

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended March 31, 2022

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to

Commission File Number: 001-09463

RLI Corp.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

37-0889946

(I.R.S. Employer Identification Number)

9025 North Lindbergh Drive, Peoria, IL

(Address of principal executive offices)

61615

(Zip Code)

(309) 692-1000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock \$0.01 par value

Trading Symbol
RLI

Name of each exchange on which registered
New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of April 14, 2022, the number of shares outstanding of the registrant's Common Stock was 45,316,042.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

RLI Corp. and Subsidiaries Condensed Consolidated Statements of Earnings and Comprehensive Earnings (Unaudited)

(in thousands, except per share data)	For the Three Months Ended March 31,	
	2022	2021
Net premiums earned	\$ 269,152	\$ 228,595
Net investment income	17,883	16,424
Net realized gains	5,588	14,150
Net unrealized gains (losses) on equity securities	(27,810)	28,162
Consolidated revenue	\$ 264,813	\$ 287,331
Losses and settlement expenses	105,524	104,892
Policy acquisition costs	85,287	74,990
Insurance operating expenses	18,863	18,796
Interest expense on debt	2,010	1,901
General corporate expenses	3,363	3,342
Total expenses	\$ 215,047	\$ 203,921
Equity in earnings of unconsolidated investees	8,759	6,424
Earnings before income taxes	\$ 58,525	\$ 89,834
Income tax expense	10,602	16,822
Net earnings	\$ 47,923	\$ 73,012
Other comprehensive earnings (loss), net of tax	(115,581)	(44,747)
Comprehensive earnings (loss)	\$ (67,658)	\$ 28,265
Basic net earnings per share	\$ 1.06	\$ 1.62
Diluted net earnings per share	\$ 1.05	\$ 1.60
Weighted average number of common shares outstanding:		
Basic	45,306	45,178
Diluted	45,714	45,674

See accompanying notes to the unaudited condensed consolidated interim financial statements.

RLI Corp. and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

(in thousands, except share and per share data)	March 31, 2022	December 31, 2021
ASSETS		
Investments and cash:		
Fixed income:		
Available-for-sale, at fair value	\$ 2,292,378	\$ 2,409,887
(amortized cost of \$2,374,256 and allowance for credit losses of \$594 at 3/31/22)		
(amortized cost of \$2,346,267 and allowance for credit losses of \$441 at 12/31/21)		
Equity securities, at fair value (cost - \$347,354 at 3/31/22 and \$324,501 at 12/31/21)	608,180	613,776
Other invested assets	52,406	50,501
Cash	72,148	88,804
Total investments and cash	\$ 3,025,112	\$ 3,162,968
Accrued investment income	17,477	17,505
Premiums and reinsurance balances receivable, net of allowances for uncollectible amounts of \$18,381 at 3/31/22 and \$18,067 at 12/31/21	170,501	167,279
Ceded unearned premium	126,311	130,916
Reinsurance balances recoverable on unpaid losses and settlement expenses, net of allowances for uncollectible amounts of \$10,983 at 3/31/22 and \$11,188 at 12/31/21	631,445	608,086
Deferred policy acquisition costs	112,004	103,553
Property and equipment, at cost, net of accumulated depreciation of \$77,131 at 3/31/22 and \$75,236 at 12/31/21	52,124	52,161
Investment in unconsolidated investees	179,351	171,311
Goodwill and intangibles	53,562	53,562
Other assets	39,748	40,961
TOTAL ASSETS	\$ 4,407,635	\$ 4,508,302
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Unpaid losses and settlement expenses	\$ 2,081,712	\$ 2,043,555
Unearned premiums	696,577	680,444
Reinsurance balances payable	26,264	42,851
Funds held	89,735	89,773
Income taxes-deferred	47,412	83,509
Bonds payable, long-term debt	199,723	199,676
Accrued expenses	57,101	98,274
Other liabilities	55,689	40,859
TOTAL LIABILITIES	\$ 3,254,213	\$ 3,278,941
Shareholders' Equity		
Common stock (\$0.01 par value)		
(Shares authorized - 200,000,000)		
(68,246,156 shares issued, 45,315,942 shares outstanding at 3/31/22)		
(68,219,551 shares issued, 45,289,337 shares outstanding at 12/31/21)	\$ 682	\$ 682
Paid-in capital	346,791	343,742
Accumulated other comprehensive earnings (loss)	(65,755)	49,826
Retained earnings	1,264,703	1,228,110
Deferred compensation	8,669	9,642
Less: Treasury shares, at cost (22,930,214 shares at 3/31/22 and 12/31/21)	(401,668)	(402,641)
TOTAL SHAREHOLDERS' EQUITY	\$ 1,153,422	\$ 1,229,361
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 4,407,635	\$ 4,508,302

See accompanying notes to the unaudited condensed consolidated interim financial statements.

RLI Corp. and Subsidiaries
Condensed Consolidated Statements of Shareholders' Equity
(Unaudited)

					Accumulated Other Comprehensive			
(in thousands, except share and per share data)	Common Shares	Total Shareholders' Equity	Common Stock	Paid-in Capital	Earnings (Loss)	Retained Earnings	Deferred Compensation	Treasury Shares at Cost
Balance, January 1, 2021	45,142,580	\$ 1,135,978	\$ 681	\$ 335,365	\$ 108,714	\$ 1,084,217	\$ 8,292	\$ (401,291)
Net earnings	—	73,012	—	—	—	73,012	—	—
Other comprehensive earnings (loss), net of tax	—	(44,747)	—	—	(44,747)	—	—	—
Deferred compensation	—	—	—	—	—	—	(366)	366
Share-based compensation	60,858	1,392	—	1,392	—	—	—	—
Dividends and dividend equivalents (\$0.24 per share)	—	(10,849)	—	—	—	(10,849)	—	—
Balance, March 31, 2021	45,203,438	\$ 1,154,786	\$ 681	\$ 336,757	\$ 63,967	\$ 1,146,380	\$ 7,926	\$ (400,925)

					Accumulated Other Comprehensive			
(in thousands, except share and per share data)	Common Shares	Total Shareholders' Equity	Common Stock	Paid-in Capital	Earnings (Loss)	Retained Earnings	Deferred Compensation	Treasury Shares at Cost
Balance, January 1, 2022	45,289,337	\$ 1,229,361	\$ 682	\$ 343,742	\$ 49,826	\$ 1,228,110	\$ 9,642	\$ (402,641)
Net earnings	—	47,923	—	—	—	47,923	—	—
Other comprehensive earnings (loss), net of tax	—	(115,581)	—	—	(115,581)	—	—	—
Deferred compensation	—	—	—	—	—	—	(973)	973
Share-based compensation	26,605	3,049	—	3,049	—	—	—	—
Dividends and dividend equivalents (\$0.25 per share)	—	(11,330)	—	—	—	(11,330)	—	—
Balance, March 31, 2022	45,315,942	\$ 1,153,422	\$ 682	\$ 346,791	\$ (65,755)	\$ 1,264,703	\$ 8,669	\$ (401,668)

See accompanying notes to the unaudited condensed consolidated interim financial statements.

RLI Corp. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(in thousands)	For the Three Months Ended March 31,	
	2022	2021
Net cash provided by operating activities	\$ 39,014	\$ 60,287
Cash Flows from Investing Activities		
Purchase of:		
Fixed income securities, available-for-sale	\$ (107,283)	\$ (145,121)
Equity securities	(32,678)	(31,957)
Property and equipment	(1,944)	(887)
Other	(3,137)	(4,323)
Proceeds from sale of:		
Fixed income securities, available-for-sale	10,779	21,300
Equity securities	15,726	47,638
Other	669	521
Proceeds from call or maturity of:		
Fixed income securities, available-for-sale	71,971	96,285
Net cash used in investing activities	\$ (45,897)	\$ (16,544)
Cash Flows from Financing Activities		
Cash dividends paid	\$ (11,322)	\$ (10,838)
Proceeds from (payments related to) stock option exercises	1,549	(187)
Net cash used in financing activities	\$ (9,773)	\$ (11,025)
Net increase (decrease) in cash	\$ (16,656)	\$ 32,718
Cash at the beginning of the period	88,804	62,217
Cash at March 31	<u>\$ 72,148</u>	<u>\$ 94,935</u>

See accompanying notes to the unaudited condensed consolidated interim financial statements.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial reporting and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all the disclosures required by GAAP for complete financial statements. As such, these unaudited condensed consolidated interim financial statements should be read in conjunction with our 2021 Annual Report on Form 10-K. Management believes that the disclosures are adequate to make the information presented not misleading, and all normal and recurring adjustments necessary to present fairly the financial position at March 31, 2022 and the results of operations of RLI Corp. (the Company) and subsidiaries for all periods presented have been made. The results of operations for any interim period are not necessarily indicative of the operating results for a full year.

The preparation of the unaudited condensed consolidated interim financial statements requires management to make estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated interim financial statements and the reported amounts of revenue and expenses during the period. These estimates are inherently subject to change and actual results could differ significantly from these estimates.

B. ADOPTED ACCOUNTING STANDARDS

No new accounting standards applicable in 2022 materially impact our financial statements.

C. PROSPECTIVE ACCOUNTING STANDARDS

There are no prospective accounting standards which would have a material impact on our financial statements as of March 31, 2022.

D. REINSURANCE

Ceded unearned premiums and reinsurance balances recoverable on unpaid losses and settlement expenses are reported separately as an asset, rather than being netted with the related liability, since reinsurance does not relieve the Company of our liability to policyholders. Such balances are subject to the credit risk associated with the individual reinsurer. We continually monitor the financial condition of our reinsurers and actively follow up on any past due or disputed amounts. As part of our monitoring efforts, we review reinsurers' annual financial statements and Securities and Exchange Commission filings for those that are publicly traded. We also review insurance industry developments that may impact the financial condition of our reinsurers. We analyze the credit risk associated with our reinsurance balances recoverable by monitoring the AM Best and Standard & Poor's (S&P) ratings of our reinsurers. In addition, we subject our reinsurance recoverables to detailed recoverability tests, including a segment-based analysis using the average default rating percentage by S&P rating, which assists the Company in assessing the sufficiency of its allowance. Additionally, we perform an in-depth reinsurer financial condition analysis prior to the renewal of each of our reinsurance placements.

Our policy is to charge to earnings, in the form of an allowance, an estimate of unrecoverable amounts from reinsurers. This allowance is reviewed on an ongoing basis to ensure that the amount makes a reasonable provision for reinsurance balances that we may be unable to recover. Once regulatory action (such as receivership, finding of insolvency, order of conservation or order of liquidation) is taken against a reinsurer, the paid and unpaid recoverable for the reinsurer are specifically identified and written off through use of our allowance for estimated unrecoverable amounts from reinsurers. When we write-off such a balance, it is done in full. We then re-evaluate the overall allowance and determine whether the balance is sufficient and, if needed, an additional allowance is recognized.

The allowances for uncollectible amounts on paid and unpaid reinsurance recoverables were \$16.1 million and \$11.0 million, respectively, at March 31, 2022. At December 31, 2021, the amounts were \$16.1 million and \$11.2 million, respectively. Changes in the allowances were due to changes in the amount of reinsurance balances outstanding, the composition of reinsurers from whom the balances were recoverable and their associated S&P default ratings. No write-offs were applied to the allowances in the first three months of 2022 and less than \$0.1 million was recovered. We have no receivables with a due date that extends beyond one year that are not included in our allowance for uncollectible amounts.

E. INTANGIBLE ASSETS

The composition of goodwill and intangible assets at March 31, 2022 and December 31, 2021 is detailed in the following table:

(in thousands)	March 31, 2022	December 31, 2021
Goodwill		
Surety	\$ 40,816	\$ 40,816
Casualty	5,246	5,246
Total goodwill	\$ 46,062	\$ 46,062
Intangibles		
Indefinite-lived intangibles - state insurance licenses	7,500	7,500
Total goodwill and intangibles	\$ 53,562	\$ 53,562

Annual impairment assessments were performed on our goodwill and state insurance license indefinite-lived intangible asset during the second quarter of 2021. Based upon these reviews, none of the assets were impaired. In addition, there were no triggering events as of March 31, 2022 that would suggest an updated impairment test would be needed for our goodwill and intangible assets.

F. EARNINGS PER SHARE

Basic earnings per share (EPS) is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the dilution that could occur if securities or other contracts to issue common stock or common stock equivalents were exercised or converted into common stock. When inclusion of these items increases the earnings per share or reduces the loss per share, the effect on earnings is anti-dilutive. Under these circumstances, the diluted net earnings or net loss per share is computed excluding these items. The following represents a reconciliation of the numerator and denominator of the basic and diluted EPS computations contained in the unaudited condensed consolidated interim financial statements:

(in thousands, except per share data)	For the Three Months Ended March 31, 2022			For the Three Months Ended March 31, 2021		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS						
Earnings available to common shareholders	\$ 47,923	45,306	\$ 1.06	\$ 73,012	45,178	\$ 1.62
Effect of Dilutive Securities						
Stock options and restricted stock units	—	408		—	496	
Diluted EPS						
Earnings available to common shareholders	\$ 47,923	45,714	\$ 1.05	\$ 73,012	45,674	\$ 1.60
Anti-dilutive options excluded from diluted EPS		214			—	

G. COMPREHENSIVE EARNINGS (LOSS)

Our comprehensive earnings (loss) include net earnings plus after-tax unrealized gains and losses on our available-for-sale fixed income portfolio. In reporting the components of comprehensive earnings (loss), we used the federal statutory tax rate of 21 percent. Other comprehensive earnings (loss), as shown in the consolidated statements of earnings and comprehensive earnings, is net of tax benefit of \$30.7 million for the first quarter of 2022, compared to \$11.9 million for the same period in 2021.

Unrealized losses, net of tax, recognized in other comprehensive earnings (loss) were \$115.6 million for the first three months of 2022, compared to \$44.7 million during the same period last year. The unrealized losses were attributable to increased interest rates in both periods, which decreased the fair value of securities held in the fixed income portfolio.

The following table illustrates the changes in the balance of each component of accumulated other comprehensive earnings (loss) for each period presented in the unaudited condensed consolidated interim financial statements:

(in thousands)	For the Three Months Ended March 31,	
	2022	2021
Unrealized Gains/Losses on Available-for-Sale Securities		
Beginning balance	\$ 49,826	\$ 108,714
Other comprehensive earnings (loss) before reclassifications	(115,742)	(43,795)
Amounts reclassified from accumulated other comprehensive earnings	161	(952)
Net current-period other comprehensive earnings (loss)	\$ (115,581)	\$ (44,747)
Ending balance	\$ (65,755)	\$ 63,967
Balance of securities for which an allowance for credit losses has been recognized in net earnings	\$ 607	\$ 463

Credit losses on or the sale of an available-for-sale security results in amounts being reclassified from accumulated other comprehensive earnings (loss) to current period net earnings. The effects of reclassifications out of accumulated other comprehensive earnings (loss) by the respective line items of net earnings are presented in the following table:

(in thousands)	Amount Reclassified from Accumulated Other Comprehensive Earnings (Loss)		Affected line item in the Statement of Earnings
	2022	2021	
Component of Accumulated Other Comprehensive Earnings (Loss)			
Unrealized gains and losses on available-for-sale securities	\$ (51)	\$ 1,183	Net realized gains (losses)
	(153)	22	Credit gains (losses) presented within net realized gains
	\$ (204)	\$ 1,205	Earnings (loss) before income taxes
	43	(253)	Income tax (expense) benefit
	\$ (161)	\$ 952	Net earnings (loss)

H. FAIR VALUE MEASUREMENTS

Fair value is defined as the price in the principal market that would be received for an asset to facilitate an orderly transaction between market participants on the measurement date. We determined the fair value of certain financial instruments based on their underlying characteristics and relevant transactions in the marketplace. We maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The following are the levels of the fair value hierarchy and a brief description of the type of valuation inputs that are used to establish each level. Financial assets are classified based upon the lowest level of significant input that is used to determine fair value.

Level 1 is applied to valuations based on readily available, unadjusted quoted prices in active markets for identical assets.

Level 2 is applied to valuations based upon quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets; or valuations based on models where the significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities) or can be corroborated by observable market data.

Level 3 is applied to valuations that are derived from techniques in which one or more of the significant inputs are unobservable.

As a part of management's process to determine fair value, we utilize widely recognized, third-party pricing sources to determine our fair values. We have obtained an understanding of the third-party pricing sources' valuation methodologies and inputs. The following is a description of the valuation techniques used for financial assets that are measured at fair value, including the general classification of such assets pursuant to the fair value hierarchy.

Corporate, Agencies, Government and Municipal Bonds: The pricing vendor employs a multi-dimensional model which uses standard inputs including (listed in approximate order of priority for use) benchmark yields, reported trades,

broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, market bids/offers and other reference data. The pricing vendor also monitors market indicators, as well as industry and economic events. All bonds valued using these techniques are classified as Level 2. All corporate, agency, government and municipal securities are deemed Level 2.

Mortgage-backed Securities (MBS)/Commercial Mortgage-backed Securities (CMBS) and Asset-backed Securities (ABS): The pricing vendor evaluation methodology includes principally interest rate movements and new issue data. Evaluation of the tranches (non-volatile, volatile or credit sensitivity) is based on the pricing vendors' interpretation of accepted modeling and pricing conventions. This information is then used to determine the cash flows for each tranche, benchmark yields, pre-payment assumptions and to incorporate collateral performance. To evaluate MBS and CMBS volatility, an option adjusted spread model is used in combination with models that simulate interest rate paths to determine market price information. This process allows the pricing vendor to obtain evaluations of a broad universe of securities in a way that reflects changes in yield curve, index rates, implied volatility, mortgage rates and recent trade activity. MBS/CMBS and ABS with corroborated, observable inputs are classified as Level 2. All of our MBS/CMBS and ABS are deemed Level 2.

Regulation D Private Placement Securities: All Regulation D privately-placed bonds are classified as corporate securities and deemed Level 3. The pricing vendor evaluation methodology for these securities includes a combination of observable and unobservable inputs. Observable inputs include public corporate spread matrices classified by sector, rating and average life, as well as investment and non-investment grade matrices created from fixed income indices. Unobservable inputs include a liquidity spread premium calculated based on public corporate spread and private corporate spread matrices. The quantitative detail of the liquidity spread premium is neither provided nor reasonably available to the Company. An increase to the credit spread assumptions would result in a lower fair value.

For all of our fixed income securities classified as Level 2, we periodically conduct a review to assess the reasonableness of the fair values provided by our pricing services. Our review consists of a two-pronged approach. First, we compare prices provided by our pricing services to those provided by an additional source. In some cases, we obtain prices from securities brokers and compare them to the prices provided by our pricing services. If discrepancies are found in our comparisons, we compare our prices to actual reported trade data for like securities. No changes to the fair values supplied by our pricing services have occurred as a result of our reviews. Based on these assessments, we have determined that the fair values of our Level 2 fixed income securities provided by our pricing services are reasonable.

Equity Securities: As of March 31, 2022, nearly all of our equity holdings were traded on an exchange. Exchange traded equities have readily observable price levels and are classified as Level 1 (fair value based on quoted market prices). Pricing for the equity securities not traded on an exchange is provided by a third-party pricing source and are classified as Level 2.

Due to the relatively short-term nature of cash, short-term investments, accounts receivable and accounts payable, their carrying amounts are reasonable estimates of fair value. Our investments in private funds, classified as other invested assets, are measured using the investments' net asset value per share and are not categorized within the fair value hierarchy.

I. RISKS AND UNCERTAINTIES

Certain risks and uncertainties are inherent to our day-to-day operations. Adverse changes in the economy could lower demand for our insurance products or negatively impact our investment results, both of which could have an adverse effect on the revenue and profitability of our operations. The COVID-19 pandemic may result in significant disruptions in economic activity and financial markets. The cumulative effects of any public health outbreak could reduce demand for our insurance policies; result in increased level of losses, settlement expenses or other operating costs; reduce the market value of invested assets held by the Company or negatively impact the fair value of our goodwill.

2. INVESTMENTS

Our investments are primarily composed of fixed income debt securities and common stock equity securities. We carry our equity securities at fair value and categorize all of our debt securities as available-for-sale, which are carried at fair value.

Realized gains and losses on disposition of investments are based on specific identification of the investments sold on the settlement date. The following is a summary of the disposition of fixed income and equity securities for the three-month periods ended March 31, 2022 and 2021:

Sales (in thousands)	Proceeds From Sales	Gross Realized		Net Realized Gain (Loss)
		Gains	Losses	
2022				
Fixed income securities - available-for-sale	\$ 8,832	\$ 117	\$ (31)	\$ 86
Equity securities	15,726	5,901	—	5,901
2021				
Fixed income securities - available-for-sale	\$ 21,273	\$ 1,003	\$ (27)	\$ 976
Equity securities	47,638	14,233	(1,150)	13,083
Calls/Maturities (in thousands)	Proceeds	Gross Realized		Net Realized Gain (Loss)
		Gains	Losses	
2022				
Fixed income securities - available-for-sale	\$ 71,974	\$ 20	\$ (13)	\$ 7
2021				
Fixed income securities - available-for-sale	\$ 96,285	\$ 255	\$ (48)	\$ 207

FAIR VALUE MEASUREMENTS

Assets measured at fair value on a recurring basis as of March 31, 2022 and December 31, 2021 are summarized below:

(in thousands)	As of March 31, 2022			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Fixed income securities - available-for-sale				
U.S. government	\$ —	\$ 131,634	\$ —	\$ 131,634
U.S. agency	—	30,885	—	30,885
Non-U.S. government & agency	—	6,585	—	6,585
Agency MBS	—	334,097	—	334,097
ABS/CMBS/MBS*	—	259,666	—	259,666
Corporate	—	882,197	48,139	930,336
Municipal	—	599,175	—	599,175
Total fixed income securities - available-for-sale	\$ —	\$ 2,244,239	\$ 48,139	\$ 2,292,378
Equity securities	607,715	465	—	608,180
Total	\$ 607,715	\$ 2,244,704	\$ 48,139	\$ 2,900,558
(in thousands)	As of December 31, 2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Fixed income securities - available-for-sale				
U.S. government	\$ —	\$ 134,554	\$ —	\$ 134,554
U.S. agency	—	32,760	—	32,760
Non-U.S. government & agency	—	8,481	—	8,481
Agency MBS	—	367,187	—	367,187
ABS/CMBS/MBS*	—	264,054	—	264,054
Corporate	—	913,577	43,518	957,095
Municipal	—	645,756	—	645,756
Total fixed income securities - available-for-sale	\$ —	\$ 2,366,369	\$ 43,518	\$ 2,409,887
Equity securities	613,712	64	—	613,776
Total	\$ 613,712	\$ 2,366,433	\$ 43,518	\$ 3,023,663

* Non-agency asset-backed, commercial mortgage-backed and mortgage-backed securities

The following table summarizes changes in the balance of Regulation D private placement fixed income securities whose fair value was measured using significant unobservable inputs (Level 3).

