RLI CORP
Form 10-Q
October 31, 2011

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended September 30, 2011**

**or**

o **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)

| | |
|---|---|
| **ILLINOIS** | **37-0889946** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

| | |
|---|---|
| **9025 North Lindbergh Drive, Peoria, IL** | **61615** |
| (Address of principal executive offices) | (Zip Code) |

**(309) 692-1000**

(Registrant s telephone number, including area code)


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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No o

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

| | |
|---|---|
| Large accelerated filer x | Accelerated filer o |
| Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of October 15, 2011, the number of shares outstanding of the registrant s Common Stock was 21,081,400.

## 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-Month Periods Ended September 30, 2011** | **2010** |
|---|---|---|
| Net premiums earned | $ 146,552 | $ 128,334 |
| Net investment income | 15,954 | 16,762 |
| Net realized investment gains (losses) | 80 | 4,527 |
| Other-than-temporary impairment (OTTI) losses on investments | (257) | |
| Consolidated revenue | 162,329 | 149,623 |
| Losses and settlement expenses | 64,802 | 55,823 |
| Policy acquisition costs | 46,712 | 40,624 |
| Insurance operating expenses | 10,302 | 10,161 |
| Interest expense on debt | 1,513 | 1,512 |
| General corporate expenses | 1,594 | 2,148 |
| Total expenses | 124,923 | 110,268 |
| Equity in earnings of unconsolidated investee | 713 | 1,648 |
| Earnings before income taxes | 38,119 | 41,003 |
| Income tax expense | 12,062 | 13,038 |
| Net earnings | $ 26,057 | $ 27,965 |
| | | |
| Other comprehensive earnings (loss), net of tax | (14,331) | 30,476 |
| Comprehensive earnings | $ 11,726 | $ 58,441 |
| | | |
| Earnings per share: | | |
| Basic: | | |
| | | |
| Basic net earnings per share | $ 1.24 | $ 1.34 |
| Basic comprehensive earnings per share | $ 0.56 | $ 2.79 |
| | | |
| Diluted: | | |
| | | |
| Diluted net earnings per share | $ 1.22 | $ 1.33 |
| Diluted comprehensive earnings per share | $ 0.55 | $ 2.77 |
| | | |
| Weighted average number of common shares outstanding | | |
| Basic | 21,089 | 20,931 |
| Diluted | 21,335 | 21,090 |
| | | |
| Cash dividends declared per common share | $ 0.30 | $ 0.29 |

The accompanying notes are an integral part of the unaudited condensed consolidated interim financial statements.

RLI Corp. and Subsidiaries

Condensed Consolidated Statements of Earnings and Comprehensive Earnings

(Unaudited)

| (in thousands, except per share data) | For the Nine-Month Periods Ended September 30, 2011 | | 2010 | |
|---|---|---|---|---|
| Net premiums earned | $ | 393,429 | $ | 366,356 |
| Net investment income | | 47,437 | | 50,127 |
| Net realized investment gains | | 14,602 | | 15,281 |
| Other-than-temporary impairment (OTTI) losses on investments | | (257) | | |
| Consolidated revenue | | 455,211 | | 431,764 |
| Losses and settlement expenses | | 142,036 | | 155,152 |
| Policy acquisition costs | | 129,813 | | 118,804 |
| Insurance operating expenses | | 32,047 | | 27,158 |
| Interest expense on debt | | 4,537 | | 4,537 |
| General corporate expenses | | 5,563 | | 5,406 |
| Total expenses | | 313,996 | | 311,057 |
| Equity in earnings of unconsolidated investee | | 7,215 | | 7,327 |
| Earnings before income taxes | | 148,430 | | 128,034 |
| Income tax expense | | 48,531 | | 40,854 |
| Net earnings | $ | 99,899 | $ | 87,180 |
| | | | | |
| Other comprehensive earnings (loss), net of tax | | (6,323) | | 27,986 |
| Comprehensive earnings | $ | 93,576 | $ | 115,166 |
| | | | | |
| Earnings per share: | | | | |
| Basic: | | | | |
| | | | | |
| Basic net earnings per share | $ | 4.74 | $ | 4.14 |
| Basic comprehensive earnings per share | $ | 4.44 | $ | 5.47 |
| | | | | |
| Diluted: | | | | |
| | | | | |
| Diluted net earnings per share | $ | 4.68 | $ | 4.11 |
| Diluted comprehensive earnings per share | $ | 4.39 | $ | 5.42 |
| | | | | |
| Weighted average number of common shares outstanding | | | | |
| Basic | | 21,063 | | 21,043 |
| Diluted | | 21,324 | | 21,233 |
| | | | | |
| Cash dividends declared per common share | $ | 0.89 | $ | 0.86 |

