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ACIG

news

ACIG Announces Record Revenues and Economic Benefits for Its Members

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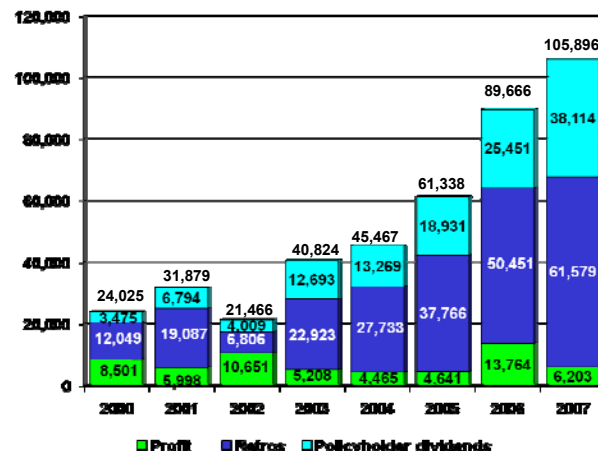
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Our primary mission as an organization is to save lives, prevent injuries and reduce the overall cost of insurance for our members. In line with our mission, our members, as a group, have reported sharp reductions in the frequency of general liability claims and workers compensation indemnity claims per 200,000 manhours. Our members have saved countless lives and avoided thousands of injuries through their focus on providing a safe workplace.

There is also a quantitative benefit to the success our members have reported in reducing the severity and frequency of claims. We are pleased to report net income of \$5,459,000 for 2007 after accruing net retrospective rating and other premium refunds of \$94,014,000. Investments and cash total \$317,680,000 as of December 31, 2007, or 97.2% of total assets. Our bond portfolio is of very high quality, with 51% of the portfolio value rated Aaa; 22%, Aa; 19%, A; 5%, Baa; and 3%, less than investment grade. Our capital position was \$103,483,000 as of December 31, 2007, and our ratio of premiums written to statutory capital and surplus was a conservative .7:1.



Economic Benefits to Contractor Members

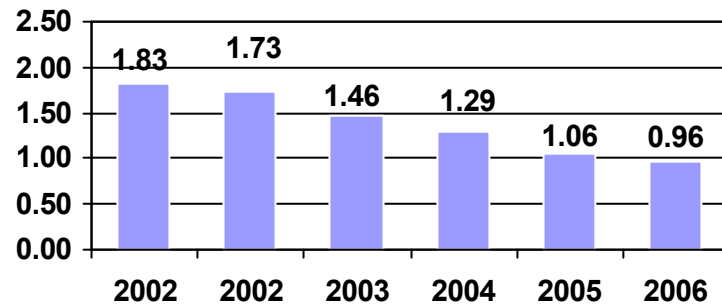


The economic benefit is broken out into three categories: profit (consists of premiums, less underwriting expenses, losses, and claims adjusting fees), retros (the return premium paid to the contractors which directly relates to the loss experience of the respective contractors), and policyholder dividends (return of earnings).

Project Lifesaver Results

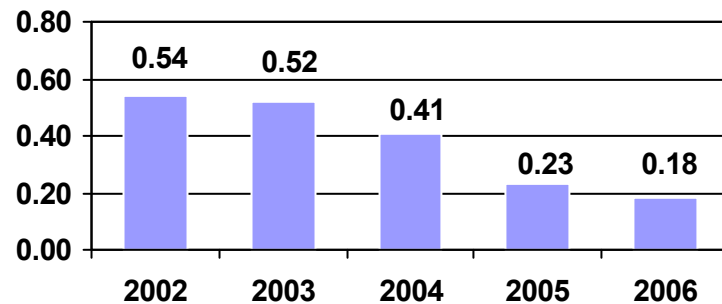
We began the Project Lifesaver initiative on June 1, 2003. Our objective was to reduce both the frequency and severity of losses. The following graphs show our improvement.

Workers Compensation - 42% Reduction



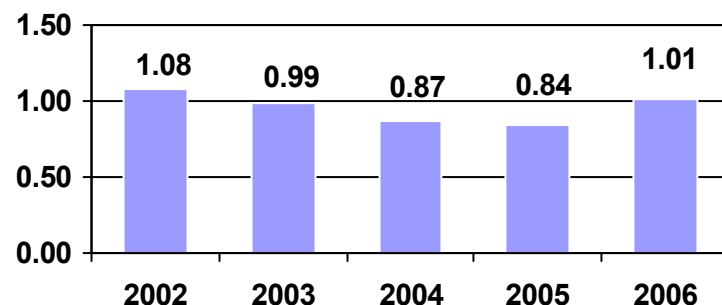
Per 200,000 Manhours.