(in thousands)	Level 3 Securities
Balance as of January 1, 2022	\$ 43,518
Net realized and unrealized gains (losses)	
Included in net earnings as a part of:	
Net investment income	(33)
Net realized gains	(411)
Included in other comprehensive earnings (loss)	(3,067)
Total net realized and unrealized gains (losses)	\$ (3,511)
Purchases	8,132
Balance as of March 31, 2022	\$ 48,139
Change in unrealized gains (losses) during the period for Level 3 assets held at period-end - included in net realized gains	\$ (411)
Change in unrealized gains (losses) during the period for Level 3 assets held at period-end - included in other comprehensive earnings (loss)	\$ (3,067)

The amortized cost and fair value of available-for-sale fixed income securities by contractual maturity as of March 31, 2022 were as follows:

(in thousands)	March 31, 2022	
	Amortized Cost	Fair Value
Due in one year or less	\$ 44,732	\$ 45,069
Due after one year through five years	667,555	660,532
Due after five years through 10 years	533,651	521,300
Due after 10 years	506,651	471,714
ABS/CMBS/MBS*	621,667	593,763
Total available-for-sale	\$ 2,374,256	\$ 2,292,378

* Asset-backed, commercial mortgage-backed and mortgage-backed securities

The amortized cost and fair value of available-for-sale securities at March 31, 2022 and December 31, 2021 are presented in the tables below. Amortized cost does not include the \$16.5 million and \$16.4 million of accrued interest receivable as of March 31, 2022 and December 31, 2021, respectively.

(in thousands)	March 31, 2022				
	Cost or Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government	\$ 130,830	\$ —	\$ 1,314	\$ (510)	\$ 131,634
U.S. agency	30,386	—	834	(335)	30,885
Non-U.S. government & agency	6,797	—	135	(347)	6,585
Agency MBS	348,318	—	1,471	(15,692)	334,097
ABS/CMBS/MBS*	273,349	(9)	177	(13,851)	259,666
Corporate	953,353	(585)	8,925	(31,357)	930,336
Municipal	631,223	—	3,846	(35,894)	599,175
Total Fixed Income	\$ 2,374,256	\$ (594)	\$ 16,702	\$ (97,986)	\$ 2,292,378

* Non-agency asset-backed, commercial mortgage-backed and mortgage-backed securities

(in thousands)	December 31, 2021				
	Cost or Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government	\$ 127,752	\$ —	\$ 6,846	\$ (44)	\$ 134,554
U.S. agency	30,403	—	2,374	(17)	32,760
Non-U.S. government & agency	8,297	—	338	(154)	8,481
Agency MBS	362,861	—	9,277	(4,951)	367,187
ABS/CMBS/MBS*	264,273	—	2,120	(2,339)	264,054
Corporate	925,394	(441)	37,247	(5,105)	957,095
Municipal	627,287	—	22,750	(4,281)	645,756
Total Fixed Income	<u>\$ 2,346,267</u>	<u>\$ (441)</u>	<u>\$ 80,952</u>	<u>\$ (16,891)</u>	<u>\$ 2,409,887</u>

* Non-agency asset-backed, commercial mortgage-backed and mortgage-backed securities

Allowance for Credit Losses and Unrealized Losses on Fixed Income Securities

A reversible allowance for credit losses is recognized on available-for-sale fixed income securities. Several criteria are reviewed to determine if securities in the fixed income portfolio should be included in the allowance for expected credit loss evaluation, including:

- Changes in technology that may impair the earnings potential of the investment,
- The discontinuance of a segment of business that may affect future earnings potential,
- Reduction of or non-payment of interest and/or principal,
- Specific concerns related to the issuer's industry or geographic area of operation,
- Significant or recurring operating losses, poor cash flows and/or deteriorating liquidity ratios and
- Downgrades in credit quality by a major rating agency.

If changes in interest rates and credit spreads do not reasonably explain the unrealized loss for an available-for-sale security or if any of the criteria above indicate a potential credit loss, the security is subjected to a discounted cash flow analysis. Inputs into the discounted cash flow analysis include prepayment assumptions for structured securities, default rates and recoverability rates based on credit rating. The allowance for any security is limited to the amount that the security's fair value is below amortized cost. As of March 31, 2022, the discounted cash flow analysis resulted in an allowance for credit losses on 7 securities. The following table presents changes in the allowance for expected credit losses on available-for-sale securities:

(in thousands)	Three Months Ended March 31,	
	2022	2021
Beginning balance	\$ 441	\$ 397
Increase to allowance from securities for which credit losses were not previously recorded	131	-
Reductions from intent to sell securities	(17)	-
Net increase (decrease) from securities that had an allowance at the beginning of the period	39	(22)
Balance as of March 31,	<u>\$ 594</u>	<u>\$ 375</u>

During 2022, net realized gains included \$0.1 million of losses on fixed income securities for which we no longer had the intent to hold until recovery and the cost basis was written down to fair value. No such losses were recognized during the first quarter of 2021.

As of March 31, 2022, in addition to the securities included in the allowance for credit losses, the fixed income portfolio contained 988 securities with an unrealized loss position for which an allowance for credit losses had not been recorded. The \$98.0 million in associated unrealized losses represents 4.1 percent of the fixed income portfolio's cost basis and 3.2 percent of total invested assets. Isolated to these securities, unrealized losses increased through the first three months of 2022, as interest rates

increased during the period. Of the total 988 securities, 117 have been in an unrealized loss position for 12 consecutive months or longer. The following table illustrates the total value of fixed income securities that were in an unrealized loss position as of March 31, 2022 and December 31, 2021 after factoring in the allowance for credit losses. All fixed income securities continue to pay the expected coupon payments and we believe we will recover the amortized cost basis of available-for-sale securities that remain in an unrealized loss position.

(in thousands)	March 31, 2022			December 31, 2021		
	< 12 Mos.	12 Mos. & Greater	Total	< 12 Mos.	12 Mos. & Greater	Total
U.S. government						
Fair value	\$ 35,025	\$ —	\$ 35,025	\$ 2,942	\$ —	\$ 2,942
Amortized cost	35,535	—	35,535	2,986	—	2,986
Unrealized loss	<u>\$ (510)</u>	<u>\$ —</u>	<u>\$ (510)</u>	<u>\$ (44)</u>	<u>\$ —</u>	<u>\$ (44)</u>
U.S. agency						
Fair value	\$ 6,693	\$ —	\$ 6,693	\$ 1,498	\$ —	\$ 1,498
Amortized cost	7,028	—	7,028	1,515	—	1,515
Unrealized loss	<u>\$ (335)</u>	<u>\$ —</u>	<u>\$ (335)</u>	<u>\$ (17)</u>	<u>\$ —</u>	<u>\$ (17)</u>
Non-U.S. government						
Fair value	\$ —	\$ 2,653	\$ 2,653	\$ 4,346	\$ —	\$ 4,346
Amortized cost	—	3,000	3,000	4,500	—	4,500
Unrealized Loss	<u>\$ —</u>	<u>\$ (347)</u>	<u>\$ (347)</u>	<u>\$ (154)</u>	<u>\$ —</u>	<u>\$ (154)</u>
Agency MBS						
Fair value	\$ 190,950	\$ 59,572	\$ 250,522	\$ 102,145	\$ 62,669	\$ 164,814
Amortized cost	200,176	66,038	266,214	104,336	65,429	169,765
Unrealized loss	<u>\$ (9,226)</u>	<u>\$ (6,466)</u>	<u>\$ (15,692)</u>	<u>\$ (2,191)</u>	<u>\$ (2,760)</u>	<u>\$ (4,951)</u>
ABS/CMBS/MBS*						
Fair value	\$ 218,189	\$ 19,448	\$ 237,637	\$ 150,997	\$ 3,935	\$ 154,932
Amortized cost	230,803	20,685	251,488	153,235	4,036	157,271
Unrealized loss	<u>\$ (12,614)</u>	<u>\$ (1,237)</u>	<u>\$ (13,851)</u>	<u>\$ (2,238)</u>	<u>\$ (101)</u>	<u>\$ (2,339)</u>
Corporate						
Fair value	\$ 460,342	\$ 68,905	\$ 529,247	\$ 217,791	\$ 53,818	\$ 271,609
Amortized cost	485,129	75,475	560,604	221,010	55,704	276,714
Unrealized loss	<u>\$ (24,787)</u>	<u>\$ (6,570)</u>	<u>\$ (31,357)</u>	<u>\$ (3,219)</u>	<u>\$ (1,886)</u>	<u>\$ (5,105)</u>
Municipal						
Fair value	\$ 350,366	\$ 32,880	\$ 383,246	\$ 162,998	\$ 15,037	\$ 178,035
Amortized cost	380,619	38,521	419,140	166,602	15,714	182,316
Unrealized loss	<u>\$ (30,253)</u>	<u>\$ (5,641)</u>	<u>\$ (35,894)</u>	<u>\$ (3,604)</u>	<u>\$ (677)</u>	<u>\$ (4,281)</u>
Total fixed income						
Fair value	\$ 1,261,565	\$ 183,458	\$ 1,445,023	\$ 642,717	\$ 135,459	\$ 778,176
Amortized cost	1,339,290	203,719	1,543,009	654,184	140,883	795,067
Unrealized loss	<u>\$ (77,725)</u>	<u>\$ (20,261)</u>	<u>\$ (97,986)</u>	<u>\$ (11,467)</u>	<u>\$ (5,424)</u>	<u>\$ (16,891)</u>

* Non-agency asset-backed, commercial mortgage-backed and mortgage-backed securities

The following table shows the composition of the fixed income securities in unrealized loss positions, after factoring in the allowance for credit losses, at March 31, 2022 by the National Association of Insurance Commissioners (NAIC) rating and the generally equivalent Standard & Poor's (S&P) and Moody's ratings. The vast majority of the securities are rated by S&P and/or Moody's.

NAIC Rating	Equivalent S&P Rating	Equivalent Moody's Rating	(dollars in thousands)			Percent to Total
			Amortized Cost	Fair Value	Unrealized Loss	
1	AAA/AA/A	Aaa/Aa/A	\$ 1,199,156	\$ 1,119,133	\$ (80,023)	81.7 %
2	BBB	Baa	232,808	217,951	(14,857)	15.2 %
3	BB	Ba	64,217	62,216	(2,001)	2.0 %
4	B	B	45,409	44,376	(1,033)	1.0 %
5	CCC	Caa	1,419	1,347	(72)	0.1 %
6	CC or lower	Ca or lower	-	-	-	0.0 %
		Total	<u>\$ 1,543,009</u>	<u>\$ 1,445,023</u>	<u>\$ (97,986)</u>	<u>100.0 %</u>

Other Invested Assets

We had \$52.4 million of other invested assets at March 31, 2022, compared to \$50.5 million at December 31, 2021. Other invested assets include investments in low income housing tax credit partnerships (LIHTC), membership in the Federal Home Loan Bank of Chicago (FHLBC), and investments in private funds. Our LIHTC investments are carried at amortized cost and our investment in FHLBC stock is carried at cost. Due to the nature of the LIHTC and our membership in the FHLBC, their carrying amounts approximate fair value. The private funds are carried at fair value, using each investment's net asset value.

Our LIHTC interests had a balance of \$15.8 million at March 31, 2022, compared to \$16.6 million at December 31, 2021 and recognized a total tax benefit of \$0.9 million during the first quarters of 2022 and 2021. Our unfunded commitment for our LIHTC investments totaled \$1.4 million at March 31, 2022 and will be paid out in installments through 2035.

As of March 31, 2022, \$59.1 million of investments were pledged as collateral with the FHLBC to ensure timely access to the secured lending facility that ownership of FHLBC stock provides. As of March 31, 2022, \$50.0 million of borrowings were outstanding with the FHLBC.

Our investments in private funds totaled \$30.8 million at March 31, 2022, compared to \$28.6 million at December 31, 2021, and we had \$6.8 million of associated unfunded commitments at March 31, 2022. Our interest in private funds is generally restricted from being transferred or otherwise redeemed without prior consent by the respective entities and the timed dissolution of the partnerships would trigger redemption.

Investments in Unconsolidated Investees

We had \$179.4 million of investments in unconsolidated investees at March 31, 2022, compared to \$171.3 million at December 31, 2021. Our investments accounted for under the equity method are primarily related to Maui Jim, Inc. (Maui Jim) and Prime Holdings Insurance Services, Inc. (Prime). At March 31, 2022 our investment in Maui Jim was \$119.4 million and our investment in Prime was \$49.0 million. Other investments in unconsolidated investees totaled \$10.9 million at March 31, 2022 and had unfunded commitments of \$10.2 million.

Cash

Cash consists of uninvested balances in bank accounts. We had a cash balance of \$72.1 million at March 31, 2022, compared to \$88.8 million at December 31, 2021.

3. HISTORICAL LOSS AND LAE DEVELOPMENT

The following table is a reconciliation of our unpaid losses and settlement expenses (LAE) for the first three months of 2022 and 2021:

(in thousands)	For the Three Months Ended March 31,	
	2022	2021
Unpaid losses and LAE at beginning of year		
Gross	\$ 2,043,555	\$ 1,750,049
Ceded	(608,086)	(443,729)
Net	\$ 1,435,469	\$ 1,306,320
Increase (decrease) in incurred losses and LAE		
Current accident year	\$ 150,999	\$ 142,013
Prior accident years	(45,475)	(37,121)
Total incurred	\$ 105,524	\$ 104,892
Loss and LAE payments for claims incurred		
Current accident year	\$ (7,875)	\$ (5,962)
Prior accident years	(82,851)	(64,896)
Total paid	\$ (90,726)	\$ (70,858)
Net unpaid losses and LAE at March 31	\$ 1,450,267	\$ 1,340,354
Unpaid losses and LAE at March 31		
Gross	\$ 2,081,712	\$ 1,795,275
Ceded	(631,445)	(454,921)
Net	\$ 1,450,267	\$ 1,340,354

For the first three months of 2022, incurred losses and LAE included \$45.5 million of favorable development on prior years' loss reserves. Professional services, general liability, transportation, commercial excess, personal umbrella, marine, commercial property and surety were drivers of the favorable development. No products experienced significant adverse development.

For the first three months of 2021, incurred losses and LAE included \$37.1 million of favorable development on prior years' loss reserves. General liability, transportation, small commercial, professional services, personal umbrella and surety were drivers of the favorable development. No products experienced significant adverse development.

Actuarial models base future emergence on historical experience, with adjustments for current trends, and the appropriateness of these assumptions involved more uncertainty as of March 31, 2022. We expect the timing of loss emergence and ultimate loss ratios for certain coverages we underwrite will be affected as a result of COVID-19 and the related economic impact. The industry is experiencing new issues, including the postponement of civil court cases, the extension of various statutes of limitations and changes in settlement trends. Our recorded reserves include consideration of these factors, but the duration and degree to which these issues persist, along with potential legislative, regulatory or judicial actions, could result in loss reserve deficiencies and reduce earnings in future periods.

4. INCOME TAXES

Our effective tax rate for the three months ended March 31, 2022 was 18.1 percent, compared to 18.7 percent for the same period in 2021. Effective rates are dependent upon components of pretax earnings and the related tax effects. The effective tax rate was lower for 2022 as lower pretax income increased the percentage impact of tax-favored adjustments.

Income tax expense attributable to income from operations for the three-month periods ended March 31, 2022 and 2021 differed from the amounts computed by applying the U.S. federal tax rate of 21 percent to pretax income by the items detailed in the below table. In interim periods, income taxes are adjusted to reflect the effective tax rate we anticipate for the year, with adjustments flowing through the other items, net line.

(in thousands)	For the Three Months Ended March 31,			
	2022		2021	
	Amount	%	Amount	%
Provision for income taxes at the statutory rate of 21%	\$ 12,290	21.0 %	\$ 18,865	21.0 %
Increase (reduction) in taxes resulting from:				
Excess tax benefit on share-based compensation	(1,414)	(2.4) %	(1,924)	(2.1) %
Tax exempt interest income	(281)	(0.5) %	(319)	(0.4) %
Dividends received deduction	(271)	(0.5) %	(236)	(0.3) %
Investment tax credit	(1,182)	(2.0) %	(801)	(0.9) %
ESOP dividends paid deduction	(130)	(0.2) %	(130)	(0.1) %
Nondeductible expenses	316	0.5 %	411	0.5 %
Other items, net	1,274	2.2 %	956	1.0 %
Total tax expense	<u>\$ 10,602</u>	<u>18.1 %</u>	<u>\$ 16,822</u>	<u>18.7 %</u>

5. STOCK BASED COMPENSATION

Our RLI Corp. Long-Term Incentive Plan (2010 LTIP) was in place from 2010 to 2015. The 2010 LTIP provided for equity-based compensation, including stock options, up to a maximum of 4,000,000 shares of common stock (subject to adjustment for changes in our capitalization and other events). Between 2010 and 2015, we granted 2,878,000 stock options under the 2010 LTIP. The 2010 LTIP was replaced in 2015.

In 2015, our shareholders approved the 2015 RLI Corp. Long-Term Incentive Plan (2015 LTIP), which provides for equity-based compensation and replaced the 2010 LTIP. In conjunction with the adoption of the 2015 LTIP, effective May 7, 2015, options were no longer granted under the 2010 LTIP. Awards under the 2015 LTIP may be in the form of restricted stock, restricted stock units, stock options (non-qualified only), stock appreciation rights, performance units as well as other stock-based awards. Eligibility under the 2015 LTIP is limited to employees and directors of the Company or any affiliate. The granting of awards under the 2015 LTIP is solely at the discretion of the board of directors. The maximum number of shares of common stock available for distribution under the 2015 LTIP is 4,000,000 shares (subject to adjustment for changes in our capitalization and other events). Since the plan's approval in 2015, we have granted 2,924,420 awards under the 2015 LTIP, including 24,000 thus far in 2022.

Compensation expense is based on the probable number of awards expected to vest. The total compensation expense related to equity awards was \$1.5 million in the three-month periods ended March 31, 2022, compared to \$1.6 million for the same period in 2021. The total income tax benefit was \$0.2 million for the three-month period ended March 31, 2022, compared to \$0.3 million for the same period in 2021. Total unrecognized compensation expense relating to outstanding and unvested awards was \$5.0 million, which will be recognized over the weighted average vesting period of 2.27 years.

Stock Options

Under the 2015 LTIP, as under the 2010 LTIP, we grant stock options for shares with an exercise price equal to the fair market value of the shares at the date of grant (subject to adjustments for changes in our capitalization, special dividends and other events as set forth in such plans). Options generally vest and become exercisable ratably over a five-year period and expire eight years after grant.

For most participants, the requisite service period and vesting period will be the same. For participants who are retirement eligible, defined by the plan as those individuals whose age and years of service equals 75, the requisite service period is deemed to be met and options are immediately expensed on the date of grant. For participants who will become retirement eligible during the vesting period, the requisite service period over which expense is recognized is the period between the grant date and the attainment of retirement eligibility. Shares issued upon option exercise are newly issued shares.

The following tables summarize option activity for the three-month period ended March 31, 2022:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in 000's)
Outstanding options at January 1, 2022	1,669,325	\$ 78.63		
Options granted	24,000	104.85		
Options exercised	(27,180)	59.23		
Options canceled/forfeited	(4,280)	84.53		
Outstanding options at March 31, 2022	1,661,865	\$ 79.32	4.74	\$ 52,438
Exercisable options at March 31, 2022	785,927	\$ 67.89	3.53	\$ 33,595

The intrinsic value, which is the difference between the fair value and the exercise price, of options exercised was \$1.3 million and \$6.9 million during the first three months of 2022 and 2021, respectively.

The fair value of options was estimated using a Black-Scholes based option pricing model with the following weighted average grant-date assumptions and weighted average fair values as of March 31:

	2022	2021
Weighted-average fair value of grants	\$ 17.28	\$ 13.82
Risk-free interest rates	1.20 %	0.27 %
Dividend yield	2.01 %	2.30 %
Expected volatility	22.79 %	22.67 %
Expected option life	5.01 years	4.96 years

The risk-free rate was determined based on U.S. treasury yields that most closely approximated the option's expected life. The dividend yield was determined based on the average annualized quarterly dividends paid during the most recent five-year period and incorporated a consideration for special dividends paid in recent history. The expected volatility was calculated based on the median of the rolling volatilities for the expected life of the options. The expected option life was determined based on historical exercise behavior and the assumption that all outstanding options will be exercised at the midpoint of the current date and remaining contractual term, adjusted for the demographics of the current year's grant.

Restricted Stock Units

In addition to stock options, restricted stock units (RSUs) are granted with a value equal to the closing stock price of the Company's stock on the dates the units are granted. For employees, these units generally have a three-year cliff vesting, but have an accelerated vesting feature for participants who are retirement eligible, defined by the plan as those individuals whose age and years of service equals 75. For directors, these units vest on the earlier of one year from the date of grant or the next annual shareholders meeting. In addition, the RSUs have dividend participation, which accrue as additional units and are settled with granted stock units at the end of the vesting period.

	RSUs	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2022	45,068	\$ 97.67
Reinvested	102	108.75
Forfeited	(692)	94.53
Nonvested at March 31, 2022	44,478	\$ 97.74

6. OPERATING SEGMENT INFORMATION

Selected information by operating segment is presented in the table below. Additionally, the table reconciles segment totals to total earnings and total revenues.

Revenues (in thousands)	For the Three Months Ended March 31,	
	2022	2021
Casualty	\$ 171,756	\$ 148,770
Property	67,440	51,642
Surety	29,956	28,183
Net premiums earned	\$ 269,152	\$ 228,595
Net investment income	17,883	16,424
Net realized gains	5,588	14,150
Net unrealized gains (losses) on equity securities	(27,810)	28,162
Total consolidated revenue	<u>\$ 264,813</u>	<u>\$ 287,331</u>
Net Earnings (in thousands)	For the Three Months Ended March 31,	
	2022	2021
Casualty	\$ 27,647	\$ 24,867
Property	22,476	(1,005)
Surety	9,355	6,055
Net underwriting income	\$ 59,478	\$ 29,917
Net investment income	17,883	16,424
Net realized gains	5,588	14,150
Net unrealized gains (losses) on equity securities	(27,810)	28,162
General corporate expense and interest on debt	(5,373)	(5,243)
Equity in earnings of unconsolidated investees	8,759	6,424
Earnings before income taxes	\$ 58,525	\$ 89,834
Income tax expense	10,602	16,822
Net earnings	<u>\$ 47,923</u>	<u>\$ 73,012</u>

The following table further summarizes revenues by major product type within each operating segment:

Net Premiums Earned (in thousands)	For the Three Months Ended March 31,	
	2022	2021
Casualty		
Commercial excess and personal umbrella	\$ 60,072	\$ 51,554
General liability	23,740	22,407
Commercial transportation	23,628	16,830
Professional services	23,555	21,728
Small commercial	16,645	15,722
Executive products	6,577	5,241
Other casualty	17,539	15,288
Total	<u>\$ 171,756</u>	<u>\$ 148,770</u>
Property		
Commercial property	\$ 33,289	\$ 22,712
Marine	26,729	22,958
Specialty personal	5,896	5,034
Other property	1,526	938
Total	<u>\$ 67,440</u>	<u>\$ 51,642</u>
Surety		
Commercial	\$ 11,703	\$ 11,013
Miscellaneous	11,353	10,635
Contract	6,900	6,535
Total	<u>\$ 29,956</u>	<u>\$ 28,183</u>
Grand Total	<u>\$ 269,152</u>	<u>\$ 228,595</u>

7. LEASES

Right-of-use (ROU) assets are included in the other assets line item and lease liabilities are included in the other liabilities line item of the consolidated balance sheet. We determine if a contract contains a lease at inception and recognize

operating lease ROU assets and operating lease liabilities based on the present value of the future minimum lease payments at the commencement date. As our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments. Lease agreements may include options to extend or terminate. The options are exercised at our discretion and are included in operating lease liabilities if it is reasonably certain the option will be exercised. Lease agreements have lease and non-lease components, which are accounted for as a single lease component. Operating lease cost for future minimum lease payments is recognized on a straight-line basis over the lease term. Variable lease cost is expensed in the period in which the obligation is incurred. Sublease income is recognized on a straight-line basis over the sublease term.

