

FORM A

**STATEMENT REGARDING THE
ACQUISITION OF CONTROL OF OR MERGER WITH
A DOMESTIC INSURER**

COPY

Filed with the Department of Insurance,
State of Washington

CONTRACTORS BONDING AND INSURANCE COMPANY
(a domestic stock insurer)

By

RLI INSURANCE COMPANY
(Applicant)

Date: December 22, 2010

Name, Title, Address, and Telephone Number of Individual to Whom
Notices and Correspondence Concerning this Statement Should be Addressed:

RLI Insurance Company
9025 N. Lindbergh Drive
Peoria, Illinois 61615
Attention: Daniel O. Kennedy, Vice President & General Counsel
Telephone: (309) 693-5849
Facsimile: (309) 689-2049
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with a copy to:

Katten Muchin Rosenman LLP
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This Statement seeks the approval of the Commissioner of Insurance for the state of Washington ("Commissioner") for the acquisition of control, as described herein, of Contractors Bonding and Insurance Company ("CBIC"), a Washington-domiciled insurance company, by RLI Insurance Company, an Illinois-domiciled insurance company (the "Applicant"). This Form A was sent to the Washington Department of Insurance on December 22, 2010.

This Statement contains confidential and/or proprietary information, business plans and strategies that are not otherwise available to the public and that, if disclosed, could result in an invasion of privacy of individual officers and directors of the Applicant and CBIC, and/or could cause substantial injury to the competitive position of the Applicant. Accordingly, the Applicant respectfully requests that portions of this Statement, including those exhibits attached hereto and all materials filed supplementally in connection therewith, which are designated as "Confidential" be afforded confidential treatment, to the extent permitted by Washington law. In addition, the information in the Biographical Affidavits filed as Exhibits 1 and 2 hereto contain information that is not otherwise available to the public and should be afforded confidential treatment. All such information is provided with the express understanding that the confidentiality of such information will be safeguarded and the executive officers and directors of the Applicant will be protected from any and all unwarranted invasions of personal privacy pursuant to all applicable provisions of law.

ITEM 1. INSURER AND METHOD OF ACQUISITION

The name and address of the domestic insurer that is the subject of the Form A Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer ("Form A" or "Statement") is:

Contractors Bonding and Insurance Company
Principal Office: 1213 Valley Street
Seattle, Washington 98109

CBIC is a property and casualty insurance company organized under the laws of the State of Washington and currently licensed in all 50 states and the District of Columbia.

As indicated in CBIC's Form B Insurance Holding Company System Annual Registration Statement, dated April 15, 2010, filed with the Washington Department of Insurance (the "Washington Department"), the ultimate controlling person of CBIC is Data and Staff Service Co. ("DSS"). Currently Donald Sirkin, an individual resident of Washington, maintains control of DSS through his ownership of approximately 96.33% of the voting securities of DSS. The remaining 3.67% of the voting securities is held by Data and Staff Service Co. Employee Stock Ownership Plan (the "DSS ESOP") (together with Mr. Sirkin, the "Sellers").

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The transaction that is the subject of this Form A is the proposed acquisition of CBIC through acquisition by RLI of DSS, which will include CBIC and subsidiaries of DSS. As a result of the acquisition, Applicant will acquire 100% of the issued and outstanding share of the common stock of DSS from the Sellers. Pursuant to the terms of a Stock Purchase Agreement dated December 22, 2010 by and between Applicant, DSS, and the DSS ESOP ("SPA"), subject to certain conditions, Applicant will purchase all of the issued and outstanding shares of DSS for \$137,200,000. A copy of the SPA is attached hereto as Exhibit 3. Following the acquisition, DSS, CBIC and the other subsidiaries will continue to exist under the ownership of the Applicant. The consummation of the transactions contemplated by the SPA is expressly conditioned, among other things, upon the approval of the Washington Department. The consummation of the transactions contemplated by the SPA (the "Closing") is expected to occur at the end of the month in which approval or expiration of any waiting period by governmental authorities is granted.

For purposes of this application, although Applicant would acquire the holding company (DSS), we will address this application as if it were a direct acquisition of CBIC.

