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Melvin N. Sorensen

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The Honorable Patricia D. Petersen
Chief Hearing Officer
Washington State Office of the Insurance Commissioner
5000 Capitol Blvd.
Tumwater, WA 98501

RECEIVED
APR 15 2011
INSURANCE
COMMISSIONER

RE: In the Matter of the Proposed Acquisition and Control of
Contractors Bonding and Insurance Company by
RLI Insurance Company

OIC Hearing NO. G 11-0074
Applicant's Written Testimony, Opening and Closing Statements

Dear Judge Petersen:

Pursuant to the Notice of Hearing issued on April 5, 2011 regarding the above-referenced matter, Applicant RLI Insurance Company submits the enclosed written testimony of Mr. Michael J. Stone, President, Chief Operating Officer, RLI Insurance Company and Mr. Daniel O. Kennedy, Vice President, General Counsel, Assistant Corporate Secretary, RLI Insurance Company. Also submitted are the written opening and closing statements on behalf of the Applicant by Mr. Timothy J. Parker of Carney Badley Spellman, P.S., together with a proposed order.

Sincerely,

CARNEY BADLEY SPELLMAN, P.S.



Melvin N. Sorensen

Cc: The Honorable Mike Kreidler, Washington State Insurance Commissioner
Michael G. Watson, Chief Deputy Insurance Commissioner
James T. Odiorne, Deputy Commissioner, Company Supervision
Carol Sureau, Deputy Commissioner, Legal Affairs Division
Charles Brown, Sr. Staff Attorney, Legal Affairs Division
Ronald J. Pastuch, Holding Company Manager, Company Supervision Division

Electronic copies to:

Mark Tract, Katten Muchin Rosenman LLP
Sean M. Keyvan, Sidley Austin LLP
Daniel O. Kennedy, RLI Insurance Company
Timothy J. Parker, Carney Badley Spellman, PS

**HEARING ON APPLICATION FOR ACQUISITION OF CONTROL
BEFORE THE STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER**

In the Matter of the) **NO. G11-0074**
Proposed Acquisition of Control of:)
)
CONTRACTORS BONDING AND)
INSURANCE COMPANY, a Washington-)
domiciled Property and Casualty Insurer, by)
RLI INSURANCE COMPANY, an)
Illinois-domiciled Insurer)
_____)

Date: April 20, 2011

Time 1:00 p.m.

PROPOSED TESTIMONY OF MICHAEL J. STONE

Introduction

1. Please state your name for the record. **Michael J. Stone**
2. Can you state for the record your purpose for being here today? **I am representing RLI Insurance Company in this hearing in connection with RLI's proposed acquisition ("Proposed Acquisition") of Contractors Bonding and Insurance Company ("CBIC").**
3. What company filed the Form A Statement? **RLI Insurance Company, an Illinois-domiciled insurance company ("RLI" or "RLI Insurance Company").**
4. Please describe your educational background. **I have a Bachelor of Arts degree from Bellamine College , and a Juris Doctorate from University of Louisville.**
5. How long have you been employed by your current employer? **15 years**
6. Please describe your previous employment positions. **Prior to joining RLI in 1996, I held various positions in the claim departments at Traveler's Insurance Company in Hartford, Connecticut, and Crawford & Co.**
7. Have you been authorized by the Acquiring Parties to speak on their behalf at this Form A hearing? **Yes I have.**

8. What is the basis for your information and knowledge about the Proposed Acquisition that is described in the Form A Statement? **I was involved at an executive level in the negotiations for the acquisition of CBIC, I have reviewed the Stock Purchase Agreement and related documents as well as the Form A materials. I also have been involved in the integration planning, and I have consulted with our General Counsel and other RLI personnel.**

9. As part of this involvement, have you reviewed the Form A Statement as supplemented and the supplemental information and materials provided to the Washington State Office of the Insurance Commissioner relating to the Proposed Acquisition, as already admitted into evidence as exhibits to this hearing? **Yes I have.**

10. Do you believe that the Form A Statement and the supplemental information and materials provided to the Department are complete, true and current in all material respects? **Yes I do.**

Corporate Structure and Entities

11. Please describe the entities Involved in the Proposed Acquisition. **RLI Insurance Company is acquiring all the capital stock of Data and Staff Service Co., which is the parent company of CBIC.**

12. Please describe the operations and corporate structure of the Acquiring Party – RLI.

RLI was incorporated on June 4, 1959 in Illinois and commenced business on November 15, 1960 as a property and casualty insurance company (NAIC #13059). RLI is licensed in all 50 states and District of Columbia, and is rated A+ “Superior” by A.M. Best Company and A+ “Strong” by Standard & Poor’s. RLI Insurance Company is part of the RLI Group (NAIC #0783), which includes RLI Insurance Company and two other subsidiary insurance companies: Mt. Hawley Insurance Company and RLI Indemnity Company. All three insurance companies are Illinois-domiciled companies, and together with our holding company (RLI Corp. --- NYSE: RLI) are headquartered in Peoria, Illinois. Mt. Hawley Insurance Company is an excess and surplus property and casualty carrier operating in all 50 states and the District of Colombia. RLI Indemnity company is a property and casualty carrier operating in all states except Alaska. RLI has other non-insurance company subsidiaries.