The accompanying notes are an integral part of the unaudited condensed consolidated interim financial statements.

RLI Corp. and Subsidiaries Condensed Consolidated Balance Sheets

(Unaudited)

| (in thousands, except share data) | | September 30, 2011 | | December 31, 2010 |
|---|---|---|---|---|
| ASSETS | | | | |
| Investments | | | | |
| Fixed income | | | | |
| Available-for-sale, at fair value | $ | 1,211,759 | $ | 1,132,064 |
| Held-to-maturity, at amortized cost | | 318,428 | | 309,258 |
| Trading, at fair value | | 8 | | 15 |
| Equity securities, at fair value | | 331,301 | | 321,897 |
| Short-term investments, at cost | | 155,970 | | 39,787 |
| Total investments | | 2,017,466 | | 1,803,021 |
| Accrued investment income | | 12,144 | | 14,615 |
| Premiums and reinsurance balances receivable | | 119,771 | | 107,391 |
| Ceded unearned premium | | 59,298 | | 62,631 |
| Reinsurance balances recoverable on unpaid losses | | 341,986 | | 354,163 |
| Deferred policy acquisition costs | | 95,365 | | 74,435 |
| Property and equipment | | 19,502 | | 18,370 |
| Investment in unconsolidated investees | | 51,258 | | 43,358 |
| Goodwill and intangibles | | 60,733 | | 26,214 |
| Other assets | | 16,840 | | 10,394 |
| TOTAL ASSETS | $ | 2,794,363 | $ | 2,514,592 |
| | | | | |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | |
| Liabilities: | | | | |
| Unpaid losses and settlement expenses | $ | 1,179,993 | $ | 1,173,943 |
| Unearned premiums | | 361,591 | | 301,537 |
| Reinsurance balances payable | | 22,687 | | 23,851 |
| Funds held | | 109,592 | | 32,072 |
| Income taxes-deferred | | 31,917 | | 33,930 |
| Bonds payable, long-term debt | | 100,000 | | 100,000 |
| Accrued expenses | | 55,165 | | 42,436 |
| Other liabilities | | 65,933 | | 15,447 |
| TOTAL LIABILITIES | $ | 1,926,878 | $ | 1,723,216 |
| | | | | |
| Shareholders Equity | | | | |
| Common stock ($1 par value) | | | | |
| (32,542,327 shares issued at 9/30/11) | | | | |
| (32,317,691 shares issued at 12/31/10) | | 32,542 | | 32,318 |
| Paid-in capital | | 222,756 | | 215,066 |
| Accumulated other comprehensive earnings | | 89,669 | | 95,992 |
| Retained earnings | | 915,517 | | 834,375 |
| Deferred compensation | | 8,745 | | 6,474 |
| Less: Treasury shares at cost | | | | |
| (11,465,107 shares at 9/30/11) | | | | |
| (11,353,151 shares at 12/31/10) | | (401,744) | | (392,849) |
| TOTAL SHAREHOLDERS EQUITY | | 867,485 | | 791,376 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | $ | 2,794,363 | $ | 2,514,592 |

The accompanying notes are an integral part of the unaudited condensed consolidated interim financial statements.

