5AFETY 1N NUMBER5

WCF

WORKERS COMPENSATION FUND

Workers Compensation Fund has insured Utah employers since 1917 and is currently the state's largest workers' compensation insurer . WCF is a quasi-public corporation owned by its policyholders and governed by a board of directors. The Company is financed entirely by premium payments from customers and investment income.

WCF employs 350 people who provide underwriting, safety, claims and legal services to more than 27,000 Utah employers. The Company is committed to creating superior value, providing exceptional customer service, promoting workplace safety, building strong partnerships and aggressively managing cost.

WORKERS COMPENSATION FUND

2005 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

Year ended December 31,	2005	2004
(IN THOUSANDS)		
Premiums earned, net of reinsurance	$ 258,898	$ 245,558
Underwriting gain	4,841	3,798
Net investment income	47,216	44,312
Realized capital gains on investments	12,723	11,272
Policyholder dividends	19,501	19,889
Net income	43,995	38,475

Year ended December 31,	2005	2004
Loss and loss adjustment expense ratio	78.2	74.9
Expense ratio (excluding dividends)	19.9	23.6
Combined ratio (excluding dividends)	98.1	98.5

December 31,	2005	2004
(IN THOUSANDS)		
Admitted assets	$ 1,133,740	$ 1,037,669
Cash and invested assets	1,098,810	1,001,398
Reserve for losses and loss adjustment expenses	705,034	648,878
Policyholders' surplus	365,277	326,651

Dear Policyholders and Friends,

Workers Compensation Fund (WCF) realized record premiums and net income in 2005, while continuing to offer customer premiums that are among the lowest in the United States. For the second consecutive year, WCF returned a $20 million dividend to its policyholders.

In August of 2005, the Utah Supreme Court rendered its opinion in the ongoing litigation with the State of Utah concerning the ownership of the Company. The Court ruled that: 1) WCF is not a State agency, 2) the State does not own WCF or its assets, 3) the State has no operational, financial or managerial control over WCF or its assets 4) the State is not liable for the expenses, liabilities or debts of the Company and 5) the Legislature can modify the structure and management of WCF or adjust the level of the State's influence.

The Court's ruling was a clear victory for WCF policyholders and brings to an end several years of debate over the ownership of the Company. WCF is a quasi-public corporation, a corporate entity created by the statutes of the State of Utah. A quasi-public corporation is defined statutorily as being private in ownership while serving a public purpose. The public purpose of the Company is to provide workers' compensation coverage to any employer in Utah regardless of insurability. In return, WCF receives an exemption from federal income taxes. Under the Supreme Court ruling, none of these fundamental facts will change. We will continue to work hard to provide excellent service at competitive rates.

WCF has provided coverage outside the State of Utah through unaffiliated insurance companies and through Advantage Workers Compensation Insurance Company (Advantage). Advantage was a wholly-owned subsidiary of the Company until 2004 when all of the voting stock of Advantage was placed in a voting trust administered by an independent party. Advantage now has a separate management structure and operates independently from the Company. It received its own A.M. Best rating of A- in 2004. WCF continues to use Advantage as well as Old Republic Insurance Company to place out of state insurance.

Also during 2005, WCF enhanced its ability to provide better service to the increasing Spanish speaking workforce. It is estimated that 300,000 Spanish speaking residents live along the Wasatch Front. The Company provides claims management by Spanish speaking adjusters. Translators assist Spanish speaking injured workers at doctors' appointments and assist employers with verbal and written safety training. WCF is providing Spanish safety training within the Hispanic community and has begun an extensive public relations and advertising campaign designed to reduce the number and severity of accidents among Spanish speaking workers.

Workers' compensation costs are increasing in Utah and nationally on average. The primary drivers of costs are increased medical expenses and an increase in the severity of accidents. We remain committed to working closely with our policyholders/owners to mitigate these troublesome trends. Thank you for your business and continuing support.

Lane A. Summerhays
PRESIDENT & CEO

Robert D. Myrick
CHAIR, BOARD OF DIRECTORS


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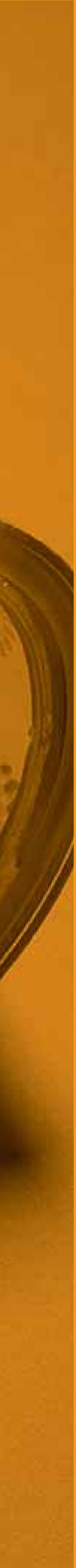


REFLECTING ON 2005

ANY WAY YOU LOOK AT IT, 2005 WAS A REMARKABLE YEAR FOR WORKERS COMPENSATION FUND.

As we reflect on 2005, it's clear that it has been one of our best years to date. We attribute this success to a commitment by our policyholders and WCF to workplace safety and the use of claims management programs. During the last year we also received further confirmation on the legal status of WCF with a Utah Supreme Court ruling firmly establishing policyholders as the owners of the Company.

Overall, we couldn't have asked for a better year.

ˇ GIVING 100% TO REDUCE ACCIDENTS

WITH WORKPLACE INJURIES DECREASING EACH YEAR, WE CAN SEE SAFETY TRAINING AND AWARENESS EFFORTS ARE PAYING OFF. LITERALLY.

In the coming year, we will continue to provide extensive safety resources to our policyholders. As always, we will strive to prevent as many workplace accidents as possible. In 2006, we will work to further decrease workplace injuries and fatalities. We will implement an extensive advertising campaign to encourage safe driving and the use of seat-belts and personal safety equipment.

From 2000 to 2005, WCF experienced a 20 percent decrease in the number of submitted claims. We credit the decline in claims to partnering with our policyholders to find safety solutions to protect employees and business owners.

6,500

WORKPLACE SAFETY VISITS PERFORMED BY WCF SAFETY SPECIALISTS IN 2005

14,600

PEOPLE TRAINED AT SAFETY SEMINARS & ON-SITE TRAINING IN 2005

STATING THE FACTS - ALL 50 MILLION OF THEM

"We are pleased to have the ownership issue finally resolved, and look forward to continuing with our primary focus — providing workers' compensation insurance services, safety resources and injured worker support that our owners — the policyholders — deserve."

— LANE SUMMERHAYS, PRESIDENT & CEO

During 2005, the Utah Supreme Court ruled that WCF's assets are owned by the Company's policyholders, not the State of Utah. The ruling settles long-standing challenges by the State of Utah and upholds previous Supreme Court and district court decisions.

The Supreme Court concluded, "We affirm the district court's decision that the "State of Utah has no ownership interest in the Workers Compensation Fund or its assets other than as a policyholder."

The ruling came after WCF offered $50 million to the State of Utah in 2004 to settle the ownership dispute. The state of Utah refused the settlement.

With the ownership issue resolved, WCF can focus its efforts on providing the most comprehensive workers' compensation coverage for Utah employers.

ˇ MEASURING SUCCESS

WE WORK HARD TO PREVENT WORKPLACE INJURIES. BUT WHEN AN ACCIDENT DOES OCCUR, WE PROVIDE QUALITY BENEFITS, CARE AND SERVICE.

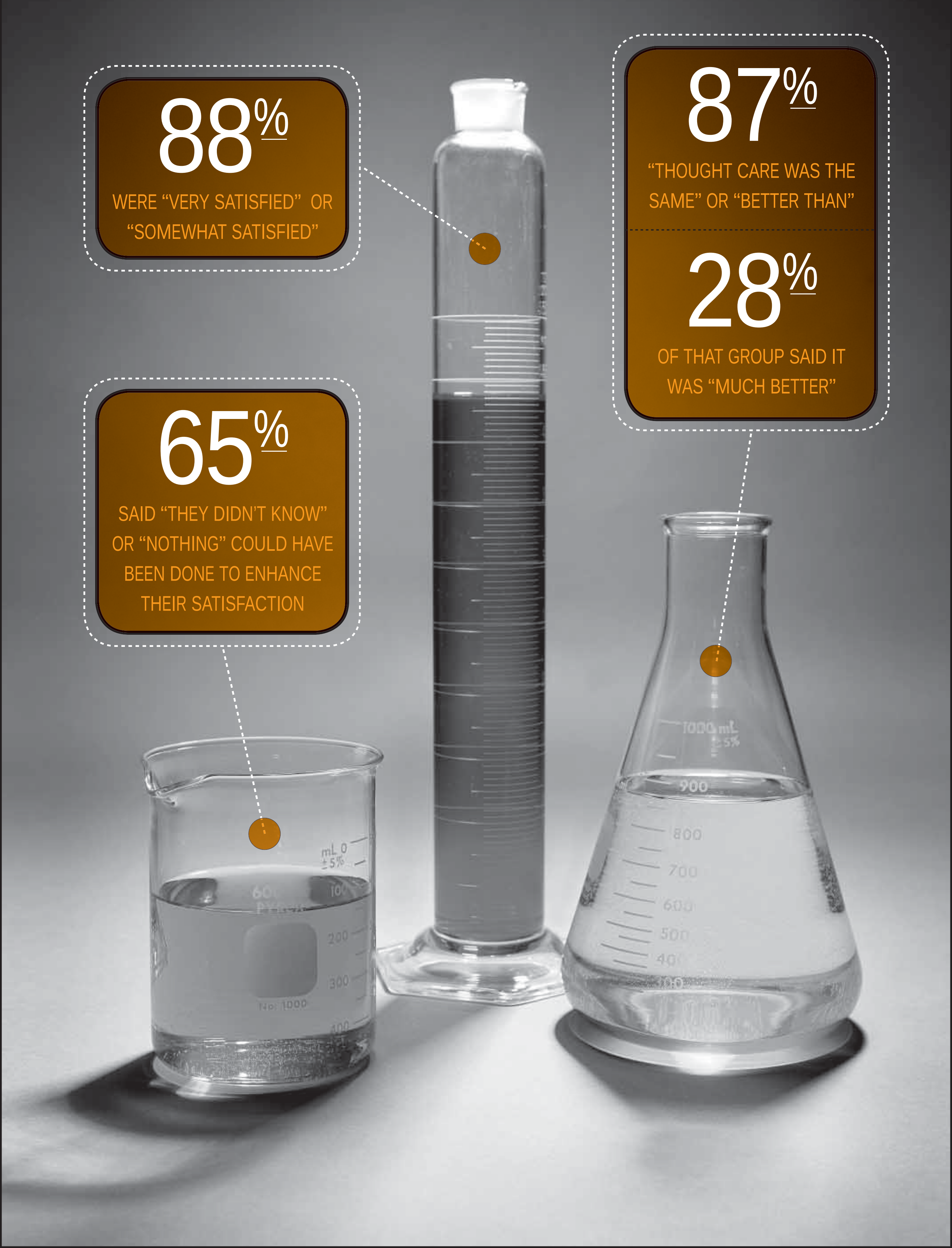
In early 2005, WCF enlisted the help of an independent agency to conduct a survey of 300 lost-time claimants and 100 medical-only claimants. We are pleased with the findings of the claimant survey and will continue to work hard to provide excellent care for injured workers.

