



FILED

2011 APR -5 P 2:37

OFFICE OF
INSURANCE COMMISSIONER

HEARINGS UNIT
Fax: (360) 664-2782

Hearings Unit, SIC
Patricia D. Petersen
Chief Hearing Officer

Paralegal
(360) 725-7002
hearings@oic.wa.gov

Patricia D. Petersen
Chief Hearing Officer
(360) 725-7105

In the Matter of the)
Proposed Acquisition and Control of:)

NO. G 11-0074

NOTICE OF HEARING

CONTRACTORS BONDING AND)
INSURANCE COMPANY, a Washington-)
domiciled Property and Casualty)
Insurer, by RLI INSURANCE COMPANY,)
an Illinois-domiciled Insurer)

Applicant.)

TO: RLI Insurance Company
9025 N. Lindbergh Drive
Peoria, Illinois 61615
ATTN: Jonathan E. Michael, Chairman & CEO

RLI Insurance Company
9025 N. Lindbergh Drive
Peoria, Illinois 61615
ATTN: Daniel O. Kennedy, Vice President & General Counsel

Marc Tract, Esq.
Katten Muchin Rosenman LLP
575 Madison Avenue
New York, New York 10022-2585

Melvin Sorenson, Esq.
Timothy J. Parker, Esq.
Carney Badley Spellman, PS
701 Fifth Avenue, Suite 3600
Seattle, Washington 98104-7010

NOTICE OF HEARING

G11-0074

Page 2

Sean M. Keyvan, Esq.
Sidley Austin LLP
One South Dearborn Street
Chicago, Illinois 60603

COPY TO: Mike Kreidler, Washington State Insurance Commissioner
Michael G. Watson, Chief Deputy Insurance Commissioner
James T. Odiorne, Deputy Commissioner, Company Supervision Division
Carol Sureau, Deputy Commissioner, Legal Affairs Division
Charles Brown, Sr. Staff Attorney, Legal Affairs Division
Ronald J. Pastuch, Holding Company Manager, Company Supervision Division
Office of Insurance Commissioner
PO Box 40255
Olympia, WA 98504-0255

Nature of Proceeding

Adjudicative proceeding to hear and decide the Application of RLI Insurance Company, an Illinois-domiciled insurance company, for the Insurance Commissioner's approval for RLI Insurance Company to acquire 100% of the total issued and outstanding shares of Contractors Bonding and Insurance Company, a Washington-domiciled property and casualty insurance company.

Summary of Proposed Acquisition

By filing a Form A statement with the Washington State Insurance Commissioner ("Insurance Commissioner") on December 22, 2010, RLI Insurance Company (the "Applicant") has requested approval from the Insurance Commissioner to acquire control of Contractors Bonding and Insurance Company (CBIC). On March 29, 2011, the Insurance Commissioner delegated to the undersigned the authority to review this matter, to conduct all proceedings related thereto, and to make the final decision to either approve or disapprove the proposed acquisition.

Applicant is an Illinois-domiciled property and casualty insurance company (NAIC No. 13059) incorporated in Illinois in 1959, and which is licensed in all 50 states and the District of Columbia and rated A+ "Superior" by A.M. Best Company and A+ "Strong" by Standard & Poor's. It is a specialty insurance company serving underserved markets, maintaining a diverse portfolio of property and casualty coverages and surety bonds. FLI Corporation, an Illinois corporation, owns 100% of the voting common stock of Applicant and there are no other classes of stock, issued or outstanding. In turn, Applicant owns 100% of the voting securities of Mt. Hawley, an Illinois corporation which is a surplus lines carrier operating in all 50 states, which owns 100% of the voting securities of the FLIC, a property and casualty insurer and an Illinois corporation operating in all states except Alaska. In addition, Applicant owns 100% of the voting securities of several entities which do not operate in Washington: RLI Insurance Ltd., a Bermuda corporation; Safe Fleet

NOTICE OF HEARING

G11-0074

Page 3

Insurance Services, Inc., a California corporation; Underwriters Indemnity General Agency, Inc., a Texas corporation; and RLI Underwriting Services, Inc., an Illinois corporation. (An organizational chart of the RLI Group (NAIC No. 0783) presenting the identities and inter-relationships among the Applicant and all stockholders and affiliates of Applicant is attached to the Form A as Ex. 9 and published along with this Notice.)

CBIC is a domestic Washington stock insurance corporation organized under the laws of Washington on October 9, 1979, Washington Certificate of Authority No. 1278. CBIC is headquartered in Seattle, Washington, and is authorized as a property and casualty insurance company in Washington to conduct marine & transportation, vehicle, surety, property and general casualty insurance. CBIC is also licensed to conduct property and casualty insurance business in all other 49 states and the District of Columbia. Specifically with regard to its market, CBIC has combined surety coverages with a property/casualty product for contractors in what Applicant believes is a successful way, and Applicant is interested in replicating this success by capitalizing on CBIC's underwriting expertise in this product and expanding it into new geographic areas.

