

As we reflect on 2003, I am pleased to report continuing growth and accomplishments at RTW. By all accounts, 2003 was a successful year.

To Our Shareholders



- ▶ We earned \$7.0 million in 2003 and extended our profitability to eight consecutive quarters.
- ▶ Our reserves continued to develop favorably reflecting our focus on case and claim management and our commitment to closing our open claims.
- ▶ We continued to focus on writing the right business at the right price. Rates continued to increase only slightly in 2003, a sign that we are approaching the end of the hard insurance market cycle.
- ▶ We grew our premiums in force to \$58.1 million at December 31, 2003 from \$54.2 million at December 31, 2002 while continuing to remove unprofitable business, including \$8.0 million of Professional Employer Organization policies, from our portfolio.
- ▶ We improved our surplus to \$33.0 million at December 31, 2003 from \$26.8 million at December 31, 2002. Combined with profitable operations, we received an A.M. Best rating upgrade to B+ (Very Good, Secure) on March 9, 2004.
- ▶ Our stock price increased from \$1.68 on December 31, 2002 to \$6.44 on December 31, 2003.

Our core competencies are much clearer to us and we continue to find new avenues to bring our products and services to the market. We are committed to delivering these competencies to:

- ▶ Improve an employer's business, in terms of expense and productivity; and
- ▶ Save employees' lives by identifying appropriate medical care for injured employees so they can return to their normal routines as quickly as possible.

One of the tools we use in delivering our core competencies is our **ID15®** technology. **ID15** enables us to identify, early on and with a high degree of accuracy, those claims that will result in the greatest workers' compensation cost. With **ID15**, we are able to identify these claims within forty-eight hours of the injury report and then apply **The RTW Solution®** to manage the claim to a prompt and cost-effective outcome while treating the injured employee with care and respect. Our proprietary information systems enhance our ability to deliver our core competencies in a highly-efficient manner and more effectively than others in the industry.

We find ourselves in the midst of a hard market for workers' compensation insurance in the regions in which we operate. Premiums rates are at recent highs. This market has been driven by the departure of competitors from our markets, the historical low interest rate environment, high reinsurance costs driven by reduced capacity and the low investment rate environment and rational behavior from the remaining competitors in the regions in which we operate. These conditions will not last forever, and even now, we see signs that indicate that we are nearing another soft cycle for workers' compensation insurance, where premium rates will decrease. As premium rates decrease in our insurance product, we will downsize our insurance company premiums in force. We began to write non-risk business on a fee-for-service basis in July 2002 in order to diversify our product offerings and reduce our reliance on premium revenues. While we are disappointed with our progress in accomplishing this goal in 2003, we will continue to focus on diversifying in 2004.

In 2004, we will focus on transitioning RTW from an "insurance company" back to its roots and core competencies as a "service organization". We will become the "go to" workers' compensation solution inside and outside the regions in which we currently operate and expect to accomplish these goals through a number of initiatives, including:

- ▶ Working diligently to position RTW for the future by expanding our product offerings, especially fee-for-service business. We will grow our non-risk alternative products business by applying our technologies: **ID15**, **The RTW Solution** and our proprietary software solutions. We will focus on becoming more customer friendly, tailoring solutions to meet customers' specific needs. In March 2004, we were awarded a contract to service twenty-five percent of the Minnesota Assigned Risk Plan, an important step in positioning and growing our fee-for-service business.
- ▶ Seeking strategic partners who understand our value, who have a common vision and who can help ensure our success as we enter new markets.



The RTW Solution® - A better idea.



- ▶ Continuing to develop and hire leaders who grasp RTW's vision and make it real.
- ▶ Focusing on maintaining profitability in our insurance operations, writing policies at the right price and non-renewing unprofitable business.
- ▶ Improving our insurance company and the core operations of RTW. We will continue to improve our case and claim management capabilities, including our ability to handle tough claims. At the same time, we will become more cost effective in handling cases and claims by removing the "noise" of the less difficult claims from our operating teams, automating their handling process.

Our accomplishment of these initiatives will increase the value of and create further value in RTW.