Results:

Of those surveyed, 88% said they were "very satisfied" or "somewhat satisfied" with the medical care they received for treatment of their work-related injuries. When asked:

"How medical care received under workers' compensation compared to care received under other medical coverages?"

87% of injured workers responded that it was "about the same or better," with 28% of that group claiming it was "much better." When asked how WCF could have provided better care, nearly 65% of respondents said they "didn't know" or "nothing" – care was excellent.



88%

WERE "VERY SATISFIED" OR "SOMEWHAT SATISFIED"

87%

"THOUGHT CARE WAS THE SAME" OR "BETTER THAN"

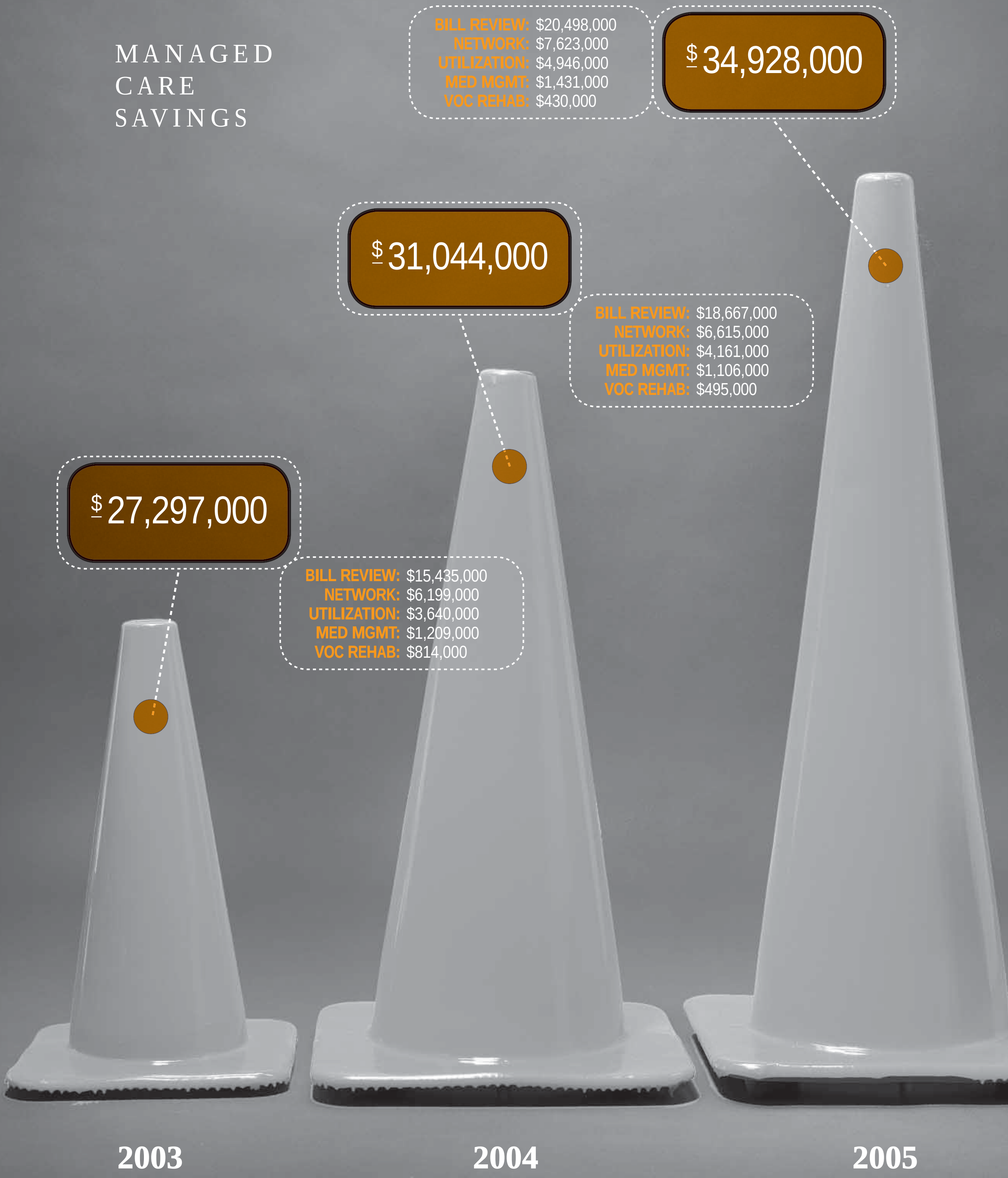
28%

OF THAT GROUP SAID IT WAS "MUCH BETTER"

65%

SAID "THEY DIDN'T KNOW" OR "NOTHING" COULD HAVE BEEN DONE TO ENHANCE THEIR SATISFACTION

MANAGED CARE SAVINGS



MANAGED CARE SAVINGS

MANAGING CLAIMS COSTS WITHOUT COMPROMISING THE QUALITY OF CARE FOR INJURED WORKERS

To keep premiums low, we use managed care programs to control costs. Our claims services bring together a preferred provider network, prescription drug discounts, provider bill and utilization review, medical case management and vocational rehabilitation. This combination of tools gives injured employees a solid foundation of care and support. It also allows us to control costs for our policyholders. In 2005, managed care programs saved $34,928,000.

Provider Bill Review

We look at every submitted bill as well as the doctor's notes to ensure payments are made correctly. We also provide training within the medical community on workers' compensation billing procedures.

2005: Saved $20.5 million.

Preferred Provider Network

Our partnership with local hospitals and clinics gives our customers' employees access to the finest medical care in the region. With nationally recognized doctors and state-of -the-art facilities, our providers offer our injured employees high-quality care close to home.

2005: Saved $7.6 million.

Utilization Review

For inpatient hospitalizations, and many outpatient procedures, we have a team of registered nurses and physician consultants who proactively review and approve proposed medical treatments.

2005: Saved $4.9 million.

Medical Case Management

Coordinating medical care is critical to control costs while providing quality care. Our nurse case managers evaluate injured employees' circumstances and coordinate care to help in their recovery.

2005: Saved $1.4 million.

Vocational Rehabilitation

Returning injured employees to productive work in a timely manner is cost-effective for the employer and boosts employee morale. Our certified counselors work with employers, injured workers and physicians to confirm work capabilities and assist with job modifications.

2005: Saved $430,000.

$20,00

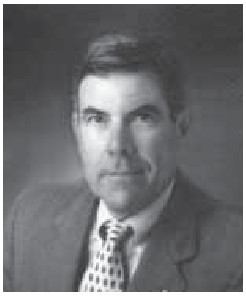
ˇ SHARING FINANCIAL SUCCESS

0,000

$20 Million Dividend

Every year since 1986, WCF has paid dividends to its policyholders. During the past decade we have distributed over $150 million in total. In 2005, we paid a $20 million dividend to policyholders. WCF's ability to pay dividends is a credit to WCF's policyholders and their employees who have worked together to improve workplace safety statewide.