CBIC is wholly owned by Data and Staff Service Co. ("DSS"), a Washington stock insurance holding corporation and the ultimate controlling person of CBIC. The Applicant proposes to acquire CBIC through acquisition of DSS, which will include CBIC and subsidiaries of 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").

Pursuant to the terms of a Stock Purchase Agreement dated December 22, 2010 by and between Applicant and the Sellers (Ex. 3 to Form A), subject to certain conditions, Applicant agrees to purchase all of the issued and outstanding capital stock shares of DSS and the DSS ESOP by paying cash to the shareholders of DSS in the aggregate amount of \$137,200,000. The cash will come from a combination of available cash plus funds raised from the sale of securities in its investment portfolio. No financing, loans or intercompany transfers will be required to raise the cash for the purchase price payment. Applicant states that neither Applicant nor its affiliates have made any purchases of any voting securities of DSS or CBIC during the past 12 months and there are no contracts or understandings with respect to any voting security of DSS or CBIC in which Applicant or its affiliates are involved.

Applicant advises that it does not currently have plans to redomesticate CBIC from Washington to Illinois or any other state in the near term following closing, and intends to continue the business and operations of CBIC as CBIC is presently conducted in Washington and other jurisdictions where it is presently licensed and intends to maintain CBIC's principal home in Seattle, but anticipates that certain support functions will be provided to CBIC through Applicant's home office in Illinois. In the immediate term, the existing reporting structure within CBIC will remain the same, except Mr. Don Sirkin, CEO and Chairman of the Board, will not remain with CBIC or DSS following the closing, and will not be joining Applicant. In the long term, Applicant's business plan contemplates combining overall product management under one business leader but with underwriting expertise

NOTICE OF HEARING

G11-0074

Page 4

resident in two supporting roles. Briefly, Applicant believes CBIC has successfully combined surety with a property/casualty product for contractors and Applicant hopes to continue this model by keeping this pairing under common product leadership, being 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 their combined agency sales force to utilize CBIC's technology and underwriting expertise, and enhancing CBIC's market by expanding into geographic areas not previously explored but where Applicant has a significant agent base. Applicant states that it will combine its own operations without disruption to insureds, in force bonds and policies, or agent relations. The consummation of the transactions contemplated by the Stock Purchase Agreement is expressly conditioned, among other things, upon the approval of the Insurance Commissioner and requests that if possible it would like to close this transaction, if approved, by April 30, 2011.

Applicable Statutes

Pursuant to RCW 48.31B.015(1) and (2), the Applicant has filed an Application for Approval of the Proposed Acquisition of Control of Contractors Bonding and Insurance Company (Form A Statement), which shall be entered as evidence herein, which includes the Purchase and Sale Agreement, organizational charts depicting the Applicant and Sellers before and after the proposed transaction; the annual financial statement for past years; biographical affidavits; and other substantial information and agreements concerning this proposed acquisition as required by RCW 48.31B.015(2) and in accordance with RCW 48.31B.020(3)(a); and which include information and agreements relative to the issues which must be the subject of findings pursuant to RCW 48.31B.015(4) and RCW 48.31B.020. On March 29, 2011 the Insurance Commissioner determined the Form A to be in such form and, after being supplemented by specific requests of the Insurance Commissioner in January 2011 and later, to contain all information required to be submitted under RCW 48.31B.015 and 48.31B.020. The Applicant's December 22, 2010 Form A Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer including all exhibits filed therewith, and all additional documents filed at the request of the Insurance Commissioner, have been published on the Washington State Insurance Commissioner's website at http://www.insurance.wa.gov/orders/hearings_proceedings6.shtml and are by this reference incorporated herein.

Pursuant to RCW 48.31B.015(4)(a), the Insurance Commissioner shall approve a proposed acquisition of control involving a domestic insurer unless, after a hearing thereon, it is found: 1) that after the change of control, the domestic insurer would not be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed; 2) that the effect of the acquisition would be substantially to lessen competition in insurance in this state or tend to create a monopoly therein; 3) that the financial condition of an acquiring party is such as might jeopardize the financial stability of the insurer, or prejudice the interests of its policyholders; 4) that the plans or proposals that the acquiring party has to liquidate the insurer, sell its assets, consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management, are unfair and unreasonable to policyholders of the insurer and not in the public interest; 5) that the competence, experience, and integrity of those persons who

NOTICE OF HEARING

G11-0074

Page 5

would control the operation of the insurer are such that it would not be in the interest of policyholders of the insurer and of the public to permit the acquisition; or 6) that the acquisition is likely to be hazardous or prejudicial to the insurance-buying public.