Competitive Standards Test

Based on the tests set forth in Wash. Rev. Code §48.31B.020 (2010), Applicant's acquisition of CBIC will not establish prima facie evidence of a violation of the competitive standards for the property, casualty and surety insurance markets in the state of Washington.

According to the 2009 Market Share Reports for the Property/Casualty Groups and Companies (the "Market Share Report")¹ published by the National Association of Insurance Commissioners (the "NAIC"), the market for surety insurance in Washington is not highly concentrated. Section 48.31B.020(4)(b)(i) of the Revised Code of Washington ("Washington Code") provides that any acquisition involving two or more insurers competing in the same market is prima facie evidence of violation of the competitive standard if, in the case of a market that is not highly concentrated, one of the insurers possesses 10% of the market share while the other insurer possesses 4% or more of the market share. Total premium written by the industry for Surety in Washington for 2009 was \$137,393,000. CBIC wrote a total of \$7,131,000 of surety business in 2009 in Washington. As a result, CBIC had a market share of only 5.19% of the surety insurance market in Washington in 2009. Applicant wrote a total of \$2,785,000 of surety business in 2009 in Washington. As a result, Applicant had a market share of only 2.03% of the surety insurance market in Washington in 2009 which is significantly less than the 4% threshold contained in section 48.31B.020(4)(b)(i) of the Washington Code. RLI Indemnity Company ("RLIC"), a subsidiary of Applicant, wrote a total of \$6,490 in direct premiums of surety in Washington in 2009. As a result, RLIC had a market share of less than 1%

¹ 2009 is the last year for which market share data is available.

in Washington in 2009 which is significantly less than the 4% threshold contained in section 48.31B.020(4)(b)(i) of the Washington Code.

Mt. Hawley Insurance Company ("Mt. Hawley"), a subsidiary of Applicant, did not write any surety business in Washington in 2009.

Given the negligible market share percentages in Washington of the involved insurers, the foregoing market analysis demonstrates that Applicant's acquisition of CBIC would not establish prima facie evidence of a violation of the competitive standard for the surety insurance market in the state of Washington.

ITEM 2. IDENTITY AND BACKGROUND OF THE APPLICANT

(a) Name and address of the applicant seeking to acquire control over CBIC:

RLI Insurance Company
9025 N. Lindbergh Drive
Peoria, Illinois 61615

(b) Business Operations of the Applicant:

State the nature of its business operations for the past five years or for such lesser period as such person and any predecessors thereof shall have been in existence. Briefly describe the business intended to be done by the applicant and the applicant's subsidiaries.

Applicant was incorporated on June 4, 1959 in Illinois and commenced business on November 15, 1960 as a property and casualty insurance company (NAIC #13059). Applicant is a part of the RLI Group (NAIC #0783). Applicant is rated A+ "Superior" by A.M. Best Company and A+ "Strong" by Standard & Poor's. Applicant is licensed in all 50 states and District of Columbia and is a specialty insurance company serving "niche" or underserved markets. Applicant maintains a diverse portfolio property and casualty coverages and surety bonds.

Applicant is a wholly-owned subsidiary of RLI Corp. ("RLI Corp."), an Illinois corporation which is publicly traded on the New York Stock Exchange (NYSE: RLI). RLI Corp. owns 100% of the voting common stock of the Applicant and there are no other classes of stock, issued or outstanding.

Applicant owns 100% of the voting securities of Mt. Hawley, an Illinois corporation. Mt. Hawley is a surplus lines carrier operating in all 50 states and District of Columbia. Mt. Hawley owns 100% of the voting securities of the RLIC, a property and casualty insurer and an Illinois corporation. RLIC is a property and casualty insurance company operating in all states except Alaska and Puerto Rico.

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Applicant also owns 100% of the voting securities of the following entities: RLI Insurance Ltd., a Bermuda corporation; Safe Fleet Insurance Services, Inc., a California corporation; Underwriters Indemnity General Agency, Inc., a Texas corporation; RLI Underwriting Services, Inc., an Illinois corporation. None of these entities operates in Washington.

