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January 7, 2011

RECEIVED

JAN 12 2011

By Federal Express

**INSURANCE COMMISSIONER
COMPANY SUPERVISION**

Honorable Mike Kreidler
Insurance Commissioner of the State of Washington
Insurance Building, Post Office Box 40255
Olympia, Washington 98504-0255

Attn: Company Supervision

Re: Contractors Bonding and Insurance Company - Prior Notice of a Transaction

Dear Sir or Madam:

On behalf of Contractors Bonding and Insurance Company, a Washington-domiciled insurance company ("CBIC"), please find enclosed one original and one copy of the Prior Notice of a Transaction (the "Notice"), which is being filed pursuant to Section 48.31B.030 of the Washington Insurance Code (the "Code"), with respect to a proposed affiliate transaction that will be entered into in connection with the proposed acquisition (the "Proposed Acquisition") of control of CBIC by RLI Insurance Company, an Illinois-domiciled insurance company ("RLI"). The form of agreement that is the subject of the Notice is the Employee Lease Agreement (the "Agreement"). CBIC hereby requests that the Commissioner of Insurance of the State of Washington (the "Commissioner") grant the approval, or non-disapproval, pursuant to Section 48.31B.030 of the Washington Insurance Code, of the transaction that is the subject of the Agreement. Please note that CBIC considers the Agreement to be an integral part of the Proposed Acquisition. Consequently, CBIC respectfully requests that the Commissioner grant the approval, or non-disapproval, requested in the Notice concurrent with the approval of the Form A Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer filed by RLI in connection with the Proposed Acquisition on December 22, 2010.

The Notice includes confidential and/or non-public proprietary information that, if disclosed, could cause severe competitive injury to CBIC and RLI. Accordingly, CBIC hereby requests that the attached Notice, including the exhibit thereto, be afforded confidential treatment and be excepted from disclosure to the extent permitted under Washington law.

January 7, 2011

Page 2

We appreciate your attention to this matter. If you or your staff have any questions or need additional information, or if we can otherwise facilitate your review in any way, please do not hesitate to contact me by e-mail at skeyvan@sidley.com or telephone at (312) 853-4660.

Sincerely,

A handwritten signature in black ink, appearing to read 'S. Keyvan', with a large, stylized flourish that loops back under the signature.

Sean M. Keyvan

cc: Donald Sirkin (CBIC)
Kirk Eland (CBIC)
Dan Kennedy (RLI)
Walter Weinberg (Katten Muchin Rosenman LLP)

FORM D

PRIOR NOTICE OF A TRANSACTION

FILED WITH THE WASHINGTON STATE OFFICE OF THE INSURANCE COMMISSIONER

By

Contractors Bonding and Insurance Company
1213 Valley Street
Seattle, Washington 98109
NAIC # 37206

Dated: January 7, 2011

Name, title, address and telephone number of individual to whom notices and correspondence concerning this Statement should be addressed:

Contractors Bonding and Insurance Company
1213 Valley Street
Seattle, Washington 98109
Attention: Kirk Eland, Chief Financial Officer
Phone: (206) 628-7216
Facsimile: (206) 343-7979

with a copy to:

Sidley Austin LLP
One South Dearborn Street
Chicago, IL 60603
Attention: Sean M. Keyvan
Phone: (312) 853-4660
Facsimile: (312) 853-7036

INTRODUCTION

This Prior Notice of a Transaction ("Notice") is being filed pursuant to Section 48.31B.030 of the Washington Insurance Code with respect to an Employee Lease Agreement to be entered into by and between Contractors Bonding and Insurance Company, a Washington-domiciled insurance company ("CBIC"), and PJ6, Inc., a Washington corporation ("PJ6"), a copy of which agreement is included herewith as Exhibit A (the "Employee Lease Agreement"). The Employee Lease Agreement is being entered into in connection with the proposed acquisition of control (the "Proposed Acquisition") of CBIC by RLI Insurance Company, an Illinois-domiciled insurance company ("RLI"). CBIC is a direct, wholly-owned subsidiary of Data and Staff Service Co., a Washington corporation ("DSSC"), and the issued and outstanding capital stock of DSSC is owned 96.5% by Donald Sirkin, an individual residing in the State of Washington ("Mr. Sirkin"), and 3.5% by the Data and Staff Service Co. Employee Stock Ownership Plan (the "ESOP"). Pursuant to the terms of the Stock Purchase Agreement, dated as of December 22, 2010, by and among Mr. Sirkin, DSSC, the ESOP and RLI (the "Purchase Agreement"), Mr. Sirkin and the ESOP have agreed to sell to RLI all of the issued and outstanding capital stock of DSSC. As a result of the Proposed Acquisition, RLI will acquire control of DSSC, and, therefore, CBIC. We understand that RLI filed a Form A Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer (the "Form A") in connection with the Proposed Acquisition with the Washington State Office of the Insurance Commissioner (the "Department") on December 22, 2010.

