

The SILBA Video Library is maintained and is free of charge to members of SILBA.

Safety Blasts are developed and sent via email to members on a periodic basis. The topics are chosen to address pertinent safety concerns, whether seasonal, such as Cold and Heat stress, or safety related, such as slip/fall prevention, lifting tips, electrical safety, traction footwear, fire safety and health/ wellness-related topics. These blasts can be used to augment your safety meetings, for 5 minute safety talks or just to raise general safety awareness for all employees. It is a great tool to keep the level of safety awareness elevated, alerting your employees to risks and hazards.

2012/2013 GOALS

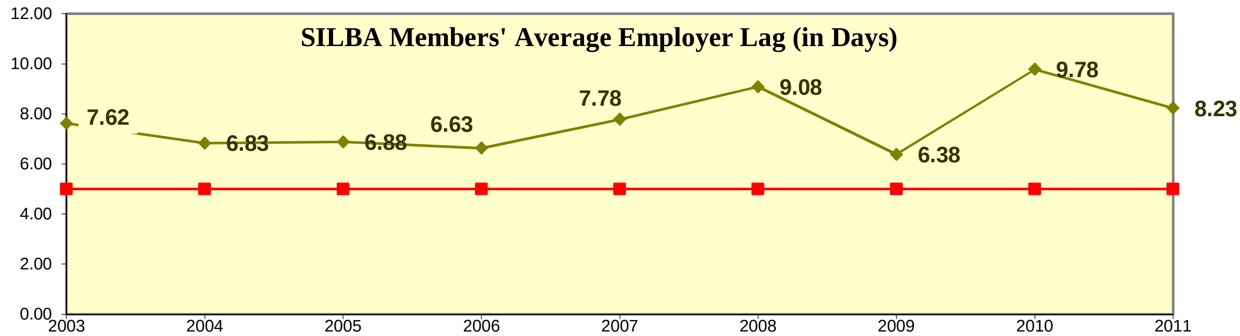
SILBA members need to redouble their efforts on safety in an effort to bring about a positive result for the benefit of their employees and for the bottom line. The emphasis here should be on a holistic approach:

- Focus on finding all hazards in the workplace and developing a plan for preventing and controlling those hazards;
- Leadership from management and active participation from workers are essential to ensuring that all hazards are identified and addressed;
- Continual education and training is critical and your safety program should be reevaluated periodically to determine where changes and improvements need to be made;
- Some specific areas to work on are (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.

Keys to SILBA Claims Management

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

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.



There was a modest decrease in the lag time in 2011 as the average lag was 8.23 days, which is still over the stated goal of 5 days. Despite this slight improvement, the median lag time actually rose to 4 days, up from 3 days in 2010. While this is still a respectable figure, it shows that while we did not have as many significantly late reports (impacting the average), overall members reported a higher number of claims slightly later than in 2010. Even so, 4 days for a median reporting lag is very good, but members need to continue to be diligent and mindful about timely reporting of all injuries.

As members continue to work with reduced staffs and employees often fear going out of work and being replaced, it is in the employees' and members' best interest to report all claims timely. Receiving the proper treatment while an injury is minor will always be less expensive than waiting until the injury becomes more serious and requires extensive treatment.

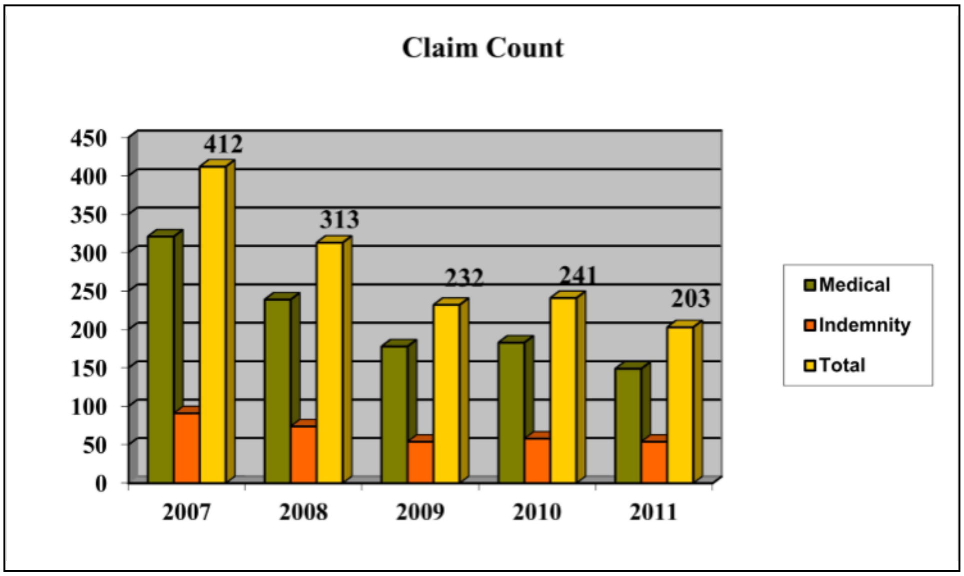
2) Provide Temporary Modified Duty. While members have been more diligent about offering modified or transitional duty, there is always room for improvement. Members have been receptive to the Job Fit Analysis (JFA) approach recently introduced in conjunction with the Windham Group, and the results thus far have been extremely positive. On one case alone, we were able to significantly impact the outcome of the claim and reduce the related potential costs through the use of the JFA. It is a proven fact that offering temporary modified or transitional duty will reduce your claims costs and speed up the overall recovery time for an injured worker.

