

July 1, 2007, Issue 9

12222 Merit Drive, Suite 1660  
Dallas, TX 75251  
www.acig.com  
(972) 702-9004

# ACIG

## news

### Safety as a Core Value

A company's culture can be defined by its core values, or corporate DNA. Values define who we are; they are central to our motivation; they focus our decisions. We react strongly when our values are violated and they are the last thing we would compromise. Many of our ACIG contractors have adopted Safety as a Core Value. Here are a few very powerful statements on safety from our ACIG shareholders in their own words.

#### INSIDE THIS ISSUE

- 2 Project Lifesaver Results
- 3 Project Lifesaver Phase II Challenge
- 4 ACIG Receives its New A.M. Best Rating
- 4 Financial Report
- 5 ACIG Investment Portfolio
- 5 ACIG's Group Professional/Pollution Liability Program
- 6 ACIG/Zurich Strategic Alliance
- 7 Workers Compensation Medical Cost Containment
- 7 The Guys in the White Hats Won One
- 8 Crane Safety
- 8 ACIG Quality Summit
- 8 ACIG Meetings and Workshops
- 9 ACIG Contractors in the News
- 9 Summary

- Steve Halverson, CEO The Haskell Company  
*"The goal of zero safety incidents is not just a slogan but is a priority, sought through demonstrated executive and management commitment, employee education, training and our dedication to one another's welfare."*
- Jon Abrams, CEO J.D. Abrams, L.P.  
*"One must think to work safely and we must think to help the people around us work safely. Our challenge is the same every day: To send our employees home safe and whole at the end of their shift. Together it is a challenge we readily accept."*
- Kevin Small, COO KS Industries, LP  
*"The journey to Safety Operations Excellence never really ends, even when the goal of Incident Free Operations is achieved. KSI understands that the total company or system, not just a 'Safety Department,' affects and is responsible for the safety of all employees."*
- Bill Goodrich, COO LeChase Construction Services, LLC  
*"We believe that our employees are our most important asset and that their safety at the work site is our greatest responsibility. The prevention of occupationally induced injuries and illnesses is of such consequence that it will be given precedence over operating productivity whenever necessary."*
- Bill Hannah, CEO Nabholz Construction Corporation  
*"The driving force of our "zero-incident philosophy" is our moral obligation to ensure our employees return home from work each day in the same condition as when they arrived at work."*

- David Pepper, CEO Pepper Construction Group  
*"At Pepper Construction, Safety is a value that exceeds all others. We are committed to an Accident Free workplace through:*

**Training:** *Proactive training programs available to all employees.*

**Empowerment:** *Everyone has the authority to say "NO" to unsafe conditions.*

**Action:** *We are committed to taking the steps necessary to protect our people, and to the continuing challenge of improving our safety program.*

**Motivation:** *Making sure that everyone goes home safe each day remains our primary motivation - above profit, above schedule, above all else."*

---

*"We are committed to an accident free workplace."*

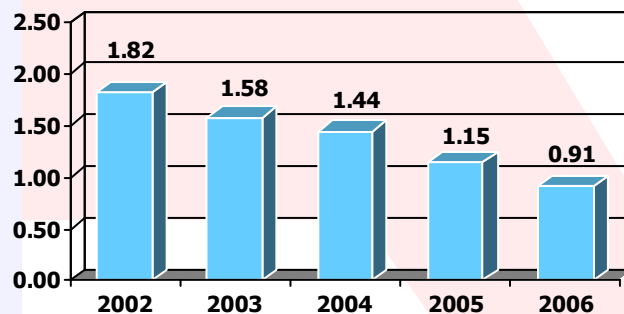
---

If Safety is not one of your Core Values, you might want to consider adding it.

## Project Lifesaver Results

We began the Project Lifesaver initiative on June 1, 2003. Our objective was to reduce both the frequency and severity of losses. The following graphs show our improvement.