The Employee Lease Agreement will be entered into immediately prior to the closing of the Proposed Acquisition (the "Closing") by CBIC with PJ6, which is currently an affiliate of CBIC (all of the issued and outstanding capital stock of PJ6 is owned by Mr. Sirkin), but will not be an affiliate of CBIC following the Closing. Pursuant to, and subject to the terms and conditions of, the Employee Lease Agreement, CBIC and PJ6 will make available to one another certain of their respective employees to provide certain services and other assistance for a period of six months following the Closing (subject to a limit of ten hours per month with respect to the use by PJ6 of CBIC employees). As consideration for the services provided to each party under the Employee Lease Agreement, each party will pay to the other party a monthly fee designed to reimburse such other party for the costs of providing such services. The monthly fee payable with respect to each leased employee will be an amount equal to the hourly rate for such leased employee multiplied by the number of hours worked by such leased employee while performing services under the Employee Lease Agreement. The hourly rate for each leased employee will be calculated as 1.4 (which reflects a 40% load for employee benefits and other overhead costs) multiplied by a fraction, the numerator of which is the dollar amount of such person's weekly base salary or other cash base compensation in effect on the date of the Closing, and the denominator of which is 38.75.

In addition to the Employee Lease Agreement, CBIC and DSSC will enter into certain agreements with Mr. Sirkin (and certain of his other affiliates) for the purpose of effectuating the transfer of certain assets currently owned by CBIC and DSSC to Mr. Sirkin (and certain of his other affiliates), as required by the Purchase Agreement, immediately prior to the Closing. A description of such assets and the consideration to be paid therefor is set forth in the Purchase Agreement, which was submitted to the Department with the Form A that was filed by RLI. The aggregate purchase price for such assets is less than the threshold set forth in Section

48.31B.030(1)(b)(i) of the Washington Insurance Code for such transfer of assets to be reportable under the Washington Insurer Holding Company Act. As such, none of the agreements pursuant to which such assets are to be transferred are the subject of this Notice.

CBIC respectfully requests that the Commissioner of Insurance of the State of Washington ("Commissioner") grant the approval, or non-disapproval, of the transaction described above pursuant to Section 48.31B.030 of the Washington Insurance Code. Please note that the Employee Lease Agreement was negotiated by the parties on an arms-length basis (including review and approval by RLI, given RLI's expected ownership of CBIC following the Closing), and will become effective immediately prior to the Closing, after which CBIC will no longer be an affiliate of Mr. Sirkin and PJ6. Please note, further, that CBIC considers the Employee Lease Agreement to be an integral part of the Proposed Acquisition. In addition, the Closing is subject to the receipt of all required regulatory approvals, including approval of the Form A that has been filed by RLI. Consequently, CBIC respectfully requests that the Commissioner grant the approval, or non-disapproval, requested in this Notice concurrent with the approval of the Form A.

This notice contains confidential and/or non-public proprietary information that, if disclosed, could cause competitive injury to CBIC, RLI and PJ6. Accordingly, we hereby request that this notice, including the exhibit attached hereto, be afforded confidential treatment and be excepted from disclosure to the extent permitted under Washington law.

ITEM 1. IDENTITY OF PARTIES TO TRANSACTION.