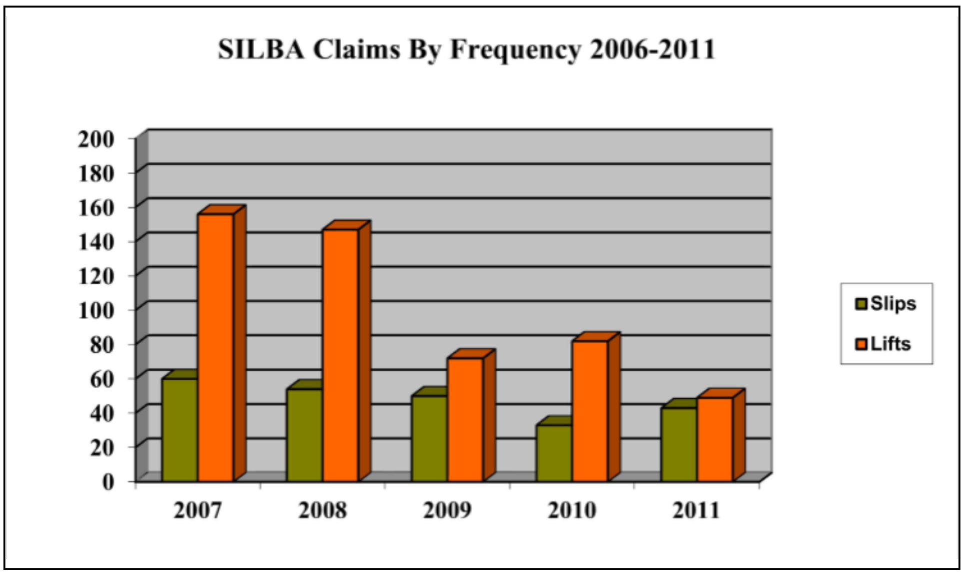
3) Implement Post-Offer/Pre-Hire Physicals. This continues to be the most effective means of avoiding potential injury risks before they happen. If someone has a pre-existing injury and makes that injury worse on your job, the member and SILBA now own all of it. Working with a modest or lean staff allows little margin for error, making it important that the right people

are hired for the right jobs, for their safety and the safety of others. A post-offer/pre-hire physical is the most effective means of ensuring this.

Claim Trending

Analyzing our exposures and claim trends allows us to better assist our members in controlling their risks.





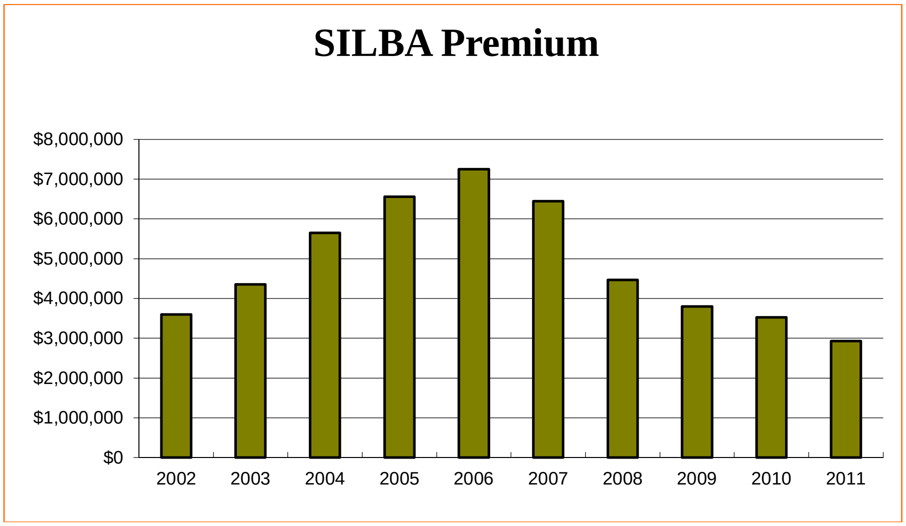
Two ongoing areas of focus for SILBA continue to be slips/falls and lifting injuries. 2011 saw a decrease of 40% in the number of lifting injuries, from 82 in 2010 to 49 in 2011, while slips and falls *increased* by more than 30% over 2010. Several injuries were reported where a worker was injured jumping down from a truck or forklift, either landing awkwardly or having their leg or knee buckle under them. While it might seem obvious, training on the proper mechanics of entering and exiting vehicles, no matter their size, is very important and an area on which all SILBA members should focus.

