SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K/A

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2001

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _______________ to _______________

Commission file number: 0-25508

RTW, INC.
(Exact name of registrant as specified in its charter)

Minnesota	41-1440870
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8500 Normandale Lake Boulevard, Suite 1400
Bloomington, MN 55437
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: **(952) 893-0403**

Securities registered pursuant to 12(b) of the Act:	None
Securities registered pursuant to 12(g) of the Act:	Common Stock, no par value Series A Junior Participating Preferred Stock

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K: (X)

As of March 20, 2002, 10,301,818 shares of Common Stock, no par value, were outstanding. As of March 22, 2002, assuming as fair value the last sale price of $0.63 per share on The Nasdaq Stock Market, the aggregate fair value of shares held by non-affiliates was approximately $5,200,000.

Documents incorporated by reference:

The Company's Proxy Statement for its Annual Meeting of Shareholders to be held in May 2002, a definitive copy of which will be filed with the Securities and Exchange Commission within 120 days of December 31, 2001, is incorporated by reference in Part III of this Report on Form 10-K.

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PART I

THE INFORMATION SET FORTH BELOW AMENDS AND RESTATES IN ITS ENTIRETY THE REGISTRANT'S PREVIOUSLY FILED ANNUAL REPORT ON FORM 10-K FOR ITS FISCAL YEAR ENDED DECEMBER 31, 2001.

ITEM 1. BUSINESS

Overview

RTW, Inc. (the Company) provides comprehensive management products and services to employers for their workers' compensation programs in Minnesota, Wisconsin, South Dakota, Colorado, Missouri, Illinois, Kansas, Michigan, Indiana, Massachusetts, Connecticut, Rhode Island and Maine. The Company announced that it would close its regional offices in Missouri and Massachusetts in the fourth quarter of 2001. Beginning February 2002, the Company began to non-renew all policies in its Missouri and Massachusetts regions and will run off expiring policies in these regions through January 2003. The Company has also obtained licenses but is not operating in Pennsylvania, Tennessee, Maryland, Arkansas, Iowa, Florida, New Jersey, Georgia, North Carolina, Texas and Oklahoma. The Company believes its proprietary management approach substantially reduces wage replacement costs and medical expenses resulting from workplace injuries. The Company focuses on controlling costs by returning injured employees to work as soon as possible and by actively managing all participants in the workers' compensation system, including employers, employees and medical care providers, as well as legal and judicial participants in the workers' compensation system. Elements of the Company's management approach include:

- thorough on-site evaluation of potential customers;
- active training of customers in the Company's procedures;
- prompt identification of potentially high-cost injuries; and
- rapid intervention in, and intensive management of, potentially high-cost injuries.

The Company has developed two proprietary management systems: (i) the RTW SOLUTION®, designed to lower employers' workers' compensation costs and return injured employees to work as soon as possible, and (ii) the ID15® system, designed to identify those injured employees who are likely to get stuck in the workers' compensation system. In order to benefit directly from the use of its proprietary methods, the Company combines its management services with workers' compensation insurance products underwritten by its wholly owned subsidiary, American Compensation Insurance Company (ACIC). The Company also uses management techniques including designated health care providers, medical fee schedule review, utilization review and peer review to control medical costs.

Industry

Workers' compensation benefits are mandated and regulated individually by each state, and every state requires employers to provide wage replacement and medical benefits to work accident victims regardless of fault. Virtually all employers in the United States are required to either: (a) purchase workers' compensation insurance from a private insurance carrier; (b) obtain coverage from a state managed fund; or (c) if permitted by their state, to be self-insured. Workers' compensation laws generally mandate two types of benefits for injured employees: (i) indemnity payments that consist of temporary wage replacement or permanent disability payments and (ii) medical benefits that include expenses related to injury diagnosis and treatment as well as rehabilitation, if necessary. On an industry-wide basis, indemnity payments represent approximately 54% of benefits paid, while medical benefits account for the remaining 46%.

Estimated insurance premiums totaled approximately $24.8 billion nationwide in 1999. This $24.8 billion includes: (i) the traditional or private residual market, estimated at $22.1 billion, including commercial insurers and state-operated assigned risk pools established for high risk employers, and (ii) state funds, estimated at $2.7 billion, operated in states in order to increase competition and stabilize the market.

Indemnity payments, established by legislative action, have risen, in part because of higher wage levels and increased state mandated benefits. Medical expenses have also increased due to the general rise in the cost of health care and the statutory requirement that employers provide coverage for all compensable medical costs, without any co-payment by the employee. The Company believes the most significant factor affecting the cost of workers' compensation, however, results from incentives in the system for injured employees to remain away from work and to continue collecting indemnity payments and receiving medical treatment beyond the point that is necessary.

The Company believes that traditional workers' compensation insurance companies are not as effective in controlling loss costs as RTW. While traditional efforts, including focusing on workplace safety and implementing certain medical cost containment measures, have reduced costs in certain areas, the Company believes these efforts have not had a significant effect on the overall system because they have not focused effectively on controlling indemnity payments. In the late 1990's as well as into 2000, traditional insurance companies moved toward a more comprehensive management approach including return-to-work initiatives. The Company believes that the traditional insurers have been somewhat successful in these initiatives but have not achieved the cost reductions and claim closure outcomes realized by the Company.

The Company's Management Approach

The Company seeks to control workers' compensation costs through a proprietary management approach that is specifically designed for the workers' compensation system. The Company's management strategy seeks to reduce workers' compensation costs significantly through early intervention in each employee injury and intensive management of all participants in the system, including employers, injured employees, medical care providers, and legal and judicial participants in the workers' compensation system. Through early intervention, the Company promptly identifies cases that have the potential to result in significant expenses and acts to control these expenses before they are incurred. The Company focuses on controlling indemnity payments for lost wages, the largest component of workers' compensation costs, by quickly returning injured employees to work. As part of this strategy, the Company attempts to return an injured employee to his or her original position, if the employee is able, or to place the employee in a transitional, light-duty position until the employee is able to resume his or her former position. By promptly returning an employee to work, the Company has found that not only indemnity payments, but also medical expenses per injury, are substantially reduced. In addition, the Company uses other management techniques including contracts with provider networks, designated health care providers, medical fee schedule review, utilization review and peer review to control medical costs.

The Company uses five-person operating teams to implement its proprietary management approach. Each operating team handles all of the claims for a specific group of employers and is accountable within the Company for the loss experience of these employers. Each team generally consists of three nurses, a statutory claims administrator, and an assistant claims administrator / clerical support person. A team's nurses are responsible for evaluating the medical condition of an injured employee and monitoring the employee's medical treatment. The claims administrators are responsible for determining the eligibility of claims, paying benefits in a timely manner and following statutory requirements for administration of claims. The operating teams meet regularly to discuss strategies for managing difficult claims and to review strategies and procedures that have been particularly successful in resolving disputes.

The following sections summarize the Company's approach to managing the various participants in the system.

Employers. Generally, each employer is assigned to an operating team responsible for managing the relationship. Prior to accepting an employer, members of an operating team conduct a risk assessment and explain the Company's methods and procedures to the employer. The risk assessment forms a part of the Company's underwriting process and includes evaluating the employer's willingness to follow the Company's procedures. As part of the insurance policy, the employer agrees to comply with the Company's early intervention methods and to provide transitional, light-duty work for injured employees until such time as they are able to resume their normal positions. To ensure that the Company's early intervention techniques succeed, the Company requests prompt notification from the employer of all injuries, typically 24 to 48 hours after the employer learns of the injury.

Each operating team is responsible for implementing the workers' compensation program for the employer, training the employer's personnel in the Company's methods and procedures and managing all reported injuries for the employer. The operating team meets with the employer, provides access to loss reports showing current claims status, conducts an annual account review and maintains active communication on open injuries. The Company's loss control team or the operating team may make workplace safety recommendations or retain a workplace safety-engineering firm to assist its employers to remedy work conditions that the loss control team or the operating team determines constitute an inappropriate risk. In addition, the operating team may recommend to the Company's management the cancellation or non-renewal of the policy for an employer that fails to comply with the Company's procedures.

Employees. The Company focuses on identifying injuries that have the greatest potential to result in significant expenses and acts quickly to control expenses resulting from these injuries. The Company's experience has been that approximately 15% of all injuries result in 85% of all workers' compensation expenses and that early identification of, and intervention in, these cases can lead to significant cost savings. Within 48 hours of being notified of an injury, an operating team evaluates several factors, including the type of injury, the employee's injury history and whether the employee is absent from work, to determine whether the injury is likely to involve significant expense. In potentially high-cost cases, a member of the operating team intervenes quickly by meeting with the injured employee to assess the injury, assisting the injured employee in obtaining medical care and rehabilitation and developing a plan to get the employee back to work as soon as is appropriate. If the employee cannot immediately return to his or her original position, the employer is required, according to the terms of the insurance agreement, to provide a transitional light-duty job that is consistent with the limits defined by the employee's medical care provider. If the employee refuses this transitional position, the Company may terminate indemnity payments, but is required to continue to provide appropriate medical benefits.

Medical Care Providers. The operating teams actively assess each injury, monitor and manage the medical treatment and review the medical expenses of each employee's injury. Each injury report is reviewed by one of the Company's nurses. The nurse typically contacts the physician treating employees in cases that involve days off from work or injuries that could involve significant expense. In these cases, the physician is asked to provide his or her diagnosis, plan of treatment and assessment of the employee's physical capabilities for transitional work. The Company has contracts with medical physicians to provide consulting services and assess proposed treatment plans for injured employees to the operating teams. These physicians also discuss injured employee treatment plans with the employee's medical care providers. The goal is to ensure both an accurate diagnosis and treatment of the injury and an understanding of the nature and extent of the limits the diagnosis places on the employee's ability to return to work in either the original job or a transitional, light-duty position. The operating team also monitors the health care provided to the injured employee to ensure that the employee receives proper treatment for the injury and that the employee does not receive services or procedures that are excessive, unnecessary or unrelated to the particular injury. In addition, when the operating team believes the diagnosis of an injury or the proposed rehabilitation treatment is not appropriate, the operating team will arrange for a second opinion with an independent medical examiner.

The medical cost management team reviews all bills submitted by medical care providers to determine if the amounts charged for the treatments are appropriate according to statutory fee schedules.

In Minnesota, Illinois and many other states, the Company cannot require that an injured employee go to a specific physician or seek treatment from a specific provider. Nevertheless, the Company attempts to assist the injured employee in selecting appropriate medical care providers. In Colorado, Missouri and Michigan (for the first ten days after the injury) the Company can require that injured employees go to a physician within a designated network of medical care providers.

Management of Legal and Judicial Participants. The Company, through early intervention, seeks to limit the number of disputes with injured employees. As part of its early intervention process, the Company identifies injuries that are not eligible for medical or indemnity payments, and denies the claim. The Company may also deny a claim for indemnity payments when it determines that no further payments are appropriate (for example, when an employee has been offered transitional, light-duty work and has refused it). In these and other sets of circumstances, the employee may engage a lawyer to represent his or her interests. Generally, if the parties are unable to resolve the matter, the workers' compensation law mandates arbitration, subject to judicial review. For cases that involve adversary proceedings, the Company engages one of several lawyers who are familiar with the Company's philosophy and actively seeks to resolve the dispute with the employee's attorney. The Company's policy is to contest all cases where the Company believes benefits are not appropriate under applicable law.

Customers

The Company targets employers and associations that operate in industries with relatively high workers' compensation costs, including manufacturing, retail, wholesale, health care and hospitality industries and employers with a history of workers' compensation claim costs higher than average in their industry.

The Company's average annual premium per policy increased to $56,800 in 2001 from $40,500 in 2000 and $27,000 in 1999 due to focused aggressive re-underwriting in 2001, 2000 and 1999. The Company's ten largest customers accounted for $6.6 million or 7.8% of the Company's premiums in force in 2001 compared to $7.9 million or 7.9% of the Company's premiums in force in 2000 and $6.5 million or 7.5% of the Company's premiums in force in 1999. No customer accounted for more than 5% of in force premiums in 2001, 2000 or 1999. The Company renewed 56.5% of the policies scheduled to expire in 2001 whereas 66.2% and 65.8% were renewed in 2000 and 1999, respectively.

Currently, all of the Company's employers are in Minnesota, Wisconsin, South Dakota, Colorado, Missouri, Illinois, Kansas, Michigan, Indiana, Massachusetts, Connecticut, New Hampshire, Rhode Island and Maine. In

December 2001, the Company announced that it would close its regional offices in Missouri (covering Missouri, Illinois and Kansas) and Massachusetts (covering Massachusetts, Connecticut, New Hampshire, Rhode Island and Maine). Beginning February 2002, the Company began to non-renew all policies in its Missouri and Massachusetts regions and will run off expiring policies in these regions through January 2003. In addition to these states, the Company is also currently licensed in Pennsylvania, Tennessee, Maryland, Arkansas, Iowa, Florida, New Jersey, Georgia, North Carolina, Texas and Oklahoma. The Company currently has no intention to expand operations beyond the present states in which it is currently operating and expects to run off its employer base in its Missouri and Massachusetts regions.

Products

Substantially all of the Company's workers' compensation products and services are guaranteed-cost insurance policies. Under a guaranteed-cost policy, the customer purchases an insurance policy underwritten by ACIC and pays a premium based on the employers' aggregate payroll. The Company assumes responsibility for all the indemnity and medical costs associated with the employers' workers' compensation injuries and works closely with the employer in managing the employer's entire workers' compensation program.

The Company determines the premium to be charged an employer based on several factors, including: (i) the expected dollar loss per $100 of payroll for the employers' industry, (ii) the employer's experience modifier, a measurement of the difference between the employer's past claims experience and its industry average, and (iii) an upward or downward adjustment to the premium by the Company based on its assessment of the risks associated with providing the coverage for the specific employer and on competitive market prices. An employer's expected dollar loss and experience modifier are each determined by an independent rating agency established or adopted by its state, based on a three-year average of the claims experience of the employer and its industry.

In addition to standard guaranteed-cost policies, the Company offers, on a limited basis, a deductible guaranteed-cost policy under which the employer is responsible for all medical and indemnity expenses up to a specific dollar amount, while the Company is responsible for medical and indemnity expenses over this level. The Company provides the same comprehensive management services for the deductible guaranteed-cost policies and the standard guaranteed-cost policies.

Sales and Marketing

The Company sells its workers' compensation products and services through independent insurance agencies, including several large national agencies. Agencies are paid a commission, which averaged 7.6% of the Company's gross premiums earned in 2001 compared to 7.9% of the Company's gross premiums earned in 2000 and 8.0% of gross premiums earned in 1999. The Company's ten highest producing agencies accounted for $24.8 million or 29.7% of premiums in force in 2001 compared to $27.2 million or 27.3% of premiums in force in 2000 and $19.9 million or 22.8% of premiums in force in 1999. No agency accounted for more than 6.4% of premiums in force in 2001 compared to 6.5% of premiums in force in 2000 and 4.0% of premiums in force in 1999. The Company continually markets its products and services to its agencies to keep them aware of developments in the Company's business. Each state's underwriting team is responsible for establishing and maintaining agency relationships.

Reinsurance

The Company shares the risks and benefits of the insurance it underwrites through reinsurance. The Company purchases reinsurance to protect it from potential losses in excess of the level management is willing to accept. The Company purchases excess of loss reinsurance that limits its per-incident exposure.

Under "excess of loss" policies, the Company pays the reinsurer a percentage of the Company's gross premiums earned, and the reinsurer agrees to assume all risks relating to injuries over a specific dollar amount on a per occurrence basis. Excess of loss coverage in Minnesota is provided by a state established organization, the Minnesota Workers' Compensation Reinsurance Association (WCRA). In non-Minnesota states, excess of loss coverage is purchased through private reinsurers.

In 2001, 2000 and 1999, the Company selected per occurrence levels in Minnesota under the WCRA of $330,000, $310,000 and $290,000, respectively. In 2002, the selected per occurrence level excess of loss coverage under the WCRA is $350,000.

In 2001, 2000 and 1999, the Company purchased non-Minnesota excess of loss coverage primarily through General Reinsurance Corporation, rated A++ (Superior) by A.M. Best. The excess of loss policy in effect during 2001, 2000 and 1999 provided reinsurance from $300,000 per person per any one loss and up to statutory limits per occurrence ultimate net loss. Coverage for 2002 through General Reinsurance Corporation again provides excess of loss coverage from $300,000, but coverage is capped at $20.0 million per occurrence ultimate net loss.

The excess of loss policy in effect during 1998 and 1997 provided reinsurance up to $9.5 million in excess of $500,000 per person per any one loss and up to $40 million in excess of $10 million per occurrence ultimate net loss. This excess of loss policy was effective January 1, 1997, and replaced excess of loss policies that were terminated on December 31, 1996. In 1996, the non-Minnesota excess of loss policies provided reinsurance up to $9.5 million in excess of $500,000 per person per any one loss and up to $49.5 million in excess of $500,000 per occurrence ultimate net loss. Transatlantic Reinsurance Company, rated A++ (Superior) by A.M. Best, is the only reinsurance company that received more than 15% of the premiums paid for reinsurance coverage under the 1996 excess of loss coverage.

For claims occurring on or after July 1, 1998, the Company purchased excess of loss coverage through GE Reinsurance Corporation, rated A++ (Superior) by A.M. Best that provides reinsurance up to $275,000 in excess of $25,000 in all states except Minnesota where the coverage is $255,000 in excess of $25,000 for 1998, $265,000 in excess of $25,000 for 1999 and $275,000 in excess of $25,000 for 2000 and 2001. This coverage was purchased to reduce risk and volatility in the Company's operating performance. This contract was terminated effective December 31, 2000; however the policy was effective in 2001 for policies in force at December 31, 2000 through expiration, not to exceed fifteen months after the effective termination date. Policies written or renewing in 2002 and 2001 will not be covered under this lower level excess of loss reinsurance policy.

A.M. Best determines its ratings based on a comparative analysis of the financial condition and operating performance of insurance companies. A.M. Best ratings are based upon factors of concern to insureds and are not directed toward the protection of investors. See "Competition."

Competition

The workers' compensation industry is highly competitive. The Company competes with large insurance companies, managed health care organizations, state sponsored insurance pools and risk management consultants. Unlike the Company, which offers only workers' compensation products and services, these competitors may offer additional products and services to employers, including other forms of insurance. As a consequence, these competitors may have certain advantages in pricing their workers' compensation products. In addition, certain of these competitors are offering a management approach similar to that offered by the Company. Many of the Company's competitors have greater financial and operating resources than the Company.

Competitive factors in the industry include premium rates, level of service and ability to reduce claims expense. The Company believes that its workers' compensation insurance products are competitively priced and its premium rates are typically lower than those for customers assigned to the state sponsored risk pools. The Company also believes that its level of service and its ability to reduce claims are strong competitive factors that have enabled it to retain existing customers and attract new customers.

Large insurance companies exit and enter the workers' compensation market in different states depending on their appraisal of current market conditions. Many insurance companies stopped underwriting workers' compensation insurance during the early 1990's due to rising costs that were not matched by reductions in statutory benefits or higher premium rates. In the mid to late 1990's, the Company experienced increased market pressure as new carriers, including large insurance companies and single line workers' compensation insurance companies, entered the market. In 2001 and 2000, many insurers withdrew from the markets in which we operate as premium rates were insufficient to cover the cost of benefits paid.

Large insurance companies compete primarily with the Company for customers that have lower past claims experience or lower experience "modifiers." As a result, the Company experiences increased competition for the renewal of workers' compensation policies with customers that have reduced their experience modifiers, and it expects to continue to experience increased competition from large insurance companies.

Another competitive factor results from the fact that some employers will not purchase workers' compensation products from carriers with an A.M. Best rating less than "A". In addition, certain insurance carriers that write umbrella policies will not provide coverage to an employer if a portion of the employer's underlying insurance policy, such as the workers' compensation portion is written by a carrier with a less than "A" rating. The Company believes that its B- letter rating from A.M. Best will make it difficult, in certain instances, for the Company to provide its products to certain employers. Historically, in these instances, the Company competed by writing these employers using an "A" rated insurer's paper. This process, known as fronting, added additional cost for ACIC but allowed the Company access to markets it may have otherwise not been able to access. The Company does not currently have a fronting arrangement in effect and believes that its ability to find a fronting company may also be difficult in 2002.

The Company's insurance subsidiary was assigned an initial rating of B++ (Very Good) on a scale of A++ (Superior) to F (In Liquidation) on December 16, 1996. This rating was reaffirmed in April 1999 and June 2000. In June 2001, however, based on 2000 financial results, A.M. Best downgraded the Company's rating to B+ and, based on further disappointing results in 2001, further downgraded that rating to B- in February 2002. An A.M. Best rating is assigned after an extensive quantitative and qualitative evaluation of the Company's financial condition and operating performance. A.M. Best ratings are based upon factors of concern to insureds and are not directed toward the protection of investors. Furthermore, A.M. Best ratings are not ratings of the Company or any of its securities. A.M. Best ratings include Secure Ratings, consisting of A++ and A+ (Superior); A and A- (Excellent); B++ and B+ (Very Good); Vulnerable or Unsecure Ratings, consisting of B and B- (Adequate); C++ and C+ (Fair); C and C- (Marginal); D (Very Vulnerable); E (Under State Supervision) and F (In Liquidation).

Data Management

During the period 1997 to 2001, the Company contracted with various unrelated third-parties for certain computer information systems and other software licenses. In 1996, the Company developed and implemented its own proprietary claims management and medical fee adjudicating systems to manage claims, audit medical fees, pay claims, provide reports to policyholders and analyze claims data. These systems replaced third-party contracts for claims management and medical fee adjudicating systems. In 1995, the Company developed and implemented its own proprietary policy management system to process insurance applications and issue policies and endorsements. This system replaced a third-party contract for a policy management system. In 1999, the Company developed and implemented its own proprietary billing, cash receipts, collections and agency commission systems. These systems replaced third-party software systems purchased by the Company. The Company continues to utilize third party software to maintain financial information, prepare accounting reports and financial statements and pay vendors. The Company also contracts with a third-party provider of payroll services for payroll, benefit and human resource software services. The Company utilizes other licensed software from national vendors to maintain its financial records, file statutory statements with insurance regulators and perform other general business.

Employees

The Company had 204 full-time employees at December 31, 2001. Of the Company's employees, approximately 101 work in the Company's administrative and financial functions and 103 serve on, provide service to or manage approximately 18 different operating teams. None of the Company's employees are subject to collective bargaining agreements. The Company believes its employee relations are good.

Regulation

The Company's insurance subsidiary is subject to substantial regulation by the governmental agencies in the states in which it operates, and will be subject to such regulation in any state in which it provides workers' compensation products and services in the future. State regulatory agencies have broad administrative power with respect to all aspects of the business of the Company, including premium rates, benefit levels, policy forms, dividend payments, capital adequacy and the amount and type of its investments. These regulations are primarily intended to protect covered employees and policyholders rather than the insurance company. Both the legislation covering insurance companies and the regulations adopted by state agencies are subject to change.

Workers' compensation coverage is a creation of state law, subject to change by the state legislature, and is influenced by the political processes in each state. Several states have mandated that employers receive coverage only from state operated funds. New laws affecting the workers' compensation system in Minnesota, Colorado, Missouri, Michigan and Massachusetts and any other state where the Company currently operates or may operate in the future, including laws that require all employers to participate in state sponsored funds or that mandate premium reductions, could have a material adverse effect on the Company.

Executive Officers of the Registrant

The following are the executive officers of the Company at March 28, 2002:

Name	Age	Position
David C. Prosser	77	Chairman of the Board
J. Alexander Fjelstad III	50	President and Chief Executive Officer
Alfred L. LaTendresse	53	Executive Vice President
Jeffrey B. Murphy	40	Chief Financial Officer, Treasurer and Secretary
Patricia M. Sheveland	43	Vice President — Case and Claims Management
Keith D. Krueger	43	Vice President — Underwriting and Sales
Debora S. Allen	44	Vice President — RTW Service Business

David C. Prosser is the founder of the Company and current Chairman of the Board since December 2001. Mr. Prosser was previously Chairman of the Board through March 2000, served as President and Chief Executive Officer through January 1998, and has been a Director of the Company since its formation in 1983. From 1965 through 1985, Mr. Prosser was the owner and President of Vocational Personnel Services, Inc., which merged into the Company in 1986.

J. Alexander Fjelstad III rejoined the Company in December 2001 as President and Chief Executive Officer and Director after serving as President and Chief Executive Officer of Headwater Systems, a manufacturer of radio frequency identification devices, from March 1999 through December 2001. Mr. Fjelstad initially joined the Company in 1989 as a Vice President, served as Chief Operating Officer beginning in 1993 and became Chief Operating Officer - Marketing and Underwriting in October 1996 through his departure in 1998. Mr. Fjelstad was a Director of the Company from 1989 to February 1999. He is a member of the Chartered Property and Casualty Underwriters and the American Institute for Property and Liability Underwriters.

Alfred L. LaTendresse rejoined the Company in December 2001 as Executive Vice President and Director after serving as Chief Operations Officer and Chief Financial Officer for Headwater Systems from June 1999 to December 2001. Mr. LaTendresse initially joined the Company as Chief Financial Officer in 1990 and became Secretary and Treasurer in October 1990. Mr. LaTendresse departed from the Company in December 1998. Mr. LaTendresse served as a Director of the Company from July 1993 until January 1995. Mr. LaTendresse is a member in the American Institute of Certified Public Accountants and the Minnesota Society of Certified Public Accountants.

Jeffrey B. Murphy joined the Company in October 1994 as Controller and was promoted to Chief Financial Officer in February 2000. Mr. Murphy was the Corporate Controller and held other management positions for Midcontinent Media, Inc. from 1989 to 1994. Prior to that time, Mr. Murphy served in various financial audit positions with Grant Thornton LLP from 1983 to 1989.

Patricia M. Sheveland was appointed to Vice President — Case and Claims Management in January 2002. Ms. Sheveland joined RTW in April 1990 and has held various management positions of increasing importance including General Manager of Operations in our Colorado regional office and Director of Operations for our Colorado, Michigan and Massachusetts regions. Prior to joining RTW, Ms. Sheveland worked as an Occupational Nurse for Kmart Corporation.

Keith D. Krueger joined the Company in September 1998 as the Director of Underwriting and Pricing for the Company's Minnesota regional office. He was promoted to director of Underwriting Services for the Company's Home Office in October 1999 until being promoted to Vice President — Underwriting and Sales in March 2002. Prior to joining the Company, Mr. Krueger was a Commercial Lines Underwriting Manager for Citizens Security Mutual Insurance from June 1997 to August 1998. From March 1995 to May 1997, Mr. Krueger was Vice President - Underwriting and Marketing for American West Insurance.

Debora S. Allen was appointed to Vice President — RTW Service Business in January 2002. Ms. Allen joined RTW in August 1997 and has held various management positions including Chief Information Officer, Chief Operations Officer, Director of Home Office Operations and Director of Service Business Planning. Before joining RTW, Ms. Allen held several leadership positions with MCC Behavioral Care and financial audit positions with Ernst & Young.

ITEM 2. PROPERTIES

The following is a summary of properties leased by the Company at December 31, 2001:

Location and description	Area leased (in square feet)	Termination
Bloomington, Minnesota; Headquarters and Minnesota office space	35,487	September 2002
Denver, Colorado; Colorado office space	7,825	May 2005
St. Louis, Missouri; Missouri office space	6,542	September 2005
Detroit, Michigan; Michigan office space	11,008	June 2002
Grand Rapids, Michigan; Michigan satellite office	4,631	April 2006
Boston, Massachusetts; Massachusetts office space	12,381	May 2002

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of administering its workers' compensation management program, the Company is routinely involved in the adjudication of claims resulting from workplace injuries. The Company is not involved in any legal or administrative claims that it believes are likely to have a material adverse effect on the Company's operations or financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On December 11, 2001, the Company held its 2001 Annual Meeting of Shareholders and voted to elect three directors to fill director terms that expired in 2001. David R. Hubers and Steven M. Rothschild were elected to serve as directors of the Company until the Annual Meeting of Shareholders held in the year 2004 and David C. Prosser was elected to serve as a director of the Company until the Annual Meeting of Shareholders in 2003. Shareholders present in person or proxy at the annual meeting voted for the election of each director as follows:

David R. Hubers	For:	6,563,989
	Withheld:	823,015
Steven M. Rothschild	For:	6,563,089
	Withheld:	823,915
David C. Prosser	For:	7,253,150
	Withheld:	133,254

On December 12, 2001, Mr. Hubers and Mr. Rothschild resigned as directors of the Company.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

QUARTERLY STOCK PRICE COMPARISON AND DIVIDENDS

The Company's shares are publicly traded on The Nasdaq Stock Market under the symbol RTWI. The table below sets forth the range of high and low sales prices for the Company's stock for each quarter during the past two years. The Company had approximately 2,000 shareholders of its common stock at the close of trading on March 1, 2002.

Fiscal Year:		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2001	High	$ 5.94	$ 2.64	$ 1.92	$ 5.62
	Low	2.13	1.00	0.68	0.25
2000	High	6.22	5.75	5.03	4.25
	Low	4.75	3.25	2.88	3.22

The Company has never paid cash dividends on its common stock. The Company currently intends to retain any and all income for use in its business and does not anticipate paying cash dividends in the foreseeable future. Any future determination as to payment of dividends will depend on the financial condition and results of operations of the Company and such other factors deemed relevant by the Board of Directors. Under the terms of its credit agreement, the Company is prohibited from making dividend payments without prior consent of the lender.

ITEM 6. SELECTED FINANCIAL DATA

The consolidated statements of operations data set forth below for each of the three years in the period ended December 31, 2001, and the consolidated balance sheet data at December 31, 2001 and 2000 are derived from, and are qualified by reference to, the audited consolidated financial statements included elsewhere in this Form 10-K. The consolidated statements of operations data set forth below for the two years in the period ended December 31, 1998, and the consolidated balance sheet data at December 31, 1999, 1998 and 1997, are derived from audited consolidated financial statements not included herein. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements and related notes included elsewhere in this Form 10-K.

	1997	1998	1999	2000	2001
	(In thousands, except per share data)				(Revised)
Total revenues	$ 88,263	$ 90,152	$ 77,812	$ 83,299	$ 95,723
Income (loss) from operations	9,446	(10,485)	8,357	(14,780)	(15,761)
Net income (loss)	5,799	(7,081)	6,167	(9,708)	(25,215)
Basic income (loss) per share	0.49	(0.59)	0.50	(0.89)	(2.45)
Diluted income (loss) per share	0.48	(0.59)	0.50	(0.89)	(2.45)
Premiums in force at year end	78,400	82,100	87,200	99,400	83,700
Total assets	142,997	172,934	176,511	194,535	218,307
Notes payable	4,875	2,461	—	7,000	4,500
Total shareholders' equity	58,357	52,618	55,565	38,736	14,222

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RTW, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

***The Company* —** RTW, Inc. (RTW) and its wholly owned insurance subsidiary, American Compensation Insurance Company (ACIC), provide disability management services to employers. Collectively, "we," "our" and "us" refer to these entities in this "Management's Discussion and Analysis of Financial Condition and Results of Operations."

We have developed two proprietary management systems: (i) the RTW SOLUTION®, designed to lower employers' workers' compensation costs and return injured employees to work as soon as possible, and (ii) the ID15® system, designed to identify those injured employees who are likely to become inappropriately dependent on the workers' compensation system. We combine our management system with insurance products underwritten by our insurance subsidiary to offer services to customers. We currently provide workers' compensation management services solely to employers insured through our insurance subsidiary.

During 2001, we operated in Minnesota, Wisconsin, South Dakota, Colorado, Missouri, Illinois, Kansas, Michigan, Indiana, Massachusetts, Connecticut, New Hampshire, Rhode Island and Maine. In the fourth quarter of 2001, we closed our regional offices in Missouri (which served Missouri, Illinois and Kansas) and Massachusetts (which served Massachusetts, Connecticut, New Hampshire, Rhode Island and Maine). Collectively, these offices had premiums in force totaling $22.2 million at December 31, 2001. We expect to run off this business in 2002.

On February 28, 2002, our A.M. Best financial rating was downgraded from a Secure rating (B+) to an Unsecure rating (B-) as a result of the decrease in statutory surplus in 2001 from $29.3 million at December 31, 2000 to $19.5 million at December 31, 2001 and our adverse development in 2001 and 2000 that resulted in statutory operating losses in those years. Certain insurance carriers that write umbrella policies will not provide coverage to an employer if a portion of the employer's underlying insurance policy, such as the workers' compensation portion, is written by a carrier with an unsecure rating. Additionally, certain of our independent agents may be unwilling to sell our insurance as a result of the downgrade. As a result, we believe that our B- rating from A.M. Best will make it difficult to provide our products to certain employers. While we believe that the A.M. Best downgrade will result in decreasing premiums in force, the ultimate effect of this downgrade is unknown at this time.

Additional information about RTW is available on our website, www.rtwi.com.

Significant Accounting Policies — Our significant accounting policies are summarized in Note 1 — "Summary of Significant Accounting Policies" to our accompanying consolidated financial statements. Our significant accounting policies include those policies related to our accounting for: (i) premiums earned; (ii) unpaid claim and claim settlement expenses, including reserves for incurred but not reported claims; (iii) policy acquisition costs; and (iv) investments. These accounting policies are further discussed in detail within each section of this "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Financial Summary — This financial summary presents our discussion and analysis of the consolidated financial condition and results of operations of RTW, Inc. This review should be read in conjunction with the Consolidated Financial Statements at December 31, 2001.

The following table provides an overview of our key operating results (000's, except per share amounts):

	Year Ended December 31,		
	2001	2000	1999
	(Revised)		
Gross premiums earned	$ 97,420	$95,878	$89,226
Premiums earned	86,057	78,154	71,218
Claim and claim settlement expenses	80,103	72,429	43,323
Net (loss) income	(25,215)	(9,708)	6,167
Diluted net (loss) income per share	(245)	(0.89)	0.50

RTW reported an increase in gross premiums earned to $97.4 million in 2001 from $95.9 million in 2000. Total revenues increased in 2001 to $95.7 million from $83.3 million in 2000 due to a decrease in amounts ceded to our $25,000 to $300,000 excess of loss reinsurance policy that ran off in 2001.

We reported a net loss of $25.2 million in 2001 compared to a net loss of $9.7 million in 2000 and net income of $6.2 million in 1999. We reported basic and diluted net loss per share of $2.45 in 2001 compared to basic and diluted net loss per share of $0.89 in 2000 and basic and diluted net income per share of $0.50 in 1999. The primary factors affecting our 2001 operating results included the following:

- Our gross premiums earned increased slightly in 2001 from 2000, due primarily to a 4.7% increase in average premiums in force to $95.2 million for 2001 from $90.9 million in 2000;

- Premiums earned increased in 2001 from 2000. Premiums earned were significantly reduced by premiums ceded under an excess of loss reinsurance agreement, effective for claims occurring on or after July 1, 1998, that was in runoff in 2001. Premiums ceded in 2001 include $7.3 million in premiums ceded under the excess of loss reinsurance agreement, compared to $13.4 million and $13.3 million of excess of loss premiums ceded in 2000 and 1999, respectively.

- Claim and claim settlement expenses increased to 93.1% of premiums earned for 2001 from 92.7% for 2000. See further discussion under "Claim and Claim Settlement Expenses."