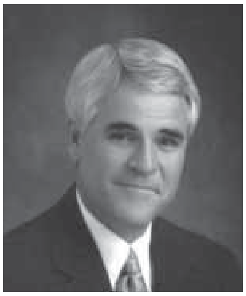
BOARD OF DIRECTORS



Robert D. Myrick

BOARD CHAIR

Mr. Myrick chairs WCF's Board of Directors. He was president and chief operating officer of Morgan Stanley Bank and has more than 30 years experience in the banking and financial industry. He holds a bachelor's degree and a master of business administration from the University of Utah. He serves on the Investment and Compensation committees. His term expires in 2006.



Judd A. Turner

VICE CHAIR

Mr. Turner serves as vice chair of WCF's Board of Directors. He is an insurance broker and vice president at Fred A. Moreton & Company. He holds a bachelor's degree from Brigham Young University and a master of business administration from the University of Utah. Mr. Turner is also a Chartered Property Casualty Underwriter. He serves on the Compensation and Marketing committees. His term expires in 2006.

Dallas H. Bradford

Mr. Bradford is a retired certified public accountant. He spent 33 years with Arthur Andersen. In the Salt Lake office, he was head of the tax division and managing partner. Mr. Bradford is a graduate of Brigham Young University. He serves on the Audit, Investment and Compensation committees. His term expires in 2006.

Ruth Lybbert

Ms. Lybbert is an attorney at the Salt Lake City-based law firm Dewsnup, King & Olsen, where she has an interest in personal injury law. She earned her juris doctorate from the University of Maryland and her bachelor's degree from the University of Utah. She is on the Marketing and Audit committees. Her term will expire in 2008.

Robert B. Murray

Mr. Murray is the owner of Alpine Confections. Mr. Murray was an instructor at Brigham Young University's College of Business for more than 15 years. He earned his master's degree at Harvard Business School and his bachelor's degree from Utah State University. Mr. Murray is on the Audit and Investment committees. His term will expire in 2008.

Lane A. Summerhays

Mr. Summerhays is president and chief executive officer of WCF. He is a certified public accountant and holds a bachelor's degree and a master of business administration from the University of Utah. He serves on the Investment, Marketing and Compensation committees. Mr. Summerhays' term on the Board is concurrent with his services as WCF's CEO.

CORPORATE OFFICERS

Lane A. Summerhays

PRESIDENT,
CHIEF EXECUTIVE OFFICER

Mr. Summerhays joined WCF in 1992 as president, chief executive officer and director. Prior to WCF, he was senior vice president and chief financial officer of ALTA Health Strategies. He also worked in public accounting for Deloitte Haskins & Sells and Arthur Andersen. A certified public accountant, Mr. Summerhays holds a bachelor's degree in accounting and a master of business administration from the University of Utah.

Dan Hair

SENIOR VICE PRESIDENT,
CHIEF UNDERWRITING &
SAFETY OFFICER

Mr. Hair joined WCF in 2005 and is responsible for underwriting and safety. Prior to joining WCF, Mr. Hair spent 25 years with Zenith Insurance Company as senior vice president. Mr. Hair received his bachelor's degree from the University of California, Los Angeles and his master of science degree from the University of Southern California.

Peggy J. Larsen

SENIOR VICE PRESIDENT,
CHIEF MARKETING OFFICER

Ms. Larsen joined WCF in 1995 and is currently responsible for marketing, communications, advertising and branch operations. She has been involved in the insurance industry for more than 30 years. Ms. Larsen has completed her Associate in Risk Management and is a Certified Insurance Counselor, Chartered Property Casualty Underwriter and Certified Workers' Compensation Professional.

Dennis V. Lloyd

SENIOR VICE PRESIDENT,
CHIEF LEGAL COUNSEL

Mr. Lloyd joined WCF in 1981 and is responsible for adjudication, subrogation, insurance regulation and government relations. Prior to WCF, he worked for the Utah Legislative Auditor General. Mr. Lloyd holds a bachelor's degree in finance, a juris doctorate and a master of business administration from the University of Utah.

Ray D. Pickup

SENIOR VICE PRESIDENT,
CHIEF FINANCIAL OFFICER

Mr. Pickup joined WCF in 1993 and is responsible for investments, financial operations, human resources and information technology. Prior to WCF, he was vice president of finance at First Health Strategies and a senior audit manager for Ernst & Young and Touche Ross & Co. Mr. Pickup holds bachelor's and master's degrees from Brigham Young University and is a certified public accountant.

Robert H. Short

SENIOR VICE PRESIDENT,
CHIEF OPERATIONS OFFICER

Mr. Short joined WCF in 1993 and is responsible for claims administration, medical management and special investigations. In addition, he is president of WCF's subsidiary Pinnacle Risk Management Services, a third-party administrator. Prior to WCF, he was senior vice president of administration at First Health Strategies. Mr. Short is a graduate of the University of Utah.

TABLE OF CONTENTS

STATUTORY BASIS FINANCIAL STATEMENTS
WORKERS COMPENSATION FUND YEAR ENDED DECEMBER 31, 2005 AND 2004 WITH REPORT OF INDEPENDENT AUDITORS

Management's Discussion and Analysis of Financial Condition and Results of Operations

Year ended December 31, 2005

DESCRIPTION OF BUSINESS

Workers Compensation Fund (the Company) is a statutorily created corporation owned by its policyholders. The Company provides disability and medical insurance coverage within the state of Utah's (the State) mandatory workers' compensation system. The Company is governed by a seven-member Board of Directors, which consists of five public directors, the executive director of the State's administrative services department or her designee representing the State as a policyholder, and the Company's president. Three of the five public directors represent policyholders other than the State. Two of the five public directors are from the public in general. Four of the five public directors must have experience in one of the following professions: actuarial, accounting, investments, risk management, occupational safety, casualty insurance or legal. The plan for selecting the five public directors is outlined in the Company's bylaws and comports with the Company's enabling statute as well as Insurance Code requirements for the selection of directors of mutual insurance companies. The five public directors are appointed by the Governor of the State with the advice and consent of the Senate. The Company's Board of Directors, not the Governor or the State, has ultimate control of the Company, maintaining managerial, financial, and operational responsibility. The Company is subject to regulation and examination by the Utah Insurance Department. The Company functions as an autonomous mutual insurance company supported solely from its own revenues. All assets, debts and obligations of the Company are separate and distinct from the assets, debts and obligations of the State. Upon dissolution of the Company, any monies not needed to liquidate Company obligations would be returned to its policyholders.

Through July 19, 2004, the Company was the sole shareholder of Advantage Workers Compensation Insurance Company (Advantage), a property and casualty insurance company domiciled in the state of Indiana. The Company's investment in Advantage through July 19, 2004, was accounted for as affiliated common stock. On March 24, 2004, the Company's Board of Directors approved an additional capital investment of $25 million into Advantage. Effective July 19, 2004, the Company transferred its investment in common stock into a voting trust held by The National Bank of Indianapolis (Trustee). The voting control of Advantage stock rests with the Trustee, who is obligated to vote the shares in the trust based on guidance received from Company policyholders who are also policyholders of Advantage. The Company maintains beneficial economic interest in Advantage. The Company's investment in Advantage subsequent to the transfer is classified as an unaffiliated common stock. The aforementioned change fully resolved a dispute with the Idaho Department of Insurance over issues related to the ownership and control of Advantage. Advantage is currently licensed in 42 states and writes workers' compensation coverage in 26 states.

Effective July 1, 2004, the Company restructured its reinsurance agreement with Advantage. Prior to July 1, 2004, the Company assumed 80% of earned premium and losses greater than 20% of earned premium from Advantage. Beginning July 1, 2004, the Company assumed 100% of premium and losses on policies providing coverage for Utah-based policyholders from Advantage and assumed no premium or losses on coverage unrelated to Utah-based risks.

Effective January 1, 2005, the Company contributed its ownership of Advantage WorkComp Services, Inc. (Advantage Services), a wholly-owned subsidiary, to Pinnacle Risk Management Services, Inc. Pinnacle, also a wholly owned subsidiary, provides third-party administration of claims to Advantage and self-insured clients. Advantage Services provides bill review, utilization review, medical case management and other services to the Company, clients of Pinnacle, and to workers compensation insurers. The Company's investment in Pinnacle is carried at a zero book value for statutory purposes.

Univantage Insurance Company (UIC), a wholly-owned subsidiary, licensed in Utah to write life and health and accident insurance, is currently inactive and has no policyholders. Assets of UIC consist entirely of investments and cash. The Company's investment in Univantage is carried at a book value of $1.6 million.

OVERVIEW

Workers Compensation Fund had net income for the year ended December 31, 2005, of $44.0 million. Net earned premium increased by $13.3 million or 5.4% in 2005 compared to 2004. For 2005, the Company recorded an underwriting gain of $4.8 million and a combined ratio before dividends of 98.1%. In July 2005, the Company paid a policyholders' dividend of $19.5 million. The 2005 combined ratio after dividends was 105.6%.

The Utah Insurance Department approved loss-cost premium rate increases of 11.2% effective December 31, 2004, and 4.2% effective December 1, 2005, as recommended by the National Council on Compensation Insurance.