General Liability - 67% Reduction



Per 200,000 Manhours.

Auto Liability - 6% Reduction



Per 100 power units.

“Workers Compensation, General and Auto Liability loss rates have all been reduced.”

PLS Financial Results

Policy Year	Expected Losses	Incurred Losses*	Loss Reduction
2003	\$49,329,682	\$38,342,116	\$10,987,566
2004	47,304,117	39,418,196	7,885,922
2005	62,682,879	50,199,304	12,483,575
2006	65,900,934	50,427,730	15,473,204
Savings			\$46,830,266

*Includes IBNR and ALAE reserves.

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.

The annual Project Lifesaver meetings were conducted in the 4th quarter of 2007. The Contractor Action Plans developed by our members provide a roadmap for continuous improvement in moving towards our goal of zero accidents. Ken Jacob, CEO of Cajun Industries, LLC and Brian McGeorge, Vice President of McGeorge Contracting and Pine Bluff Sand and Gravel made presentations at our Annual Meeting on the development and implementation of their 2008 Contractor Action Plans. Ken and Brian are providing the leadership to produce improved safety results.

ACIG is working in conjunction with Mr. Ronn Lehmann to perform safety culture evaluations for our members. Rob Hunt of ACIG is coordinating this effort, so if you are interested, please contact Rob at 972-687-9452.

ACIG's A.M. Best 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.

"Prevent jobsite deaths and achieve a 40% reduction in loss rates."

"ACIG's Rating is A (Excellent) VIII (\$100-250 million policyholders' surplus)."

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 December 31, 2007

	Market Value as of 12/31/07	Percent of Total
Total Fixed Income	\$266,983,944	87.3%
BlackRock	\$196,017,947	64.1%
Western-Absolute Return	\$ 31,454,473	10.3%
Convertibles		
Zazove	\$ 27,529,147	9.0%
Calamos Global Growth & Income	\$ 11,982,378	3.9%
Total Equity	\$ 38,943,625	12.7%
Dodge & Cox (Stock)	\$ 17,162,809	5.6%
Dodge & Cox (Int'l)	\$ 5,018,488	1.6%
Primecap	\$ 16,762,329	5.5%
Total Investments	<u>\$305,927,569</u>	100%
Stockholders' Equity (as of 12/31/07)	<u>\$103,483,242</u>	
Stocks as % of Shareholders' Equity*		43.7%
<small>*includes common stock from Calamos portfolio</small>		

*Total investments of
\$305,927,569.*

For 2007, the total investment funds produced a 5% return. Equity manager Private Capital was replaced by Dodge and Cox - International Fund to provide global diversification.

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.

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 of up to thirty-six (36) months.

AZ Program Bound Projects

CCIP Projects	216
CCIP Construction Values	\$4,212,774,799
CCIP Estimated Premiums	\$106,890,279
Smallest Project	\$25,000
Largest Project	\$420,000,000

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.

Quality Culture

Approximately 70% of total general liability claims are related to construction defects, half of which are related to failure of the building envelope. In an effort to greatly reduce the odds of construction defect claims, general contractors are developing Quality Assurance Programs.

The Construction Industry Institute sponsored “Making Zero Rework a Reality” to study the issues related to quality on U.S. jobsites. They identified that managing safety and quality were on parallel tracks and that developing a quality culture is one of the keys to improvement.

“Quality Assurance Programs reduce risk.”

The conclusions developed by this research project identified these key elements for success.

1. Demonstrated management commitment to quality (Quality Culture)
2. Staffing for quality
3. Quality pre-project and pre-task planning
4. Formal quality training and education
5. Worker participation
6. Subcontractor management
7. Root cause investigations

ACIG will be adding an experienced Construction Quality Assurance Consultant to assist our members in developing and implementing their Quality Assurance Programs.