13. Please describe the operations of the Acquiring Party. **RLI and the RLI Group of insurance companies are specialty insurance companies serving “niche” or underserved markets, offering a diverse portfolio of property and casualty coverages and surety bonds. Our primary business lines are (a) casualty insurance – including general liability, transportation coverages, executive liability products, design professional liability, personal and commercial umbrella, multi-peril program business and other specialty coverages, (b) property insurance – including commercial fire, earthquake, difference in conditions, and marine coverages, (c) surety bonds –oil and gas, commercial and miscellaneous surety bonding, and (d) reinsurance – facultative and treaty assumed property reinsurance, including crop reinsurance.**

14. Please provide information regarding any subsequent material change in the financial condition, management, organization or operations of any person who was acquired by the Acquiring Parties over the past 5 years. **None / Not Applicable**

Operations of the Acquired Companies

15. Please briefly describe CBIC. **CBIC is a privately-held property and casualty insurance company based in Seattle, Washington and operating from 13 regional branch offices. CBIC specializes in surety bonds and niche property and casualty insurance products, is licensed in all 50 states for surety and 46 states for P&C insurance, and is rated A (Excellent) by A.M. Best.**

Description of the Proposed Acquisition

16. Please provide a brief description of the principal components of the Proposed Acquisition. **RLI Insurance Company proposes to purchase all of the outstanding capital stock of Data and Staff Service Co., the parent company of CBIC. The stock would be purchased from its two stockholders: Mr. Don Sirkin and the Data and Staff Service Co. Employee Stock Ownership Plan.**

17. What prompted RLI to pursue the acquisition of CBIC? **RLI has been aware of CBIC in the marketplace for many years, and we respect its impressive business, products, people and financial performance as a competitor. RLI periodically pursues potential acquisitions that provide strategic fit, operational focus, policyholder protection and enhanced shareholder value. We began discussions with CBIC executive management in early 2010 after being approached by CBIC representatives regarding our potential interest in a business combination. CBIC fit all the characteristics of acquisition that RLI would be interested in pursuing.**

18. What entities will own or control CBIC following the Proposed Acquisition? **CBIC will be directly owned by its current parent (Data and Staff Service Co.), which will become a subsidiary of RLI Insurance Company, which in turn is owned by our public holding company – RLI Corp.**

19. What is the total consideration to be paid in connection with the Proposed Acquisition? **\$137,200,000 is the total purchase price as set forth in the Stock Purchase Agreement. However, pursuant to a proposed agreement between the parties, the total purchase price will be amended to be \$135,900,380 at closing, in conjunction with other immaterial changes to the Stock Purchase Agreement. This is the total amount of the purchase price – there are no post-closing adjustments, earn-outs or other possible post-closing changes to the purchase price.**

20. How will the purchase price be funded? **The Purchase Price will be paid by RLI in full, in cash (by wire transfer of immediately available funds) on the closing date. The cash will come**

from a combination of available cash on hand plus funds raised from the sale of securities in RLI's investment portfolio. No financing, loans or intercompany transfers will be required to raise the cash for the purchase price payment.

21. How were the terms of the Proposed Acquisition reached? The parties engaged in detailed, arm's-length negotiations on the terms and the transaction documents over the course of approximately 11 months, with each side represented by outside legal counsel.

Financial Condition of the Acquiring Parties and the Insurers

22. Describe generally the financial condition of RLI. RLI Insurance Company, the immediate Acquiring Party, had the following financial results as of and for the year ended December 31, 2010:

Gross Premiums Written:	\$403,621,488
Net Premiums Written:	\$316,740,305
Net Premiums Earned:	\$317,044,094
Net Earnings:	\$129,326,717
Statutory Surplus:	\$732,378,976

RLI Corp., the ultimate parent of RLI Insurance Company and the RLI Group, had the following consolidated financial results as of and for the year ended December 31, 2010:

Gross Premiums Written:	\$636,315,817
Net Premiums Written:	\$485,139,820
Net Premiums Earned:	\$493,381,852
Net Earnings:	\$127,432,273
Operating Earnings:	\$112,324,196
Statutory Surplus:	\$732,378,976