WC Losses Per 200,000 Manhours

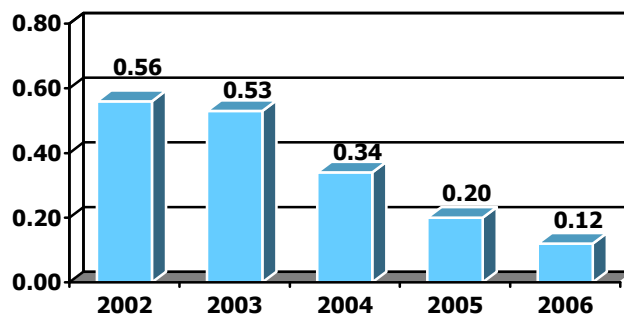



---

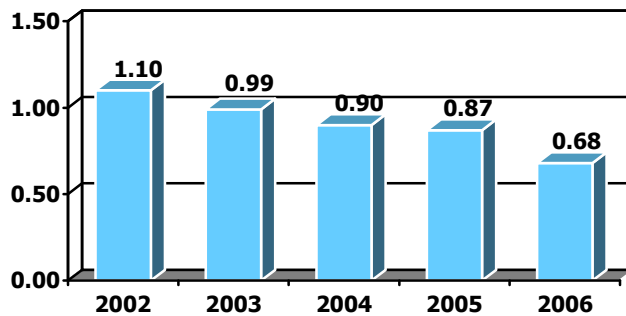
*"Loss rate reductions of 50% for W/C, 78% for G/L and 38% for A/L."*

---

GL Losses Per 200,000 Manhours



AL Losses Per 100 Power Units



PLS Financial Results

Policy Year	Expected Losses	Incurred Losses	Loss Reduction
2003	\$49,329,682	\$37,520,972	\$11,808,710
2004	46,953,663	38,511,541	8,442,122
2005	62,714,131	52,965,766	9,748,365
2006	56,608,724	53,318,077	3,290,647
		Savings	\$33,289,844

---

*“\$33,289,844  
in loss reduction.”*

---

These outstanding results are the direct result of teamwork between our ACIG contractors and the ACIG service teams.

## Project Lifesaver Phase II Challenge

Beginning with our June 1, 2007 common policy date, we are raising the bar for future safety performance. Our goals are simple:

- Prevent jobsite deaths.
- Achieve a 40% reduction in the PLS Loss Rates over the next four (4) policy years.

Accomplishing these goals will require some “outside the box” thinking and tactical planning. In order to assist the members in achieving this new set of goals we propose to do the following:

- Develop an enhanced Incident Investigation/Root Cause training program to assist members in analyzing incidents and developing lessons learned.

- Conduct Safety Culture Evaluations and identify key characteristics of successful companies.
- Conduct regional workshops on “Establishing a Safety Culture.”
- Assist members in facilitating a Subcontractor Summit for “Creating a Zero Injury Culture.”
- Continue the renewed emphasis on Fleet Safety for all members.
- Continue to evaluate Best Practices and Risk Mitigation techniques as relates to quality and construction defect claims.
- Continue the annual Best Practices meetings with an emphasis on Executive and operations participation.
- Continue annual Project Lifesaver meetings with an emphasis on the Contractor Action Plan.

In the words of NFL Coach, Vince Lombardi, “Teams do not go physically flat, they go mentally stale.”

## ACIG Receives its New A.M. Best Rating

On June 5, 2007, A.M. Best published ACIG’s new rating. We are rated as an A (Excellent), Financial Size Category VIII (\$100 to 250 million in policyholders’ surplus). A.M. Best’s independent review and rating of ACIG validates our business plan and our successful operating results. We maintain an automatic fronting arrangement with Discover Re (Travelers) in those rare instances where our A.M. Best Rating is not acceptable.

Click on the A.M. Best link below to view ACIG’s A.M. Best rating.

<http://www3.ambest.com/ratings/FullProfile.asp?BL=0&amb=18067&AltNum=22118067&AltSrc=4>

*“ACIG’s Rating is A (Excellent) VIII (\$100-250 million policyholders’ surplus).”*

## Financial Report

ACIG reported very strong financial results for the 1<sup>st</sup> quarter. ACIG’s Economic Performance can be measured by adding the following items:

- Retrospective Return Premiums	\$14,431,000
- Policyholder Dividends	4,927,000
- Income Before Taxes	<u>6,953,000</u>
Total Economic Performance	\$26,311,000

As of March 31, 2007, our shareholders’ equity was \$101,990,000, exceeding the \$100,000,000 mark for the first time in ACIG’s history.

## ACIG Investment Portfolio

ACIG's investments are under the direction of our investment committee. The committee members include Chairman Mel Gray, Richard Pepper, Jim Danella and Bill McIntyre.