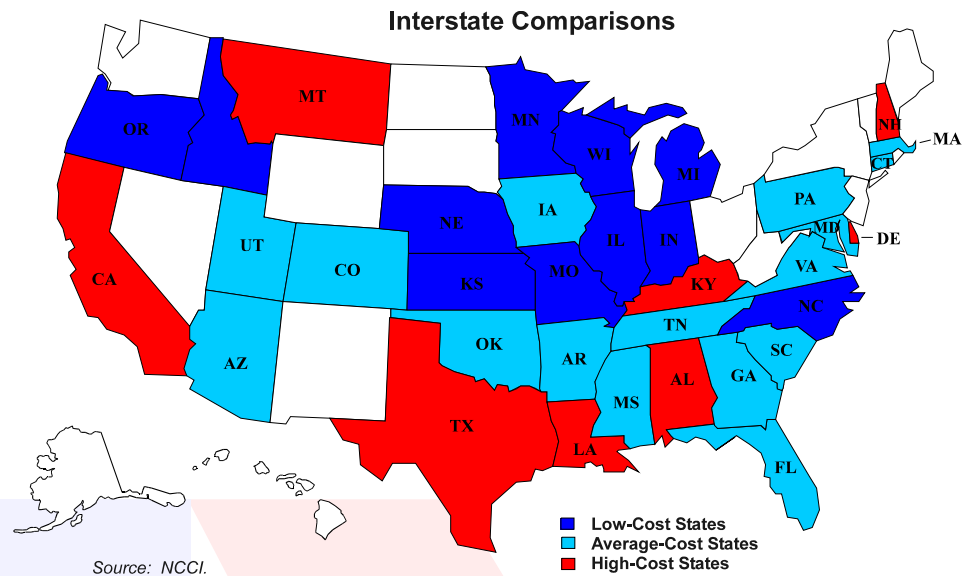
Workers Compensation Drug Study

According to a recently released study by the National Council on Compensation Insurers (NCCI), recent events in the prescription drug (Rx) arena may have significant impact on workers compensation medical costs. These include:

1. Withdrawal of some major drugs from the marketplace, e.g., Vioxx, Bextra.
2. Newly approved generic drugs.
3. A slowdown in FDA approval of new drugs.
4. Anti-inflammatories and analgesics represent 50% of total drug costs.
5. Prescription drug share of workers compensation medical costs is 18.4%.

“Prescription drugs are 18.4% of medical costs.”

“Utilization drives Rx costs.”



Utilization is the biggest reason for cost differences between states.

Top 10 Prescribed Drugs by Total Paid in WC (Service Year 2005)

Drug Name	% of Total Prescription Drug Paid	Brand vs. Generic
Hydrocone/Acetaminophen (analgesic)	6.5%	Generic
Gabapentin (CNS* drug)	4.9%	Generic
OxyContin (analgesic)	4.7%	Brand (generic available 9/04)
Carisoprodol (muscle relaxant)	4.0%	Generic
Celebrex® (anti-inflammatory)	3.6%	Brand (generic not available)
Lidoderm® (skin preparations)	3.6%	Brand
Skelaxin® (muscle relaxant)	3.0%	Brand (generic not available)
Mobic® (anti-inflammatory)	2.8%	Brand (generic available 7/06)
Oxycodone HCL (analgesic)	2.8%	Generic
Naproxen (anti-inflammatory)	2.6%	Generic
Total	38.5%	

Source: NCCI.

Workers Compensation Fraud Case

Sukut Construction, Inc. referred a suspected fraudulent workers compensation case to the California Department of Insurance and provided evidence that the claimant filed a WC claim after working for only 2 days and alleging injury to his back. A review of prior medical records revealed the claimant was seen in an emergency room 17 days prior to the date of injury for non-work related back pain. Claimant denied those prior symptoms/treatment to the medical providers. The claimant was charged with multiple counts of insurance fraud for violation of the Insurance and Penal Code. They are seeking \$33,000 in restitution.

ACIG Meetings and Workshops

<u>Date</u>	<u>Meeting</u>	<u>Place</u>
March 11, 2008	Professional/Pollution Liability Seminar	Chicago, IL
April 23, 2008	Best Practices	Chicago, IL
April 24-25, 2008	Safety/Claims Workshop	Chicago, IL
September 17-19, 2008	Safety/Claims Workshop	Baltimore, MD
October 29 - November 1, 2008	Autumn Risk Management Workshop	Santa Barbara, CA

ACIG Contractors in the News

Kitchell Contractors of Arizona, Inc. was featured in the February 18, 2008 issue of *Engineering News Record* for its Kitchell Quality Assurance Program. Kitchell has been an ACIG member since 1983.

Pepper Construction Group was awarded the 14th Annual Illinois Family Business of the Year award. The Family Business Center is affiliated with Loyola University, Chicago. Pepper was a founding member of ACIG in 1981.

Summary

Due to the leadership and support of our members, ACIG had an outstanding year in 2007 evidenced by some of the following: record revenues and economic benefits for our members, continued improvement in our Project Lifesaver results, consistent investment earnings and achievement of \$103MM in shareholders' equity. Challenges and opportunities are present and we will continue to assist our members in maintaining a safety culture while emphasizing the importance of developing a quality culture. The parallel tracks of a safety/quality culture equal success.

All the best,



Executive Vice President