23. Will the Proposed Acquisition have a direct impact on the financial condition of CBIC?

The proposed acquisition of CBIC by RLI will not have a material negative impact on the financial condition of CBIC. In conjunction with the closing, as documented in the Stock

Purchase Agreement, all CBIC employees will become vested in their benefit plans and will be entitled to transaction-related bonuses, and CBIC will sell the headquarters building it owns to Don Sirkin. The net impact of these transactions will be to create a net loss for CBIC for 2011 and to reduce its surplus at the end of 2011 by approximately \$20 million. CBIC's statutory surplus as of December 31, 2010 was \$112 million. However, even after considering the impact of the aforementioned transactions, CBIC's capital surplus position will continue to be much more than adequate to support its business and the approximate \$50 million of annual net premiums written. RLI and CBIC have discussed this transaction with A.M. Best and have committed to maintaining, at a minimum, CBIC's A (Excellent) rating. By incorporating CBIC into the organizational structure of RLI, we expect the financial condition of CBIC to be strengthened. The RLI Group had \$732 million of surplus as of December 31, 2010 and is rated A+ (Superior) by A.M. Best.

24. Do RLI's future plans for CBIC include any anticipated dividend payments? RLI would expect to cause CBIC to make periodic dividend payments upstream to RLI Insurance Company, in compliance with Washington regulatory requirements, as approved by the WOIC, and in reasonable amounts leaving CBIC with statutory surplus more than sufficient to maintain policyholder security.

Benefits of the Proposed Acquisition and Future Plans for CBIC

25. What are the primary benefits of the Proposed Acquisition to CBIC and its policyholders?

We believe that CBIC and its policyholders gain:

- > a larger, supportive, complementary and strategically-aligned business platform.
- > enhanced infrastructure, a larger and more diverse capital base, access to capital markets, financial and investment management, and expanded financial resources.
- > an aligned but complementary geographic fit, product lineup and strategic focus, with opportunities for expansion and enhancement.
- > an executive management group with deep industry experience, strategic focus and proven operational results.
- > a supportive and progressive corporate culture that respects and rewards employees and provides excellent employee benefits.
- > a financially strong, well-capitalized, highly-rated insurance group with focus on prompt claim adjustment, policyholder service, and innovative products.

26. Would you please summarize what is contemplated in terms of your future plans for CBIC?

Corporate Structures. RLI has no current plans to cause CBIC to liquidate, sell its assets, wind down operations, merge with RLI or any other entity, or make any other material change in its business operations or corporate structure. RLI's plans to integrate CBIC into the RLI corporate structure are described herein, with a "Best of Both Companies" approach. Overall, RLI intends to continue the business operations of CBIC as presently conducted, with selective modifications to bring CBIC into the RLI family of companies and coordinate with RLI's operating procedures as described herein. Regarding timing, we anticipate implementing our integration plans over a reasonable and sensible timeframe, taking steps in a process that minimizes disruption while maximizing continuity and business success. Certain aspects will be readily accomplished within a month, while others may take a year or more.

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

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. We intend to work towards integrating system capabilities and offering more automated products to agents.

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 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 RLI or CBIC background; and be open to alternative organizational structures that offer improvements with unique skill sets. We do not anticipate material reductions in the employee base at CBIC. Prior notice will be provided to the WOIC of any agreements involving any transactions between CBIC and RLI or any affiliates

for the provisions of such support services, which would require notice to or prior approval of the WOIC.

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) will enter into employment arrangements on terms acceptable to both parties. Mr. Eland and Mr. Ogle will remain in place at CBIC, and will report up through Roy Die at RLI. The employment agreements will insure a smooth transition of the management and operation of CBIC following the acquisition. In the longer term, RLI's business plan contemplates combining overall product management under one business leader but with underwriting expertise resident in two supporting roles.

27. What actions does RLI plan to take with respect to the handling of customer complaints?

Over time, RLI intends to combine CBIC's current complaint-response mechanisms with support, communication and coordination from RLI's analogous systems. We take very seriously complaints from policyholders, claimants, insurance departments, insurance agents or other constituents, and RLI / CBIC will endeavor to promptly resolve all complaints to the best of our abilities, and in any event our corporate transition will not interrupt or impair the CBIC or RLI complaint-handling mechanisms.

28. In view of your role in the transaction on behalf of the Acquiring Entity, would you normally be aware of any objections or concerns that would have been received by RLI with respect to the transaction? **Yes.**

29. Have any objections or concerns been received by the Acquiring Entity with respect to the transaction? **No.**

Conclusion

30. Assuming approval by the Washington State Office of the Insurance Commissioner, when do you anticipate closing the Proposed Acquisition? **RLI and CBIC intend to close the Proposed Acquisition on April 28, 2011.**

31. Is there anything else that you would like to add at this time? **No, thank you.**

[Signature on following page]

The above testimony is true, correct and complete to the best of my knowledge and given subject to the laws of perjury of the state of Washington.