Attached hereto as Exhibit 4 are the RLI Corp. Annual Reports to Shareholders, containing audited consolidated financial statements prepared in accordance with generally accepted accounting principles ("GAAP"), for the years 2005 through 2009. Further, attached as Exhibit 5 are the Annual Financial Statements of the Applicant for the years 2005 through 2009. RLI Corp.'s Form 10-Q ("Quarterly Report") for the quarter ending September 30, 2010, filed with the U.S. Securities and Exchange Commission (the "SEC"), containing unconsolidated GAAP financial statements of RLI Corp. as of the indicated period is attached as Exhibit 6 (the "RLI Form 10-Q"). Attached hereto as Exhibit 7 is the RLI Corp. 2009 Form 10-K ("Annual Report") filed with the SEC on February 24, 2010.

(c) Organizational Chart

Included with this Form A as Exhibit 9 is an organizational chart presenting the identities and inter-relationships among the Applicant and all stockholders and affiliates of the Applicant. Attached hereto as Exhibit 10 is an organizational chart depicting the proposed Applicant holding company system following the consummation of the acquisition. These charts indicates the percentage of voting securities of each person which is owned or controlled by the Applicant or by any other such person as well as the type of organization and the state or other jurisdiction of domicile of each entity specified therein. Unless otherwise indicated on such chart of in this Application, each organization is a corporation and control is maintained by the ownership or control of voting securities. The NAIC numbers of those identified entities which are insurance companies are also provided. No court proceedings looking toward a reorganization or liquidation are pending with respect to any entity listed on Exhibit 9.

ITEM 3. IDENTITY AND BACKGROUND OF INDIVIDUALS ASSOCIATED WITH THE APPLICANT

Biographical Data for All Persons Who Are Directors, Executive Officers, or Owners of 10% or more of the Voting Securities of the Applicant.

The material occupations, positions, offices, or employment during the last five years, including the starting and ending dates of each and the name, principal business, and address of any business corporation or organization in which each such occupation, position, office or employment was carried on, with respect to directors and executive officers of the Applicant, and the owner of more than 10% of the voting securities of the Applicant are stated in the biographical affidavits for such persons in Exhibits 1 & 2 hereto. Except as set forth in such

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biographical affidavits, no such occupation, position, office or employment required licensing by or registration with any Federal, State or municipal government agency. The current status of any licensing or registration, and an explanation of any surrender, revocation, suspension or disciplinary proceedings in connection therewith, are stated in such biographical affidavits. Except as set forth in such biographical affidavits, no such person beneficially owns, or has a right to acquire beneficial ownership of shares of capital stock of CBIC. No such person has ever been convicted in a criminal proceeding (except for minor traffic violations) during the last ten years.

The issued and outstanding shares of the common stock of the parent company of Applicant, RLI Corp., are publicly traded on the New York Stock Exchange (NYSE: RLI). To Applicant's best knowledge, only the RLI Corp. Employee Stock Ownership Plan ("ESOP") owns 10% or more of the voting securities of RLI Corp. Control of the ESOP is vested primarily in the plan participants or beneficiaries, each of whom may direct the manner in which the shares are allocated to him/her are to be voted.²

ITEM 4. NATURE, SOURCE AND AMOUNT OF CONSIDERATION

- (a) In exchange for its acquisition of DSS stock, Applicant will pay to the shareholders of DSS cash in the aggregate amount of \$137,200,000 as provided in the Agreement (the "Purchase Price").
- (b) The basis and terms of the total consideration to be paid by the Applicant under the SPA results from arms-length negotiations between the parties. Criteria considered by Applicant in determining the nature and amount of the purchase price included the financial condition and results of operations and performance, markets, products, people, business strategy and operational performance of CBIC. Applicant has determined that the purchase price and other terms of its proposed acquisition of CBIC are fair in relation to the value of its assets and cash flow. This determination was based on an analysis of the principals of CBIC's historical financial information.
- (c) Applicant will pay cash for the Purchase Price and will not be relying on financing or lending for completion of this transaction.

ITEM 5. FUTURE PLANS OF INSURER

Applicant intends to continue the business and operations of CBIC as it is presently conducted in Washington and other jurisdictions where it is authorized to conduct business with a "Best of Both Companies" approach.

² The ESOP Administrative Committee, comprised of outside members of the RLI Corp. Board of Directors, may direct the ESOP trustee as to the manner in which unallocated shares are to be voted.