RCW 48.31B.020 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, where a market 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. In its Form A and expected testimony, Applicant states that in 2009 CBIC had a market share of 5.19% of the surety insurance market in Washington, and Applicant had a market share of 2.03% of the surety insurance market in Washington (plus its subsidiary RLI Indemnity wrote less than 1% of the surety market in Washington and its other subsidiary Mt. Hawley wrote no surety business in Washington).

Required Testimony

Toward this end, the parties are advised: I. The Insurance Commissioner is expected to testify as to the conclusions he has reached during his examination of the subject Form A insofar as they relate to the above stated issues 1) through 6) relative to RCW 48.31B.015; confirm Applicant's and CBIC's monetary and market share figures relative to the competitive standards test set forth in RCW 48.31B.020 and his conclusions concerning whether there is prima facie evidence of violation of the competitive standard imposed under that statute; advise as to how long and in what form he has provided notice of this proposed transaction and of this hearing, and whether he has received any objections or concerns relative to the proposed transaction; and present his recommendation to the undersigned regarding approval or disapproval of this proposed acquisition based upon the facts he has certified and the above statutes. II. A duly authorized representative of the Applicant is expected to testify as to the above stated issues 1) through 6) relative to RCW 48.31B.015; provide monetary and market share figures relative to the competitive standards test set forth in RCW 48.31B.020; and advise as to whether Applicant or any of its subsidiaries, representatives or affiliates has received any objections or concerns relating to the proposed transaction. III. A duly authorized representative of CBIC is expected to testify as to the above stated issues 1) through 6) relative to RCW 48.31B.015; confirm CBIC sales figures and market share relative to the competitive standards test set forth in RCW 48.31B.020; and advise as to whether CBIC or any individual associated therewith has received any objections or concerns relative to the proposed transaction. Duly authorized representatives of Applicant and Sellers are expected to be officers, directors or in house counsel who are able and authorized to testify on behalf of the entity they represent and may also present any other evidence which they believe is pertinent to the issues herein. Additionally, written testimony from the Insurance Commissioner, Applicant and Sellers are also required to be filed with the undersigned at least 3 business days before the hearing date. Finally, an oral opening statement from the Applicant is expected, and a written closing argument from the Applicant is required to be filed along with the above written testimony.

NOTICE OF HEARING

YOU ARE HERBY NOTIFIED that a hearing will be held commencing at 1:00 pm Pacific Standard Time on Wednesday, April 20, 2011, in the Office of the Insurance Commissioner, 5000 Capitol Boulevard, Tumwater, Washington 98501, to consider the proposed acquisition of control of Data and Staff Service Co. including, among other subsidiaries, Contractors Bonding and Insurance Company of Seattle.

The hearing will be held under the authority granted the Insurance Commissioner by Chapter 48.04 RCW and RCW 48.31B.015, and shall have as its purpose consideration of the above identified criteria and entry of a final decision regarding approval of this proposed acquisition. The Insurance Commissioner has not taken, and will not take, any position on this matter prior to entry of the Findings of Facts, Conclusions of Law and Final Order to be entered after hearing.

YOU ARE FURTHER NOTIFIED that all interested individuals and entities may submit comments on, or objections to, this proposed acquisition. Comments or objections must be submitted by 5 p.m., Pacific Standard Time on Tuesday, April 19, 2011, and will be carefully considered by the undersigned prior to making her final decision in this matter. Said comments or objections must be submitted to the undersigned by fax, U.S. Mail, personal delivery, or email. The fax number of the undersigned is (360) 664-2782, her mailing address is PO Box 40255, Olympia, WA 98504-0255, her delivery address is 5000 Capitol Boulevard, Tumwater, Washington 98501, and her email address is c/o hearings@oic.wa.gov. **Further, pursuant to RCW 48.31B.015(4)(b), any person who has an interest in this matter may appear at this proceeding and present evidence, examine and cross-examine witnesses, and offer oral and written arguments, and in connection therewith may conduct discovery proceedings as authorized by Title 34 RCW. Individuals or entities may also participate in all or part of the hearing by telephone by contacting the undersigned at the above telephone or fax numbers, mailing or email addresses by 5 p.m., Pacific Standard Time on Tuesday April 19, 2011.**

Finally, all parties may participate in the hearing. They may examine witnesses and fully respond and present evidence and argument on all issues involved, as required by the Administrative Procedure Act. The hearing will be governed by the Administrative Procedure Act, Chapter 34.05 RCW, and the model rules of procedure contained in Chapter 10-08 WAC. A party who fails to attend or participate in any stage of the proceeding may be held in default in accordance with Chapter 34.05 RCW.