Name: Michael J. Stone

Title: President, Chief Operating Officer

Signature: _____

A handwritten signature in black ink, appearing to read "MJ Stone", written over a horizontal line.

Date: April 15, 2011

**HEARING ON APPLICATION FOR ACQUISITION OF CONTROL
BEFORE THE STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER**

In the Matter of the)	NO. G11-0074
Proposed Acquisition of Control of:)	
)	
CONTRACTORS BONDING AND)	
INSURANCE COMPANY , a Washington-)	
Domiciled Property and Casualty Insurer, by))	
RLI INSURANCE COMPANY , an)	
Illinois-domiciled Insurer)	
_____)	

Date: April 20, 2011
Time 1:00 p.m.

PROPOSED TESTIMONY OF DANIEL O. KENNEDY

Introduction

1. Please state your name for the record. **Daniel O. Kennedy**

2. Can you state for the record your purpose for being here today? **I represent RLI Insurance Company ("RLI" or "Acquiring Party") in its proposed acquisition of Contractors Bonding and Insurance Company ("CBIC").**

3. What is your professional title or position? **Vice President, General Counsel and Assistant Corporate Secretary of RLI Insurance Company**

4. Do you currently hold any other professional titles or positions? **No.**

5. Please describe your educational background. **I have a Bachelor's in Business Administration from Western Michigan University, and law degree (J.D.) from Wake Forest University School of Law.**

6. How long have you been employed by your current employer? **Five (5) years.**

7. Please describe your previous employment positions. **Prior to joining RLI, I was a partner with Hunton & Williams law firm in Atlanta, specializing in corporate, securities, governance, compliance, mergers/acquisitions and capital markets work. Prior to that firm, I was a corporate law associate with two other law firms in Atlanta (Jones Day and Minkin & Snider).**

8. Have you been authorized by the Acquiring Party to speak on its behalf at this Form A hearing? **Yes I have.**

9. What is the basis for your information and knowledge about the Proposed Acquisition that is described in the Form A Statement? **I participated in the negotiation and structuring of the underlying transactions, including the drafting and preparation of the Stock Purchase Agreement and related documents.**

10. As part of this involvement, have you reviewed the Form A Statement as supplemented and the supplemental information and materials provided to Washington State Office of the Insurance Commissioner relating to the Proposed Acquisition, as already admitted into evidence as exhibits to this hearing? **Yes I have – I participated in preparation of the Form A and supplemental materials.**

11. Do you believe that the Form A Statement and the supplemental information and materials provided to the Department are complete, true and current in all material respects? **Yes I do.**

12. Was CBIC provided with a copy of the Form A Statement? **Yes it was.**

Other Regulatory Reviews of the Proposed Acquisition

13. Other than the Form A Statement that is the subject of this hearing, is RLI required to receive any other regulatory approvals of the proposed acquisition of CBIC? **RLI and CBIC were required to make a Pre-Merger Notification with the Federal Trade Commission under the Hart-Scott-Rodino Act. The FTC did not propose to restrain or limit the proposed acquisition.**

Shareholder Approval

14. Has the Merger Agreement received the approval of CBIC shareholders? **CBIC's shareholder is Data and Staff Service Co., which in turn is owned by Mr. Don Sirkin and the Data and Staff Service Co. Employee Stock Ownership Plan. Those two stockholders have executed the Stock Purchase Agreement, and have approved the proposed transactions.**

Statutory Criteria

15. The Washington State Insurance Code sets forth six criteria for the Commissioner to consider in approving the Proposed Acquisition. With respect to CBIC, which is the subject of the Form A application that has been submitted to the Washington State Office of the Insurance Commissioner, will the effect of the merger or other acquisition of control be substantially to lessen competition in insurance in this state or tend to create a monopoly, as contemplated by RCW 48.31B.015(4)(a)(ii)? **No it will not.**

Based on the tests set forth in the applicable Washington statutes, RLI'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") (the last year for which data is available) published by the National Association of Insurance Commissioners, 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 a 10% or more 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, which represents a market share of 5.19% of the surety insurance market in Washington in 2009. RLI wrote a total of \$2,785,000 of surety business in 2009 in Washington, which represents a 2.03% share of the surety insurance market in Washington in 2009. RLI Indemnity Company ("RLIC"), a subsidiary of RLI, wrote a total of \$6,490 in direct surety premiums in Washington in 2009, resulting in a market share of less than 1% in Washington in 2009. Mt. Hawley Insurance Company, a subsidiary of RLI, did not write any surety business in Washington in 2009.

