

March 1, 2006, Issue 5

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ACIG

news

Welcome

American Contractors Insurance Group will be celebrating its 25th anniversary on May 1, 2006. This achievement would not have been possible without the steadfast support of our shareholders and the professional service provided by ACIG management and staff.

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Financial Report

We achieved outstanding financial results in 2005 producing an overall record based upon pre-tax financial results.

Profits	\$ 4,641,000
Retro Refunds	\$37,766,000
Policyholder Dividends	<u>\$16,110,000</u>
Total	\$58,517,000

Tillinghast, our independent actuaries, reviewed and signed off on our overall loss reserves in both the subject and retro excess layers (pooled). Our total reserves are valued at \$136,445,000; \$52,727,000 in actual case reserves and \$83,718,000 in Incurred But Not Reported (IBNR) reserves.

As of December 31, 2005, our total shareholders' equity stood at \$89,993,000, an increase of \$5,045,000 from December 31, 2004.

"ACIG's shareholder equity is \$89,993,000"

American Contractors Insurance Group Asset Allocation (as of 12/31/05)

ACIG's investments are under the direction and supervision of our Investment Committee. The committee members are Chairman Mel Gray, Richard Pepper, Jim Danella and Bill McIntyre. Our portfolio is diversified between fixed income, convertibles and equities. The market values as of 12/31/05 are as follows (excluding short-term cash held for operating purposes):

*"ACIG maintains a
balanced portfolio"*

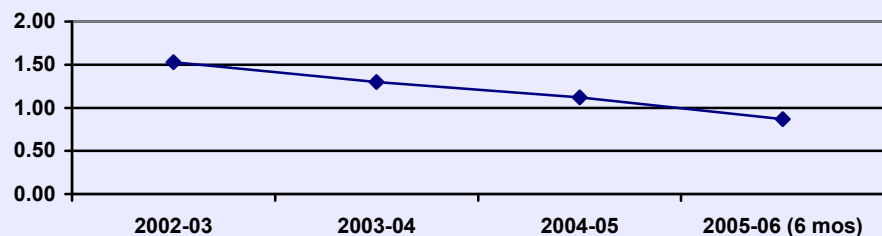
	<u>Market Value</u>	<u>Percent</u>
Fixed Income: BlackRock	\$155,578,751	71.6%
Convertibles: Zazove	23,067,936	10.6%
Total Equities	38,788,120	17.8%
Dodge & Cox	17,405,936	8.0%
Primecap	13,350,882	6.1%
Private Capital	<u>8,031,302</u>	<u>3.7%</u>
TOTAL ASSETS	\$217,434,807	100.0%

Project Lifesaver

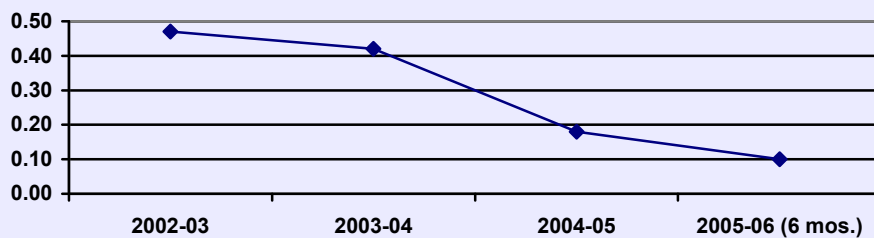
ACIG shareholders continue to perform at a very high level in the areas of safety and loss control. Through their hard work and disciplined approach to saving lives, preventing injury and reducing the cost of insurance, they have achieved impressive results.

*"Project Lifesaver has
achieved impressive
results"*

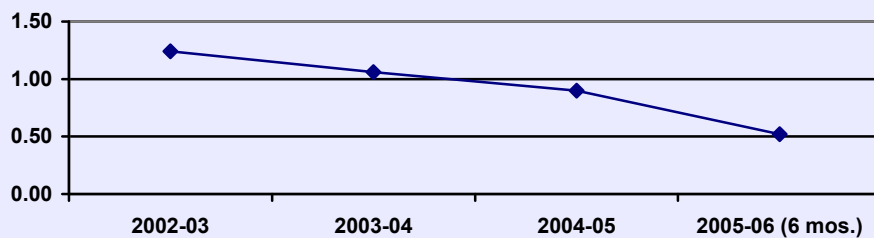
Workers Compensation Indemnity Loss Rate Per 200,000 Manhours



General Liability Loss Rate Per 200,000 Manhours



Auto Liability Loss Rate Per 100 Units



On January 25, 2006, we conducted a post mortem in an effort to improve the process and refine the presentation material. Complacency is our biggest enemy. We need to stay vigilant towards our goal of zero accidents.