The Insurance Commissioner will be represented by Charles Brown, Sr. Staff Attorney in his Legal Affairs Division. Mr. Brown can be reached at (360) 725-7044. The Applicant, RLI Insurance Company, will be represented by Daniel O. Kennedy, its Vice President & General Counsel and Marc Tract of Katten Muchin Rosenman LLP of New York, New York. Mr. Kennedy's address is 9025 N. Lindbergh Dr., Peoria, Illinois, 61615 and his telephone number is (309) 693-5849. Mr. Tract can be reached at 575 Madison Avenue, New York, New York 10022, and his telephone number is (212) 940-8760. Melvin Sorenson and Timothy Parker of Carney Badley, Spellman, P.S. of Seattle are representing RLI Insurance Company as local

NOTICE OF HEARING

G11-0074

Page 7

counsel. Messrs. Sorenson and Parker can be reached at 701 Fifth Avenue, Suite 3600, Seattle, Washington 98104, and their telephone number is (206) 607-4153. Contractors Bonding and Insurance Company will be represented by Sean M. Keyvan, Esq. of Sidley Austin LLP in Chicago. Mr. Keyvan can be reached at One South Dearborn Street, Chicago, Illinois 60603 and his telephone number is (312) 853-4660.

Based upon a delegation of authority from the Insurance Commissioner, the undersigned will conduct the hearing and will make the final decision and enter the final order relative to this matter without input from the Insurance Commissioner or his staff or any other individual who has knowledge of the issues here, except as will be presented as evidence in the hearing. Her address is Office of the Insurance Commissioner, P.O. Box 40255, Olympia, WA 98504-0255 and her telephone number is (360) 725-7105. All questions or concerns should be directed to the Paralegal to the undersigned, who may be reached at the telephone, e-mail and fax number specified above.

Pursuant to WAC 10-08-040(2) and in accordance with ch. 2.42 RCW, if a limited English-speaking or hearing impaired or speech impaired party or witness needs an interpreter, a qualified interpreter will be appointed. There will be no cost to the party or witness therefore, except as may be provided by ch. 2.42 RCW. Following this Notice is a form you may use to advise the Chief Hearing Officer of your need for an interpreter.

ORDER

IT IS HEREBY ORDERED that the adjudicative proceeding in this matter shall commence at 1:00 p.m. Pacific Standard Time on Wednesday, April 20, 2011, in the Office of the Insurance Commissioner, 5000 Capitol Boulevard, Tumwater, Washington 98501, to consider the request of RLI Insurance Company for approval of its proposed acquisition of Data and Staff Service Co. including, among other subsidiaries, Contractors Bonding and Insurance Company, under the terms and conditions outlined above.

ENTERED at Olympia, Washington, this 5th day of April, 2011, pursuant to Title 48 RCW and specifically RCW 48.31B.015 and 48.31B.020, Title 34 RCW, and regulations applicable thereto.



PATRICIA D. PETERSEN

Presiding Officer

Chief Hearing Officer

NOTICE OF HEARING

G11-0074

Page 8

Declaration of Mailing

I declare under penalty of perjury under the laws of the State of Washington that on the date listed below, I mailed or caused delivery through normal office mailing custom, a true copy of this document to the following people at their addresses listed above: J. Michael (RLI); D. Kennedy (RLI); M. Tract (Katten Muchin Rosenman); M. Sorenson and T. Parker, Esq.'s (Carney Badley Spellman, PS); S. Keyvan, Esq. (Sidley Austin LLP); and M. Kreidler, M. Watson, J. Odiorne, C. Sureau, C. Brown and R. Pastuch (OIC).

DATED this 5th day of April, 2011.


VICTORIA ESTRADA

NOTICE OF HEARING
G11-0074
Page 9

HEARINGS UNIT
Fax: (360) 664-2782

Patricia D. Petersen
Chief Hearing Officer
(360) 725-7105

Paralegal
(360) 725-7002
hearings@oic.wa.gov

To request an interpreter, complete and mail this form to:

Chief Hearing Officer
Office of Insurance Commissioner
P.O. Box 40255
Olympia, WA 98504-0255

REQUEST FOR INTERPRETER

I am a party or witness in Matter No. _____, before the Insurance Commissioner. I NEED AN INTERPRETER and request that one be furnished.

Please check the statements that apply to you:

I am a non-English-speaking person. I cannot readily speak or understand the English language. My primary language is _____ (insert your primary language). I need an interpreter who can translate to and from the primary language and English.

I am unable to readily understand or communicate the spoken English language because:

I am deaf.

I have an impairment of hearing.

I have an impairment of speech.

[Please state below or on the reverse side any details which would assist the Commissioner or Presiding Officer in arranging for a suitable interpreter or in providing appropriate mechanical or electronic amplification, viewing, or communication equipment.]

Date: _____

Signed: _____

Please print or type your name: _____

Address: _____

Telephone: _____