The Company's operating lease obligations are for branch office facilities. The components of lease expense and other lease information as of and during the three-month periods ended March 31, 2022 and 2021 are as follows:

(in thousands)	For the Three Months Ended March 31,	
	2022	2021
Operating lease cost	\$ 1,158	\$ 1,351
Variable lease cost	348	384
Sublease income	(139)	(123)
Total lease cost	<u>\$ 1,367</u>	<u>\$ 1,612</u>
Cash paid for amounts included in measurement of lease liabilities		
Operating cash outflows from operating leases	\$ 1,322	\$ 1,488
ROU assets obtained in exchange for new operating lease liabilities	\$ —	\$ 58
Reduction to ROU assets resulting from reduction to lease liabilities	\$ —	\$ 59
Other non-cash reductions to ROU assets	\$ 73	\$ —

(in thousands)	March 31, 2022	December 31, 2021
Operating lease ROU assets	\$ 13,620	\$ 14,765
Operating lease liabilities	\$ 15,663	\$ 16,905
Weighted-average remaining lease term - operating leases	4.43 years	4.52 years
Weighted-average discount rate - operating leases	2.01 %	2.02 %

Future minimum lease payments under non-cancellable leases as of March 31, 2022 were as follows:

(in thousands)	March 31, 2022
2022	\$ 4,031
2023	4,826
2024	2,844
2025	1,481
2026	884
2027	695
Thereafter	1,587
Total future minimum lease payments	\$ 16,348
Less imputed interest	(685)
Total operating lease liability	<u>\$ 15,663</u>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 appear throughout this report. These statements relate to our current expectations, beliefs, intentions, goals or strategies regarding the future and are based on certain underlying assumptions by the Company. These forward looking statements generally include words such as “expect,” “predict,” “estimate,” “will,” “should,” “anticipate,” “believe” and similar expressions. Such assumptions are, in turn, based on information available and internal estimates and analyses of general economic conditions, competitive factors, conditions specific to the property and casualty insurance and reinsurance industries, claims development and the impact thereof on our loss reserves, the adequacy and financial security of our reinsurance programs, developments in the securities market and the impact on our investment portfolio, regulatory changes and conditions and other factors. These assumptions are subject to various risks, uncertainties and other factors, including, without limitation those set forth in “Item 1A. Risk Factors” within the Annual Report on Form 10-K for the year ended December 31, 2021 and Part II within this report. Actual results could differ materially from those expressed in, or implied by, these forward looking statements. We assume no obligation to update any such statements. You should review the various risks, uncertainties and other factors listed from time to time in our Securities and Exchange Commission filings.

OVERVIEW

RLI Corp. is a U.S.-based, specialty insurance company that underwrites select property and casualty insurance through major subsidiaries collectively known as RLI Insurance Group (Group). Our focus is on niche markets and developing unique products that are tailored to customers' needs. We hire underwriters and claim examiners with deep expertise and provide exceptional customer service and support. We maintain a highly diverse product portfolio and underwrite for profit in all market conditions. In 2021, we achieved our 26th consecutive year of underwriting profitability. Over the 26-year period, we averaged an 88.4 combined ratio. This drives our ability to provide shareholder returns in three different ways: the underwriting income itself, net investment income from our investment portfolio and long-term appreciation in our equity portfolio.

We measure the results of our insurance operations by monitoring growth and profitability across three distinct business segments: casualty, property and surety. Growth is measured in terms of gross premiums written, and profitability is analyzed through combined ratios, which are further subdivided into their respective loss and expense components.

The property and casualty insurance business is cyclical and influenced by many factors, including price competition, economic conditions, natural or man-made disasters (for example, earthquakes, hurricanes, pandemics and terrorism), interest rates, state regulations, court decisions and changes in the law. One of the unique and challenging features of the property and casualty insurance business is that coverages must be priced before costs have fully developed, because premiums are charged before claims are incurred. This requires that liabilities be estimated and recorded in recognition of future loss and settlement obligations. Due to the inherent uncertainty in estimating these liabilities, there can be no assurance that actual liabilities will not be more or less than recorded amounts; if actual liabilities differ from recorded amounts, there will be an adverse or favorable effect on net earnings.

The casualty portion of our business consists largely of commercial excess, personal umbrella, general liability, transportation and executive products coverages, as well as package business and other specialty coverages, such as professional liability and workers' compensation for office-based professionals. We also assume a limited amount of hard-to-place risks through a quota share reinsurance agreement. The casualty business is subject to the risk of estimating losses and related loss reserves because the ultimate settlement of a casualty claim may take several years to fully develop. The casualty segment is also subject to inflation risk and may be affected by evolving legislation and court decisions that define the extent of coverage and the amount of compensation due for injuries or losses.

Our property segment is comprised primarily of commercial fire, earthquake, difference in conditions and marine coverages. We also offer select personal lines policies, including homeowners' coverages. Property insurance results are subject to the variability introduced by perils such as earthquakes, fires, hurricanes and other storms. Our major catastrophe exposure is to losses caused by earthquakes, primarily on the West Coast. Our second largest catastrophe exposure is to losses caused by wind storms to commercial properties throughout the Gulf and East Coast, as well as to homes we insure in Hawaii. We seek to limit our net aggregate exposure to a catastrophic event by minimizing the total policy limits written in a particular region, purchasing reinsurance and maintaining policy terms and conditions throughout insurance cycles. We also use computer-assisted modeling techniques to provide estimates that help the Company carefully manage the concentration of risks exposed to catastrophic events.

The surety segment specializes in writing small to large-sized commercial and contract surety coverages, including payment and performance bonds. We also offer miscellaneous bonds including license and permit, notary and court bonds. Often, our surety coverages involve a statutory requirement for bonds. While these bonds typically maintain a relatively low

loss ratio, losses may fluctuate due to adverse economic conditions affecting the financial viability of our principals. The contract surety product guarantees the construction work of a commercial contractor for a specific project. Generally, losses occur due to the deterioration of a contractor's financial condition. This line has historically produced marginally higher loss ratios than other surety lines during economic downturns.

The insurance marketplace is competitive across all of our segments. However, we believe that our business model is built to create underwriting income by focusing on sound risk selection and discipline. Our primary focus will continue to be on underwriting profitability, with a secondary focus on premium growth where we believe underwriting profit exists, as opposed to general premium growth or market share measurements.

GAAP, non-GAAP and Performance Measures

Throughout this quarterly report, we include certain non-generally accepted accounting principles (non-GAAP) financial measures. Management believes that these non-GAAP measures further explain the Company's results of operations and allow for a more complete understanding of the underlying trends in the Company's business. These measures should not be viewed as a substitute for those determined in accordance with generally accepted accounting principles in the United States of America (GAAP). In addition, our definitions of these items may not be comparable to the definitions used by other companies.

The following is a list of non-GAAP measures found throughout this report with their definitions, relationships to GAAP measures and explanations of their importance to our operations.

Underwriting Income

Underwriting income or profit represents one measure of the pretax profitability of our insurance operations and is derived by subtracting losses and settlement expenses, policy acquisition costs and insurance operating expenses from net premiums earned, which are all GAAP financial measures. Each of these captions is presented in the statements of earnings but is not subtotaled. However, this information is available in total and by segment in note 6 to the unaudited condensed consolidated interim financial statements in this quarterly report on Form 10-Q, and in note 12 to the consolidated financial statements in our 2021 Annual Report on Form 10-K, regarding operating segment information. The nearest comparable GAAP measure is earnings before income taxes which, in addition to underwriting income, includes net investment income, net realized gains or losses, net unrealized gains or losses on equity securities, general corporate expenses, debt costs and our portion of earnings from unconsolidated investees. A reconciliation of net earnings to underwriting income follows:

(in thousands)	For the Three Months Ended March 31,	
	2022	2021
Net earnings	\$ 47,923	\$ 73,012
Income tax expense	10,602	16,822
Earnings before income taxes	\$ 58,525	\$ 89,834
Equity in earnings of unconsolidated investees	(8,759)	(6,424)
General corporate expenses	3,363	3,342
Interest expense on debt	2,010	1,901
Net unrealized (gains) losses on equity securities	27,810	(28,162)
Net realized gains	(5,588)	(14,150)
Net investment income	(17,883)	(16,424)
Net underwriting income	<u>\$ 59,478</u>	<u>\$ 29,917</u>

Combined Ratio

The combined ratio, which is derived from components of underwriting income, is a common industry performance measure of profitability for underwriting operations and is calculated in two components. First, the loss ratio is losses and settlement expenses divided by net premiums earned. The second component, the expense ratio, reflects the sum of policy acquisition costs and insurance operating expenses divided by net premiums earned. All items included in these components of the combined ratio are presented in our GAAP consolidated financial statements. The sum of the loss and expense ratios is the combined ratio. The difference between the combined ratio and 100 reflects the per-dollar rate of underwriting income or loss.

Critical Accounting Policies

In preparing the unaudited condensed consolidated interim financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ significantly from those estimates.

The most critical accounting policies involve significant estimates and include those used in determining the liability for unpaid losses and settlement expenses, investment valuation, recoverability of reinsurance balances, deferred policy acquisition costs and deferred taxes. For a detailed discussion of each of these policies, refer to our 2021 Annual Report on Form 10-K.

There have been no significant changes to critical accounting policies during the year.

IMPACT OF COVID-19

Our processes and controls continue to operate effectively and we have been able to maintain our high service and support levels for our customers throughout the COVID-19 pandemic. As of March 31, 2022, our premium production was unaffected by the direct impacts of the pandemic. However, actuarial models base future emergence on historical experience, with adjustments for current trends, and the appropriateness of these assumptions still involve greater uncertainty. We expect there will be impacts to the timing of loss emergence and ultimate loss ratios for certain coverages. The industry experienced new issues throughout the pandemic, including the postponement of civil court cases, the extension of various statutes of limitations and changes in settlement trends. Our booked reserves include consideration of these factors, but the duration and degree to which these issues persist, along with potential legislative, regulatory or judicial actions, could result in loss reserve deficiencies and reduce earnings in future periods.

We continue to evaluate all aspects of our operations and are making necessary adjustments to manage our business. Our diversified portfolio of products and financial strength have allowed us to remain on solid footing. We believe we have a strong and sustainable underwriting approach that will allow us to weather the economic environment and any remaining uncertainty.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2022 Compared to Three Months Ended March 31, 2021

Net premiums earned for the Group increased 18 percent, driven by growth from our casualty and property segments, while performance in the equity portfolio varied significantly between the periods. Overall market declines resulted in \$27.8 million of unrealized losses on equity securities in the first three months of 2022, while positive market performance resulted in \$28.2 million of unrealized gains in our equity portfolio in 2021. Investment income was up 9 percent, due to an increased asset base relative to the prior year. Realized gains during the first three months of 2022 were comprised of \$5.9 million of realized gains on equity securities, primarily due to rebalancing within our equity strategies, \$0.1 million of realized losses on the fixed income portfolio and \$0.2 million of other realized losses. This compares to \$13.1 million of realized gains on the equity portfolio, \$1.2 million of realized gains on the fixed income portfolio and \$0.1 million of other realized losses for the same period in 2021.

Consolidated Revenues (in thousands)	For the Three Months Ended March 31,	
	2022	2021
Net premiums earned	\$ 269,152	\$ 228,595
Net investment income	17,883	16,424
Net realized gains	5,588	14,150
Net unrealized gains (losses) on equity securities	(27,810)	28,162
Total consolidated revenue	\$ 264,813	\$ 287,331

Net earnings for the first three months of 2022 totaled \$47.9 million, compared to \$73.0 million for the same period in 2021. The decrease in earnings for 2022 was primarily attributed to \$17.3 million of net after-tax realized and unrealized losses on equity securities, compared to \$32.6 million of after-tax realized and unrealized gains in 2021. Underwriting results for 2022 were impacted by \$2.0 million of pretax storm losses, compared to \$16.0 million of pretax storm losses in the first quarter of 2021. Results for each period benefited from favorable development on prior years' loss reserves, which provided additional pretax earnings of \$45.5 million in the first three months of 2022, compared to \$37.1 million in 2021. Pretax bonus and profit sharing-related expenses associated with the net impact of prior years' reserve development and catastrophe losses totaled \$5.7 million in 2022, compared to \$3.1 million in 2021. These performance-related expenses affected policy acquisition, insurance

operating and general corporate expenses. Bonus and profit-sharing amounts earned by executives, managers and associates are predominantly influenced by corporate performance, including operating earnings, combined ratio and return on capital.

Underwriting income was \$59.5 million on a 77.9 combined ratio for the first three months of 2022, compared to \$29.9 million on an 86.9 combined ratio in the same period of 2021. The loss ratio decreased to 39.2 from 45.9, due to lower levels of storm losses and a higher level of favorable development in 2022. The Group's expense ratio decreased to 38.7 from 41.0, with 2022 benefiting from a larger earned premium base.

Our equity in earnings of unconsolidated investees primarily relate to our investments in Maui Jim, Inc. (Maui Jim), a manufacturer of high-quality sunglasses, and Prime Holdings Insurance Services, Inc. (Prime), a specialty insurance company. In the first three months of 2022, \$6.4 million of investee earnings were recorded for Maui Jim and \$2.8 million of investee earnings were recorded for Prime. Comparatively, the first three months of 2021 reflected investee earnings of \$3.7 million and \$3.7 million from Maui Jim and Prime, respectively.

Comprehensive loss totaled \$67.7 million for the first three months of 2022, compared to \$28.3 million of comprehensive earnings for the first three months of 2021. Other comprehensive earnings (loss) primarily included net after-tax unrealized gains and losses from the fixed income portfolio. Other comprehensive loss of \$115.6 million in the first three months of 2022 was attributable to increased interest rates, which decreased the fair value of securities held in the fixed income portfolio. Comparatively, \$44.7 million of other comprehensive loss was recognized in 2021 as interest rates increased.

Premiums

Gross premiums written for the Group increased \$64.3 million for the first three months of 2022 when compared to the same period of 2021. Growth was achieved in all three segments, though the increase was driven by products in the property and casualty segments. Net premiums earned increased \$40.6 million, also driven by products in our casualty and property segments.

(in thousands)	Gross Premiums Written			Net Premiums Earned		
	For the Three Months Ended			For the Three Months Ended		
	March 31,			March 31,		
	2022	2021	% Change	2022	2021	% Change
Casualty						
Commercial excess and personal umbrella	\$ 77,786	\$ 64,723	20 %	\$ 60,072	\$ 51,554	17 %
General liability	27,894	23,209	20 %	23,740	22,407	6 %
Commercial transportation	22,301	16,438	36 %	23,628	16,830	40 %
Professional services	24,510	22,407	9 %	23,555	21,728	8 %
Small commercial	18,138	16,378	11 %	16,645	15,722	6 %
Executive products	20,681	22,770	(9) %	6,577	5,241	25 %
Other casualty	24,511	22,971	7 %	17,539	15,288	15 %
Total	\$ 215,821	\$ 188,896	14 %	\$ 171,756	\$ 148,770	15 %
Property						
Commercial property	\$ 69,080	\$ 40,136	72 %	\$ 33,289	\$ 22,712	47 %
Marine	32,083	26,853	19 %	26,729	22,958	16 %
Specialty personal	6,441	5,663	14 %	5,896	5,034	17 %
Other property	1,994	1,885	6 %	1,526	938	63 %
Total	\$ 109,598	\$ 74,537	47 %	\$ 67,440	\$ 51,642	31 %
Surety						
Commercial	\$ 12,663	\$ 13,301	(5) %	\$ 11,703	\$ 11,013	6 %
Miscellaneous	13,362	11,974	12 %	11,353	10,635	7 %
Contract	7,715	6,187	25 %	6,900	6,535	6 %
Total	\$ 33,740	\$ 31,462	7 %	\$ 29,956	\$ 28,183	6 %
Grand Total	\$ 359,159	\$ 294,895	22 %	\$ 269,152	\$ 228,595	18 %

Casualty

Gross premiums written for the casualty segment were up \$26.9 million in the first three months of 2022. Gross premiums from commercial excess and personal umbrella increased \$13.1 million, due to rate increases and an expanded distribution base. Improvements in the construction industry and increases in new projects led to the increase in general

liability. Commercial transportation premium increased by \$5.9 million, driven by our public transportation line, where customers put vehicles back in service on policies that were suspended throughout the first two years of the pandemic. Executive products was down as a result of the exit from our large account cyber and representations and warranties programs.

Property

Gross premiums written for the property segment were up \$35.1 million in the first three months of 2022. Our commercial property business was up \$28.9 million, as rates on wind and earthquake exposures continued to increase, building valuations rose and market disruption provided an opportunity to modestly increase market share while strengthening terms and conditions. Rate increases, improved retention and new opportunities in the inland marine space, led to \$5.2 million of growth for our marine product.

Surety

Gross premiums written for the surety segment were up \$2.3 million for the first three months of 2022. Contract surety benefited from new construction opportunities and larger contract values, driven by the inflation of material prices. The growth in miscellaneous surety is broad based and has been aided by our focus on being easy to do business with and technology.

Underwriting Income

	For the Three Months Ended March 31,	
	2022	2021
Underwriting Income (Loss) (in thousands)		
Casualty	\$ 27,647	\$ 24,867
Property	22,476	(1,005)
Surety	9,355	6,055
Total	\$ 59,478	\$ 29,917
Combined Ratio		
Casualty	83.9	83.3
Property	66.7	101.9
Surety	68.8	78.5
Total	77.9	86.9

Casualty

The casualty segment recorded underwriting earnings of \$27.6 million in the first three months of 2022, compared to \$24.9 million for the same period last year. Reserve releases reduced loss and settlement expenses for the casualty segment by \$27.6 million, primarily on accident years 2019 through 2021. Favorable development was widespread, with notable amounts from professional services, general liability, transportation, commercial excess and personal umbrella. In comparison, \$28.3 million of reserves were released in the first three months of 2021. General liability, transportation, professional services, small commercial and personal umbrella were drivers of the favorable development. Offsetting the favorable development in 2021, winter storm losses on casualty-oriented package policies that include property coverage resulted in \$1.1 million of losses.

The combined ratio for the casualty segment was 83.9 in 2022, compared to 83.3 in 2021. The segment's loss ratio was 48.8 in 2022, up from 47.2 in 2021. Current accident year losses are slightly improved, but similar levels of reserve releases on a higher earned premium base resulted in a smaller impact to the loss ratio in 2022. The expense ratio for the casualty segment was 35.1, down from 36.1 for the same period last year.

Property

The property segment recorded underwriting earnings of \$22.5 million for the first three months of 2022, compared to an underwriting loss of \$1.0 million for the same period last year. Underwriting results for 2022 included \$13.4 million of favorable development on prior years' loss and catastrophe reserves across all products and \$2.0 million of storm losses. Comparatively, the 2021 underwriting results included \$6.1 million of favorable development on prior years' loss and catastrophe reserves and \$14.9 million of storm losses.

Underwriting results for the first three months of 2022 translated into a combined ratio of 66.7, compared to 101.9 for the same period last year. The segment's loss ratio was 30.2 in 2022, down from 61.3 in 2021, due to lower levels of storm losses

and larger reserve releases. The segment's expense ratio decreased to 36.5 in 2022 from 40.6 in the prior year, with 2022 benefiting from a larger earned premium base.

Surety

The surety segment recorded underwriting income of \$9.4 million for the first three months of 2022, compared to \$6.1 million for the same period last year. Both periods reflected positive current accident year underwriting performance and benefited from favorable development on prior years' loss reserves. Results for 2022 included favorable development on prior accident years' reserves, which decreased loss and settlement expenses for the segment by \$4.5 million. Comparatively, 2021 results included favorable development on prior accident years' loss reserves, which decreased the segment's loss and settlement expenses by \$2.8 million.

The combined ratio for the surety segment totaled 68.8 for the first three months of 2022, compared to 78.5 for the same period in 2021. The segment's loss ratio was 4.4 in 2022, down from 10.7 in 2021 due to larger reserve releases and improved current accident year losses. The expense ratio was 64.4, down from 67.8 in the prior year, as 2022 had a higher earned premium base.

Investment Income

Our investment portfolio generated net investment income of \$17.9 million during the first three months of 2022, an increase of 8.9 percent from that reported for the same period in 2021. The increase in investment income was largely due to an increased asset base relative to the prior year.

Yields on our fixed income investments for the first three months of 2022 and 2021 were as follows:

	2022	2021
<u>Pretax Yield</u>		
Taxable	2.70 %	2.87 %
Tax-Exempt	2.65 %	2.63 %
<u>After-Tax Yield</u>		
Taxable	2.13 %	2.27 %
Tax-Exempt	2.51 %	2.49 %

The following table depicts the composition of our investment portfolio at March 31, 2022 as compared to December 31, 2021:

(in thousands)	March 31, 2022		December 31, 2021	
Fixed income	\$ 2,292,378	75.8 %	\$ 2,409,887	76.2 %
Equity securities	608,180	20.1 %	613,776	19.4 %
Other invested assets	52,406	1.7 %	50,501	1.6 %
Cash	72,148	2.4 %	88,804	2.8 %
Total investments and cash	\$ 3,025,112	100.0 %	\$ 3,162,968	100.0 %

We believe our overall asset allocation best meets our strategy to preserve capital for policyholders, provide sufficient income to support insurance operations and effectively grow book value over a long-term investment horizon.

The fixed income portfolio decreased by \$117.5 million in the first three months of 2022. The decline was due to increased interest rates, which decreased the fair value of securities held in the fixed income portfolio. Average fixed income duration was 5.0 years at March 31, 2022, reflecting our current liability structure and sound capital position. The equity portfolio decreased by \$5.6 million during the first three months of 2022, as equity markets declined over the first quarter of the year.

Income Taxes

Our effective tax rate for the first three months of 2022 was 18.1 percent, compared to 18.7 percent for the same period in 2021. Effective rates are dependent upon components of pretax earnings or losses and the related tax effects. The effective rate was lower for the first three months of 2022, as lower pretax income increased the percentage impact of tax-favored adjustments.