CBIC has had success in combining surety with a property/casualty product for contractors and Applicant hopes to continue this model by keeping this pairing under common product leadership. Applicant is specifically interested in replicating the success of CBIC in cross-selling bonds and property/casualty coverages for contractors. Applicant 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 Applicant has a significant agent base. Applicant holds in high regard the underwriting expertise of CBIC in this product and expects to capitalize on this knowledge as Applicant positions this product for geographic expansion.

The combination of Applicant and CBIC will create more surety opportunities for CBIC agents. Applicant will want to work towards integrating system capabilities and offering more automated products to agents.

There are no present plans by Applicant to make any material changes in the operations of the business of CBIC. However, Applicant will blend the operations of CBIC with and into Applicant over time so as to appropriately join CBIC into Applicant's family of companies. Following acquisition, Applicant and CBIC will begin exploring how to most effectively combine their operations with strict attention to not disrupting insureds, in force bonds and policies, and agent relations.

Applicant intends to maintain CBIC's principal home in Seattle, Washington. However, Applicant anticipates that certain support functions will be provided to CBIC through Applicant's home office in Peoria, Illinois in connection with procedures already established for Applicant and subsidiaries of Applicants. Applicant's current business plan contemplates mapping responsibilities to Applicant's current organizational structure. Applicant recognizes that this migration needs to be done carefully and expects to apply several principles including the following: Appropriately balance the need for efficiencies that may exist by having "home office" versus "home market" employees; best employee for a position is considered without regard to Applicant or CBIC background; and be open to alternative organizational structures that offer improvements with unique skill sets. Prior notice will be provided to the Washington Department of any agreements involving any transactions between CBIC and Applicant or any affiliates of Applicant for the provisions of such support services, which would require notice to or prior approval of the Washington Department.

In the immediate term, the existing reporting structure with CBCI will remain the same. Applicant and Kirk Eland (employee of DSS) and Robert Ogle (employee of DSS) will enter into employment arrangements on terms acceptable to both parties. The employment agreements will insure a smooth transition of the management and operation of CBIC following the acquisition. In the longer term, Applicant's

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business plan contemplates combining overall product management under one business leader but with underwriting expertise resident in two supporting roles.

Applicant, its subsidiaries and other members of the parent company, RLI Corp., have entered into a Tax Allocation Agreement for the purpose of allocating the consolidated federal income tax liability of the members of the holding company system among such members of the basis of the percentage of tax liability for which each member would be responsible if separate tax returns were filed. It is anticipated that CBIC will become a party to the Tax Allocation Agreement following consummation of the acquisition. A copy of the Tax Allocation Agreement in substantially the form to which CBIC is expected to become a party, is attached hereto as Exhibit 11.

Applicant has no plans or proposals to currently cause CBIC to declare any extraordinary dividends, to liquidate, to sell its assets, to merger with any other person or persons, or to make any other material change in its business operations or corporate structure, other than as described herein.

Applicant is attaching as Exhibit 8 pro forma financial statements for CBIC for three years.

Following acquisition, the following will constitute the makeup of the CBIC Board of Directors and Officers:

Directors:

Jonathan Michael
Michael Stone
Joseph Dondanville
Craig Kliethermes
Kirk Eland
Robert Ogle

Officers:

Chairman & CEO: Jonathan Michael
President & COO: Michael Stone
SVP, CFO: Joseph Dondanville
AVP, Corporate Secretary: Jean Stephenson
VP, General Counsel: Daniel Kennedy
VP, Claim: Donald Driscoll
SVP, Risk Services: Craig Kliethermes
VP, Controller: Todd Bryant
VP: Kirk Eland
VP: Robert Ogle

ITEM 6. VOTING SECURITIES TO BE ACQUIRED

Pursuant to the SPA, Applicant will purchase for all cash consideration 100% of the issued and outstanding capital stock share of DSS for an aggregate amount of \$137,200,000. The terms and conditions of the transaction are set forth in the SPA which is included with this Form A Statement as Exhibit 3. The method by which Applicant determined the fairness of the total consideration paid included analyses

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of the financial condition and results of operations and performance, markets, products, people, business strategy and operational performance of CBIC and its past and current business operations, historical and potential earnings, financial condition and prospects, assets and liabilities, and such other factors and information as the Applicant considered relevant under the circumstances. In addition, Applicant's analyses were supported by a thorough due diligence process.

