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 RLI Insurance Company

9025 N. Lindbergh Dr. | Peoria, IL 61615-1431
P: 309-692-1000 | F: 309-692-1068 | www.rlicorp.com

**INSURANCE COMMISSIONER
COMPANY SUPERVISION**

February 18, 2011

Mr. Ronald Pastuch, CPA
Holding Company Manager, Company Supervision Division
Washington Office of Insurance Commissioner
5000 Capitol Blvd.
Tumwater, WA 98501

Re: Form A dated December 22, 2010 – Proposed Acquisition of Control of
Contractors Bonding & Insurance Company by RLI Insurance Company;
Executive Summary

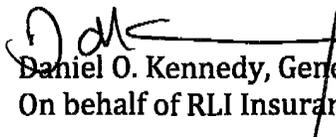
Dear Mr. Pastuch:

In connection with the above-referenced transaction, enclosed is an *Executive Summary* of the transaction.

We appreciate your assistance in this matter, and we trust the enclosed document is satisfactory.

Please contact the undersigned with any further comments, questions or requests.

Very truly yours,


Daniel O. Kennedy, General Counsel
On behalf of RLI Insurance Company

cc: Jonathan Michael (RLI)
Carol Denzer (RLI)
Jim Jorgensen (RLI)
Marc Tract (Katten Muchin Rosenman)



EXECUTIVE SUMMARY

Acquisition of CBIC by RLI Insurance Company

Overview. RLI Insurance Company, an Illinois-domiciled property and casualty insurance company (“*RLI*”), proposes to acquire **Contractors Bonding and Insurance Company**, a Washington domiciled property and casualty insurance company (“*CBIC*”).

Companies. RLI is a subsidiary of RLI Corp. (“*RLI Corp.*”), which is the parent holding company and a public company traded on the New York Stock Exchange (NYSE: RLI). The RLI Group also includes two other insurance companies – Mt. Hawley Insurance Company and RLI Indemnity Company. RLI Corp., RLI and the other RLI subsidiaries are all based in Peoria, Illinois. RLI is licensed in all 50 states and District of Colombia and has a financial strength rating of A+ (Superior) by A.M. Best.

CBIC is a subsidiary of Data and Staff Service Co. (“*DSS*”), the parent holding company and a Washington corporation. DSS, CBIC and other subsidiaries are all based in Seattle, Washington. CBIC is licensed in all 50 states and District of Colombia, and has a financial strength rating of A (Excellent) by A.M. Best.

Transaction Structure. RLI would acquire all of the capital stock of DSS from its shareholders: Donald Sirkin (founder and CEO) and the Data and Staff Service Co. Employee Stock Purchase Plan (the “*ESOP*”) (together, the “*Shareholders*”). Mr. Sirkin owns approximately 96.3% of the DSS capital stock, and the ESOP owns the balance of approximately 3.7%. The parties have entered into a Stock Purchase Agreement dated December 22, 2010 (“*Purchase Agreement*”).

Purchase Price. RLI would pay the DSS Shareholders cash in the aggregate amount of \$137,200,000 as provided in the Purchase Agreement (the “*Purchase Price*”). The Purchase Price will be paid in full, in cash on the closing date. RLI will use cash funds on hand for the Purchase Price and will not need financing or borrowed funds.

Business Integration. CBIC has had success in combining surety with a property/casualty product for contractors and RLI hopes to continue this model by keeping this pairing under common product leadership. RLI is specifically interested in replicating the success of CBIC in cross-selling bonds and property/casualty coverages for contractors. RLI and CBIC will collectively focus on identifying new markets and positioning our combined agency sales force to utilize CBIC’s technology and underwriting expertise. CBIC’s cross-selling will be significantly enhanced by expanding into geographic areas not previously explored but where RLI has a significant agent base. RLI holds in high regard the underwriting expertise of CBIC in this product and expects to capitalize on this knowledge as we position this product for geographic expansion. The combination of RLI and CBIC will create more surety opportunities for CBIC agents. RLI intends to work towards integrating system capabilities and offering more automated products to agents.



Executive Summary – Acquisition of CBIC by RLI

Location/Domicile; Personnel. RLI intends to maintain CBIC's principal home in Seattle, Washington. We do not currently have plans to redomesticate CBIC from Washington to Illinois or any other state in the near term following closing. However, we anticipate that certain support functions will be provided to CBIC through RLI's home office in Peoria, Illinois in connection with existing procedures in place at RLI. RLI's current business plan contemplates mapping responsibilities to our current organizational structure. We recognize that this migration needs to be done carefully and thoughtfully, and we do not anticipate material reductions in the employee base at CBIC.

Key Personnel. In the immediate term, the existing reporting structure within CBIC will remain the same, with certain exceptions. Mr. Don Sirkin, CEO and Chairman of the Board, will not remain with CBIC or DSS following the closing, and will not be joining RLI. Kirk Eland (CBIC officer) and Robert Ogle (CBIC officer) each will enter into employment arrangements with RLI on terms acceptable to both parties. Mr. Eland and Mr. Ogle will remain in place at CBIC, and will report up through Roy Die (VP, head of Surety Division) at RLI.

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