Consequently, both CBIC and RLI (the RLI Group) fail to meet the statutory thresholds as set forth in the Washington Code. Given the negligible market share percentages in Washington of the involved insurers, the foregoing market analysis demonstrates that RLI'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

16. After the change of control, is there any question that CBIC which is the subject of the Form A application that has been submitted to the Washington State Office of the Insurance Commissioner will be able to satisfy the requirements for the issuance of a license to write the lines of insurance for which the company is currently licensed, as contemplated by RCW 48.31B.015(4)(a)(i)? **No, CBIC will be able to satisfy such requirements as it is currently licensed.**

17. Is the financial condition of the Acquiring Parties such that it would jeopardize the financial stability of CBIC which is the subject of the Form A application, or prejudice the interests of their policyholders, as contemplated by RCW 48.31B.015(4)(a)(iii)? **No. RLI -- alone and together with the RLI Group and RLI Corp. (the ultimate parent holding company) -- is financially strong, profitable, with significant capital surplus and an A+ (Superior) rating from A.M. Best and A+ (Strong) from Standard & Poor's.**

18. Do the Acquiring Parties have any plans or proposals to liquidate CBIC, sell its assets, consolidate or merge it with any person, or make any other material change in its business or

corporate structure or management which are unfair and unreasonable to policyholders of the insurer and not in the public interest, as contemplated by RCW 48.31B.015(4)(a)(iv)?

No. RLI has no current plans to cause CBIC to liquidate, sell its assets, wind down operations, consolidate or merge with RLI or any other entity, or make any other material change in its business operations, corporate structure or management which are unfair or unreasonable to CBIC policyholders or otherwise not in the public interest.

RLI's plans to integrate CBIC into the RLI corporate structure, with a "Best of Both Companies" approach. Overall, RLI intends to continue the business operations of CBIC as presently conducted, with selective modifications to bring CBIC into the RLI family of companies and coordinate with RLI's operating procedures as described herein. Regarding timing, we anticipate implementing our integration plans over a reasonable and sensible timeframe, taking steps in a process that minimizes disruption while maximizing continuity and business success. Certain aspects will be readily accomplished within a month, while others may take a year or more.

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

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 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 RLI or CBIC background; and be open to alternative organizational structures that offer improvements with unique skill sets. We do not anticipate material reductions in the employee base at CBIC.

19. Is there any reason to question that the competence, experience, and integrity of those persons who would control the operation of CBIC is such that it would not be in the interest of policyholders of the insurer and of the public to permit the acquisition, as contemplated by RCW 48.31B.015(4)(a)(v)? **No – the executive management and personnel of RLI have deep, broad and comprehensive experience in the insurance business and markets in which CBIC operates, which are the markets in which RLI operates. The RLI executive and management teams have successfully guided RLI to financial strength, policyholder security, excellent claim service, innovative products, profitability and shareholder returns for decades, while maintaining a corporate culture that promotes integrity, ethics, honesty, and compliance. RLI's culture of compliance and ethics are supported by RLI's Code of Conduct, Compliance**

Manual, Corporate Governance Guidelines and other policies that spell out our commitment and expectations in these areas.

20. Is there anything about the acquisition that is likely to be hazardous or prejudicial to the insurance-buying public, as contemplated by RCW 48.31B.015(4)(a)(vi)? **No.**

Conclusion

21. Is there anything else that you would like to add at this time? **No, thank you.**

[Signature on following page]

The above testimony is true, correct and complete to the best of my knowledge and given subject to the laws of perjury of the state of Washington.

Name: Daniel O. Kennedy

Title: Vice President, General Counsel, Assistant Corporate Secretary

Signature: DO Kennedy

Date: April 15, 2011

OFFICE OF INSURANCE COMMISSIONER
STATE OF WASHINGTON

In re the Acquisition of

CONTRACTORS BONDING AND
INSURANCE COMPANY

by

RLI INSURANCE COMPANY,

Applicant.

NO. 11-0074

APPLICANT'S OPENING
STATEMENT

I. INTRODUCTION

Your Honor, my name is Timothy J. Parker. I am an attorney with the Seattle law firm of Carney Badley Spellman, and I am here representing Applicant RLI Insurance Company.

II. EVIDENCE

This is a Hearing to consider the Form A application that was submitted to the Office of the Insurance Commissioner on December 22, 2010, requesting approval of the proposed acquisition of Contractors Bonding and Insurance Company ("CBIC") by the Acquiring Party, RLI Insurance Company ("RLI").