With the continued efforts of the Claim and Loss Control Committee, several exciting and impactful initiatives are being discussed and implemented for the coming year. Focus on safety and return to work initiatives need strict attention as the past few years have shown us that as premiums decrease and medical costs rise, every injury and claim is extremely important. Every member has a direct effect on the overall performance of SILBA, and through our combined efforts we can affect positive change, provide safer working environments for our employees, and improve our results.

OPERATING REPORT

MEMBERSHIP AND PREMIUM

At year end 2011, SILBA had seventy-six members.



Members' 2011 fund year premium totaled $2.9 million, a 16.8% decrease from the prior year. This decrease was due to a combination of a reduction in group payroll and an 11% average decrease in workers compensation rates in Massachusetts relating to SILBA members' payroll class codes.

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 2011, members' generated calendar year earned premiums (net of excess insurance purchased) of $2.3 million, on which $235,313 of dividends were earned. From program inception through December 31, 2011, SILBA members have paid in a total premium of $79.8 million dollars and earned dividends of $25.2 million, an average return of 32% over SILBA's twenty-year history.

SILBA began to return dividends earned to its members in 1995, the earliest date allowed by Massachusetts laws and regulations. Through year-end 2011, $19.8 million of the $25.2 million of dividends earned had been returned to the members, including more than $1.7 million distributed to SILBA members in February of 2011. Additional distributions of almost $1.9 million in February 2012 bring total dividends distributed to $21.7 million. Dividends earned but not distributed are designated as "Distributions due to members" on SILBA's balance sheet.

GROUP EXPENSES

From an expense perspective, SILBA's Board of Trustees remains focused on safety, on actively managing claims and mitigating claim 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**
2002 Fund Year	$3,595	$2,514	69.9%
2003 Fund Year	$4,353	$2,699	62.0%
2004 Fund Year	$5,644	$2,642	46.8%
2005 Fund Year	$6,561	$3,412	52.0%
2006 Fund Year	$7,252	$3,844	53.0%
2007 Fund Year	$6,446	$3,290	51.0%
2008 Fund Year	$4,464	$2,422	54.3%
2009 Fund Year	$3,795	$1,404	37.0%
2010 Fund Year	$3,522	$2,661	75.6%
2011 Fund Year	$2,932	$2,158	73.6%

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 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**
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	10.4%	15.8%	26.1%
2009 Fund Year	10.9%	17.1%	28.0%
2010 Fund Year	10.8%	18.6%	29.3%
2011 Fund Year	11.8%	17.8%	29.6%

Premium dollars are used to pay claims and all other operating costs of the program. When these premium dollars, combined with investment income, exceed program costs, the remainder funds the members' dividend pool. Conversely, if funds are inadequate to cover all costs, additional amounts may need to be collected. Historically, 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 have been such that the total costs to run the program have ultimately been less than the premium dollars collected. In 2010 and 2011, with low workers compensation rates and higher claim costs, the group's financial results have been impacted. Remaining committed to safety and claim mitigation strategies is more important now than ever.

FINANCIAL HIGHLIGHTS

At December 31, 2011 SILBA's assets totaled $8.2 million, 98% of which were in the form of cash and invested assets, on which SILBA earns investment income to supplement its dividend pool. In 2011, invested assets yielded $408,184 of net investment gain.