Net investment income increased to $47.2 million in 2005 compared to $44.3 million in 2004, primarily due to increased investment portfolio balances, partially offset by a reduction in the weighted average yield of the Company's bond portfolio. The weighted average yield continued to decline due to reinvestment at relatively lower interest rates.

Overall, policyholders' surplus increased $38.6 million or 11.8% from December 31, 2004 to December 31, 2005.

FINANCIAL POSITION

Admitted assets increased 9.3% or $96.1 million at December 31, 2004 to $1.134 billion at December 31, 2005. The increase was primarily in cash and invested assets, which at December 31, 2005 totaled $1.1 billion, an increase of $97.4 million, or 9.7%, since December 31, 2004. This increase resulted primarily from investment of $90.0 million cash provided by underwriting and operations and net realized capital gains of $12.7 million, partially offset by a $3.5 million increase in non-admitted assets and $1.9 million in unrealized capital losses.

Net cash generated from operations was principally the result of $47.7 million of cash received from net investment income and $42.3 million of cash provided by underwriting during the year. Cash and short-term investment balances decreased $15.0 million during 2005. Mortgage loan investment balances also decreased $2.2 million. The $90.0 million of cash provided from operations, combined with $17.2 million provided by decreases in cash, short-term assets, and mortgage loans were used to invest in bonds ($90.8 million), real estate ($10.8 million), publicly-traded common stocks ($3.8 million) and other invested assets ($1.6 million).

The components of cash and invested assets at December 31, 2005 and 2004 consisted of the following:

December 31,	**2005**	2004
ˇ (IN THOUSANDS)		
Bonds	**72.3%**	70.5%
Stocks	**20.1%**	20.4%
Mortgage loans	**2.1%**	2.5%
Real Estate	**3.4%**	2.8%
Cash and short-term investments	**2.1%**	3.8%
Total cash and invested assets	**100.0%**	100.0%

The Company's investment in Pinnacle ($1.7 million), non-income producing land ($8.6 million), and private equity ($4.6 million) are currently stated at zero book value for statutory reporting purposes.

At December 31, 2005, investments in bonds totaled $795.0 million. All of the Company's bonds are investment grade quality, with 100% rated NAIC Class 1 investments. Short-term investments consisted of three NAIC exempt dollar valued mutual funds, for which the underlying securities are primarily U.S. government obligations, and two NAIC Class 1 dollar valued mutual funds.

The book value of investments in common stocks increased from $199.5 million at December 31, 2004, to $215.4 million at December 31, 2005, due to net realized gains of $13.9 million and net additional investment of $3.8 million, partially offset by net unrealized losses of $1.9 million.

The two office buildings owned by the Company were fully occupied in 2005. The Company occupies 95% of one of the buildings with the remaining 5% leased to a tenant. The other building was fully leased to a tenant under an eight-year contract effective August 1, 2000. The Company is currently constructing a third office building, an investment that will be 100% leased to tenants. Construction should be completed by March 2006.

The Company purchases participations in first lien mortgage loans from Utah community banks and is the sole lender on an $11.6 million, 20-year loan on an office building occupied by the IRS. Outstanding mortgage loan balances decreased from $24.9 million on December 31, 2004, to $22.8 million at December 31, 2005.

The Company is periodically assessed by the Utah Property and Casualty Insurance Guaranty Association to pay claims of insolvent insurance companies. These mandatory assessments may be recovered through reduction in future premium taxes in the five years following payment. As of

December 31, 2005 and 2004, the Company has accrued $2.0 million for guaranty fund assessments. At December 31, 2005 and 2004, deferred assets of $2.4 million and $2.8 million, respectively, were recorded for future premium tax deductions related to these assessments. In 2005 and 2004, $0.4 million was offset each year against premium tax payments and a corresponding reduction was made to the deferred premium tax asset.

During 2005, receivables from subsidiaries decreased $0.8 million. The decrease was primarily due to a $0.9 million reduction in a loan to Pinnacle under a line of credit agreement, partially offset by a $0.1 million increase in amounts due from Pinnacle and Univantage under management and service agreements.

The reserve for losses and loss adjustment expenses is based on an actuarial determination and represents a reasonable estimate of the ultimate net cost of all medical benefit losses, compensation losses, and loss adjustment expenses that are unpaid at year end. The reserve includes an estimate for unallocated operating costs to process, and ultimately settle, incurred but unpaid claims. The reserve is not discounted to its present value. Included in the reserve are amounts for estimated losses and loss adjustment expenses relating to claims incurred but not reported at the end of the year. The reserve is estimated using individual case-basis valuations and the Company's claims payments and statistical experience and is subject to the outcome of future events, including changes in the medical condition of the claimants, medical inflation, medical care technology, legislative changes, court interpretations, and other factors. Although variability is inherent in such estimates, management believes that the reserve is adequate. The reserve estimate is reviewed by an independent consulting actuary and adjusted as necessary as experience develops or new information becomes known. The impact of such adjustments is included in current year operations.

The reserve for losses and loss adjustment expenses is recorded net of amounts recoverable under reinsurance contracts. Recoverables were $14.3 million and $15.1 million at December 31, 2005 and 2004, respectively. Should any of the reinsurers fail to perform under the reinsurance agreements, the Company remains ultimately liable for payment of the claims.

At December 31, 2005, the reserve for losses and loss adjustment expenses totaled $705.0 million, an increase of $56.2 million, or 8.7% since December 31, 2004. The increase consisted of a loss and loss adjustment expense provision of $202.6 million, less benefit payments (net of subrogation) of $146.4 million.

The Company typically receives premiums in advance of the period in which they are earned. Unearned and advance premiums of $42.4 million and $3.5 million are recorded as liabilities at December 31, 2005, compared to $38.7 million and $3.1 million, respectively, at December 31, 2004.

Unrealized gains and losses on common stocks are recorded as direct credits or charges to policyholders' surplus. The change in net unrealized gains on common stocks included as a component of policyholders' surplus at December 31, 2005, was $1.9 million, comprised entirely of unrealized losses on common stocks.

The Company is required to file a risk-based capital report with the NAIC and with state regulatory authorities. The risk-based capital report is a standardized analysis for measuring the solvency of an insurer. The NAIC risk-based capital formula is used to calculate the Company's authorized control level, the capital level below which regulatory authorities may take control of the Company.

The Company's total adjusted capital at December 31, 2005, was $365.3 million, or 6.7 times the authorized control level of $54.6 million. This measurement is indicative of the exceptional financial strength of the Company.

RESULTS OF OPERATIONS

Net premium earned for the year ended December 31, 2005, was $258.9 million, which represents an increase of $13.3 million, or 5.4%, from 2004. The growth was due to a $27.0 million increase in direct premium and a $0.4 million decrease in premium ceded for reinsurance, partially offset by a $14.0 million decrease in premium assumed. Increases in direct premiums were primarily due to price increases based on policyholders' loss experience, but also included changes in economic factors such as wage levels and changes in the mix of the labor force among classifications of risk.

During 2005 and 2004, the Company contracted with both Advantage and Alea North America Insurance Company (Alea) to provide workers' compensation insurance for out-of-state operations of Utah businesses. Effective January 1, 2006, the Company entered into an agreement with Old Republic Insurance Company (Old Republic) to replace Alea. Old Republic is a Pennsylvania domiciled insurance company rated A+ by A.M. Best. The Company assumes the majority of risk associated with these arrangements. Earned premium assumed decreased to $13.0 million in 2005 compared to $27.0 million in 2004 due to Advantage increasing its overall retention of risk.

The amount of premiums ceded decreased primarily as the result of a decrease in reinsurance rates from 2004 to 2005. For the years 2004 through 2006, the Company purchased per occurrence reinsurance coverage of $80 million excess of $20 million primarily to protect against catastrophic losses.

Net investment income earned for 2005 was $47.2 million, which represents an increase of $2.9 million or 6.6% from the prior year due primarily to increased investment portfolio balances, partially offset by lower investment yields.

The Company realized net capital gains on the sale of common stocks totaling $13.9 million during the year, partially offset by realized losses of $1.2 million from the sale of bonds. Net realized gains on the sale of investments during 2005 were $1.5 million more than during 2004 due primarily to realized gains on the sales of common stocks. The Company recorded a $0.4 million impairment loss on unaffiliated common stock investments in 2005 compared to a $0.3 million impairment loss on a limited partnership investment in 2004.

Losses and loss adjustment expenses incurred for the year ended December 31, 2005, were $202.6 million, an increase of $18.8 million or 10.2% over the previous year; about twice the rate of the 5.4% increase in earned premium.

The Company continues its efforts to reduce workers' compensation costs for its policyholders through its loss control and claims management programs. For direct business, the number of accidents reported by Utah policyholders during 2005 decreased by 2.3%; however, increases in the severity of accidents, combined with medical inflation and increases in disputed claims and claimant litigation, resulted in the increase in net loss and loss adjustment expense. Paid losses and loss adjustment expenses for all business during 2005 (cash basis) totaled $146.4 million, up 8.0% from 2004 payments of $135.5 million.