LIQUIDITY AND CAPITAL RESOURCES

We have three primary types of cash flows: (1) cash flows from operating activities, which consist mainly of cash generated by our underwriting operations and income earned on our investment portfolio, (2) cash flows from investing activities related to the purchase, sale and maturity of investments and (3) cash flows from financing activities that impact our capital structure, such as shareholder dividend payments and changes in debt and shares outstanding.

The following table summarizes cash flows provided by (used in) our activities for the three-month periods ended March 31, 2022 and 2021:

(in thousands)	2022	2021
Operating cash flows	\$ 39,014	\$ 60,287
Investing cash flows	(45,897)	(16,544)
Financing cash flows	(9,773)	(11,025)
Total	<u>\$ (16,656)</u>	<u>\$ 32,718</u>

Our largest source of cash is premiums received from customers and our largest cash outflow is claim payments on insured losses. Cash flows from operating activities can vary among periods due to the timing in which these payments are made or received. Operating cash flows in the first three months of 2022 benefited from increased premium receipts relative to the first three months of 2021, but were offset by increased levels of loss and settlement expense payments. Additionally, improved financial performance in 2021 resulted in a higher level of bonus and profit-sharing contributions that were paid in the first quarter of 2022, which also reduced operating cash flows in the current period.

We have \$199.7 million in debt outstanding. On October 2, 2013, we completed a public debt offering, issuing \$150.0 million in senior notes maturing September 15, 2023 (a 10-year maturity), and paying interest semi-annually at the rate of 4.875 percent per annum. The notes were issued at a discount resulting in proceeds, net of discount and commission, of \$148.6 million. The estimated fair value for the senior notes at March 31, 2022 was \$154.5 million. The fair value of our debt is estimated based on the limited observable prices that reflect thinly traded securities. Additionally, RLI Insurance Company borrowed \$50.0 million from the Federal Home Loan Bank of Chicago (FHLBC) on November 10, 2021. The borrowing matures on November 10, 2023 and has an option to be paid off early on November 10, 2022. Interest is paid monthly at an annualized rate of 0.84 percent.

As of March 31, 2022, we had cash and other investments maturing within one year of approximately \$117.2 million and an additional \$686.4 million maturing between one to five years. Whereas our strategy is to be fully invested at all times, short-term investments in excess of demand deposit balances are considered a component of investment activities, and thus are classified as investments in our consolidated balance sheets.

We also maintain a revolving line of credit with Bank of Montreal, Chicago Branch, which permits us to borrow up to an aggregate principal amount of \$60.0 million. This facility was entered into during the first quarter of 2020 and replaced the previous \$50.0 million facility with JP Morgan Chase Bank N.A., which was set to expire on May 24, 2020. Under certain conditions, the line may be increased up to an aggregate principal amount of \$120.0 million. The facility has a three-year term that expires on March 27, 2023. As of and during the three-month period ended March 31, 2022, no amounts were outstanding on either facility.

Additionally, two of our insurance companies, RLI Insurance Company (RLI Ins.) and Mt. Hawley Insurance Company, are members of the FHLBC. Membership in the Federal Home Loan Bank system provides both companies access to an additional source of liquidity via a secured lending facility. Our membership allows each insurance subsidiary to determine tenor and structure at the time of borrowing. As of March 31, 2022, \$59.1 million of investments were pledged as collateral with the FHLBC to ensure timely access to the secured lending facility.

We believe that cash generated by operations and investments will provide sufficient sources of liquidity to meet our anticipated needs over the next 12 to 24 months. In the event they are not sufficient, we believe cash available from financing activities and other sources will provide sufficient additional liquidity.

We maintain a diversified investment portfolio representing policyholder funds that have not yet been paid out as claims, as well as the capital we hold for our shareholders. Invested assets at March 31, 2022 have decreased \$137.9 million from December 31, 2021. As of March 31, 2022, our investment portfolio had the following asset allocation breakdown:

(in thousands)	Cost or Amortized Cost	Fair Value	Unrealized Gain/(Loss)	% of Total Fair Value	Quality*
U.S. government	\$ 130,830	\$ 131,634	\$ 804	4.4 %	AAA
U.S. agency	30,386	30,885	499	1.0 %	AAA
Non-U.S. government & agency	6,797	6,585	(212)	0.2 %	BBB+
Agency MBS	348,318	334,097	(14,221)	11.0 %	AAA
ABS/CMBS/MBS**	273,349	259,666	(13,683)	8.6 %	AA+
Corporate	953,353	930,336	(23,017)	30.8 %	BBB+
Municipal	631,223	599,175	(32,048)	19.8 %	AA
Total fixed income	\$ 2,374,256	\$ 2,292,378	\$ (81,878)	75.8 %	AA-
Equity	347,354	608,180	260,826	20.1 %	
Other invested assets	45,701	52,406	6,705	1.7 %	
Cash	72,148	72,148	—	2.4 %	
Total portfolio	<u>\$ 2,839,459</u>	<u>\$ 3,025,112</u>	<u>\$ 185,653</u>	<u>100.0 %</u>	

* Quality ratings provided by Moody's, S&P and Fitch

** Non-agency asset-backed, commercial mortgage-backed and mortgage-backed securities

Quality is an average of each bond's credit rating, adjusted for its relative weighting in the portfolio. As of March 31, 2022, our fixed income portfolio had the following rating distribution:

AAA	35.5 %
AA	22.3 %
A	19.7 %
BBB	13.2 %
BB	3.9 %
B	2.4 %
CCC	0.1 %
NR	2.9 %
Total	100.0 %

As of March 31, 2022, our fixed income portfolio remained well diversified, with 1,586 individual issues.

Our investment portfolio has limited exposure to structured asset-backed securities. As of March 31, 2022, we had \$124.7 million in ABS, which are pools of assets collateralized by cash flows from several types of loans, including home equity, credit cards, autos and structured bank loans in the form of collateralized loan obligations (CLOs).

As of March 31, 2022, we had \$135.0 million in commercial mortgage-backed securities and \$334.1 million in mortgage-backed securities backed by government sponsored enterprises (GSEs - Freddie Mac, Fannie Mae and Ginnie Mae). Excluding the GSE-backed MBS, our exposure to ABS and CMBS was 8.6 percent of our investment portfolio at quarter end.

We had \$930.3 million in corporate fixed income securities as of March 31, 2022, which includes \$110.1 million invested in a high-yield credit strategy. This high-yield portfolio consists of floating rate bank loans and bonds that are below investment grade in credit quality and offer incremental yield over our core fixed income portfolio.

The municipal portfolio includes approximately 56 percent taxable securities and 44 percent tax-exempt securities. Approximately 91 percent of our municipal bond portfolio maintains an 'AA' or better rating, while 99 percent of the municipal bond portfolio is rated 'A' or better.

Securities within the equity portfolio are well diversified and are primarily invested in broad index exchange traded funds (ETFs). Our actively managed equity strategy has a preference for dividend income and value oriented security selection with low turnover, which minimizes transaction costs and taxes throughout our long investment horizon.

As of March 31, 2022, our equity portfolio had a dividend yield of 1.8 percent, compared to 1.4 percent for the S&P 500 index. Because of the corporate dividend-received-deduction applicable to our dividend income, we pay an effective tax rate of 13.1 percent on dividends, compared to 21.0 percent on taxable interest and 5.3 percent on municipal bond interest income. The equity portfolio is managed in a diversified and granular manner, with 85 individual securities and four ETF positions. No single company exposure in the equity portfolio represents more than 1 percent of invested assets.

Other invested assets include investments in low income housing tax credit partnerships, membership in the FHLBC and investments in private funds.

We had \$179.4 million of investments in unconsolidated investees at March 31, 2022, compared to \$171.3 million at December 31, 2021. At March 31, 2022 our investment in Maui Jim was \$119.4 million and our investment in Prime was \$49.0 million. During the first quarter, we announced that we have agreed to sell our minority interest in Maui Jim. Our net after-tax purchase price proceeds from the sale will be approximately \$500 million, with the final proceeds to be determined at closing, based on adjustments to the purchase price for working capital and other items. A successful completion of the sale will result in capital generated to our benefit. As always, our top priority is to ensure we have adequate capital to support our business. However, we have demonstrated discipline in returning capital to shareholders if it exceeds our near-term needs.

Our investment portfolio does not have any exposure to derivatives.

Our capital structure is comprised of equity and debt outstanding. As of March 31, 2022, our capital structure consisted of \$199.7 million in long-term debt and \$1.2 billion of shareholders' equity. Debt outstanding comprised 14.8 percent of total capital as of March 31, 2022. Interest and fees on debt obligations totaled \$2.0 million for the first three months of 2022, compared to \$1.9 million during the same period of 2021. We incurred interest expense on debt at an average annual interest rate of 3.89 percent during the first three months of 2022, compared to 4.91 percent for the same time period during 2021.

We paid a regular quarterly cash dividend of \$0.25 per share on March 18, 2022, the same amount as the prior quarter. We have increased dividends in each of the last 46 years.

Our three insurance companies are subsidiaries of RLI Corp, with RLI Ins. as the first-level, or principal, insurance company. At the holding company (RLI Corp.) level, we rely largely on dividends from our insurance subsidiaries to meet our obligations for paying principal and interest on outstanding debt, corporate expenses and dividends to RLI Corp. shareholders. As discussed further below, dividend payments to RLI Corp. from our principal insurance subsidiary are restricted by state insurance laws as to the amount that may be paid without prior approval of the insurance regulatory authorities of Illinois. As a result, we may not be able to receive dividends from such subsidiary at times and in amounts necessary to pay desired dividends to RLI Corp. shareholders. On a GAAP basis, as of March 31, 2022, our holding company had \$1.2 billion in equity. This includes amounts related to the equity of our insurance subsidiaries, which is subject to regulatory restrictions under state insurance laws. The unrestricted portion of holding company net assets is comprised primarily of investments and cash, including \$81.2 million in liquid assets, which exceeds our normal annual holding company expenditures. Unrestricted funds at the holding company are available to fund debt interest, general corporate obligations and dividend payments to our shareholders. If necessary, the holding company also has other potential sources of liquidity that could provide for additional funding to meet corporate obligations or pay shareholder dividends, which include a revolving line of credit, as well as access to capital markets.

Ordinary dividends, which may be paid by our principal insurance subsidiary without prior regulatory approval, are subject to certain limitations based upon statutory income, surplus and earned surplus. The maximum ordinary dividend distribution from our principal insurance subsidiary in a rolling 12-month period is limited by Illinois law to the greater of 10 percent of RLI Ins. policyholder surplus, as of December 31 of the preceding year, or the net income of RLI Ins. for the 12-month period ending December 31 of the preceding year. Ordinary dividends are further restricted by the requirement that they be paid from earned surplus. Any dividend distribution in excess of the ordinary dividend limits is deemed extraordinary and requires prior approval from the Illinois Department of Insurance (IDOI). In the first three months of 2022, RLI Ins. paid \$13.0 million in ordinary dividends to RLI Corp. In 2021, our principal insurance subsidiary paid ordinary dividends totaling \$70.0 million and extraordinary dividends totaling \$110.0 million. As of March 31, 2022, \$38.1 million of the net assets of our principal insurance subsidiary were not restricted and could be distributed to RLI Corp. as ordinary dividends without prior approval from the IDOI. Because the limitations are based upon a rolling 12-month period, the amount and impact of these restrictions vary over time. In addition to restrictions from our principal subsidiary's insurance regulator, we also consider internal models and how capital adequacy is defined by our rating agencies in determining amounts available for distribution.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of economic losses due to adverse changes in the estimated fair value of a financial instrument as the result of changes in equity prices, interest rates, foreign currency exchange rates and commodity prices. Historically, our primary market risks have been equity price risk associated with investments in equity securities and interest rate risk associated with investments in fixed maturities. We have limited exposure to both foreign currency risk and commodity risk.

Credit risk is the potential loss resulting from adverse changes in an issuer's ability to repay its debt obligations. We monitor our portfolio to ensure that credit risk does not exceed prudent levels. We have consistently invested in high credit

quality, investment grade securities. Our fixed maturity portfolio has an average rating of AA-, with 78 percent rated A or better by at least two nationally recognized rating organizations.

On an overall basis, our exposure to market risk has not significantly changed from that reported in our 2021 Annual Report on Form 10-K.

Item 4. Controls and Procedures

We maintain a system of controls and procedures designed to provide reasonable assurance as to the reliability of the financial statements and other disclosures included in this report, as well as to safeguard assets from unauthorized use or disposition. An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was performed, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective, as of the end of the period covered by this report.

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objective, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We believe that our disclosure controls and procedures provide such reasonable assurance.

No changes were made to our internal control over financial reporting during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings – There were no material changes to report.

Item 1A. Risk Factors – There were no material changes to report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds -

Items 2(a) and (b) are not applicable.

In 2010, our Board of Directors implemented a \$100 million share repurchase program. We did not repurchase any shares during 2022. We have \$87.5 million of remaining capacity from the repurchase program. The repurchase program may be suspended or discontinued at any time without prior notice.

Item 3. Defaults Upon Senior Securities - Not Applicable.

Item 4. Mine Safety Disclosures - Not Applicable.

Item 5. Other Information - Not Applicable.

Item 6. Exhibits

Exhibit No.	Description of Document	Reference
10.1	Share Purchase Agreement with Respect to Sale of Shares in Maui Jim, Inc.*	Attached as Exhibit 10.1.
10.2	Stockholder Non-Competition and Non-Solicitation Agreement with Respect to Sale of Shares in Maui Jim, Inc.	Attached as Exhibit 10.2.
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Attached as Exhibit 31.1.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Attached as Exhibit 31.2.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Attached as Exhibit 32.1.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Attached as Exhibit 32.2.
101	iXBRL-Related Documents	Attached as Exhibit 101.
104	Cover Page Interactive Data File	Embedded in Inline XBRL and contained in Exhibit 101.

*Certain exhibits and schedules have been omitted pursuant to Item 601 of Regulation S-K and will be provided to the Securities and Exchange Commission upon request.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RLI Corp.

/s/ Todd W. Bryant

Todd W. Bryant

Chief Financial Officer

(Principal Financial and Chief Accounting Officer)

Date: April 22, 2022

SHARE PURCHASE AGREEMENT

BY AND AMONG

KERING S.A.,

KERING EYEWEAR S.p.A.,

HUIPU CORP.,

WELINA, INC.,

AND

RLI CORP.

DATED AS OF MARCH 13, 2022

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Form of Stock Transfer Instrument
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SHARE PURCHASE AGREEMENT

SHARE PURCHASE AGREEMENT, dated as of March 13, 2022 (this “**Agreement**”), by and among Kering S.A., a French corporation (“**Ultimate Parent**”), Kering Eyewear S.p.A., an Italian corporation and subsidiary of Ultimate Parent (“**Parent**”), Huipu Corp., a Delaware corporation and a direct wholly-owned subsidiary of Parent (“**U.S. Parent**”), Welina, Inc., an Illinois corporation and a direct wholly-owned subsidiary of U.S. Parent (“**Merger Sub**”) and, together with Ultimate Parent, Parent and U.S. Parent, the “**Parent Parties**”) and RLI Corp., a Delaware corporation (“**RLI**”). Ultimate Parent, Parent, U.S. Parent, Merger Sub and RLI are, from time to time, referred to individually herein as a “**Party**” and collectively as the “**Parties**.”

WITNESSETH:

WHEREAS, RLI owns 13,200,000 shares of Class A common stock (the “**Purchased Shares**”) of Maui Jim, Inc., an Illinois corporation (the “**Company**”);

WHEREAS, RLI desires to sell to U.S. Parent, and U.S. Parent desires to purchase from RLI, all of the shares of common stock of the Company held by RLI; and

WHEREAS, Ultimate Parent, Parent, U.S. Parent, Merger Sub, the Company, the Selling Stockholders (as defined therein) and MJJ Equity Holder Representative LLC, solely in its capacity as the equityholder representative thereunder (the “**Equityholder Representative**”), are parties to that certain Agreement and Plan of Merger of even date herewith (the “**Merger Agreement**”) that provides for the acquisition of all outstanding shares of common stock of the Company not owned by RLI on the terms and conditions set forth therein.

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements of the Parties set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE I

CERTAIN DEFINITIONS

1.1 Certain Definitions

“**Agreement**” has the meaning set forth in the Preamble.

“**Closing**” has the meaning set forth in Section 2.3.

“**Company**” has the meaning set forth in the Preamble.

“**Equityholder Representative**” has the meaning set forth in the Preamble.

“**Fraud**” means an actual and intentional fraud by a Party in the making of the express representations and warranties in Article III (in the case of RLI), and Article IV (in the case of the Parent Parties) of this Agreement; provided, that such Fraud shall only be deemed to exist if, at the time such representation or warranty was made, (a) such representation or warranty was materially inaccurate, (b) the Party making such representation or warranty had actual knowledge (and not imputed or constructive knowledge), without any duty of inquiry or investigation, of the inaccuracy of such representation or warranty, (c) such Party made such materially inaccurate representation or warranty with the intent or willfulness to deceive another Party to enter into this Agreement and (d) the other Party justifiably relied on such materially inaccurate representation or warranty and suffered or incurred loss as a result of such reliance. For the avoidance of doubt, “Fraud” shall not include any claim for equitable fraud, promissory fraud or any tort (including a claim for fraud) based on negligence, recklessness or any similar theory.

“**Merger Sub**” has the meaning set forth in the Preamble.

“**Parent**” has the meaning set forth in the Preamble.

“**Parent Parties**” has the meaning set forth in the Preamble.

“**Party**” has the meaning set forth in the Preamble.

“**Purchase and Sale**” has the meaning set forth in Section 2.1.

“**Purchased Shares**” has the meaning set forth in the Preamble.

“**Stock Transfer Instrument**” means an instrument of transfer substantially in the form attached as Exhibit A hereto.

“**Ultimate Parent**” has the meaning set forth in the Preamble.

“**U.S. Parent**” has the meaning set forth in the Preamble.

ARTICLE II

PURCHASE AND SALE

2.1 Purchase and Sale

. Upon the terms and subject to the conditions of this Agreement, at the Closing, RLI shall sell, assign, convey, transfer and deliver to U.S. Parent, and U.S. Parent shall acquire from RLI, the Purchased Shares (the purchase and sale contemplated by this Section 2.1, the “**Purchase and Sale**”).

2.2 Purchase Price

. The purchase price payable to RLI for its Purchased Shares shall be (i) an amount equal to the number of Purchased Shares multiplied by the Closing Per Share Price (the “**RLI Closing Payment**”) on the terms set forth in Section 2.5 plus (ii) the amounts, if any, RLI is entitled to receive pursuant to Section 2.8, Section 2.12(c) and Section 7.18(g) of the Merger Agreement on the terms set forth therein. For reference purposes, Exhibit B sets forth certain provisions of Article II and Exhibit J of the Merger Agreement applicable to the calculation of the RLI Closing Payment (and certain related definitions with respect thereto).

2.3 Closing

. The closing of the Purchase and Sale (the “**Closing**”) shall take place at the offices of Skadden, Arps, Slate, Meagher & Flom LLP, 155 North Wacker Drive, Chicago, Illinois 60606 on the Closing Date.

2.4 Closing Deliveries

(a) At the Closing, RLI shall deliver, or cause to be delivered, to Parent:

- | | |
|-------|--|
| (i) | a Stock Transfer Instrument, duly executed by such RLI with respect to the Purchased Shares; |
| (ii) | a United States Internal Revenue Service Form W-9 or W-8 duly completed by RLI; |
| (iii) | the certificate contemplated by <u>Section 6.2(a)</u> from RLI; and |
| (iv) | any stock certificates issued in respect of the Purchased Shares held by RLI. |

2.5 Payments at Closing

. At the Closing, U.S. Parent shall pay , or cause to be paid, the RLI Closing Payment by wire transfer of immediately available funds to RLI, into an account designated in writing by RLI prior to the Closing. Such amounts shall be calculated in a manner consistent in all respects with Exhibit J of the Merger Agreement.

2.6 Withholding

. U.S. Parent shall be entitled to deduct and withhold (or cause to be deducted and withheld) from any amount payable pursuant to this Agreement such amounts as are required to be deducted or withheld therefrom under any applicable Law. To the extent that U.S. Parent becomes aware of any such requirement (other than U.S. federal income backup withholding Tax as a result of a holder of Common Shares failing to provide a duly completed United States Internal Revenue Service Form W-9 or W-8), it will notify RLI of such requirement as soon as reasonably possible and provide a reasonable opportunity for RLI to provide forms or evidence that would exempt or reduce such amounts from withholding and shall use commercially reasonable efforts to cooperate with RLI to reduce or eliminate the requirement to deduct or withhold Tax with respect to such payment under applicable Law.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF RLI

RLI represents and warrants to the Parent Parties as follows:

3.1 Authority; Enforceability

. (a) It is validly existing and in good standing under the laws of its jurisdiction of formation, (b) it has all requisite corporate or other entity power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the Purchase and Sale and (c) the execution and delivery by RLI of this Agreement, the performance by RLI of this Agreement and the consummation by RLI of the Purchase and Sale have been duly authorized by all necessary corporate or other entity action by RLI. This Agreement has been duly executed and delivered by RLI. This Agreement constitutes the valid and binding obligation of RLI enforceable against RLI, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and by general equitable principles.

3.2 No Conflict; Required Filings and Consents

(a) The execution and delivery by RLI of this Agreement does not, and the performance by RLI of this Agreement and the consummation of the Purchase and Sale will not, (i) conflict with or violate any Laws applicable to RLI or by or to which any of its properties or assets is bound or subject or (ii) require any consent, result in any breach of, or constitute a default (or an event that with notice or lapse of time or both would constitute a default) under, or give any Person any right of termination, amendment, acceleration or cancellation of, or require payment under, or result in the creation of a Lien (other than a Permitted Lien) on any of the assets or properties of, RLI, pursuant to any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which RLI is a party or by which such RLI or any of its properties or assets is bound or subject (including its Organizational Documents, if applicable), except, in the case of clauses (i) and (ii) above, as would not reasonably be expected to prohibit or materially restrict, delay or impede the consummation by RLI of the Purchase and Sale.

(b) The execution and delivery by RLI of this Agreement, and the performance by such RLI of this Agreement and the consummation by RLI of the Purchase and Sale, will not require RLI to obtain any Consent of any Governmental Entity except for (i) applicable requirements of the HSR Act and any applicable non-U.S. Competition Laws, (ii) as may be necessary as a result of any fact or circumstance relating to Parent or Merger Sub (including its sources of financing), and (iii) Consents, the failure of which to be obtained or made would not reasonably be expected to prohibit or materially restrict, delay or impede the consummation by RLI of the Purchase and Sale.

3.3 Title to Purchased Shares

. All of, and only, the Purchased Shares are owned, beneficially and of record, by RLI. RLI has good and valid title to all of such Purchased Shares, free and clear of all Liens. There are no voting trusts, proxies or any other similar contracts with respect to the voting of the Purchased Shares other than as set forth in that certain Shareholders Agreement, dated as of August 15, 2018, by and among RLI and Walter

F. Hester III, individually and in his capacity as the Trustee of the Walter F. Hester III Revocable Trust dated August 24, 2017.

3.4 Brokers

. No broker, finder, investment banker, or other Person is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of RLI.