APPLICANT'S OPENING STATEMENT – 1

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The referenced Form A filed with the Office of the Insurance Commissioner, together with supplemental information provided to the Commissioner, included all information required by applicable statute and regulation. Specifically, the Form A identified the parties and fully described the proposed transaction. The Office of the Insurance Commissioner carefully reviewed the Form A and determined that it is a complete filing within the meaning of RCW 48.31B.015 and all other legal requirements.

III. RELIEF REQUESTED

The standards for the review of this application are contained in RCW 48.31B.015(4). In addressing these standards, RLI has submitted the Pre-filed Direct Written Testimony of Michael J. Stone, President and Chief Operating Officer of RLI, and Daniel Kennedy, RLI's General Counsel.

Mr. Stone's testimony describes the operations and corporate structure of RLI and a description of the proposed acquisition, including the consideration to be paid and the overall purchase price. His testimony outlines how CBIC will be integrated if the acquisition is approved and describes the financial condition of the Acquiring Party and the benefits of the proposed acquisition. Importantly, his testimony also focuses on CBIC's commitment to be responsive to policyholder concerns, including the handling of complaints.

Mr. Kennedy's testimony reviews the regulatory activity associated with this matter in other states and by the federal government. Mr. Kennedy's testimony also specifically addresses each of the six standards contained in RCW 48.31B.015(f). In short, this testimony indicates that the proposed transaction does not violate any of the six standards for review outlined in RCW 48.31B.015(4).

APPLICANT'S OPENING STATEMENT – 2

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We anticipate that testimony offered on behalf of the OIC will attest to the completeness of the Form A and the absence of any statutory or other basis for disapproval.

Pre-filed written testimony from CBIC comes to similar conclusions -- that the evidence does not support a determination that the proposed transaction violates any of the six statutory standards for review contained in RCW 48.31B.015(4).

Thus, the testimony and declarations the Office of the Insurance Commissioner, RLI and CBIC will be shown to be in fundamental agreement that the evidence does not support a determination that proposed transaction violates any of the six statutory standards for review contained in RCW 48.31B.015(4).

Accordingly, RLI will ask, at the conclusion of the hearing, for an order approving the acquisition of control in this matter.

IV. CONCLUSION

RLI appreciates the diligence that the Office of the Insurance Commissioner Company Supervision Division and the Office of the Insurance Commissioner Hearing Officer have given this matter. We are now prepared to offer testimony in support of the transaction, and to respond to questions that may be posed by the OIC's counsel or hearing officer.

DATED this 15th day of April, 2011.

CARNEY BADLEY SPELLMAN, P.S.

By Timothy J. Parker by Mel Soransen
Timothy J. Parker, WSBA # 8797
Attorney for RLI Insurance Company

OFFICE OF INSURANCE COMMISSIONER
STATE OF WASHINGTON

In re the Acquisition of

CONTRACTORS BONDING AND
INSURANCE COMPANY

by

RLI INSURANCE COMPANY,

Applicant.

NO. 11-0074

APPLICANT'S CLOSING
STATEMENT

In adopting Chapter 48.31.B, Revised Code of Washington, the Washington State Legislature established a two-step process for reviewing a proposed acquisition of insurers that are domiciled in the State of Washington or the domestic insurer's holding company. As a first step, the applicants are required to submit detailed and verified information to the Washington State Office of the Insurance Commissioner. The Insurance Commissioner reviews this information provided in the form of a "Form A" in order to determine if any basis exists for disapproving the proposed transaction. The Insurance Commissioner may request additional information, pose questions to the involved parties, and otherwise take steps to confirm the completeness and reliability of the information provided by the

APPLICANT'S CLOSING STATEMENT - 1

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applicants and other persons. The record shows that the Applicants provided timely responses to the OIC's questions and inquiries relating to the Form A. Consequently, Mr. Pastuch has testified the Applicant's Form A, together with its exhibits, is complete, and the OIC requested a hearing to be scheduled to consider it.

The second step in the process is a hearing conducted by the Insurance Commissioner or the Commissioner's designee. RCW 48.31B.015(4)(a) provides that "the commissioner shall approve a merger or other acquisition of control...unless, after a public hearing thereon, he or she finds" that any of the six identified bases for disapproval set forth in that statute exists.

In addressing these provisions, Mr. Michael J. Stone and Mr. Daniel Kennedy testified on behalf of RLI Insurance Company ("RLI"). In short, they testified that the proposed transaction does not violate any of the six standards for review outlined in RCW 48.31B.015(4).

Testimony delivered this morning by a representative of Contractors Bonding and Insurance Company ("CBIC") supported the same conclusion – that the evidence does not support a determination that the proposed transaction violates any of the six statutory standards for review contained in RCW 48.31B.015(4).