- As disclosed in Note 2, "Revision of Financial Statements", in our accompanying consolidated financial statements, we have revised the accounting for our contract with St. Paul Re (SPR). We had previously accounted for the contract using reinsurance accounting standards and have revised our accompanying consolidated financial statements to reflect the application of deposit accounting on the SPR contract. Deposit accounting for this contract required us to record margin expense at 4.75% of premiums ceded to SPR and interest income on the fund balance at an amount equal to the quarter-end U.S. Treasury Bill rate less 25 basis points. The change in accounting decreased premiums ceded and increased investment income, claim and claim settlement expenses, policy acquisition costs and general and administrative expenses. The revised accounting increased the 2001 net loss by $1.5 million, and

- At December 31, 2001, we established a $14.5 million valuation allowance against deferred tax assets resulting in a corresponding increase in income tax expense. No valuation allowance was provided against the deferred tax assets recorded in 2000 or 1999.

We expect 2002 premiums in force to decrease significantly from levels in 2001 as a result of the downgrade in our A.M. Best rating and the closure of our regional offices in Missouri and Massachusetts. We also anticipate that we will operate in an environment of continuing premium rate increases in our markets in 2002. We will focus on achieving profitability in all our remaining regional markets by: (i) aggressively managing and closing claims, (ii) improving our underwriting, including reviewing policy profitability at renewal and removing unprofitable accounts, and (iii) aggressively managing policy acquisition costs and general and administrative expenses.

In the following pages, we take a look at the 2001, 2000 and 1999 operating results for items in our Consolidated Statement of Operations and also explain key balance sheet accounts in greater detail.

RESULTS OF OPERATIONS

Total revenues: Our total revenues include premiums earned, investment income, net realized investment gains (losses) and other income. The following table summarizes the components of our revenues and premiums in force (000's):

	Year Ended December 31,		
	2001	**2000**	**1999**
	(Revised)		
Gross premiums earned	$ 97,420	$ 95,878	$ 89,226
Premiums ceded	(11,363)	(17,724)	(18,008)
Premiums earned	86,057	78,154	71,218
Investment income	6,415	5,752	6,510
Net realized investment gains (losses):			
Realized investment gains	1,225	26	108
Realized investment losses	(62)	(633)	(24)
Net realized investment gains (losses)	1,163	(607)	84
Other income	2,088	—	—
Total revenues	$ 95,723	$ 83,299	$ 77,812

	Year Ended December 31,		
Premiums in force by regional office at year-end	**2001**	**2000**	**1999**
Minnesota	$ 26,700	$ 33,800	$ 31,500
Colorado	13,100	16,000	14,000
Missouri	10,300	13,400	15,000
Michigan	21,700	18,600	11,500
Massachusetts	11,900	17,600	15,200
Total premiums in force	$ 83,700	$ 99,400	$ 87,200

Premiums In Force and Gross Premiums Earned: Premiums on workers' compensation insurance policies are our largest source of revenue. Premiums earned are the gross premiums earned by us on in force workers' compensation policies, net of the effects of ceded premiums under reinsurance agreements.

The premium we charge a policyholder is a function of its payroll, industry and prior workers' compensation claims experience. In underwriting a policy, we receive policyholder payroll estimates for the ensuing year. We record premiums written on an installment basis matching our billing to the policyholder and earn premiums on a daily basis over the life of each insurance policy based on the payroll estimate. We record the excess of premiums billed over premiums earned for each policy as unearned premiums on our balance sheet. When a policy expires, we audit employer payrolls for the policy period and adjust the estimated payroll and the policyholder's premium to its actual value. The result is a "final audit" adjustment recorded to premiums earned when the adjustment becomes known. Final audit premiums recognized during the period include billed final audit premiums plus (or minus) the change in estimate for premiums on unexpired and expired unaudited policies.

Our premiums in force decreased 15.8% to $83.7 million at December 31, 2001 from $99.4 million at December 31, 2000 due to an $18.8 million decrease in premiums in force in our Minnesota, Colorado, Missouri and Massachusetts markets offset by a $3.1 million increase in premiums in force in our Michigan market. Average premiums in force increased 4.7% to $95.2 million in 2001 from $90.9 million in 2000. We aggressively targeted policies that did not meet our underwriting profit margin standards for non-renewal or re-underwriting at increased rates at policy expiration in 2001, 2000 and 1999.

Our gross premiums earned increased 1.6% to $97.4 million in 2001 from $95.9 million in 2000. This increase resulted from the increase in average premiums in force offset by a decrease in final audit premiums earned to $1.8 million in 2001 from $5.5 million in 2000.

Gross premiums earned increased 7.5% to $95.9 million in 2000 from $89.2 million in 1999. This increase resulted from the increase in premiums in force and an increase in final audit premiums earned to $5.5 million in 2000 from $4.7 million in 1999.

Premium rates on renewal policies stabilized in the latter half of 1999 and we realized only slight pricing decreases. In 2001 and 2000, we were able to increase premium rates on renewing policies an average of 18.5% and 11.7%, respectively. We have been, and expect to continue to, increase rates in our markets due to the following:

- Many workers' compensation insurers withdrew from the markets in which we write premiums due to the historical declines in premium rates in those markets;
- Reinsurance rates for workers' compensation insurers have increased throughout the industry due to settlements related to Unicover reinsurance treaties, resulting in increased costs for workers' compensation insurers. Reinsurance rates continue to increase and the availability of statutory coverage is limited as a result of the terrorist acts against the United States on September 11, 2001. Insurers, including RTW, have raised premium rates in reaction to these costs; and
- A number of workers' compensation insurers financial ratings, including our own, have decreased due to reserve adjustments recorded in 2001, 2000 and 1999, reducing their ability to compete.

Premiums Ceded: Reinsurance agreements allow us to share certain risks with other insurance companies. We purchase reinsurance to protect us from potential losses in excess of the level we are willing to accept. Our primary reinsurance is excess of loss coverage that limits our per-incident exposure. We expect the companies to which we have ceded reinsurance to honor their obligations. In the event that these companies are unable to honor their obligations to us, we will be required to pay these obligations ourselves. We are not aware of any developments with respect to our reinsurers that would result in uncollectible reinsurance balances.

Under our excess of loss reinsurance policies, we pay reinsurers to limit our per-incident exposure and record this cost to premiums ceded as a reduction of gross premiums earned. In Minnesota, we are required to purchase excess of loss coverage for our Minnesota policies from the Minnesota Workers' Compensation Reinsurance Association (WCRA). We ceded Minnesota claims in excess of $330,000, $310,000 and $290,000 per occurrence during 2001, 2000 and 1999, respectively, to the WCRA. In our non-Minnesota states, our per-incident exposure was $300,000 in 2001, 2000 and 1999. We purchased this non-Minnesota coverage from a single reinsurer. In 2002, the non-Minnesota coverage is capped at $20.0 million per occurrence, no longer includes statutory limit coverage and further excludes claims resulting from acts of terrorism.

For claims occurring after June 30, 1998 through policy termination on December 31, 2000, and on a runoff basis into 2001, we further limited our per incident exposure by purchasing excess of loss coverage for losses from $25,000 to the lesser of $300,000 or the WCRA selected retention level in Minnesota and from $25,000 to $300,000 in other states from a single reinsurer. This agreement was finalized after its effective date and activity occurring from July 1, 1998 through September 30, 1998 was recorded on a retrospective basis resulting in the deferral of a gain totaling $2.0 million at December 31, 1998. We amortized $400,000 of the deferred gain as a reduction of claim and claim settlement expenses in each of 2001 and 2000 and $740,000 in 1999 resulting in an un-amortized deferred gain of $449,000 at December 31, 2001. The deferred gain is being amortized into income using the effective interest rate inherent in the amounts paid to the reinsurer and the estimated timing and amounts of recoveries from the reinsurer. Activity occurring on or after October 1, 1998 is recorded prospectively. This contract was terminated effective December 31, 2000, however the policy remained in effect in 2001 for policies in force at December 31, 2000 through expiration, not to exceed fifteen months after the effective termination date. Policies written or renewing after December 31, 2000 are not covered under this lower-level excess of loss reinsurance policy.

The following table summarizes the components of premiums ceded (000's):

	Year Ended December 31,		
	2001	**2000**	**1999**
	(Revised)		
Excess of loss reinsurance premiums:			
$25,000 to $300,000 excess of loss policy	$ (7,297)	$ (13,442)	$ (13,290)
WCRA and other non-Minnesota excess of loss policies	(4,066)	(4,282)	(4,718)
Premiums ceded	$ (11,363)	$ (17,724)	$ (18,008)

Premiums ceded to reinsurers decreased to $11.4 million in 2001 from $17.7 million in 2000. The decrease in premiums ceded resulted primarily from the run-off of premiums ceded under our $25,000 to $300,000 excess of loss reinsurance policy.

Premiums ceded to reinsurers decreased to $17.7 million in 2000 from $18.0 million in 1999. This decreased cost resulted from an excess of loss premium rate decrease in Minnesota in 2000 compared to 1999. This cost decrease was partially offset by increased excess of loss costs resulting from increased premiums earned in non-Minnesota states.

2002 Outlook: The 2002 outlook for gross premiums earned and premiums ceded include the following factors:

- We expect that: (i) the downgrade in our rating to B- from A.M. Best; (ii) closure of our regional offices in Massachusetts and Missouri, and (iii) policies targeted for non-renewal or re-underwriting during 2002 will result in a significant decrease in premiums in force in 2002. Premium rate increases on new and renewing policies will partially offset these decreases. We expect that renewal premium rates will continue to increase in 2002; however, the ultimate increase is unknown at this time. Overall, we expect premiums in force and gross premiums earned to decrease significantly in 2002.

- We expect that premiums ceded under excess of loss policies will decrease as a percent of gross premiums earned when compared to the results attained for 2001 as we will cede no premiums under our terminated $25,000 to $300,000 reinsurance agreement in 2002. This decrease will be partially offset by an increase in premiums ceded in our non-Minnesota markets as our excess of loss reinsurance rate in these markets increased significantly in 2002 as a result of the September 11, 2001 terrorist acts against the United States. Excess of loss reinsurance rates as a percent of premium will decrease in 2002 in Minnesota as a result of the premium rate increases we expect to realize in 2002 and realized in 2001.

Investment Income and Net Realized Investment Gains (Losses): Our investment income includes earnings on our investment portfolio and interest on our deposit receivable. Our net realized investment gains (losses), displayed separately on our accompanying Consolidated Statements of Operations, include gains and losses from sales of securities. In 2000 and through January 2001, we invested entirely in U.S. domiciled investment-grade taxable and tax-exempt fixed maturity investments. In February 2001, we repositioned our portfolio and sold our tax-exempt securities, purchasing taxable securities to take advantage of our net operating loss carry-forward generated in 2000 and to maximize the after-tax yield of our investment portfolio. We currently invest entirely in U.S. domiciled investment-grade taxable fixed maturity investments and classify our investments as available-for-sale. We intend to hold our available-for-sale investments to maturity, but may sell them before maturity in response to tax planning considerations, changes in interest rates, changes in prepayment risk and changes in funding sources or terms, or to address liquidity needs. Our primary investment objective is to maintain a diversified, high-quality, fixed-investment portfolio structured to maximize our after-tax investment income without taking inappropriate credit risk. For further discussion of investments, see the "Investments" section of this Management's Discussion and Analysis.

Investment income increased slightly to $6.4 million in 2001 from $5.8 million in 2000. Investment income increased slightly as a result of repositioning our portfolio entirely into taxable securities that earn a higher pre-tax rate of return offset by a reduction in the funds available for investment to $89.2 million at December 31, 2001 from $96.8 million at December 31, 2000 and from recording $518,000 of interest earned on our deposit receivable. Funds available for investment decreased due to decreased net cash provided by operating activities, resulting primarily from (i) the difference in timing between the receipt of premiums, the payment of premiums ceded under our reinsurance agreements, the payment of claim and claim settlement expenses and the recovery of paid claim and claim settlement expenses under our reinsurance programs, and (ii) net cash provided by investment income. Tax-adjusted investment yields were 6.1% in 2001 compared to 6.6% in 2000. The investment yields realized in future periods will be affected by yields attained on new investments.

Investment income decreased 11.6% to $5.8 million in 2000 from $6.5 million in 1999. Investment income decreased due to: (i) reduced funds available for investment, and (ii) an increase in the percent of tax-exempt securities held in our portfolio. Funds available for investment decreased to $96.8 million at December 31, 2000 from $108.1 million at December 31, 1999, due to decreased net cash provided by operating activities, resulting primarily from: (i) the difference in timing between the receipt of premiums, the payment of premiums ceded under our reinsurance agreements, the payment of claim and claim settlement expenses and the recovery of paid claim and claim settlement expenses under our reinsurance programs, and (ii) net cash provided by investment income. Tax-exempt securities, which earn lower pre-tax rates than taxable securities but are comparable on a tax-adjusted basis, increased to 57.5% of our investment portfolio at year-end 2000 compared to 56.3% at year-end 1999. Tax-adjusted investment yields were 6.6% in 2000 and 1999.

Net realized investment gains were $1.2 million in 2001 and resulted primarily from our portfolio repositioning in February 2001. Net realized investment losses were $607,000 in 2000 and included $500,000 for the write-down of a security whose decrease in value was deemed other than temporary. Net realized investment gains were $84,000 in 1999.

2002 Outlook: Barring significant changes in interest rates or operational cash flows, we expect the 2002 pre-tax yield from our investment portfolio to be affected by the following:

- Funds from our operating cash flows and investment cash flows have historically provided growth in our investment portfolio. These net cash flows decreased significantly in 2000 and 1999 as we focused on closing old claims, paying earlier to close those claims. Combined with relatively flat premiums in force since December 1998, our cash flows from timing on claims payments have decreased. Cash flows will be adversely affected by: (i) premiums ceded under our St. Paul Re contract, and (ii) decreases in cash flows resulting from claim payments on claims from 2002 and prior years as we reduce our 2002 premiums in force and premiums earned in 2002 and result in the use of cash in 2002.

- In February 2002, we again repositioned our portfolio to realize investment gains. We recognized gains totaling $1.1 million as a result of this repositioning. Further recognition of realized gains and losses will depend on sales of our investments, if any, to meet our short-term cash requirements or as we replace securities to manage our portfolio returns; and

- New and renegotiated reinsurance treaties may reduce our future cash flow and future investment income.

Other Income: We recorded and received a refund totaling $2.1 million from the WCRA in 2001. The WCRA periodically reviews its surplus position and refunds excess surplus to its members. This refund represents our share of the excess surplus of the WCRA at December 31, 2000.

Total Expenses: Our expenses include claim and claim settlement expenses, policy acquisition costs, general and administrative expenses, interest expense and income taxes.

Claim and Claim Settlement Expenses: Claim expenses refer to medical and indemnity benefits that we paid or expect to pay to claimants for events that have occurred. The costs of investigating, resolving and processing these claims are referred to as claim settlement expenses. We record these expenses, net of amounts recoverable under reinsurance contracts, to claim and claim settlement expenses in the accompanying Consolidated Statements of Operations.

Claim and claim settlement expenses are our largest expense and result in our largest liability. We establish reserves that reflect our estimates of the total claim and claim settlement expenses we will ultimately have to pay under our workers' compensation insurance policies. These include claims that have been reported but not settled and claims that have been incurred but not yet reported to us. For further discussion of reserve determination, see the "Unpaid Claim and Claim Settlement Expenses" section of this Management's Discussion and Analysis.

Claim and claim settlement expenses increased to $80.1 million in 2001 from $72.4 million in 2000. As a percent of premiums earned, claim and claim settlement expenses increased to 93.1% in 2001 from 92.7% in 2000. These changes are due to the following:

- The 2001 results include a $7.7 million increase in prior years' reserves for unpaid claim and claim settlement expenses compared to the 2000 results which include a $15.9 million increase in prior years' reserves for unpaid claim and claim settlement expenses. Our estimate for unpaid claim and claim settlement expenses increased in 2001 due to the following: (i) we increased the estimated liability for second injury funds and our mandatory participation in state and national assigned risk pool operating results for states in which we operate, (ii) our estimate of the liability for unpaid claim and claim settlement expenses is difficult and volatile due to our relatively limited historical claim data and small claim population, and (iii) we increased the estimated liability for claims in our closed Missouri and Massachusetts regions.

- We recorded estimates of ceded paid and unpaid claim and claim settlement expenses under our $25,000 to $300,000 excess of loss reinsurance agreement totaling $15.2 million in 2001 including $400,000 amortized from a deferred retrospective reinsurance gain resulting in a corresponding reduction in 2001 claim and claim settlement expenses. These amounts compare to our 2000 results which include an estimate of ceded paid and unpaid claim and claim settlement expenses totaling $21.8 million and $400,000 amortized from the deferred retrospective reinsurance gain.

- We increased renewal premium rates an average of 18.5% in 2001 and 11.7% in 2000 compared to premium rates for the same periods in 2000 and 1999, respectively, reversing a trend of continued rate declines during years prior to 2000; and

- Claim costs continued to increase in 2001, 2000 and 1999 due to increasing medical and indemnity costs. These increases were offset somewhat by the effects of provider agreements that we negotiated during 1998.

Claim and claim settlement expenses increased to $72.4 million in 2000 from $43.3 million in 1999. As a percent of premiums earned, claim and claim settlement expenses increased to 92.7% in 2000 from 60.8% in 1999. These changes are due to the following:

- We recorded estimates of ceded paid and unpaid claim and claim settlement expenses under our $25,000 to $300,000 excess of loss reinsurance agreement totaling $21.8 million in 2000 including $400,000 amortized from a deferred retrospective reinsurance gain resulting in a corresponding reduction in 2000 claim and claim settlement expenses. These amounts compared to our 1999 results which include an estimate of ceded paid and unpaid claim and claim settlement expenses totaling $22.0 million and $740,000 amortized from the deferred retrospective reinsurance gain;

- The 2000 results include a $15.9 million increase in prior years' reserves for unpaid claim and claim settlement expenses to reflect unfavorable development of prior period claims compared to the 1999 results which include an $8.1 million decrease in prior years' reserves for unpaid claim and claim settlement expenses reflecting favorable development of prior period claims. Our year-end actuarial review of loss reserves in 2000 indicated an increase in the cost incurred or developing in connection with older claims, particularly in Minnesota where we have been writing policies since 1992. Given this indication, we adjusted our actuarial assumptions to reflect this change in loss experience resulting in the increase in reserves;

- We increased renewal premium rates an average of 11.7% in 2000, reversing a trend of continued rate declines in 1999 and prior years; and

- Claim costs continued to increase in 2000 compared to 1999 due to increasing medical and indemnity costs. This was offset somewhat by the effects of provider agreements that we negotiated during 1998.

2002 Outlook: We expect that claim and claim settlement expenses will be affected by the following factors:

- Claim costs will continue to be affected by: (i) increases in medical and indemnity costs resulting from inflationary changes, (ii) severity experienced in future periods in our policy holder base, (iii) changes resulting from increases in operating efficiency and effectiveness realized through enhancements to our internal processes and procedures, including changes to our proprietary computer systems, and (iv) legislative changes that affect benefits payable under workers' compensation laws;

- Increased premium rates will result in increasing premiums earned without a corresponding increase in claim and claim settlement expenses, ultimately decreasing claim and claim settlement expense as a percent of premium earned. Changes in premium rates due to legislative changes in estimated loss costs, increased competition and improving customer loss experience may offset rate improvements; and

- Continued application of our claims management technology and methods to all open claims.

The ultimate result of the above factors on 2002 claim and claim settlement expenses as a percent of premiums earned is unknown at this time.

Policy Acquisition Costs: Policy acquisition costs are costs directly related to writing an insurance policy and consist of commissions, state premium taxes, underwriting personnel costs and expenses, sales and marketing costs and other underwriting expenses less ceding commissions from our reinsurers. Ceding commissions are amounts that reinsurers pay to us for placing reinsurance with them. Under our 1992 to 1994 quota share reinsurance agreement, the ceding commission is adjusted to the extent that actual claim and claim settlement expenses vary from levels specified in the agreements.

The following table summarizes policy acquisition costs (000's):

	Year Ended December 31,		
	2001	2000	1999
	(Revised)		
Commission expense	$ 7,378	$ 7,537	$ 7,145
Premium tax expense	1,888	1,933	1,798
Other policy acquisition costs	4,463	4,207	4,847
Ceding commissions resulting from adjustments to claim and claim settlement estimates for our 1992 to 1994 accident years	261	460	321
Policy acquisition costs	$13,990	$14,137	$14,111

Policy acquisition costs decreased slightly to $14.0 million in 2001 from $14.1 million in 2000 and 1999. As a percent of gross premiums earned, policy acquisition costs decreased to 14.4% in 2001 compared to 14.7% in 2000 and 15.8% for 1999. The decrease in 2001 reflects the following:

- Commission expense decreased to 7.6% of gross premiums earned in 2001 from 7.9% in 2000 and 8.0% in 1999. The decreased commission percentages in 2001 and 2000 are the result of: (i) a focus on reducing commissions paid on new business in our non-Minnesota states and (ii) increased renewal premiums on which we pay lower commission rates in all our states. Historically, as we entered new markets, we introduced higher commission rates to attract business from established agents. These rates continued through early 1999, but were reduced in 2001 and 2000. We believe the commission rates we pay are marketplace competitive in all our markets;

- Premium tax expense decreased slightly to 1.9% of gross premiums earned in 2001 from 2.0% of gross premiums earned in 2000 and 1999;

- Other policy acquisition costs increased slightly to 4.6% of gross premiums earned in 2001 from 4.4% in 2000 and decreased when compared to 5.4% in 1999. Other policy acquisition costs decreased in 2001 and 2000 from levels in 1999 as we focused on improving our underwriting organizational structure resulting in; (i) decreased personnel and overhead costs, and (ii) decreased spending on marketing programs; and

- We incurred ceding commission expense resulting from adjustments to claim and claim settlement expense estimates for 1992 to 1994 totaling $260,000 in 2001, $460,000 in 2000 and $321,000 in 1999.

2002 Outlook: We expect that policy acquisition costs will remain consistent as a percent of gross premiums earned in 2002 as all components of acquisition costs are expected to be stable as compared to 2001.

General and Administrative Expenses: Our general and administrative expenses include personnel costs, office rent, certain state administrative charges based on premiums and other costs and expenses not specific to claim and claim settlement expenses or policy acquisition costs.

Our general and administrative expenses increased to $17.4 million in 2001 from $11.5 million in 2000 and $12.0 million in 1999. As a percent of gross premiums earned, general and administrative expenses increased to 17.9% in 2001 from 12.0% in 2000 and 13.5% in 1999. General and administrative expenses for 2001 include: (i) $2.0 million in margin expenses related to our St. Paul Re contract, (ii) $2.0 million in restructuring charges related to closing our regional offices in Missouri and Massachusetts and closing satellite offices in Brainerd, Minnesota and Overland Park, Kansas; (iii) assessments by state Insurance Guarantee Associations (IGA) totaling $1.1 million in 2001 compared to $236,000 in 2000 and $17,000 in 1999; and (iv) one-time business repositioning costs totaling $470,000 in 2001 and corporate oversight costs related to the efforts of the majority shareholders in seeking a buyer for their shares totaling $1.3 million in 1999. After adjusting for these items, general and administrative expenses increased as a percent of gross premiums earned to 12.1% in 2001 from 11.8% in 2000 and 12.0% in 1999. These decreases reflect:

- General and administrative expenses continue to improve as a percent of premiums earned, after adjusting for restructuring charges, IGA assessments and one-time charges. We have aggressively managed personnel and other operating costs and expenses to bring operating expenses more in line with revenues. All expenses continue to be managed aggressively and reduced where appropriate, and

- A reorganization effected in the fourth quarter of 1999 resulted in a net reduction of thirty-three positions. This reorganization reduced costs and centralized and strengthened certain processes late in 1999 and throughout 2000 and 2001.

2002 Outlook: We expect that general and administrative expenses will be affected by the following:

- We will aggressively manage all operating costs and expenses in 2002;

- We have no plans to open additional state offices in 2002 and expect to reduce overhead costs as a result of our office closures in 2001; and

- We expect to realize additional operational efficiency during 2002 through enhancements to our internal processes and procedures, including changes to our operating structure as well as improvements to our internal proprietary computer systems.

Interest Expense: We incurred interest charges on our Term Loan in 2001 and 2000 and on our Senior Notes in 1999.

We paid interest at rates ranging from 6.50% to 8.83% on the outstanding balance of our Term Loan in 2001 compared to 8.68% to 9.34% in 2000. Interest expense decreased to $511,000 in 2001 from $667,000 in 2000 as a result of the change in the interest rate and $2.5 million in principal payments on the note in 2001.

We paid interest at rates ranging from 8.68% to 9.34% on the outstanding balance of our Term Loan in 2000 compared to 9.50% on the outstanding balance of our Senior Notes during 1999. Interest expense increased to $667,000 in 2000 from $266,000 in 1999 as we increased our notes payable by financing the repurchase of shares from a group headed by our majority shareholder and Chairman, David C. Prosser through an $8.0 million Term Loan and a $2.0 million Revolving Credit Facility with a bank. The Senior Notes were paid in full in December 1999. No amounts were outstanding under the Revolving Credit Facility in 2000 and the Credit Facility was terminated in 2001.

2002 Outlook: We expect to incur interest charges in 2002 on the outstanding balance of the Term Loan totaling approximately $170,000, decreasing from $511,000 in 2001 as a result of principal payments of $2.5 million in 2001, $1.0 million in February 2002 and an additional $1.3 million through the remainder of 2002 and a decrease in the interest rate to under 5.00%.

Income Taxes: We incur federal income taxes on our combined service organization (RTW) operations and insurance (ACIC) operations. We incur state income taxes on the results of our service organization's operations and incur premium taxes in lieu of state income taxes for substantially all of our insurance operations. In certain instances, we may incur state income taxes on our insurance operations. Additionally, certain provisions of the Internal Revenue Code adversely affect our taxable income by accelerating recognition and payment of income taxes. Adjustments to book income generating current tax liabilities include limitations on the deductibility of unpaid claim and claim settlement expenses, limitations on the deductibility of unearned premium reserves and limitations on deductions for bad debt reserves.

In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. We consider recent operating results, the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. At December 31, 2001, we established a $14.5 million valuation allowance against deferred tax assets resulting in a corresponding increase in income tax expense. We expect the remaining deferred tax assets, net of the valuation allowance, at December 31, 2001 to be realized as a result of the reversal of existing taxable temporary differences in the future. No valuation allowance was provided against the deferred tax assets recorded in 2000 or 1999.

Income tax expense of $8.9 million in 2001 included the $14.5 million valuation allowance adjustment. After excluding the effects of the valuation allowance, the income tax benefit was $5.6 million in 2001 compared to a benefit of $5.7 million in 2000 and an expense of $1.9 million in 1999. As a percent of (loss) income before income taxes, the income tax (benefit) expense before valuation allowance was 34.7% of the loss before income taxes in

2001 compared to 37.2% of the loss before income taxes in 2000 and 23.8% of income before income taxes in 1999. The income tax benefit percentages in 2001 and 2000 have been affected by: (i) our loss from operations, (ii) establishing a deferred tax valuation allowance, (iii) increased taxable net income from the service organization (RTW) which is subject to both federal and state income taxes, and (iv) changes in tax-exempt municipal income.

2002 Outlook: Income tax expense will vary based on: (i) the income from operations we recognize for 2002, and (ii) the changes in our analysis of the valuation allowance necessary during 2002. The ultimate change is unknown at this time.

INVESTMENTS

Our portfolio of fixed maturity securities at December 31, 2001 included mortgage-backed securities (50.6%), U.S. government securities (29.5%), corporate securities (19.2%), and asset-backed securities (0.6%). Our portfolio is managed by an independent investment manager to maximize our after-tax investment income without taking inappropriate credit risk. In February 2001, we repositioned our portfolio by selling our tax-exempt securities and repurchasing taxable fixed maturity investments to increase our after-tax yield. We recognized gains totaling $1.1 million as a result of this repositioning. In February 2002, we sold select securities within the portfolio and realized an additional investment gain totaling $1.1 million to increase our statutory surplus. We conservatively manage our fixed maturity portfolio, investing only in investment grade (BBB or better rating from Standard and Poor's) securities of U.S. domiciled issuers. We do not invest in derivative securities.

Funds from our operating cash flows and investment cash flows have historically provided growth in our investment portfolio. Operating cash flows consist of the excess of premiums collected over claim and claim settlement expenses reduced by payments for reinsurance premiums as well as other operating expenses paid. Investment cash flows consist of income on existing investments and proceeds from sales and maturities of investments. Prior to 1999, we generated positive net cash flows from operations due, in part, to timing differences between the receipt of premiums and the payment of claim and claim settlement expenses. These net cash flows decreased significantly in 2000 and 1999 as we focused on closing old claims, paying earlier to close those claims. Combined with relatively flat premiums in force since December 1998, our cash flows from timing on claims payments have decreased. Additionally, as we lowered our reinsurance retention levels to $25,000 in mid-1998, we decreased our current period cash flows as a result of "pre-funding" quarterly premiums under that agreement. Our investment portfolio decreased $7.6 million to $89.2 million at December 31, 2001, from $96.8 million at December 31, 2000, as a result of these factors. We expect positive quarterly cash flow from our $25,000 to $300,000 excess of loss reinsurance agreement in 2002 as we are reimbursed for loss payments to claimants under the policy. This increase in cash flow will be more than offset by: (i) premiums ceded under our St. Paul Re contract and (ii) decreases in cash flows as our 2002 premiums in force and premiums earned decrease and result in the use of cash in 2002.

We record investments on our balance sheet at fair value, with the corresponding appreciation or depreciation from amortized cost recorded in shareholders' equity, net of taxes. Because value is based on the relationship between the portfolio's stated yields and prevailing market yields at any given time, interest rate fluctuations can have a swift and significant impact on the carrying value of these securities. As a result of classifying our securities as available-for-sale, and thus carrying them at fair value, we expect to encounter adjustments in shareholders' equity as market interest rates and other factors change. In 2000, we recorded a $500,000 cost basis reduction of a security held in our portfolio as we deemed its decline in fair value to be other than temporary in nature. This security was sold in January 2002 and its adjusted cost was used to determine the gain realized in 2002. Prevailing market interest rates decreased in 2001 and 2000 resulting in a $1.4 million unrealized gain on investments in 2001 compared to a $309,000 unrealized gain in 2000.

UNPAID CLAIM AND CLAIM SETTLEMENT EXPENSES

Our unpaid claim and claim settlement expenses represent reserves established for the estimated total unpaid cost of claim and claim settlement expenses, which cover events that occurred in 2001 and prior years. The reserves are primarily undiscounted; however, we discounted reserves for selected claims that have fixed and determinable future payments at 5.0% in 2001 and 8.0% in 2000. The decrease in the discount rate in 2001 is the result of the general decrease in market interest rates and we use the same rates for determining our statutory liability. These reserves reflect our estimates of the total costs of claims that were reported, but not yet paid, and the cost of claims incurred but not yet reported (IBNR). For reported claims, we establish reserves on a "case" basis. For IBNR claims, we estimate reserves using established actuarial methods. Both our case and IBNR reserve estimates reflect such variables as past claims experience, current claim trends and prevailing social, economic and legal environments.

Due to our commencing operations in 1992, we have limited historical data to estimate our reserves for unpaid claim and claim settlement expenses and, accordingly, we supplement our experience with external industry data, as adjusted, to reflect anticipated differences between our results and the industry. We reduce the unpaid claim and claim settlement expenses for estimated amounts of subrogation.

We believe our reserves for unpaid claim and claim settlement expenses are adequate to cover the ultimate costs of claim and claim settlement expenses. The ultimate cost of claim and claim settlement expenses may differ materially from the established reserves, particularly when claims may not be settled for many years. Reserves for unpaid claim and claim settlement expenses and assumptions used in their development are continually reviewed. We record adjustments to prior estimates of unpaid claim and claim settlement expenses to operations in the year in which the adjustments are made. See Notes 1 and 6 in the accompanying Consolidated Financial Statements. The following two tables reconcile the beginning and ending insurance reserves, displayed individually for each of the last three years.

The following table sets forth reserves on a gross (before reinsurance) basis (000's):

	Year Ended December 31,		
	2001	**2000**	**1999**
Gross Reserves for Claim and Claim Settlement Expenses:			
Gross reserves for claim and claim settlement expenses, beginning of year	$ 128,841	$ 99,831	$ 97,269
Provision increases (decreases) for claim and claim settlement expenses:			
Current year	97,510	87,203	79,333
Prior years	31,224	17,930	(11,868)
Total provision	128,734	105,133	67,465
Payments for claim and claim settlement expenses:			
Current year	27,024	30,190	27,841
Prior years	49,241	45,933	37,062
Total payments	76,265	76,123	64,903
Gross reserves for claim and claim settlement expenses, end of year	$ 181,310	$ 128,841	$ 99,831

The following table sets forth reserves on a net (after reinsurance) basis (000's):

	Year Ended December 31,		
	2001	**2000**	**1999**
	(Revised)		
Net Reserves for Claim and Claim Settlement Expenses:			
Net reserves for claim and claim settlement expenses, beginning of year	$66,996	$58,652	$75,866
Plus: Deferred retrospective reinsurance gain, beginning of year	849	1,249	1,989
Provision increases (decreases) for claim and claim settlement expenses:			
Current year	73,557	56,900	52,176
Prior years	7,731	15,929	(8,113)
Write-off of reinsurance recoverable	(785)	—	—
Amortization of deferred retrospective reinsurance gain	(400)	(400)	(740)
Total provision	80,103	72,429	43,323
Payments for claim and claim settlement expenses:			
Current year	25,062	28,154	26,897
Prior years	31,242	36,331	34,380
Total payments	56,304	64,485	61,277
Less: Deferred retrospective reinsurance gain, end of year	(449)	(849)	(1,249)
Net reserves for claim and claim settlement expenses, end of year	$91,195	$66,996	$58,652

The following loss reserve development table sets forth the change, over time, of reserves established for claim and claim settlement expenses at the end of the last eight years. The following loss reserve development table is cumulative and, therefore, ending balances should not be added since the amount at the end of each calendar year includes activity for both current and prior years (000's):

	December 31,				
	2001	2000	1999	1998	1997
Loss Reserve Development:	(Revised)				
Gross reserves for unpaid claim and claim settlement expenses	$ 181,310	$ 128,841	$ 99,831	$ 97,269	$ 61,069
Reinsurance recoverables	90,115	61,845	41,179	21,403	5,374
Net reserves for unpaid claim and claim settlement expenses	$ 91,195	$ 66,996	$ 58,652	$ 75,866	$ 55,695
Paid (cumulative) as of:					
One year later		$ 32,028	$ 35,932	$ 34,380	$ 27,737
Two years later			48,069	49,958	42,046
Three years later				56,376	49,671
Four years later					53,814
Five years later					
Six years later					
Seven years later					
Eight years later					
Nine years later					
Reserves re-estimated as of:					
End of year	$ 91,195	$ 66,996	$ 58,652	$ 75,866	$ 55,695
One year later		74,727	74,181	67,753	66,674
Two years later			76,502	77,205	61,075
Three years later				78,331	68,065
Four years later					69,474
Five years later					
Six years later					
Seven years later					
Eight years later					
Nine years later					
Initial reserves in excess of (less than) re-estimated reserves					
Amount		$ (7,731)	$ (17,850)	$ (2,465)	$ (13,779)
Percent		(11.5)%	(30.4)%	(3.2)%	(24.7)%

[Additional columns below]

[Continued from above table, first column(s) repeated]

	December 31,				
	1996	1995	1994	1993	1992
Loss Reserve Development:					
Gross reserves for unpaid claim and claim settlement expenses	$ 49,256	$ 37,138	$ 28,165	$ 13,279	$ 2,688
Reinsurance recoverables	6,183	8,312	13,902	9,593	1,886
Net reserves for unpaid claim and claim settlement expenses	$ 43,073	$ 28,826	$ 14,263	$ 3,686	$ 802
Paid (cumulative) as of:					
One year later	$ 19,439	$ 8,595	$ 4,639	$ 1,436	$ 583
Two years later	28,173	12,894	6,476	2,150	678
Three years later	33,438	15,521	7,863	2,348	815
Four years later	36,904	16,869	8,569	2,654	856

Five years later	38,919	18,020	9,046	2,816	925
Six years later		18,714	9,396	2,847	951
Seven years later			9,564	2,932	920
Eight years later				2,985	928
Nine years later					951
Reserves re-estimated as of:					
End of year	$ 43,073	$ 28,826	$ 14,263	$ 3,686	$ 802
One year later	39,988	20,751	12,789	3,784	1,075
Two years later	43,484	18,469	9,318	3,416	1,008
Three years later	41,451	19,796	8,984	2,782	950
Four years later	45,959	19,389	9,669	2,861	912
Five years later	47,147	21,254	9,692	2,972	949
Six years later		22,568	10,330	2,927	964
Seven years later			11,675	3,106	926
Eight years later				3,818	945
Nine years later					951
Initial reserves in excess of (less than) re-estimated reserves					
Amount	$ (4,074)	$ 6,258	$ 2,588	$ (132)	$ (149)
Percent	(9.5)%	21.7%	18.1%	(3.6)%	(18.6)%

The following table is derived from the loss reserve development table and summarizes the effect of reserve re-estimates, net of reinsurance, on calendar year operations for the same eight-year period ended December 31, 2001. The total of each column details the amount of reserve re-estimates made in the indicated calendar year and shows the accident years to which the re-estimates are applicable. The amounts in the total accident year column represent the cumulative reserve re-estimates for the indicated accident year (000's):

Effect of Reserve re-estimates on Calendar Year Operations:

	2001	**2000**	**1999**	**1998**	**1997**
Accident Year:					
1992	$ (6)	$ (19)	$ 38	$ (15)	$ (37)
1993	(706)	(160)	7	(96)	(42)
1994	(633)	(459)	(68)	(574)	413
1995	31	(1,227)	430	(642)	1,948
1996	126	(2,643)	1,626	(2,169)	803
1997	(221)	(2,482)	3,566	(7,483)	
1998	283	(2,462)	2,514		
1999	(1,195)	(6,077)			
2000	(5,410)				
Total	$ (7,731)	$ (15,529)	$ 8,113	$ (10,979)	$ 3,085

[Additional columns below]

[Continued from above table, first column(s) repeated]

Effect of Reserve re-estimates on Calendar Year Operations:

	1996	**1995**	**1994**	**1993**	***Cumulative Re-estimates for each Accident Year***
Accident Year:					
1992	$ 38	$ 58	$ 67	$ (273)	$ (149)
1993	596	310	(165)		(256)
1994	2,837	1,106			2,622
1995	4,604				5,144
1996					(2,257)
1997					(6,620)
1998					335
1999					(7,272)
2000					(5,410)
Total	$ 8,075	$ 1,474	$ (98)	$ (273)	$ (13,863)

LIQUIDITY AND CAPITAL RESOURCES

Liquidity refers to our ability to generate sufficient cash flows to meet the short- and long-term cash requirements of our operations. Capital resources represent those funds deployed or available to be deployed to support our business operations.