“Complacency is our biggest enemy”

Risk Management

Within 90 days of underwriting a new ACIG shareholder, we conduct an all-day Risk Management Boot camp to energize the relationship and to set the tone for our mutual expectations. Over the years these highly effective meetings have mainly emphasized workers compensation exposures.

ACIG has developed a General Liability Boot Camp to bring focus to our contractors' unique and complex liability exposures. These boot camps address risk transfer issues such as contract documents, subcontract documents, insurance requirements, builders risk insurance, purchase orders, indemnity agreements, and the applicable statutes of repose. We will also address the risks associated with managing subcontractor work, emphasizing compliance with plans and specifications.

Completed operations general liability claims require a specialized claims strategy. Some of the key elements are:

- Record storage and retrieval;
- Selection of legal counsel;
- Tendering our defense to other parties;
- Alternative dispute resolution including mediation and arbitration;
- Settlement strategies

We will be contacting our members to gauge their interest in sponsoring a General Liability Boot Camp.

Safety

ACIG's safety department has been busy assisting our members in their loss reduction initiatives. This includes participation in the Project Lifesaver meetings and work in conjunction with the contractors in developing their Contractor Action Plans. We will assist the contractors in tracking their action items and other key initiatives.

Throughout 2005, we have been emphasizing the benefits of a detailed and thorough accident investigation. To support this initiative, we have conducted six (6) root cause analysis training sessions with over eighty (80) contractor personnel attending.

"Over eighty contractor personnel attended"

Root Cause Analysis Training 2006 Regional Sessions

March	Los Angeles	September	Cleveland
April	Phoenix	October	Houston
May	Kansas City	December	Orlando
July	Philadelphia		

We encourage you to attend one of these sessions.

Our safety department is actively involved on various task forces:

- Fleet Safety - Executive Task Force
- Welding Fume Safety
- Employee Hiring and Screening
- Safety Performance Benchmark
- Quality Assurance

Claims

We have just completed the first of our semi-annual large claim review meetings. We reviewed all claims that met a certain prescribed threshold for workers compensation, general liability and auto liability claims. This review group had more than 200 years of combined insurance and claims management experience. Our collective resources are brought to bear on our most difficult and complex claims.

We are experiencing an increase in completed operations and construction defect claims. This has lead us to develop a best practice checklist for collecting documents and developing claim mitigation strategies.

Legislative efforts to reform the state workers compensation system have worked their way through the legislative process (e.g., California, Missouri, Texas, etc.). In some states, insurers are able to set up medical provider networks for treating injured workers. This allows the employer to direct

the employees' medical care, which should lead to better treatment outcomes and reduced medical costs. The Workers Compensation Research Institute's recent study validated these results.

<u>Action</u>	<u>Results</u>
Workers chose their doctor	10% - 21% higher medical costs 8% - 15% higher income replacement 23% - 32% longer period away from work

Source: WCRI

ACIG contractors have operations throughout the United States, which gives rise to a multitude of litigation venues. The American Tort Reform Association just released its Judicial Hell Holes 2005 Report.

2005 Hall of Shame	
1.	Rio Grande Valley and Gulf Coast, Texas
2.	Cook County, Illinois
3.	West Virginia
4.	Madison County, Illinois
5.	St. Clair County, Illinois
6.	South Florida

Source: ATRA

Tort reform efforts are underway in many states. We encourage you to support these efforts.

"Tort reform efforts are underway"

AZ Program Update

ACIG and Zurich Construction have entered into a definitive agreement establishing an ongoing business relationship for insuring certain ACIG general building contractors. Currently, there are twenty-nine (29) Contractor Controlled Insurance Programs in place insuring over \$1,416,000,000 in construction projects and generating approximately \$44,549,000 in estimated premium. In addition, there are several projects in the final stages of negotiations.

Marketing

ACIG has 38 approved membership slots, and currently 38 active premium-paying members. Accordingly, no membership slots are open. ACIG continues to be contacted by a number of high quality construction companies regarding membership. At this time we are developing a "waiting list" for those contractors who have a bonafide interest in ACIG.

Hold the Phone

Increased reliance on cell phones has led to a rise in the number of people who use the devices while driving. There are two dangers associated with driving and cell phone use. First, drivers must take their eyes off the road while dialing. Second, people can become so absorbed in their conversations that their ability to concentrate on the act of driving is severely impaired, jeopardizing the safety of vehicle occupants and pedestrians. At first safety experts focused on the problem as part of the larger one of driver distractions in general. These can include anything that reduces driver concentration on road hazards from drinking coffee to talking with another passenger. Now there is increasing evidence that the dangers associated with cell-phone use outweigh those of other distractions.