The home office address and principal executive office address of CBIC is 1213 Valley Street, Seattle, Washington 98109. CBIC is a Washington-domiciled insurance company engaged in the surety bond and property and casualty insurance businesses. CBIC is the wholly-owned subsidiary of DSSC, a Washington corporation. The issued and outstanding capital stock of DSSC is owned 96.5% by Mr. Sirkin and 3.5% by the ESOP. CBIC does not have any debtor/creditor relationships with PJ6.

The home office address and principal executive office address of PJ6 are 4735 W. Bertona, Seattle, Washington 98199. PJ6 is a Washington corporation that is engaged in the business of the development, marketing and offering of continuing educational programs and research resources and tools. All of the issued and outstanding capital stock of PJ6 is owned by Mr. Sirkin. PJ6 does not have any debtor/creditor relationships with CBIC.

ITEM 2. DESCRIPTION OF THE TRANSACTION.

(a) This Notice is being filed with respect to the Employee Lease Agreement, pursuant to Section 48.31B.030(b)(iv) of the Washington Insurance Code.

(b) Please see the Introduction section of this Notice for a brief description of the nature of the transaction that is the subject of this Notice.

(c) The proposed effective date of the transaction described herein shall be immediately prior to the time of the Closing. Subject to the satisfaction of all required closing conditions under the Purchase Agreement, including the receipt of all required regulatory approvals, it is anticipated that the Closing will occur on March 31, 2011.

ITEM 3. SALES, PURCHASES, EXCHANGES, LOANS, EXTENSIONS OF CREDIT, GUARANTEES OR INVESTMENTS.

Not applicable.

ITEM 4. LOANS OR EXTENSIONS OF CREDIT TO A NONAFFILIATE.

Not applicable.

ITEM 5. REINSURANCE.

Not applicable.

ITEM 6. MANAGEMENT AGREEMENTS, SERVICE AGREEMENTS, AND COST-SHARING ARRANGEMENTS.

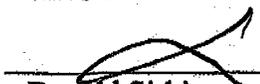
See Exhibit A, attaching a copy of the Employee Lease Agreement. As indicated in the summary of the Employee Lease Agreement set forth above, pursuant to such agreement CBIC and PJ6 will make available to one another certain of their respective employees to provide certain services and other assistance for a period of six months following the Closing (subject to a limit of ten hours per month with respect to the use by PJ6 of CBIC employees). As consideration for the services provided to each party under the Employee Lease Agreement, each party will pay to the other party a monthly fee designed to reimburse such other party for the costs of providing such services. The monthly fee payable with respect to each leased employee will be an amount equal to the hourly rate for such leased employee multiplied by the number of hours worked by such leased employee while performing services under the Employee Lease Agreement. The hourly rate for each leased employee will be calculated as 1.4 (which reflects a 40% load for employee benefits and other overhead costs) multiplied by a fraction, the numerator of which is the dollar amount of such person's weekly base salary or other cash base compensation in effect on the date of the Closing, and the denominator of which is 38.75.

ITEM 7. SIGNATURE AND CERTIFICATION

SIGNATURE

Pursuant to the requirements of Section 7, chapter 462, Laws of 1993, Contractors Bonding and Insurance Company has caused this application to be duly signed on its behalf in the City of Seattle and State of Washington on the 7 day of January 2011.

**CONTRACTORS BONDING AND
INSURANCE COMPANY**

By: 

Name: Donald Sirkin

Title: President and Chief Executive Officer

Attest: 

Name: *R. KIRK ELAND*

Title: *Chief Financial Officer*

CERTIFICATION

The undersigned deposes and says that he has duly executed the attached application dated January 7, 2011 for and on behalf of Contractors Bonding and Insurance Company; that he is the President and Chief Executive Officer of such company 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.

By: 

Name: Donald Sirkin

Title: President and Chief Executive Officer

EXHIBIT A

Employee Lease Agreement

See attached.

EMPLOYEE LEASE AGREEMENT

This EMPLOYEE LEASE AGREEMENT (this "Agreement"), dated as of [●], 2011, is entered into by and between PJ6, Inc., a Washington corporation ("PJ6"), and Contractors Bonding and Insurance Company, a Washington domiciled insurance company ("CBIC").

