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BEFORE THE STATE OF WASHINGTON
OFFICE OF INSURANCE COMMISSIONER

In the Matter of the Proposed Acquisition
and Control of:

NO. 11-0074

CONTRACTORS BONDING &
INSURANCE COMPANY, a
Washington-domiciled Property and
Casualty Insurer,

**DECLARATION OF
RONALD J. PASTUCH**

by

RLI INSURANCE COMPANY, an
Illinois-domiciled insurer

the Applicant.

Ronald J. Pastuch, under penalty of perjury under the laws of the State of Washington,
declares as follows:

1. I am the Holding Company Manager in the Company Supervision Division of
the Washington State Office of Insurance Commissioner ("OIC"). I am over the age of
eighteen years old and I am competent to testify in this matter. I make this Declaration based
upon my personal knowledge.

1 2. I am also a graduate of Pacific Lutheran University, where I earned a Bachelor
2 of Arts Degree in Business Administration in 1988. I was certificated as a CPA in 1993, and
3 received my CPA license in 2003.

4 3. After graduation, I worked for the Washington Department of Veterans Affairs
5 from 1980 to 1987 in accounting and human resource positions. In 1987, I joined the OIC as
6 an accountant, a position I held until 1991. From 1991 to 1993, I served as a field Insurance
7 Examiner with the OIC. From 1993 to 2006, I served as a Financial Analyst in the OIC's
8 Company Supervision Division, a position I held in various levels.

9 4. On February 16, 2006, I was appointed as the Holding Company Manager in
10 the OIC's Company Supervision Division. As the Holding Company Manager, my primary
11 duties consist of reviewing and approving holding company transactions, which include the
12 reviews and recommendations of OIC's position on proposed requests for insurance company
13 acquisitions and mergers, including disclaimers of control.

14 5. On December 22, 2010, RLI Insurance Company ("the Applicant") filed a
15 Form A Statement for the approval of the acquisition of control of Contractors Bonding &
16 Insurance Company ("CBIC"). CBIC is a Washington-domiciled stock property and casualty
17 insurer incorporated on September 24, 1979, and began writing business on October 9, 1979.
18 The Applicant is an Illinois-domiciled stock property and casualty insurer incorporated on
19 June 4, 1959, and based in Peoria, IL. The Applicant is licensed to do business in Washington
20 State. The Applicant is a wholly-owned subsidiary of RLI Corporation, an Illinois corporation
21 which is publicly traded on the New York Stock Exchange.

22 6. In this Form A Statement, the Applicant proposes to acquire all issued and
23 outstanding stock of Data & Staff Service Company, Inc. ("Data & Staff"), a Washington
stock corporation that is directly owned through approximately 96 percent of Data & Staff's
voting securities by Mr. Donald Sirkin. Data & Staff directly owns and controls CBIC and
other Data & Staff non-insurer subsidiaries. The Applicant, Data & Staff, and Mr. Sirkin

1 entered into a stock purchase agreement dated December 22, 2010, to acquire all issued and
2 outstanding shares of Data & Staff common stock for an original aggregate cash purchase
3 price of one hundred thirty-seven million two hundred thousand dollars (\$137,200,000.00).
4 The purchase price includes all holders of Data & Staff common shares including shares
5 issued and outstanding held by Data & Staff Service Co. Employee Stock Ownership Plan as
6 of the date of closing. The cash transaction is not subject to financing contingencies.

7 7. In addition to the closing consideration, all Data & Staff common shareholders
8 will be entitled to receive their consideration based on certain adjustments described in the
9 Stock Purchase Agreement listed in the Form A Statement.

10 8. As part of the proposed transaction, CBIC and PJ6, Inc., a company owned by
11 Mr. Sirkin, would enter into an employee leasing agreement whereby certain current
12 employees of CBIC would perform services on behalf of PJ6. CBIC filed a Form D filing
13 with the proposed employee leasing agreement on January 12, 2011. On March 25, 2011, the
14 Commissioner had not disapproved that Form D filing contingent upon the approval of this
15 Form A at such hearing. On April 15, 2011, the OIC amended its March 25, 2011 letter
16 correcting the actual date of receipt of that Form D filing.