Our primary sources of cash from operations are premiums collected and investment income. Our investment portfolio is also a source of liquidity, through the sale of readily marketable fixed maturity investments. Our primary cash requirements consist of payments for: (i) claim and claim settlement expenses, (ii) reinsurance, (iii) policy acquisition costs, (iv) general and administrative expenses, (v) capital expenditures, (vi) income taxes, and (vii) debt service or principal repayment on our Term Loan. Prior to 1999, we generated positive net cash from operations due, in part, to timing differences between the receipt of premiums and the payment of claim and claim settlement expenses. As we lowered our reinsurance retention levels to $25,000 beginning in mid-1998 through runoff in 2001, we decreased our current period cash flows as a result of “pre-funding” quarterly premiums under that agreement. We expect positive quarterly cash flow from our $25,000 to $300,000 excess of loss reinsurance agreement in 2002 as we are reimbursed for loss payments to claimants under the policy. This increase in cash flow will be more than offset by: (i) premiums ceded under our St. Paul Re contract, and (ii) decreases in cash flows as our premiums in force and premiums earned decrease in 2002. Excess cash is invested in either short-term cash and cash equivalents or longer-term available-for-sale securities pending future payments for such expenses as medical and indemnity benefits and other operating expenses. Cash and cash equivalents consist of U.S. government securities acquired under repurchase agreements and corporate securities, all with maturities of 90 days or less, with the remaining balances in cash and a money market fund that invests primarily in short-term government securities.

Cash used in operating activities in 2001 was $6.5 million. This is primarily the result of our net loss of $25.2 million; an increase of $29.0 million in amounts due from reinsurers, $17.6 million in deposits receivable from St. Paul Re and net realized investment gains totaling $1.2 million offset by an increase of $52.5 million in unpaid claim and claim settlement expenses, which are non-cash accruals for future claims; a decrease in our net deferred income tax asset of $8.8 million; an increase in accrued liabilities totaling $1.0 million; depreciation and amortization expense of $1.7 million and a decrease of $744,000 in unearned premiums, net of premiums receivable. Net cash provided by investing activities was $10.0 million, primarily the result of $92.8 million in proceeds from sales of securities and $872,000 in disposals of furniture and equipment offset by $83.3 million in purchases of securities and $379,000 in purchases of furniture and equipment. Net cash used in financing activities was $2.5 million due primarily to payments on notes payable of $2.5 million.

Our need for additional capital is primarily the result of regulations that require certain ratios of regulatory or statutory capital to premiums written in our insurance subsidiary as defined by state regulatory bodies and insurance rating agencies. We believe that raising additional permanent capital would stabilize our ratio of premium to capital and provide a solid base for the future growth of our insurance subsidiary. As an alternative to raising additional permanent capital, further quota-share reinsurance or other additional reinsurance on an interim basis would have the effect of reducing the ratio of premiums to capital and could be used to satisfy state regulatory requirements.

State insurance regulations limit distributions, including dividends, from our insurance subsidiary to us. The maximum amount of dividends that can be paid by ACIC to us in any year is equal to the greater of: (i) 10% of ACIC’s statutory surplus as of the end of the previous fiscal year, or (ii) the statutory net gain from operations (not including realized capital gains) of ACIC in its most recent fiscal year. Based on this limitation, the maximum dividend that ACIC could pay to us in 2002, without regulatory approval, is approximately $2.0 million. (See Note 10 of Notes to Consolidated Financial Statements.) ACIC has never paid a dividend to us and we intend to retain capital in the insurance subsidiary.

On September 15, 1998, our Board of Directors approved a share repurchase program authorizing us to repurchase, from time to time, up to $4,000,000 of RTW, Inc. common stock. We repurchased 10,000 shares in 2001 for approximately $9,000, 640,000 shares in 2000 for approximately $2.6 million and 19,500 shares for approximately $87,000 through 1999. We repurchased these shares on the open market or through private transactions based upon market conditions and availability. The repurchased shares will be used for employee stock option and purchase plans and other corporate purposes.

Investments held as statutory deposits and pledged as collateral do not have an adverse effect on our liquidity. We believe that cash flow generated by our operations and our cash and investment balances will be sufficient to fund continuing operations, principal and interest payments and capital expenditures for the next 12 months.

INTEREST RATE RISK

Our fixed maturity investments are subject to interest rate risk. Increases and decreases in prevailing interest rates generally translate into decreases and increases in the fair value of these instruments. Also, fair values of interest rate sensitive instruments may be affected by the credit worthiness of the issuer, prepayment options, relative values of alternative instruments, the liquidity of the instrument and other general market conditions. We regularly evaluate interest rate risk in order to evaluate the appropriateness of our investments.

An increase of 100 basis points in prevailing interest rates would reduce the fair value of our interest rate sensitive instruments by approximately $4.1 million.

The effect of interest rate risk on potential near-term fair value was determined based on commonly used models. The models project the impact of interest rate changes on factors such as duration, prepayments, put options and call options. Fair value was determined based on the net present value of cash flows or duration estimates, using a representative set of likely future interest rate scenarios.

NAIC RISK-BASED CAPITAL STANDARDS

The National Association of Insurance Commissioners (NAIC) has risk-based capital standards to determine the capital requirements of a property and casualty insurance carrier based upon the risks inherent in its operations. These standards require computing a risk-based capital amount that is compared to a carrier's actual total adjusted capital. The computation involves applying factors to various financial data to address four primary risks: asset risk, insurance underwriting risk, credit risk and off-balance sheet risk. These standards provide for regulatory intervention when the percent of total adjusted capital to authorized control level risk-based capital is below certain levels. Based upon the risk-based capital standards, our percent of total adjusted capital is in excess of authorized control level risk-based capital.

REGULATION

Our insurance subsidiary is subject to substantial regulation by governmental agencies in the states in which we operate, and will be subject to such regulation in any state in which we provide workers' compensation products and services in the future. State regulatory agencies have broad administrative power with respect to all aspects of our business, including premium rates, benefit levels, policy forms, dividend payments, capital adequacy and the amount and type of investments. These regulations are primarily intended to protect covered employees and policyholders rather than the insurance company. Both the legislation covering insurance companies and the regulations adopted by state agencies are subject to change. At December 31, 2001, our insurance subsidiary was licensed to do business in Minnesota, South Dakota, Wisconsin, Colorado, Missouri, Illinois, Kansas, Michigan, Indiana, Massachusetts, Connecticut, Rhode Island, Pennsylvania, Tennessee, Maryland, Arkansas, Iowa, Florida, Georgia, New Jersey, North Carolina, Texas and Oklahoma.

In March 1998, the NAIC adopted the Codification of Statutory Accounting Principles (the Codification). The Codification is intended to standardize regulatory accounting and reporting to state insurance departments and became effective January 1, 2001. Statutory accounting principles, however, will continue to be established by individual state laws and permitted practices. The State of Minnesota required adoption of the Codification for preparing statutory financial statements for financial periods occurring on or after January 1, 2001. Adoption of the Codification increased our statutory capital and surplus by approximately $2.9 million on January 1, 2001.

EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets". SFAS No. 141 requires that all business combinations be accounted for under the purchase method only, and that certain acquired intangible assets in a business combination be recognized as assets apart from goodwill. SFAS No. 142 requires ratable amortization of goodwill be replaced with periodic tests of goodwill's impairment and that intangible assets other than goodwill be amortized over their useful lives. Implementation of SFAS No. 141 and 142 is required for fiscal 2002. We believe that the adoption of SFAS No. 141 and 142 will not have an impact on our financial statements

FORWARD-LOOKING STATEMENTS

Information included in this Annual Report and Report on Form 10-K which can be identified by the use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate," or "continue" or the negative thereof or other variations thereon or comparable terminology constitutes forward-looking information. The following important factors, among others, in some cases have affected and in the future could affect our actual results and could cause our actual financial performance to differ materially from that expressed in any forward-looking statement: (i) our ability to retain renewing policies and write new business with a B- (Unsecure) rating from A.M. Best; (ii) our ability to continue to increase pricing in the markets in which we remain; (iii) the ability of our reinsurers to honor their obligations to us; (iv) our ability to accurately predict claim development; (v) our ability to manage both our existing claims and new claims in an effective manner; (vi) our experience with claims frequency and severity; (vii) competition and the regulatory environment in which we operate; (viii) general economic and business conditions; (ix) our ability to obtain and retain reinsurance at a reasonable cost; (x) changes in workers' compensation regulation by states, including changes in mandated benefits or insurance company regulation; (xi) interest rate changes; and (xii) other factors as noted in our other filings with the SEC. This discussion of uncertainties is by no means exhaustive but is designed to highlight important factors that may impact our future performance.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information with respect to Disclosures about Market Risk is contained in the Section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations — Interest Rate Risk" under Item 7 of this Report of Form 10-K/A and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

Report of Independent Auditors

The Board of Directors and Shareholders
RTW, Inc.
Minneapolis, Minnesota

We have audited the accompanying consolidated balance sheet of RTW, Inc. (the Company) as of December 31, 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company as of December 31, 2000 and for each of the two years in the period ended December 31, 2000, were audited by other auditors whose report dated February 9, 2001 (March 28, 2001 as to Note 6) expressed an unqualified opinion on those statements and included an emphasis paragraph that stated the establishment of claim and claim settlement expense reserves is an inherently uncertain process.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2001 financial statements referred to above present fairly, in all material respects, the consolidated financial position of RTW, Inc. at December 31, 2001, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

March 25, 2003
Minneapolis, Minnesota

Report of Independent Auditors

To the Board of Directors and Shareholders
RTW, Inc.
Minneapolis, Minnesota

We have audited the accompanying consolidated balance sheet of RTW, Inc. and subsidiary (the Company) as of December 31, 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes 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 Note 6, the establishment of claim and claim settlement expense reserves is an inherently uncertain process.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2000, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Minneapolis, Minnesota
February 9, 2001
(March 28, 2001 as to Note 6)

RTW, INC.
Consolidated Balance Sheets
December 31, 2001 and 2000
(In Thousands, Except Share Data)

	2001	2000
ASSETS	(Revised)	
Investments at fair value, amortized cost of $87,809 and $96,521	$ 89,166	$ 96,830
Cash and cash equivalents	3,425	2,427
Accrued investment income	1,133	1,266
Premiums receivable, less allowance of $436 and $569	6,665	10,126
Deposit receivable	17,635	-
Reinsurance recoverables:		
On unpaid claim and claim settlement expenses	90,115	61,845
On paid claim and claim settlement expenses	3,039	2,295
Deferred policy acquisition costs	1,214	1,351
Furniture and equipment, net	1,824	3,590
Other assets	4,091	14,805
Total assets	$ 218,307	$ 194,535
LIABILITIES AND SHAREHOLDERS' EQUITY		
Unpaid claim and claim settlement expenses	$ 181,310	$ 128,841
Unearned premiums	9,738	12,455
Accrued expenses and other liabilities	8,537	7,503
Notes payable	4,500	7,000
Total liabilities	204,085	155,799
Commitments and contingencies	—	—
Shareholders' equity:		
Undesignated stock, no par value; authorized 4,750,000 shares; none issued or outstanding	—	—
Series A Junior Participating Preferred Stock, no par value; authorized 250,000 shares; none issued or outstanding	—	—
Common stock, no par value; authorized 25,000,000 shares; issued and outstanding 10,302,000 and 10,293,000 shares	20,688	20,665
Retained (deficit) earnings	(7,348)	17,867
Accumulated other comprehensive income	882	204
Total shareholders' equity	14,222	38,736
Total liabilities and shareholders' equity	$ 218,307	$ 194,535

See notes to consolidated financial statements.

RTW, INC.
Consolidated Statements of Operations
Years Ended December 31, 2001, 2000 and 1999
(In Thousands, Except Share and Per Share Data)

	2001 (Revised)	2000	1999
Revenues:			
Gross premiums earned	$ 97,420	$ 95,878	$ 89,226
Premiums ceded	(11,363)	(17,724)	(18,008)
Premiums earned	86,057	78,154	71,218
Investment income	6,415	5,752	6,510
Net realized investment gains (losses):			
Realized investment gains	1,225	26	108
Realized investment losses	(62)	(633)	(24)
Net realized investment gains (losses)	1,163	(607)	84
Other income	2,088	—	—
Total revenues	95,723	83,299	77,812
Expenses:			
Claim and claim settlement expenses	80,103	72,429	43,323
Policy acquisition costs	13,990	14,137	14,111
General and administrative expenses	17,391	11,513	12,021
Total expenses	111,484	98,079	69,455
(Loss) income from operations	(15,761)	(14,780)	8,357
Interest expense	511	667	266
(Loss) income before income taxes	(16,272)	(15,447)	8,091
Income tax expense (benefit)	8,943	(5,739)	1,924
Net (loss) income	$ (25,215)	$ (9,708)	$ 6,167
(Loss) income per share:			
Basic (loss) income per share	$ (2.45)	$ (0.89)	$ 0.50
Diluted (loss) income per share	$ (2.45)	$ (0.89)	$ 0.50
Weighted average shares outstanding:			
Basic shares outstanding	10,304,000	10,855,000	12,291,000
Diluted shares outstanding	10,304,000	10,855,000	12,360,000

See notes to consolidated financial statements.

RTW, INC.
Consolidated Statements of Shareholders' Equity
Years Ended December 31, 2001, 2000 and 1999
(In Thousands)

	Common Stock	Comprehensive Income (Loss)	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at January 1, 1999	$ 29,451		$ 21,408	$ 1,759	$ 52,618
Comprehensive income:					
Net income	—	$ 6,167	6,167	—	6,167
Other comprehensive loss, net of tax:					
Change in unrealized investment losses	—	(4,577)	—	(4,577)	(4,577)
Comprehensive income		$ 1,590			
Non-qualified stock options exercised	1,172		—	—	1,172
Incentive stock options exercised	80		—	—	80
Issuance of shares under ESPP	105		—	—	105
Balance at December 31, 1999	30,808		27,575	(2,818)	55,565
Comprehensive loss:					
Net loss	—	$ (9,708)	(9,708)	—	(9,708)
Other comprehensive income, net of tax:					
Change in unrealized investment gains	—	3,022	—	3,022	3,022
Comprehensive loss		$ (6,686)			
Retirement of common stock	(10,268)		—	—	(10,268)
Issuance of shares under ESPP	125		—	—	125
Balance at December 31, 2000	20,665		17,867	204	38,736
Comprehensive loss:					
Net loss	—	$ (25,215)	(25,215)	—	(25,215)
Other comprehensive income net of tax:					
Change in unrealized investment gains	—	678	—	678	678
Comprehensive loss		$ (24,537)			
Retirement of common stock	(10)		—	—	(10)
Issuance of shares under ESPP	33		—	—	33
Balance at December 31, 2001 (Revised)	$ 20,688		$ (7,348)	$ 882	$ 14,222

See notes to consolidated financial statements.

RTW, INC.
Consolidated Statements of Cash Flows
Years Ended December 31, 2001, 2000 and 1999
(In Thousands)

	2001 (Revised)	2000	1999
Cash flows from operating activities:			
Net (loss) income	$ (25,215)	$ (9,708)	$ 6,167
Adjustments to reconcile net (loss) income to net cash used in operating activities:			
Net realized investment (gains) losses	(1,163)	607	(84)
Depreciation and amortization	1,690	1,397	1,382
Deferred income taxes	8,776	(1,371)	764
Changes in assets and liabilities:			
Deposit receivable	(17,635)	—	—
Amounts due from reinsurers	(29,014)	(20,638)	(21,232)
Unpaid claim and claim settlement expenses	52,469	29,010	2,562
Unearned premiums, net of premiums receivable	744	(1,002)	(3,142)
Other, net	2,832	(7,167)	3,313
Net cash used in operating activities	(6,516)	(8,872)	(10,270)
Cash flows from investing activities:			
Maturities of investments	—	510	1,915
Purchases of available-for-sale investments	(83,341)	—	(11,239)
Proceeds from sales of available-for-sale investments	92,839	14,594	20,912
Purchases of furniture and equipment	(379)	(1,015)	(573)
Disposals of furniture and equipment	872	51	—
Net cash provided by investing activities	9,991	14,140	11,015
Cash flows from financing activities:			
Proceeds from notes payable	—	8,000	—
Payments on notes payable	(2,500)	(1,000)	(2,500)
Stock options and warrants exercised	—	—	1,252
Issuance of common stock under ESPP	33	125	105
Retirement of common stock	(10)	(10,268)	—
Net cash used in financing activities	(2,477)	(3,143)	(1,143)
Net increase (decrease) in cash and cash equivalents	998	2,125	(398)
Cash and cash equivalents at beginning of year	2,427	302	700
Cash and cash equivalents at end of year	$ 3,425	$ 2,427	$ 302
Supplemental disclosure of cash flow information:			
Cash paid (received) during the year for:			
Interest	$ 641	$ 458	$ 238
Income tax (refunds) payments	$ (1,559)	$ 802	$ (1,312)

See notes to consolidated financial statements.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — RTW, Inc. (RTW) provides workers' compensation insurance coverage to employers through its wholly owned insurance subsidiary, American Compensation Insurance Company (ACIC). Collectively, "we," "our" and "us" will refer to these entities in these Notes to Consolidated Financial Statements.

We benefit from our ability to reduce workers' compensation costs and provide employers the ability to control their workers' compensation programs. We are domiciled in Minnesota and are licensed in Minnesota, Colorado, Missouri, Michigan, Massachusetts, Illinois, Kansas, Connecticut, Wisconsin, Rhode Island, Florida, Iowa, Indiana, Arkansas, Pennsylvania, Tennessee, South Dakota, Maryland, Georgia, New Jersey, North Carolina, Texas and Oklahoma at December 31, 2001. We are also licensed to write workers' compensation insurance coverage for companies covered under the Longshoreman's Act. We wrote policies primarily in Minnesota, Colorado, Missouri, Illinois, Kansas, Michigan, Massachusetts, Connecticut and Wisconsin during 2001. In the fourth quarter of 2001, we announced that we would close our regional offices in Missouri and Massachusetts. Beginning February 2002, we began to non-renew all policies in our Missouri and Massachusetts regions and will run off expiring policies in these regions through January 2003. We operate in a single business segment, workers' compensation insurance.

The following explain the accounting policies we use to arrive at some of the more significant amounts in our financial statements.

Accounting Principles — We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Consolidation — Our consolidated financial statements include RTW and ACIC. We eliminate all inter-company accounts and transactions in consolidation.

Use of Estimates — We make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the financial statement date and the recorded amounts of revenues and expenses during the reporting period. Our most significant estimates are those relating to our unpaid claim and claim settlement expenses, income taxes and accrual for premium adjustments. We continually review our estimates and assumptions and make adjustments as necessary, but actual results could vary significantly from these estimates.

Investments — We invest entirely in fixed maturity investments and classify our investments as available-for-sale.

Available-for-Sale Investments: Our available-for-sale investments are carried at fair value with changes in unrealized gains or losses, net of deferred taxes, reported as other comprehensive income or loss. The fair values of our investments are determined based upon quoted market prices as obtained through commercial pricing services or brokers who provide estimated fair values.

Realized Investment Gains and Losses: Net realized investment gains and losses are identified separately in our Consolidated Statements of Operations. Cost of investments sold is determined by the specific identification method.

We continually monitor the difference between investment cost and fair value for each of our securities. If any security experienced a decline in value that is determined to be other than temporary, we would reduce the security's carrying value for the decline and record a realized loss in the Consolidated Statements of Operations. In 2000, we recorded $500,000 against a security whose decline in value was determined to be other than temporary. No securities were reduced for declines in fair value in 2001 or 1999.

Cash and Cash Equivalents — We consider all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Fair Value of Financial Instruments — A number of our significant assets and liabilities (including deferred policy acquisition costs, reinsurance recoverables, furniture and equipment and unpaid claim and claim settlement expenses) are not considered financial instruments for disclosure purposes. Our premiums receivable and other assets and liabilities that are considered financial instruments are generally of a short-term nature. Our term loan bears a floating interest rate. The carrying values of these instruments approximate their fair values. The carrying values and fair values of investments are disclosed in Note 4.

***Deferred Policy Acquisition Costs* —** The costs directly related to writing an insurance policy are referred to as policy acquisition costs and consist of commissions, state premium taxes and other direct underwriting expenses. Although these costs arise when we issue a policy, we defer certain costs, principally commissions and state premium taxes. These costs are amortized to expense as premium revenue is recognized and are reported net of ceding commissions in the Statement of Operations.

If deferred policy acquisition costs were to exceed the sum of unearned premiums net of reinsurance and related anticipated investment income less expected claim and claim settlement expenses, we would immediately expense the excess costs.

***Depreciation* —** We depreciate furniture and equipment on a straight-line basis over the estimated useful lives of the assets (five to ten years). Accumulated depreciation was $3.7 million at December 31, 2001 and $5.1 million at December 31, 2000.

***Unpaid Claim and Claim Settlement Expenses* —** Claim expenses refer to amounts that we paid or expect to pay to claimants for insured events that have occurred. The costs of investigating, resolving and processing these claims are referred to as claim settlement expenses. We record these expenses, net of amounts recoverable under reinsurance contracts, as "Claim and claim settlement expenses" in the Consolidated Statements of Operations.

Our "Unpaid claim and claim settlement expenses" represent reserves established for the estimated total unpaid cost of claim and claim settlement expenses for insured events that occurred on or prior to each balance sheet date. The reserves are primarily undiscounted; however, we discounted selected claims that have fixed or determinable future payments by $482,000 in 2001 and $1.4 million in 2000 using 5.0% and 8.0% discount factors, respectively. These reserves reflect our estimates of the total cost of claims that were reported, but not yet paid, and the cost of claims incurred but not yet reported. Our estimates consider such variables as past loss experience, current claim trends and prevailing social, economic and legal environments. We have a limited amount of historical data to use in estimating our reserves for unpaid claim and claim settlement expenses because we commenced operations in 1992. As a result, we supplement our experience with external industry data, as adjusted to reflect anticipated differences between our results and the industry. We reduce the unpaid claim and claim settlement expenses for estimated amounts of subrogation.

We believe our reserves for unpaid claim and claim settlement expenses are adequate to cover the ultimate costs of claim and claim settlement expenses. The ultimate cost of claim and claim settlement expenses may differ from the established reserves, particularly when claims may not be settled for many years. Reserves for unpaid claim and claim settlement expenses and assumptions used in their development are continually reviewed. We record adjustments to prior estimates of unpaid claim and claim settlement expenses, which may be material, in operations in the year in which the adjustments are made.

***Premiums Earned* —** Premiums on workers' compensation insurance policies are our largest source of revenue. The premium we charge a policyholder is a function of its payroll, industry and prior workers' compensation claims experience. In underwriting a policy, we receive policyholder payroll estimates for the ensuing year. We record premiums written on an installment basis, matching billing to the policyholder, and earn premiums on a daily basis over the life of each insurance policy based on the payroll estimate. We record the excess of premiums billed over premiums earned for each policy as unearned premiums on our balance sheet. When a policy expires, we audit employer payrolls for the policy period and adjust the estimated payroll and the policyholder's premium to its actual value. The result is a "final audit" adjustment recorded to premiums earned when the adjustment becomes known. We also estimate the final audit amount to be billed on unexpired and expired unaudited policies and record a final audit receivable included in premiums receivable on the balance sheet. Final audit premiums recognized during the period include billed final audit premiums plus (or minus) the change in estimate for final audit premiums on unexpired and expired unaudited policies.

NOTE 2 — REVISION OF FINANCIAL STATEMENTS

In June 2001, we entered into an agreement with St. Paul Re. (SPR) effective January 1, 2001 in order to reduce our net premium to surplus leverage ratio and maintain a secure financial strength rating for our insurance subsidiary. Key provisions of this agreement included ceding 50% of the subject net earned premium to SPR in exchange for various levels of paid claim reimbursement through several loss corridors as defined in the agreement. Although the primary coverage rate was 50%, in two of the loss corridors we receive no reimbursement for claims paid by us. The agreement provided that SPR would provide a maximum reimbursement for paid claims of 72.13% of premiums ceded. In addition to the paid claim reimbursements, we received a 41% ceding commission on all premiums ceded to SPR. Effective December 1, 2001, we increased the percentage of premiums ceded as well as the primary rate for reimbursement of paid claims to 80%. All other provisions of the agreement remained unchanged.

In March 2002, events occurred as defined in the contract, including the downgrade in our A.M. Best rating to B- and the significant decrease in our insurance subsidiary's surplus resulting from our net loss in 2001, which granted SPR the right to cancel or modify the key terms of the agreement. SPR elected to modify the terms of the agreement, and based on the new terms presented, we elected to cancel the agreement on a run-off basis effective March 31, 2002. Canceling the contract on a run-off basis resulted in decreasing the maximum paid claim reimbursement percentage to 63.88% of premiums ceded for the unexpired portions of all in-force business at March 31, 2002.

At the time we entered into this agreement, we evaluated whether or not this agreement contained the necessary attributes to be accounted for as reinsurance. Evaluating contracts of this type requires significant judgment about possible future events. Based on our evaluation, we concluded that this agreement satisfied the necessary requirements to be accounted for as reinsurance. Our independent public accountants and reinsurance brokers agreed with our conclusion at that time. On October 7, 2002, we engaged Ernst & Young LLP (E&Y) to be our independent public accountants. In consultation with E&Y, we have determined that our original conclusion to record the agreement under reinsurance accounting standards was incorrect and have restated the accounting for the agreement since inception using accounting standards defined in Statement of Position 98-7 (SOP 98-7), Insurance Deposit Accounting.

Under SOP 98-7, at inception of the contract, a deposit asset or liability is recognized and measured based on the consideration paid or received less any explicitly defined premiums or fees to be retained by the insurer or reinsurer. During the term of the contract, the amount of the deposit or liability is adjusted by calculating the effective yield on the insurance or reinsurance contract to reflect actual payments to date and expected future payments with a corresponding credit or charge to interest income or expense. We pay SPR a 4.75% margin on the contract as premiums are paid and are credited an amount equal to the end of quarter five-year U.S. Treasury Bill rate less 25 basis points on the fund balance.

We have revised certain information in these 2001 Consolidated Financial Statements to reflect accounting for this contract using Insurance Deposit Accounting standards instead of Reinsurance Accounting standards. As a result, reported net income and shareholders' equity decreased by $1.5 million for the year ended 2001 from amounts previously reported. Reported basic and diluted net loss per share increased from $2.30 to $2.45 for the year ended December 31, 2001.

The effects of the revisions on the December 31, 2001 Consolidated Statement of Operations and the December 31, 2001 Consolidated Balance Sheet are presented in the tables that follow:

	For the Year Ended December 31, 2001	
	As Reported	As Revised
Revenues:		
Gross premiums earned	$ 97,420	$ 97,420
Premiums ceded:		
Excess of loss treaties	(11,363)	(11,363)
SPR contract	(45,143)	—
Premiums earned	40,914	86,057
Investment income	5,897	6,415
Net realized investment gains	1,163	1,163
Other income	2,088	2,088
Total revenues	50,062	95,723
Expenses:		
Claim and claim settlement expenses before SPR contract	80,103	80,103
Claim and claim settlement expenses ceded under SPR contract	(26,634)	—
Claim and claim settlement expenses	53,469	80,103
Policy acquisition costs before SPR contract	13,990	13,990
Ceding commissions under SPR contract	(18,509)	—
Policy acquisition costs	(4,519)	13,990
General and administrative expenses	15,353	17,391
Total expenses	64,303	111,484
Loss from operations	(14,241)	(15,761)
Interest expense	511	511
Loss before income taxes	(14,752)	(16,272)
Income tax expense	8,943	8,943
Net loss	$ (23,695)	$ (25,215)
Net loss per share:		
Basic loss per share	$ (2.30)	$ (2.45)
Diluted loss per share	$ (2.30)	$ (2.45)

	December 31, 2001	
	As Reported	As Revised
ASSETS		
Investments at fair value, amortized cost of $87,809	$ 89,166	$ 89,166
Cash and cash equivalents	3,425	3,425
Accrued investment income	1,133	1,133
Premiums receivable, less allowance of $436	6,665	6,665
Deposit recoverable	—	17,635
Reinsurance recoverables:		
On unpaid claim and claim settlement expenses	108,687	90,115
On paid claim and claim settlement expenses	3,039	3,039
Prepaid reinsurance premiums	7,790	—
Deferred policy acquisition costs	1,214	1,214
Furniture and equipment, net	1,824	1,824
Other assets	4,091	4,091
Total assets	$ 227,034	$ 218,307
LIABILITIES AND SHAREHOLDERS' EQUITY		
Unpaid claim and claim settlement expenses	$ 181,310	$ 181,310
Unearned premiums	9,738	9,738
Accrued expenses and other liabilities	15,744	8,537
Note payable	4,500	4,500
Total liabilities	211,292	204,085
Shareholders' equity:		
Undesignated stock, no par value; authorized 4,750,000 shares; none issued or outstanding	—	—
Series A Junior Participating Preferred Stock, no par value; authorized 250,000 shares; none issued or outstanding	—	—
Common Stock, no par value; authorized 25,000,000 shares; issued and outstanding 10,302,000 shares at December 31, 2001	20,688	20,688
Retained deficit	(5,828)	(7,348)
Accumulated other comprehensive income	882	882
Total shareholders' equity	15,742	14,222
Total liabilities and shareholders' equity	$ 227,034	$ 218,307

Given the required change in accounting, the agreement no longer provided the benefits to the organization that were desired. As a result, we negotiated a commutation (the "Termination") of this agreement with SPR in December 2002. In connection with the Termination, we received $28.8 million in cash in December 2002 representing a return of all deposits made under the agreement less claim reimbursements for claims paid through December 2002. In 2002, we recorded a gain on the Termination totaling approximately $1.0 million representing the difference between the deposit receivable balance and the amount received from SPR.

In addition to the above disclosed effects of this change in accounting under Generally Accepted Accounting Principles, our statutory surplus would have decreased by $4.3 million from $19.5 million as previously filed to approximately $14.7 million at December 31, 2001, including statutory adjustments to recorded deferred tax assets. Had we accounted for this agreement under deposit accounting standards originally, this level of statutory surplus and the resulting risk-based capital computation would have required ACIC to file a company action plan with the Minnesota Department of Commerce (MNDOC). We notified the Department of these changes and received a letter dated February 18, 2003 indicating that the MNDOC will not require us to file revised statutory-basis financial statements for the year ended December 31, 2001. Rather, we will reflect the impact of the change in accounting as a direct charge to surplus as of January 1, 2002 in the statutory-basis financial statements for the year ended December 31, 2002. Based on the results of operations in 2002 and the Termination of the agreement with SPR, ACIC's statutory-basis capital and surplus as of December 31, 2002 and related risk-based capital computation is substantially in excess of levels that would require any regulatory action.

NOTE 3 — INCOME PER SHARE

Basic income (loss) per share (IPS) is computed by dividing net (loss) income by the weighted average number of common shares outstanding for the period. Diluted IPS is computed by dividing net (loss) income by the weighted average number of common shares and dilutive securities outstanding for the period. Dilutive securities consist of stock options. Dilutive securities are considered outstanding from the date of grant, after applying the treasury stock method for determining the dilutive effect.

The following is a reconciliation of the numerators and denominators of basic and diluted (loss) income per share:

	2001	2000	1999
	(Revised)		
Net (loss) income (000's)	$ (25,215)	$ (9,708)	$ 6,167
Basic weighted average shares outstanding	10,304,000	10,855,000	12,291,000
Effect of dilutive stock options	—	—	69,000
Diluted weighted average shares outstanding	10,304,000	10,855,000	12,360,000
Basic (loss) income per share	$ (2.45)	$ (0.89)	$ 0.50
Diluted (loss) income per share	$ (2.45)	$ (0.89)	$ 0.50

Options to purchase 1.5 million shares of common stock at prices ranging from $0.99 to $19.33 were outstanding during 2001 and options to purchase 1.2 million shares of common stock at prices ranging from $2.67 to $19.33 were outstanding in 2000 but excluded from the computation of diluted IPS due to our 2001 and 2000 net losses. Diluted weighted average shares outstanding would have increased by 8,000 shares and 16,000 shares in 2001 and 2000, respectively, had these shares not been anti-dilutive in the computation.