WHEREAS, pursuant to a Stock Purchase Agreement, dated as of December 22, 2010 (the "Purchase Agreement"), by and among Donald Sirkin ("Mr. Sirkin"), the Data and Staff Service Co. Employee Stock Ownership Plan (the "ESOP"), Data and Staff Service Co. ("DSSC") and RLI Insurance Company ("RLI"), Mr. Sirkin and the ESOP agreed to sell to RLI, and RLI agreed to purchase, all of the issued and outstanding capital stock of DSSC, which is the parent company of CBIC;

WHEREAS, Mr. Sirkin owns all of the issued and outstanding capital stock of PJ6;

WHEREAS, upon the consummation of the transactions contemplated by the Purchase Agreement, PJ6 and CBIC will no longer be affiliates;

WHEREAS, CBIC and PJ6 desire to make available to one another certain of their respective employees to provide certain services and other assistance following the consummation of the transactions contemplated by the Purchase Agreement, and CBIC and PJ6 desire to make such employees available for such purpose, upon the terms and subject to the conditions set forth herein; and

WHEREAS, the Purchase Agreement requires the execution and delivery of this Agreement at or prior to the consummation of the transactions contemplated by the Purchase Agreement.

NOW, THEREFORE, in consideration of the premises and mutual covenants set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties to this Agreement hereby agree as follows:

1. Certain Defined Terms. Capitalized terms used in this Agreement and not otherwise defined in this Agreement shall have the meaning specified in the Purchase Agreement.

2. Provision of Leased Employees.

(a) Leased CBIC Employees. Subject to the terms and conditions of this Agreement, CBIC shall, upon request from PJ6 (which request shall be made to a designated representative of CBIC with reasonable advance notice and for increments of time of at least fifteen (15) minutes per request and no more than ten (10) hours per month per individual), make available to PJ6 and each controlled Affiliate of Mr. Sirkin each of the individuals listed in Schedule A hereto (the "Leased CBIC Employees") at such times as will not unreasonably interfere with their primary duties for CBIC, to perform certain services and other assistance to PJ6 and the controlled Affiliates of Mr. Sirkin (collectively, the "PJ6 Requested Services"),

which PJ6 Requested Services will be performed at the premises of CBIC using computers and certain other equipment provided to such Leased CBIC Employees by CBIC; provided that any PJ6 Requested Services performed by the Leased CBIC Employees hereunder shall be used in connection with the PJ6 Business. The parties acknowledge and agree that nothing in this Agreement shall require that PJ6 use any Leased CBIC Employee for any minimum number of hours during any monthly period.

(b) Leased PJ6 Employees. Subject to the terms and conditions of this Agreement, PJ6 shall, upon request from CBIC (which request shall be made to a designated representative of PJ6 with reasonable advance notice and for increments of time of at least fifteen (15) minutes per request), make available to CBIC each of the individuals listed in Schedule B hereto (the "Leased PJ6 Employees", and, collectively with the Leased CBIC Employees, the "Leased Employees") at such times as will not unreasonably interfere with their primary duties for PJ6, to perform certain services and other assistance to CBIC (collectively, the "CBIC Requested Services"), which CBIC Requested Services will be performed at the premises of CBIC using computers and certain other equipment provided by CBIC. The parties acknowledge and agree that nothing in this Agreement shall require that CBIC use any Leased PJ6 Employee for any minimum number of hours during any monthly period.

3. Control and Supervision of Leased Employees; Independent Contractor Relationship.

(a) The parties hereto acknowledge and agree that, in providing the PJ6 Requested Services, CBIC and each Leased CBIC Employee are independent contractors with respect to PJ6 and are not acting as agents of PJ6. Without limiting any other provision contained herein, CBIC or its affiliates shall (i) employ, pay, supervise, direct and discharge all of the Leased CBIC Employees, (ii) observe and perform all obligations applicable to it under applicable employment law as the employer of the Leased CBIC Employees and (iii) make all other employee-related decisions with respect to the Leased CBIC Employees. Consistent with Section 2(a), CBIC shall cause the Leased CBIC Employees to follow the reasonable instructions of PJ6 with respect to the PJ6 Requested Services and the time, manner and performance of their duties as Leased CBIC Employees.