RLI Corp. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

| **(in thousands)** | For the Nine-Month Periods Ended September 30, **2011** | **2010** |
|---|---|---|
| Net cash provided by operating activities | $ 115,922 | $ 87,867 |
| Cash Flows from Investing Activities | | |
| Investments purchased | (608,538) | (774,532) |
| Investments sold | 353,781 | 218,083 |
| Investments called or matured | 340,321 | 512,650 |
| Net change in short-term investments | (45,612) | (7,648) |
| Net property and equipment purchased | (2,507) | (1,297) |
| Investment in CBIC | (135,900) | |
| Net cash used in investing activities | $ (98,455) | $ (52,744) |
| | | |
| Cash Flows from Financing Activities | | |
| Cash dividends paid | $ (18,757) | $ (17,932) |
| Stock option plan share issuance | 4,754 | 4,152 |
| Excess tax benefit from exercise of stock options | 3,160 | 2,515 |
| Treasury shares purchased | (6,624) | (23,858) |
| Net cash used in financing activities | $ (17,467) | $ (35,123) |
| | | |
| Net increase in cash | | |
| Cash at the beginning of the period | | |
| Cash at September 30 | $ | $ |

The accompanying notes are an integral part of 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 of 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 2010 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 September 30, 2011 and the results of operations of RLI Corp. and Subsidiaries for all periods presented have been made. Certain reclassifications were made to the prior year s financial statements to conform to the classifications used in the current year. Specifically, on our balance sheet, the amount of funds held was broken out separately from other liabilities. Also, the fidelity division was reclassified to the casualty segment from the surety segment. See further discussion regarding the reclassification in note 5 to the unaudited condensed consolidated interim financial statements, Operating Segment Information. 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 from these estimates.

B. ADOPTED ACCOUNTING STANDARDS

*ASU 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations*

This Accounting Standards Update (ASU) specifies that if a public entity presents comparative financial statements, the entity (acquirer) should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year has occurred as of the beginning of the comparable prior annual reporting period. This ASU also expands the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings.

We adopted ASU 2010-29 on January 1, 2011. We have evaluated our recent acquisition of Contractors Bonding and Insurance Company (CBIC) under this guidance and, as the acquisition was not material as defined by the accounting guidance, pro forma disclosures were not required. See further discussion on

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the acquisition in note 6 to the unaudited condensed consolidated interim financial statements, Acquisition.

*ASU 2010-28, Intangibles Goodwill and Other (Topic 350), When to Perform Step Two of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*

The amendments in this ASU modify Step One of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step Two of the goodwill impairment test if it is more-likely-than-not that a goodwill impairment exists. In determining whether it is more-likely-than-not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more-likely-than-not reduce the fair value of a reporting unit below its carrying amount.

Upon adoption of this ASU, if the carrying value of the reporting unit is zero or negative, the reporting entity must perform Step Two of the goodwill impairment test if it is more-likely-than-not that goodwill is impaired as of the date of adoption. Any resulting goodwill impairment should be presented as a cumulative-effect adjustment to beginning retained earnings of the period of adoption reflecting a change in accounting principle. No additional recurring disclosures are included as a result of this ASU.

We adopted ASU 2010-28 on January 1, 2011. The adoption did not have an impact on our financial statements as the carrying value of the reporting unit related to our goodwill at the beginning of the reporting period is positive and there have been no triggering events that would suggest possible impairment. During 2011, we recognized additional goodwill related to our recent acquisition of CBIC.

C. PROSPECTIVE ACCOUNTING STANDARDS

*ASU 2010-26, Financial Services Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*

Accounting guidance for deferred acquisition costs incurred by insurance entities changed under the ASU and was designed to eliminate inconsistent industry practices. The ASU requires costs to be incrementally or directly related to the successful acquisition of new or renewal insurance contracts in order to be capitalized as deferred acquisition costs.

Deferred acquisition costs may include agent and broker commissions, salaries of certain employees involved in underwriting and policy issuance, and medical and inspection fees. Previous accounting guidance described deferred acquisition costs as those that vary with and are primarily related to the acquisition of new and renewal insurance contracts. This resulted in some entities deferring only direct and incremental costs while others included certain indirect costs. Others deferred costs for all acquisition efforts, including rejected contracts.