NOTE 4 — INVESTMENTS

Valuation of Investments - The following tables present amortized cost, gross unrealized gains and losses and estimated fair values of our available-for-sale securities (000's):

2001	***Amortized Cost***	***Gross Unrealized Gains***	**Gross *Unrealized Losses***	***Estimated Fair* Value**
U.S. government securities	$ 25,921	$ 524	$ (108)	$ 26,337
Corporate securities	16,908	317	(67)	17,158
Asset-backed securities	506	4	—	510
Mortgage-backed securities	44,474	812	(125)	45,161
Total investments	$ 87,809	$ 1,657	$ (300)	$ 89,166

2000	***Amortized Cost***	**Gross *Unrealized Gains***	***Gross Unrealized Losses***	***Estimated Fair Value***
Tax-exempt municipal securities	$ 55,450	$ 377	$ (147)	$ 55,680
U.S. government securities	14,568	326	—	14,894
Corporate securities	10,514	11	(210)	10,315
Asset-backed securities	2,000	3	—	2,003
Mortgage-backed securities	13,989	86	(137)	13,938
Total investments	$ 96,521	$ 803	$ (494)	$ 96,830

Statutory Deposits - Included in investments are U.S. government securities on deposit with various regulatory authorities, as required by law, with a fair value of $18.6 million and $12.2 million at December 31, 2001 and 2000, respectively.

Additionally, included in investments are U.S. government securities pledged as collateral against a letter of credit provided to an insurer, with a fair value of $2.6 million at December 31, 2001.

Fixed Maturities by Maturity Date - The following table presents the amortized cost and fair value of investments by contractual maturity at December 31, 2001. Actual maturities may differ from those stated as a result of calls and prepayments (000’s):

Maturing In:	*Amortized Cost*	*Estimated Amortized Value*
One year or less	$ 2,846	$ 2,891
Over one year through five years	13,268	13,667
Over five years through ten years	16,101	16,388
Over ten years	11,120	11,059
Mortgage-backed securities with various maturities	44,474	45,161
Total investments	$ 87,809	$ 89,166

Investment Income - Investment income includes income from the following sources (000's):

	2001	**2000**	**1999**
	(Revised)		
Fixed maturity investments	$ 5,599	$ 5,519	$ 6,318
Interest on deposit receivable	518	—	—
Short-term investments	286	185	133
Other	12	48	59
Investment income	$ 6,415	$ 5,752	$ 6,510

NOTE 5 — REINSURANCE

Our financial statements reflect the effects of ceded reinsurance transactions. We purchase reinsurance to protect us from potential losses in excess of the level we are willing to accept. Our primary reinsurance is excess of loss coverage that limits our per-incident exposure.

We report reinsurance related balances on a "gross" basis on the balance sheet, resulting in reinsurance recoverable amounts on paid and on unpaid claim and claim settlement expenses recorded as assets. We estimate amounts recoverable from reinsurers in a manner consistent with the claim liability associated with the reinsured policy.

We ceded Minnesota claims in excess of $330,000, $310,000 and $290,000 per occurrence during 2001, 2000 and 1999, respectively, to the Minnesota Workers' Compensation Reinsurance Association (WCRA). In our non-Minnesota states, our per-incident exposure was $300,000 in 2001, 2000 and 1999. We purchased this non-Minnesota coverage from a single reinsurer.

For claims occurring after June 30, 1998, we further limited our per incident exposure by purchasing excess of loss coverage for losses from $25,000 to the lesser of $300,000 or the WCRA selected retention level in Minnesota and from $25,000 to $300,000 in other states from a single reinsurer. This agreement was finalized after its effective date and activity occurring from July 1, 1998 through September 30, 1998 was recorded on a retrospective basis resulting in the deferral of a gain totaling $2.0 million at December 31, 1998. We amortized $400,000 of the deferred gain as a reduction of claim and claim settlement expenses in each of 2001 and 2000 and $740,000 in 1999 resulting in an unamortized deferred gain of $449,000 at December 31, 2001. The deferred gain is being amortized into income using the effective interest rate inherent in the amounts paid to the reinsurer and the estimated timing and amounts of recoveries from the reinsurer. Activity occurring on or after October 1, 1998 is recorded prospectively. This contract was terminated effective December 31, 2000; however, the policy was effective in 2001 for policies in force at December 31, 2000 through expiration, not to exceed fifteen months after the effective termination date. Policies written or renewing after December 31, 2000 are not covered under this lower level excess of loss reinsurance policy.

Reinsurance contracts do not relieve us from our obligations to policyholders. We expect reinsurers to which we have ceded reinsurance to honor their obligations. Failure of these reinsurers to honor their obligations could result in losses to us. We do not anticipate any such losses and accordingly, no provision for amounts deemed uncollectible are included in our financial statements. We attempt to minimize our exposure to significant losses from reinsurer insolvency by monitoring the financial condition of our reinsurers. The reinsurance recoverable on unpaid claim and claim settlement expenses associated with reinsurers are as follows (000's):

	2001	2000
	(Revised)	
Excess of loss reinsurance through various reinsurers	$90,115	$61,223
Quota-share reinsurance for 1992 to 1994 through a single reinsurer	—	622
Reinsurance recoverable on unpaid claim and claim settlement expenses	$90,115	$61,845

The effect of ceded reinsurance on premiums written and claim and claim settlement expenses are as follows (000's):

	2001	2000	1999
	(Revised)		
Premiums written:			
Direct	$ 94,703	$ 95,566	$ 88,966
Ceded	(11,363)	(17,724)	(18,008)
Net premiums written	$ 83,340	$ 77,842	$ 70,958
Claim and claim settlement expenses:			
Direct	$ 128,734	$ 105,133	$ 67,465
Ceded	(48,631)	(32,704)	(24,142)
Net claim and claim settlement expenses	$ 80,103	$ 72,429	$ 43,323

The reinsurance recoverable on paid claim and claim settlement expenses consists primarily of receivables from paid claim and claim settlement expenses that were submitted to but not yet reimbursed by reinsurers at December 31, 2001 and 2000.

NOTE 6 — UNPAID CLAIM AND CLAIM SETTLEMENT EXPENSES

As described in Note 1, we establish unpaid claim and claim settlement expense reserves on reported and unreported claims for insured losses. The establishment of appropriate reserves is an inherently uncertain process. Furthermore, estimating ultimate reserves is difficult due to our relatively limited historical claim data and small claim population. Estimates are further complicated by the extended periods of time that elapse between the date the loss occurs and the date the loss is reported and ultimately settled. Reserve estimates are regularly reviewed and updated, using the most current information available. Any resulting adjustments, which may be material, are reflected in current operations.

The following table represents a reconciliation of beginning and ending unpaid claim and claim settlement expense reserves for each of the last three years (000's):

	2001	2000	1999
	(Revised)		
Balance at January 1	$ 128,841	$ 99,831	$ 97,269
Less reinsurance recoverables	(61,845)	(41,179)	(21,403)
Plus deferred gain on retrospective reinsurance	849	1,249	1,989
Net balance at January 1	67,845	59,901	77,855
Incurred related to:			
Current year	73,557	56,900	52,176
Prior years	7,731	15,929	(8,113)
Write-off of reinsurance recoverable	(785)	—	—
Amortization of deferred retrospective reinsurance gain	(400)	(400)	(740)
Total incurred	80,103	72,429	43,323
Paid related to:			
Current year	25,062	28,154	26,897
Prior years	31,242	36,331	34,380
Total paid	56,304	64,485	61,277
Net balance at December 31	91,644	67,845	59,901

Plus reinsurance recoverables	90,115	61,845	41,179
Plus deferred gain on retrospective reinsurance	(449)	(849)	(1,249)
Balance at December 31	$ 181,310	$ 128,841	$ 99,831

Changes in estimates of unpaid claim and claim settlement expenses for prior years increased the provision for claim and claim settlement expenses by $7.7 million in 2001, increased the provision for claim and claim settlement expenses by $15.9 million in 2000 and decreased the provision for claim and claim settlement expenses by $8.1 million in 1999. Our estimate for unpaid claim and claim settlement expenses increased in 2001 due to the following: (i) we increased the estimated liability for second injury funds and our mandatory participation in state and national assigned risk pool operating results for states in which we operate, (ii) our estimate of the liability for unpaid claim and claim settlement expenses is difficult and volatile due to our relatively limited historical claim data and small claim population, and (iii) we increased the estimated liability for claims in our closed Missouri and Massachusetts regions.

NOTE 7 — NOTES PAYABLE

In March 2000, we borrowed $8.0 million under a term loan agreement to fund the repurchase of common stock from certain of our shareholders and simultaneously entered into a $2.0 million revolving credit facility to be used for general corporate purposes. The revolving credit facility was terminated early in 2001. We paid $1.0 million in principal on the term loan in 2000 and an additional $2.5 million in 2001. The term loan accrues interest, payable quarterly. We may elect to pay an adjusted LIBOR or bank reference rate on the term loan (adjusted LIBOR was 8.22% and 9.34% at December 31, 2001 and 2000, respectively).

At December 31, 2001, we failed to meet certain financial covenants related to the term loan. We paid an additional $1.0 million in principal in February 2002 and the term loan agreement was amended in March 2002. Under the amendment, term loan principal payments were adjusted and covenants were amended in return for waivers of the financial covenants under the term loan agreement. We believe that we will be in compliance with the amended financial covenants throughout 2002.

The amended term loan requires principal payments as follows (000's):

December 31,	
2002	$2,250
2003	2,250

The amended term loan is collateralized by the stock of ACIC and is subject to restrictive financial covenants that require maintaining minimum financial ratios, including: (i) debt coverage, (ii) net worth, (iii) statutory surplus, (iv) net earnings, (v) risk based capital, (vii) A.M. Best Rating, and (viii) investment grade ratings. The agreement also restricts dividends, purchases and redemptions or retirements of common stock.

NOTE 8 — INCOME TAXES

We compute all income tax amounts using the liability method. Under this method, deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using presently enacted tax rates. Deferred tax assets are recognized for tax credit and net operating loss carry-forwards, reduced by a valuation allowance which is established when it is "more likely than not" that some portion or all of the deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates or regulations is recognized in income in the period that includes the enactment date.

Income tax expense (benefit) consists of the following (000's):

	2001	2000	1999
Current:			
Federal	$ —	$ (320)	$1,056
State	242	100	104
Total current tax expense (benefit)	242	(220)	1,160
Deferred:			
Federal	8,585	(5,558)	1,031
State	116	39	(267)
Total deferred tax expense (benefit)	8,701	(5,519)	764
Income tax expense (benefit)	$8,943	$ (5,739)	$1,924

Our income tax expense (benefit) differs from the federal statutory rate as follows (000's):

	2001	2000	1999
	(Revised)		
Federal income tax (benefit) expense at 35%	$ (5,695)	$ (5,406)	$2,832
Increase (reduction) in income tax expense (benefit) resulting from:			
State income taxes, net of federal income tax benefit	228	58	23
Tax-exempt investment income	(48)	(814)	(930)
Deferred income tax valuation allowance	14,560	—	—
Other	(102)	423	(1)
Income tax expense (benefit)	$ 8,943	$ (5,739)	$1,924

Differences between the tax basis of assets and liabilities and their reported amounts in the Consolidated Financial Statements that will result in taxable or deductible amounts in future years are called temporary differences. The tax effects of temporary differences that gave rise to net deferred tax assets, included within other assets, are as follows (000's):

	2001	2000
	(Revised)	
Unpaid claim and claim settlement expenses	$ 6,038	$ 4,465
Net operating loss carry-forward	6,925	4,148
Accrued second injury funds	2,670	1,466
Unearned premiums	935	1,309
Office closure costs	380	—
Retrospective reinsurance	158	297
Other	652	560
Deferred tax assets	17,758	12,245
Net unrealized gain on securities	(475)	(105)
Deferred policy acquisition costs	(427)	(473)
Depreciation	(296)	(408)
Deferred tax liabilities	(1,198)	(986)
Net deferred tax assets before valuation allowance	16,560	11,259
Valuation allowance	(14,560)	—
Net deferred tax assets	$ 2,000	$ 11,259

In assessing the realizability of deferred tax assets, we consider recent operating results, the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies. At December 31, 2001, we established a $14.5 million valuation allowance against deferred tax assets resulting in a corresponding increase in income tax expense as a result of this analysis. We expect the remaining deferred tax assets, net of the valuation allowance, at December 31, 2001 to be realized as a result of the reversal of existing taxable temporary differences in the future. No valuation allowance was provided against the deferred tax assets recorded in 2000 or 1999. Deferred tax assets are included in other assets on the Consolidated Balance Sheet.

We have net operating loss carry-forwards available totaling approximately $18.8 million that expire in 2020 and 2021.

Income taxes receivable were approximately $83,000 and $1.7 million at December 31, 2001 and 2000, respectively, and are included in other assets.

NOTE 9 — EMPLOYEE BENEFITS AND PLANS

Stock Based Compensation — We account for our stock-based compensation plans, the RTW, Inc. 1995 Employee Stock Purchase Plan and Trust (ESPP) and the 1994 Stock Plan, using Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees," and related Interpretations. Under APB 25, compensation cost for stock options is measured as the excess, if any, of the quoted market price of our stock at the date of the grant over the amount an employee must pay to acquire the stock.

1995 Employee Stock Purchase Plan - The ESPP provides employees the opportunity to purchase shares of our stock at 85% of the fair value based on the lesser of the beginning or ending share price for each plan year as set forth in the plan. In May 1998, the shares reserved for distribution under the plan were increased from 75,000 to 200,000 shares. The ESPP terminates in ten years and will be carried out in phases, each consisting of one year or a different period of time approved by the Board of Directors. Any employee completing two weeks of service prior to commencing a phase of the plan may participate. Employees may elect to contribute from $10 to 10% of monthly salary to the plan through payroll withholdings. The following summarizes shares purchased and purchase prices for each phase in the most recent three years completed through 2001:

Phase:	***Shares Purchased***	***Purchase Price***
Beginning April 1998, expiring April 1999	27,143	$ 3.88
Beginning April 1999, expiring April 2000	39,154	$ 3.19
Beginning April 2000, expiring April 2001	18,979	$ 1.70

The seventh one-year phase began in April 2001 and expires in April 2002.

Our liability for employee contributions withheld at December 31, 2001 and 2000 for the purchase of shares in April 2002 and April 2001 under the ESPP was $39,000 and $72,000, respectively.

1994 Stock Plan - The 1994 Stock Plan provides for awards of qualified and non-qualified stock options. In July 1998, the Board of Directors increased the shares reserved for distribution under the plan to 2,000,000. Option price, option term, vesting provisions and other limits and restrictions are determined at the time of grant by the Board of Directors or, if established, by a separate committee. The exercise price for all options granted was the market price of the common stock at the date of grant.

Options granted, exercised, canceled and outstanding under the 1994 Stock Plan are as follows:

	Qualified		***Non-Qualified***	
	Option Shares	***Weighted Average Exercise Price***	***Option Shares***	***Weighted Average Exercise Price***
Balance, January 1, 1999	1,103,916	$ 6.94	470,895	$ 6.91
Granted	187,672	6.28	55,556	4.50
Exercised	(30,000)	2.67	—	—
Canceled	(238,052)	8.08	—	—
Balance, December 31, 1999	1,023,536	6.68	526,451	6.66
Granted	155,500	5.13	—	—
Canceled	(537,583)	6.71	—	—
Balance, December 31, 2000	641,453	6.28	526,451	6.66
Granted	127,000	2.06	400,000	0.99
Canceled	(148,679)	5.36	—	—
Balance, December 31, 2001	619,774	$ 5.64	926,451	$ 4.21

Each of the qualified stock options expires ten years from the date of grant and substantially all are subject to continued employment with us. Each of the non-qualified options expires ten years from the date of grant. Certain of the options are subject to vesting provisions that restrict exercise of the option.

The following table summarizes the options outstanding and exercisable at December 31, 2001:

	Options Outstanding			*Options Exercisable*	
Exercise Price Range	*Number of Options*	*Weighted Average Contractual Life*	*Weighted Average Exercise Price*	*Number of Options*	*Weighted Average Exercise Price*
Qualified stock options:					
$0.99 - $ 2.94	107,000	9.6 years	$ 1.70	20,000	$ 1.03
4.00 - 5.44	254,444	8.0 years	4.96	104,890	5.04
7.00 - 19.33	258,330	6.0 years	7.93	270,007	7.91
$0.99 - $19.33	619,774	7.4 years	$ 5.64	394,897	$ 6.80
Non-qualified stock options:					
$0.99 - $ 2.67	403,750	9.9 years	$ 1.01	83,750	$ 1.07
4.50 - 15.88	522,701	6.0 years	6.69	511,590	6.73
$0.99 - $15.88	926,451	7.7 years	$ 4.21	595,340	$ 5.94

Non-Qualified Common Stock Options - Certain non-qualified options were issued prior to the onset of the 1994 Stock Plan. At January 1, 1999, 320,000 non-qualified options were outstanding at an exercise price of $2.00 per share. These options were exercised in their entirety during 1999.

We are permitted a tax deduction equal to the difference between the non-qualified option exercise price and the fair value on the option exercise date. Upon exercise, the proceeds and the amount of the deduction are recorded to common stock. In 1999, we recorded a reduction of income taxes payable and increased common stock by $532,000 to reflect the exercise.

***Pro Forma Information* -** Had we calculated compensation expense for our option grants under the 1994 Stock Plan and stock issuances under the ESPP based on the fair value method described in SFAS No. 123, "Accounting for Stock-Based Compensation," our net (loss) income and basic and dilutive net (loss) income per share would approximate the following pro forma amounts (in 000's, except per share data):

	2001	**2000**	**1999**
	(Revised)		
Net (loss) income:			
As reported	$ (25,215)	$ (9,708)	$6,167
Pro forma	(25,702)	(10,507)	5,060
Basic net (loss) income per share:			
As reported	(2.45)	(0.89)	0.50
Pro forma	(2.49)	(0.97)	0.41
Dilutive net (loss) income per share:			
As reported	(2.45)	(0.89)	0.50
Pro forma	(2.49)	(0.97)	0.41

The weighted average fair value of options granted under the ESPP and 1994 Stock Plan during 2001, 2000 and 1999 is estimated at $1.10, $2.24 and $2.53, respectively, on the date of grant using the Black-Scholes option-pricing model with the following assumptions: no dividend yield; volatility of 182.8% in 2001, 64.6% in 2000 and 64.3% in 1999; risk-free interest rates ranging from 1.66% to 7.70%; and an expected life of 1 to 5 years.

Employment Contracts - We entered into one-year employment agreements with our Chairman, David C. Prosser, President and Chief Executive Officer, J. Alexander Fjelstad, and Executive Vice President, Alfred L. LaTendresse beginning December 13, 2001. Under these agreements, each receives a base salary, subject to review annually for increase by our Board of Directors. Mr. Prosser receives $250,000 which includes $30,000 for his services as Chairman of the Board and $220,000 in base salary. Mr. Fjelstad receives a base salary of $275,000 and Mr. LaTendresse a base salary of $200,000. In addition to base salary, each is eligible for bonuses and expense reimbursements. We also provide these individuals with health, dental, life and disability insurance consistent with that provided to other officers and employees. Additionally, Mr. Fjelstad and Mr. LaTendresse were each granted 200,000 non-qualified options at $0.99 per share on December 13, 2001. Mr. Prosser was granted 200,000 non-qualified options on February 6, 2002 at $1.21 per share.

Employment agreements with Carl B. Lehmann, our former President and Chief Executive Officer expired during 2001 and Mr. Lehmann terminated his employment with us on December 12, 2001. Under supplemental agreements with Mr. Lehmann in 2000 and 2001, we paid him "stay bonuses" of $200,000 on January 15, 2001 and $100,000 on June 30, 2001.

Combined Retirement Plan - In January 1998, we combined our 401(k) Retirement Plan and Employee Stock Ownership Plan (ESOP) into a single retirement plan, the KSOP. The KSOP retains the features of each separate component except for eligibility and vesting provisions. Under the plan, employees become eligible to participate in the plan on the first day of the month after beginning employment and attaining age 21.

401(k) Retirement Component — We sponsor a defined contribution retirement component under Section 401(k) of the Internal Revenue Code for eligible employees. Our contributions are discretionary and are based on contributions made by employees. Expense recognized for 2001, 2000 and 1999 was $316,000, $152,000 and $151,000, respectively.

Employee Stock Ownership Component — We maintain an ESOP for our qualified employees. Our contributions are discretionary. We may contribute cash or shares of our common stock. No expense was recorded in 2001, 2000 or 1999.

Other Employee Benefit Plans - We maintained bonus plans in 2001, 2000 and 1999 under which all employees, including officers, were eligible for a bonus based, in part, on our operating results. These bonuses aggregated $204,000, $951,000 and $544,000 in 2001, 2000 and 1999, respectively.

NOTE 10 — SHAREHOLDERS' EQUITY

On September 15, 1998, our Board of Directors approved a share repurchase program authorizing the repurchase of up to $4.0 million of RTW, Inc. common stock. We may repurchase shares on the open market or through private transactions depending upon market conditions and availability. Through December 31, 2001 we repurchased 669,500 shares for $2.7 million. We will use the repurchased shares for employee stock option and purchase plans and other corporate purposes.

On March 28, 2000, we repurchased 1,418,570 shares from a group consisting of David C. Prosser, RTW's founder and a director, certain members of his family, and J. Alexander Fjelstad, who at the time was a former director and former executive of RTW (together, the Prosser Selling Group). We paid $5.19 per share, as well as legal and other costs, totaling approximately $7.7 million to repurchase the shares. After completing the transaction, the combined ownership of Mr. Prosser, members of his family and Mr. Fjelstad was reduced from approximately 52% to 46%. In December 2001, Mr. Fjelstad returned to RTW as President and Chief Executive Officer and a director (see Note 9).

In connection with the repurchase, Mr. Prosser retired from the Company, resigned as Chairman and was paid $225,000 as a termination benefit. He remained a member of our Board of Directors. Additionally, at closing, each member of the Prosser Selling Group entered into a two-year standstill and voting agreement under which each agreed, among other things, not to acquire additional securities of RTW and not to initiate or support certain initiatives designed to effect fundamental changes in RTW policy or structure. The two-year voting and standstill agreements expired March 6, 2002. In December 2001, Mr. Prosser returned to RTW as Chairman of the Board (see Note 9).

Shareholder Rights Plan - In April 1997, we adopted a shareholder rights plan and declared a dividend of one right for each outstanding share of common stock to shareholders of record at the close of business on June 30, 1997. The rights become exercisable only after any person or group (the Acquiring Person) becomes the beneficial owner of 15% or more of the voting power of our common stock. Certain shares held by our Chairman, David C. Prosser, and his wife are excluded from the computation for determining whether a person is an Acquiring Person. Each right entitles its registered holder to purchase from us one one-hundredth share of a new Series A Junior Participating Preferred Stock, no par value, at a price of $85 per one one-hundredth share, subject to adjustment. If any Acquiring Person acquires beneficial ownership of 15% or more of our voting power, each right will entitle its holder (other than such Acquiring Person) to purchase, at the then current purchase price of the right, that number of shares of our common stock having a market value of two times the purchase price of the right, subject to certain possible adjustments. In addition, if we are acquired in a merger or other business combination transaction, each right will entitle its holder to purchase, at the then current purchase price of the right, that number of common shares of the acquiring company having a market value of two times the purchase price of the right. Following the acquisition of a beneficial ownership of 15% or more of our outstanding common stock by any Acquiring Person and prior to an acquisition by any Acquiring Person of 50% or more of our outstanding common stock, our Board of Directors may exchange the outstanding rights (other than rights owned by such Acquiring Person), in whole or in part, at an exchange ratio of one share of common stock, or one one-hundredth share of Preferred Stock (or equivalent securities) per right, subject to adjustment. We may redeem the rights, in whole, at $.001 per right, at any time prior to an acquisition by any Acquiring Person of 15% or more of our outstanding common stock and prior to the expiration of the rights. The rights expire on April 17, 2007, unless extended or earlier redeemed by us.

Dividend Restrictions - Dividends are paid as determined by our Board of Directors. No cash dividends have ever been paid by us.

Our ability to pay cash dividends to shareholders may depend upon the amount of dividends received from our insurance subsidiary. ACIC's ability to pay dividends is restricted by law or subject to approval of the insurance regulatory authorities of Minnesota.

Under Minnesota insurance law regulating the payment of dividends by ACIC, any such payments must be an amount deemed prudent by ACIC's Board of Directors and, unless otherwise approved by the Commissioner of the Minnesota Department of Commerce (Commissioner), must be paid solely from the adjusted earned surplus of ACIC. Adjusted earned surplus means the earned surplus as determined in accordance with statutory accounting practices (unassigned funds), less 25% of the amount of such earned surplus that is attributable to unrealized capital gains. Further, without approval of the Commissioner, ACIC may not pay a dividend in any calendar year which, when combined with dividends paid in the preceding twelve months, exceeds the greater of: (i) 10% of ACIC's statutory capital and surplus at the prior year end or, (ii) 100% of ACIC's statutory net gain from operations (not including realized capital gains) for the prior calendar year. For 2002, dividends in excess of $2.0 million would require prior consent of the Commissioner.

Statutory Surplus and Statutory Net Income (Loss) — Our insurance subsidiary is required to file financial statements with state regulatory agencies. The accounting principles used to prepare the statutory financial statements follow prescribed accounting practices that differ from GAAP. Statutory policyholders' surplus at December 31, 2001 and 2000, and statutory net (loss) income for the years ended December 31, 2001, 2000 and 1999 are as follows (000's):

	Statutory Policyholders Surplus	Statutory Net (Loss) Income
2001	$ 19,542	$ (14,074)
2000	29,303	(16,600)
1999		5,544

In March 1998, the National Association of Insurance Commissioners adopted the Codification of Statutory Accounting Principles (the Codification). The Codification is intended to standardize regulatory accounting and reporting to state insurance departments and became effective January 1, 2001. Statutory accounting principles, however, will continue to be established by individual state laws and permitted practices. The State of Minnesota required adoption of the Codification for preparing statutory financial statements for financial periods occurring on or after January 1, 2001. Adoption of the Codification increased our statutory capital and surplus by approximately $1.9 million at December 31, 2001.

NOTE 11 — COMMITMENTS AND CONTINGENCIES

Operating Leases — We conduct our operations in leased office facilities under operating lease agreements. The agreements provide for monthly base lease payments plus contingent rentals based on an allocable portion of certain operating expenses incurred by the lessor.

Future minimum (base) rental payments required under the leases, as of December 31, 2001, are as follows (000's):

2002	$ 1,368
2003	383
2004	391
2005	250
2006	27
	$ 2,419

Rent expense, including contingent rentals, was $2.0 million, $2.1 million and $2.1 million for 2001, 2000 and 1999, respectively.

In the ordinary course of administering our workers' compensation management program, we are routinely involved in the adjudication of claims resulting from workplace injuries. We are not involved in any legal or administrative claims that we believe are likely to have a material adverse effect on our financial condition or results of operations.

NOTE 12 — ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Our comprehensive income (loss) includes only unrealized gains and losses on investments classified as available-for-sale. Changes in accumulated other comprehensive income (loss) and other comprehensive income (loss) were as follows (000's):

	2001	2000	1999
Accumulated other comprehensive income (loss), beginning of year	$ 204	$ (2,818)	$ 1,759
Changes in comprehensive income (loss) arising during the year:			
Net unrealized investment gains (losses)	2,211	3,972	(6,893)
Less: Adjustment for net realized investment gains (losses)	1,163	(607)	84
Change in net unrealized investment gains (losses)	1,048	4,579	(6,977)
Income tax expense (benefit)	370	1,557	(2,400)
Other comprehensive income for the year	678	3,022	(4,577)
Accumulated other comprehensive income (loss), end of year	$ 882	$ 204	$ (2,818)

NOTE 13 — RESTRUCTURING CHARGES

During 2001, we recorded pre-tax restructuring charges totaling $2.0 million to general and administrative expenses in the Statement of Operations. These charges included costs associated with our decision to close our Missouri and Massachusetts regional offices, as well as our Brainerd, Minnesota and Overland Park, Kansas satellite offices. We anticipated that 38 employees in our regional offices, 17 employees in our satellite offices and 2 employees in our Home Office would be affected by these closures. The restructuring charge includes $715,000 of severance pay and benefits, of which $106,000 was paid by December 31, 2001. Additionally, the restructuring charge includes office and equipment lease costs totaling $684,000 of which $80,000 was paid by December 31, 2001, and furniture and equipment disposals and other costs totaling $600,000 of which $53,000 had been disposed of by December 31, 2001. The remaining accrual balance for severance pay and benefits, office and equipment lease costs and furniture and equipment disposals and other costs was $1.8 million at December 31, 2001. A substantial portion of the remaining costs will be paid or assets disposed of in the first half of 2002.

NOTE 14 — QUARTERLY RESULTS OF OPERATIONS (Unaudited)

The following tables present unaudited quarterly results of operations for the eight quarters ended December 31, 2001:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
		(Revised)	(Revised)	(Revised)
		(In thousands, except per share data)		
2001				
Premiums in force	$ 104,100	$ 99,400	$ 89,400	$ 83,700
Revenues:				
Gross premiums earned	$ 26,123	$ 25,803	$ 23,419	$ 22,075
Premiums ceded	(4,114)	(3,238)	(2,476)	(1,535)
Premiums earned	22,009	22,565	20,943	20,540
Investment income	1,457	1,736	1,594	1,628
Net realized investment losses	1,079	28	25	31
Other income	2,088	—	—	—
Total revenues	26,633	24,329	22,562	22,199
Expenses:				
Claim and claim settlement expenses	18,990	19,828	16,032	25,253
Policy acquisition costs	3,626	3,565	3,147	3,652
General and administrative expenses	2,816	4,339	3,776	6,460
Total expenses	25,432	27,732	22,955	35,365
Income (loss) from operations	$ 1,201	$ (3,403)	$ (393)	$ (13,166)
Net income (loss)	$ 777	$ (2,335)	$ (339)	$ (23,318)
Basic income (loss) per share	$ 0.08	$ (0.23)	$ (0.03)	$ (2.26)
Diluted income (loss) per share	$ 0.08	$ (0.23)	$ (0.03)	$ (2.26)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2000		(In thousands, except per share data)		
Premiums in force	$ 90,500	$ 88,600	$ 88,900	$ 99,400
Revenues:				
Gross premiums earned	$ 23,135	$ 25,222	$ 22,563	$ 24,958
Premiums ceded	(4,478)	(4,410)	(4,309)	(4,527)
Premiums earned	18,657	20,812	18,254	20,431
Investment income	1,527	1,454	1,413	1,358
Net realized investment losses	(26)	(536)	(45)	—
Total revenues	20,158	21,730	19,622	21,789
Expenses:				
Claim and claim settlement expenses	11,414	12,586	11,446	36,983
Policy acquisition costs	3,629	3,645	2,911	3,952
General and administrative expenses	2,928	2,927	2,490	3,168
Total expenses	17,971	19,158	16,847	44,103
Income (loss) from operations	$ 2,187	$ 2,572	$ 2,775	$ (22,314)
Net income (loss)	$ 1,597	$ 1,791	$ 1,879	$ (14,975)
Basic income (loss) per share	$ 0.13	$ 0.17	$ 0.18	$ (1.45)

Diluted income (loss) per share	$ 0.13	$ 0.17	$ 0.18	$ (1.45)

Quarterly revenues are affected by: (i) premiums in force at the beginning of the quarter, (ii) new policies written in the quarter, (iii) final audit premiums recognized during the quarter, and (iv) our policy renewal rate in the quarter. Historically, a majority of new policies written and policy renewals have occurred in the first, second and fourth quarters.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On September 12, 2002, Deloitte & Touche LLP ("D&T") resigned as the independent certified public accountants for the Company. D&T concurrently indicated that the Company's assigned Audit Partner had terminated his employment with D&T and that the Company no longer fit its client profile.

D&T's reports on the Company's financial statements for the years ended December 31, 2001 and 2000 did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles. During the past two fiscal years and the subsequent interim period preceding the resignation of D&T, there were no disagreements with D&T on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement(s), if not resolved to the satisfaction of D&T, would have caused it to make reference to the subject matter of the disagreement(s) in connection with its report for such periods.

Effective October 7, 2002, at the recommendation of the Audit Committee, the Company engaged Ernst & Young LLP (E&Y) as the independent certified public accountants for the Company. During the two most recent fiscal years and through October 7, 2002, RTW did not consult with E&Y with respect to the application of accounting principles to a specific transaction, either completed or proposed, or the type of audit opinion that might be rendered on the consolidated financial statements of the Company, or any other matters or reportable events as set forth in Items 304 (a) (2) (i) and (ii) of the Securities and Exchange Commission's Regulation S-K.

In June 2001, we entered into an agreement with St. Paul Re. (SPR) effective January 1, 2001 in order to reduce our net premium to surplus leverage ratio and maintain a secure financial strength rating for our insurance subsidiary as disclosed in Note 2 — Revision of Financial Statements.

At the time we entered into this agreement, we evaluated whether or not this agreement contained the necessary attributes to be accounted for as reinsurance. Evaluating contracts of this type requires significant judgment about possible future events. Based on our evaluation, we concluded that this agreement satisfied the necessary requirements to be accounted for as reinsurance. Our independent public accountants (D&T) and reinsurance brokers agreed with our conclusion at that time. In consultation with E&Y, we determined that our original conclusion to record the agreement under reinsurance accounting standards was incorrect and have restated the accounting for the agreement since inception using accounting standards defined in Statement of Position 98-7 (SOP 98-7), Insurance Deposit Accounting. D&T maintained its position with respect to the original accounting for the transaction and withdrew their opinion on the 2001 financial statements in February 2003. E&Y has subsequently audited those financial statements as contained in this filing.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information with respect to Directors is contained in the Section entitled "Election of Directors" in the Company's 2002 Proxy Statement and is incorporated herein by reference.

Information with respect to Executive Officers is included in PART I of this Report on Form 10-K/A.

ITEM 11. EXECUTIVE COMPENSATION

Information required under this item is contained in the Section entitled "Executive Compensation and Other Information" in the Company's 2002 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required under this item is contained in the Section entitled "Security Ownership of Principal Shareholders and Management" in the Company's 2002 Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required under this item is contained in the Section entitled "Certain Transactions" in the Company's 2002 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents filed as Part of this Report

(1) Financial Statements. The following consolidated financial statements of the Company are set forth on pages 25 through 46 of Part II, Item 8 of this Report.

Independent Auditors' Reports
Consolidated Balance Sheets — December 31, 2001 and 2000
Consolidated Statements of Operations — Years Ended December 31, 2001, 2000 and 1999
Consolidated Statements of Shareholders' Equity — Years Ended December 31, 2001, 2000 and 1999
Consolidated Statements of Cash Flows — Years Ended December 31, 2001, 2000 and 1999
Notes to Consolidated Financial Statements — Years Ended December 31, 2001, 2000 and 1999

(2) Financial Statement Schedules for the Three Years Ended December 31, 2001

	Page
Independent Auditors' Reports on Schedules for the Years Ended December 31, 2001, 2000 and 1999	S-1
Schedule I — Summary of Investments	S-3
Schedule II — Condensed Financial Information (Parent Company)	S-4
Schedule III — Supplemental Information Concerning Insurance Operations	S-8
Schedule IV — Reinsurance	S-9
Schedule V — Valuation and Qualifying Accounts	S-10

All other schedules are omitted because they are not applicable or the required information is presented in the Financial Statements or the notes thereto.

(b) Reports on Form 8-K

On December 7, 2001, the Company filed a Current Report on Form 8-K dated December 7, 2001 to report that American Physicians Capital, Inc. determined not to proceed with its proposed acquisition of RTW, Inc. The Company further announced it decision to close its Massachusetts and Missouri regional offices.