Underwriting expenses incurred were approximately $6.5 million or 11.2% lower for calendar year 2005 than for 2004, primarily due to a $5.9 million decrease in commission and brokerage expenses, commensurate with the decrease in business assumed from Advantage, and a $2.2 million decrease in premium taxes, which resulted primarily from a decrease in premium tax rates. These decreases were partially offset by inflation and other increases for underwriting labor and overhead costs.

CASH FLOW AND LIQUIDITY

The Company's sources of cash include policyholder premiums, investment income, and proceeds from the sales, maturities, calls, and pay-downs of investments. The Company anticipates that future premium and investment income collections will be adequate to fund current period expenditures for benefits, operating expenses, and dividends.

The timing of bond maturities for a portion of the investment portfolio is generally coordinated with the estimated timing of benefit expenditures. The Company retains sufficient cash reserves and readily marketable securities to provide for unexpected variances in the timing of benefits paid.

Statements of Admitted Assets, Liabilities and Policyholders' Surplus - Statutory Basis

December 31,	**2005**	2004
ˇ (IN THOUSANDS)		
ADMITTED ASSETS		
Cash and invested assets (NOTE 2):		
Bonds	**$ 795,023**	$ 705,881
Common stocks	**215,354**	199,499
Preferred stocks	**5,000**	5,000
Mortgage loans on real estate	**22,757**	24,926
Real estate	**37,724**	28,124
Short-term investments	**18,074**	23,522
Cash and cash equivalents	**4,878**	14,446
	1,098,810	1,001,398
Uncollected premiums, net	**15,047**	17,858
Receivable from subsidiaries	**3,184**	3,967
Amounts receivable under reinsurance contracts	**1,231**	—
Deferred premium tax asset	**2,353**	2,745
Data processing equipment, net	**978**	619
Accrued investment income	**12,137**	11,028
Other admitted assets	**—**	54
	$ 1,133,740	$ 1,037,669
LIABILITIES AND POLICYHOLDERS' SURPLUS		
Liabilities:		
Reserve for losses (NOTE 3)	**$ 639,245**	$ 586,140
Reserve for loss adjustment expenses (NOTE 3)	**65,789**	62,738
	705,034	648,878
Amounts held for others	**2,258**	1,627
Unearned premiums	**45,962**	41,871
Guaranty fund assessment payable	**1,961**	1,961
Premium taxes payable	**4,992**	6,421
Accounts payable and accrued expenses	**7,782**	9,970
Other liabilities	**474**	290
	768,463	711,018
Policyholders' surplus	**365,277**	326,651
	$ 1,133,740	$ 1,037,669

See accompanying notes.

Statements of Operations and Changes in Policyholders' Surplus - Statutory Basis

Year ended December 31,	2005	2004
(IN THOUSANDS)		
Premiums earned (NOTE 4)	$ 258,898	$ 245,558
Losses incurred (NOTE 3)	174,753	163,935
Loss adjustment expenses incurred (NOTE 3)	27,825	19,870
	202,578	183,805
Other underwriting expenses	51,479	57,955
	254,057	241,760
Underwriting gain	4,841	3,798
Net investment income (NOTE 2)	47,216	44,312
Realized capital gains on investments (NOTE 2)	12,723	11,272
Other expenses	(1,284)	(1,018)
Net income before policyholder dividends	63,496	58,364
Policyholder dividends	19,501	19,889
Net income	43,995	38,475
Change in net unrealized capital gains or losses (NOTE 2)	(1,903)	2,617
Change in non-admitted assets	(3,466)	(7,888)
Policyholders' surplus at beginning of year	326,651	293,447
Policyholders' surplus at end of year	$ 365,277	$ 326,651

See accompanying notes.

Statements of Cash Flows - Statutory Basis

Year Ended December 31,	2005	2004
ˇ (IN THOUSANDS)		
OPERATIONS		
Premiums collected, net of reinsurance	**$ 263,774**	$ 241,062
Losses and loss adjustment expenses paid, net of salvage and subrogation	**(146,422)**	(135,525)
Underwriting expenses paid	**(54,389)**	(53,942)
Net investment income received	**47,721**	45,553
Dividends paid to policyholders	**(19,501)**	(21,330)
Other cash applied	**(1,230)**	(1,072)
Net cash provided by operations	**89,953**	74,746
INVESTING ACTIVITIES		
Proceeds from sale, repayment or maturity of investments	**396,396**	342,369
Purchase of investments	**(501,204)**	(442,655)
Net cash used in investing activities	**(104,808)**	(100,286)
FINANCING AND OTHER SOURCES		
Other cash applied	**(161)**	(882)
Decrease in cash, cash equivalents and short-term investments	**(15,016)**	(26,422)
Cash, cash equivalents and short-term investments		
Beginning of year	**37,968**	64,390
End of year	**$ 22,952**	$ 37,968

See accompanying notes.

Notes to Statutory Basis Financial Statements December 31, 2005

1. SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Workers Compensation Fund (the Company) is a statutorily created corporation owned by its policyholders. The Company provides disability and medical insurance coverages within the State of Utah's (the State) mandatory workers' compensation system. The Company is governed by a seven-member Board of Directors, which consists of five members appointed by the Governor of the State of Utah, the Company's president and chief executive officer and the executive director of the State's administrative services department or his/her designee.

The Company functions as an autonomous mutual insurance company supported solely from its own revenues. All assets, debts and obligations of the Company are separate and distinct from the assets, debts and obligations of the State. Upon dissolution of the Company, any monies not needed to liquidate Company obligations would be returned to its policyholders.

At December 31, 2005, the Company was the sole shareholder in the following for-profit subsidiaries:

- Pinnacle Risk Management Services, Inc. (Pinnacle), a third-party claims administrator serving self-insured entities and other insurance companies.
- Univantage Insurance Company, an inactive life and health subsidiary domiciled in the State of Utah.

Through July 19, 2004, the Company was the sole shareholder of Advantage Workers Compensation Insurance Company (Advantage), a property and casualty insurance company domiciled in the state of Indiana and licensed in 42 jurisdictions. On March 24, 2004, the Company's Board of Directors approved an additional capital investment of $25 million into Advantage. Effective July 19, 2004, the Company transferred its ownership of Advantage into a voting trust held by The National Bank of Indianapolis (Trustee). The voting control of Advantage stock rests with the Trustee, who is obligated to vote the shares in the trust based on voting guidance received from Company policyholders who are also policyholders of Advantage. The Company maintains beneficial economic interest in Advantage. The Company's investment in Advantage through July 19, 2004, was accounted for as affiliated common stock. The Company's investment in Advantage subsequent to the transfer is classified as an unaffiliated common stock.

On December 22, 2004, the Company acquired a residual minority interest in Pinnacle and became the sole shareholder.

Effective January 1, 2005, the Company contributed to Pinnacle its ownership interest in Advantage WorkComp Services, Inc., a company providing risk management services to the Company, self insured entities and other insurance companies.

Basis of Presentation

The accompanying financial statements are presented in accordance with accounting practices prescribed or permitted by the Utah Insurance Department. Such practices vary from accounting principles generally accepted in the United States (GAAP); the more significant variances are as follows:

1. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

- ***Policyholder Dividends:*** For statutory purposes, dividends are recorded when declared by the Company's Board of Directors. GAAP requires that dividends be accrued at the balance sheet date, based upon an estimate of the amount to be paid.

- ***Investments:*** Investments in bonds and redeemable preferred stocks are reported at amortized cost or fair value based on their National Association of Insurance Commissioners (NAIC) rating. Under GAAP, debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and are reported at amortized cost. Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings. Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of surplus.

- ***Real Estate:*** Real estate owned and occupied by the Company is included in investments, and imputed rent, net of related expenses, is included in investment income. Under GAAP, real estate owned and occupied by the Company is reported as an operating asset and related expenses would be included in expenses of operations.

- ***Nonadmitted Assets:*** Certain assets designated as "nonadmitted," principally the Company's investments in private equity funds, and non-income producing land, as well as furniture and equipment and overdue premium receivables, are excluded from the statement of admitted assets and are charged directly to policyholders' surplus. These assets are included in the balance sheet under GAAP.

- ***Reserve for Losses and Loss Adjustment Expenses:*** The reserve for losses and loss adjustment expenses is stated net of reinsurance recoverables. Under GAAP, the reserve is shown gross of reinsurance recoverables, which are classified as assets.

- ***Investments in Subsidiaries:*** The accounts and operations of the Company's subsidiaries are not consolidated, but are included in investments. Under GAAP, accounts and operations of the subsidiaries would be consolidated.

- ***Investment in Advantage:*** The accounts and operations of Advantage are not consolidated, but are included in investments. Under GAAP, accounts and operations of Advantage would be consolidated.

- ***Policy Acquisition Costs:*** The costs of acquiring and renewing business are expensed when incurred. Under GAAP, such costs, to the extent recoverable, would be deferred and amortized over the effective coverage period of the related insurance policies.

- ***Guaranty Fund Assessments:*** A liability for guaranty fund assessments is accrued after an insolvency has occurred regardless of whether the assessment is based on premiums written before or after the insolvency. Under GAAP, the liability is accrued when premiums upon which the assessment is based are written.