### Asset Allocation as of March 31, 2007

	Market Value as of 03/31/07	Percent of Total
<b>Total Fixed Income</b>	<b>\$256,909,882</b>	<b>86.7%</b>
BlackRock	\$188,553,133	63.7%
Western-Absolute Return	\$ 31,196,990	10.5%
<b>Convertibles</b>		
Zazove	\$ 26,935,123	9.1%
Calamos Global Growth & Income	\$ 10,224,635	3.5%
<b>Total Equity</b>	<b>\$ 39,255,511</b>	<b>13.3%</b>
Dodge & Cox	\$ 19,026,894	6.4%
Primecap	\$ 15,043,629	5.1%
Private Capital	\$ 5,184,988	1.8%
<b>Total Investments</b>	<b><u>\$296,165,393</u></b>	<b>100%</b>

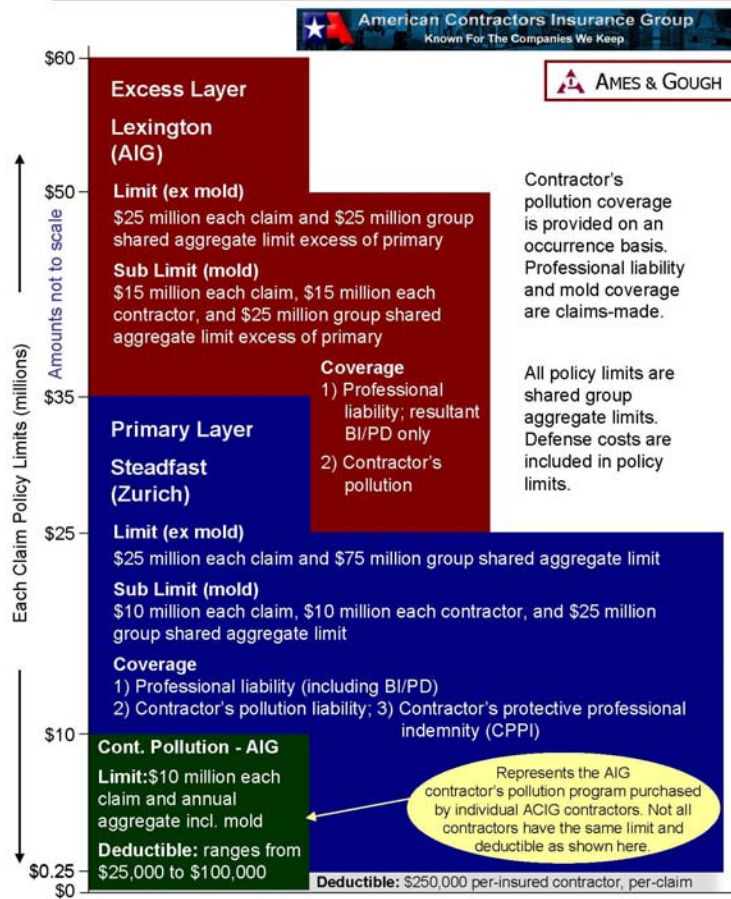
## ACIG's Group Professional/Pollution Liability Program

Working in conjunction with Ames and Gough, a leading professional liability intermediary, ACIG was successful in negotiating an innovative Group Professional/Pollution Liability Program. Our main objective was to develop a program that would provide significant balance sheet protection for our members in the event of a catastrophic professional/pollution loss. Utilizing American Contractors Risk Purchasing Group, we were able to structure a program with substantial limits as shown in the following exhibit.

*"Balance sheet  
protection for  
catastrophic losses."*

In addition to the competitively priced program, we will be developing customized loss prevention and claims resources. Michael Overholt is the Program Manager and he did an outstanding job on the marketing and negotiations of the final program.

**ACIG Contractors' Professional/Pollution Liability Group Program**



The group shared annual aggregate policy limit for both layers combined is \$100 million with a sublimit of \$50 million for losses arising from mold and applies excess of the underlying pollution program with AIG.  
The chart is provided as a brief summary of coverage. You must refer to your policies for the details of coverage, terms, conditions and exclusions that apply.  
May 2007

## ACIG/Zurich Strategic Alliance

The AZ Program has been restructured to provide a broader scope of coverage and higher limits of liability. The AZ Program consists of three (3) elements.

- 1) Core Program - Non-CCIP Projects
- 2) Rolling Program - For smaller projects that share a \$75 million aggregate limit.
- 3) Project Specific - For larger projects that have dedicated limits of \$75 million.

*“Mitigate risk and develop a funding mechanism for long-tail liabilities.”*

In addition to improving the coverages and limits, we have developed a project specific pricing methodology that takes into account the project location, as well as commercial/residential components for projects with construction schedules up to thirty-six (36) months.

The AZ Program from June 1, 2005 to June 1, 2007, including both the Core program and the CCIPs total \$11,891,098,260 in construction values with an estimated premium of \$122,834,541.

Many national and regional general building contractors have adopted the Contractor Controlled Insurance Program (CCIP) as a method to mitigate risk and develop a funding mechanism for their long-tail liabilities.

## Workers Compensation Medical Cost Containment

Workers compensation medical costs per claim have been growing much faster than the medical consumer price index (CPI). Workers compensation medical costs grew at an average annual rate of 10.4% from 2000 to 2004. In contrast, the medical CPI grew at an average annual rate of 4.4% over the same period.