On December 13, 2001, the Company filed a Current Report on Form 8-K dated December 13, 2001 to report changes in the composition of the Company's Board of Directors and Executive Management team.

(c) Listing of Exhibits (* indicates compensatory plan)

3.1	Amended Articles of Incorporation (1)
3.2	Amended Bylaws (1)
4.1	Form of Rights Agreement dated April 17, 1997 between RTW, Inc. and Norwest Bank Minnesota National Association (2)
10.1*	Employment agreement and stock option agreement between RTW, Inc. and David C. Prosser dated December 13, 2001
10.2*	Employment agreement and stock option agreement between RTW, Inc. and J. Alexander Fjelstad III dated December 13, 2001
10.3*	Employment agreement and stock option agreement between RTW, Inc. and Alfred L. LaTendresse dated December 13, 2001
10.4*	Amended RTW, Inc. 1995 Employee Stock Purchase Plan (4)
10.5*	Amended RTW, Inc. 1994 Stock Plan (4)
10.6	Contract between RTW and ACIC dated January 1, 1992 (5)
10.7	Service Agreement between RTW and ACIC dated February 1, 1992 (5)
10.8*	Description of the 2002 Profit Sharing Program
10.9	Reinsurance contract between ACIC and First Excess and Reinsurance Corporation (GE Reinsurance Corporation) effective July 1, 1998 (3)
10.10	Endorsement No. 2 to the reinsurance contract between ACIC and General Reinsurance Corporation (3)
10.10.1	Description of the Reinsurance Agreement for 2002 between ACIC and General Reinsurance Corporation effective January 1, 2002
10.11	Minnesota Workers' Compensation Reinsurance Association reinsurance agreement (3)
10.12	Election form for Minnesota Workers' Compensation Reinsurance Association reinsurance agreement for 2002
10.13	Workers' Compensation Quota Share Reinsurance Contract between ACIC and St. Paul Re (on behalf of St. Paul Fire and Marine) effective January 1, 2001
10.13.1	Workers' Compensation Quota Share Reinsurance Placement Confirmation between ACIC and St. Paul Re (on behalf of St. Paul Fire and Marine) effective December 1, 2001
10.14	Credit Agreement by and between RTW, Inc. and U.S. Bank National Association dated March 31, 2000 (6)
10.14.1	First Amendment to the Credit Agreement by and between RTW, Inc. and U.S. Bank National Association dated May 4, 2000 (6)
10.14.2	Second Amendment to the Credit Agreement by and between RTW, Inc. and U.S. Bank National Association dated March 28, 2001 (6)
10.14.3	Third Amendment to the Credit Agreement by and between RTW, Inc. and U.S. Bank National Association dated September 29, 2001
10.14.4	Fourth Amendment to the Credit Agreement by and between RTW, Inc. and U.S. Bank National Association dated March 27, 2002
11	Statement, re: Computation of Net Loss Per Share
21	Subsidiaries of the Registrant: The Company has one wholly owned subsidiary, American Compensation Insurance Company, a Minnesota corporation
23	Consent of Ernst & Young LLP
23.1	Consent of Deloitte & Touche LLP
24	Power of Attorney, included in Signature page

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(1) Incorporated by reference to the Company's Registration Statement on Form S-1 (Reg. No. 33-89164).

(2) Incorporated by reference to the Company's Registration Statement on Form 8-A filed April 25, 1997 (File No. 0-25508).

(3) Incorporated by reference to the Company's 1998 Report on Form 10-K.

(4) Incorporated by reference to the Company's Registration Statement on Form S-8 (Reg. No. 333-81408).

(5) Incorporated by reference to the Company's Registration Statement on Form SB-2 (Reg. No. 33-2002C).

(6) Incorporated by reference to the Company's 2000 Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) or the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 26, 2003	RTW, INC. By /s/ J. Alexander Fjelstad
	J. Alexander Fjelstad President and Chief Executive Officer (Principal Executive Officer)

Signatures and Power of Attorney

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons on behalf of the Registrant, in the capacities, and on the dates, indicated. Each person whose signature appears below constitutes and appoints J. Alexander Fjelstad and Jeffrey B. Murphy as his true and lawful attorney-in-fact and agents, each acting alone, with full power of substitutions and resubstitution, for him and in his name, place, and stead, in any and all capacities, to sign any or all amendments to this Annual Report on Form 10-K/A and to file the same, with the exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission.

Date	Signature and Title
March 26, 2003	By /s/ David C. Prosser
	David C. Prosser Chairman of the Board
March 26, 2003	By /s/ J. Alexander Fjelstad
	J. Alexander Fjelstad President and Chief Executive Officer (Principal Executive Officer)
March 26, 2003	By /s/ Jeffrey B. Murphy
	Jeffrey B. Murphy Secretary, Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)
March 26, 2003	By /s/ Gregory D. Koschinska
	Gregory D. Koschinska Director
March 26, 2003	By /s/ John O. Goodwyne
	John O. Goodwyne Director
March 26, 2003	By /s/ Alfred L. LaTendresse
	Alfred L. LaTendresse Executive Vice President and Director
March 26, 2002	By /s/ Vina L. Marquart
	Vina L. Marquart Director

March 26, 2002	By /s/ William J. Deters
	William J. Deters Director
March 26, 2002	By /s/ John W. Prosser
	John W. Prosser Director

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
RTW, Inc.
Minneapolis, Minnesota

We have audited the consolidated financial statements of RTW, Inc. as of December 31, 2001 and for the year then ended, and have issued our report thereon dated March 25, 2003. Our audit also included the 2001 financial statement schedules listed in Item 14(a)(2) of this Report on Form 10-K/A. These schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the 2001 financial statement schedules referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

March 25, 2003
Minneapolis, Minnesota

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
RTW, Inc.
Minneapolis, Minnesota

We have audited the consolidated financial statements of RTW, Inc. and subsidiary (the Company) as of December 31, 2000 and for each of the two years in the period ended December 31, 2000, and have issued our report thereon dated February 9, 2002 (March 28, 2001 as to Note 6). Our audits also included the consolidated financial statement schedules listed in Item 14(a)(2) of this Report on Form 10-K/A. These consolidated financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP

Minneapolis, Minnesota
February 9, 2001

SCHEDULE I

RTW, INC.
SUMMARY OF INVESTMENTS
December 31, 2001
(In thousands)

Type of investment	Amortized Cost	Fair Value	Amount at which shown in the balance sheet
Fixed maturities:			
Available-for-sale:			
Corporate securities	$16,908	$17,158	$17,158
Mortgage backed securities	44,474	45,161	45,161
Asset backed securities	506	510	510
United States government, government agencies and authorities	25,921	26,337	26,337
Total Investments	$87,809	$89,166	$89,166

RTW, INC.
Condensed Financial Information of the Registrant
Balance Sheets
December 31, 2001 and 2000
(In thousands)

	2001	2000
	(Revised)	
ASSETS		
Cash and cash equivalents	$ 82	$ 328
Furniture and equipment, net	1,824	3,590
Investment in and advances to subsidiary	19,867	44,757
Deferred income tax asset	351	—
Other assets	753	451
	$22,877	$49,126
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accrued expenses and other liabilities	$ 4,155	$ 3,112
Deferred income liability	—	278
Notes payable	4,500	7,000
Total liabilities	8,655	10,390
Shareholders' equity	14,222	38,736
	$22,877	$49,126

See notes to condensed financial statements.

RTW, INC.
Condensed Financial Information of the Registrant
Statements of Operations
Years Ended December 31, 2001, 2000 and 1999
(In thousands)

	2001	2000	1999
	(Revised)		
Revenues:			
Intercompany fee income	$ 28,419	$ 27,929	$25,762
Investment income	15	24	15
Total revenues	28,434	27,953	25,777
Expenses:			
General and administrative expenses	25,424	24,180	25,044
Income (loss) from operations	3,010	3,773	733
Interest expense	511	667	266
Income before income taxes and equity in undistributed net loss of subsidiary	2,499	3,106	467
Income tax expense (benefit)	928	1,367	(246)
Income loss before equity in undistributed net (loss) income of subsidiary	1,571	1,739	713
Equity in undistributed net (loss) income of subsidiary	(26,786)	(11,447)	5,454
Net (loss) income	$(25,215)	$ (9,708)	$ 6,167

See notes to condensed financial statements.

RTW, INC.
Condensed Financial Information of the Registrant
Statements of Cash Flows
Years Ended December 31, 2001, 2000 and 1999
(In thousands)

	2001 (Revised)	2000	1999
Cash Flows from Operating Activities:			
Reconciliation of net (loss) income to net cash provided by operating activities:			
Net (loss) income	$(25,215)	$ (9,708)	$ 6,167
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	1,203	1,295	1,296
Equity in net loss (income) from subsidiary	26,786	11,447	(5,454)
Deferred income taxes	(629)	(52)	(16)
Changes in assets and liabilities:			
Accrued expenses and other liabilities	1,043	1,483	(141)
Other, net	346	2,892	(4,190)
Net cash provided by (used in) operating activities	3,534	7,357	(2,338)
Cash Flows from Investing Activities:			
Investment in and advances to subsidiary	(1,896)	(2,924)	3,843
Purchases of furniture and equipment	(379)	(1,015)	(573)
Disposals of furniture and equipment	972	51	—
Net cash used in provided by investing activities	(1,303)	(3,888)	3,270
Cash Flows from Financing Activities:			
Proceeds from notes payable	—	8,000	—
Payments on notes payable	(2,500)	(1,000)	(2,500)
Stock options and warrants exercised	—	—	1,252
Issuance of common stock under ESPP	33	125	105
Retirement of common stock	(10)	(10,268)	—
Net cash (used in) financing activities	(2,477)	(3,143)	(1,143)
Net (decrease) Increase in Cash and Cash Equivalents	(246)	326	(211)
Cash and Cash Equivalents at Beginning of Year	328	2	213
Cash and Cash Equivalents at End of Year	$ 82	$ 328	$ 2
Supplemental Disclosure of Cash Flow Information:			
Cash paid (received) during the year for:			
Interest	$ 641	$ 458	$ 238
Income tax payments (refunds)	$ 325	$ 73	$ (97)

See notes to condensed financial statements.

RTW, INC.
Condensed Financial Information of the Registrant
Notes to Condensed Financial Statements
Years Ended December 31, 2001, 2000 and 1999

NOTE 1 — ACCOUNTING POLICIES

The accompanying condensed financial information should be read in conjunction with the consolidated financial statements and notes included in the RTW, Inc. (RTW) 2001 Annual Report.

NOTE 2 — RELATED PARTY TRANSACTIONS

RTW provides American Compensation Insurance Company ("ACIC") with management services, including preparing and submitting filings, maintaining books and records, collecting premiums, administering and adjudicating claims, and performing other administrative services. RTW receives 10% of ACIC's gross premiums earned each month for these services, which amounted to $9.9 million, $9.7 million and $8.9 million for the years ended December 31, 2001, 2000 and 1999, respectively. In addition, RTW receives 15% of ACIC's gross premiums earned for claims administration during the year in which the premiums are earned and a total of 4% of gross premiums earned in subsequent years which amounted to $18.6 million, $18.1 million and $16.8 million for the years ended December 31, 2001, 2000 and 1999, respectively.

RTW files a consolidated federal tax return with ACIC. Taxes are allocated between the companies based on a tax allocation agreement under which allocation is made primarily on a separate return basis for taxes incurred with current credit for any net operating losses or other items utilized in the consolidated tax return. This allocation is settled annually after completing and filing the federal tax return.

Amounts due from (to) ACIC related to the above transactions are included in the balance sheet account caption "Investment in and advances to subsidiary" and totaled approximately $3.8 million and $4.6 million at December 31, 2001 and 2000, respectively.

NOTE 3 – REVISION OF FINANCIAL STATEMENTS

In consultation with our current auditors, we revised the accounting for our contract with St. Paul Re (SPR) for ACIC, which was originally accounted for under reinsurance accounting standards, using deposit accounting standards. Deposit accounting for this contract required us to record a margin expense at 4.75% of premiums ceded to SPR and interest income on the fund balance at an amount equal to the quarter-end U.S. Treasury Bill rate less 25 basis points. The change in accounting increased our equity in undistributed net loss of our subsidiary by $1.5 million.

RTW, INC.
SUPPLEMENTAL INFORMATION CONCERNING INSURANCE OPERATIONS
(In thousands)

Year	Deferred policy acquisition costs	(Column C) Reserves for unpaid claim and claim settlement expenses	Discount, if any, deducted in column C	Unearned premiums	Earned premiums	Investment income and net realized investment gains	Claim and claim settlement expenses incurred related to: Current year	Prior years	Amortization of deferred policy acquisition costs	Paid claim and claim settlement expenses	Other operating expenses	Premium written
2001 (Revised)	$1,214	$181,310	$ 482	$ 9,738	$86,057	$7,563	$72,372	$ 7,731	$13,990	$56,304	$17,391	$ 83,34
2000	$1,351	$128,841	$1,441	$12,455	$78,154	$5,077	$56,500	$15,929	$14,137	$64,485	$11,513	$ 77,84
1999					$71,218	$6,521	$51,436	$ (8,113)	$14,111	$61,277	$12,021	$ 70,95

RTW, INC.
REINSURANCE
Years ended December 31, 2001, 2000 and 1999
(In thousands)

	Premiums earned				
Description	Direct	Ceded to other companies	Assumed from other companies	Net	Percentage of amount assumed to net
2001 (Revised)					
PREMIUMS — Workers' Compensation	$97,420	$11,363	$ —	$86,057	0.00%
2000					
PREMIUMS — Workers' Compensation	$95,878	$17,724	$ —	$78,154	0.00%
1999					
PREMIUMS — Workers' Compensation	$89,226	$18,008	$ —	$71,218	0.00%

RTW, INC.
VALUATION AND QUALIFYING ACCOUNTS
Years ended December 31, 2001, 2000 and 1999
(In thousands)

Description	Balance at beginning of period	Additions: Charged to costs and expenses	Additions: Charged to other accounts	Write-offs	Balance at end of period
2001					
Allowance for Doubtful Accounts	$569	$530	$ —	$663	$436
2000					
Allowance for Doubtful Accounts	$519	$599	$ —	$549	$569
1999					
Allowance for Doubtful Accounts	$417	$163	$ —	$ 61	$519

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into as of December 13, 2001, between RTW, INC., a Minnesota corporation (the "Company"), and DAVID C. PROSSER ("Employee").

The Company and Employee are desirous of setting forth the terms and conditions of the employment by the Company of Employee.

In consideration of the mutual covenants and agreements herein contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties intending to be legally bound do hereby agree as follows:

1. TERM. Subject to the terms and conditions hereof, the Company agrees to employ Employee and Employee agrees to serve the Company for a period of one (1) year beginning on the date hereof and terminating on December 13, 2002 (the "Expiration Date").

2. SERVICES TO BE RENDERED BY EMPLOYEE. Employee agrees to serve the Company as Chairman of the Board and as a special consultant. Employee shall perform such duties and exercise such powers as from time to time may be assigned to him consistent with his position, knowledge and experience, either orally or in writing, by the Board of Directors of the Company or by the Chief Executive Officer, and shall carry out his duties under the ultimate general direction and control of the Board of Directors. In his capacity as Chairman of the Board and special consultant, Employee shall perform all reasonable acts customarily associated with such position, or necessary or desirable to protect and advance the best interests of the Company, together with such other reasonable duties as may be determined and assigned to him by the Board of Directors or the Chief Executive Officer. Employee shall perform such acts and carry out such duties, and shall in other respects serve the Company, faithfully and to the best of his ability.

3. TIME TO BE DEVOTED BY EMPLOYEE. Employee agrees to devote substantially all of his business time, attention, efforts and abilities to the business of the Company and to use his best efforts to promote the interests of the Company. Employee confirms that he has no business interests of any kind which will require a significant portion of his business time other than his employment by the Company.

4. COMPENSATION PAYABLE TO EMPLOYEE. During the term hereof, the Company shall pay to Employee a salary at the rate of Two Hundred Fifty Thousand Dollars ($250,000) per annum (the "Annual Salary"), payable in semi-monthly installments. Of this amount, the sum of $30,000 shall be allocated to Employee's services as Chairman of the Board and $220,000 shall be allocated to consulting services to be performed by Employee. Employee shall further be entitled to receive such increases in Annual Salary and such bonuses as may be approved from time to time by the Company. Any increases in Annual Salary or bonuses shall be awarded solely within the discretion of the Board of Directors.

5. EXPENSES. The Company shall reimburse Employee for the reasonable amount of hotel, travel, entertainment and other expenses necessarily incurred by Employee in the discharge of his duties hereunder, in accordance with the Company's normal practice.

6. EXECUTIVE BENEFITS. Employee shall be entitled to participate in all formal retirement, insurance, hospitalization and disability plans that are in existence or may be adopted by the Company, provided that Employee is eligible by the terms thereof to participate therein. Employee shall be entitled to take four (4) weeks of vacation during each full year of employment.

7. STOCK OPTION.

7.1. Grant. The Company shall grant Employee a non-qualified stock option to purchase up to 200,000 shares of the Company's Common Stock (the "Option"). The per share price to be paid by Employee upon exercise of the Option shall be 110% of the closing sale price for the Company's Common Stock on the date of grant, as reported by NASDAQ.

7.2. Vesting. The Option shall become exercisable in five (5) equal installments of 40,000 shares of the Company's Common Stock ("Option Installment") as follows: (i) the first Option Installment shall be immediately exercisable as of the date hereof, and (ii) four (4) additional Option Installments shall vest upon the first, second, third and fourth anniversary of this Agreement, provided that this Agreement is renewed for successive terms beyond the Expiration Date upon mutually agreeable terms. Any portion of the Option which remains unvested at the time of any expiration or termination of this Agreement shall lapse.

7.3. Exercise Period. The Option shall become void and expire as to all unexercised Option shares on February 6, 2007.

7.4. Exchange. As long as this Agreement remains in effect, Employee may request that the Company grant Employee up to the maximum number of incentive stock options ("ISOs") that may be issued to Employee under the Company's Amended 1994 Stock Plan and applicable law, provided that a like number of Option shares shall be surrendered by Employee for cancellation. Such ISOs shall be exercisable at the same times and during the same periods as the Option and otherwise shall have substantially identical provisions to the Option, except to the extent contrary to applicable law.

8. TERMINATION.

8.1. Death. Employee's employment hereunder shall terminate upon his death.

8.2. Incapacity. If in the reasonable judgment of the Company, as a result of Employee's incapacity due to physical or mental illness or otherwise, Employee shall for three (3) months during the term of this Agreement have been unable to perform satisfactorily all of his duties hereunder on a substantially full-time basis, or in the event a qualified physician reasonably certifies that Employee is permanently incapacitated, the Company may terminate Employee's employment hereunder by notice to Employee.

8.3. Cause. The Company may terminate Employee's employment hereunder for Cause. For the purposes of this Agreement, the Company shall have "Cause" to terminate Employee's employment hereunder upon Employee's (i) refusal or neglect to perform and discharge his duties and responsibilities hereunder; (ii) gross misconduct that is injurious to the Company; (iii) fraud, embezzlement or other act of dishonesty of Employee with respect to the Company; (iv) conviction of, or plea of guilty or nolo contendere entered by Employee to, a felony or crime involving moral turpitude or which conviction or plea is likely to have a material adverse effect upon the Company or upon Executive's ability to perform his duties hereunder; (v) willful or prolonged absence from work by Employee (other than by reason of disability due to physical or mental illness); or (vi) willful commission of acts or making of false statements by Employee which reflect adversely, in material respects, upon the Company or its business, customers or other employees.

8.4. Without Cause. The Company may, notwithstanding any other grounds for termination set forth in this Section 8, terminate Employee at any time without Cause.

8.5. Voluntary Termination by Employee. The Employee may voluntarily terminate Employee's employment with the Company for any reason.

8.6. Date of Termination. The term "Date of Termination" shall mean the earlier of (i) the Expiration Date, or (ii) if Employee's employment is terminated (A) by his death, the date of his death, or (B) for any other reason, the date on which notice of termination is given either to Employee by the Company or to the Company by Employee.

9. COMPENSATION UPON TERMINATION.

9.1. Death or Incapacity. If Employee's employment shall be terminated by reason of his death or incapacity, the Company shall pay to Employee or to his estate the monthly installments of his Annual Salary until three (3) months after the Date of Termination.

9.2. Cause or Voluntary Termination of Employment. If the Company shall terminate Employee's employment for Cause or if Employee voluntarily terminates his employment, the Company shall have no further obligations to Employee and Employee shall have no further obligations to Company after the Date of Termination.

9.3. Without Cause. If the Company shall terminate Employee's employment without Cause, the Company shall be obligated to pay Employee his Annual Salary and to continue providing benefits until the Expiration Date.

10. CONFIDENTIALITY. Employee agrees while in the employ of the Company (otherwise than in the performance of his duties hereunder) and thereafter not to, directly or indirectly, make use of, or divulge to any person, firm, corporation, entity or business organization, and to use his best efforts to prevent the publication or disclosure of, any confidential or proprietary information concerning the business, accounts or finances of, or any of the methods of doing business used by, the Company or its affiliates or of the dealings, transactions or affairs of the Company or its affiliates or any of their respective customers which have or which may have come to is knowledge during his employment by the Company.

11. NOTICES. All notices under this Agreement shall be in writing and shall be effective either (i) when delivered in person at the address set forth below, or (ii) three (3) business days after deposit in a sealed envelope in the United States Mail, postage prepaid, by registered or certified mail, return receipt requested, addressed to the recipient as set forth below, whichever is earlier.

All notices to the Company shall be sent to:

RTW, Inc.
8500 Normandale Lake Boulevard
Minneapolis, MN 55439
Attn: Chief Executive Officer

All notices to Employee shall be sent to:

David C. Prosser
20645 Radisson Road
Excelsior, MN 55331

Such addresses may be changed by notice given in accordance with this Section 11.

12. MISCELLANEOUS. This Agreement may not be changed nor may any provision hereof be waived except by an instrument in writing duly signed by the party to be charged. This Agreement shall be interpreted, governed and controlled by the internal laws of the State of Minnesota, without reference to principles of conflict of law. This Agreement shall terminate in the event of the liquidation and winding up of the business of the Company but shall continue in effect in the event of the merger or sale of the Company into or to another entity or the transfer of substantially all of the assets of the Company to another entity. The provisions of Section 10 hereof shall survive any termination of this Agreement.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

IN WITNESS WHEREOF, this Agreement has been executed as of the day and year first above written.

COMPANY:

RTW, INC.

By /s/ J. ALEXANDER FJELSTAD III

J. Alexander Fjelstad III
President and Chief
Executive Officer

EMPLOYEE:

/s/ DAVID C. PROSSER

David C. Prosser

RTW, INC.
NON-QUALIFIED STOCK OPTION AGREEMENT

THIS OPTION AGREEMENT is made as of the 6th day of February, 2002, between RTW, Inc., a Minnesota corporation (the "Company"), and DAVID C. PROSSER (the "Optionee").

WHEREAS, the Optionee has agreed to become employed by the Company as of December 13, 2001 (the "Employment Date") as its Chairman of the Board and special consultant under a written Employment Agreement, dated the same date (the "Employment Agreement"); and

WHEREAS, the Company desires to grant to the Optionee options to purchase shares of its common stock, no par value (the "Common Stock") in consideration for his services as an executive employee; and

WHEREAS, the Company desires, by affording the Optionee an opportunity to purchase its Common Stock as hereinafter provided, to carry out the purpose of the Amended 1994 Stock Plan of the Company approved by its shareholders (the "Plan");

NOW, THEREFORE, the parties hereby agree as follows:

1. GRANT OF OPTION. The Company hereby grants to the Optionee the right and option (hereinafter called the "Option") to purchase from the Company all or any part of an aggregate amount of up to 200,000 shares of the Common Stock of the Company (the "Option Shares") on the terms and conditions herein set forth. If the Optionee elects, pursuant to the terms of Section 7.4 of his Employment Agreement, to reduce the number of options to purchase shares granted hereunder for options to purchase shares that qualify as Incentive Stock Options under Internal Revenue Code Section 422, then and in that event, the Optionee shall surrender for cancellation under this Option that number of shares equal to the number of shares to which he is granted under the Incentive Stock Option without regard to the exercise price of the shares of each option. Other than the reduction in the number of shares subject to this Option, the cancellation of shares shall not affect any other term or condition of this Option.

2. PURCHASE PRICE. The purchase price of the Option Shares shall be $1.21 per share, which shall be 110% of the closing price on the date of grant.

3. TERM OF OPTION. The term of the Option shall be for a period of five (5) years from the Employment Date, subject to earlier termination as hereinafter provided.

4. EXERCISE OF OPTION. Thereafter, subject to the terms and conditions hereof, the Option may be exercised as follows:

(a) From the Employment Date, the Option may be exercised as to 40,000 shares.

(b) From and after 12 months from the Employment Date, the Option may be exercised as to an additional 40,000 shares.

(c) From and after 24 months from the Employment Date, the Option may be exercised as to an additional 40,000 shares.

(d) From and after 36 months from the Employment Date, the Option may be exercised as to an additional 40,000 shares.

(e) From and after 48 months from the Employment Date, the Option may be exercised as to an additional 40,000 shares.

5. NON-TRANSFERABILITY. The Option shall not be transferable otherwise than by will or the laws of descent and distribution, and the Option may be exercised, during the lifetime of the Optionee, only by the Optionee.

6. TERMINATION OF EMPLOYMENT. If, after the date the Optionee commences employment pursuant to the terms of the Employment Agreement, the Optionee's employment with the Company shall be terminated other than (x) by the Company for Cause (as defined in Section 8.3 of the Employment Agreement) or (y) by the Optionee prior to the Expiration Date of the Optionee's Employment Agreement (as defined in Section 1 of the Employment Agreement), the Option shall be exercisable in full as to all the Option Shares that have vested as set forth in Section 4 hereof and shall lapse as to all Option Shares that have not vested. The Option may be exercised by the Optionee, his legal representative, or, in the case of death, by the person to whom the Option is transferred by will or the applicable laws of descent and distribution for a period that shall extend to and shall expire immediately upon the earlier of the expiration of the term specified in Section 3 hereof or the date specified below:

(a) In the event of the death of Optionee, three (3) years from the date of death; or

(b) In the event of termination of employment as a result of Optionee's disability, one (1) year from the date of the disability; or

(c) In the event of termination of employment by the Company, other than for Cause, one (1) year from the date of the Optionee's termination of employment.

7. TERMINATION OF EMPLOYMENT FOR CAUSE OR VOLUNTARILY BY OPTIONEE. If (x) the Option shall be terminated for Cause (as defined in the Employment Agreement) or (y) Optionee shall voluntarily terminate his employment prior to the Expiration Date of his Employment Agreement, any unexercised Option shall terminate immediately upon such termination of employment. So long as the Optionee

shall continue to be an employee of the Company or one or more of its subsidiaries, the Option shall not be affected by any change of duties or position. Nothing in this Option Agreement shall confer upon the Optionee any right to continue in the employ of the Company or of any of its subsidiaries or interfere in any way with the rights of the Company or any subsidiary to terminate the employment of the Optionee at any time.

8. ACCELERATION IN EVENT OF CHANGE IN CONTROL. Notwithstanding the provisions of Section 4, in the event of a Change in Control (as defined in this Section 8), the Option shall become exercisable in full as to all the Option Shares covered thereby and will remain exercisable for the full term of the Option, without regard to any installment exercise or vesting provisions and regardless of whether the Optionee remains in the employ or service of the Company. In addition, if a Change in Control of the Company occurs, the Committee (as defined in the Plan), in its sole discretion and without the consent of the Optionee, may determine that the Optionee will receive, with respect to some or all of the Option Shares, as of the effective date of any such Change in Control of the Company, cash in an amount equal to the excess of the fair market value of such Option Shares immediately prior to the effective date of such Change in Control of the Company over the option exercise price per share of this Option. For purposes of this Agreement, "fair market value" shall be established in the manner set forth in the Plan.

(a) "Change in Control" shall mean a change in control which would be required to be reported in response to Item 6(e) on Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), whether or not the Company is then subject to such reporting requirement, including, without limitation, if:

(1) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than a person that beneficially owns five percent (5%) or more of the Company's Common Stock as of the date immediately prior to the effective date of the Company's initial public offering, becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding securities; or

(2) The Incumbent Directors cease for any reason to constitute at least a majority of the Board of Directors. The term, "Incumbent Directors," shall mean those individuals who are members of the Board of Directors on the effective date of this Agreement and any individual who subsequently becomes a member of the Board of Directors whose election or nomination for election by the Company's shareholders was approved by a vote of at least a majority of the then Incumbent Directors.

(b) "Change in Control" shall also mean the commencement of any insolvency proceeding by or against the Company, including the appointment of a receiver.

(c) Notwithstanding anything in this Section 8 to the contrary, if, with respect to the Optionee, acceleration of the vesting of this Option or the payment of cash in exchange for all or part of this Option as provided above (which acceleration or payment could be deemed a "payment" within the meaning of Section 280G(b)(2) of the Internal Revenue Code, as amended (the "Code")), together with any other payments which the Optionee has the right to receive from the Company or any corporation which is a member of an "affiliated group" (as defined in Section 1504(a) of the Code without regard to Section 1504(b) of the Code) of which the Company is a member, would constitute a "parachute payment" (as defined in Section 280G(b)(2) of the Code), the payments to the Optionee as set forth in this Agreement will be reduced to the largest amount as will result in no portion of such payments being subject to the excise tax imposed by Section 4999 of the Code.

9. METHOD OF EXERCISING OPTION. Subject to the terms and conditions of this Option Agreement, the Option may be exercised by written notice to the Board of Directors of the Company at the principal office of the Company. Such notice shall state the election to exercise the Option and the number of shares in respect of which it is being exercised, and shall be signed by the person so exercising the Option. Such notice shall be accompanied by payment of the full purchase price of such shares, which payment shall be made in cash or by check or bank draft payable to the Company, or, provided such form of payment does not result in a charge to earnings of the Company for financial accounting purposes, by delivery of shares of Common Stock of the Company with a fair market value equal to the purchase price or by a combination of cash and such shares, whose fair market value shall equal the purchase price. For purposes of this Agreement, the "fair market value" of the Common Stock of the Company shall be established in the manner set forth in the Plan. In the event the Option shall be exercised by any person other than the Optionee, such notice shall be accompanied by appropriate proof of such right of such person to exercise the Option.

10. OPTION PLAN. This Option is subject to certain additional terms and conditions set forth in the Amended 1994 Stock Plan pursuant to which this Option has been issued. A copy of the Plan is on file with the Secretary of the Company and by acceptance hereof Optionee agrees to and accepts this Option subject to the terms of the Plan. Any capitalized terms in this Agreement that are not defined herein shall have the meaning set forth in the Plan.

11. DISPUTES. As a condition of the granting of the Option herein granted, the Optionee agrees, for the Optionee and the Optionee’s personal representatives, that any dispute or disagreement which may arise under or as a result of or pursuant to this Agreement, shall be determined by the Company, in its sole discretion, and that any

interpretation by the Company of the terms of this Agreement shall be final, binding and conclusive.

12. BINDING EFFECT. This Agreement shall be binding upon the heirs, executors, administrators and successors of the parties hereto.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the Company and the Optionee have executed this Agreement as of the date and year first above written.

/s/ David C. Prosser

David C. Prosser
Optionee

RTW, INC.

By /s/ J. Alexander Fjelstad, III

Its Chief Exceuctive Officer

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into as of December 13, 2001, between RTW, INC., a Minnesota corporation (the "Company"), and J. ALEXANDER FJELSTAD III ("Employee").

The Company and Employee are desirous of setting forth the terms and conditions of the employment by the Company of Employee.

In consideration of the mutual covenants and agreements herein contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties intending to be legally bound do hereby agree as follows:

1. TERM. Subject to the terms and conditions hereof, the Company agrees to employ Employee and Employee agrees to serve the Company for a period of one (1) year beginning on the date hereof and terminating on December 13, 2002 (the "Expiration Date").

2. SERVICES TO BE RENDERED BY EMPLOYEE. Employee agrees to serve the Company as President and Chief Executive Officer. Employee shall perform such duties and exercise such powers as from time to time may be assigned to him consistent with his position, knowledge and experience, either orally or in writing, by the Board of Directors of the Company and shall carry out his duties under the ultimate general direction and control of the Board of Directors. In his capacity as President and Chief Executive Officer, Employee shall perform all reasonable acts customarily associated with such position, or necessary or desirable to protect and advance the best interests of the Company, together with such other reasonable duties as may be determined and assigned to him by the Board of Directors. Employee shall perform such acts and carry out such duties, and shall in other respects serve the Company, faithfully and to the best of his ability.

3. TIME TO BE DEVOTED BY EMPLOYEE. Employee agrees to devote substantially all of his business time, attention, efforts and abilities to the business of the Company and to use his best efforts to promote the interests of the Company. Employee confirms that, except as stated in the next sentence, he has no business interests of any kind which will require a significant portion of his business time other than his employment by the Company. Employee may continue to serve as Chairman of the Board of Headwater Systems, Inc. outside of normal business hours provided that

such service, as determined by the Board of Directors of the Company, does not materially interfere with his duties and obligations owed to the Company.

4. COMPENSATION PAYABLE TO EMPLOYEE. During the term hereof, the Company shall pay to Employee a salary at the rate of Two Hundred Seventy-Five Thousand Dollars ($275,000) per annum (the "Annual Salary"), payable in semi-monthly installments. Employee shall further be entitled to receive such increases in Annual Salary and such bonuses as may be approved from time to time by the Company. Any increases in Annual Salary or bonuses shall be awarded solely within the discretion of the Board of Directors.

5. EXPENSES. The Company shall reimburse Employee for the reasonable amount of hotel, travel, entertainment and other expenses necessarily incurred by Employee in the discharge of his duties hereunder, in accordance with the Company's normal practice.

6. EXECUTIVE BENEFITS. Employee shall be entitled to participate in all formal retirement, insurance, hospitalization and disability plans that are in existence or may be adopted by the Company, provided that Employee is eligible by the terms thereof to participate therein. Employee shall be entitled to take four (4) weeks of vacation during each full year of employment.

7. STOCK OPTION.

7.1. Grant. The Company hereby grants Employee a non-qualified stock option to purchase up to 200,000 shares of the Company's Common Stock (the "Option"). The per share price to be paid by Employee upon exercise of the Option shall be 99 Cents ($0.99), which corresponds to the closing sale price for the Company's Common Stock on the date hereof, as reported by NASDAQ.

7.2. Vesting. The Option shall become exercisable in five (5) equal installments of 40,000 shares of the Company's Common Stock ("Option Installment") as follows: (i) the first Option Installment shall be immediately exercisable as of the date hereof, and (ii) four (4) additional Option Installments shall vest upon each renewal of this Agreement on the first, second, third and fourth anniversary of this Agreement, provided that this Agreement is renewed for successive terms beyond the Expiration Date upon mutually agreeable terms. Any portion of the Option which remains unvested at the time of any expiration or termination of this Agreement shall lapse.

7.3. Exercise Period. The Option shall become void and expire as to all unexercised Option shares on December 13, 2011.

7.4. Exchange. As long as this Agreement remains in effect, Employee may request that the Company grant Employee up to the maximum number of incentive stock options ("ISOs") that may be issued to Employee under the Company's Amended 1994 Stock Plan and applicable law, provided that a like number of Option shares shall be surrendered by Employee for cancellation. Such ISOs shall be exercisable at the same times and during the same periods as the Option and otherwise shall have substantially identical provisions to the Option, except to the extent contrary to applicable law.