	Cash and Invested Assets	Total Assets	Percentage to Total
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%
2011 Fund Year	$8,049	$8,210	98.0%

Assets are invested in highly rated fixed income securities:

Valued at December 31, 2011:	**Amortized Cost**	**Market Value**
Corporate Securities	$2,974,520	$3,206,609
US Government Agency Securities	$2,375,950	$2,543,186
Mortgage-backed securities	$2,021,347	$2,103,166
Subtotal	$7,371,817	$7,852,961
Cash & Cash Equivalents	$677,483	$677,483
Total	$8,049,300	$8,530,444

SILBA's principal liabilities 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
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%
2011 Fund Year	$5,402	$2,778	$8,180	$8,210	99.6%

Distributions due to members, SILBA's largest liability in 2011 at just over $5.4 million, represent dividends earned by members and held for future distribution. These distributions payable are the equivalent of the Group's surplus. With $2.37 million of net calendar year premium earned, SILBA's premium to "surplus" ratio in 2011 was .44 to 1.

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 2011, reserves held were comprised of $1.29 million of case reserves and $1.48 million of bulk reserves (net of reserve discounts), approximately $1.15 of bulk reserve for each $1 of case reserve.

It must be emphasized that reserves represent estimates of claim costs, and the risk exists that the reserves could prove to be insufficient to cover the ultimate cost of the claims. In 2011, SILBA's losses and loss adjustment expenses incurred included the net release of $117,952 of prior years' reserves resulting from subsequent favorable loss development, and in 2010 $483,798 of prior years' reserves were released. When excess reserves are subsequently released the related fund year dividend pools are increased.

SILBA remains true and focused on its mission to be the highest quality and most cost-effective long term solution for the workers compensation needs of lumber business in Massachusetts.

F&D

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, 2011 and 2010, 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, 2011 and 2010 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, 2011 and 2010 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 19, 2012

Feeley & Driscoll, P.C.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC

Balance Sheets - Statutory Basis

December 31, 2011 and 2010

	2011	2010
Admitted assets:		
Cash and cash equivalents	$ 677,483	$ 503,875
Bonds	7,371,817	9,442,578
Reinsurance recoverable	30,218	37,120
Accrued interest income	72,704	105,992
Other assets	58,004	66,861
Total admitted assets	$ 8,210,226	$ 10,156,426
Liabilities:		
Reserve for losses and loss adjustment expenses, net	$ 2,777,727	$ 3,090,370
Accounts payable and accrued expenses	119,267	136,125
Distributions due to members	5,402,203	6,905,390
Policyholders' (deficit) surplus	(88,971)	24,541
Total liabilities	$ 8,210,226	$ 10,156,426

See accompanying notes.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC

Statements of Operations - Statutory Basis

For the years ended December 31, 2011 and 2010

	2011	2010
Premiums earned, net	$ 2,373,574	$ 2,799,177
Losses and loss adjustment expenses incurred	2,040,304	1,838,767
Other underwriting expenses incurred	505,685	553,686
Total underwriting expenses	2,545,989	2,392,453
Net underwriting (loss) income	(172,415)	406,724
Net investment income	248,260	361,002
Net realized investment gains	159,924	190,994
Net investment gain	408,184	551,996
Income before distributions to members and income taxes	235,769	958,720
Distributions to members	(235,313)	(958,264)
Income before income tax expense	456	456
Income tax expense	456	456
Net income	$ -	$ -
Policyholders' surplus - beginning of year	$ 24,541	$ 32,067
Increase in non-admitted assets	(113,512)	(7,526)
Policyholders' (deficit) surplus - end of year	$ (88,971)	$ 24,541

See accompanying notes.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC

Statements of Cash Flows - Statutory Basis

For the years ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Premiums collected	$ 2,283,117	$ 2,896,333
Losses and loss adjustment expenses paid, net of reinsurance	(2,346,045)	(2,911,796)
Other underwriting expenses paid	(522,999)	(555,976)
Net investment income	319,813	477,704
Distributions to members	(1,738,500)	(2,149,026)
Net cash used in operating activities	(2,004,614)	(2,242,761)
Cash flows from investing activities:		
Proceeds from sales or maturities of bonds	4,393,415	5,904,634
Purchase of bonds	(2,200,995)	(3,731,802)
Net cash provided by investing activities	2,192,420	2,172,832
Cash flows from financing activities:		
Contributed surplus applied	(105,986)	2,374
Other cash applied	91,788	(29,086)
Net cash used in financing activities	(14,198)	(26,712)
Net increase (decrease) in cash and cash equivalents	173,608	(96,641)
Cash and cash equivalents at beginning of year	503,875	600,516
Cash and cash equivalents at end of year	$ 677,483	$ 503,875