The new guidance limits the capitalization of contract acquisition costs to successful acquisition of insurance contracts in these four components:

a. Incremental direct costs of contract acquisition;
b. The portion of the employee s total compensation (excluding any compensation that is capitalized as incremental direct costs of contract acquisition) and payroll-related fringe benefits related directly to time spent performing any of the following acquisition activities for a contract that actually has been acquired:
   - Underwriting,
   - Policy issuance and processing,
   - Medical and inspection, and
   - Sales force contract selling;
c. Other costs related directly to the insurers acquisition activities in (b) that would not have been incurred by the insurance entity had the acquisition contract transaction(s) not occurred; and
d. Advertising costs that meet the capitalization criteria.

Entities will not be required to capitalize costs that they had previously expensed as a result of applying the new guidance.

The effective date for the guidance will be interim and annual periods beginning after December 15, 2011. Early adoption is permitted but only at the beginning of an entity s annual reporting period.

Either prospective or retrospective application is permitted. If applied on a retrospective basis, the guidance does not require the disclosure of the effect of the change in accounting principle in the current period. However, if the prospective basis is applied, entities will be required to disclose either the effect of the change in the period of adoption or its effect in the period immediately preceding adoption.

We are currently assessing our estimate of the impact of adopting the ASU on our financial statements.

*ASU 2011-08, Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment*

On September 15, 2011, the FASB issued ASU 2011-08 which permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit s fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity can support the conclusion that it is more likely than not that the fair value of a reporting unit is less that its carrying amount, it would not need to perform the two-step impairment test for that reporting unit. Goodwill must be tested for impairment at least annually, and prior to this ASU, a two-step test was required to assess goodwill for impairment. In Step 1, the fair value of a reporting unit is compared to the reporting unit s carrying amount. If the fair value is less than the carrying amount, Step 2 is used to measure the amount of goodwill impairment, if any.

The ASU applies to both public and nonpublic entities and is effective for annual and interim goodwill impairment tests performed in fiscal years

beginning after December 15, 2011.  Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity s financial statements for the most recent annual or interim period have not yet been issued.  We have not early adopted this ASU and do not believe it will have a material effect on our financial statements.

D. INTANGIBLE ASSETS

In accordance with GAAP guidelines, the amortization of goodwill and indefinite-lived intangible assets is not permitted.  Goodwill and indefinite-lived intangible assets remain on the balance sheet and are tested for impairment on an annual basis, or earlier if there is reason to suspect that their values may have been diminished or impaired.  The portion of goodwill which relates solely to our surety segment totaled $26.2 million at September 30, 2011 and December 31, 2010 and is included in the total goodwill and intangibles on the balance sheet of $60.7 million at September 30, 2011.  Annual impairment testing was performed during the second quarter of 2011.  Based upon this review, this asset was not impaired.  In addition, as of September 30, 2011, there were no triggering events that had occurred that would suggest an updated review was necessary.

The remaining $34.5 million of goodwill and intangibles relates to our purchase of CBIC in April 2011.  Intangible assets with definite lives are amortized against future operating results.  Amortization of intangible assets was $0.2 million for the third quarter of 2011 and $0.3 million since acquisition on April 28, 2011.  We are still in the process of evaluating the acquisition under ASC Topic 805, Business Combinations.  (See Note 6 to the unaudited condensed consolidated interim financial statements).

E. EARNINGS PER SHARE

Basic earnings per share (EPS) excludes dilution and 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 common stock equivalents 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 the common stock equivalents.

The following represents a reconciliation of the numerator and denominator of the basic and diluted EPS computations contained in the unaudited condensed consolidated financial statements.