(b) The parties hereto acknowledge and agree that, in providing the CBIC Requested Services, PJ6 and any Leased PJ6 Employees are independent contractors with respect to CBIC and are not acting as agents of CBIC. Without limiting any other provision contained herein, PJ6 shall (i) employ, pay, supervise, direct and discharge all of the Leased PJ6 Employees, (ii) observe and perform all obligations applicable to the Leased PJ6 Employees under applicable employment law as the employer of the Leased PJ6 Employees and (iii) make all other employee-related decisions with respect to the Leased PJ6 Employees. Consistent with Section 2(b), PJ6 shall cause the Leased PJ6 Employees to follow the reasonable instructions of CBIC with respect to the CBIC Requested Services and the time, manner and performance of their duties as Leased PJ6 Employees.

4. Payroll and Employee Benefits.

(a) CBIC shall be solely responsible for all costs and expenses associated with the employment of each Leased CBIC Employee, including, without limitation, paying compensation to each Leased CBIC Employee through CBIC's or its affiliates' payroll system, providing benefits to each Leased CBIC Employee through CBIC's or its affiliates' employee benefit plans and maintaining (if applicable) workers' compensation insurance in full force and effect with respect to each Leased CBIC Employee. CBIC acknowledges that PJ6 shall have no responsibility for the provision of compensation, benefits or any other remuneration to any Leased CBIC Employee, and that PJ6's sole responsibility for such compensation, benefits and other remuneration shall be to pay the amounts set forth in Section 5 in consideration of the PJ6 Requested Services.

(b) PJ6 shall be solely responsible for all costs and expenses associated with the employment of the PJ6 Leased Employees, including, without limitation, paying compensation to the PJ6 Leased Employees through PJ6's payroll system, providing benefits to the PJ6 Leased Employees through PJ6's employee benefit plans and maintaining (if applicable) workers' compensation insurance in full force and effect with respect to the PJ6 Leased Employees. PJ6 acknowledges that CBIC shall have no responsibility for the provision of compensation, benefits or any other remuneration to the PJ6 Leased Employees, and that CBIC's sole responsibility for such compensation, benefits and other remuneration shall be to pay the amounts set forth in Section 5 in consideration of the CBIC Requested Services.

(c) Each party shall indemnify, defend and hold harmless the other party and its Affiliates from and against all damages, costs, expenses, taxes, liabilities, obligations and claims of any kind payable to third parties (collectively, "Losses") that such other party or its Affiliates may at any time suffer or incur, or become subject to, arising out of or resulting from the Services provided to it hereunder; provided, however, that neither party shall be required to indemnify, defend or hold harmless the other party or its Affiliates from and against any Losses arising out of or resulting from any breach of this Agreement by such other party.

5. Fees. The hourly rate for each Leased Employee shall be equal to one and four tenths (1.4) multiplied by (A) the dollar amount of such person's weekly base salary or other cash base compensation in effect on the date hereof, divided by (B) 38.75 (the "Hourly Rate"). As consideration for the Services to be performed hereunder, each party shall pay to the other party a monthly fee equal to (i) the Hourly Rate for each Leased Employee providing the Services multiplied by (ii) the number of hours worked by such Leased Employee while performing the Services. Each such Leased Employee shall use a monthly timesheet to track the hours spent providing the Services (with a reasonably detailed description of the Services provided by such Leased Employee) and each party shall provide copies of such timesheets to the other party with each month's invoice. Each party shall invoice the other party on a monthly basis, in arrears, for the total amount due for the Services provided by it hereunder, showing the details of the number of hours worked performing each Service and the Hourly Rate for each Leased Employee providing Services. Such invoices shall be delivered in accordance with the terms hereof within ten (10) days following the end of each month for the duration of this Agreement (or at such other frequency as is consistent with the basis on which the service charges are determined). Each party shall pay, or cause to be paid, the amount due, other than amounts subject to reasonable dispute, with respect to each such invoice by check or wire transfer of immediately available funds to the other party fifteen (15) days from the date of its

receipt of any invoice. If a party reasonably disputes any amount due under an invoice, it shall promptly notify the other party of the amount and reason for such dispute and the parties shall use commercially reasonable efforts to resolve such dispute as promptly as possible.