3.5 Litigation

. As of the date of this Agreement, there is no claim, action, suit, proceeding or investigation of any kind, at law or in equity, by or before any Governmental Entity pending, threatened in writing or, to the knowledge of RLI, otherwise threatened against RLI, which in any such case, if adversely determined or concluded, would reasonably be expected to prohibit or materially restrict, delay or impede the consummation by RLI of the Purchase and Sale.

3.6 No Other Representations or Warranties

. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES EXPRESSLY MADE BY RLI IN THIS ARTICLE III AND MADE BY THE SELLING STOCKHOLDERS IN ARTICLE IV OF THE MERGER AGREEMENT AND BY THE COMPANY IN ARTICLE V OF THE MERGER AGREEMENT (IT BEING UNDERSTOOD THAT THE REPRESENTATIONS OR WARRANTIES OF THE SELLING STOCKHOLDERS AND THE COMPANY ARE NOT REPRESENTATIONS OF RLI), NEITHER RLI NOR ANY OF ITS AFFILIATES, REPRESENTATIVES OR ANY OTHER PERSON MAKES, HAS MADE, SHALL BE DEEMED TO HAVE MADE, OR HAS BEEN AUTHORIZED TO MAKE ANY EXPRESS OR IMPLIED REPRESENTATION OR WARRANTY, AT LAW OR IN EQUITY, WHETHER WRITTEN OR ORAL, ON BEHALF OF OR WITH RESPECT TO RLI, ANY SELLING STOCKHOLDER, THE COMPANY, THE COMPANY SUBSIDIARIES OR ANY OF THEIR RESPECTIVE AFFILIATES, REPRESENTATIVES OR ANY OTHER PERSON, THEIR BUSINESSES, OPERATIONS, ASSETS, LIABILITIES, FINANCIAL CONDITION, RESULTS OF OPERATIONS, FUTURE OPERATING OR FINANCIAL RESULTS, ESTIMATES, PROJECTIONS, FORECASTS, PLANS OR PROSPECTS (INCLUDING THE REASONABLENESS OF THE ASSUMPTIONS UNDERLYING SUCH ESTIMATES, PROJECTIONS, FORECASTS, PLANS OR PROSPECTS), THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREBY, OR THE ACCURACY OR COMPLETENESS OF ANY INFORMATION REGARDING RLI, ANY SELLING STOCKHOLDER, THE COMPANY, ANY COMPANY SUBSIDIARY OR ANY OTHER MATTER, FURNISHED OR MADE AVAILABLE TO ANY PARENT PARTY OR ANY OF THEIR REPRESENTATIVES (INCLUDING ANY INFORMATION, DOCUMENTS OR MATERIAL MADE AVAILABLE TO PARENT, MERGER SUB OR THEIR RESPECTIVE REPRESENTATIVES IN ANY "DATA ROOM" OR OTHERWISE, IN ANY MANAGEMENT PRESENTATIONS OR IN ANY OTHER FORM) OR AS TO THE FUTURE REVENUE, PROFITABILITY OR SUCCESS OF THE COMPANY OR ANY COMPANY SUBSIDIARY, AND RLI HEREBY DISCLAIMS AND SHALL HAVE NO LIABILITY FOR ANY AND ALL SUCH REPRESENTATIONS OR WARRANTIES NOT EXPRESSLY SET FORTH IN THIS ARTICLE III.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE PARENT PARTIES

The Parent Parties hereby jointly and severally represent and warrant to RLI as follows:

4.1 Organization

. Each of the Parent Parties is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as now being conducted.

4.2 Authority; Enforceability

. Each of the Parent Parties has all requisite corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery by the Parent Parties of this Agreement, the performance by each of the Parent Parties of this Agreement, and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action by the Parent Parties and no other corporate proceeding on the part of any Parent Party is necessary to authorize this Agreement, or to consummate the transactions contemplated hereby. This Agreement has been duly executed and delivered by the Parent Parties. This

Agreement constitutes the valid and binding obligation of each Parent Party, as the case may be, enforceable against each Parent Party, as applicable, in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and by general equitable principles.

4.3 No Conflict: Required Filings and Consents

(a) The execution and delivery of this Agreement does not, performance by the Parent Parties of this Agreement, and the consummation of the transactions contemplated hereby will not, (i) conflict with or violate the Organizational Documents of the Parent Parties or any other Subsidiary of Parent, (ii) conflict with or violate any Laws applicable to the Parent Parties or any other Subsidiary of Parent or by or to which any of the Parent Parties or any such Subsidiary's properties or assets is bound or subject or (iii) result in any breach of or constitute a default (or an event that with notice or lapse of time or both would constitute a default) under, or give to any Person any right of termination, amendment, acceleration or cancellation of, or require payment under, or result in the creation of a Lien on, any of the properties or assets of the Parent Parties or any other Subsidiary of Parent, pursuant to any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which the Parent Parties or any other Subsidiary of Parent is a party or by which the Parent Parties or any other Subsidiary of Parent or any of their respective properties or assets is bound or subject, except, in the case of clauses (ii) and (iii) above, as would not reasonably be expected to prohibit or materially restrict, delay or impede the consummation of the transaction contemplated by this Agreement.

(b) The execution and delivery of this Agreement does not, and the performance by the Parent Parties of this Agreement and the consummation of the transactions contemplated hereby will not, require any Parent Party or any other Subsidiary of Parent to obtain any Consent of any Governmental Entity except for the applicable requirements of the HSR Act and any applicable non-U.S. Competition Laws.

4.4 Litigation

. As of the date of this Agreement, there is no litigation, action, suit, proceeding, claim, arbitration or investigation pending or, to the Knowledge of Parent, threatened, against Parent, U.S. Parent, Merger Sub or any other Subsidiary of Parent, as to which there is a reasonable likelihood of an adverse determination and which, if adversely determined, (a) would prevent or materially delay the consummation by Parent, U.S. Parent or Merger Sub of the transactions contemplated by this Agreement or (b) would have, individually or in the aggregate, a material adverse effect on the ability of Parent, U.S. Parent or Merger Sub to perform its obligations under this Agreement.

4.5 Funding

. Parent has sufficient funds to enable U.S. Parent and Merger Sub to consummate the transactions contemplated by this Agreement and to satisfy their respective obligations under this Agreement, including for U.S. Parent to pay all amounts contemplated by Section 2.2 and the payment of all fees, costs and expenses to be paid by U.S. Parent, Merger Sub, the Company or the Surviving Company related to the transactions contemplated by this Agreement. Notwithstanding anything in this Agreement to the contrary, Parent acknowledges and agrees that Parent's obligations under this Agreement are not subject to any conditions regarding Parent's, U.S. Parent's, Merger Sub's, its Affiliates' or any other Person's ability to obtain financing for the consummation of the transactions contemplated by this Agreement.

4.6 Solvency

. As of the Closing and as of the Effective Time, after giving effect to all of the transactions contemplated by this Agreement, including the payment of the Gross Consideration, any repayment or refinancing of indebtedness contemplated in this Agreement and payment of all related fees and expenses, each of Parent, U.S. Parent, Merger Sub and the Surviving Company will be Solvent. For the purposes of this Section 4.6, the term "**Solvent**," when used with respect to any Person, means that, as of any date of determination, (a) the "fair saleable value" of the assets of such Person will, as of such date, exceed (i) the value of all "liabilities of such Person, including contingent and other liabilities," as of such date, as such quoted terms are generally determined in accordance with applicable federal laws governing determinations of the insolvency of debtors, and (ii) the amount that will be required to pay the probable liabilities of such Person on its existing debts (including contingent liabilities) as such debts become absolute and matured, (b) such Person will not have, as of such date, unreasonably small capital for the operation of the businesses in which it is engaged or proposed to be engaged following such date and (c) such Person will be able to pay its liabilities, including contingent and other liabilities, as they mature.

4.7 Ownership; Operations of Merger Sub

. The authorized capital stock of Merger Sub consists solely of 100 shares of common stock, par value \$0.01 per share, all of which are validly issued and outstanding. All of the issued and outstanding capital stock of Merger Sub is, and immediately prior to the Closing and the Effective Time will be, directly owned by U.S. Parent. Merger Sub has not (a) engaged in any business activities or conducted any operations other than in connection with the transactions contemplated hereby or (b) incurred any liabilities other than in connection with its formation and the transactions contemplated hereby.

4.8 Investment Intent

. Parent is acquiring the Purchased Shares for its own account, for investment purposes only and not with a view to the distribution (as such term is used in Section 2(11) of the Securities Act) thereof. Parent understands that Purchased Shares have not been registered under the Securities Act and cannot be sold unless subsequently registered under the Securities Act or an exemption from such registration is available.

4.9 Brokers

. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Parent Parties or any of their respective Affiliates.

4.10 Merger Agreement

. The copy of the Merger Agreement delivered to RLI in accordance with the procedures set forth in Schedule I has not been modified or amended in any respect and is a true, correct and complete copy of the Merger Agreement executed by the parties thereto.

4.11 Inspection; No Other Representations

(a) THE PARENT PARTIES HAVE CONDUCTED AN INDEPENDENT REVIEW AND ANALYSIS OF THE BUSINESSES, ASSETS, CONDITION, OPERATIONS AND PROSPECTS OF THE COMPANY AND THE COMPANY SUBSIDIARIES. IN ENTERING INTO THIS AGREEMENT AND THE MERGER AGREEMENT, THE PARENT PARTIES HAVE RELIED SOLELY UPON THEIR OWN INDEPENDENT REVIEW AND ANALYSIS AND THE REPRESENTATIONS AND WARRANTIES OF RLI EXPRESSLY SET FORTH IN ARTICLE III AND THE SELLING STOCKHOLDERS IN ARTICLE IV OF THE MERGER AGREEMENT AND THE COMPANY IN ARTICLE V OF THE MERGER AGREEMENT (IT BEING UNDERSTOOD THAT THE REPRESENTATIONS OF THE SELLING STOCKHOLDERS AND THE COMPANY ARE NOT REPRESENTATIONS OR WARRANTIES OF RLI).

(b) EACH OF THE PARENT PARTIES UNDERSTANDS, ACKNOWLEDGES AND AGREES THAT THE REPRESENTATIONS AND WARRANTIES OF RLI EXPRESSLY SET FORTH IN ARTICLE III CONSTITUTE THE SOLE AND EXCLUSIVE REPRESENTATIONS AND WARRANTIES OF ANY KIND OF RLI AND ITS REPRESENTATIVES TO THE PARENT PARTIES OR THEIR RESPECTIVE AFFILIATES OR REPRESENTATIVES WITH RESPECT TO RLI, ANY SELLING STOCKHOLDER, THE COMPANY, THE COMPANY SUBSIDIARIES OR ANY OF THEIR AFFILIATES, REPRESENTATIVES OR ANY OTHER PERSON, THEIR BUSINESSES, OPERATIONS, ASSETS, LIABILITIES, FINANCIAL CONDITION, RESULTS OF OPERATIONS, FUTURE OPERATING OR FINANCIAL RESULTS, ESTIMATES, PROJECTIONS, FORECASTS, PLANS OR PROSPECTS (INCLUDING THE REASONABLENESS OF THE ASSUMPTIONS UNDERLYING SUCH ESTIMATES, PROJECTIONS, FORECASTS, PLANS OR PROSPECTS), THE TRANSACTIONS, THIS AGREEMENT, OR THE ACCURACY OR COMPLETENESS OF ANY INFORMATION REGARDING RLI, ANY SELLING STOCKHOLDER, THE COMPANY, ANY COMPANY SUBSIDIARY OR ANY OTHER MATTER, FURNISHED OR MADE AVAILABLE TO THE PARENT PARTIES OR ANY OF THEIR REPRESENTATIVES (INCLUDING ANY INFORMATION, DOCUMENTS OR MATERIAL MADE AVAILABLE TO THE PARENT PARTIES OR THEIR RESPECTIVE REPRESENTATIVES IN ANY "DATA ROOM" OR OTHERWISE, IN ANY MANAGEMENT PRESENTATIONS OR IN ANY OTHER FORM) OR AS TO THE FUTURE REVENUE, PROFITABILITY OR SUCCESS OF THE COMPANY OR ANY COMPANY SUBSIDIARY, AND THE PARENT PARTIES IRREVOCABLY UNDERSTAND, ACKNOWLEDGE AND AGREE THAT ALL SUCH OTHER REPRESENTATIONS AND WARRANTIES OF ANY KIND OR NATURE EXPRESSED OR IMPLIED, AT LAW OR IN EQUITY, WHETHER WRITTEN OR ORAL, ARE SPECIFICALLY DISCLAIMED BY RLI, AND ITS AFFILIATES AND REPRESENTATIVES. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, THE PARENT PARTIES AGREE THAT NONE OF RLI OR ANY OF ITS RESPECTIVE

AFFILIATES OR REPRESENTATIVES, OR ANY OTHER PERSON, MAKES, HAS MADE, SHALL BE DEEMED TO HAVE MADE, OR HAS BEEN AUTHORIZED TO MAKE A REPRESENTATION OR WARRANTY TO THE PARENT PARTIES WITH RESPECT TO (A) ANY PROJECTIONS, ESTIMATES OR BUDGETS FOR THE COMPANY AND THE COMPANY SUBSIDIARIES OR (B) ANY MATERIAL, DOCUMENTS OR INFORMATION RELATING TO THE COMPANY OR ANY OF THE COMPANY SUBSIDIARIES MADE AVAILABLE TO THE PARENT PARTIES OR THEIR RESPECTIVE REPRESENTATIVES IN ANY "DATA ROOM" OR OTHERWISE, IN ANY MANAGEMENT PRESENTATIONS OR IN ANY OTHER FORM, EXCEPT TO THE EXTENT EXPRESSLY COVERED BY A REPRESENTATION OR WARRANTY SET FORTH IN ARTICLE III OF THIS AGREEMENT OR ARTICLE IV OR ARTICLE V OF THE MERGER AGREEMENT (IT BEING UNDERSTOOD THAT THE REPRESENTATIONS AND WARRANTIES IN ARTICLE IV AND ARTICLE V ARE NOT REPRESENTATIONS OR WARRANTIES OF RLI).

(c) THE PARENT PARTIES AGREE THAT EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN ARTICLE III OF THIS AGREEMENT, AND ARTICLE IV AND ARTICLE V OF THE MERGER AGREEMENT (IT BEING UNDERSTOOD THAT THE REPRESENTATIONS AND WARRANTIES IN ARTICLE IV AND ARTICLE V ARE NOT REPRESENTATIONS OR WARRANTIES OF RLI). THE PARENT PARTIES ARE NOT RELYING ON ANY REPRESENTATIONS, WARRANTIES, OR OTHER STATEMENTS OF ANY KIND WHATSOEVER, WHETHER ORAL OR WRITTEN, EXPRESS OR IMPLIED, AT LAW OR IN EQUITY, STATUTORY OR OTHERWISE AS TO, OR THE LACK OF ANY OMISSIONS OR THE CONCEALMENT OF INFORMATION RELATING TO, ANY MATTER CONCERNING RLI, ANY SELLING STOCKHOLDER, THE COMPANY AND THE COMPANY SUBSIDIARIES, OR ANY OF THEIR RESPECTIVE AFFILIATES, REPRESENTATIVES OR ANY OTHER PERSON, THEIR BUSINESSES, OPERATIONS, ASSETS, LIABILITIES, FINANCIAL CONDITION, RESULTS OF OPERATIONS, FUTURE OPERATING OR FINANCIAL RESULTS, ESTIMATES, PROJECTIONS, FORECASTS, PLANS OR PROSPECTS (INCLUDING THE REASONABLENESS OF THE ASSUMPTIONS UNDERLYING SUCH ESTIMATES, PROJECTIONS, FORECASTS, PLANS OR PROSPECTS), THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREBY, OR THE ACCURACY OR COMPLETENESS OF ANY INFORMATION REGARDING RLI, ANY SELLING STOCKHOLDER, THE COMPANY, ANY COMPANY SUBSIDIARY OR ANY OTHER MATTER FURNISHED OR MADE AVAILABLE TO (OR OTHERWISE ACQUIRED BY) THE PARENT PARTIES OR ANY OF THEIR RESPECTIVE AFFILIATES OR REPRESENTATIVES (INCLUDING ANY INFORMATION, DOCUMENTS OR MATERIAL MADE AVAILABLE TO PARENT, MERGER SUB OR THEIR RESPECTIVE REPRESENTATIVES IN ANY "DATA ROOM" OR OTHERWISE, IN ANY MANAGEMENT PRESENTATIONS OR IN ANY OTHER FORM).

ARTICLE V

COVENANTS

5.1 Appropriate Action; Consents; Filings

(a) To the extent requested by Parent or the Company, RLI will use their best efforts to promptly take, or cause to be taken, any and all actions and to do, or cause to be done, any and all things necessary, proper or advisable under applicable Law or otherwise to consummate and make effective, as soon as practicable after the date of this Agreement, the transactions contemplated by this Agreement or the Merger Agreement, including preparing and filing with each Governmental Entity all necessary applications, notices, filings, petitions, ruling requests, amendments and other documents, and seeking and obtaining all Governmental Approvals.

5.2 Public Announcements

RLI's initial announcement materials with respect to the transactions contemplated by this Agreement and the Merger Agreement shall be as set forth on Exhibit C attached hereto. Other than such announcement materials, prior to the Closing, neither RLI nor any of its Affiliates shall issue or cause the publication of any press release or public announcement in respect of this Agreement or the Merger Agreement or the transactions contemplated hereby or thereby, without the prior written consent of the other Parties (which consent shall not be unreasonably withheld, conditioned or delayed), except as RLI may reasonably

determine (on advice of counsel, which may be internal counsel) may be required by applicable Law or stock exchange rule, in which case RLI shall use reasonable efforts to provide the other Parties a reasonable opportunity to review on such press release or public announcement in advance of such publication to the extent legally permissible and reasonably practicable; provided that the foregoing shall not apply to any press release or public announcement so long as any statements contained therein concerning this Agreement and the transactions contemplated by this Agreement are consistent with previous releases or announcements made in compliance with the provisions of this Section 5.2.

5.3 Parent Parties

Ultimate Parent and Parent shall take all actions necessary to (a) cause Parent, U.S. Parent and Merger Sub and any other applicable Affiliates of Parent to perform their respective obligations under this Agreement and (b) ensure that, prior to the Effective Time, neither U.S. Parent nor Merger Sub shall engage in any business activities, conduct any operations, or incur any liabilities other than as specifically contemplated by this Agreement. Any consent or waiver by Ultimate Parent or Parent under this Agreement shall be deemed to also be a consent or waiver by all Parent Parties.

5.4 Notice and Cooperation; Transaction Litigation

- (a) RLI shall give prompt written notice to Parent of any event, change or effect that would, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect.
- (b) In the event that any Transaction Litigation is brought, threatened in writing or, to the knowledge of RLI, otherwise threatened, against RLI, the Company or any members of the board of directors of the Company from and following the date of this Agreement and prior to the Effective Time, RLI shall (i) promptly notify Parent of such Transaction Litigation, (ii) give Parent the opportunity to participate in RLI's defense and/or settlement of any Transaction Litigation, (iii) timely consult with Parent with respect to the defense and/or settlement of any Transaction Litigation and (iv) consider in good faith Parent's advice and recommendations with respect to such Transaction Litigation. RLI shall not agree to settle or offer to settle any Transaction Litigation without the prior written consent of Parent (such consent not to be unreasonably conditioned, withheld or delayed).

5.5 Amendment of Merger Agreement

Ultimate Parent shall not, and shall cause its Affiliates not to, without the prior written consent of RLI, (a) amend or waive (i) Article II, Article III or Section 7.9 of the Merger Agreement, or any corresponding provision of Article I of the Merger Agreement or (ii) any other provision of the Merger Agreement which, solely in respect of this clause (ii), would reasonably be expected to have a material adverse impact on RLI compared to any other Equityholder or (b) agree to any settlement of the Final Adjustment Amount in any manner that would result in any amount payable or distributable to the Equityholders, if any, pursuant to Section 2.8, Section 2.12(c) and Section 7.18(g) of the Merger Agreement to be paid or distributed to the Equityholders other than pro rata in accordance with their respective Applicable Percentages as set forth on Final Schedule I of the Merger Agreement without the prior written consent of the adversely affected Equityholders.

ARTICLE VI

CLOSING CONDITIONS

6.1 Conditions to Obligations of RLI, Parent and U.S. Parent

The respective obligations of RLI, Parent and U.S. Parent to consummate the Purchase and Sale shall be subject to the satisfaction at or prior to the Closing of the following conditions, any or all of which may be waived, in whole or in part, to the extent permitted by applicable Law, by RLI, Parent and U.S. Parent:

- (a) No court of competent jurisdiction shall have issued any order, judgment, decree or injunction which is in effect and has the effect of making illegal or otherwise prohibiting the consummation of the Purchase and Sale.
- (b) The Purchase and Sale (as defined in the Merger Agreement) shall have been consummated prior to or simultaneously with the Closing.

6.2 Additional Conditions to Obligations of Parent and U.S. Parent

. The obligations of Parent and U.S. Parent to consummate the Purchase and Sale are subject to the satisfaction at or prior to the Closing of the following conditions, any or all of which may be waived, in whole or in part, to the extent permitted by applicable Law, by Parent:

(a) The representations and warranties of RLI contained in Article III of this Agreement shall be true and correct (without giving effect to any “materiality” or “material adverse effect” qualifiers set forth therein) as of the Closing Date with the same force and effect as if made at and as of the Closing Date (other than those representations and warranties that are made only as of a particular date or only with respect to a specific period of time, which need only be true and correct as of such date or with respect to such period), except where the failure of such representations and warranties to be so true and correct would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the ability of RLI to consummate the Purchase and Sale. Parent shall have received a certificate of a duly authorized officer of RLI as to the satisfaction of this Section 6.2(a).

6.3 Additional Conditions to Obligations of RLI

. The obligations of RLI to consummate the Purchase and Sale are subject to the satisfaction at or prior to the Closing of the following conditions, any or all of which may be waived, in whole or in part, to the extent permitted by applicable Law, by RLI:

(a) The representations and warranties of the Parent Parties contained in Article IV of this Agreement shall be true and correct (without giving effect to any “materiality” or “material adverse effect” qualifiers set forth therein) as of the Closing Date with the same force and effect as if made at and as of the Closing Date (other than those representations and warranties that are made only as of a particular date or only with respect to a specific period of time, which need only be true and correct as of such date or with respect to such period), except where the failure of such representations and warranties to be so true and correct would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the ability of the Parent Parties to consummate the transactions contemplated hereby in accordance with the terms hereof. RLI shall have received a certificate of a duly authorized officer of each of the Parent Parties as to the satisfaction of this Section 6.3(a).

ARTICLE VII

TERMINATION

7.1 Termination

. Notwithstanding anything herein to the contrary notwithstanding, this Agreement and the transactions contemplated hereby shall automatically be terminated and abandoned upon the termination the Merger Agreement in accordance with its terms.