17 9. The Applicant also submitted biographical affidavits for the following
18 individuals who would directly operate CBIC as a director and/or executive officer after the
19 closing of the proposed transaction. Those individuals are: Messrs. Jonathan Michael,
20 Michael Stone, Joseph Dondanville, and Craig Kliethermes, all currently with RLI; and also
21 Kirk Eland and Robert Ogle, all currently with CBIC. Other RLI employees were listed as
22 proposed officers of CBIC.

23 10. On January 19, 2011, the OIC sent a deficiency letter and requested additional
information regarding the Form A Statement.

1 11. On February 4, 2011 and February 11, 2011, the Applicant responded to the
2 OIC deficiency letter with the requested information. The Applicant also provided requested
3 information regarding the proposed directors and/or officers in its February 11, 2011 letter.

4 12. On February 10, 2011, State Street Corporation filed a disclaimer of affiliation
5 and control statement of RLI Corporation that State Street Corporation and its subsidiaries
6 reportedly held approximately 2.0 million shares of common stock of RLI Corporation, which
7 represented 9.4 percent of the voting securities of RLI Corporation. A certain subsidiary of
8 State Street Corporation is the trustee of the RLI Corp Employee Stock Ownership Plan that is
9 the record holder of common stock beneficially owned by the participants in that ESOP.

10 13. On February 18, 2011, the Applicant provided an executive summary of the
11 proposed transaction described in this Form A Statement.

12 14. On March 4, 2011, the Applicant provided a revised and updated disclaimer of
13 affiliation and control statement from its February 10, 2011, statement. In this revised
14 statement, State Street Corporation reportedly held approximately 2.0 million shares of
15 common stock of RLI Corporation, which represented 9.7 percent of the voting securities of
16 RLI Corporation.

17 15. On March 18, 2011, the OIC received the final portion of requested
18 information from its January 19, 2011, deficiency letter that a third-party firm verified the
19 proposed directors / executive officers information provided in their affidavits.

20 16. On March 29, 2011, the OIC sent a letter to the Chief Hearing Officer
21 regarding this Form A Statement as being complete and requesting a hearing to decide on
22 such matter.

23 17. On April 14, 2011, the Applicant submitted an Amendment to the Form A
Statement with information regarding an amendment to such stock purchase agreement. The
original purchase price was adjusted to an agreed purchase price of one hundred thirty-five
million nine hundred thousand three hundred and eighty dollars (\$135,900,380). There were

1 other revisions as described to the proposed CBIC/PJ6 employee lease agreement, other
2 agreements and schedules.

3 18. I have reviewed and analyzed these submittals. My analysis was performed
4 under the criteria set forth in RCW 48.31B.015(4). From my analysis,

5 a. The domestic insurer would be able to satisfy the requirements for the
6 issuance of a license to write its current lines of business for which it is presently licensed.
7 CBIC is presently licensed to write general casualty, marine and transportation, property,
8 surety, and vehicle lines of business. CBIC's minimum capital and surplus as of the date of
9 this Declaration is \$550,000 in capital stock and \$550,000 in additional surplus for a total of
10 one million one hundred thousand dollars (\$1,100,000) according to the "grandfathering"
11 provisions in RCW 48.05.340(3). However, also according to RCW 48.05.340(3), a domestic
12 insurer that is acquired must, immediately after completion of an acquisition, meet the capital
13 and surplus requirements of subsection (1) of this section and may not return to the capital
14 and surplus requirements existing before June 9, 1994. According to RCW 48.05.340(1),
15 CBIC's capital stock would be restated to a new minimum capital level at \$3.0 million and
16 additional surplus level at \$3.0 million for a minimum total of \$6.0 million after the
17 acquisition. As of the latest financial statement filed with the OIC, CBIC's total capital and
18 surplus was reported at \$111.9 million as of December 31, 2010. Also, CBIC's latest risk-
19 based capital ratio exceeded its company action level as defined under RCW 48.05.430 and
20 RCW 48.04.440. Since CBIC's current capital stock would be required to maintain at a new
21 minimum capital requirements with the current authorized lines of business as prescribed by
22 RCW 48.05.340(3), and CBIC's capital stock would be below the required minimum capital
23 requirement of RCW 48.05.340(1), then CBIC must increase its common stock to \$3.0
million from \$2.5 million.

b. The effect of the proposed acquisition of control would not lessen
competition in this state or tend to create a monopoly therein. A market analysis was

1 performed on the domestic insurer's direct writings and the Applicant and its related insurers'
2 direct writings in the Washington P&C market. The Applicant and one of its indirect
3 subsidiaries are licensed and have market presence in Washington State. One of the
4 Applicant's subsidiaries, namely Mt. Hawley Insurance Company, is not licensed in
5 Washington State but does write surplus lines in 50 states including Washington State, the
6 District of Columbia, US Virgin Islands, and Canada. A second subsidiary, namely RLI
7 Indemnity Company, is licensed and has market presence in 49 states including Washington
8 State and District of Columbia.