- ***Statements of Cash Flows:*** Cash, cash equivalents, and short-term investments represent cash balances and investments with initial maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents include cash balances and investments with initial maturities of three months or less.

1. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

A reconciliation of net income and policyholders' surplus as determined in accordance with statutory accounting practices to amounts determined in accordance with GAAP is as follows:

	NET INCOME YEAR ENDED DECEMBER 31,		POLICYHOLDERS' SURPLUS DECEMBER 31,	
	2005	2004	**2005**	2004
(IN THOUSANDS)				
Statutory-basis	**$ 43,995**	$ 38,475	**$ 365,277**	$ 326,651
Add (deduct) adjustments for:				
Investments:				
Bonds	**(20,966)**	(13,869)	**7,479**	28,445
Common stocks	**224**	3,627	**—**	—
Preferred stock	**(268)**	26	**212**	480
Subsidiaries	**964**	(2,192)	**(2,111)**	(3,029)
Advantage	**(605)**	(840)	**2,713**	1,100
Nonadmitted assets	**—**	—	**19,968**	16,547
Deferred acquisition costs	**(694)**	(386)	**5,114**	5,808
Dividend	**(499)**	387	**(20,000)**	(19,501)
GAAP-basis	**$ 22,151**	$ 25,228	**$ 378,652**	$ 356,501

Investments

Investments in bonds are stated at cost, adjusted for amortization of premium or accretion of discount using the effective interest method. Changes in amortization due to prepayments are accounted for retrospectively for fixed rate securities and prospectively for variable rate securities.

Investments in redeemable preferred stocks, which have characteristics of debt securities and are rated as high quality by the NAIC, are stated at lower of cost or fair value. Common stocks are stated at values specified by the NAIC, which approximate fair values. The investment in Advantage is reported at statutory book value, pending valuation by the NAIC. Unrealized gains or losses on common stocks are included as adjustments to policyholders' surplus. If it is determined that a decline in fair value is other than temporary, the cost basis of the security is written down to the fair value and a realized capital loss is recognized. Realized capital gains and losses are determined on a specific identification basis for bonds and weighted average basis for common stocks. There are no restrictions on common or preferred stocks.

Investments in insurance subsidiaries are reported at their underlying statutory equity. Investments in non-insurance subsidiaries are reported at equity values determined under GAAP. The net change in subsidiary equity is included in changes in net unrealized capital gains or losses in the accompanying statements of operations and changes in policyholders' surplus.

Mortgage loans on real estate are reported at unpaid principal balance, less allowance for impairment, if any.

1. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Land is reported at cost and building and improvements are reported at depreciated cost, with depreciation calculated on a straight-line basis over the estimated useful life of the property (30 years). Leasehold improvements are depreciated over the term of the lease.

Short-term investments include investments with maturities of one year or less at the date of acquisition, excluding cash equivalents. The carrying value of short-term investments are at cost or amortized cost and approximate fair value.

Cash and Cash Equivalents
Cash consists of demand deposits with financial institutions, repurchase agreements and certificates of deposit with original maturities of one year or less. Cash equivalents consist of highly liquid investments with original maturities of three months or less with an insignificant risk of change in value due to changes in interest rates. The carrying amounts for cash approximate their fair values. The carrying values of cash equivalents are at cost.

Premiums
Premium rates are approved by the Utah Insurance Commissioner and are based on rates recommended by the National Council on Compensation Insurance (NCCI), adjusted for loss experience and various other factors. Premiums are earned ratably over the terms of the policies. Premiums are estimated and accrued based on the dollar amount of payroll underlying the policy contract. Uncollected premiums are stated net of an allowance for uncollectible amounts of $3,942,000 and $5,091,000 at December 31, 2005 and 2004, respectively.

Premiums on retrospectively rated policies have been determined based on loss experience on individual policyholder accounts. Net written premiums subject to retrospective rating features for the year ended December 31, 2005 were $11,217,000, or 4.3%, of total net written premium of $262,586,000. Net written premiums subject to retrospective rating features for the year ended December 31, 2004, were $8,715,000, or 3.6%, of total net written premium of $244,470,000.

Reinsurance
Reinsurance premiums, losses, and loss adjustment expenses are recorded in accordance with the terms of the reinsurance contracts.

Unearned Premiums
Premium is recognized ratably over the coverage period. The portion of premiums paid that will be earned in the future is deferred and reported as unearned premiums. Included in unearned premiums are premiums received in advance of the date when the related coverage becomes effective. Such advance premiums were $3,525,000 and $3,122,000 at December 31, 2005 and 2004, respectively.

Furniture and Equipment
The Company's data processing equipment and operating software is reported at cost, less accumulated depreciation of $2,105,000 and $1,937,000 at December 31, 2005 and 2004, respectively. Depreciation expense for data processing equipment, operating software and nonadmitted furniture and equipment is computed on a straight-line basis over estimated useful lives of 3 years for data processing equipment and operating software and 5 to 10 years for furniture and other equipment. Total depreciation expense for data processing equipment, operating software, nonadmitted furniture and equipment and property was $1,886,000 and $1,149,000 for the years ended December 31, 2005 and 2004, respectively.

1. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Reserve for Losses and Loss Adjustment Expenses

The reserve for losses and loss adjustment expenses is based on an actuarial determination and represents a reasonable estimate of the ultimate net cost of all medical benefit losses, compensation losses, and loss adjustment expenses that are unpaid at year end. The reserve includes an estimate for unallocated operating costs to process, and ultimately settle, incurred but unpaid claims. The reserve is not discounted to its present value. Included in the reserve are amounts for estimated losses and loss adjustment expenses relating to claims incurred but not reported at the end of the year. The reserve is estimated using individual case-basis valuations and the Company's claims payments and statistical experience and is subject to the outcome of future events including changes in the medical condition of the claimants, medical inflation, medical care technology, legislative changes, court interpretations and other factors. Although variability is inherent in such estimates, management believes that the reserve is adequate. The reserve estimate is reviewed by an independent consulting actuary and adjusted as necessary as experience develops or new information becomes known. The impact of such adjustments is included in current year operations.

Guaranty Fund and Other Assessments

The Company is assessed amounts by the Utah Property and Casualty Insurance Guaranty Association to cover deficits of insolvent insurance companies. Liabilities for guaranty fund assessments are accrued after an insolvency has occurred. These mandatory assessments may be recovered through a reduction in future premium taxes in the five years following payment. In 2005 and 2004, $392,000 was offset against premium tax payments in each year and a corresponding reduction was made to the deferred premium tax asset.

Policyholder Dividends

Certain policies are eligible for dividends based on loss experience and other factors. Policyholder dividends are subject to restrictions relating to surplus and approval by the Utah Insurance Department. Policyholder dividends are accrued and expensed when declared by the Company's Board of Directors.

Use of Estimates

The preparation of financial statements in conformity with accounting practices prescribed or permitted by the Utah Insurance Department requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 2004 balances to conform to the 2005 presentation.

Permitted Statutory Accounting Practices

The Company prepares its financial statements in conformity with accounting practices prescribed or permitted by the Utah Insurance Department. Effective January 1, 2001, the state of Utah adopted the NAIC's *Accounting Practices and Procedures Manual* (NAIC SAP) as a component of prescribed or permitted practice.

The Utah Insurance Department adopted certain prescribed accounting practices that differ from those found in NAIC SAP. Specifically, the Utah Insurance Department prohibits the recording of a liability to the state of Utah for second injury fund claims for years 1994 and prior. The second injury fund is administered by the State and the liability of the second injury fund is recorded as a liability of the state on the state of Utah's Comprehensive Annual Financial Report.

1. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

The liability is funded on a pay-as-you-go basis by a tax on workers' compensation premiums. Under NAIC SAP, a liability of the state in the state of Utah (contingent upon receipt of future premiums) would be recorded for second injury fund claims for years 1994 and prior.

Had the Company followed NAIC SAP for the recording of the liability of second injury fund claims for years 1994 and prior, the policyholders' surplus of the Company would have been $70,519,000 and $74,123,000 lower at December 31, 2005 and 2004, respectively, and net income would have been $3,604,000 and $11,363,000 greater, respectively, for the years then ended.

2. INVESTMENTS

The amortized cost, gross unrealized gains, gross unrealized losses and fair value of long-term investments in bonds are as follows:

December 31, 2005	**AMORTIZED COST**	**GROSS UNREALIZED GAINS**	**GROSS UNREALIZED LOSSES**	**FAIR VALUE**
(IN THOUSANDS)				
U.S. Treasury securities and obligations of U.S. Government authorities and agencies	**$ 471,617**	**$ 12,054**	**$ (3,433)**	**$ 480,238**
Obligations of states and political subdivisions	**191,938**	**2,477**	**(1,895)**	**192,520**
Corporate debt securities	**91,002**	**257**	**(1,168)**	**90,091**
Mortgage-backed securities	**40,466**	**21**	**(834)**	**39,653**
	$ 795,023	**$ 14,809**	**$ (7,330)**	**$ 802,502**

December 31, 2004	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
(IN THOUSANDS)				
U.S. Treasury securities and obligations of U.S. Government authorities and agencies	$ 453,015	$ 23,696	$ (606)	$ 476,105
Obligations of states and political subdivisions	156,971	4,251	(944)	160,278
Corporate debt securities	59,184	1,223	(19)	60,388
Mortgage-backed securities	36,711	157	(216)	36,652
	$ 705,881	$ 29,327	$ (1,785)	$ 733,423

2. INVESTMENTS *(CONTINUED)*

The amortized cost and fair value of bonds at December 31, 2005, by contractual maturity, are as follows. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without penalties.