7.2 Effect of Termination

. In the event of the termination of this Agreement pursuant to Section 7.1, this Agreement shall forthwith become null and void, all rights and obligations of any Party shall cease, and there shall be no liability on the part of any Parent Party, RLI or any of their respective Affiliates or Representatives; provided, however, that (a) this Section 7.1 and Article VIII shall survive any termination of this Agreement and (b) no such termination shall relieve any Party from Fraud or any knowing and intentional breach of the covenants and agreements set forth in this Agreement occurring prior to such termination, in which, in either such case, such breaching Party shall be fully liable for any and all Damages incurred or suffered by the other Parties as a result of such Fraud or knowing and intentional breach.

ARTICLE VIII

GENERAL PROVISIONS

8.1 Survival; Limitations on Certain Claims, Etc.

(a) The representations, warranties, covenants and agreements of RLI in this Agreement or in any instrument or other document delivered pursuant to this Agreement or the Merger Agreement shall terminate at the Closing, regardless of any applicable statute of limitations; provided, however, that (x) the

representations and warranties contained in Sections 3.1, 3.3 and 3.4 of this Agreement and (y) any cause of action for Fraud relating to the representations and warranties in Article III of this Agreement shall each survive the Closing until the date that is three (3) years after the Closing Date, regardless of any applicable statute of limitations. Without limiting the foregoing, after the Closing, none of the Parent Parties or any of their respective Affiliates or Representatives shall have any recourse against RLI or any of its Affiliates or Representatives in respect of the representations, warranties, covenants and agreements that are terminated at the Closing pursuant to this Section 8.1(a). Notwithstanding anything to the contrary contained in this Agreement, RLI shall not (i) be liable for Damages in excess of the total cash proceeds actually received by such RLI pursuant to this Agreement in respect of the Purchased Shares, (ii) have any liability for the breach or violation of any representation, warranty, covenant or agreement in the Merger Agreement, in any Ancillary Agreement or in any instrument or other document delivered pursuant to this Agreement or any Ancillary Agreement by the Company (subject to the last sentence of Section 8.10), by any Selling Stockholder or any of their Affiliates or Representatives, or (iii) have any liability for Damages to the extent any Parent Party or its Affiliates shall have failed to mitigate any such Damages suffered, incurred or sustained by any Parent Party or its Affiliates hereunder as required by Law. Each Parent Party covenants and agrees that the amount of any and all Damages arising from any claims against RLI shall be determined net of (i) any amounts actually recovered or reasonably expected to be recovered by any Parent Party or its Affiliates under insurance policies (including the R&W Insurance Policy, if obtained) or from other collateral sources (such as contractual indemnities of any Person which are contained outside of this Agreement) in connection with the facts giving rise to such Damages; provided, that each Parent Party and its Affiliates shall have first used reasonable best efforts to recover all amounts payable from an insurer or other third party under any such insurance policy (including the R&W Insurance Policy, if obtained) or other collateral source prior to seeking Damages hereunder, and (ii) any Tax benefits actually realized by any Parent Party or its Affiliates with respect to such Damages. In any case where any Parent Party or its Affiliates recover, under insurance policies (including the R&W Insurance Policy, if obtained) or from other collateral sources, any amount in respect of Damages which any Parent Party or its Affiliates recovered from RLI, Parent shall promptly pay over (or cause to be paid over) to RLI the amount so recovered.

8.2 Notices

. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed to have been duly given on the date delivered, if delivered personally, or on the next Business Day after being sent by reputable overnight courier (delivery prepaid), in each case, to the Parties at the following addresses, or on the date sent (if between 9:00 a.m. and 5:00 p.m. Central time on a Business Day, or, if after 5:00 p.m. Central Time on a Business Day or on a day which is not a Business Day, the next Business Day) and confirmed by electronic transmission or confirmatory return email, to the email address specified below (or at such other address or email address for a Party as shall be specified by notice given in accordance with this Section):

If to any Parent Party or, after the Closing, the Company:

Kering Eyewear S.p.A.
Via Altichiero 180
35135 Padova - Italy
Attention: Massimo Lisot
Email: massimo.lisot@kering.com

and

Kering SA
40, rue de Sèvres
75007 Paris - France
Attention: Group General Counsel
Email: eric.sandrin@kering.com

with a copy to (which shall not constitute notice):

Sullivan & Cromwell LLP
125 Broad Street

New York, NY 10004
Attention: Frank Aquila
Olivier de Vilmorin
Melissa Sawyer
Email: aquilaf@sullcrom.com
devilmorino@sullcrom.com
sawyerm@sullcrom.com

If to RLI:

RLI Corp.
9025 N. Lindbergh Dr.
Peoria, IL 61615
Attention: Jeff Fick
Email: jeff.fick@rlicorp.com

with a copy to (which shall not constitute notice):

Sidley Austin LLP
One South Dearborn Street
Chicago, IL 60603
Attention: Sean M. Keyvan
Telephone: (312) 853-4660
E-mail: skeyvan@sidley.com

with, if prior Closing, an additional copy to (which shall not constitute notice):

Maui Jim, Inc.
One Aloha Lane
Peoria, Illinois 615615
Attention: Paul Lippens
Email: PLippens@mauijim.com

with a copy to (which shall not constitute notice):

Skadden, Arps, Slate, Meagher & Flom LLP
155 N. Wacker Dr., Suite 2700
Chicago, Illinois 60606
Attention: Brian W. Duwe
Richard C. Witzel, Jr.
Email: Brian.Duwe@skadden.com
Richard.Witzel@skadden.com

with, if following the Closing, an additional copy to (which shall not constitute notice):

MJI Equity Holder Representative LLC
913 Tahoe Blvd Suite 3
Incline Village, NV 89451
Attention: Walter Hester
Email: Hesterwalter4@gmail.com

with a copy to (which shall not constitute notice):

Skadden, Arps, Slate, Meagher & Flom LLP
155 N. Wacker Dr., Suite 2700
Chicago, Illinois 60606
Attention: Brian W. Duwe
Richard C. Witzel, Jr.
Email: Brian.Duwe@skadden.com
Richard.Witzel@skadden.com

8.3 Amendment

. Subject to applicable Law, this Agreement may be amended by the Parties at any time. This Agreement may not be amended except by an instrument in writing signed by each of the Parties.

8.4 Waiver

. At any time prior to the Effective Time, subject to applicable Law, any Party may (a) extend the time for the performance of any obligation or other act of any other Party, (b) waive any inaccuracy in the representations and warranties of the other Party contained herein or in any document delivered pursuant hereto, and (c) waive compliance with any agreement or condition contained herein. Subject to the terms of this Section 8.4, any agreement on the part of a Party to any extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such Party.

8.5 Headings

. The headings and captions contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

8.6 Severability

. If any term or other provision of this Agreement, or any portion thereof, is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other terms and provisions of this Agreement, or the remaining portion thereof, shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any Party. Upon such determination that any such term or other provision, or any portion thereof, is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are consummated to the fullest extent possible.

8.7 Entire Agreement

. This Agreement (together with the Exhibits attached hereto), the Merger Agreement and the Ancillary Agreements constitute the entire agreement of the Parties and supersede all prior agreements and undertakings, both written and oral, between or among the Parties and their Affiliates, or any of them, with respect to the subject matter hereof.

8.8 Assignment

. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned, directly or indirectly, (whether by operation of Law or otherwise) by any Party without the prior written consent of the other Parties. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the Parties and their respective permitted successors and assigns.

8.9 Third Party Beneficiaries

- . Except as provided in Section 8.18, this Agreement is not intended to and shall not confer any rights or remedies upon any Person other than the Parties and their respective successors and permitted assigns.

8.10 No Recourse

. This Agreement may only be enforced against, and any claim, action, suit or other legal proceeding based upon, arising out of, or related to this Agreement, or the negotiation, execution or performance of this Agreement, may only be brought against the entities that are expressly named as Parties and then only with respect to the specific obligations set forth herein with respect to such Party. Except as expressly specified in this Agreement in respect of RLI, no past, present or future director, officer, employee, incorporator, manager, member, general or limited partner, equityholder, Affiliate or Representative of any Party or of any Affiliate of any of the foregoing, or any of their successors or permitted assigns, shall have any liability for any obligations or liabilities of any Party under this Agreement or for any claim or action based on, in respect of or by reason of the transactions contemplated hereby, whether based on contract, tort or strict liability or other theory, by the enforcement of any assessment, by any legal or equitable proceeding, by virtue of any applicable Law or otherwise and whether by or through attempted piercing of the corporate, limited liability company or partnership

veil, by or through a claim by or on behalf of any party or other Person or otherwise. Notwithstanding anything to the contrary in this Agreement, the Merger Agreement or any Ancillary Agreement, but subject to the provisions of this Agreement, the Merger Agreement and the Ancillary Agreements limiting the claims that can be brought against any Equityholder, in the case of Fraud by the Company, nothing in this Section 8.10 shall limit any common law liability of any Equityholder who is actually aware of, and complicit with, such Fraud.

8.11 Failure or Delay Not Waiver; Remedies Cumulative

. No failure or delay on the part of any Party in the exercise of any right hereunder shall impair such right or be construed to be a waiver of, or acquiescence in, any breach of any representation, warranty or agreement herein, nor shall any single or partial exercise of any such right preclude other or further exercise thereof or of any other right. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.

8.12 Specific Performance

. The Parties agree that irreparable damage, for which monetary damages (even if available) would not be an adequate remedy, would occur in the event that any Party does not perform any provision of this Agreement in accordance with its specified terms or otherwise breach such provisions. Accordingly, the Parties acknowledge and agree that each of the Parties shall be entitled to an injunction, specific performance and other equitable relief to prevent breaches or threatened breaches of this Agreement by any other Party and to enforce specifically the terms and provisions hereof, in addition to any other remedy to which such Party is entitled in Law or in equity. Each of the Parties agrees that it will not oppose the granting of an injunction, specific performance and other equitable relief on the basis that a Party has an adequate remedy at Law or that any such award is not an appropriate remedy for any reason at Law or in equity. Any Party seeking an injunction or injunctions to prevent breaches or threatened breaches of this Agreement or to enforce specifically the terms and provisions of this Agreement shall not be required to provide any bond or other security in connection with such remedy. The foregoing is in addition to any other remedy to which any Party is entitled at law, in equity or otherwise. The Parties further agree that nothing set forth in this Section 8.12 shall require any Party to institute any proceeding for specific performance under this Section 8.12 prior to or as a condition to exercising any termination right under Article VII (and pursuing damages after such termination).

8.13 Governing Law; Jurisdiction; Waiver of Jury Trial

(a) This Agreement shall be governed by the laws of the State of Delaware. Each Party hereby agrees and consents to be subject to the jurisdiction of the Court of Chancery of the State of Delaware in and for New Castle County, or if the Court of Chancery lacks jurisdiction over such dispute, in any state or federal court having jurisdiction over the matter situated in New Castle County, Delaware, in any suit, action or proceeding seeking to enforce any provision of, or based on any matter arising out of or in connection with, this Agreement or the transactions contemplated hereby. Each Party hereby irrevocably consents to the service of any and all process in any such suit, action or proceeding by the delivery of such process to such Party at the address and in the manner provided in Section 8.2 hereof. Each of the Parties irrevocably and unconditionally waives any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement or the transactions contemplated hereby in the Court of Chancery of the State of Delaware in and for New Castle County, or if the Court of Chancery lacks jurisdiction over such dispute, in any state or federal court having jurisdiction over the matter situated in New Castle County, Delaware, and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

(b) EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE EACH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, OR THE BREACH, TERMINATION OR VALIDITY OF THIS AGREEMENT, OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (i) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, (ii) EACH SUCH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (iii) EACH SUCH

PARTY MAKES THIS WAIVER VOLUNTARILY AND (iv) EACH SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 8.13(b).

8.14 Counterparts

. This Agreement may be executed in any number of counterparts, including by means of facsimile or by e-mail delivery of a “.pdf” format data file, each of which when executed shall be deemed to be an original copy of this Agreement and all of which taken together shall constitute one and the same agreement.

8.15 Interpretation

. As used in this Agreement, (i) the term “including” means “including, without limitation” and “including, but not limited to,” and (ii) the word “or” is not exclusive, unless the context otherwise requires. Unless the context requires otherwise, words using the singular or plural number also include the plural or singular number, respectively, the use of any gender herein shall be deemed to include the other genders, words denoting natural persons shall be deemed to include business entities and vice versa and references to a person are also to its permitted successors and assigns. All exhibits and schedules annexed hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set forth in full herein. Any capitalized terms used in any exhibit or Schedule but not otherwise defined therein shall have the meaning as defined in this Agreement. When a reference is made in this Agreement to a section, article, exhibit or schedule, such reference shall be to a section or article of, or an exhibit or schedule to, this Agreement unless otherwise indicated. The terms “hereof,” “herein,” “hereby,” “hereto,” “hereunder” and derivative or similar words refer to this entire Agreement. References to any statute shall be deemed to refer to such statute as amended from time to time and to any rules or regulations promulgated thereunder (notwithstanding the foregoing, for purposes of any representations and warranties contained in this Agreement that are made as of a specific date or dates, references to any statute shall be deemed to refer to such statute, as amended, and to any rules or regulations promulgated thereunder, in each case, as of such date or dates). All references in this Agreement to “dollars” or “\$” shall mean United States Dollars. Capitalized terms used herein and not defined herein shall have the meanings assigned to such terms in the Merger Agreement.

8.16 Fees, Expenses and Other Payments

. Except as otherwise expressly provided in this Agreement, each Party shall bear its own expenses in connection with the transactions contemplated by this Agreement, including costs of their respective Representatives.

8.17 Representation by Counsel

. RLI represents and agrees that it has been represented by, or had the opportunity to be represented by, independent counsel of his, her or its own choosing, and that it has had the full right and opportunity to consult with his, her or its respective attorney(s), that to the extent, if any, that it desired, it availed itself of this right and opportunity, that it or its authorized officers (as the case may be) have carefully read and fully understand this Agreement in its entirety (including, for the avoidance of doubt, any Schedules and Exhibits attached thereto) and have had it fully explained to them by RLI’s counsel, that each is fully aware of the contents thereof and its meaning, intent and legal effect, and that it or its authorized officer (as the case may be) is competent to execute this Agreement, the Stock Transfer Instrument and any other agreement required hereby and has executed this Agreement, the Stock Transfer Instrument and any other agreement required hereby free from coercion, duress or undue influence.

8.18 Company and Equityholder Representative Third Party Beneficiary Rights

. Notwithstanding anything to the contrary contained herein, (a) (i) prior to the Closing, this Agreement may not be amended, modified, waived, assigned or terminated in any manner without the prior written consent of the Company and (ii) after the Closing, this Agreement may not be amended, modified, waived or terminated in any manner without the prior written consent of the Equityholder Representative and (b) the Parties specifically acknowledge and agree that Section 5.1(a), this Section 8.18 and Section 8.19 are intended to be for the benefit of, and shall be enforceable by, the Company and the Equityholder Representative.

8.19 Parent Guarantee

. Ultimate Parent absolutely, irrevocably and unconditionally guarantees the full and timely payment of any amounts due from U.S. Parent when due and payable in accordance with this Agreement. If U.S. Parent fails to make such payment when due and payable under or in connection with this Agreement, upon written notice from (x) prior to Closing, RLI, or (y) from and after Closing, the Equityholder Representative, to Ultimate Parent of such failure, Ultimate Parent will make such payments or cause such payments

to be made. Notwithstanding anything contained herein to the contrary, Ultimate Parent shall have and may assert against any of its obligations pursuant to this Section 8.19, and Ultimate Parent's obligations under this Section 8.19 shall be subject to, any claim, right, set-off, deduction or defense of any kind that U.S. Parent may have or may assert under this Agreement. This guarantee by Ultimate Parent hereunder constitutes a guarantee of payment and not of collection, and it shall not be necessary for any beneficiary hereof (and Ultimate Parent hereby waives any rights which Ultimate Parent may have to require any such beneficiary), in order to enforce the payment obligations of Ultimate Parent hereunder, first to (a) institute suit or exhaust its remedies against U.S. Parent or any other Person, (b) join U.S. Parent or any other Person in any action seeking to enforce this Agreement, or (c) resort to any other means of obtaining payment from U.S. Parent. Neither RLI (prior to Closing) or the Equityholder Representative (from and after Closing) or any other Person shall be required to take any action to reduce, collect or enforce the payment obligations of U.S. Parent when due under this Agreement. Ultimate Parent waives notice of presentment, demand, protest, proof of non-payment, default or breach by U.S. Parent and acceptance of this guarantee. Ultimate Parent agrees to each of the following, and agrees that its payment obligations under or in connection with this Agreement as a result of this Section 8.19 are absolute and unconditional and shall not be released, diminished, impaired, reduced or adversely affected by any of the following, and waives any common law, equitable, statutory or other rights (including without limitation rights to notice except as provided above and except for notices required to be given by, (x) prior to Closing, RLI, or (y) from and after Closing, the Equityholder Representative, to U.S. Parent or Parent pursuant to this Agreement) which Ultimate Parent might otherwise have as a result of or in connection with (A) any renewal, extension, increase, modification, alteration or rearrangement of all or any part of the payment obligations of U.S. Parent pursuant to or in connection with this Agreement (other than to the extent expressly stated therein), (B) any insolvency, bankruptcy, arrangement, adjustment, composition, liquidation, disability, dissolution, asset sale or transfer or change of structure or organization or (C) any full or partial release of the liability of U.S. Parent of its payment obligations hereunder. To the extent it may lawfully do so, Ultimate Parent absolutely and irrevocably waives and relinquishes the benefit and advantage of, and covenants not to assert against any other party to this Agreement, any valuation, stay, appraisement, extension, redemption or similar laws and any and all rights or defenses it may have as a surety, now or hereafter existing, arising out of the exercise by them of any rights under this Section 8.19. Ultimate Parent hereby waives and shall not exercise any rights of subrogation until full payment of all payment obligations of Ultimate Parent, Parent and U.S. Parent under this Section 8.19. The guarantee set forth in this Section 8.19 is a continuing, absolute and unconditional guarantee, and it will not be discharged, and will remain in full force and effect, until the full payment required to be paid by U.S. Parent pursuant to or in connection with this Agreement or upon the earlier termination of this Agreement in accordance with Article VII (except to the extent of any payment obligations that survive such termination). Unless so terminated earlier, the guarantee set forth in this Section 8.19 shall immediately and automatically terminate upon the full payment of all amounts required to be paid by U.S. Parent pursuant to or in connection with the terms of this Agreement. The guarantee contained herein shall continue to be effective or shall be reinstated, as the case may be, if at any time any payment by Ultimate Parent (in whole or in part) of any of the payment obligations of U.S. Parent is rescinded or must otherwise be returned or restored by reason of the insolvency, bankruptcy or reorganization of Ultimate Parent or for any other reason, all as though such payment had not been made.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the undersigned Parties have caused this Share Purchase Agreement to be executed as of the date first written above.

KERING S.A.

By: /s/ Jean-Francois Palus
Name: Jean-Francois Palus
Title: Managing Director

KERING EYEWEAR S.p.A.

By: /s/ Roberto Vedovotto
Name: Roberto Vedovotto
Title: President and CEO

HUIPU CORP.

By: /s/ Roberto Vedovotto
Name: Roberto Vedovotto
Title: Director

WELINA, INC.

By: /s/ Roberto Vedovotto
Name: Roberto Vedovotto
Title: Director

RLI CORP.:

By: /s/ Craig W. Kliethermes
Name: Craig W. Kliethermes
Title: President & CEO

EXHIBIT B
ADDITIONAL RLI CLOSING PAYMENT PROVISIONS

A. Certain Merger Agreement Article II Provisions:

2.6 Purchase Price Adjustment Escrow. At the Closing, U.S. Parent shall pay the Purchase Price Adjustment Escrow Amount by wire transfer of immediately available funds into a separate account (the “**Purchase Price Adjustment Escrow Account**”) with the Escrow Agent pursuant to the Escrow Agreement. The Escrow Agent shall hold the Purchase Price Adjustment Escrow Fund and all interest and other amounts earned thereon in escrow pursuant to the Escrow Agreement. The Purchase Price Adjustment Escrow Fund shall be distributed in accordance with Sections 2.12(c)(i) and 2.12(c)(ii) and the terms of the Escrow Agreement and this Agreement.

2.7 Indemnity Matter Escrow. At the Closing, U.S. Parent shall pay the Indemnity Matter Escrow Amount by wire transfer of immediately available funds into a separate account (the “**Indemnity Matter Escrow Account**”) with the Escrow Agent pursuant to the Escrow Agreement. The Escrow Agent shall hold the Indemnity Matter Escrow Fund and all interest and other amounts earned thereon in escrow pursuant to the Escrow Agreement. The Indemnity Matter Escrow Fund shall be distributed in accordance with Section 7.18(g) and the terms of the Escrow Agreement and this Agreement.

2.8 Equityholder Representative Expense Fund. At the Closing, U.S. Parent shall pay the Equityholder Representative Expense Fund Amount by wire transfer of immediately available funds into an account designated in writing prior to the Closing by the Equityholder Representative (the “**Equityholder Representative Expense Fund Account**”). The Equityholder Representative Expense Fund Amount will be retained by the Equityholder Representative until depleted or until such time or times as determined by the Equityholder Representative in its sole discretion (or delivered to a successor Equityholder Representative as provided herein), and the applicable portion of the Equityholder Representative Expense Fund Amount that the Equityholder Representative determines, in its sole discretion, may be released will be distributed to the (A) Paying Agent, for further distribution to the Stockholders, and (B) Surviving Company, for further distribution to the holders of Options or Performance Shares, with each Equityholder receiving his, her or its pro rata amount thereof, equal to (x) such Equityholder’s Applicable Percentage as set forth on Final Schedule I multiplied by (y) the aggregate amount being distributed from the Equityholder Representative Expense Fund Account at such time.

2.12 Adjustments to the Closing Date Consideration

(a) Not fewer than five (5) Business Days and not more than seven (7) Business Days prior to the Closing Date, the Company shall deliver to U.S. Parent an estimated computation of Company Cash and Cash Equivalents (“**Estimated Company Cash and Cash Equivalents**”), Company Working Capital (“**Estimated Company Working Capital**”), Company Fees and Expenses (“**Estimated Company Fees and Expenses**”), Company Indebtedness for Borrowed Money (“**Estimated Company Indebtedness for Borrowed Money**”) and Current Income Taxes (“**Estimated Current Income Taxes**”) and a draft of Final Schedule I, each calculated in accordance with their respective definition herein, and, to the extent applicable, the Accounting Principles and thereafter provide the Supporting Access prior to Closing. The Company shall consider in good faith any reasonable comments made by U.S. Parent in respect of the computations of the Estimated Adjustment Items and deliver to U.S. Parent a revised computation of the items set forth in the first sentence of this Section 2.12(a) two (2) Business Days prior to Closing; provided that the failure of the Company to implement any comments made by U.S. Parent for any reason shall not delay or otherwise prevent the Closing, and, to the extent of any dispute regarding U.S. Parent’s comments, the Company’s computations shall be conclusive for purposes of determining the Adjustment Items to be included in the calculation of the Aggregate Closing Date Consideration payable at the Closing, but shall be subject to adjustment, and the right of U.S. Parent to raise any objections thereto, after the Closing pursuant to this Section 2.12.