The terms and conditions of the Acquisition Agreement, and the Purchase Price set forth therein, were negotiated on an arms-length basis by unaffiliated parties, and the consideration to be received by each party thereunder was acknowledged as sufficient by each party.

ITEM 7. OWNERSHIP OF VOTING SECURITIES

Except as otherwise disclosed herein, neither Applicant nor any of its affiliates, subsidiary, parent company or any person listed in Exhibit 1 or Exhibit 2 of this Form A currently owns a beneficial interest in or has the right to acquire beneficial ownership of any voting securities of CBIC or DSS.

Through the purchase of CBIC, Applicant will own and control 100% of the issued and outstanding stock of CBIC.

ITEM 8. CONTRACTS, ARRANGEMENTS, OR UNDERSTANDINGS WITH RESPECT TO VOTING SECURITIES OF THE INSURER

Except as otherwise disclosed herein, there are no contracts, arrangements or understandings with respect to any voting security of DSS or CBIC in which Applicant, its affiliates or any person identified in Item 3 hereof is involved, including, but not limited to, transfers of any of the securities of DSS or CBIC, joint ventures, loans or option arrangements, puts or call, guarantees against loss or guarantees of profit, division of losses or profits, or the giving or withholding of proxies.

ITEM 9. RECENT PURCHASES OF VOTING SECURITIES

Neither Applicant, its affiliates nor any person identified in Item 3 hereof has made any purchases of any voting securities of DSS or CBIC during the 12 calendar months preceding the filing of this Form A Statement.

ITEM 10. RECENT RECOMENNDATIONS TO PURCHASE

Neither Applicant, its affiliates, any person identified in Item 3 hereof, nor anyone based upon interviews or at the suggestion of the Applicant, its affiliates or any person listed in Item 3 has made any recommendations to purchase any voting securities of CBIC during the 12 months preceding the filing of this Form A Statement.

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ITEM 11. AGREEMENTS WITH BROKER-DEALERS

No written or oral agreement, contract or understanding exists with any broker-dealer as to solicitation for tender of voting securities of CBIC.

ITEM 12. FINANCIAL STATEMENTS AND EXHIBITS

The following is a list of exhibits and financial statements attached to this Form A:

Exhibit	Description
1	Biographical Affidavits – Officers of RLI Insurance Company
2	Biographical Affidavits – Directors of RLI Insurance Company
3	Stock Purchase Agreement
4	RLI Corp. Annual Reports to Shareholders – 2005 through 2009
5	RLI Insurance Company Annual Financial Statements – 2005 through 2009
6	RLI Corp. Form 10-Q for 3rd Quarter 2010 (September 30, 2010), filed October 26, 2010
7	RLI Corp. Form 10-K for 2009, filed February 24, 2010
8	Pro Forma Financial Statements – 3 year
9	Organizational Chart, RLI Corp. and subsidiaries – Pre-Acquisition
10	Organizational Chart, RLI Corp. and subsidiaries – Post-Acquisition
11	Tax Allocation Agreement with Addendums

ITEM 13. SIGNATURE AND CERTIFICATION

Pursuant to the requirements of Section 4, chapter 462, Laws of 1993, RLI Insurance Company has caused this application to be duly signed on its behalf in the City of Peoria, State of Illinois on the 22nd day of December, 2010.

(SEAL) RLI Insurance Company
Name of Applicant

By: [Signature] VP + General Counsel
(Name) (Title)

Attest: [Signature]
(Signature of Officer)
Assistant General Counsel
(Title)

CERTIFICATION

The undersigned deposes and says that he has duly executed the attached application dated December 22, 2010, for an on behalf of RLI Insurance Company; that he is the Vice President & General Counsel and that he is authorized to execute and file such instrument. Deponent further says that he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

(Signature) [Signature]
VP + General Counsel

County of Peoria)
State of Illinois)

Sworn to and subscribed before me on 22nd December, 2010, to certify which witness my hand and seal of office.

Karen S. Malone
My commission expires: 3/26/13