8. TERMINATION.

8.1. Death. Employee's employment hereunder shall terminate upon his death.

8.2. Incapacity. If in the reasonable judgment of the Company, as a result of Employee's incapacity due to physical or mental illness or otherwise, Employee shall for three (3) months during the term of this Agreement have been unable to perform satisfactorily all of his duties hereunder on a substantially full-time basis, or in the event a qualified physician reasonably certifies that Employee is permanently incapacitated, the Company may terminate Employee's employment hereunder by notice to Employee.

8.3. Cause. The Company may terminate Employee's employment hereunder for Cause. For the purposes of this Agreement, the Company shall have "Cause" to terminate Employee's employment hereunder upon Employee's (i) refusal or neglect to perform and discharge his duties and responsibilities hereunder; (ii) gross misconduct that is injurious to the Company; (iii) fraud, embezzlement or other act of dishonesty of Employee with respect to the Company; (iv) conviction of, or plea of guilty or nolo contendere entered by Employee to, a felony or crime involving moral turpitude or which conviction or plea is likely to have a material adverse effect upon the Company or upon Executive's ability to perform his duties hereunder; (v) willful or prolonged absence from work by Employee (other than by reason of disability due to physical or mental illness); or (vi) willful commission of acts or making of false statements by Employee which reflect adversely, in material respects, upon the Company or its business, customers or other employees.

8.4. Without Cause. The Company may, notwithstanding any other grounds for termination set forth in this Section 8, terminate Employee at any time without Cause.

8.5. Voluntary Termination by Employee. The Employee may voluntarily terminate Employee's employment with the Company for any reason.

8.6. Date of Termination. The term "Date of Termination" shall mean the earlier of (i) the Expiration Date, or (ii) if Employee's employment is terminated (A) by his death, the date of his death, or (B) for any other reason, the date on which notice of termination is given either to Employee by the Company or to the Company by Employee.

9. COMPENSATION UPON TERMINATION.

9.1. Death or Incapacity. If Employee's employment shall be terminated by reason of his death or incapacity, the Company shall pay to Employee or to his estate the monthly installments of his Annual Salary until three (3) months after the Date of Termination.

9.2. Cause or Voluntary Termination of Employment. If the Company shall terminate Employee's employment for Cause or if Employee voluntarily terminates his employment, the Company shall have no further obligations to Employee and Employee shall have no further obligations to Company after the Date of Termination.

9.3. Without Cause. If the Company shall terminate Employee's employment without Cause, the Company shall be obligated to pay Employee his Annual Salary and to continue providing benefits until the Expiration Date.

10. CONFIDENTIALITY. Employee agrees while in the employ of the Company (otherwise than in the performance of his duties hereunder) and thereafter not to, directly or indirectly, make use of, or divulge to any person, firm, corporation, entity or business organization, and to use his best efforts to prevent the publication or disclosure of, any confidential or proprietary information concerning the business, accounts or finances of, or any of the methods of doing business used by, the Company or its affiliates or of the dealings, transactions or affairs of the Company or its affiliates or any of their respective customers which have or which may have come to is knowledge during his employment by the Company.

11. NOTICES. All notices under this Agreement shall be in writing and shall be effective either (i) when delivered in person at the address set forth below, or (ii) three (3) business days after

deposit in a sealed envelope in the United States Mail, postage prepaid, by registered or certified mail, return receipt requested, addressed to the recipient as set forth below, whichever is earlier.

All notices to the Company shall be sent to:

RTW, Inc.
8500 Normandale Lake Boulevard
Minneapolis, MN 55439
Attn: Chairman of the Board

All notices to Employee shall be sent to:

J. Alexander Fjelstad III
2439 Emerald Trail
Minnetonka, MN 55305

Such addresses may be changed by notice given in accordance with this Section 11.

12. MISCELLANEOUS. This Agreement may not be changed nor may any provision hereof be waived except by an instrument in writing duly signed by the party to be charged. This Agreement shall be interpreted, governed and controlled by the internal laws of the State of Minnesota, without reference to principles of conflict of law. This Agreement shall terminate in the event of the liquidation and winding up of the business of the Company but shall continue in effect in the event of the merger or sale of the Company into or to another entity or the transfer of substantially all of the assets of the Company to another entity. The provisions of Section 10 hereof shall survive any termination of this Agreement.

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IN WITNESS WHEREOF, this Agreement has been executed as of the day and year first above written.

COMPANY:

RTW, INC.

By /s/ DAVID C. PROSSER

David C. Prosser
Chairman of the Board

EMPLOYEE:

/s/ J. ALEXANDER FJELSTAD III

J. Alexander Fjelstad III

RTW, INC.
NON-QUALIFIED STOCK OPTION AGREEMENT

THIS OPTION AGREEMENT is made as of the 13th day of December, 2001, between RTW, Inc., a Minnesota corporation (the "Company"), and J. ALEXANDER FJELSTAD, III (the "Optionee").

WHEREAS, the Optionee has agreed to become employed by the Company as of December 13, 2001 (the "Employment Date") as its President and Chief Executive Officer under a written Employment Agreement, dated the same date (the "Employment Agreement"); and

WHEREAS, the Company desires to grant to the Optionee options to purchase shares of its common stock, no par value (the "Common Stock") in consideration for his services as an executive employee; and

WHEREAS, the Company desires, by affording the Optionee an opportunity to purchase its Common Stock as hereinafter provided, to carry out the purpose of the Amended 1994 Stock Plan of the Company approved by its shareholders (the "Plan");

NOW, THEREFORE, the parties hereby agree as follows:

1. GRANT OF OPTION. The Company hereby grants to the Optionee the right and option (hereinafter called the "Option") to purchase from the Company all or any part of an aggregate amount of up to 200,000 shares of the Common Stock of the Company (the "Option Shares") on the terms and conditions herein set forth. If the Optionee elects, pursuant to the terms of Section 7.4 of his Employment Agreement, to reduce the number of options to purchase shares granted hereunder for options to purchase shares that qualify as Incentive Stock Options under Internal Revenue Code Section 422, then and in that event, the Optionee shall surrender for cancellation under this Option that number of shares equal to the number of shares to which he is granted under the Incentive Stock Option without regard to the exercise price of the shares of each option. Other than the reduction in the number of shares subject to this Option, the cancellation of shares shall not affect any other term or condition of this Option.

2. PURCHASE PRICE. The purchase price of the Option Shares shall be 99 Cents ($0.99) per share, which shall be the closing price on the date of grant.

3. TERM OF OPTION. The term of the Option shall be for a period of ten (10) years from the Employment Date, subject to earlier termination as hereinafter provided.

4. EXERCISE OF OPTION. Thereafter, subject to the terms and conditions hereof, the Option may be exercised as follows:

(a) From the Employment Date, the Option may be exercised as to 40,000 shares.

(b) From and after 12 months from the Employment Date, the Option may be exercised as to an additional 40,000 shares.

(c) From and after 24 months from the Employment Date, the Option may be exercised as to an additional 40,000 shares.

(d) From and after 36 months from the Employment Date, the Option may be exercised as to an additional 40,000 shares.

(e) From and after 48 months from the Employment Date, the Option may be exercised as to an additional 40,000 shares.

5. NON-TRANSFERABILITY. The Option shall not be transferable otherwise than by will or the laws of descent and distribution, and the Option may be exercised, during the lifetime of the Optionee, only by the Optionee.

6. TERMINATION OF EMPLOYMENT. If, after the date the Optionee commences employment pursuant to the terms of the Employment Agreement, the Optionee’s employment with the Company shall be terminated other than (x) by the Company for Cause (as defined in Section 8.3 of the Employment Agreement) or (y) by the Optionee prior to the Expiration Date of the Optionee’s Employment Agreement (as defined in Section 1 of the Employment Agreement), the Option shall be exercisable in full as to all the Option Shares that have vested as set forth in Section 4 hereof and shall lapse as to all Option Shares that have not vested. The Option may be exercised by the Optionee, his legal representative, or, in the case of death, by the person to whom the Option is transferred by will or the applicable laws of descent and distribution for a period that shall extend to and shall expire immediately upon the earlier of the expiration of the term specified in Section 3 hereof or the date specified below:

(a) In the event of the death of Optionee, three (3) years from the date of death; or

(b) In the event of termination of employment as a result of Optionee’s disability, one (1) year from the date of the disability; or

(c) In the event of termination of employment by the Company, other than for Cause, one (1) year from the date of the Optionee’s termination of employment.

7. TERMINATION OF EMPLOYMENT FOR CAUSE OR VOLUNTARILY BY OPTIONEE. If (x) the Option shall be terminated for Cause (as defined in the Employment Agreement) or (y) Optionee shall voluntarily terminate his employment prior to the Expiration Date of his Employment Agreement, any unexercised Option shall terminate immediately upon such termination of employment. So long as the Optionee

shall continue to be an employee of the Company or one or more of its subsidiaries, the Option shall not be affected by any change of duties or position. Nothing in this Option Agreement shall confer upon the Optionee any right to continue in the employ of the Company or of any of its subsidiaries or interfere in any way with the rights of the Company or any subsidiary to terminate the employment of the Optionee at any time.

8. ACCELERATION IN EVENT OF CHANGE IN CONTROL. Notwithstanding the provisions of Section 4, in the event of a Change in Control (as defined in this Section 8), the Option shall become exercisable in full as to all the Option Shares covered thereby and will remain exercisable for the full term of the Option, without regard to any installment exercise or vesting provisions and regardless of whether the Optionee remains in the employ or service of the Company. In addition, if a Change in Control of the Company occurs, the Committee (as defined in the Plan), in its sole discretion and without the consent of the Optionee, may determine that the Optionee will receive, with respect to some or all of the Option Shares, as of the effective date of any such Change in Control of the Company, cash in an amount equal to the excess of the fair market value of such Option Shares immediately prior to the effective date of such Change in Control of the Company over the option exercise price per share of this Option. For purposes of this Agreement, "fair market value" shall be established in the manner set forth in the Plan.

(a) "Change in Control" shall mean a change in control which would be required to be reported in response to Item 6(e) on Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), whether or not the Company is then subject to such reporting requirement, including, without limitation, if:

(1) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than a person that beneficially owns five percent (5%) or more of the Company's Common Stock as of the date immediately prior to the effective date of the Company's initial public offering, becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding securities; or

(2) The Incumbent Directors cease for any reason to constitute at least a majority of the Board of Directors. The term, "Incumbent Directors," shall mean those individuals who are members of the Board of Directors on the effective date of this Agreement and any individual who subsequently becomes a member of the Board of Directors whose election or nomination for election by the Company's shareholders was approved by a vote of at least a majority of the then Incumbent Directors.

(b) "Change in Control" shall also mean the commencement of any insolvency proceeding by or against the Company, including the appointment of a receiver.

(c) Notwithstanding anything in this Section 8 to the contrary, if, with respect to the Optionee, acceleration of the vesting of this Option or the payment of cash in exchange for all or part of this Option as provided above (which acceleration or payment could be deemed a "payment" within the meaning of Section 280G(b)(2) of the Internal Revenue Code, as amended (the "Code")), together with any other payments which the Optionee has the right to receive from the Company or any corporation which is a member of an "affiliated group" (as defined in Section 1504(a) of the Code without regard to Section 1504(b) of the Code) of which the Company is a member, would constitute a "parachute payment" (as defined in Section 280G(b)(2) of the Code), the payments to the Optionee as set forth in this Agreement will be reduced to the largest amount as will result in no portion of such payments being subject to the excise tax imposed by Section 4999 of the Code.

9. METHOD OF EXERCISING OPTION. Subject to the terms and conditions of this Option Agreement, the Option may be exercised by written notice to the Board of Directors of the Company at the principal office of the Company. Such notice shall state the election to exercise the Option and the number of shares in respect of which it is being exercised, and shall be signed by the person so exercising the Option. Such notice shall be accompanied by payment of the full purchase price of such shares, which payment shall be made in cash or by check or bank draft payable to the Company, or, provided such form of payment does not result in a charge to earnings of the Company for financial accounting purposes, by delivery of shares of Common Stock of the Company with a fair market value equal to the purchase price or by a combination of cash and such shares, whose fair market value shall equal the purchase price. For purposes of this Agreement, the "fair market value" of the Common Stock of the Company shall be established in the manner set forth in the Plan. In the event the Option shall be exercised by any person other than the Optionee, such notice shall be accompanied by appropriate proof of such right of such person to exercise the Option.

10. OPTION PLAN. This Option is subject to certain additional terms and conditions set forth in the Amended 1994 Stock Plan pursuant to which this Option has been issued. A copy of the Plan is on file with the Secretary of the Company and by acceptance hereof Optionee agrees to and accepts this Option subject to the terms of the Plan. Any capitalized terms in this Agreement that are not defined herein shall have the meaning set forth in the Plan.

11. DISPUTES. As a condition of the granting of the Option herein granted, the Optionee agrees, for the Optionee and the Optionee's personal representatives, that any dispute or disagreement which may arise under or as a result of or pursuant to this Agreement, shall be determined by the Company, in its sole discretion, and that any

interpretation by the Company of the terms of this Agreement shall be final, binding and conclusive.

12. BINDING EFFECT. This Agreement shall be binding upon the heirs, executors, administrators and successors of the parties hereto.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the Company and the Optionee have executed this Agreement as of the date and year first above written.

/s/ J. Alexander Fjelstad, III

J. Alexander Fjelstad, III
Optionee

RTW, INC.

By /s/ David C. Prosser

Its Chairman of the Board

EXHIBIT 10.3

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into as of December 13, 2001, between RTW, INC., a Minnesota corporation (the "Company"), and ALFRED L. LATENDRESSE ("Employee").

The Company and Employee are desirous of setting forth the terms and conditions of the employment by the Company of Employee.

In consideration of the mutual covenants and agreements herein contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties intending to be legally bound do hereby agree as follows:

1. TERM. Subject to the terms and conditions hereof, the Company agrees to employ Employee and Employee agrees to serve the Company for a period of one (1) year beginning on the date hereof and terminating on December 13, 2002 (the "Expiration Date").

2. SERVICES TO BE RENDERED BY EMPLOYEE.

2.1. Company. Employee agrees to serve the Company as Executive Vice President. Employee shall perform such duties and exercise such powers as from time to time may be assigned to him consistent with his position, knowledge and experience, either orally or in writing, by the President of the Company. In his capacity as Executive Vice President, Employee shall perform all reasonable acts customarily associated with such position, or necessary or desirable to protect and advance the best interests of the Company, together with such other reasonable duties as may be determined and assigned to him by the President of the Company. Employee shall perform such acts and carry out such duties, and shall in other respects serve the Company, faithfully and to the best of his ability.

2.2. ACIC. Employee shall also serve without compensation as the President of American Compensation Insurance Company ("ACIC"). Employee shall perform such duties and exercise such powers as from time to time may be assigned to him consistent with his position, knowledge and experience, either orally or in writing, by the Board of Directors of ACIC. In his capacity as President of ACIC, Employee shall perform all reasonable acts customarily associated with such position, or necessary or desirable to protect and advance the best interests of ACIC, together with such other reasonable duties as may be determined and assigned to him by the Board of Directors of ACIC. Employee shall perform such acts and carry out such duties, and shall in other respects serve ACIC, faithfully and to the best of his ability.

3. TIME TO BE DEVOTED BY EMPLOYEE. Employee agrees to devote substantially all of his business time, attention, efforts and abilities to the business of the Company and ACIC and to use his best efforts to promote the interests of the Company and ACIC. Employee confirms that he has no business interests of any kind which will require a significant portion of his business time other than his employment by the Company and ACIC.

4. COMPENSATION PAYABLE TO EMPLOYEE. During the term hereof, the Company shall pay to Employee a salary at the rate of Two Hundred Thousand Dollars ($200,000) per annum (the "Annual Salary"), payable in semi-monthly installments. Employee shall further be entitled to receive such increases in Annual Salary and such bonuses as may be approved from time to time by the Company. Any increases in Annual Salary or bonuses shall be awarded solely within the discretion of the Board of Directors.

5. EXPENSES. The Company shall reimburse Employee for the reasonable amount of hotel, travel, entertainment and other expenses necessarily incurred by Employee in the discharge of his duties hereunder, in accordance with the Company's normal practice.

6. EXECUTIVE BENEFITS. Employee shall be entitled to participate in all formal retirement, insurance, hospitalization and disability plans that are in existence or may be adopted by the Company, provided that Employee is eligible by the terms thereof to participate therein. Employee shall be entitled to take four (4) weeks of vacation during each full year of employment.

7. STOCK OPTION.

7.1. Grant. The Company hereby grants Employee a non-qualified stock option to purchase up to 200,000 shares of the Company's Common Stock (the "Option"). The per share price to be paid by Employee upon exercise of the Option shall be 99 Cents ($0.99), which corresponds to the closing sale price for the Company's Common Stock on the date hereof, as reported by NASDAQ.

7.2. Vesting. The Option shall become exercisable in five (5) equal installments of 40,000 shares of the Company's Common Stock ("Option Installment") as follows: (i) the first Option Installment shall be immediately exercisable as of the date hereof, and (ii) four (4) additional Option Installments shall vest upon each renewal of this Agreement (if any) on the first, second, third and fourth anniversary of this Agreement, provided that this Agreement is renewed for successive terms beyond the Expiration Date upon mutually agreeable terms. Any portion of the Option which remains unvested at the time of any expiration or termination of this Agreement shall lapse.

7.3. Exercise Period. The Option shall become void and expire as to all unexercised Option shares on December 13, 2011.

7.4. Exchange. As long as this Agreement remains in effect, Employee may request that the Company grant Employee up to the maximum number of incentive stock options ("ISOs") that may be issued to Employee under the Company's Amended 1994 Stock Plan and applicable law, provided that a like number of Option shares shall be surrendered by Employee for cancellation. Such ISOs shall be exercisable at the same times and during the same periods as the Option and otherwise shall have substantially identical provisions to the Option, except to the extent contrary to applicable law.

8. TERMINATION.

8.1. Death. Employee's employment hereunder shall terminate upon his death.

8.2. Incapacity. If in the reasonable judgment of the Company, as a result of Employee's incapacity due to physical or mental illness or otherwise, Employee shall for three (3) months during the term of this Agreement have been unable to perform satisfactorily all of his duties hereunder on a substantially full-time basis, or in the event a qualified physician reasonably certifies that Employee is permanently incapacitated, the Company may terminate Employee's employment hereunder by notice to Employee.

8.3. Cause. The Company may terminate Employee's employment hereunder for Cause. For the purposes of this Agreement, the Company shall have "Cause" to terminate Employee's employment hereunder upon Employee's (i) refusal or neglect to perform and discharge his duties and responsibilities hereunder; (ii) gross misconduct that is injurious to the Company and/or ACIC; (iii) fraud, embezzlement or other act of dishonesty of Employee with respect to the Company and/or ACIC; (iv) conviction of, or plea of guilty or nolo contendere entered by Employee to, a felony or crime involving moral turpitude or which conviction or plea is likely to have a material adverse effect upon the Company and/or ACIC or upon Executive's ability to perform his duties hereunder; (v) willful or prolonged absence from work by Employee (other than by reason of disability due to physical or mental illness); or (vi) willful commission of acts or making of false statements by Employee which reflect adversely, in material respects, upon the Company and/or ACIC or either of their businesses, customers or other employees.

8.4. Without Cause. The Company may, notwithstanding any other grounds for termination set forth in this Section 8, terminate Employee at any time without Cause.

8.5. Voluntary Termination by Employee. The Employee may voluntarily terminate Employee's employment with the Company for any reason.

8.6. Date of Termination. The term "Date of Termination" shall mean the earlier of (i) the Expiration Date, or (ii) if Employee's employment is terminated (A) by his death, the date of his death, or (B) for any other reason, the date on which notice of termination is given either to Employee by the Company or to the Company by Employee.

9. COMPENSATION UPON TERMINATION.

9.1. Death or Incapacity. If Employee's employment shall be terminated by reason of his death or incapacity, the Company shall pay to Employee or to his estate the monthly installments of his Annual Salary until three (3) months after the Date of Termination.

9.2. Cause or Voluntary Termination of Employment. If the Company shall terminate Employee's employment for Cause or if Employee voluntarily terminates his employment, the Company shall have no further obligations to Employee and Employee shall have no further obligations to Company after the Date of Termination.

9.3. Without Cause. If the Company shall terminate Employee's employment without Cause, the Company shall be obligated to pay Employee his Annual Salary and to continue providing benefits until the Expiration Date.

10. CONFIDENTIALITY. Employee agrees while in the employ of the Company and/or ACIC (otherwise than in the performance of his duties hereunder) and thereafter not to, directly or indirectly, make use of, or divulge to any person, firm, corporation, entity or business organization, and to use his best efforts to prevent the publication or disclosure of, any confidential or proprietary information concerning the business, accounts or finances of, or any of the methods of doing business used by, the Company and/or ACIC or either of their affiliates or of the dealings, transactions or affairs of the Company and/or ACIC or either of their affiliates or any of their respective customers which have or which may have come to is knowledge during his employment by the Company and/or ACIC.

11. NOTICES. All notices under this Agreement shall be in writing and shall be effective either (i) when delivered in person at the address set forth below, or (ii) three (3) business days after deposit in a sealed envelope in the United States Mail, postage prepaid, by registered or certified mail, return receipt requested, addressed to the recipient as set forth below, whichever is earlier.

All notices to the Company shall be sent to:

RTW, Inc.
8500 Normandale Lake Boulevard
Minneapolis, MN 55439
Attn: Chief Executive Officer

All notices to Employee shall be sent to:

Alfred L. LaTendresse
12153 87th Avenue North
Maple Grove, MN 55369

Such addresses may be changed by notice given in accordance with this Section 11.

12. MISCELLANEOUS. This Agreement may not be changed nor may any provision hereof be waived except by an instrument in writing duly signed by the party to be charged. This Agreement shall be interpreted, governed and controlled by the internal laws of the State of Minnesota, without reference to principles of conflict of law. This Agreement shall terminate in the

event of the liquidation and winding up of the business of the Company but shall continue in effect in the event of the merger or sale of the Company into or to another entity or the transfer of substantially all of the assets of the Company to another entity. The provisions of Section 10 hereof shall survive any termination of this Agreement.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

IN WITNESS WHEREOF, this Agreement has been executed as of the day and year first above written.

COMPANY:

RTW, INC.

By /s/ J. ALEXANDER FJELSTAD III

J. Alexander Fjelstad III
President and Chief Executive Officer

EMPLOYEE:

/s/ ALFRED L. LATENDRESSE

Alfred L. LaTendresse

RTW, INC.
NON-QUALIFIED STOCK OPTION AGREEMENT

THIS OPTION AGREEMENT is made as of the 13th day of December, 2001, between RTW, Inc., a Minnesota corporation (the "Company"), and ALFRED L. LATENDRESSE (the "Optionee").

WHEREAS, the Optionee has agreed to become employed by the Company as of December 13, 2001 (the "Employment Date") as its Executive Vice President under a written Employment Agreement, dated the same date (the "Employment Agreement"); and

WHEREAS, the Company desires to grant to the Optionee options to purchase shares of its common stock, no par value (the "Common Stock") in consideration for his services as an executive employee; and

WHEREAS, the Company desires, by affording the Optionee an opportunity to purchase its Common Stock as hereinafter provided, to carry out the purpose of the Amended 1994 Stock Plan of the Company approved by its shareholders (the "Plan");

NOW, THEREFORE, the parties hereby agree as follows:

1. GRANT OF OPTION. The Company hereby grants to the Optionee the right and option (hereinafter called the "Option") to purchase from the Company all or any part of an aggregate amount of up to 200,000 shares of the Common Stock of the Company (the "Option Shares") on the terms and conditions herein set forth. If the Optionee elects, pursuant to the terms of Section 7.4 of his Employment Agreement, to reduce the number of options to purchase shares granted hereunder for options to purchase shares that qualify as Incentive Stock Options under Internal Revenue Code Section 422, then and in that event, the Optionee shall surrender for cancellation under this Option that number of shares equal to the number of shares to which he is granted under the Incentive Stock Option without regard to the exercise price of the shares of each option. Other than the reduction in the number of shares subject to this Option, the cancellation of shares shall not affect any other term or condition of this Option.

2. PURCHASE PRICE. The purchase price of the Option Shares shall be 99 Cents ($0.99) per share, which shall be the closing price on the date of grant.

3. TERM OF OPTION. The term of the Option shall be for a period of ten (10) years from the Employment Date, subject to earlier termination as hereinafter provided.

4. EXERCISE OF OPTION. Thereafter, subject to the terms and conditions hereof, the Option may be exercised as follows:

(a) From the Employment Date, the Option may be exercised as to 40,000 shares.

(b) From and after 12 months from the Employment Date, the Option may be exercised as to an additional 40,000 shares.

(c) From and after 24 months from the Employment Date, the Option may be exercised as to an additional 40,000 shares.

(d) From and after 36 months from the Employment Date, the Option may be exercised as to an additional 40,000 shares.

(e) From and after 48 months from the Employment Date, the Option may be exercised as to an additional 40,000 shares.

5. NON-TRANSFERABILITY. The Option shall not be transferable otherwise than by will or the laws of descent and distribution, and the Option may be exercised, during the lifetime of the Optionee, only by the Optionee.

6. TERMINATION OF EMPLOYMENT. If, after the date the Optionee commences employment pursuant to the terms of the Employment Agreement, the Optionee's employment with the Company shall be terminated other than (x) by the Company for Cause (as defined in Section 8.3 of the Employment Agreement) or (y) by the Optionee prior to the Expiration Date of the Optionee's Employment Agreement (as defined in Section 1 of the Employment Agreement), the Option shall be exercisable in full as to all the Option Shares that have vested as set forth in Section 4 hereof and shall lapse as to all Option Shares that have not vested. The Option may be exercised by the Optionee, his legal representative, or, in the case of death, by the person to whom the Option is transferred by will or the applicable laws of descent and distribution for a period that shall extend to and shall expire immediately upon the earlier of the expiration of the term specified in Section 3 hereof or the date specified below:

(a) In the event of the death of Optionee, three (3) years from the date of death; or

(b) In the event of termination of employment as a result of Optionee's disability, one (1) year from the date of the disability; or

(c) In the event of termination of employment by the Company, other than for Cause, one (1) year from the date of the Optionee's termination of employment.

7. TERMINATION OF EMPLOYMENT FOR CAUSE OR VOLUNTARILY BY OPTIONEE. If (x) the Option shall be terminated for Cause (as defined in the Employment Agreement) or (y) Optionee shall voluntarily terminate his employment prior to the Expiration Date of his Employment Agreement, any unexercised Option shall terminate immediately upon such termination of employment. So long as the Optionee

shall continue to be an employee of the Company or one or more of its subsidiaries, the Option shall not be affected by any change of duties or position. Nothing in this Option Agreement shall confer upon the Optionee any right to continue in the employ of the Company or of any of its subsidiaries or interfere in any way with the rights of the Company or any subsidiary to terminate the employment of the Optionee at any time.

8. ACCELERATION IN EVENT OF CHANGE IN CONTROL. Notwithstanding the provisions of Section 4, in the event of a Change in Control (as defined in this Section 8), the Option shall become exercisable in full as to all the Option Shares covered thereby and will remain exercisable for the full term of the Option, without regard to any installment exercise or vesting provisions and regardless of whether the Optionee remains in the employ or service of the Company. In addition, if a Change in Control of the Company occurs, the Committee (as defined in the Plan), in its sole discretion and without the consent of the Optionee, may determine that the Optionee will receive, with respect to some or all of the Option Shares, as of the effective date of any such Change in Control of the Company, cash in an amount equal to the excess of the fair market value of such Option Shares immediately prior to the effective date of such Change in Control of the Company over the option exercise price per share of this Option. For purposes of this Agreement, "fair market value" shall be established in the manner set forth in the Plan.

(a) "Change in Control" shall mean a change in control which would be required to be reported in response to Item 6(e) on Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), whether or not the Company is then subject to such reporting requirement, including, without limitation, if:

(1) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than a person that beneficially owns five percent (5%) or more of the Company's Common Stock as of the date immediately prior to the effective date of the Company's initial public offering, becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding securities; or

(2) The Incumbent Directors cease for any reason to constitute at least a majority of the Board of Directors. The term, "Incumbent Directors," shall mean those individuals who are members of the Board of Directors on the effective date of this Agreement and any individual who subsequently becomes a member of the Board of Directors whose election or nomination for election by the Company's shareholders was approved by a vote of at least a majority of the then Incumbent Directors.

(b) "Change in Control" shall also mean the commencement of any insolvency proceeding by or against the Company, including the appointment of a receiver.

(c) Notwithstanding anything in this Section 8 to the contrary, if, with respect to the Optionee, acceleration of the vesting of this Option or the payment of cash in exchange for all or part of this Option as provided above (which acceleration or payment could be deemed a "payment" within the meaning of Section 280G(b)(2) of the Internal Revenue Code, as amended (the "Code")), together with any other payments which the Optionee has the right to receive from the Company or any corporation which is a member of an "affiliated group" (as defined in Section 1504(a) of the Code without regard to Section 1504(b) of the Code) of which the Company is a member, would constitute a "parachute payment" (as defined in Section 280G(b)(2) of the Code), the payments to the Optionee as set forth in this Agreement will be reduced to the largest amount as will result in no portion of such payments being subject to the excise tax imposed by Section 4999 of the Code.

9. METHOD OF EXERCISING OPTION. Subject to the terms and conditions of this Option Agreement, the Option may be exercised by written notice to the Board of Directors of the Company at the principal office of the Company. Such notice shall state the election to exercise the Option and the number of shares in respect of which it is being exercised, and shall be signed by the person so exercising the Option. Such notice shall be accompanied by payment of the full purchase price of such shares, which payment shall be made in cash or by check or bank draft payable to the Company, or, provided such form of payment does not result in a charge to earnings of the Company for financial accounting purposes, by delivery of shares of Common Stock of the Company with a fair market value equal to the purchase price or by a combination of cash and such shares, whose fair market value shall equal the purchase price. For purposes of this Agreement, the "fair market value" of the Common Stock of the Company shall be established in the manner set forth in the Plan. In the event the Option shall be exercised by any person other than the Optionee, such notice shall be accompanied by appropriate proof of such right of such person to exercise the Option.

10. OPTION PLAN. This Option is subject to certain additional terms and conditions set forth in the Amended 1994 Stock Plan pursuant to which this Option has been issued. A copy of the Plan is on file with the Secretary of the Company and by acceptance hereof Optionee agrees to and accepts this Option subject to the terms of the Plan. Any capitalized terms in this Agreement that are not defined herein shall have the meaning set forth in the Plan.

11. DISPUTES. As a condition of the granting of the Option herein granted, the Optionee agrees, for the Optionee and the Optionee’s personal representatives, that any dispute or disagreement which may arise under or as a result of or pursuant to this Agreement, shall be determined by the Company, in its sole discretion, and that any

interpretation by the Company of the terms of this Agreement shall be final, binding and conclusive.

12. BINDING EFFECT. This Agreement shall be binding upon the heirs, executors, administrators and successors of the parties hereto.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the Company and the Optionee have executed this Agreement as of the date and year first above written.

/s/ Alfred L. LaTendresse

Alfred L. LaTendresse
Optionee

RTW, INC.

By /s/ J. Alexander Fjelstad, III

Its Chief Executive Officer

EXHIBIT 10.8

2002 PERFORMANCE PROFIT SHARING PLAN

All employees of the Company are eligible to receive cash profit sharing based on the 2002 year-end results of the RTW, Inc. and its Subsidiary. The annual profit sharing plan is based on exceeding the Company's pre-tax, pre-profit sharing profit plan for 2002. Forty percent (40%) of any excess profit over the plan, up to a maximum level, will be shared with all employees. The profit sharing will be distributed as a percentage (%) of salary to all employees. Cash profit sharing payments are made annually after completion of the year-end audit.

Executive officers and management personnel, additionally, earn stock options based upon exceeding the company's pre-tax, pre-profit sharing profit plan for 2002. Executives and management personnel are eligible for a fixed number of options, pro-rated on a sliding scale, in excess of the profit plan, up to a maximum level. Stock option grants will be made annually after completion of the year-end audit.

DESCRIPTION OF THE REINSURANCE AGREEMENT FOR 2002 BETWEEN ACIC AND GENERAL REINSURANCE CORPORATION EFFECTIVE JANUARY 1, 2002

The Company, on behalf of American Compensation Insurance Company (ACIC), its wholly owned subsidiary, renegotiated its excess of loss coverage with General Reinsurance Corporation (the Reinsurer) for the fiscal year beginning January 1, 2002. The following summarizes the significant terms of the reinsurance agreement between the companies.

LIABILITY OF THE REINSURER

(a) Under Cover A of the Agreement, the Reinsurer shall pay to ACIC, with respect to Workers' Compensation and Employers' Liability Business, the amount of Net Loss each Occurrence, in excess of ACIC's retention, but not exceeding the Limits of Liability of the Reinsurer as follows:

ACIC's Retention is $300,000.

The Limits of Liability of the Reinsurer shall be for the:

1. First Excess Cover, $700,000 excess of $300,000

2. Second Excess Cover, $9,000,000 excess of $1,000,000

3. Third Excess Cover, $10,000,000 excess of $10,000,000

(b) Under Cover B of the Agreement, the Reinsurer shall pay to ACIC, with respect to non-sudden and accidental occupational disease, the amount of Net Loss each Occurrence which is first reported by ACIC to the Reinsurer while the agreement is in effect in excess of ACIC's Retention of $300,000, but not exceeding the Limit of liability of the Reinsurer $19,700,000. Further, the liability of the Reinsurer shall not exceed $19,700,000 with respect to all Occurrences first reported by ACIC to the Reinsurer during the entire term of the Agreement.

COMMENCEMENT AND TERMINATION

Cover A of the Agreement shall apply to new and renewal policies of ACIC becoming effective at and after 12:01 A.M., January 1, 2002, and to policies in force at 12:01 A.M., January 1, 2002, with respect to losses resulting from Occurrences taking place at or after the aforesaid time and date.

Cover B of the Agreement shall apply to losses resulting from Occurrences which are first reported by ACIC to the Reinsurer at and after 12:01 A.M., January 1, 2002, and prior to 12:01 A.M., January 1, 2003, with respect to occupational disease suffered by employees, provided each employee's last day of last exposure to the conditions causing or aggravating such occupation disease occurs at or after 12:01 A.M., January 1, 1997.

Either party may terminate this Agreement at any December 31st by sending to the other, by registered mail to its principal office, not less than 90 days prior written notice.

REINSURANCE PREMIUM

ACIC agreed to pay the reinsurer, based on premiums earned and for each Excess Cover, reinsurance premiums that increase on each of January 1, 2002, April 1, 2002 and July 1, 2002. These rates ar in excess of the rates that we paid in 2001.

[RTW, INC. LETTERHEAD]

2002

CERTIFICATE OF REINSURANCE

for the

AGREEMENT OF REINSURANCE

between the

WORKERS' COMPENSATION REINSURANCE ASSOCIATION

and

RTW, INC.

American Compensation Insurance Company (0030392)

COVERAGE PERIOD: JANUARY 1, 2002 - DECEMBER 31, 2002 RETENTION LIMIT $350,000

This certifies that the entities named above are Members of the Workers' Compensation Reinsurance Association (WCRA), and that the WCRA reinsures the Members' liability during the indicated coverage period for benefits pursuant to Minn. Stat. Ch. 176 in excess of the Members' retention limit for the period indicated above. This certificate provides for coverage in accordance with the terms and conditions of the Reinsurance Agreement approved by the Minnesota Commissioner of Labor and Industry on January 4, 1999, which remains in force for 2002. This certificate shall not be valid for any portion of the indicated period during which an entity is not a Member of the Association.