(b) Within ninety (90) calendar days after the Closing Date, U.S. Parent shall prepare and deliver to the Equityholder Representative a computation of the Adjustment Items, each calculated in accordance with their respective definition herein, and, to the extent applicable, the Accounting Principles, and thereafter provide the Supporting Access to the Equityholder Representative. If the Equityholder Representative

disagrees with the computation of the Adjustment Items as calculated by U.S. Parent, the Equityholder Representative may, within thirty (30) calendar days after receipt of such calculations in accordance with this Section 2.12(b), deliver a notice (an “**Objection Notice**”) to U.S. Parent setting forth the Equityholder Representative’s calculation of the Adjustment Items. If the Equityholder Representative does not deliver an Objection Notice within such thirty (30) calendar day period, then the Adjustment Items as determined by U.S. Parent shall be deemed to be conclusive and binding upon U.S. Parent and the Equityholder Representative absent manifest mathematical error. If the Equityholder Representative delivers an Objection Notice to U.S. Parent, the Equityholder Representative and U.S. Parent shall cooperate in good faith to resolve any disagreement as to the computation of the Adjustment Items as soon as practicable, but if they cannot reach a final resolution within thirty (30) calendar days after U.S. Parent has received the Objection Notice for any reason, U.S. Parent and the Equityholder Representative may, at the election of either U.S. Parent or the Equityholder Representative, jointly retain Deloitte & Touche LLP or, if agreed to by U.S. Parent and the Equityholder Representative, another nationally recognized accounting firm of comparable stature acceptable to both the Equityholder Representative and U.S. Parent (the “**Accounting Firm**”). U.S. Parent and the Equityholder Representative shall direct the Accounting Firm to render a determination within thirty (30) calendar days after its retention and U.S. Parent and the Equityholder Representative and their respective agents shall cooperate in good faith with the Accounting Firm during its engagement. The Accounting Firm shall consider only those items and amounts set forth in the Objection Notice that U.S. Parent and the Equityholder Representative are unable to resolve. In resolving any disputed line item, the Accounting Firm may not assign a value to any such item greater than the greatest value for such item claimed by either U.S. Parent or the Equityholder Representative or less than the smallest value for such item claimed by either U.S. Parent or the Equityholder Representative. In rendering its determination, the Accounting Firm shall act as an expert and not as an arbitrator and shall base its determination solely on (A) the definitions of the Adjustment Items set forth in this Agreement, (B) to the extent applicable, the Accounting Principles, (C) such other materials submitted by the Equityholder Representative and U.S. Parent and (D) review of the other terms of this Agreement as the Accounting Firm deems necessary to make its determination. The determination of the Adjustment Items by the Accounting Firm shall be conclusive and binding upon U.S. Parent and the Equityholder Representative absent manifest mathematical error. A copy of all materials submitted to the Accounting Firm pursuant to this Section 2.12(b) shall be provided by the Equityholder Representative or U.S. Parent, as applicable, to the other Party concurrently with the submission thereof to the Accounting Firm. U.S. Parent, on the one hand, and the Equityholder Representative, on the other hand, shall bear the costs and expenses of the Accounting Firm in the same proportion that the aggregate amount of disputed items that were determined in favor of the other Party (as finally determined by the Accounting Firm) bears to the total amount of disputed items submitted by U.S. Parent and the Equityholder Representative. The Adjustment Items as conclusively determined pursuant to this Section 2.12(b) are referred to herein as the “**Final Company Cash and Cash Equivalents**,” “**Final Company Working Capital**,” “**Final Company Fees and Expenses**,” “**Final Company Indebtedness for Borrowed Money**,” and “**Final Current Income Taxes**,” respectively.

(c) Payment from Adjustments.

(i) If the Final Adjustment Amount exceeds the Estimated Adjustment Amount (the amount of such excess being the “Credit Adjustment”), (A) U.S. Parent shall, within two (2) Business Days after the determination thereof, pay (or cause to be paid) by wire transfer of immediately available funds to the (1) Paying Agent, for further distribution to the Stockholders, and (2) Surviving Company, for further distribution to the holders of Options or Performance Shares, an aggregate amount equal to the lower of (p) the Credit Adjustment and (q) the Purchase Price Adjustment Escrow Amount (such lower amount, the “Payable Credit Adjustment”), with each Equityholder receiving his, her or its pro rata portion thereof, equal to (x) such Equityholder’s Applicable Percentage as set forth on Final Schedule I multiplied by (y) the Payable Credit Adjustment, and (B) U.S. Parent and the Equityholder Representative shall, within two (2) Business Days after determination thereof, deliver a joint written instruction to the Escrow Agent instructing the Escrow Agent to distribute the Purchase Price Adjustment Escrow Fund (including any interest earned thereon) to the (1) Paying Agent, for further distribution to the Stockholders, and (2) Surviving Company, for

further distribution to the holders of Options or Performance Shares, in accordance herewith and with the Escrow Agreement, with each Equityholder receiving his, her or its pro rata portion thereof, equal to (x) such Equityholder's Applicable Percentage as set forth on Final Schedule I multiplied by (y) the Purchase Price Adjustment Escrow Fund (including any interest earned thereon).

(ii) If the Final Adjustment Amount is less than the Estimated Adjustment Amount (the amount of such deficit being the "Deficit Adjustment"), U.S. Parent and the Equityholder Representative shall, within two (2) Business Days after determination thereof, deliver a joint written instruction to the Escrow Agent instructing the Escrow Agent to distribute (A) an aggregate amount equal to the lesser of (x) the Deficit Adjustment and (y) the Purchase Price Adjustment Escrow Fund (including any interest earned thereon) to U.S. Parent (or its designee), and (B) the remainder, if any, of the Purchase Price Adjustment Escrow Fund to the (1) Paying Agent, for further distribution to the Stockholders, and (2) Surviving Company, for further distribution to the holders of Options or Performance Shares, with each Equityholder receiving his, her or its pro rata portion thereof, equal to (A) such Equityholder's Applicable Percentage as set forth on Final Schedule I multiplied by (B) the Purchase Price Adjustment Escrow Fund (including any interest earned thereon), in each case, in accordance herewith and with the Escrow Agreement. For the avoidance of doubt, if the Deficit Adjustment is greater than the Purchase Price Adjustment Escrow Fund, U.S. Parent shall be entitled only to the amount then in the Purchase Price Adjustment Escrow Fund and no further amount. The Purchase Price Adjustment Escrow Fund shall be the sole recourse for, and the amount therein shall serve as the limit of, the Deficit Adjustment.

7.18 Indemnity Matter Claims.

(a) From and after the Closing, and subject to the terms of this Section 7.18, the Parent Parties, the Company, the Company Subsidiaries, their respective Affiliates and Representatives and their respective successors and permitted assigns (the "**Parent Indemnified Parties**") shall be indemnified from the Indemnity Matter Escrow Fund against any Taxes payable by any Parent Indemnified Parties for a Tax period or portion thereof ending on or prior to the Closing Date arising in connection with payments made to the Indemnity Matter or any Specified Entity, including any liability for any withholding Tax (including, without limitation, any payroll Tax) imposed as a direct result of such payments being recharacterized by any Governmental Entity (the "**Indemnity Matter Taxes**").

(b) Notwithstanding anything in this Agreement to the contrary the Parent Indemnified Parties shall not have any right to indemnification under this Section 7.18 with respect to, or based on, Indemnity Matter Taxes to the extent such Indemnity Matter Taxes are taken into account in the calculation of any Adjustment Item.

(c) This Section 7.18 shall constitute the sole governing provisions regarding claims with respect to any indemnification for Indemnity Matter Taxes and any Indemnity Matter Taxes for which the Parent Indemnified Parties is entitled to indemnification pursuant to this Section 7.18 shall be satisfied solely from the Indemnity Matter Escrow Fund pursuant to the terms of the Escrow Agreement. No Equityholder shall have any liability in respect of the Indemnity Matter Taxes aside from the Parent Indemnified Parties' right to recover Indemnity Matter Taxes from the Indemnity Matter Escrow Fund.

(d) The indemnification rights of the Parent Indemnified Parties under this Section 7.18 shall survive in full force and effect until the third (3rd) anniversary of the Closing Date (the "**Indemnity Matter Release Date**"), at which time such indemnification rights shall terminate and no claims shall be made for indemnification under this Section 7.18 thereafter, unless a claim is made under this Section 7.18 in good faith on or prior to the Indemnity Matter Release Date as a result of receiving a Tax Claim on or prior to such date, in which case the indemnification rights to recover against the Indemnity Matter Escrow Fund shall survive as to such claim until such claim has been finally resolved.

(e) If any Taxing Authority notifies U.S. Parent or any of its Affiliates of a claim, audit, examination, contest, litigation or other proceeding with respect to Indemnity Matter Taxes (a “**Tax Claim**”), then U.S. Parent shall promptly provide written notice thereof to the Equityholder Representative; provided, however, that the failure of the U.S. Parent to give such prompt notice shall not relieve the Equityholders of any of their obligations under this Section 7.18, except to the extent that the Equityholder Representative is actually and materially prejudiced by such failure. Such notice shall specify in reasonable detail the basis for such Tax Claim and, if practicable, the amount or estimated amount of such Tax Claim, and shall include a copy of the relevant portion of any correspondence received from the Tax authority. U.S. Parent and its Affiliates (including the Company and the Company Subsidiaries after the Closing) shall not (i) extend the statute of limitations with respect to any Tax Return in respect of Indemnity Matter Taxes, (ii) amend or otherwise modify any Tax Return in respect of Indemnity Matter Taxes nor (iii) make any voluntary disclosure in respect of Indemnity Matter Taxes, in each case, to the extent such extension, amendment, modification or disclosure could reasonably be expected to result in an indemnification claim against the Indemnity Matter Escrow Fund, unless the Equityholder Representative consents (such consent not to be unreasonably withheld, conditioned or delayed).

(f) The Equityholder Representative shall have the sole right to control, at their own expense, any Tax Claim; provided, however, that (1) the Company and the U.S. Parent shall have the right to participate in proceedings related to such Tax Claim at their own expense; (2) the Equityholder Representative shall (i) keep U.S. Parent reasonably informed of material developments with respect to such Tax Claim, (ii) consult with U.S. Parent before taking any significant or material action in connection with such Tax Claim and (iii) consider in good faith any reasonable comments made by U.S. Parent with respect to any such Tax Claim; provided that if the Equityholder Representative does not exercise their right to control a Tax Claim under this Section 7.18(f), then U.S. Parent, in its absolute discretion, shall control such Tax Claim at U.S. Parent’s expense. Neither the Equityholder Representative nor the U.S. Parent shall settle any Tax Claim without the prior written consent of the other (such consent not to be unreasonably withheld, conditioned or delayed).

(g) Payments from Indemnity Matter Escrow Fund.

(i) If U.S. Parent seeks indemnification pursuant to this Section 7.18, then it shall notify the Equityholder Representative in writing of such Tax Claim in accordance with Section 7.18(e) (such writing, the “**Claim Certificate**”). Claims for Indemnity Matter Taxes agreed to in writing by the Equityholder Representative and claims for Indemnity Matter Taxes the validity and amount of which have been the subject of a final judicial determination or shall have been settled with the consent of U.S. Parent and the Equityholder Representative are hereinafter referred to, collectively, as “Agreed Claims”. Within ten (10) Business Days of the determination of the amount of any Agreed Claim, U.S. Parent and the Equityholder Representative shall execute and deliver a joint written instruction to the Escrow Agent instructing the Escrow Agent to distribute an amount equal to the Agreed Claim from the Indemnity Matter Escrow Fund to U.S. Parent

(ii) On the Indemnity Matter Release Date, U.S. Parent and the Equityholder Representative shall deliver a joint written instruction to the Escrow Agent instructing the Escrow Agent to distribute the excess (if any) of (i) the remaining funds in the Indemnity Matter Escrow Fund over (ii) the sum of (x) the amount of Agreed Claims not yet released pursuant to Section 7.18(g)(i) above and (y) the aggregate maximum amount of any unresolved Tax Claims in respect of which a Claim Certificate has been transmitted on or before the Indemnity Matter Release Date to (1) the Equityholder Representative, for further distribution to the Stockholders, and (2) the Surviving Company, for further distribution to the holders of Options or Performance Shares, with each Equityholder receiving his, her or its pro rata portion thereof, equal to (A) such Equityholder’s Applicable Percentage as set forth on Final Schedule I multiplied by (B) the amount of such excess to be distributed from the Indemnity Matter Escrow Fund, in each case, in accordance herewith and with the Escrow Agreement. Any funds remaining in the Indemnity Matter Escrow Account following the resolution of the last of any such unresolved Tax Claim shall be released from the Indemnity Matter Escrow Account in accordance with the immediately preceding sentence.

(h) All indemnification payments under this Section 7.18 shall be treated as adjustments to the Purchase Price for Income Tax purposes to the extent consistent with applicable Law.

Notwithstanding anything in this Agreement to the contrary, no statute of limitations may be extended without the consent of U.S. Parent with respect to any Tax Return that is reasonably expected to reflect Indemnity Matter Taxes, if such Taxes were to be imposed.

B. Certain Merger Agreement Definitions:

“**Accounting Principles**” has the meaning set forth in Schedule III.

“**Acquisition Transfer Taxes**” means all Transfer Taxes imposed solely and directly by reason of the transactions contemplated by this Agreement and the RLI Purchase Agreement; provided, however, that Acquisition Transfer Taxes shall exclude any Restructuring Transfer Taxes and any Indemnifiable Restructuring Taxes.

“**Adjustment Calculation Time**” means 11:59 p.m. local time in Chicago, Illinois on the day immediately prior to the Closing Date.

“**Adjustment Items**” means Company Cash and Cash Equivalents, Company Working Capital, Company Fees and Expenses, Company Indebtedness for Borrowed Money and Current Income Taxes.

“**Aggregate Closing Date Consideration**” means (a) the Gross Consideration, plus (b) the Estimated Company Cash and Cash Equivalents, plus (c) the amount, if any, by which Estimated Company Working Capital exceeds the Company Working Capital Target, minus (d) the amount, if any, by which Estimated Company Working Capital is less than the Company Working Capital Target, minus (e) the Estimated Company Fees and Expenses, minus (f) the Estimated Company Indebtedness for Borrowed Money, minus (g) the Estimated Current Income Taxes.

“**Aggregate Exercise Amount**” means (i) the sum of each per share exercise price payable for Options with an exercise price that is less than the Closing Per Share Price outstanding immediately prior to the Closing multiplied by the number of Common Shares that are subject to each Option at such per share exercise price, plus (ii) the sum of the Award Value (as defined in the Amended and Restated Company 2019 Performance Share Plan, as amended, restated or otherwise modified from time to time) with respect to each Performance Share with a per share Award Value less than the Closing Per Share Price outstanding immediately prior to the Closing multiplied by the number of Common Shares with respect to such Performance Share at such Award Value.

“**Aggregate Share Number**” means the aggregate number of Common Shares issued and outstanding immediately prior to the Closing, plus the aggregate number of Common Shares subject to issuance upon the cancellation of outstanding Options for Option Closing Consideration pursuant to Section 2.11(b), plus the aggregate number of Common Shares with respect to which Performance Shares are cancelled for Performance Share Closing Consideration pursuant to Section 2.11(c).

“**Applicable Percentage**” means, with respect to each Equityholder, a fraction, as set forth opposite the name of such Equityholder on Schedule I attached hereto (as may be revised when delivered in accordance with Section 2.4(b)(i)), (a) the numerator of which is equal to the aggregate number of Common Shares held by such Equityholder plus the aggregate number of Common Shares subject to the Options held by such Equityholder that have an exercise price less than the Closing Per Share Price plus the aggregate number of Common Shares with respect to the Performance Shares held by such Equityholder with a per share award value less than the Closing Per Share Price, in each case immediately prior to the Closing, and (b) the denominator of which is equal to the Aggregate Share Number.

“**Cash and Cash Equivalents**” means cash, cash equivalents and any liquid investments, that can be converted to cash including readily marketable equity securities, government guaranteed debt obligations, restricted cash (including any cash posted to support letters of credit, performance bonds or other similar obligations), deposits with third parties, time deposits with, or insured certificates of deposit or bankers’ acceptances of, any commercial bank and commercial paper and variable or fixed rate notes. Notwithstanding the previous sentence, Cash and Cash Equivalents shall (a) be calculated net of a party’s issued but uncleared checks and drafts, and (b) include uncleared checks and drafts issued, received or deposited for the account of such party.

“Closing Per Share Price” means an amount equal to the quotient obtained by dividing (x) the Net Closing Date Consideration, plus the Aggregate Exercise Amount by (y) the Aggregate Share Number.

“Company Cash and Cash Equivalents” means the amount of all Cash and Cash Equivalents (i) held by the Company and the Company Subsidiaries as of the Adjustment Calculation Time plus the amounts (ii) that are actually paid to the Company in consideration of the Restructuring.

“Company Fees and Expenses” means the sum, without duplication, of (a) investment banking, legal, accounting and other fees and expenses incurred by the Company or any Company Subsidiary in connection with or related to the transactions contemplated by this Agreement, (b) any compensation payable by the Company or any Company Subsidiary to any director, officer, employee, agent, consultant or advisor solely as a result of the transactions contemplated by this Agreement, including change in control payments, retention or “stay” bonuses offered by the Company that are intended to induce employees of the Company or any of the Company Subsidiaries to remain employed by the Company or any of the Company Subsidiaries through the Closing (if any), special or closing bonuses or similar payments, including any employer portion of payroll Taxes related thereto (excluding any payments made pursuant to Section 2.11), (c) any fees, costs and expenses (including any Restructuring Taxes but excluding any Indemnifiable Restructuring Taxes and Taxes accounted for in Current Income Taxes) incurred by the Company or any Company Subsidiary in connection with or related to the Restructuring, (d) any Acquisition Transfer Taxes that are allocated to the Company (whether due before or after the Closing Date), (e) any payroll Taxes payable by the Company or any Company Subsidiary after the Closing Date which would have been payable by the Company or such Company Subsidiary on or prior to the Closing Date but for the deferral of such Taxes pursuant to Section 2302 of the CARES Act and (f) any fees, costs and expenses (including any Taxes) incurred by the Company or any Company Subsidiary in connection with or related to the UAE Consolidation, in the case of each item in the foregoing clauses (a) through (e), to the extent such item (A) has not been paid by the Company, any Company Subsidiary, RLI or any Selling Stockholder as of immediately prior to the Closing Date and (B) other than in respect of Taxes, was incurred by the Company or any Company Subsidiary as of immediately prior to the Closing Date.

“Company Indebtedness for Borrowed Money” means all Indebtedness for Borrowed Money of the Company and the Company Subsidiaries as of the Adjustment Calculation Time.

“Company Working Capital” means the sum of the Current Assets of the Company and the Company Subsidiaries, minus the Current Liabilities of the Company and the Company Subsidiaries, as of the Adjustment Calculation Time. An illustrative calculation of the Company Working Capital of the Company as at December 31, 2021 is included in Schedule IV.

“Company Working Capital Target” has the meaning set forth in the Merger Agreement.

“Current Assets” means the sum of the current assets of the Company as determined in accordance with the Accounting Principles as of the Adjustment Calculation Time without taking into account the transactions contemplated by this Agreement; provided, however, that Current Assets shall exclude Cash and Cash Equivalents, any Income Tax assets and any deferred Tax assets. An illustrative total of the Current Assets of the Company as at December 31, 2021 is included in Schedule IV. For illustrative purposes, Schedule VI includes a grouping of general ledger accounts used for the calculations of Current Assets of the Company as at December 31, 2021.

“Current Income Taxes” means the amount (not less than zero) of any accrued and unpaid Income Tax liabilities of the Company and the Company Subsidiaries for any Tax period or portion thereof ending on or prior to the Closing Date, calculated (a) in a manner consistent with the past practice of the Company or Company Subsidiary, (b) as of the end of the Closing Date assuming the tax year of the Company and each Company Subsidiary ended on such date (to the extent not otherwise required by applicable Law), (c) allocating Transaction Tax Deductions to the period ending on the Closing Date to the extent permitted by Law on a more likely than not basis, (d) taking into account any applicable estimated Income Tax payments made prior to Closing and any applicable Income Tax refunds or overpayments, and any net operating losses or other Tax attributes, in each case, to the extent such payments, refunds, attributes or other items arise in a Tax period or portion thereof ending on or prior to the Closing Date and reduce cash Taxes payable and (e) without regard to any action taken by U.S. Parent (or any of its Affiliates, including the Surviving Company) after the Closing on the Closing Date that is outside the

ordinary course of business and not specifically contemplated by this Agreement. For the avoidance of doubt, any income or gain recognized by the Company or any Company Subsidiary as a result of the Restructuring shall be recognized in the Tax period or portion thereof ending on the Closing Date in determining Current Income Taxes.

“**Current Liabilities**” means the sum of the current liability accounts of the Company as determined in accordance with the Accounting Principles as of the Adjustment Calculation Time without taking into account the transactions contemplated by this Agreement; provided, however, that Current Liabilities shall exclude Company Indebtedness for Borrowed Money, Company Fees and Expenses, Income Tax liabilities, deferred Tax liabilities, Acquisition Transfer Taxes and any Indemnifiable Restructuring Taxes. An illustrative total of the Current Liabilities of the Company as at December 31, 2021 is included in Schedule IV. For illustrative purposes, Schedule VI includes a grouping of general ledger accounts used for the calculations of Current Liabilities of the Company as at December 31, 2021.

“**Equityholder Representative Expense Fund**” means the Equityholder Representative Expense Fund Amount deposited in the Equityholder Representative Expense Fund Account, as such sum may increase or decrease from time to time in accordance with this Agreement.

“**Equityholders**” means the (i) Selling Stockholders, (ii) RLI, (iii) holders of Options and holders of Performance Shares, in each case, as of immediately prior to the Closing and (iv) holders of Common Shares (other than U.S. Parent) immediately prior to the Effective Time.

“**Estimated Adjustment Amount**” means the sum of (a) the Estimated Company Cash and Cash Equivalents, plus (b) the amount, if any, by which Estimated Company Working Capital exceeds the Company Working Capital Target, minus (c) the amount, if any, by which Estimated Company Working Capital is less than the Company Working Capital Target, minus (d) Estimated Company Fees and Expenses, minus (e) Estimated Company Indebtedness for Borrowed Money, minus (f) Estimated Current Income Taxes.

“**Estimated Adjustment Items**” means Estimated Company Cash and Cash Equivalents, Estimated Company Working Capital, Estimated Company Fees and Expenses, Estimated Company Indebtedness for Borrowed Money and Estimated Current Income Taxes.

“**Final Adjustment Amount**” means the sum of (a) the Final Company Cash and Cash Equivalents, plus (b) the amount, if any, by which Final Company Working Capital exceeds the Company Working Capital Target, minus (c) the amount, if any, by which the Final Company Working Capital is less than the Company Working Capital Target, minus (d) the Final Company Fees and Expenses, minus (e) Final Company Indebtedness for Borrowed Money, minus (f) the Final Current Income Taxes.