Insofar as the statutory criteria are concerned, the testimony this morning of RLI, CBIC and the Office of the Insurance Commissioner is consistent and in fundamental agreement that none of the bases for disapproval exist.

Accordingly, on behalf of the Applicant, I respectfully request that the Hearing Officer approve the acquisition on behalf of the Office of the Insurance Commissioner.

DATED this 15th day of April, 2011.

CARNEY BADLEY SPELLMAN, P.S.

By Timothy J. Parker by Michael Sorenson
Timothy J. Parker, WSBA # 8797
Attorney for RLI Insurance Company

OFFICE OF INSURANCE COMMISSIONER
STATE OF WASHINGTON

In re the Acquisition of

CONTRACTORS BONDING AND
INSURANCE COMPANY

by

RLI INSURANCE COMPANY,

Applicant.

NO. 11-0074

FINAL ORDER APPROVING
ACQUISITION OF CONTROL

I. INTRODUCTION

Pursuant to Chapter 48.04 RCW, Chapter 34.05 RCW, RCW 48.31B.015, and Chapter 284-18 WAC, and after notice to interested parties and persons (see notice detailed below), the above-entitled matter came on regularly for hearing before the Insurance Commissioner of the State of Washington, through his undersigned designee, commencing at 1:00 p.m. on April 20, 2011, in the Office of the Insurance Commissioner, 5000 Capitol Boulevard, Tumwater, Washington 98501. All persons to be affected by the above-entitled matter were given the right to be present at such hearing, during the presentation of

FINAL ORDER APPROVING
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testimony, and had reasonable opportunity to inspect all documentary evidence, to examine witnesses and present oral and written statements. The Office of the Insurance Commissioner Staff (OIC Staff) was represented by Charles D. Brown, Sr. Staff Attorney, OIC Legal Affairs Division. The Applicant, RLI Insurance Company (“RLI”) was represented by Timothy J. Parker and Melvin N. Sorensen, Attorneys at Law. CBIC was represented by Jeremy Watson from the Sidley law firm.

II. NATURE OF PROCEEDING

By filing Form A (which is the preacquisition notification and application for approval of this proposed acquisition) dated and filed with the OIC on December 22, 2010, the Applicant sought the Insurance Commissioner’s approval of its proposed acquisition of control of Contractors Bonding and Insurance Company (“CBIC”), a Washington domiciled insurer. The Applicant proposes to acquire CBIC for the purchase price of \$135,900,380 million. Should this proposed acquisition be approved, CBIC would become a wholly owned subsidiary of RLI, resulting in a change of control of CBIC. RCW 48.31B.015, part of the Washington Insurer Holding Company Act, requires that the Commissioner hold a public hearing to examine the evidence and determine whether the proposed acquisition of control of this Washington domestic insurance company satisfies the applicable statutory criteria and should be approved. The requested effective date of the proposed acquisition of control is as soon as possible after the entry of the Order herein.

III. FINDINGS OF FACT

The undersigned Commissioner's designee, having considered the presentation of the parties including written and oral evidence presented at the hearing, and the documents on file herein, including the Form A Statement Regarding the Merger and Acquisition of Control or Merger with the Acquisition of a Domestic Insurer dated and filed with the Commissioner on December 22, 2010, and the exhibits to the Form A, and the entire hearing file, makes the following findings of fact:

1. The hearing was duly and properly convened and all substantive and procedural requirements under the laws of the state of Washington have been satisfied.
2. CBIC is an active domestic Washington insurer.
3. The Acquiring Party is RLI Insurance Company, an Illinois corporation and a direct wholly owned subsidiary of RLI Corp., an Illinois-domiciled insurance company.
4. If this proposed acquisition of control is approved, the result will be that CBIC, the Washington domestic insurer, will be owned by the Acquiring Party identified herein. CBIC will remain an active Washington domiciled insurance company and will continue to be subject to the jurisdiction of the Washington State Insurance Commissioner.
5. It has been agreed by CBIC that it be acquired by the Applicant.

6. RLI filed its Form A on December 22, 2010. The requested effective date of this proposed acquisition of control or merger is as soon as possible after the entry of the Order herein, if approval is granted. The Form A contained the information required by the Insurance Commissioner and by applicable statutes.
7. After the proposed acquisition of control, CBIC will continue to be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which the company is presently licensed.
8. The effect of this proposed acquisition of control of CBIC would not be substantially to lessen competition in insurance in this state or to create a monopoly therein.
9. The financial condition of RLI is not such as might, after completion of the proposed acquisition, jeopardize the financial stability of CBIC or prejudice the interests of CBIC policyholders or bond owners.
10. After completion of this proposed acquisition, there are no plans to liquidate CBIC, sell its assets, consolidate or merge it with any person, or make any other material change in its business or corporate structures or management which are unfair and unreasonable to policyholders of the insurer or not in the public interest.
11. It cannot be found that the competence, experience, and integrity of those persons who would control the operation of CBIC after the proposed

acquisition is such that it would not be in the interest of the insurer's policyholders, bond holders and of the public to permit the acquisition of control.