I would like to thank a number of constituents of RTW. First of all, I thank our customers. Without them, we would not have a product or service to offer. I thank our shareholders for their continued interest and support in all that we do. I thank the members of our board of directors for providing guidance to the company, supporting our initiatives and helping us to focus on what is important. Lastly, but certainly not least, I thank each of our dedicated employees. Without their drive, desire and persistence, RTW would not enjoy the success it has today.

We have learned a lot about RTW over the past two years. We learned that we can compete efficiently and effectively in our target markets. We are a "can do" company in every aspect. We approach each new challenge with optimism, looking to find the right resources to make things happen. We do not limit our successes by what we think we can do or believe we have the capacity to accomplish. We approach and solve challenges head on and create success through our tenacity and dedication to excellence in our business. We look forward to reporting our achievements to each of you throughout 2004.

Sincerely,

A handwritten signature in dark ink, appearing to read "JB Murphy", with a long, sweeping horizontal line extending to the right.

Jeffrey B. Murphy
President and Chief Executive Officer

CORPORATE INFORMATION

Headquarters and Minnesota Regional Office

8500 Normandale Lake Boulevard
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Bloomington, MN 55437
800-789-2242
952-893-0403

Website

www.rtwi.com

Other Regional Offices

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800-203-2610

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Southfield, MI 48075
800-809-4337

3033 Orchard Vista Drive S.E.
Suite 101
Grand Rapids, MI 49546
866-942-0021

Transfer Agent

Wells Fargo Bank, Minnesota, N.A.
South St. Paul, Minnesota

Auditors

Ernst & Young LLP
Minneapolis, Minnesota

Legal Counsel

Lindquist & Vennum P.L.L.P.
Minneapolis, Minnesota

Notice of Annual Meeting

The RTW, Inc. Annual Meeting of Shareholders will be held on June 16, 2004 at 10:00 am at the Hotel Sofitel
5601 West 78th Street
Bloomington, MN 55439

Form 10-K

The Annual Report on Form 10-K filed with the Securities and Exchange Commission is available to stockholders at no charge on the Company's website at www.rtwi.com or by writing to Alfred L. LaTendresse
Chief Financial Officer
P.O. Box 390327
Minneapolis, MN 55439-0327

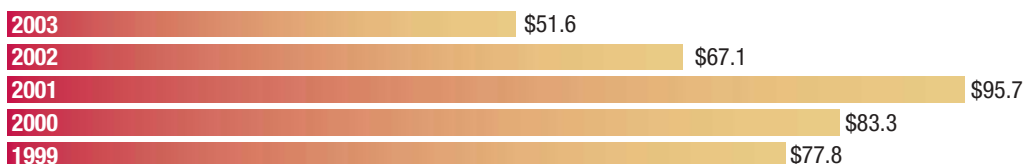
FINANCIAL RESULTS

(Dollars in thousands, except per share data)

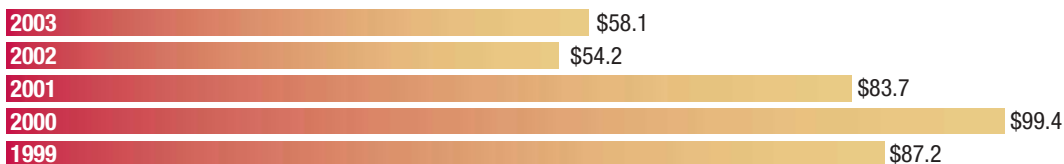
Fiscal year ended December 31,

	2003	2002	2001	2000	1999
Total revenues	\$51,558	\$67,146	\$95,723	\$83,299	\$77,812
Income (loss) from operations	6,635	10,325	(15,761)	(14,780)	8,357
Net income (loss)	6,999	14,319	(25,215)	(9,708)	6,167
Basic income (loss) per share	1.37	2.78	(4.89)	(1.79)	1.00
Diluted income (loss) per share	1.32	2.78	(4.89)	(1.79)	1.00
Premiums in force at year end	58,100	54,200	83,700	99,400	87,200
Total assets	202,168	223,834	218,307	194,535	176,511
Notes payable	—	1,250	4,500	7,000	—
Total shareholders' equity	35,587	29,810	14,222	38,736	55,565

REVENUE (in millions)



PREMIUMS IN FORCE (in millions)



ASSETS (in millions)