“**Gross Consideration**” means has the meaning set forth in the Merger Agreement.

“**Income Tax**” means any Tax imposed on or determined with reference to net income or profit. For the avoidance of doubt, Income Tax does not include any Taxes on gross receipts or any similar Taxes not based on net income or profit.

“**Indebtedness for Borrowed Money**” means, with respect to any Person, without duplication: (a) all liabilities of such Person for borrowed money, whether secured or unsecured; (b) all liabilities of such Person evidenced by notes, debentures, bonds or similar instruments for the payment of which such Person is responsible; (c) all unpaid reimbursement obligations in respect of drawings under letters of credit issued for the account of such Person, but only to the extent such reimbursement obligations are not included as Current Liabilities; provided that, for the avoidance of doubt, “Indebtedness for Borrowed Money” shall not include any obligations in respect of letters of credit to the extent not drawn or paid; (d) the net termination value under any interest rate, currency swap, hedging or other derivative instruments (“**Hedging Arrangements**”); provided that “Indebtedness for Borrowed Money” shall not include obligations under any Hedging Arrangement entered into to hedge foreign currency risk with respect to trade payables due within ninety (90) days of the date of such Hedging Arrangement or relevant trade confirmation, as applicable, and (e) except as set forth in Section 1.1 of the Disclosure Schedule, direct or indirect guarantees and arrangements having the economic effect of a guarantee (other than a clearing house guarantee and

endorsements of instruments) of any obligation or undertaking of any other Person contemplated by the foregoing clauses (a) through (d) of this definition, in each case including all principal, interest, fees, premiums (including “make-whole” amounts), expense reimbursements; provided, however, “Indebtedness for Borrowed Money” shall not include any of the foregoing to the extent solely between or among the Company and its wholly-owned Subsidiaries.

“**Indemnity Matter**” has the meaning set forth in Section 5.9 of the Disclosure Schedules.

“**Indemnity Matter Escrow Account**” has the meaning set forth in Section 2.7.

“**Indemnity Matter Escrow Amount**” means \$4,000,000.

“**Indemnity Matter Escrow Fund**” means the Indemnity Matter Escrow Amount deposited with the Escrow Agent in the Indemnity Matter Escrow Account, as such sum may increase or decrease from time to time as provided in this Agreement and the Escrow Agreement.

“**Net Closing Date Consideration**” means (a) the Aggregate Closing Date Consideration, minus (b) the Equityholder Representative Expense Fund Amount, minus (c) the Purchase Price Adjustment Escrow Amount minus (d) the Indemnity Matter Escrow Amount.

“**Purchase Price Adjustment Escrow Amount**” means an amount equal to \$40,000,000.

“**Purchase Price Adjustment Escrow Fund**” means the Purchase Price Adjustment Escrow Amount deposited with the Escrow Agent in the Purchase Price Adjustment Escrow Account, as such sum may increase or decrease from time to time as provided in this Agreement and the Escrow Agreement.

C. Merger Agreement Exhibit J:

The Closing Per Share Price is calculated as:

1. the Net Closing Date Consideration, which is calculated as follows:

- a. Aggregate Closing Date Consideration,
 - i. the Gross Consideration, plus
 - ii. the Estimated Company Cash and Cash Equivalents, plus
 - iii. the amount, if any, by which Estimated Company Working Capital exceeds the Company Working Capital Target, minus
 - iv. the amount, if any, by which Estimated Company Working Capital is less than the Company Working Capital Target, minus
 - v. the Estimated Company Fees and Expenses, minus
 - vi. the Estimated Company Indebtedness for Borrowed Money, minus
 - vii. the Estimated Current Income Taxes;

minus

- b. Equityholder Representative Expense Fund Amount,
 - i. This is a dollar amount to be determined;

minus

- c. Purchase Price Adjustment Escrow Amount;
 - i. This is a dollar amount to be determined;

plus

2. the Aggregate Exercise Amount, which is calculated as follows:

- a. the sum of each per share exercise price payable for Options with an exercise price that is less than the Closing Per Share Price outstanding immediately prior to the Closing multiplied by the number of Common Shares that are subject to each Option at such per share exercise price, plus
- b. the sum of the Award Value (as defined in the Amended and Restated Company 2019 Performance Share Plan, as amended, restated or otherwise modified from time to time) with respect to each Performance Share outstanding immediately prior to the Closing multiplied by the number of Common Shares with respect to such Performance Share at such Award Value;

divided by

3. the Aggregate Share Number, which is calculated as follows:
 - a. the aggregate number of Common Shares issued and outstanding immediately prior to the Closing, plus
 - b. the aggregate number of Common Shares subject to outstanding Options for which Option Closing Consideration will be paid pursuant to Section 2.10(b), plus
 - c. the aggregate number of Common Shares with respect to which Performance Shares will be cancelled for Performance Share Closing Consideration pursuant to Section 2.10(c).

Options

The Option Closing Consideration is calculated as:

1. the total number of Common Shares subject to the unexercised portion of such Option immediately prior to the Closing (after giving effect to the vesting of all Options at Closing pursuant to Section 2.10(a))

multiplied by

2. the excess, if any, of the Closing Per Share Price over the applicable exercise price per Common Share under such Option

If the exercise price payable in respect of a Common Share underlying an Option equals or exceeds the Closing Per Share Price, such Option shall be cancelled for no consideration immediately prior to the Closing and the holder shall have no further rights with respect thereto.

Performance Shares

The Performance Share Closing Consideration is calculated as:

1. the total number of Common Shares subject to such Performance Share immediately prior to the Closing (after giving effect to the vesting of all Performance Shares at Closing pursuant to Section 2.10(a))

multiplied by

2. the excess, if any, of the Closing Per Share Price over the applicable award value per Common Share with respect to such Performance Share

For the avoidance of doubt, if the award value with respect to such Performance Share equals or exceeds the Closing Per Share Price, such Performance Share shall be cancelled for no consideration immediately prior to the Closing and the holder shall have no further rights with respect thereto.

STOCKHOLDER NON-COMPETITION AND NON-SOLICITATION AGREEMENT

This **STOCKHOLDER NON-COMPETITION AND NON-SOLICITATION AGREEMENT** (this “Agreement”), dated March 13, 2022, is made between RLI Corp. (“Stockholder”) and Kering Eyewear S.p.A. (“Parent”).

BACKGROUND

Kering S.A. (“Ultimate Parent”), Parent, Huipu Corp. (“U.S. Parent”), Welina, Inc. (“Merger Sub”), Maui Jim, Inc. (the “Company”), the stockholders of the Company listed on the signature pages thereto (each, a “Selling Stockholder” and, collectively, the “Selling Stockholders”), and MJI Equity Holder Representative LLC, a Delaware limited liability company, solely in its capacity as the equityholder representative, are parties to an Agreement and Plan of Merger, dated March 13, 2022, as may be amended from time to time (the “Merger Agreement”), pursuant to which Merger Sub will merge with and into the Company, with the Company continuing as the surviving company and as a wholly owned subsidiary of Parent (the “Merger”).

In connection with the Merger, Stockholder, Ultimate Parent, Parent, U.S. Parent, Merger Sub and the Company are parties to that certain Share Purchase Agreement, dated March 13, 2022, as may be amended from time to time (the “Purchase Agreement”), pursuant to which Stockholder will sell to U.S. Parent all of Stockholder’s shares of the Company, subject to the terms and conditions set forth therein (the “Sale,” and together with the Merger, the “Transaction”).

Stockholder is willing to enter into this Agreement as a material inducement to Parent and Merger Sub’s willingness to execute the Purchase Agreement and to protect Parent’s legitimate interests as a buyer of the stock and goodwill (including confidential, proprietary and/or trade secret information) of the Company pursuant to the Purchase Agreement and the Merger Agreement. Capitalized terms used herein and not defined herein shall have the meanings assigned to such terms in the Merger Agreement.

Parent and Stockholder both agree that, prior to the Transaction, the Company is engaged in developing, manufacturing, distributing, licensing or selling products in the sunglass and ophthalmic sectors (the “Business”). Stockholder understands that, following the Transaction, Parent will continue conducting the Business globally.

NOW, THEREFORE, in consideration of the foregoing premises and for good and valuable consideration, receipt of which is hereby acknowledged, Stockholder, intending to be legally bound, agrees as follows:

1. Agreement Not to Compete. During the Restrictive Period, Stockholder shall not, as an agent, consultant, advisor, independent contractor, general partner, officer, director, stockholder, investor, lender or guarantor of any corporation, partnership or other entity or, in any other capacity, directly or indirectly participate or engage in the design, development, manufacture, production, marketing or sale of any product that competes or may compete with the Business anywhere in the world; provided that the foregoing shall not prohibit Stockholder from (i) owning, directly or indirectly, solely as an investment, debt securities (provided such securities are not convertible to equity securities) or up to five (5%) percent of any class of equity securities or debt securities that are convertible into equity securities, in each case, of any business that directly or indirectly competes with the Business, so long as Stockholder’s investment is passive (including not having any management or governance rights with respect to such business); (ii) investing in a fund or other investment vehicle (including a private debt fund) that invests in a business that competes with or relates to the Business, provided Stockholder does not make any investment decisions of the fund or other investment vehicle, or take any action with respect to the management of any business in which the fund invests that directly or indirectly competes with the Business or (iii) selling insurance products, risk management services or providing similar or related services to an entity that is engaged in the Business.

For purposes of this Agreement, the restrictive period (referred to herein as the “Restrictive Period”) shall commence on the Closing Date and shall continue until the fifth (5th) anniversary of the Closing Date.

2. Agreement Not to Solicit Continuing Employees. During the Restrictive Period, Stockholder shall not, without the prior written consent of Parent, personally or through others, knowingly encourage, induce, attempt to induce, recruit, solicit or attempt to solicit (on Stockholder’s own behalf or on behalf of any of its Affiliates): any

Continuing Employee (as defined below) to leave his or her employment or service with Parent or any of its direct or indirect subsidiaries or Affiliates, including the Company (collectively, the “Parent Group”).

For purposes of this Agreement, “Continuing Employee” means any employee or director of the Company (other than directors who are currently employees, officers or directors of Stockholder).

For purposes of this Agreement, “Person” means any individual, corporation, partnership, trust, joint venture, limited liability company, association or organization.

Notwithstanding the foregoing, for purposes of this Agreement none of (i) the placement of general advertisements, including Internet advertisements, use of professional recruiters or other means that are not specifically targeted toward the Continuing Employees or (ii) the solicitation or hiring of any Continuing Employee who (A) responds to any such general advertisement, (B) contacts Stockholder on his or her own initiative, without any violation by Stockholder of this Section 2, (C) is terminated by the Company or (D) is no longer employed by the Company during the six (6) months preceding the time of such solicitation or hiring shall be deemed to be a breach of this Section 2.

3. Agreement Not to Solicit Customers, Suppliers, Distributors and Vendors. During the Restrictive Period, Stockholder shall not, without the prior written consent of Parent, directly or indirectly through any member of Stockholder’s senior management (in such person’s capacity as a member of senior management of Stockholder), intentionally induce, attempt to induce, solicit or attempt to solicit (on Stockholder’s own behalf or on behalf of any other Person) or take any other action that is intended to induce any Person who is, as of the date of this Agreement, or was, in the twelve (12) month period prior to the date of this Agreement, a supplier, distributor, vendor, licensor, licensee, consultant or other business partner of the Company, to:

- (a) cease doing business with any member of the Parent Group;
- (b) diminish or materially alter in a manner harmful to any member of the Parent Group, such Person’s relationship with any member of the Parent Group; or
- (c) sell, purchase, contract for or receive any products or services that, in any manner, compete with the Business as of the Closing Date.

Notwithstanding the foregoing, participation in general advertising activities, including Internet advertising, not directed at specific suppliers, distributors, vendors, licensors, licensees, consultants or other business partners of any member of the Parent Group shall not be deemed to be a breach of this Section 3.

4. Non-Disparagement. Stockholder agrees and covenants that Stockholder will not, directly or indirectly through any member of Stockholder’s senior management (in such person’s capacity as a member of senior management of Stockholder), at any time during the Restrictive Period make, publish or communicate, or encourage others to make, publish or communicate, to any Person or in any public forum any defamatory or disparaging remarks, comments or statements concerning any member of the Parent Group with the intent of interfering in any material respect with the businesses, products, services or activities of the Parent Group. This Section 4 shall not prohibit Stockholder from (i) bringing any good faith claims, complaints, suits or proceedings or (ii) providing truthful testimony in response to a validly issued subpoena or directly to a Governmental Entity.

5. Confidentiality. Stockholder recognizes, as a direct or indirect consequence of or through Stockholder’s past, present or future ownership of equity interests in the Company, that Stockholder has had access to certain Confidential Information (as defined below) of the Company. Subject to Section 5.2 of the Purchase Agreement, Stockholder will maintain the confidentiality of all Confidential Information in full confidence and will not, for Stockholder’s own account or jointly with another, directly or indirectly, for or on behalf of any Person, use any Confidential Information or disclose same to any Person without the prior written consent of Parent, except as may otherwise be required in order to comply with applicable Law to the extent the Stockholder is advised by its legal counsel (which may be internal counsel) that it is required to make such disclosure in order to comply with applicable Law or stock exchange rule, provided, that, if permitted by applicable Law, Stockholder shall have given Parent reasonable prior written notice.

For purposes of this Agreement, “Confidential Information” shall mean any non-public information of the Company, including information relating to the Business.

“Confidential Information” shall not include information that (i) is or becomes generally known to the public through no breach of this Agreement by the Stockholder, (ii) is demonstrated by Stockholder to have been independently developed by Stockholder without use or reference to Confidential Information or otherwise in violation of Stockholder’s obligations under this Agreement, (iii) is received by Stockholder or any of its representatives from a source other than the Company, Parent, or any of their respective Affiliates, provided that such source is not and was not, to the best of Stockholder’s knowledge after reasonable inquiry, bound by a legal or fiduciary duty of confidentiality to the Company, Parent, or any of their respective Affiliates or otherwise prohibited from making available such information to Stockholder or (iv) is approved for release in writing by Parent.

Following the Closing, upon the request of Parent, Stockholder agrees to immediately return or destroy (at Stockholder’s option) any and all Confidential Information in Stockholder’s possession, whether in soft-copy or hard-copy form, including all original documents and copies of documents and other materials containing Confidential Information; provided however the foregoing should not apply to Confidential Information retained as a matter of routine information technology backup procedures or Confidential Information retained in accordance with applicable Law (including, for the avoidance of doubt, for any regulatory, legal, financial reporting or tax compliance purposes) or in accordance with *bona fide* document retention policies.

6. Acknowledgement. Stockholder hereby acknowledges and agrees that:

- (a) this Agreement is necessary for the protection of the legitimate business interests of Parent in acquiring the Company, including its goodwill and assets, such as confidential, proprietary and trade secret information;
- (b) the execution and delivery and continuation in force of this Agreement is a material inducement to the willingness of Parent to enter into the Purchase Agreement and is a material condition to Parent consummating the transactions contemplated by the Purchase Agreement, without which Parent would not close the transactions contemplated by the Purchase Agreement;
- (c) the scope of this Agreement in time, geography and types and limitations of activities restricted is reasonable;
- (d) Stockholder has no intention of competing with the Business acquired by Parent within the area and the time limits set forth in this Agreement; and
- (e) breach of this Agreement will be such that Parent will not have an adequate remedy at law because of the unique nature of the operations and the assets being conveyed to Parent.

7. Warranty and Freedom to Contract. Stockholder represents and warrants that (a) it is validly existing and in good standing under the Laws of its jurisdiction of formation, (b) it has all requisite corporate or other entity power and authority to execute and deliver this Agreement and (c) the execution and delivery by the Stockholder of this Agreement and the performance by the Stockholder of this Agreement have been duly authorized by all necessary corporate or other entity action by the Stockholder. This Agreement has been duly executed and delivered by the Stockholder. This Agreement constitutes the valid and binding obligation of the Stockholder enforceable against the undersigned, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors' rights generally and by general equitable principles. Stockholder represents and warrants that neither the execution and delivery nor the performance of this Agreement will violate any provision of any contract to which Stockholder’s assets or Stockholder are or may be bound and neither compliance with such agreement or such obligation would impair Stockholder’s ability to perform Stockholder’s obligations under this Agreement.

8. Remedy. Stockholder acknowledges and agrees that (a) the rights of Parent under this Agreement are of a specialized and unique character and that immediate and irreparable damage may result to Parent if Stockholder fails to or refuses to perform the obligations under this Agreement, and (b) Parent may, in addition to

any other remedies and damages available, (i) seek an injunction in a court of competent jurisdiction to restrain any such failure or refusal and (ii) be entitled to seek specific performance and injunctive relief without the necessity of proving actual damages. No single exercise of any or all of the foregoing remedies shall be deemed to exhaust Parent's right to such remedies to the extent afforded under applicable Law. Without limiting the generality of the foregoing, the rights and remedies of Parent under this Agreement, and the obligations and liabilities of Stockholder under this Agreement, are in addition to their respective rights, remedies, obligations and liabilities under the Law of unfair competition, under Laws relating to misappropriation of trade secrets, under other applicable Laws and common law requirements and under all applicable rules and regulations. Stockholder's obligations under this Agreement shall not be terminated or otherwise limited other than as set forth herein by virtue of any breach (on the part of Parent or any person) of any provision of the Purchase Agreement or any other agreement, or by virtue of any failure to perform or other breach of any obligation of Parent or any other person. Nothing in this Agreement shall limit any of the rights or remedies of Parent under the Purchase Agreement, and nothing in the Purchase Agreement shall limit any of Stockholder's obligations, or any of the rights or remedies of Parent, under this Agreement.

9. Severability. The covenants contained in Section 1, Section 2, Section 3, Section 4 and Section 5 hereof shall be construed as a series of separate covenants, one for each country, province, state, city or other political subdivision in the world. If any provisions of this Agreement as applied to any part or to any circumstances shall be adjudged in a judicial proceeding or arbitration to be invalid or unenforceable, the same shall in no way affect any other provision of this Agreement, the application of such provision in any other circumstances, or the validity or enforceability of this Agreement. Parent and Stockholder intend this Agreement to be enforced as written. If any provision, or part thereof, however, is held to be unenforceable because of the duration thereof or the area covered thereby, all parties agree that the court (or an arbitrator) making such determination shall have the power to reduce the duration and/or area of such provision, and/or to delete specific words or phrases, and in its reduced form such provision shall then be enforceable.

10. Termination. This Agreement and all obligations, covenants and agreements contained herein shall automatically terminate and cease to be effective at the earlier to occur of: (a) the termination of the Purchase Agreement pursuant to Article VII thereof; or (b) the effective date of a written agreement of the parties hereto terminating this Agreement. Notwithstanding the foregoing, Section 5 and Sections 8 to 15 shall survive termination of this Agreement.

11. Amendment. Any provision of this Agreement may be amended, modified, supplemented or waived only by an instrument in writing duly executed by Stockholder and Parent. Any such amendment, modification, supplement or waiver shall be for such period and subject to such conditions as shall be specified in the instrument effecting the same and shall be binding upon the Parties, and any such waiver shall be effective only in the specific instance and for the purposes for which given.

12. Waiver. No failure on the part of Stockholder or Parent to exercise and no delay in exercising, and no course of dealing with respect to, any right, remedy, power or privilege under this Agreement shall operate as a waiver of such right, remedy, power or privilege, nor shall any single or partial exercise of any right, remedy, power or privilege under this Agreement preclude any other or further exercise of any such right, remedy, power or privilege or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges provided in this Agreement are cumulative and not exclusive of any rights, remedies, powers and privileges provided by applicable Law.

13. Interpretation; Certain Definitions. Except where expressly stated otherwise in this Agreement, the following rules of interpretation apply to this Agreement: (a) "either" and "or" are not exclusive and "include," "includes" and "including" are not limiting; (b) "hereof," "hereto," "hereby," "herein" and "hereunder" and words of similar import when used in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement; (c) "date hereof" refers to the date set forth in the initial caption of this Agreement; (d) descriptive headings and captions are inserted for convenience only and do not affect in any way the meaning or interpretation of this Agreement; (e) definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms; (f) references to a "Section" refer to a Section of this Agreement, as applicable; and (g) references to any agreement, instrument, or statute defined or referred to herein mean such agreement, instrument or statute as from time to time amended, modified or supplemented, including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession or comparable successor statutes and

shall be deemed to include reference to all attachments thereto and instruments incorporated therein.

The parties hereto represent and agree that they have been represented by, or had the opportunity to be represented by, independent counsel of their own choosing, and that they have had the full right and opportunity to consult with their respective attorney(s), that to the extent desired, if any, the undersigned availed himself, herself or itself of this right and opportunity, that they or their authorized officers (as the case may be) have carefully read and fully understand this Agreement, in its entirety and have had it fully explained to them by the parties respective counsel, that each is fully aware of the contents thereof and its meaning, intent and legal effect, and that their authorized officer (as the case may be) is competent to execute this Agreement and has executed this Agreement free from coercion, duress or undue influence.

14. Governing Law; Exclusive Jurisdiction. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of law, and shall inure to the benefit of and be binding upon the successors and permitted assigns of the parties hereto. The parties hereto agree and consent to be subject to the jurisdiction of the Court of Chancery of the State of Delaware, or if the Court of Chancery lacks jurisdiction over such dispute, the U.S. District Court for the District of Delaware (or if jurisdiction is not then available in the U.S. District Court for the District of Delaware (but only in such event), then in any Delaware State court sitting in New Castle County, Delaware, in any suit, action or proceeding seeking to enforce any provision of, or based on any matter arising out of or in connection with, this Agreement or the transactions contemplated hereby.

15. Entire Agreement. This Agreement is entered into concurrently with the Purchase Agreement, and contains the sole and entire agreement among the parties hereto with respect to the subject matter hereof.

[Signature Pages to Follow]

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by each party as of the date first written above.

KERING EYEWEAR S.p.A.

By: /s/ Roberto Vedovotto

Name: Roberto Vedovotto

Title: President and CEO

RLI CORP.

By: /s/ Craig W. Kliethermes

Name: Craig W. Kliethermes

Title: President & CEO

CERTIFICATION

Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Craig W. Kliethermes, certify that:

I have reviewed this quarterly report on Form 10-Q of RLI Corp.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 22, 2022

/s/ Craig W. Kliethermes

Craig W. Kliethermes
President & CEO

CERTIFICATION

Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Todd W. Bryant, certify that:

I have reviewed this quarterly report on Form 10-Q of RLI Corp.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 22, 2022

/s/ Todd W. Bryant

Todd W. Bryant

Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of RLI Corp. (the “Company”) on Form 10-Q for the period ending March 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Craig W. Kliethermes, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Craig W. Kliethermes

Craig W. Kliethermes
President & CEO
April 22, 2022

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of RLI Corp. (the “Company”) on Form 10-Q for the period ending March 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Todd W. Bryant, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Todd W. Bryant

Todd W. Bryant
Chief Financial Officer
April 22, 2022