12. It is not likely that this proposed acquisition of CBIC is hazardous or prejudicial to the insurance-buying public.
13. The Notice of Hearing, which contains information concerning this proposed acquisition and the public hearing thereon, was published in its entirety on the Washington State Insurance Commissioner's website on April 6, 2011 and continuously from that time until at least the date of the hearing herein. This notice constitutes reasonable and adequate notice to interested parties.
14. As indicated in the subject Notice of Hearing, all interested parties were given the opportunity to submit any comments on, or objections to, this proposed acquisition to the undersigned until 5:00 p.m. Pacific Standard Time on Tuesday, April 19, 2011 by fax, U.S. Mail, personal delivery, or e-mail. All interested parties were also advised in said Notice of Hearing that they would be given the opportunity to present evidence at hearing and to examine and cross-examine witnesses and offer oral and written arguments, and in connection therewith to conduct discovery proceedings. No reasonable objection to the proposed acquisition of CBIC exists.
15. Witnesses appearing on behalf of the OIC Staff were Ronald J. Pastuch, Holding Company Manager, Company Supervision Division, Office of the

Insurance Commissioner; Mr. Pastuch presented his testimony in a detailed and credible manner. OIC staff supported approval of this Form A application.

16. Witnesses appearing on behalf of the Applicant were Michael J. Stone, RLI President and Chief Operating Officer, and Daniel O. Kennedy, RLI Vice President and General Counsel. Mr. Stone and Mr. Kennedy presented their testimony in a detailed and credible manner.
17. The witnesses appearing on behalf of CBIC were Mr. Kirk Eland, Chief Financial Officer, Co-Chief Operations Officer and Secretary of CBIC. Mr. Eland presented his testimony in a detailed and credible manner.

IV. CONCLUSIONS OF LAW

The undersigned designee of the Insurance Commissioner, having made the above Findings of Fact, hereby makes the following Conclusions of Law:

1. Pursuant to Chapter 48.31B RCW, the Insurance Commissioner has jurisdiction over the plan of acquisition and change of control of CBIC.
2. On December 22, 2010, the Applicant filed the preacquisition notification, Form A, which is a sufficient period before the requested effective date of this proposed acquisition, as required by RCW 48.31B.015(1) and such preacquisition notification, Form A, contains the information required by RCW 48.31B.015(2). The filing is determined to be complete.

3. After the proposed acquisition of control, CBIC will continue to be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which the company is presently licensed as contemplated by RCW 48.31B.015(4)(a)(i).
4. The effect of this proposed acquisition of control of CBIC would not be substantially to lessen competition in insurance in this state or to create a monopoly therein as contemplated by RCW 48.31B.015(4)(a)(ii).
5. The financial condition of RLI is not such as might, after completion of the proposed acquisition, jeopardize the financial stability of CBIC or prejudice the interests of CBIC policyholders or bond holders as contemplated by RCW 48.31B.015(4)(a)(iii).
6. After completion of this proposed acquisition, there are no plans to liquidate CBIC, sell its assets, consolidate or merge it with any person, or make any other material change in its business or corporate structures or management which are unfair and unreasonable to policyholders of the insurer or not in the public interest as contemplated by RCW 48.31B.015(4)(a)(iv).
7. It cannot be found that the competence, experience, and integrity of those persons who would control the operation of CBIC after the proposed acquisition are such that it would not be in the interest of the insurer's policyholders and of the public to permit the acquisition of control as contemplated by RCW 48.31B.015(4)(a)(v).

8. It is not likely that this proposed acquisition of CBIC is hazardous or prejudicial to the insurance-buying public as contemplated by RCW 48.31B.015(4)(a)(vi).
9. The application of RLI for approval of its proposed acquisition of control of CBIC should be approved.

V. ORDER

Based on the Findings of Fact and Conclusions of Law, to the effect that the statutory criteria for approval of this proposed acquisition have been met, and to the effect that the approval of this proposed acquisition should be granted, **IT IS HEREBY ORDERED** that the application of RLI for approval of its proposed acquisition of control of CBIC is hereby approved.

Entered at Tumwater, Washington, this ____ day of _____, 2011.

Patricia D. Petersen
Chief Hearing Officer