8 The Applicant reported that the acquisition would not establish a prima facie
9 evidence of a violation of the competitive standards for property, casualty and surety
10 insurance markets in Washington State. The Applicant provided its evidence of the
11 information relating to the 2009 Washington business market. The Applicant reported that
12 one line of business, namely surety, indicated that line was not highly concentrated and the
13 combined market share that would result from the proposed acquisition would not exceed the
14 threshold of that standard.

14 The OIC analyzed the competitive standard for the surety market in
15 Washington State is not highly concentrated and the involved insurers possess based on the
16 following shares of the market:

17 Insurer A – 5 percent

Insurer B – 5 percent

18 The OIC performed this analysis of the surety market in Washington State during the previous
19 five-year period which resulted as the following:
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21
22
23

1
2 **Surety Market of Licensed Insurers in Washington State**

3

Year	CBIC	RLI Group	Total
2010	5.017%	2.332%	7.349%
2009	5.190%	2.027%	7.217%
2008	5.403%	1.168%	6.571%
2007	5.372%	0.897%	6.268%
2006	5.907%	1.104%	7.010%

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8 The OIC analysis provides that there is no evidence of the violation of the
9 competitive standard according the table described in RCW 48.31B.015(4)(i) or no evidence
10 according to the five-year trend test described in RCW 48.31B.015(4)(ii). We performed our
11 tests based on licensed insurers and also insurers doing business in Washington on a business
12 written basis. Our conclusion is there is no evidence indicating a violation of the competitive
13 standard set forth in RCW 48.31B.020(4).

14 c. The financial condition of the Applicant appears that it would not jeopardize
15 the financial stability of the domestic insurer or prejudice its policyholders' interest. The
16 Applicant's latest financial statement filed with this Application reported its assets at \$1.4
17 billion and its surplus at \$784 million as of December 31, 2009. The Applicant's latest
18 financial statement filed with the NAIC reported its assets at \$1.4 billion and its surplus at
19 \$732 million as of December 31, 2010. The Applicant's AM Best rating is A+ (Superior) and
20 has maintained that rating from 2005 to 2010. Based on these facts, the financial condition of
21 the Applicant would not jeopardize the financial stability of CBIC or prejudice its
22 policyholders' interest.

23 d. We are not aware of any plans or proposals by the Applicant to liquidate the
domestic insurer, sell its assets, consolidate, or merge it with any person, or make any other
material changes in its business, corporate structure, or management that are unfair and

1 unreasonable to the domestic insurer's policyholders and not in the public interest. The
2 Applicant intends that CBIC will continue conducting its business and operations
3 substantially as presently conducted with the exception of Mr. Sirkin would not remain with
4 CBIC or Data & Staff. The Applicant has no current plans to change the name of CBIC or
5 relocate its home office or its corporate records.

6 e. We verified the competence, experience and integrity of those persons who
7 would control the operation of the domestic insurer with federal, state, and local officials
8 through a third party verification firm. These checks showed no records found by these
9 officials. We also had the criminal background verified of those named individuals who
10 would directly control the operations of CBIC and Data & Staff. As to the other background
11 checks, we did not detect any representation that would question the integrity of those
12 individuals listed in the Form A Statement.

13 f. We are not aware that the acquisition is likely to be hazardous or prejudicial
14 to the insurance-buying public. CBIC may likely see an improved AM Best rating by virtue
15 of its direct relationship with the Applicant. CBIC would continue to operate as it is currently
16 conducting its business and operations within the new organization. At least two of CBIC's
17 existing executive officers are to remain and operate the company. CBIC would have a
18 renewed vision with a similar purpose as the Applicant that would benefit from a financially
19 stable parent company within the commercial market.

20 19. According to this analysis and review of the subject Form A Statement and its
21 attachments, we recommend to the presiding officer to approve the acquisition of CBIC by the
22 Applicant contingent upon the CBIC commitment to increase its common stock to \$3.0
23 million from \$2.5 million to meet the minimum capital requirement according to
RCW 48.05.340(1).