6. Terms of Service.

(a) CBIC shall make each Leased CBIC Employee available to provide the PJ6 Requested Services hereunder for a period of six (6) months following the date hereof or, if earlier, the termination of such Leased CBIC Employee's employment with CBIC or its Affiliates.

(b) PJ6 shall make each Leased PJ6 Employee available to provide the CBIC Requested Services hereunder for a period of six (6) months following the date hereof or, if earlier, the termination of such Leased PJ6 Employee's employment with PJ6.

(c) For purposes of clarification, neither party shall be required to continue to employ any of the Leased Employees or provide a replacement for a terminated Leased Employee.

7. Ownership of Information and Materials. The parties hereto acknowledge and agree that, as between the parties hereto, all data, information and intellectual property developed by (a) the Leased CBIC Employees in connection with the PJ6 Requested Services shall be the sole property of PJ6, and CBIC shall have no claims, rights or other interests therein and (b) the leased PJ6 Employees in connection with the CBIC Requested Services shall be the sole property of CBIC, and PJ6 shall have no claims, rights or other interests therein. Each party shall cause the Leased Employees in its employ to, upon completion of any Service or any sooner termination of this Agreement, deliver to the other party all data, information and intellectual property developed or generated by such Leased Employees in connection with such Service or Services, as applicable, or supplied to such Leased Employees by such other party or its representatives, and such other party shall have the right to use the same without further compensation. Each party may require each Leased Employee to execute a confidentiality and intellectual property ownership and assignment agreement with respect to any data, information and intellectual property developed in connection with the provision of such Services.

8. Survival. Section 7 of this Agreement shall survive and continue in full force and effect in accordance with its terms, notwithstanding any termination of this Agreement.

9. Limitation of Liability. Neither party shall be liable to the other party for any Losses that such other party may at any time suffer or incur, or become subject to, arising out of or resulting from the Services provided to such other party under or in connection with this Agreement.

10. Consequential and Other Damages. NEITHER PARTY SHALL BE LIABLE TO THE OTHER PARTY FOR ANY PUNITIVE, CONSEQUENTIAL, SPECIAL OR INDIRECT DAMAGES, INCLUDING LOST PROFITS, ARISING IN CONNECTION WITH THIS AGREEMENT.

11. Compliance With Laws. Neither party makes any representations or warranties with respect to whether the Services provided by its employees are in compliance with applicable laws. Each party shall comply with all applicable laws.

12. No Partnership. Nothing in this Agreement shall be deemed or construed to create a partnership, joint venture or agency relationship between the parties hereto, or be deemed to confer upon either party any express, implied or apparent authority to incur any obligation or liability on behalf of the other party.

13. Amendments. The provisions of this Agreement, including the schedules hereto, may be amended, supplemented, modified or waived only by the written agreement of all the parties hereto. No course of conduct or failure or delay in enforcing the provisions of this Agreement shall affect the validity, binding effect or enforceability of this Agreement.

14. Assignment. This Agreement and any rights pursuant hereto shall be assignable by either party only with the prior written consent of the other party hereto. Any attempted assignment in violation of this Section 14 shall be void. This Agreement shall be binding upon, shall inure to the benefit of, and shall be enforceable by the parties hereto and their permitted successors and assigns.

15. Third Party Beneficiaries. This Agreement is for the sole benefit of the parties to this Agreement and their permitted successors and assigns and nothing in this Agreement, express or implied, is intended to or shall confer upon any other person or entity any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

16. Entire Agreement. This Agreement and the other Transaction Agreements constitute the entire agreement of the parties hereto with respect to the subject matter hereof and thereof and supersede all prior agreements and undertakings, both written and oral, between or on behalf the parties hereto with respect to the subject matter hereof and thereof.

17. Governing Law. This Agreement shall in all respects be governed by, and construed in accordance with, the Laws of the State of Washington without giving effect to any conflicts of law principles of such state to the extent such principles would require or permit the application of the Laws of another jurisdiction.