A large share of medical costs incurred shortly after the injury are for traumatic services, such as emergency care. Later on, services associated with chronic care such as medications, supplies and rehabilitation services dominate.

ACIG has a very proactive medical cost containment protocol that utilizes medical cost control vendors. Here is the data from Corvel, who provided service on 73% of the medical bills.

Medical bill received	\$12,856,397
Medical bill reduction	- 7,629,384
Cost containment fees	+ 219,576
Net medical bills	\$ 5,446,589
<b>Net savings of 58%</b>	

---

*"Net savings of 58%."*

---

## The Guys in the White Hats Won One

An employee of an ACIG contractor filed a workers compensation claim for a lower back injury. We later learned that he was working at another employer, while drawing weekly benefits under our claim. This prompted a detailed investigation that revealed the employee had several aliases and had a prior lower back injury (under an alias) that was not divulged to our adjuster or the treating physician.

On May 11, he was indicted on charges of workers compensation fraud with a warrant issued for his arrest. In addition to being incarcerated we will seek to recover the \$27,000 paid on the claim.

## Crane Safety

Worldwide demand for construction services is creating a shortage for cranes. For many decades, the U.S. had plenty of cranes to get its big projects done. However, many cranes today are migrating all over the world, being shipped to the Middle East, Asia, Latin America and elsewhere, where a global boom in commodities, oil, metals and other sectors is spurring growth. Countries are investing the windfall in bridges, roads, power plants, oil pipelines and other infrastructures. Two countries with the biggest crane use are the United Arab Emirates and China, where the building boom is underway in preparations for the Beijing 2008 Summer Olympics.

Due to the heightened utilization of cranes, we need to make sure that both owned and rented cranes are being well maintained, properly erected and operated by skilled and certified personnel. The recent crane accident in Bellevue, Washington may produce upwards of a \$50 million liability due to the loss of life, injuries, property damage, and loss of use resulting from the improperly engineered and erected tower crane.

## ACIG Quality Summit

In an effort to improve the quality of work on our projects and to develop best practices, we are in the process of planning an ACIG Quality Summit. To facilitate the meeting, ACIG has formed a Steering Committee to help plan and execute this important meeting.

ACIG Quality Summit Task Force Members are:

Bill Vandrovec	Kitchell Corporation
Dennis Quick	Hoar Construction, LLC
Rick Laudisi	LeChase Construction Services, LLC
Bill Drinkward	Hoffman Corporation

The one-day meeting will be held on August 21, 2007 at the Grand Hyatt DFW Airport. More detailed information to follow.

## ACIG Meetings and Workshops

<u>Date</u>	<u>Meeting</u>	<u>Place</u>
August 20-21, 2007	ACIG Quality Summit	Dallas, TX
September 12-14, 2007	Safety/Claims Workshop	Las Vegas, NV
October 18-20, 2007	Risk Management Workshop	Sea Island, GA
November TBD, 2007	In-House Legal Counsel	Dallas, TX
January TBD, 2008	ACIG University	Dallas, TX



## ACIG Contractors in the News

Ron Brady was presented the Association of Wall and Ceiling Industry's (AWCI) Pinnacle Award. This prestigious and elite honor is presented annually to the individual who has given unselfishly of his time and energies to benefit AWCI and the industry. In addition to their dedication to the industry, individuals are also evaluated on their civic and community service. Ron is a past President of AWCI.

Hoffman Corporation Superintendent, Steve Rather, received the Intel Crystal 3D Globe Award for outstanding safety achievement on Intel projects.

Providence Healthcare Network announced a major expansion to their Waco, Texas hospital. The new five (5) story addition will be named the F.M. and Gloria Davis Young Tower. The expansion will include a 10-bed acuity adaptable unit, 30 bed cardiac nursing unit, 30 bed pre/post operation area, a surgeons lounge, a congestive heart failure clinic and a non-invasive cardiology service unit. F.M. and Gloria were the lead donors for the project.

## Summary

Some final thoughts to share with you on two (2) important topics, corporate governance and transparency. ACIG's Executive Committee will be expanded by one member in the two (2) year rotating category. This will allow more of our ACIG members to serve on the Executive Committee. Bill Hannah, CEO of Nabholz Construction Corporation will assume this new committee position. Over our twenty-six (26) year history, ACIG has embraced a philosophy of full disclosure and transparency with our members. This philosophy is reinforced by our corporate governance as well as the duties and responsibilities exemplified by our committees, Executive, Investment, Compensation, and Audit.

All the best,



Executive Vice President