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 has evaluated events and transactions subsequent to the balance sheet date for potential recognition or disclosure in the financial statements through June 19, 2012, 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	
	2011	2010	2011	2010	2011	2010
Direct	$ 2,701,408	$ 3,109,527	$ 2,786,488	$ 3,119,962	$ 2,231,372	$ 1,838,767
Ceded	(327,834)	(310,350)	(8,761)	(29,592)	(191,068)	-
Net	$ 2,373,574	$ 2,799,177	$ 2,777,727	$ 3,090,370	$ 2,040,304	$ 1,838,767

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, 2011			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government securities	$ 2,375,950	$ 168,197	$ (961)	$ 2,543,186
Corporate securities	2,974,520	242,070	(9,981)	3,206,609
Mortgage backed securities	2,021,347	82,191	(372)	2,103,166
	$ 7,371,817	$ 492,458	$ (11,314)	$ 7,852,961

	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

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, 2011		December 31, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 602,346	$ 609,207	$ 617,603	$ 626,303
Due in one year through five years	3,741,156	3,940,421	4,892,079	5,116,637
Due after five years through ten years	3,023,319	3,298,018	3,902,945	4,082,509
Due after ten years	4,996	5,315	29,951	28,620
	$ 7,371,817	$ 7,852,961	$ 9,442,578	$ 9,854,069

Proceeds from sales or maturities of bonds during 2011 and 2010 were $4,393,415 and $5,904,634, respectively. Gross gains of $163,307 and $194,494 were realized during 2011 and 2010, respectively. There were $3,383 and $3,500 of gross realized losses in 2011 and 2010, 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 $1,900,000 and $2,700,000 on an undiscounted basis as of December 31, 2011 and 2010, 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 years ended December 31, 2011 and 2010, 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, 2011 and 2010, 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 $442,777 and $529,461 at December 31, 2011 and 2010, 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:

	2011	2010
Reserve for losses and loss adjustment expenses, beginning of year	$ 3,090,370	$ 4,165,812
Incurred losses and loss adjustment expense:		
Provision for insured events of the current year	2,158,256	2,322,565
Provision for insured events of prior years	(117,952)	(483,798)
Total incurred losses and loss adjustment expenses	2,040,304	1,838,767
Losses and loss adjustment expense payments related to:		
Current year	781,620	835,294
Prior years	1,571,327	2,078,915
Total losses and loss adjustment expense payments	2,352,947	2,914,209
Reserves for losses and loss adjustment expenses, end of year	$ 2,777,727	$ 3,090,370

Note 7 - Management Fees

The Group has entered into a management agreement, expiring December 31, 2012, 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 $434,000 and $483,000 for the years ended December 31, 2011 and 2010, 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 2008 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 $285,000 and $401,000 at December 31, 2011 and 2010, respectively (see Note 12). An escrow account, which includes approximately $300,000 and $401,000 in bonds, is pledged to the Massachusetts Division of Insurance as a security deposit pursuant to Section 211CMR67.08(2)(9d) at December 31, 2011 and 2010, 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, 2011 and 2010, the Group was required to provide security amounting to $285,000 and $401,000, 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, 2011 and 2010, 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 Group has a potential concentration of credit risk in that it maintains deposits with a financial institution in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). The maximum deposit insurance amount is $250,000 for interest-bearing accounts, which is applied per depositor, per insured depository institution for each account ownership category. Non-interest bearing transaction deposit accounts are provided unlimited insurance coverage through December 31, 2012. As of December 31, 2011, the Group had $510,221 in excess of FDIC limits.

Premiums with two (2) members and one (1) member accounted for approximately twenty-two percent (22%) and twenty percent (20%) of the Group's premiums as of December 31, 2011 and 2010, respectively.

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.

Officers

Thomas A. Dennison, Jr.,President
Lona Lamson, Treasurer
Irving D. Humphrey, III, Clerk

Trustees

Donald Chace	Thomas A. Dennison, Jr.	Irving D. Humphrey, III
Lona Lamson	Linda Lyons	Wayne Moriarty
Robert Naughton	David Perry	Jay Torrisi

Claim & Loss Control Committee

Joanne Cameron, Chairperson	Cliff Lord	Craig Miles
Tom Alves	Anna Marini	John Prizio
Jessica Bridge	Michael McNeil	Steve Sager
Linda Eddy	Phyllis Messere	Tom Slater

Professional Management

Meadowbrook / TPA Associates - Program Management,
Claim Management, and Loss Control Services
Safety National Casualty Corporation - 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, 2011.