WORKERS' COMPENSATION REINSURANCE ASSOCIATION

/s/ CARL W. CUMMINS III

Carl W. Cummins III
Acting President and Chief Executive Officer
Dated: December 21, 2001

EXHIBIT 10.13

WORKERS' COMPENSATION QUOTA SHARE
REINSURANCE CONTRACT
EFFECTIVE: JANUARY 1, 2001

issued to

American Compensation Insurance Company
Bloomington, Minnesota

[BENFIELD BLANCH LOGO]

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[BENFIELD BLANCH LOGO]

WORKERS' COMPENSATION QUOTA SHARE
REINSURANCE CONTRACT
EFFECTIVE: JANUARY 1, 2001

issued to

American Compensation Insurance Company
Bloomington, Minnesota
(hereinafter referred to as the "Company")

by

The Subscribing Reinsurer(s) Executing the
Interests and Liabilities Agreement(s)
Attached Hereto
(hereinafter referred to as the "Reinsurer")

ARTICLE I - CLASSES OF BUSINESS REINSURED

A. By this Contract the Company obligates itself to cede to the Reinsurer and the Reinsurer obligates itself to accept quota share reinsurance of the Company's ultimate net loss under any binder, policy or contract of insurance issued, accepted or held covered provisionally or otherwise, by or on behalf of the Company (hereinafter called "policies") in force at the effective date hereof or issued or renewed on or after that date, and classified by the Company as Workers' Compensation and/or Employers Liability business.

B. The liability of the Reinsurer with respect to each cession hereunder shall commence obligatorily and simultaneously with that of the Company, subject to the terms, conditions and limitations hereinafter set forth.

ARTICLE II - COMMENCEMENT AND TERMINATION

A. This Contract shall become effective at 12:01 a.m., Central Standard Time, January 1, 2001, with respect to losses occurring on or after that time and date, and shall continue in force thereafter until terminated.

B. Either party may terminate this Contract on any December 31 by giving the other party not less than 90 days prior notice by certified mail. The Company shall have the option to terminate this Contract at the end of any month by giving the Reinsurer not less than 30 days prior notice by certified mail.

C. The Reinsurer may terminate or renegotiate this Contract at any time in the event any of the following circumstances occur:

1. The Company's policyholders' surplus is reduced by 30.0% or more from the amount of surplus at the date of the Subscribing Reinsurer's most recent financial statement available at the inception or most recent anniversary date of this Contract; or

2. The Company's A.M. Best's rating is assigned or downgraded to B- or less; or

3. The Company has a change in ownership (as hereinafter defined); and/or

4. The Company has a change in management (as hereinafter defined).

D. Unless the Company elects to reassume the ceded unearned premium in force on the effective date of termination, and so notifies the Reinsurer prior to or as promptly as possible after the effective date of termination, this Contract shall terminate on a runoff basis and therefore, reinsurance hereunder on business in force on the effective date of termination shall remain in full force and effect until expiration, cancellation or next premium anniversary of such business, whichever first occurs.

E. "Change in ownership" as used herein shall mean a change of 50.0% or more in the ownership of the voting stock of the Company.

F. "Change in management" as used herein shall mean that four or more individuals within the Company's senior management team (Team S) who make the critical Company decisions leave the Company during the same contract year (as defined in Article VI).

ARTICLE III - TERRITORY

This Contract shall only apply to policies issued to insureds domiciled in the United States of America, its territories and possessions, Puerto Rico and the District of Columbia; but this limitation shall not apply to losses if the Company's policies provide coverage outside the aforesaid territorial limits.

ARTICLE IV - EXCLUSIONS

A. This Contract does not apply to and specifically excludes the following:

1. Jones Act Liability.

2. Radioactive contamination, whether directly or indirectly arising out of a nuclear incident.

3. United States Longshore and Harbor Workers' Compensation Act Liability.

4. Professional sports teams, when written as such, including players, coaches, trainers and all other personnel who regularly travel with the team. This exclusion shall not apply to administrative personnel who do not travel with the team.

5. Commercial airline flight crews.

6. Liability as a member, subscriber or reinsurer of any Pool, Syndicate or Association, but this exclusion shall not apply to Assigned Risk Plans or similar plans.

7. Loss or damage caused by or resulting from war, invasion, hostilities, acts of foreign enemies, civil war, rebellion, insurrection, military or usurped power, or martial law or confiscation by order of any government or public authority, but this exclusion shall not apply to loss or damage covered under a standard policy with a standard War Exclusion Clause.

8. All liability of the Company arising by contract, operation of law, or otherwise, from its participation or membership, whether voluntary or involuntary, in any insolvency fund. "Insolvency fund" includes any guaranty fund, insolvency fund, plan, pool, association, fund or other arrangement, however denominated, established or governed, which provides for any assessment of or payment or assumption by the Company of part or all of any claim, debt, charge, fee or other obligation of an insurer, or its successors or assigns, which has been declared by any competent authority to be insolvent, or which is otherwise deemed unable to meet any claim, debt, charge, fee or other obligation in whole or in part.

B. If the Company provides insurance for an insured with respect to any exposure classified under subparagraph 3 of paragraph A above, and if such exposure constitutes only an incidental part of the payroll applicable to the exposure, such exclusion shall not apply. "Incidental" as used herein is defined as 20.0% or less of the overall payroll (excluding clerical) for an insured's policy.

ARTICLE V - RETENTION AND LIMIT

A. As respects business subject to this Contract, the Company shall retain and be liable for 50.0% of its ultimate net loss. Except as provided in paragraph B below, the Company shall cede to the Reinsurer and the Reinsurer agrees to accept 50.0% of the Company's ultimate net loss.

B. As respects losses occurring during each contract year, the Company shall retain, in addition to its quota share retention set forth above, the following:

1. 100% of the ultimate net loss in excess of 60.0% of premiums earned for the contract year. However, such additional retention shall not exceed an amount equal to 6.0% of premiums earned for the contract year, and shall hereinafter be referred to as the "first loss retention corridor;" and

2. 50.0% of the ultimate net loss in excess of 66.0% of premiums earned for the contract year. However, such additional retention shall not exceed an amount equal to 50.0% of 7.5% of premiums earned for the contract year, and shall hereinafter be referred to as the "second loss retention corridor;" and

3. 100% of the ultimate net loss in excess 73.5% of premiums earned for the contract year. However, such additional retention shall not exceed an amount equal to 6.5% of premiums earned for the contract year, and shall hereinafter be referred to as the "third loss retention corridor."

C. The liability of the Reinsurer shall not exceed 90.25% of premiums earned for the contract year less any amounts retained by the Company in the first, second and third loss retention corridors. If this Contract is terminated on a runoff basis, the liability of the Reinsurer for the runoff contract year shall not exceed 82.0% of premiums earned for the runoff contract year, less any amounts retained by the Company in the first, second and third loss retention corridors.

ARTICLE VI - DEFINITIONS

A. "Ultimate net loss" as used herein is defined as the actual loss or losses paid by the Company or for which the Company is liable to pay, including allocated loss adjustment expenses. Such loss or losses shall not include any levies, fees or assessments from any government agency. All salvage, subrogation and recoveries from reinsurance which inures to this Contract, whether collected or not, will be deducted from the ultimate net loss.

B. "Allocated loss adjustment expense" as used herein is defined as the expenses assignable to the investigation, defense and/or settlement of a specific claim, including litigation expenses, interest on judgments and declaratory judgment expense, but not including salaries and benefits of the Company, its directors, officers or employees, office expenses, overhead, expenses paid to a company that is part of or affiliated with the Company or is an economically related enterprise, and other fixed expenses of the Company.

C. As respects occupational disease or cumulative trauma, the date of a loss for purposes hereof shall be deemed to be the date when the compensable disability of the employee commences, or if there is no such disability, the date when the medical treatment commences.

Notwithstanding the provisions of Article V, the liability of the Reinsurer for losses arising out of all occupational disease cases occurring during any one contract year shall not exceed 2.5% of the Company's ceded earned premium for such contract year.

D. "Occupational disease" as used herein is defined as any abnormal condition that fulfills all of the following conditions:

   1. It is not traceable to a definite compensable accident occurring during the employee's past or present employment;

   2. It has been caused by exposure to a disease producing agent or agents present in the employee's occupational environment; and

   3. It has resulted in disability or death.

E. "Cumulative trauma" as used herein is defined as any injury that fulfills all of the following conditions:

   1. It is not traceable to a definite compensable accident occurring during the employee's past or present employment;

   2. It has occurred from, and has been aggravated by, a repetitive employment related activity; and

   3. It has resulted in disability or death.

F. "Ceded premiums" as used herein is defined as the Reinsurer's share of subject premium.

G. "Subject premium" as used herein is defined as the Company's gross written premium hereunder, less cancellations and return premiums, and less premium ceded for reinsurance which inures to the benefit of this Contract.

H. "Gross written premium" as used herein is defined as all premiums written by the Company for the classes of business referred to in Article I.

I. "Contract year" as used herein shall mean the period from January 1, 2001 to December 31, 2001, both days inclusive, and each respective 12-month period thereafter (or portion thereof, in the event this Contract is terminated prior to any December 31) that this Contract continues in force. In the event this Contract is terminated on a "runoff" basis, the runoff period (as described generally in paragraph D of Article II) shall be considered a separate contract year and shall herein be referred to as the "runoff contract year."

ARTICLE VII - LOSS IN EXCESS OF POLICY LIMITS/ECO

A. In the event the Company pays or is held liable to pay an amount of loss in excess of its policy limit, but otherwise within the terms of its policy (hereinafter called "loss in excess of policy limits") or any punitive, exemplary, compensatory or consequential damages, other than loss in excess of policy limits (hereinafter called "extra contractual obligations") because of alleged or actual bad faith, negligence or fraud on its part in rejecting an offer of settlement within policy limits, or in the preparation of the defense or in the trial of an action against its insured or reinsured or in the preparation or prosecution of an appeal consequent upon such an action, or in otherwise handling a claim under a policy subject to this Contract, the loss in excess of policy limits and/or the extra contractual obligations, including any litigation expenses included in such amounts, shall be added to the Company's loss, if any, under the policy involved, and the sum thereof shall be subject to the provisions of Article V.

B. An extra contractual obligation shall be deemed to have occurred on the same date as the loss covered or alleged to be covered under the policy.

C. Notwithstanding anything stated herein, this Contract shall not apply to any loss in excess of policy limits or any extra contractual obligation incurred by the Company as a result of any fraudulent and/or criminal act directed against the Company by any officer or director of the Company acting individually or collectively or in collusion with any individual or corporation or any other organization or party involved in the presentation, defense or settlement of any claim under a policy subject to this Contract.

D. Recoveries from any form of insurance or reinsurance which protects the Company against claims the subject matter of this Article shall inure to the benefit of this Contract.

ARTICLE VIII - CLAIMS AND ALLOCATED LOSS ADJUSTMENT EXPENSE

A. Losses shall be reported by the Company in summary form as hereinafter provided, but the Company shall notify the Reinsurer immediately when a specific case involves unusual circumstances or large loss possibilities. The Reinsurer shall have the right to participate, at its own expense, in the defense of any claim or suit or proceeding involving this reinsurance.

B. All loss settlements made by the Company, whether under strict policy conditions or by way of compromise, shall be binding upon the Reinsurer, and the Reinsurer agrees to pay or allow, as the case may be, its proportion of each such settlement in accordance with Article XIII.

C. In the event of a claim under a policy subject hereto, the Reinsurer shall be liable for its proportionate share of allocated loss adjustment expense incurred by the Company in connection therewith and shall be credited with its proportionate share of any recoveries of such expense.

ARTICLE IX - SALVAGE AND SUBROGATION

The Reinsurer shall be credited with its proportionate share of salvage (i.e., reimbursement obtained or recovery made by the Company, less the actual cost, excluding salaries of officials and employees of the Company and sums paid to attorneys as retainer, of obtaining such reimbursement or making such recovery) on account of claims and settlements involving reinsurance hereunder. The Company hereby agrees to enforce its rights to salvage or subrogation relating to any loss, a part of which loss was sustained by the Reinsurer, and to prosecute all claims arising out of such rights.

ARTICLE X - ORIGINAL CONDITIONS (BRMA 37B)

A. All reinsurance under this Contract shall be subject to the same rates, terms, conditions, waivers and interpretations and to the same modifications and alterations as the respective policies of the Company. However, in no event shall this be construed in any way to provide coverage outside the terms and conditions set forth in this Contract. The Reinsurer shall be credited with its exact proportion of the original premiums received by the Company, prior to disbursement of any dividends, but after deduction of premiums, if any, ceded by the Company for inuring reinsurance.

B. Nothing herein shall in any manner create any obligations or establish any rights against the Reinsurer in favor of any third party or any persons not parties to this Contract.

ARTICLE XI - COMMISSION

A. The Reinsurer shall allow the Company a 41.0% commission on all ceded premiums to the Reinsurer hereunder. The Company shall allow the Reinsurer return commission on return premiums at the same rate.

B. It is expressly agreed that the ceding commission allowed the Company includes provision for all dividends, commissions, taxes, assessments, and all other expenses of whatever nature, except allocated loss adjustment expense.

ARTICLE XII - EXPERIENCE ACCOUNT

A. The Reinsurer shall establish and maintain a cumulative Experience Account balance from the effective date of this Contract until the complete and final release of each parties' obligations to the other under this Contract.

B. The Experience Account balance shall, at any point in time, be defined as:

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1. 100% of the cumulative reinsurance premium due from and paid by the Company and received by the Reinsurer; less

2. Ceding commission on (1) above; less

3. The Reinsurer's margin, equal to 4.75% of (1) above; less

4. The cumulative ultimate net loss paid by the Reinsurer; plus

5. The cumulative Experience Account Interest Credit (as hereinafter defined).

C. The Company shall have the option to commute this Contract at any time after the effective date of termination if the Experience Account balance, as calculated above, is positive, in which event, the Reinsurer shall pay the Company an amount equal to the Experience Account balance as promptly as possible. Commutation in accordance with the foregoing shall constitute a complete and final release of the Reinsurer in respect of the Reinsurer's obligations to the Company under this Contract. If, after the effective date of termination, the Experience Account balance as calculated above is negative, commutation shall be subject to mutual agreement between the parties hereto.

D. "Experience Account Interest Credit" shall equal the following:

[a times (i - .25%)] times .25

where:

a = the ending quarterly Experience Account balance;

i = the five-year U.S. Treasury Bill rate as of the last business day of the quarter.

ARTICLE XIII - REPORTS AND REMITTANCES

A. As promptly as possible after the effective date of this Contract, the Company shall provide the Reinsurer an electronic listing of policies in force at the effective date of this Contract and the unearned premium on such policies. The Company shall remit, as promptly as possible, the Reinsurer's share of the unearned premium (less ceding commission thereon) applicable to subject business in force at the effective date of this Contract. In the event the Company fails to remit such unearned premium within 30 days after binding this coverage, the Reinsurer shall have the option to terminate this Contract retroactively to inception. Unearned premium paid more than 30 days after binding this coverage, and premiums paid more than 60 days after the end of each calendar quarter shall accrue interest at a compound rate of 0.4% per month.

B. Within 30 days after the end of each calendar quarter, the Company shall report to the Reinsurer:

1. Ceded net written premium for the calendar quarter;

2. Commission thereon;

3. Ceded losses and allocated loss adjustment expense paid during the calendar quarter;

4. Ceded losses and allocated loss adjustment expense known outstanding as of the end of the calendar quarter;

5. Ceded incurred but not reported loss reserves outstanding as of the end of the calendar quarter;

6. Open and closed claims counts;

7. Ceded unearned premium reserves as of the end of the quarter.

The positive balance of (1) less (2) less (3) shall be remitted by the Company within 30 days of its report. Any balance shown to be due the Company shall be remitted by the Reinsurer within 30 days after receipt and verification of the Company's report.

C. Annually, the Company shall furnish the Reinsurer with such information as the Reinsurer may require to complete its Annual Convention Statement.

ARTICLE XIV - OFFSET (BRMA 36C)

The Company and the Reinsurer shall have the right to offset any balance or amounts due from one party to the other under the terms of this Contract. The party asserting the right of offset may exercise such right any time whether the balances due are on account of premiums or losses or otherwise.

ARTICLE XV - ACCESS TO RECORDS (BRMA 1D)

The Reinsurer or its designated representatives shall have access at any reasonable time to all records of the Company which pertain in any way to this reinsurance.

ARTICLE XVI - ERRORS AND OMISSIONS (BRMA 14F)

Inadvertent delays, errors or omissions made in connection with this Contract or any transaction hereunder shall not relieve either party from any liability which would have attached had such delay, error or omission not occurred, provided always that such error or omission is rectified as soon as possible after discovery.

ARTICLE XVII - TAXES (BRMA 50B)

In consideration of the terms under which this Contract is issued, the Company will not claim a deduction in respect of the premium hereon when making tax returns, other than income or profits tax returns, to any state or territory of the United States of America or the District of Columbia.

ARTICLE XVIII - CURRENCY (BRMA 12A)

A. Whenever the word "Dollars" or the "$" sign appears in this Contract, they shall be construed to mean United States Dollars and all transactions under this Contract shall be in United States Dollars.

B. Amounts paid or received by the Company in any other currency shall be converted to United States Dollars at the rate of exchange at the date such transaction is entered on the books of the Company.

ARTICLE XIX - UNAUTHORIZED REINSURERS

A. If the Reinsurer is unauthorized in any state of the United States of America or the District of Columbia, the Reinsurer agrees to fund its share of the Company's ceded unearned premium and outstanding loss and allocated loss adjustment expense reserves (including incurred but not reported loss reserves) by:

   1. Clean, irrevocable and unconditional letters of credit issued and confirmed, if confirmation is required by the insurance regulatory authorities involved, by a bank or banks meeting the NAIC Securities Valuation Office credit standards for issuers of letters of credit and acceptable to said insurance regulatory authorities; and/or

   2. Escrow accounts for the benefit of the Company; and/or

   3. Cash advances;

   if, without such funding, a penalty would accrue to the Company on any financial statement it is required to file with the insurance regulatory authorities involved. The Reinsurer, at its sole option, may fund in other than cash if its method and form of funding are acceptable to the insurance regulatory authorities involved.

B. With regard to funding in whole or in part by letters of credit, it is agreed that each letter of credit will be in a form acceptable to insurance regulatory authorities involved, will be issued for a term of at least one year and will include an "evergreen clause," which automatically extends the term for at least one additional year at each expiration date unless written notice of non-renewal is given to the Company not less than 30 days prior to said expiration date. The Company and the Reinsurer further agree, notwithstanding anything to the contrary in this Contract, that said letters of credit may be drawn upon by the Company or its successors in interest at any time, without diminution because of the insolvency of the Company or the Reinsurer, but only for one or more of the following purposes:

1. To reimburse itself for the Reinsurer's share of unearned premiums returned to insureds on account of policy cancellations, unless paid in cash by the Reinsurer;

2. To reimburse itself for the Reinsurer's share of losses and/or allocated loss adjustment expense paid under the terms of policies reinsured hereunder, unless paid in cash by the Reinsurer;

3. To reimburse itself for the Reinsurer's share of any other amounts claimed to be due hereunder, unless paid in cash by the Reinsurer;

4. To fund a cash account in an amount equal to the Reinsurer's share of any ceded unearned premium and/or outstanding loss and allocated loss adjustment expense reserves (including incurred but not reported loss reserves) funded by means of a letter of credit which is under non-renewal notice, if said letter of credit has not been renewed or replaced by the Reinsurer 10 days prior to its expiration date;

5. To refund to the Reinsurer any sum in excess of the actual amount required to fund the Reinsurer's share of the Company's ceded unearned premium and/or outstanding loss and allocated loss adjustment expense reserves (including incurred but not reported loss reserves), if so requested by the Reinsurer.

In the event the amount drawn by the Company on any letter of credit is in excess of the actual amount required for B(1), B(2) or B(4), or in the case of B(3), the actual amount determined to be due, the Company shall promptly return to the Reinsurer the excess amount so drawn.

ARTICLE XX - INSOLVENCY

A. In the event of the insolvency of the Company, this reinsurance shall be payable directly to the Company or to its liquidator, receiver, conservator or statutory successor on the basis of the liability of the Company without diminution because of the insolvency of the Company or because the liquidator, receiver, conservator or statutory successor of the Company has failed to pay all or a portion of any claim. It is agreed, however, that the liquidator, receiver, conservator or statutory successor of the Company shall give written notice to the Reinsurer of the pendency of a claim against the Company indicating the policy or bond reinsured which claim would involve a possible liability on the part of the Reinsurer within a reasonable time after such claim is filed in the conservation or liquidation proceeding or in

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the receivership, and that during the pendency of such claim, the Reinsurer may investigate such claim and interpose, at its own expense, in the proceeding where such claim is to be adjudicated, any defense or defenses that it may deem available to the Company or its liquidator, receiver, conservator or statutory successor. The expense thus incurred by the Reinsurer shall be chargeable, subject to the approval of the Court, against the Company as part of the expense of conservation or liquidation to the extent of a pro rata share of the benefit which may accrue to the Company solely as a result of the defense undertaken by the Reinsurer.

B. Where two or more reinsurers are involved in the same claim and a majority in interest elect to interpose defense to such claim, the expense shall be apportioned in accordance with the terms of this Contract as though such expense had been incurred by the Company.

C. It is further understood and agreed that, in the event of the insolvency of the Company, the reinsurance under this Contract shall be payable directly by the Reinsurer to the Company or to its liquidator, receiver or statutory successor, except as provided by Section 4118(a) of the New York Insurance Law or except (1) where this Contract specifically provides another payee of such reinsurance in the event of the insolvency of the Company or (2) where the Reinsurer with the consent of the direct insured or insureds has assumed such policy obligations of the Company as direct obligations of the Reinsurer to the payees under such policies and in substitution for the obligations of the Company to such payees.

ARTICLE XXI - ARBITRATION

A. As a condition precedent to any right of action hereunder, in the event of any dispute or difference of opinion hereafter arising with respect to this Contract, it is hereby mutually agreed that such dispute or difference of opinion shall be submitted to arbitration. One Arbiter shall be chosen by the Company, the other by the Reinsurer, and an Umpire shall be chosen by the two Arbiters before they enter upon arbitration, all of whom shall be active or retired disinterested executive officers of insurance or reinsurance companies or Lloyd's London Underwriters. In the event that either party should fail to choose an Arbiter within 30 days following a written request by the other party to do so, the requesting party may choose two Arbiters who shall in turn choose an Umpire before entering upon arbitration. If the two Arbiters fail to agree upon the selection of an Umpire within 30 days following their appointment, each Arbiter shall nominate three candidates within 10 days thereafter, two of whom the other shall decline, and the decision shall be made by drawing lots.

B. Each party shall present its case to the Arbiters within 30 days following the date of appointment of the Umpire. The Arbiters shall consider this Contract as an honorable engagement rather than merely as a legal obligation and they are relieved of all judicial formalities and may abstain from following the strict rules of law. The decision of the Arbiters shall be final and binding on both parties; but failing to agree, they shall call in the Umpire and the decision of the majority shall be final and binding upon both parties.

Judgment upon the final decision of the Arbiters may be entered in any court of competent jurisdiction.

C. If more than one reinsurer is involved in the same dispute, all such reinsurers shall constitute and act as one party for purposes of this Article and communications shall be made by the Company to each of the reinsurers constituting one party, provided, however, that nothing herein shall impair the rights of such reinsurers to assert several, rather than joint, defenses or claims, nor be construed as changing the liability of the reinsurers participating under the terms of this Contract from several to joint.

D. Each party shall bear the expense of its own Arbiter, and shall jointly and equally bear with the other the expense of the Umpire and of the arbitration. In the event that the two Arbiters are chosen by one party, as above provided, the expense of the Arbiters, the Umpire and the arbitration shall be equally divided between the two parties.

E. Unless otherwise mutually agreed between the Company and the Reinsurer, any arbitration will take place in Minneapolis, Minnesota and all proceedings pursuant hereto shall be governed by the law of the State of Minnesota.

ARTICLE XXII - MAXIMUM PER OCCURRENCE LIMITS

The maximum per occurrence limits as respects each policy subject hereto shall be as follows, or so deemed:

1. $25,000 (including allocated loss adjustment expense) as respects all subject policies in force as of the effective date of this Contract;

2. The Company's low retention with the Workers' Compensation Reinsurance Association (excluding allocated loss adjustment expense) as respects subject policies issued to insureds domiciled in the State of Minnesota and incepting or renewing on or after the effective date of this Contract;

3. $300,000 (including allocated loss adjustment expense) as respects subject policies issued to insureds domiciled in states other than Minnesota and incepting or renewing on or after the effective date of this Contract.

ARTICLE XXIII - SERVICE OF SUIT (BRMA 49C)

(Applicable if the Reinsurer is not domiciled in the United States of America, and/or is not authorized in any State, Territory or District of the United States where authorization is required by insurance regulatory authorities)

A. It is agreed that in the event the Reinsurer fails to pay any amount claimed to be due hereunder, the Reinsurer, at the request of the Company, will submit to the jurisdiction of any court of competent jurisdiction within the United States. Nothing in this Article constitutes or should be understood to constitute a waiver of the Reinsurer's rights to commence an action in any court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek a transfer of a case to another court as permitted by the laws of the United States or of any state in the United States.

B. Further, pursuant to any statute of any state, territory or district of the United States which makes provision therefor, the Reinsurer hereby designates the party named in its Interests and Liabilities Agreement, or if no party is named therein, the Superintendent, Commissioner or Director of Insurance or other officer specified for that purpose in the statute, or his successor or successors in office, as its true and lawful attorney upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of the Company or any beneficiary hereunder arising out of this Contract.

ARTICLE XXIV - GOVERNING LAW

This Contract shall be governed as to performance, administration and interpretation by the laws of the State of Minnesota, exclusive of its rules with respect to conflicts of law, except as to state rules with respect to credit for reinsurance in which case the rules of all applicable states shall apply.

ARTICLE XXV - INTERMEDIARY (BRMA 23A)

Benfield Blanch Inc. is hereby recognized as the Intermediary negotiating this Contract for all business hereunder. All communications (including but not limited to notices, statements, premium, return premium, commissions, taxes, losses, allocated loss adjustment expense, salvages and loss settlements) relating thereto shall be transmitted to the Company or the Reinsurer through Benfield Blanch Inc., 3600 West 80th Street, Minneapolis, Minnesota 55431. Payments by the Company to the Intermediary shall be deemed to constitute payment to the Reinsurer. Payments by the Reinsurer to the Intermediary shall be deemed to constitute payment to the Company only to the extent that such payments are actually received by the Company.

IN WITNESS WHEREOF, the Company by its duly authorized representative has executed this Contract as of the date undermentioned at:

Minneapolis, Minnesota, this 20th day of February in the year 2002.

/s/ ALFRED L. LATENDRESSE

American Compensation Insurance Company

Original agreement, signed on September 27, 2001 by Jeffrey B. Murphy, was superceded by this agreement signed on February 20, 2002.

INTERESTS AND LIABILITIES AGREEMENT

of

St. Paul Fire and Marine Insurance Company
St. Paul, Minnesota
(hereinafter referred to as the "Subscribing Reinsurer")

with respect to the

WORKERS' COMPENSATION QUOTA SHARE
REINSURANCE CONTRACT
EFFECTIVE: JANUARY 1, 2001

issued to and duly executed by

American Compensation Insurance Company
Bloomington, Minnesota

The Subscribing Reinsurer hereby accepts a 100% share in the interests and liabilities of the "Reinsurer" as set forth in the attached Contract captioned above.

This Agreement shall become effective at 12:01 a.m., Central Standard Time, January 1, 2001, and shall continue in force until terminated in accordance with the provisions of the attached Contract.

This Subscribing Reinsurer's share in the attached Contract shall be separate and apart from the shares of the other reinsurers, and shall not be joint with the shares of the other reinsurers, it being understood that the Subscribing Reinsurer shall in no event participate in the interests and liabilities of the other reinsurers.

IN WITNESS WHEREOF, the Subscribing Reinsurer by its duly authorized representative has executed this Agreement as of the date undermentioned at:

Morristown, New Jersey, this 27th day of September in the year 2001.

/s/ JUDITH S. VOGEL

St. Paul Fire and Marine Insurance Company
by St. Paul Re, Inc.

AMERICAN COMPENSATION INSURANCE COMPANY

WORKERS' COMPENSATION QUOTA SHARE REINSURANCE

EFFECTIVE: DECEMBER 1, 2001

PLACEMENT CONFIRMATION

COMPANY:	American Compensation Insurance Company
REINSURER:	St. Paul Re (on behalf of St. Paul Fire and Marine)
BUSINESS REINSURED:	Losses occurring during the Term of this contract on policies of Workers Compensation and/or Employers Liability Insurance in force as of December 1, 2001 or policies written and effective during the Term of this contract.
REINSURER'S SHARE:	80% Quota Share, to be continued or renegotiated at March 31, 2002.
GROSS WRITTEN PREMIUM	All premiums written by the Company for classes of business reinsured hereunder
SUBJECT PREMIUM:	Gross Written Premium less cancellations and return premiums, and less premium ceded for reinsurance which inures to this Contract.
CEDED PREMIUM	Reinsurer's share of Subject Premium.
TERM:	Effective 12:01 a.m., Central Standard Time, December 1, 2001, with respect to losses occurring on or after that date. May be terminated by the Reinsurer or the Company December 31, 2002 or any December 31 thereafter with 90 days prior written notice by certified mail. At the Company's option may be terminated on a run-off basis with policies running until natural expiration or cancellation. If the Company chooses the run-off basis, then the Aggregate Limit shall be 90.25% of Ceded Earned Premium prior to the run-off period plus 82% of Ceded Earned Premium during the run-off period, less any amounts retained through the Loss Corridors. At the Company's option, may be terminated at any month-end with 30 days prior written notice by certified mail on a cut-off basis.
CHANGE OF CONTROL:	If one of the following occurs during the term of this Contract, the Reinsurer shall have the right at its discretion at any time to renegotiate and/or terminate this Contract:

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1. The Company's policyholders' surplus falls by 30% or more from the level it was as of the inception of this Contract.
2. The A. M. Best Rating of the Company falls to B- or less.
3. The Company has a change in ownership and/or management. "Change in management" shall be defined as four or more of the senior management team (Team S) who make the critical decisions at the Company and who leave the Company during the same year. "Change in ownership" shall be deemed to have occurred if there is a change of 50.0% or more in the ownership of the voting stock of the Company.

If this contract is terminated according to the provision above, it will be runoff as allowed in the Term Article. Cutoff at the Company's option.

CEDING COMMISSION:	41% Flat Commission.
PER OCCURRENCE LIMITS:	For policies in force as of January 1, 2001 the Per Occurrence Limit shall be $25,000 (inclusive of ALAE). For policies in states other than Minnesota incepting on or after January 1, 2001 the Per Occurrence Limit shall be $300,000 (inclusive of ALAE). For Minnesota policies incepting on or after January 1, 2001 and losses occurring prior to December 31, 2001 the Per Occurrence Limit shall be $330,000 (exclusive of ALAE). For Minnesota losses occurring after January 1, 2002 the Per Occurrence Limit shall be $350,000 (exclusive of ALAE)
AGGREGATE LIMIT:	The maximum Ultimate Net Loss incurred and paid by the Reinsurer under this contract shall be 90.25% of Ceded Premium, less any amounts retained through the Loss Corridors.
OCCUPATIONAL DISEASE LOSSES:	Losses arising out of Occupational Disease shall be covered, subject to a limit of 2.5% of Ceded Earned Premium.
COVERED LOSSES:	The Covered Losses for which the Reinsurer shall indemnify the Company shall be equal to the Reinsurer's Share of the Ultimate Net Loss within the Per Occurrence Limit, which are paid by the Company, subject to the Loss Corridors and Aggregate Limit.
ULTIMATE NET LOSS:	Ultimate Net Loss as used in this agreement shall mean the actual loss paid by the company or for which the Company is liable to pay including Allocated Loss Adjusting Expenses. Such loss or losses shall not include any levies, fees or assessments from any Government Agency. All salvage, subrogation and recoveries from reinsurance which inures to this contract, whether collected or not, will be deducted from Ultimate Net Loss.

LOSS CORRIDOR: The Company shall pay:

1. 100% of Covered Losses excess of 60% of Subject Premium and less than 66% of Subject Premium, in the aggregate, plus
2. 50% of Covered Losses excess of 66% of Subject Premium and less than 73.5% of Subject Premium, in the aggregate, plus
3. 100% of Covered Losses excess of 73.5% of Subject Premium and less than 80% of Subject Premium, in the aggregate.

TERRITORY: Losses arising out of policies written in the USA, its territories and possessions, where occurring.

REINSURER'S MARGIN: 4.75% of Ceded Written Premium.

INTEREST CREDIT: The Experience Account at the end of the each quarter shall be credited at an annualized rate calculated as follows:

[a times i] times .25

where:
a = the ending quarterly Experience Account balance;
i = the three-year U.S. Treasury Bill rate as of the last business day of the quarter.

EXPERIENCE ACCOUNT: An Experience Account balance (EAB) shall be established and maintained on a cumulative basis by the Reinsurer quarterly as follows:

1. 100% of the cumulative reinsurance premium due from and paid by the Company and received by the Reinsurer; less
2. Ceding commission on (1) above; less
3. The Reinsurer's margin, equal to 4.75% of (1) above; less
4. The cumulative ultimate net loss paid by the Reinsurer; plus
5. The cumulative Experience Account Interest Credit (as defined above).

MAINTENANCE FEE There will be a maintenance fee of $37,500 due from and paid by the Company to the Reinsurer on January 1 of each year subsequent to December 31, 2009 if this contract is not commuted prior to December 31, 2009.

PROFIT COMMISSION: The Company can unilaterally commute at any time after termination if the Experience Account Balance is positive, in which case the EAB will be returned to the Company. However, if the EAB is negative, then commutation is by mutual agreement.

Upon such payment, the Reinsurer shall be released of all current and future liabilities hereon.

REPORTS AND REMITTANCES:

At inception the Company shall provide the Reinsurer an electronic listing of policies in force and the unearned premiums on these policies. At inception the Company shall pay the Reinsurance Premium due on the Unearned Premium. If this premium is not paid within 30 days of binding coverage, the reinsurer shall have the right to cancel back to inception.

Within 30 days after the end of each calendar quarter, the Company shall report to the Reinsurer:

1. Ceded written premium for the calendar quarter;
2. Commission thereon;
3. Ceded losses and allocated loss adjustment expense paid during the calendar quarter;
4. Ceded losses and allocated loss adjustment expense case outstanding as of the end of the calendar quarter;
5. Ceded incurred but not reported loss reserves outstanding as of the end of the calendar quarter;
6. Open and closed claims counts;
7. Ceded unearned premium reserves as of the end of the quarter.

The positive balance of (1) less (2) less (3) shall be remitted by the Company within 30 days of its report. Any balance shown to be due the Company shall be remitted by the Reinsurer within 30 days after receipt of the Company's report.

Unearned Premium paid more than 30 days after binding coverage, and premiums paid more than 60 days after the end of the quarter shall accrue interest at a compound rate of 0.4% per month.

EXCLUSIONS:

1. Jones Act.
2. Radioactive Contamination, whether directly or indirectly arising out of nuclear incident.
3. USL&H, except where incidental being 20% or less of payroll any one risk.
4. Professional Sports Teams written as such except administrative personnel who do not travel with the team. Excluded personnel include players, coaches, trainers and all other personnel who regularly travel with the team.
5. Commercial Airlines Flight Crews.
6. Residual Market Pools.