(IN THOUSANDS)	AMORTIZED COST	FAIR VALUE
Due in one year or less	$ 59,485	$ 59,927
Due after one year but before five years	274,831	279,284
Due after five years but before ten years	370,925	374,300
Due after ten years	49,316	49,338
	754,557	762,849
Mortgage-backed securities	40,466	39,653
	$ 795,023	$ 802,502

At December 31, 2005 and 2004, bonds with admitted asset values of $42,671,000 and $56,538,000, respectively, were on deposit to satisfy regulatory and contractual requirements.

Proceeds, realized gains and realized losses on sales of bonds for the years ended December 31, 2005 and 2004 are computed using amortized cost and are as follows:

2005 (IN THOUSANDS)	**SALES**	**MATURITIES**	**CALLS**	**PAYDOWNS**	**TOTAL**
Proceeds from	**$ 82,374**	**$ 71,600**	**$ 71,885**	**$ 6,039**	**$ 231,898**
Realized gains from	—	—	**118**	—	**118**
Realized losses from	**1,332**	—	—	—	**1,332**

2004 (IN THOUSANDS)	SALES	MATURITIES	CALLS	PAYDOWNS	TOTAL
Proceeds from	$ 110,280	$ 48,175	$ 52,150	$ 1,247	$ 211,852
Realized gains from	14	—	127	—	141
Realized losses from	2,163	—	—	—	2,163

2. INVESTMENTS *(CONTINUED)*

The cost, gross unrealized gains, gross unrealized losses and fair value of preferred stocks are as follows:

December 31, 2005	**COST**	**GROSS UNREALIZED GAINS**	**GROSS UNREALIZED LOSSES**	**FAIR VALUE**
(IN THOUSANDS)				
Preferred stocks	**$ 5,000**	**$ 212**	**$ —**	**$ 5,212**

December 31, 2004	COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
(IN THOUSANDS)				
Preferred stocks	$ 5,000	$ 480	$ —	$ 5,480

The cost, gross unrealized gains, gross unrealized losses and fair value of unaffiliated common stocks and affiliated common stocks are as follows:

December 31, 2005	**COST**	**GROSS UNREALIZED GAINS**	**GROSS UNREALIZED LOSSES**	**FAIR VALUE**
(IN THOUSANDS)				
Unaffiliated common stocks	**$ 194,325**	**$ 27,847**	**$ (8,453)**	**$ 213,719**
Affiliated common stocks	**2,602**	**701**	**(1,668)**	**1,635**
	$ 196,927	**$ 28,548**	**$ (10,121)**	**$ 215,354**

December 31, 2004	COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
(IN THOUSANDS)				
Unaffiliated common stocks	$ 176,567	$ 25,660	$ (4,316)	$ 197,911
Affiliated common stocks	2,602	654	(1,668)	1,588
	$ 179,169	$ 26,314	$ (5,984)	$ 199,499

2. INVESTMENTS *(CONTINUED)*

As of December 31, 2005 and 2004, respectively, no goodwill was included in the statement values of affiliated common stocks.

The Company reviews its investments in common stocks for impairment on an annual basis. For common stocks valued at less than 80% of cost, the Company evaluates several qualitative factors to determine if the decline in fair value is other than temporary, including the opinion of the Company's outside equity managers, projected earnings growth, analysts' recommendations, industry or segment performance, and number of months the stock's fair value has been below cost. Common stocks valued at less than 50% of cost at the measurement date are deemed impaired, unless there are significant mitigating factors that indicate the decline in value is temporary. For the year ended December 31, 2005, the Company recorded impairment losses of $429,000 on common stocks. For the year ended December 31, 2004, the Company did not record any impairment on common stocks.

For the year ended December 31, 2005, the Company did not record any impairment on other invested assets. The Company recognized impairment losses on other invested assets of $320,000 for the year ended December 31, 2004, due to adjustments to carrying values where the declines in fair value were deemed other than temporary.

Realized gains and losses on sales of equity securities are computed using adjusted cost. The Company realized gains of $19,622,000 and losses of $5,256,000 on sales of common stocks in 2005. The Company realized gains of $16,854,000 and losses of $3,241,000 on sales of common stocks in 2004.

As of December 31, 2005, the gross unrealized losses in unaffiliated and affiliated common stocks and the fair value of the related investments that have been in an unrealized loss position over 12 months and under 12 months are as follows:

	OVER 12 MONTHS		UNDER 12 MONTHS	
	FAIR VALUE	GROSS UNREALIZED LOSSES	FAIR VALUE	GROSS UNREALIZED LOSSES
(IN THOUSANDS)				
Unaffiliated common stocks	$ 43,253	$ (4,938)	$ 39,245	$ (3,515)
Affiliated common stocks	—	(1,668)	—	—
	$ 43,253	$ (6,606)	$ 39,245	$ (3,515)

Affiliated common stocks with unrealized losses are valued at zero at December 31, 2005.

All of the Company's bond investments have received a Class 1 NAIC rating. As such, the Company has determined that any fluctuation in market value is a result of interest rate risk and not as a result of credit risk. If the Company, at the reporting date, has the intent to sell a bond with an unrealized loss before recovery of the cost of the investment, such a loss would be deemed other than temporary and the Company would record the impairment of the investment at the reporting date. For the years ended December 31, 2005 and 2004, the Company did not record any impairment on bonds.

2. INVESTMENTS *(CONTINUED)*

As of December 31, 2005, the gross unrealized losses in bonds and the fair value of the related investments that have been in an unrealized loss position over 12 months and under 12 months are as follows:

	OVER 12 MONTHS		UNDER 12 MONTHS	
	FAIR VALUE	GROSS UNREALIZED LOSSES	FAIR VALUE	GROSS UNREALIZED LOSSES
(IN THOUSANDS)				
Bonds	$ 129,870	$ (2,495)	$ 316,364	$ (4,835)

The Company's investments in mortgage loans consist of first mortgage liens for construction and permanent financing of commercial and multi-family residential real estate located in the state of Utah. At December 31, 2005, interest rates ranged from 5.75% to 9.00% and the loan to value ratio ranged from 22.20% to 80.00%. At December 31, 2004, interest rates ranged from 5.00% to 7.14% and the loan to value ratio ranged from 33.30% to 76.72%.
The Company's investments in mortgage loans are as follows:

December 31,	**2005**	2004
(IN THOUSANDS)		
Long-term	**$ 14,227**	$ 13,480
Construction	**8,530**	11,446
	$ 22,757	$ 24,926

The Company's investments in real estate are as follows:

December 31,	**2005**	2004
(IN THOUSANDS)		
Occupied by the Company:		
Land	**$ 2,062**	$ 2,062
Building	**7,218**	7,076
Less accumulated depreciation	**(2,945)**	(2,690)
Net real estate occupied by the Company	**6,335**	6,448
Held for the production of income:		
Land	**3,172**	3,172
Building	**33,430**	22,697
Less accumulated depreciation	**(5,213)**	(4,193)
Net held for the production of income	**31,389**	21,676
Net investment in real estate	**$ 37,724**	$ 28,124

2. INVESTMENTS *(CONTINUED)*

Investment in real estate held for the production of income consists of two six-story Class A office buildings. Building I was fully leased in April 2000 for eight years under a noncancelable lease and is carried at cost less accumulated depreciation. Rental income was $3,599,000 and $3,410,000 for the years ended December 31, 2005 and 2004, respectively.

Future minimum rental income under noncancelable leases consist of the following:

2006	$ 2,513,000
2007	2,588,000
2008	2,440,000
	$ 7,541,000

During 2004, the Company began construction of Building II. As of December 31, 2005, $16,921,000 had been incurred and an additional $2,500,000 has been committed for the development.

Non-income producing real estate of $8,598,000 and $8,627,000 was excluded from admitted assets and reflected in unrealized capital losses at December 31, 2005 and 2004, respectively.

Income from investments is reported net of investment related expenses of $4,964,000 and $4,301,000 for the years ended December 31, 2005 and 2004, respectively.

3. RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

The reserve for losses and loss adjustment expenses, net of reinsurance recoverable, consist of the following components:

December 31,	**2005**	2004
(IN THOUSANDS)		
Medical	**$ 513,413**	$ 460,078
Compensation	**125,832**	126,062
Defense and cost containment expenses	**27,385**	27,832
Adjusting and other expenses	**38,404**	34,906
	$ 705,034	$ 648,878

3. RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES *(CONTINUED)*

Activity in the reserve for losses and loss adjustment expenses is as follows:

	2005	2004
˅ (IN THOUSANDS)		
Reserve at beginning of year, net of reinsurance recoverable of $15,058 and $17,497, respectively	$ 648,878	$ 600,598
Provision for current year	196,284	179,916
Increase in provision for prior years	6,294	3,889
	202,578	183,805
Payments for current year, net of subrogation and recoveries	54,472	53,283
Payments for prior years, net of subrogation and recoveries	91,950	82,242
	146,422	135,525
Reserve at end of year, net of reinsurance recoverable of $14,295 and $15,058, respectively	$ 705,034	$ 648,878

The 2005 and 2004 provision for prior years' losses increased due to unfavorable development on prior year claims. No single event was the cause of the changes in prior year provisions, and no additional premiums have been accrued as a result of the increases to prior-year loss reserves. The reserve is recorded net of anticipated future subrogation and reinsurance recoveries. Actual subrogation and recoveries of $3,716,000 and $3,660,000 in 2005 and 2004, respectively, have been offset against losses and loss adjustment expenses in the statement of operations and changes in policyholders' surplus and against loss and loss adjustment expenses paid in the statement of cash flows.

4. REINSURANCE

The Company cedes a portion of its premium to other insurance companies to limit its exposure arising from large losses. These ceding arrangements consist of excess of loss contracts that protect the Company against losses over stipulated amounts. For 2005 and 2004, the Company retained liability on the first $20 million of each loss while reinsurers are liable for losses from $20 million up to $100 million on occurrences involving multiple claimants (up to a maximum of $5 million for any one life). The Company also cedes premium to other insurance companies under excess of loss arrangements on a policy specific basis.

4. REINSURANCE *(CONTINUED)*

Reinsurance recoverables from individual reinsurers are as follows:

December 31,	2005	2004
(IN THOUSANDS)		
SCOR Reinsurance Company	**$ 3,485**	$ 3,512
Pinehurst Accident Reinsurance Group	**2,673**	2,651
ReliaStar Life Insurance Company	**1,737**	2,047
St. Paul Fire and Marine Insurance Company	**1,737**	1,778
Northwestern National	**1,503**	1,457
UNUM Life Insurance Company	**702**	852
Connecticut General Life Insurance Company	**688**	670
Continental Assurance Company	**610**	704
XL Re America	**467**	622
American United Life Insurance Company	**315**	348
American National Insurance Company	**126**	139
Canada Life Insurance Company	**126**	139
Clarica Life Insurance Company	**126**	139
	$ 14,295	$ 15,058

In the event the reinsurers are unable to meet their obligations, the Company is liable for all losses, as the reinsurance agreements do not discharge the Company from its primary liability to the policyholders. In 2005 and 2004, the Company did not commute any ceded reinsurance.

Through June 30, 2004, Company assumed 80% of earned premium and losses and loss adjustment expenses in excess of Advantage's premium retention. Effective July 1, 2004, the Company assumes 100% of earned premium from Advantage for policies written for policyholders of the Company, and the Company is liable for all losses and loss adjustment expenses related to those policies.

As part of the reinsurance agreements, the Company paid a ceding commission to Advantage on earned premium subject to the reinsurance agreement of approximately 20%. The ceding commission serves as a reimbursement to Advantage for premium taxes and other assessments, agent commissions and administrative services.

The Company also assumes premium for coverages written through other insurance companies under excess of loss arrangements.

The effect of reinsurance on the reserve for losses and loss adjustment expenses at December 31, 2005 and 2004 and on reserves and premiums earned and losses and loss adjustment expenses incurred for the years then ended is as follows:

4. REINSURANCE *(CONTINUED)*

	2005			2004		
	PREMIUM	**LOSSES AND LOSS ADJUSTMENT EXPENSES**	**RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES**	PREMIUM	LOSSES AND LOSS ADJUSTMENT EXPENSES	RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES
(IN THOUSANDS)						
Direct	**$ 248,889**	**$ 187,974**	**$ 680,064**	$ 221,894	$ 166,883	$ 616,353
Assumed:						
from Advantage	**9,032**	**4,637**	**25,314**	15,181	10,204	34,260
from other	**3,968**	**9,377**	**13,951**	11,864	4,588	13,323
Ceded	**(2,991)**	**590**	**(14,295)**	(3,381)	2,130	(15,058)
	$ 258,898	**$ 202,578**	**$ 705,034**	$ 245,558	$ 183,805	$ 648,878

5. RETIREMENT PLANS

The Company contributes to the State and School Contributory Retirement System and State and School Noncontributory Retirement System, cost-sharing multi-employer defined benefit pension plans administered by the Utah Retirement System (Systems). The Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by Utah State law. The Systems issue a financial report that includes financial statements and required supplementary information for the State and School Contributory Retirement System and State and School Noncontributory Retirement System. A copy of the report may be obtained by writing to Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102.

Plan members in the State and School Contributory Retirement System are required to contribute 6.00% and the Company is required to contribute 8.89% of participating employees salaries. In the State and School Noncontributory Retirement System, the Company is required to contribute 13.38% of participating employees salaries. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute.

Employees participating in the contributory or noncontributory plans are also eligible to participate in a 401(k) salary deferral program. The Company contributes 1.5% of eligible noncontributory plan participant earnings to the 401(k) salary deferral program and each individual employee may elect to contribute additional amounts.

Company contributions to the State and School Contributory Retirement System for the years ended December 31, 2005, 2004 and 2003 were $69,000, $64,000 and $47,000, respectively; Company contributions to the State and School Noncontributory Retirement System for the years ended December 31, 2005, 2004 and 2003 were $2,686,000, $2,436,000 and $1,969,000,

5. RETIREMENT PLANS *(CONTINUED)*

respectively; and Company contributions to the 401(k) salary deferral program for the years ended December 31, 2005, 2004 and 2003 were $342,000, $321,000 and $296,000, respectively.

An executive of Workers Compensation Fund participates in an unfunded retirement plan administered by the Company. Plan expenses were approximately $291,000 and $30,000 for the years ended December 31, 2005 and 2004, respectively.

6. POLICYHOLDERS' SURPLUS

Property and casualty insurance companies are subject to certain Risk-Based Capital ("RBC") requirements as specified by the NAIC. Under those requirements, the adequacy of policyholders' surplus maintained by a property and casualty insurance company is determined based on various related risk factors. At December 31, 2005, the Company meets the RBC requirements.

7. INCOME TAXES

The Company has received a determination from the Internal Revenue Service that it is exempt from Federal taxes under Internal Revenue Code Section 501(a).

8. ADVANTAGE WORKERS COMPENSATION INSURANCE COMPANY

The Company shares office facilities and personnel with Advantage. Shared costs and expenses are allocated to Advantage based on estimates of time and usage and those allocations may vary depending on the assumptions underlying those estimates. The amount of operating expenses allocated to Advantage during 2005 and 2004 were $822,000 and $1,125,000, respectively. Advantage acquired its own office space in October 2005.

At December 31, 2005 and 2004, uncollected premiums included $1,715,000 and $1,102,000, respectively, in premiums due from Advantage under reinsurance agreements. At December 31, 2005, $1,081,000 was held by Advantage under reinsurance contracts. At December 31, 2004, premiums due to Advantage under reinsurance agreements of $3,070,000 were included in accounts payable and accrued liabilities.

9. RELATED PARTIES

The Company shares office facilities and personnel with subsidiaries. Shared costs and expenses are allocated to the subsidiaries based on estimates of time and usage and those allocations may vary depending on the assumptions underlying those estimates. The amount of operating expenses allocated to subsidiaries during 2005 and 2004 were $722,000 and $552,000, respectively.

The Company incurred expenses of $105,000 and $109,000 for the years ended December 31, 2005 and 2004, respectively for claims administration services provided by Pinnacle.

The Company has extended a line of credit to Pinnacle at interest rates based on the prime rate plus one percent (decreasing to prime effective January 1, 2005). The Company suspended the accrual

9. RELATED PARTIES *(CONTINUED)*

of interest under the agreement from October 1, 2004 through June 30, 2005. At December 31, 2005 and 2004, $2,937,000 and $3,843,000, respectively, were outstanding under this agreement at an interest rate of 7.25% and 6.25%, respectively. During 2005 and 2004, the Company recognized $102,000 and $120,000, respectively, of interest income related to this agreement.

In order to facilitate the continued licensure of Pinnacle in Nevada and Montana, the Company has guaranteed to financially support Pinnacle, if required, to enable it to continue to operate and meet its financial obligations.

10. COMMITMENTS AND CONTINGENCIES

The Company leases computer equipment and office space under noncancelable operating leases that expire in various years through 2008. These leases may be renewed for periods of up to five years. Rental expenses were approximately $1,251,000 and $1,002,000 for the years ended December 31, 2005 and 2004, respectively.

Future minimum payments under noncancelable operating leases with initial terms of one year or more consist of the following:

2006	$ 955,000
2007	663,000
2008	78,000
	$ 1,696,000

The Company is subject to legal proceedings arising from the normal conduct of its business. In the opinion of management, any ultimate liability that may arise from these proceedings will not have a material effect on the Company's financial position.

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