20. From a procedural standpoint, the OIC requires that notice of this proposed
acquisition be given to the public via the Internet (on the OIC's website). On April 6, 2011,

1 OIC posted a notice on the Insurance Commissioner's website concerning the proposed sale
2 of CBIC and information about the OIC's review process, a true and correct copy of which is
3 attached hereto as Exhibit "A". Such notice included information regarding the hearing, via
4 the Notice of Hearing and announcement posted on the OIC's website on April 6, 2011, a true
5 and correct copy of which is attached hereto as Exhibit "B-1". That notice informs the public
6 of the April 20, 2011, hearing and the nature of the hearing. That notice has remained on the
7 OIC's website since April 6, 2011, and will remain posted on the website through the date of
8 the hearing.

8 21. The Notice of Hearing informs and advises all interested parties that any
9 individual or entity is permitted to submit comments on, or objections to, this proposed
10 acquisition. The Notice of Hearing states that any questions or concerns should be directed to
11 the OIC's Chief Hearing Officer.

12 22. As of the date of this Declaration, we received phone inquiries from CBIC, the
13 Applicant and their attorneys. Other than those phone inquiries, I personally have not
14 received any comments, questions, or objections through letter, correspondence, email, or
15 phone, nor am I aware of any comments, questions, or objections having been received by the
16 OIC's Chief Hearing Officer.

17 SIGNED this 15th day of April, 2011.

18 
19 _____
20 Ronald J. Pastuch



EXHIBIT "A"

2011 Public notices

April 2011

Hearing set for acquisition of Contractors Bonding & Insurance Company - 4/5/2011

February 2011

Hearing set for redomestication of National Merit - 2/10/2011

Hearing set for redomestication of Unigard companies - 2/7/2011

2010 public notices

December 2010

Hearing set for acquisition of Columbia United Providers - 12/20/2010

August 2010

PeaceHealth has applied to acquire Columbia United Providers and its parent company, Southwest Washington Health Systems - 9/14/2010

June 2010

Hearing set for merger of Pacific Northwest Title insurance Company - 6/15/2010

May 2010

Pacific Northwest Title has applied to merge with its parent company, First American Title - 5/6/2010

Tell a friend |



Notice

Mike Kreidler
Washington Insurance Commissioner
Web page: www.insurance.wa.gov

For More Information, Contact:
Public Affairs: (360) 725-7055
Office of Insurance Commissioner

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4/05/2011

Hearing set for acquisition of Contractors Bonding & Insurance Company

Olympia, Wash.— A hearing on the acquisition of Contractors Bonding & Insurance Company has been scheduled for April 20 at 1 p.m. in Tumwater, Washington. [More information](#)

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EXHIBIT "B-1"

Contractors' Bonding & Insurance acquisition

The Office of the Insurance Commissioner received a request from RLI Insurance Company for a proposed acquisition of control of Contractors' Bonding & Insurance Company ("CBIC") and its parent company, Data and Staff Service Company ("DSSC").

RLI Insurance Company is a wholly-owned insurer of RLI Corporation, a publicly-held corporation on the New York Stock Exchange and headquartered in Peoria, Illinois. CBIC is a privately-held insurer wholly-owned by DSSC. DSSC's common stock is approximately 96 percent held by Donald Sirkin. DSSC remaining owners are DSSC / CBIC employees through its employee stock ownership plan.

If approved, RLI Insurance Company and RLI Corporation would become the controlling person of DSSC and CBIC.

History of the process

We received the application for acquisition of control in late **December 2010**. The review of the application was completed in **March 2011**.

An adjudicative hearing will be held at our Tumwater office to hear testimony and comments regarding the proposed acquisition. The hearing is set for April 20, 2011 at 1 pm.

What we look at

In all proposed sales, the companies must file an application (Form A) that details:

- Financial Information for both companies;
- Who will operate the health carrier at the highest levels;
- Their business plan for the health carrier; and
- How the market competition would be impacted.

Evaluation criteria

Under state law, the commissioner must approve the deal unless:

- It would substantially lessen competition or create a monopoly;
- The buyer's plans are unfair and unreasonable to the policyholders of the health carrier;
- The buyer's isn't competent, honest, or financially sound enough to run a health carrier; or
- It is in some way "hazardous or prejudicial to the insurance-buying public".

Questions?

Please contact our holding company manager, Ron Pastuch, at 360-725-7211.