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7. War
8. Insolvency Funds
9. Terrorism - Wording to be agreed.

CLAUSES:

Unauthorized Reinsurer Clause (Evergreen LOC including losses, ALAE and IBNR)
Currency (BRMA 12A)
Extra Contractual Obligations/Loss in Excess of Policy Limits
Delay, Omission or Error (BRMA 14F)
Access to Records (BRMA 31D)
Salvage and Subrogation
Taxes (BRMA 50B)
Offset (BRMA 36C)
Original Conditions (BRMA 37D)
Arbitration - Minnesota, Venue and Choice of Law
Service of Suit
Insolvency
Benfield Blanch Intermediary Clause

DEFINITIONS:

"Policy" as used in this agreement shall mean any binder, policy or contract of insurance issued accepted or held covered provisionally or otherwise, by or on behalf of the Company.

"Allocated Loss Adjustment Expenses" shall mean expenses assignable to the investigation, defense and/or settlement of a specific claim, including litigation expenses, interest on judgments, and declaratory judgment expense, but not including salaries and benefits of the Company, its directors, officers or employees, offices expenses, overhead, expenses paid to a Company that is part of or affiliated with the Company or is an economically related enterprise, and other fixed expenses of the Company.

With respect to losses classified as Cumulative Trauma or Occupational Disease the date of loss for each Loss Occurrence shall be the date when the compensable disability of the employee commences, or if there is no such disability, when the medical treatment commences.

"Occupational Disease" shall mean any abnormal condition that fulfills all of the following conditions,

1. It is not traceable to a definite compensable accident occurring during the employee's past or present employment;
2. It has been caused by exposure to a disease producing agent or agents present in the worker's occupational environment; and
3. It has resulted in disability or death.

"Cumulative Trauma" shall mean any injury that satisfies the following conditions:

1. It is not traceable to a definite compensable accident occurring during the employee's past or present employment;
2. It has occurred from and has been aggravated by a repetitive employment related activity.
3. It has resulted in a disability or death.

The parties hereto by their respective duly authorized representatives have executed this Agreement as of the dates undermentioned at:

Minneapolis, Minnesota, this 27th day of February 2002.

/s/ ALFRED L. LATENDRESSE

American Compensation Insurance Company (for and on behalf of the Company)

Morristown, New Jersey this _______ day of ______________________________ 20___.

St. Paul Re, Inc. on behalf of
St. Paul Fire and Marine Insurance Company

THIRD AMENDMENT TO CREDIT AGREEMENT

This THIRD AMENDMENT TO CREDIT AGREEMENT (this "Amendment"), made and entered into as of September 29, 2001, is by and between RTW, Inc., a Minnesota corporation (the "Borrower"), and U.S. Bank National Association, a national banking association (the "Bank").

RECITALS

1. The Bank and the Borrower entered into a Credit Agreement dated as of March 31, 2000 as amended by a First Amendment dated as of May 4, 2000 and a Second Amendment dated as of March 28, 2001 (as amended, the "Credit Agreement"); and

2. The Borrower desires to amend certain provisions of the Credit Agreement, and the Bank has agreed to make such amendments, subject to the terms and conditions set forth in this Amendment.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby covenant and agree to be bound as follows:

Section 1. Capitalized Terms. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Credit Agreement, unless the context shall otherwise require.

Section 2. Amendments. The Credit Agreement is hereby amended as follows:

2.1 Definitions.

(a) The definitions of "Consolidated Net Income", "Eurodollar Rate" and "Fixed Charge Coverage Ratio" contained in Section 1.1 of the Credit Agreement are amended in their entirety to read as follows:

"Consolidated Net Income": For any period, the consolidated net income of the Borrower and its Subsidiaries for such period as determined in accordance with GAAP; provided, however, that such amount shall exclude (a) fees not to exceed $2,500,000 on a pre-tax basis in the aggregate on account of any loss portfolio transfer or adverse development cover reinsurance agreement which limits the Borrower and/or Subsidiary’s exposure to future claims, and (b) amounts added to loss reserves not to exceed $5,450,000 on a pre-tax basis in the aggregate in the first and second quarters of fiscal year 2001.

"Eurodollar Rate": With respect to each Interest Period applicable to a Eurodollar Rate Advance, the average offered rate for deposits in United States dollars (rounded upward, if necessary, to the nearest 1/16 of 1%) for delivery of such deposits on the first day of such Interest Period, for the number of days in such Interest Period, which appears on Telerate page 3750 as of 11:00 AM, London time (or such other time as of which such rate appears) two Eurodollar Business Days prior to the first day of such Interest Period, or the rate for such deposits determined by the Bank at such time based on such other published service of general application as shall be selected by the Bank for such purpose; provided, that in lieu of determining the rate in the foregoing manner, the Bank may determine the rate based on rates at which United States dollar deposits are offered to the Bank in the interbank Eurodollar market at such time for delivery in Immediately Available Funds on the first day of such Interest Period in an amount approximately equal to the Advance by the Bank to which such Interest Period is to apply (rounded upward, if necessary, to the nearest 1/16 of 1%). "Telerate page 3750" means the display designated as such on the Telerate reporting system operated by Telerate System Incorporated (or such other page as may replace page 3750 for the purpose of displaying London interbank offered rates of major banks for United States dollar deposits).

"Fixed Charge Coverage Ratio": As of the last day of any fiscal quarter of the Borrower, the ratio of:

(a) an amount equal to the sum of (i) the Amount Available for Dividends for the period of four consecutive fiscal quarters ending on such day, plus (ii) the operating gain (loss) of the Borrower, on a non-consolidated basis, for such period, plus (iii) the tax benefit of interest expense of the Borrower for such period determined on a non-consolidated basis,

to

(b) an amount equal to the sum of (i) interest expense of the Borrower for such period determined on a non-consolidated basis, plus (ii) all required principal payments with respect to Indebtedness of the Borrower for such period determined on a non-consolidated basis.

(b) Section 1.1 of the Credit Agreement is hereby amended by adding the definitions of "Prime Rate" and "Prime Rate Advance" in the correct alphabetical order to read as follows:

"Prime Rate": The rate of interest from time to time publicly announced by the Bank as its "prime rate". The Bank may lend to its customers at rates that are at, above or below the Prime Rate. For purposes of determining any interest rate hereunder or under any other Loan Document which is based on the Prime Rate, such interest rate shall change as and when the Prime Rate shall change.

"Prime Rate Advance": An Advance with respect to which the interest rate is determined by reference to the Prime Rate.

(c) Section 1.1 of the Credit Agreement is hereby amended by deleting the definitions of "Reference Rate" and "Reference Rate Advance".

2.2 Conversions and Continuations. The last sentence of Section 2.5 of the Credit Agreement is deleted in its entirety and the following is substituted in lieu thereof:

> If the Borrower shall fail to notify the Bank of the continuation of any Fixed Rate Advances or of the conversion of Eurodollar Rate Advances to Negotiated Rate Advances within the time required by this Section, at the option of the Bank, such Advances shall, on the last day of the Interest Period applicable thereto (A) automatically be continued as Fixed Rate Advances of the same type and the same Interest Period or (B) automatically be converted to Prime Rate Advances.

2.3 Fixed Charge Coverage Ratio. Section 6.13 of the Credit Agreement is amended to read in its entirety as follows:

> Section 6.13 Fixed Charge Coverage Ratio. The Borrower will not permit the Fixed Charge Coverage Ratio, as of the last day of any fiscal quarter, to be less than 1.50 to 1.00.

2.4 Consolidated Net Worth. Section 6.15 of the Credit Agreement is amended to read in its entirety as follows:

> Section 6.15 Consolidated Net Worth. The Borrower will not permit its Consolidated Net Worth at any time to be less than the sum of $35,000,000 plus 25% of its cumulative positive Consolidated Net Income arising after September 30, 2001.

2.5 Statutory Surplus of ACIC. Section 6.16 of the Credit Agreement is amended to read in its entirety as follows:

> Section 6.16 Statutory Surplus of ACIC. The Borrower shall not permit ACIC's Capital and Surplus at any time to be less than the sum of $25,000,000 plus 25% of ACIC's cumulative positive Statutory Net Income arising after September 30, 2001.

2.6 Consolidated Net Income. Section 6.17 of the Credit Agreement is amended to read in its entirety as follows:

> Section 6.17 Consolidated Net Income. The Borrower will not permit its Consolidated Net Income, as of the last day of any fiscal quarter for the period of four consecutive fiscal quarters ending on such date, to be less than $3,000,000; provided, however, that for the period of determination ending on September 30, 2001, Consolidated Net Income shall be calculated on an annualized basis based upon the Borrower's consolidated financial results for the period from January 1, 2001 to and including September 30, 2001.

2.7 Prime Rate. Except for references to such terms specifically so amended by this Amendment, all remaining references to the term "Reference Rate" or "Reference Rate Advance" contained in the Credit Agreement are hereby amended to be references to the term "Prime Rate" or "Prime Rate Advance", as applicable.

2.8 Compliance Certificate. Exhibit 5.1(b) to the Credit Agreement is hereby amended in its entirety to read as set forth in Exhibit B to this Amendment, which is made a part of the Credit Agreement as Exhibit 5.1(b) thereto.

Section 3. Effectiveness of Amendments. The amendments contained in this Amendment shall become effective upon delivery by the Borrower of, and compliance by the Borrower with, the following:

3.1 This Amendment and the Second Amended and Restated Term Note in the form of Exhibit A hereto (the "Note"), each duly executed by the Borrower.

3.2 A copy of the resolutions of the Board of Directors of the Borrower authorizing the execution, delivery and performance of this Amendment and Note certified as true and accurate by its Secretary or Assistant Secretary, along with a certification by such Secretary or Assistant Secretary (i) certifying that there has been no amendment to the Articles of Incorporation or Bylaws of the Borrower since true and accurate copies of the same were delivered to the Bank with a certificate of the Secretary of the Borrower dated March 31, 2000, and (ii) identifying each officer of the Borrower authorized to execute this Amendment, the Note and any other instrument or agreement executed by the Borrower in connection with this Amendment (collectively, the "Amendment Documents"), and certifying as to specimens of such officer's signature and such officer's incumbency in such offices as such officer holds.

3.3 The Borrower shall have paid an amendment fee of $5,000 to the Bank.

3.4 The Borrower shall have satisfied such other conditions as specified by the Bank, including payment of all unpaid legal fees and expenses incurred by the Bank through the date of this Amendment in connection with the Credit Agreement and the Amendment Documents.

Section 4. Defaults and Waivers.

4.1 Events of Default and Unmatured Events of Default.

(a) Consolidated Net Worth. Under Section 6.15 of the Credit Agreement, the Borrower agreed not to permit its Consolidated Net Worth at any time to be less than the sum of $38,000,000 plus 25% of its cumulative positive Consolidated Net Income arising after March 31, 2001. Beginning on April 1, 2001, the Borrower's Consolidated Net Worth was less than the sum of $38,000,000 plus 25% of its cumulative positive Consolidated Net Income arising after March 31, 2001. As a result, an Event of Default has occurred under Section 7.1(c) of the Credit Agreement.

(b) Consolidated Net Income. Under Section 6.17 of the Credit Agreement, the Borrower agreed not to permit its Consolidated Net Income for any period of four consecutive fiscal quarters to be less than $3,000,000; provided, however, that for any period of determination ending on or before September 30, 2001, Consolidated Net Income shall be calculated on an annualized basis based upon the Borrower’s consolidated financial results for the period from January 1, 2001 to and including the date of determination. For the four fiscal quarters ending June 30, 2001, the Borrower’s Consolidated Net Income was less than $3,000,000. As a result, an Event of Default has occurred under Section 7.1(c) of the Credit Agreement.

4.2 Waiver. Upon the date on which this Amendment becomes effective, the Bank hereby waives the Borrower’s Defaults and Events of Default described in the preceding Sections 4.1(a) through 4.1(b) (the "Existing Defaults"). The waiver of the Existing Defaults set forth above is limited to the express terms thereof, and nothing herein shall be deemed a waiver by the Bank of any other term, condition, representation or covenant applicable to the Borrower under the Credit Agreement (including but not limited to any future occurrence similar to the Existing Defaults) or any of the other agreements, documents or instruments executed and delivered in connection therewith, or of the covenants described therein. The waivers set forth herein shall not constitute a waiver by the Bank of any other Default or Event of Default, if any, under the Credit Agreement, and shall not be, and shall not be deemed to be, a course of action with respect thereto upon which the Borrower may rely in the future, and the Borrower hereby expressly waives any claim to such effect.

Section 5. Representations, Warranties, Authority, No Adverse Claim.

5.1 Reassertion of Representations and Warranties, No Default. The Borrower hereby represents that on and as of the date hereof and after giving effect to this Amendment (a) all of the representations and warranties contained in the Credit Agreement are true, correct and complete in all respects as of the date hereof as though made on and as of such date, except for changes permitted by the terms of the Credit Agreement, and (b) there will exist no Default or Event of Default under the Credit Agreement as amended by this Amendment on such date which has not been waived by the Bank.

5.2 Authority, No Conflict, No Consent Required. The Borrower represents and warrants that the Borrower has the power and legal right and authority to enter into the Amendment Documents and has duly authorized as appropriate the execution and delivery of the Amendment Documents and other agreements and documents executed and delivered by the Borrower in connection herewith or therewith by proper corporate action, and none of the Amendment Documents nor the agreements contained herein or therein contravenes or constitutes a default under any agreement, instrument or indenture to which the Borrower is a party or a signatory or a provision of the Borrower’s Articles of Incorporation, Bylaws or any other agreement or requirement of law, or result in the imposition of any Lien on any of its property under any agreement binding on or applicable to the Borrower or any of its property except, if any, in favor of the Bank. The Borrower represents and warrants that no consent, approval or authorization of or registration or declaration with any Person, including but not limited to any governmental authority, is required in connection with the execution and delivery by the Borrower of the Amendment Documents or other agreements and documents executed and delivered by the Borrower in connection therewith or the performance of obligations of the Borrower therein described, except for those which the Borrower has obtained or provided and as to which the Borrower has delivered certified copies of documents evidencing each such action to the Bank.

5.3 No Adverse Claim. The Borrower warrants, acknowledges and agrees that no events have been taken place and no circumstances exist at the date hereof which would give the Borrower a basis to assert a defense, offset or counterclaim to any claim of the Bank with respect to the Obligations.

Section 6. Affirmation of Credit Agreement, Further References, Affirmation of Security Interest. The Bank and the Borrower each acknowledge and affirm that the Credit Agreement, as hereby amended, is hereby ratified and confirmed in all respects and all terms, conditions and provisions of the Credit Agreement, except as amended by this Amendment, shall remain unmodified and in full force and effect. All references in any document or instrument to the Credit Agreement are hereby amended and shall refer to the Credit Agreement as amended by this Amendment. The Borrower confirms to the Bank that the Obligations are and continue to be secured by the security interest granted by the Borrower in favor of the Bank under the Security Documents, and all of the terms, conditions, provisions, agreements, requirements, promises, obligations, duties, covenants and representations of the Borrower under such documents and any and all other documents and agreements entered into with respect to the obligations under the Credit Agreement are incorporated herein by reference and are hereby ratified and affirmed in all respects by the Borrower.

Section 7. Merger and Integration, Superseding Effect. This Amendment, from and after the date hereof, embodies the entire agreement and understanding between the parties hereto and supersedes and has merged into this Amendment all prior oral and written agreements on the same subjects by and between the parties hereto with the effect that this Amendment, shall control with respect to the specific subjects hereof and thereof.

Section 8. Severability. Whenever possible, each provision of this Amendment and the other Amendment Documents and any other statement, instrument or transaction contemplated hereby or thereby or relating hereto or thereto shall be interpreted in such manner as to be effective, valid and enforceable under the applicable law of any jurisdiction, but, if any provision of this Amendment, the other Amendment Documents or any other statement, instrument or transaction contemplated hereby or thereby or relating hereto or thereto shall be held to be prohibited, invalid or unenforceable under the applicable law, such provision shall be ineffective in such jurisdiction only to the extent of such prohibition, invalidity or unenforceability, without invalidating or rendering unenforceable the remainder of such provision or the remaining provisions of this Amendment, the other Amendment Documents or any other statement, instrument or transaction contemplated hereby or thereby or relating hereto or thereto in such jurisdiction, or affecting the effectiveness, validity or enforceability of such provision in any other jurisdiction.

Section 9. Successors. The Amendment Documents shall be binding upon the Borrower and the Bank and their respective successors and assigns, and shall inure to the benefit of the Borrower and the Bank and the successors and assigns of the Bank.

Section 10. Legal Expenses. As provided in Section 8.2 of the Credit Agreement, the Borrower agrees to reimburse the Bank, upon execution of this Amendment, for all reasonable out-of-pocket expenses (including attorney' fees and legal expenses of Dorsey & Whitney LLP, counsel for the Bank) incurred in connection with the Credit Agreement, including in connection with the negotiation, preparation and execution of the Amendment Documents and all other documents negotiated, prepared and executed in connection with the Amendment Documents, and in enforcing the obligations of the Borrower under the Amendment Documents, and to pay and save the Bank harmless from all liability for, any stamp or other taxes which may be payable with respect to the execution or delivery of the Amendment Documents, which obligations of the Borrower shall survive any termination of the Credit Agreement.

Section 11. Headings. The headings of various sections of this Amendment have been inserted for reference only and shall not be deemed to be a part of this Amendment.

Section 12. Counterparts. The Amendment Documents may be executed in several counterparts as deemed necessary or convenient, each of which, when so executed, shall be deemed an original, provided that all such counterparts shall be regarded as one and the same document, and either party to the Amendment Documents may execute any such agreement by executing a counterpart of such agreement.

Section 13. Governing Law. THE AMENDMENT DOCUMENTS SHALL BE GOVERNED BY THE INTERNAL LAWS OF THE STATE OF MINNESOTA, WITHOUT GIVING EFFECT TO CONFLICT OF LAW PRINCIPLES THEREOF, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS, THEIR HOLDING COMPANIES AND THEIR AFFILIATES.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the date and year first above written.

BORROWER: RTW, INC.

By: /s/ Jeffrey B. Murphy

Title: Chief Financial Officer

BANK: U.S. BANK NATIONAL ASSOCIATION

By: /s/ Jason Tornow

Title: Corporate Banking Officer

EXHIBIT 10.14[4]

Execution Copy

FOURTH AMENDMENT TO CREDIT AGREEMENT AND LIMITED WAIVER OF DEFAULT

This FOURTH AMENDMENT TO CREDIT AGREEMENT AND LIMITED WAIVER OF DEFAULT (this "Amendment"), made and entered into as of March 22, 2002, is by and between RTW, Inc., a Minnesota corporation (the "Borrower"), and U.S. Bank National Association, a national banking association (the "Bank").

RECITALS

1. The Bank and the Borrower entered into a Credit Agreement dated as of March 31, 2000 as amended by a First Amendment dated as of May 4, 2000, a Second Amendment dated as of March 28, 2001 and Third Amendment dated as of September 29, 2001 (as amended, the "Credit Agreement"); and

2. The Borrower desires to amend certain provisions of the Credit Agreement, and the Bank has agreed to make such amendments, subject to the terms and conditions set forth in this Amendment.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby covenant and agree to be bound as follows:

Section 1. Capitalized Terms. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Credit Agreement, unless the context shall otherwise require.

Section 2. Amendments. The Credit Agreement is hereby amended as follows:

2.1 Definitions.

(a) The definition of "Applicable Margin" contained in Section 1.1 of the Credit Agreement is hereby amended in its entirety to read as follows:

"Applicable Margin": The Applicable Margin for Prime Rate Advances in effect at all times shall be twenty-five hundredths of one percent (0.25%). On or before March 31, 2002, the Applicable Margin for Eurodollar Rate Advances in effect at all times shall be two and seventy-five hundredths percent (2.75%). From and after April 1, 2002, the Applicable Margin for Eurodollar Rate Advances in effect at all times shall be three percent (3.00%).

(b) Section 1.1 of the Credit Agreement is hereby amended by adding the definitions of "Administrative Service Revenues" and "EBIT" in the correct alphabetical order to read as follows:

"Administrative Service Revenues": For any period of determination, gross revenues derived by the Borrower from providing administrative or other revenue-generating services to non-related third party customers.

"EBIT": For any period of determination, the net income of the Borrower before deductions for income taxes and Interest Expense, in each case determined for said period in accordance with GAAP.

2.2 Cash Flow Sweep. Section 2.7 of the Credit Agreement is amended to add a new Section 2.7(c) to read as follows:

2.7(c) Administrative Service Revenue Sweep. The Borrower shall pay to the Bank, within thirty (30) days after the end of each fiscal quarter, an amount equal to ten percent (10%) of Administrative Service Revenues for such fiscal quarter. Any prepayment under this Section 2.7(c) shall be applied against the next principal payment required under the terms of the Term Note.

2.3 Consolidated Net Worth. Section 6.15 of the Credit Agreement is amended in its entirety to read as follows:

Section 6.15 Consolidated Net Worth. The Borrower will not permit its Consolidated Net Worth at any time to be less than the sum of $14,500,000 plus 25% of its cumulative positive Consolidated Net Income arising after March 31, 2002.

2.4 Statutory Surplus of ACIC. Section 6.16 of the Credit Agreement is amended in its entirety to read as follows:

Section 6.16 Statutory Surplus of ACIC. The Borrower shall not permit ACIC's Capital and Surplus at any time to be less than the sum of $18,000,000 plus 25% of ACIC's cumulative positive Statutory Net Income arising after March 31, 2002.

2.5 Minimum Earnings. Section 6.17 of the Credit Agreement is amended in its entirety to read as follows:

Section 6.17 Minimum EBIT. The Borrower will not permit its EBIT to be less than $4,000,000 as of the last day of any fiscal quarter calculated as follows:

(a) on each March 31, the product of (i) EBIT for the period from and after January 1 to and including March 31 times (ii) four (4);

(b) on each June 30, the product of (i) EBIT for the period from and after January 1 to and including June 30 times (ii) two (2);

(c) on each September 30, the product of (i) EBIT for the period from and after January 1 to and including September 30 times (ii) four-thirds (4/3); and

(d) on each December 31, EBIT for the four previous fiscal quarters ending on such date.

2.6 Risk-Based Capital Ratio of ACIC. Section 6.18 of the Credit Agreement is amended in its entirety to read as follows:

Section 6.18 Risk-Based Capital Ratio of ACIC. The Borrower will not permit the ratio (expressed as a percentage) of the Adjusted Capital to the Risk-Based Capital of ACIC at any time to be less than 235%.

2.7 A.M. Best Rating of ACIC. Section 6.19 of the Credit Agreement is amended in its entirety to read as follows:

Section 6.19 A.M. Best Rating of ACIC. On or after January 1, 2003, the Borrower will not permit the rating of ACIC by A.M. Best & Company at any time to be less than B+.

2.8 Compliance Certificate. Exhibit 5.1(b) to the Credit Agreement is hereby amended in its entirety to read as set forth in Exhibit B to this Amendment, which is made a part of the Credit Agreement as Exhibit 5.1(b) thereto.

Section 3. Effectiveness of Amendments. The amendments contained in this Amendment shall become effective upon delivery by the Borrower of, and compliance by the Borrower with, the following:

3.1 This Amendment and the Third Amended and Restated Term Note in the form of Exhibit A hereto (the "Note"), each duly executed by the Borrower.

3.2 A copy of the resolutions of the Board of Directors of the Borrower authorizing the execution, delivery and performance of this Amendment and Note certified as true and accurate by its Secretary or Assistant Secretary, along with a certification by such Secretary or Assistant Secretary (i) certifying that there has been no amendment to the Articles of Incorporation or Bylaws of the Borrower since true and accurate copies of the same were delivered to the Bank with a certificate of the Secretary of the Borrower dated March 31, 2000, and (ii) identifying each officer of the Borrower authorized to execute this Amendment, the Note and any other instrument or agreement executed by the Borrower in connection with this Amendment (collectively, the "Amendment Documents"), and certifying as to specimens of such officer's signature and such officer's incumbency in such offices as such officer holds.

3.3 The Borrower shall have paid an amendment fee of $3,000 to the Bank.

3.4 The Borrower shall have satisfied such other conditions as specified by the Bank, including payment of all unpaid legal fees and expenses incurred by the Bank through the date of this Amendment in connection with the Credit Agreement and the Amendment Documents.

Section 4. Defaults and Waivers.

4.1 Events of Default and Unmatured Events of Default.

(a) Consolidated Net Worth. Under Section 6.15 of the Credit Agreement, the Borrower agreed not to permit its Consolidated Net Worth at any time to be less than the sum of $35,000,000 plus 25% of its cumulative positive Consolidated Net Income arising after September 30, 2001. As of December 31, 2001, the Borrower’s Consolidated Net Worth was less than the sum of $35,000,000 plus 25% of its cumulative positive Consolidated Net Income arising after September 30, 2001. As a result, an Event of Default has occurred under Section 7.1(c) of the Credit Agreement.

(b) Statutory Surplus of ACIC. Under Section 6.16 of the Credit Agreement, the Borrower agreed not to permit ACIC’s Capital and Surplus at any time to be less than the sum of $25,000,000 plus 25% of ACIC’s cumulative positive Statutory Net Income arising after September 30, 2001. As of December 31, 2001, ACIC’s Capital and Surplus was less than the sum of $25,000,000 plus 25% of ACIC’s cumulative positive Statutory Net Income arising after September 30, 2001. As a result, an Event of Default has occurred under Section 7.1(c) of the Credit Agreement.

(c) Consolidated Net Income. Under Section 6.17 of the Credit Agreement, the Borrower agreed not to permit its Consolidated Net Income for any period of four consecutive fiscal quarters to be less than $3,000,000. For the four fiscal quarters ending December 31, 2001, the Borrower’s Consolidated Net Income was less than $3,000,000. As a result, an Event of Default has occurred under Section 7.1(c) of the Credit Agreement.

(d) Risk-Based Capital Ratio of ACIC. Under Section 6.18 of the Credit Agreement, the Borrower agreed not to permit the ratio (expressed as a percentage) of the Adjusted Capital to the Risk-Based Capital of ACIC at any time to be less than 400%. As of December 31, 2001, the ratio (expressed as a percentage) of the Adjusted Capital to the Risk-Based Capital of ACIC was less than 400%. As a result, an Event of Default has occurred under Section 7.1(c) of the Credit Agreement.

4.2 Waiver. Upon the date on which this Amendment becomes effective, the Bank hereby waives the Borrower’s Defaults and Events of Default described in the preceding Sections 4.1(a) through 4.1(d) (the "Existing Defaults"). The waiver of the Existing Defaults set forth above is limited to the express terms thereof, and nothing herein shall be deemed a waiver by the Bank of any other term, condition, representation or covenant applicable to the Borrower under the Credit Agreement (including but not limited to any future occurrence similar to the Existing Defaults) or any of the other agreements, documents or instruments executed and delivered in connection therewith, or of the covenants described therein. The waivers set forth herein shall not constitute a waiver by the Bank of any other Default or Event of Default, if any, under the Credit

Agreement, and shall not be, and shall not be deemed to be, a course of action with respect thereto upon which the Borrower may rely in the future, and the Borrower hereby expressly waives any claim to such effect.

Section 5. Representations, Warranties, Authority, No Adverse Claim.

5.1 Reassertion of Representations and Warranties, No Default. The Borrower hereby represents that on and as of the date hereof and after giving effect to this Amendment (a) all of the representations and warranties contained in the Credit Agreement are true, correct and complete in all respects as of the date hereof as though made on and as of such date, except for changes permitted by the terms of the Credit Agreement, and (b) there will exist no Default or Event of Default under the Credit Agreement as amended by this Amendment on such date which has not been waived by the Bank.

5.2 Authority, No Conflict, No Consent Required. The Borrower represents and warrants that the Borrower has the power and legal right and authority to enter into the Amendment Documents and has duly authorized as appropriate the execution and delivery of the Amendment Documents and other agreements and documents executed and delivered by the Borrower in connection herewith or therewith by proper corporate action, and none of the Amendment Documents nor the agreements contained herein or therein contravenes or constitutes a default under any agreement, instrument or indenture to which the Borrower is a party or a signatory or a provision of the Borrower’s Articles of Incorporation, Bylaws or any other agreement or requirement of law, or result in the imposition of any Lien on any of its property under any agreement binding on or applicable to the Borrower or any of its property except, if any, in favor of the Bank. The Borrower represents and warrants that no consent, approval or authorization of or registration or declaration with any Person, including but not limited to any governmental authority, is required in connection with the execution and delivery by the Borrower of the Amendment Documents or other agreements and documents executed and delivered by the Borrower in connection therewith or the performance of obligations of the Borrower therein described, except for those which the Borrower has obtained or provided and as to which the Borrower has delivered certified copies of documents evidencing each such action to the Bank.

5.3 No Adverse Claim. The Borrower warrants, acknowledges and agrees that no events have been taken place and no circumstances exist at the date hereof which would give the Borrower a basis to assert a defense, offset or counterclaim to any claim of the Bank with respect to the Obligations.

Section 6. Affirmation of Credit Agreement, Further References, Affirmation of Security Interest. The Bank and the Borrower each acknowledge and affirm that the Credit Agreement, as hereby amended, is hereby ratified and confirmed in all respects and all terms, conditions and provisions of the Credit Agreement, except as amended by this Amendment, shall remain unmodified and in full force and effect. All references in any document or instrument to the Credit Agreement are hereby amended and shall refer to the Credit Agreement as amended by this Amendment. The Borrower confirms to the Bank that the Obligations are and continue to be secured by the security interest granted by the Borrower in favor of the Bank under the Security Documents, and all of the terms, conditions, provisions, agreements, requirements, promises, obligations, duties, covenants and representations of the Borrower under such documents and any and all other documents and agreements entered into with respect to the obligations under the Credit Agreement are incorporated herein by reference and are hereby ratified and affirmed in all respects by the Borrower.

Section 7. Merger and Integration, Superseding Effect. This Amendment, from and after the date hereof, embodies the entire agreement and understanding between the parties hereto and supersedes and has merged into this Amendment all prior oral and written agreements on the same subjects by and between the parties hereto with the effect that this Amendment, shall control with respect to the specific subjects hereof and thereof.

Section 8. Severability. Whenever possible, each provision of this Amendment and the other Amendment Documents and any other statement, instrument or transaction contemplated hereby or thereby or relating hereto or thereto shall be interpreted in such manner as to be effective, valid and enforceable under the applicable law of any jurisdiction, but, if any provision of this Amendment, the other Amendment Documents or any other statement, instrument or transaction contemplated hereby or thereby or relating hereto or thereto shall be held to be prohibited, invalid or unenforceable under the applicable law, such provision shall be ineffective in such jurisdiction only to the extent of such prohibition, invalidity or unenforceability, without invalidating or rendering unenforceable the remainder of such provision or the remaining provisions of this Amendment, the other Amendment Documents or any other statement, instrument or transaction contemplated hereby or thereby or relating hereto or thereto in such jurisdiction, or affecting the effectiveness, validity or enforceability of such provision in any other jurisdiction.

Section 9. Successors. The Amendment Documents shall be binding upon the Borrower and the Bank and their respective successors and assigns, and shall inure to the benefit of the Borrower and the Bank and the successors and assigns of the Bank.

Section 10. Legal Expenses. As provided in Section 8.2 of the Credit Agreement, the Borrower agrees to reimburse the Bank, upon execution of this Amendment, for all reasonable out-of-pocket expenses (including attorney' fees and legal expenses of Dorsey & Whitney LLP, counsel for the Bank) incurred in connection with the Credit Agreement, including in connection with the negotiation, preparation and execution of the Amendment Documents and all other documents negotiated, prepared and executed in connection with the Amendment Documents, and in enforcing the obligations of the Borrower under the Amendment Documents, and to pay and save the Bank harmless from all liability for, any stamp or other taxes which may be payable with respect to the execution or delivery of the Amendment Documents, which obligations of the Borrower shall survive any termination of the Credit Agreement.

Section 11. Headings. The headings of various sections of this Amendment have been inserted for reference only and shall not be deemed to be a part of this Amendment.

Section 12. Counterparts. The Amendment Documents may be executed in several counterparts as deemed necessary or convenient, each of which, when so executed, shall be deemed an original, provided that all such counterparts shall be regarded as one and the same document, and either party to the Amendment Documents may execute any such agreement by executing a counterpart of such agreement.

Section 13. Governing Law. THE AMENDMENT DOCUMENTS SHALL BE GOVERNED BY THE INTERNAL LAWS OF THE STATE OF MINNESOTA, WITHOUT GIVING EFFECT TO CONFLICT OF LAW PRINCIPLES THEREOF, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS, THEIR HOLDING COMPANIES AND THEIR AFFILIATES.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the date and year first above written.

BORROWER: RTW, INC.

By: /s/ Jeffrey B. Murphy

Title: Chief Financial Officer

BANK: U.S. BANK NATIONAL ASSOCIATION

By: /s/ Jason Tornow

Title: Corporate Banking Officer

[Signature Page to Fourth Amendment to Credit Agreement]

EXHIBIT 11

RTW, INC. AND SUBSIDIARY
STATEMENT REGARDING COMPUTATION OF BASIC AND DILUTED INCOME (LOSS) PER SHARE

	1999	2000	2001
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING	12,290,990	10,854,839	10,303,857
STOCK OPTIONS			
Options at $5.81	4,361	--	--
Options at $5.00	13,615	--	--
Options at $4.75	1,834	--	--
Options at $4.50	13,990	--	--
Options at $4.38	24,778	--	--
Options at $2.67	5,594	--	--
Options at $2.00	4,797	--	--
WEIGHTED AVERAGE COMMON AND COMMON SHARE EQUIVALENTS OUTSTANDING	12,359,959	10,854,839	10,303,857
NET INCOME (LOSS) ($000'S)	$ 6,167	$ (9,708)	$ (25,215)
INCOME (LOSS) PER SHARE:			
BASIC INCOME (LOSS) PER SHARE	$ 0.50	$ (0.89)	$ (2.45)
DILUTED INCOME (LOSS) PER SHARE	$ 0.50	$ (0.89)	$ (2.45)

EXHIBIT 23

INDEPENDENT AUDITORS' REPORT

We consent to the incorporation by reference in Registration Statement No. 33-91368 of RTW, Inc. on form S-8/S-3, Registration Statement No. 33-91372 of RTW, Inc. on Form S-8, Registration Statement No. 33-98966 of RTW, Inc. on Form S-8, and Registration Statement No. 333-28585 of RTW, Inc. on Form S-8 of our reports dated March 25, 2003 appearing in this Annual Report on Form 10-K/A of RTW, Inc. for the year ended December 31, 2001.

/s/ ERNST & YOUNG LLP

Minneapolis, Minnesota
March 26, 2003

EXHIBIT 23.1

INDEPENDENT AUDITORS' REPORT

We consent to the incorporation by reference in Registration Statement No. 33-91368 of RTW, Inc. on form S-8/S-3, Registration Statement No. 33-91372 of RTW, Inc. on Form S-8, Registration Statement No. 33-98966 of RTW, Inc. on Form S-8, and Registration Statement No. 333-28585 of RTW, Inc. on Form S-8 of our report dated February 9, 2001 (March 28, 2001 as to Note 6), appearing in this Annual Report on Form 10-K/A of RTW, Inc. for the year ended December 31, 2001.

/s/ DELOITTE & TOUCHE LLP

Minneapolis, Minnesota
March 26, 2003