18. Notices. All notices, requests, consents, claims, demands and other communications under this Agreement shall be in writing and shall be given or made (and shall be deemed to have been duly given or made upon receipt) by delivery in person, by overnight courier service, by facsimile or e-mail with receipt confirmed (followed by delivery of an original via overnight courier service) or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 18):

if to PJ6:

Donald Sirkin
4735 W. Bertona

Seattle, Washington 98199
E-mail: DonSirkin@comcast.net

with a copy to:

Sidley Austin LLP
One South Dearborn
Chicago, Illinois 60603
Attention: Sean M. Keyvan
Facsimile: (312) 853-7036
E-mail: skeyvan@sidley.com

if to CBIC:

RLI Corp.
9025 N. Lindbergh Drive
Peoria, Illinois 61615
Attention: Daniel Kennedy
Facsimile: (309) 689-3935
E-mail: dan.kennedy@rlicorp.com

with a copy to:

Katten Muchin Rosenman LLP
525 W. Monroe Street
Chicago, Illinois 60661
Attention: Walter S. Weinberg
Facsimile: (312) 577-8771
E-mail: walter.weinberg@kattenlaw.com

19. Acknowledgement. The parties acknowledge and agree that nothing in this Agreement, the Purchase Agreement or any other Ancillary Agreement shall prohibit PJ6 from contacting any employee of CBIC regarding the provision of services by such employee to PJ6 after hours, on such employee's own time; provided, that such services do not interfere with such employee's duties for CBIC and do not involve the use of any confidential information of CBIC.

20. Counterparts. This Agreement may be executed in two or more counterparts, and by the different parties to each such agreement in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by facsimile or other electronic transmission (including .PDF format) shall be as effective as delivery of a manually executed counterpart hereof.

21. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced under any Law or as a matter of public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated by this Agreement is not affected in any manner materially adverse to any party. Upon such determination that any term or other

provision is invalid, illegal or incapable of being enforced, the parties to this Agreement shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated by this Agreement be consummated as originally contemplated to the greatest extent possible.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their respective officers duly authorized to do so, as of the date and year first written above.

PJ6, INC.

By:

Name:

Title:

**CONTRACTORS BONDING
AND INSURANCE COMPANY**

By:

Name:

Title:

SCHEDULE A

Leased CBIC Employees

Boyd Hunter

Anne Kurt

Larry Byers

Mike Burns

Penny Hemmingsen

SCHEDULE B

Leased PJ6 Employees

Paul Richardson

Robert Palfrey

Gary Bingham

Co. Sub

MAILROOM
SIDLEY AUSTIN
ONE SOUTH DEARBORN
9TH FLOOR
CHICAGO, IL 60603
UNITED STATES US

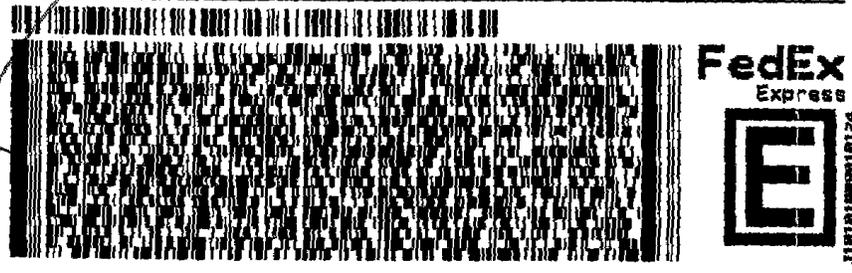
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CAD: 01344817/CAFE2470

BILL SENDER

TO **HON MIKE KREIDLER**
INSURANCE COMMISSIONER/STATE OF WA
5000 CAPITAL BLVD
ATTN: COMPANY SUPERVISION
TUMWATER WA 98501

(360) 725-7080
REF: 490061002099870

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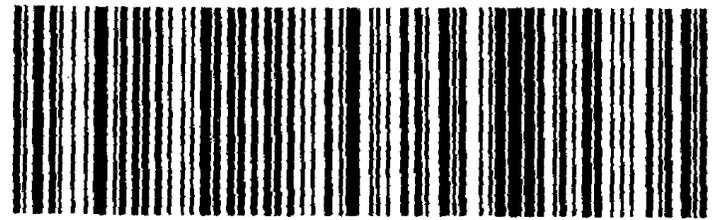
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