“The risk outweighs the reward of allowing cell phones when driving”

Government Study: A government study released in June 2005 indicates that the distraction of cell phones and other wireless devices was far more likely to lead to crashes than other distractions faced by drivers.

Researchers for the Virginia Tech Transportation Institute and the National Highway Traffic Safety Administration (NHTSA) tracked 100 cars and their drivers for a year and concluded that talking on cell phones caused far more crashes, near-crashes and other incidents than other distractions.

Court Decisions: In December 2004, a civil case involving a car crash caused by a driver using a cell phone for business reasons was dismissed when the driver's employer, Beers Skanska Inc., agreed to pay the plaintiff \$5 million. The plaintiff in the case, being heard in Georgia's Fulton County Superior Court, was severely injured in the crash. The suit is among a series of recent cases where the employer has been held liable for an accident caused by a driver using a cell phone, while on company business.

Businesses: Businesses are increasingly prohibiting workers from driving while using a cell phone to conduct business.

Has your firm adopted a cell phone policy? If not, we recommend that you weigh carefully the risk/reward of allowing employees to use cell phones when driving.

ACIG Shareholders in the News

Rich Wagman Presented with National ARTBA Award

Rich Wagman, Chairman and CEO of G.A. & F.C. Wagman, Inc. received the prestigious "Nello L. Teer, Jr. Award," during the American Road & Transportation Association's (ARTBA) annual meeting on September 14, 2005.

The award is presented annually and honors a contractor member who has made outstanding contributions to ARTBA's Contractors Division and the transportation industry as a whole.

Doug Pitcock Named 2006 Engineer of the Year

The Texas Society of Professional Engineers, Greater Houston Chapter, has named James D. "Doug" Pitcock the 2006 Houston Area Engineer of the Year.

KS Industries of Wyoming

On September 26, 2005, KS Industries of Wyoming hosted a picnic to celebrate 3 years without a recordable incident. This event was done in recognition of all the employees who work in Wyoming and have contributed to the amazing achievement of a zero total recordable incident rate.

Cajun Constructors, Inc.

Dallas office receives National Excellence in Construction Eagle Award in Public Works/Environmental. Cajun will be receiving the award for the Bachman WPT Hydraulic Improvements - Contract 4, Filter Improvement Project.

Nabholz Awarded Four ABC Excellence in Construction Awards

Nabholz Construction was recently recognized by the Arkansas and Oklahoma Chapters of Associated Builders and Contractors (ABC), receiving Excellence in Construction Awards for four projects.

- Tulsa Bone and Joint Associates in Tulsa, Oklahoma won the Healthcare \$5-\$10 Million category.
- Dr. Jeffrey Rhodes Northwest Arkansas Pediatric Dental Center in Rogers, Arkansas won the Commercial Under \$2 Million category.
- Winrock International Headquarters in Little Rock, Arkansas won the Commercial \$2-\$5 Million category.
- White County Regional Medical Center in Searcy, Arkansas won the Institutional Over \$5 Million category.

The projects are judged on complexity, attractiveness, unusual challenges, completion time, workmanship, innovation, safety and budget.

*"KSI Wyoming - Three
years without a
recordable incident"*

ACIG Meetings and Workshops

ACIG sponsors many meetings and workshops throughout the year. These meetings and workshops provide a valuable source of networking opportunities amongst our members, staff and selected vendors.

Date	Meeting	Place
March 15-17, 2006	Vail Contractors Forum	Vail, CO
April 18, 2006	Best Practices Meeting	Chicago, IL
April 19-21, 2006	Safety/Claims Workshop	Chicago, IL
September 20-22, 2006	Safety/Claims Workshop	Cleveland, OH
October 26-28, 2006	Risk Management Workshop	Laguna, CA
February 21-24, 2007	Annual Board of Directors Meeting	Cabo San Lucas, Mexico

Summary

ACIG had an outstanding 2005. We achieved record top-line revenue, record economic benefits, the addition of three (3) new shareholders, the establishment of a strategic alliance with Zurich Construction and reduction in our loss rates for all lines, workers compensation, general liability and automobile liability. The risk exposures on our projects continue to grow unabated requiring us to be creative in our risk management programs.

Thank you for your continued support of the ACIG program.



Executive Vice President - Risk Services