| (in thousands, except per share data) | For the Three-Month Period Ended September 30, 2011 Income (Numerator) | Shares (Denominator) | Per Share Amount | For the Three-Month Period Ended September 30, 2010 Income (Numerator) | Shares (Denominator) | Per Share Amount |
|---|---|---|---|---|---|---|
| **Basic EPS** | | | | | | |
| Income available to common shareholders | $ 26,057 | 21,089 | $ 1.24 | $ 27,965 | 20,931 | $ 1.34 |
| **Effect of Dilutive Securities** | | | | | | |
| Stock Options | | 246 | | | 159 | |
| | | | | | | |
| **Diluted EPS** | | | | | | |
| Income available to common shareholders | $ 26,057 | 21,335 | $ 1.22 | $ 27,965 | 21,090 | $ 1.33 |

| (in thousands, except per share data) | For the Nine-Month Period Ended September 30, 2011 Income (Numerator) | Shares (Denominator) | Per Share Amount | For the Nine-Month Period Ended September 30, 2010 Income (Numerator) | Shares (Denominator) | Per Share Amount |
|---|---|---|---|---|---|---|
| **Basic EPS** | | | | | | |
| Income available to common shareholders | $ 99,899 | 21,063 | $ 4.74 | $ 87,180 | 21,043 | $ 4.14 |
| **Effect of Dilutive Securities** | | | | | | |
| Stock options | | 261 | | | 190 | |
| | | | | | | |
| **Diluted EPS** | | | | | | |
| Income available to common shareholders | $ 99,899 | 21,324 | $ 4.68 | $ 87,180 | 21,233 | $ 4.11 |

## 2. INVESTMENTS

Our investments include fixed income debt securities and common stock equity securities. As disclosed in our 2010 Annual Report on Form 10-K, we present our investments in these classes as available-for-sale, held-to-maturity, or trading securities. When available, we obtain quoted market prices to determine fair value for our investments. If a quoted market price is not available, fair value is estimated using a secondary pricing source or using quoted market prices of similar securities. We have no investment securities for which fair value is determined using Level 3 inputs as defined in note 3 to the unaudited condensed consolidated interim financial statements, Fair Value Measurements.

We conduct and document periodic reviews of all securities with unrealized losses to evaluate whether the impairment is other-than-temporary. The following tables are used as part of our impairment analysis and illustrate the total value of securities that were in an unrealized loss position as of September 30, 2011 and December 31, 2010. The tables segregate the securities based on type, noting the fair value, cost (or amortized cost), and unrealized loss on each category of investment as well as in total. The tables further classify the securities based on the length of time they have been in an unrealized loss position.  As of September 30, 2011 and December 31, 2010, unrealized losses, as shown in the following tables, were less than 1% of total invested assets.  Unrealized losses have decreased in 2011, as the market value of fixed income securities have increased as a result of lower interest rates which have offset the decline in equity markets.

**Investment Positions with Unrealized Losses**

**Segmented by Type and Period of Continuous**

**Unrealized Loss at September 30, 2011**

| (dollars in thousands) | < 12 Mos. | 12 Mos. & Greater | Total |
|---|---|---|---|
| **Treasuries** | | | |
| Fair value | $ 6,317 | $ | $ 6,317 |
| Cost or Amortized Cost | 6,339 | | 6,339 |
| Unrealized Loss | (22) | | (22) |
| | | | |
| **Agencies** | | | |
| Fair value | $ 35,364 | $ 17,997 | $ 53,361 |
| Cost or Amortized Cost | 35,489 | 18,039 | 53,528 |
| Unrealized Loss | (125) | (42) | (167) |
| | | | |
| **Mortgage-backed** | | | |
| Fair value | $ | $ | $ |
| Cost or Amortized Cost | | | |
| Unrealized Loss | | | |
| | | | |
| **ABS/CMO*** | | | |
| Fair value | $ 2,305 | $ | $ 2,305 |
| Cost or Amortized Cost | 2,341 | | 2,341 |
| Unrealized Loss | (36) | | (36) |
| | | | |
| **Corporate** | | | |
| Fair value | $ 83,711 | $ 20,383 | $ 104,094 |
| Cost or Amortized Cost | 86,809 | 21,155 | 107,964 |
| Unrealized Loss | (3,098) | (772) | (3,870) |
| | | | |
| **Municipals** | | | |
| Fair value | $ 17,132 | $ 1,862 | $ 18,994 |
| Cost or Amortized Cost | 17,266 | 1,872 | 19,138 |
| Unrealized Loss | (134) | (10) | (144) |
| | | | |
| **Subtotal, debt securities** | | | |
| Fair value | $ 144,829 | $ 40,242 | $ 185,071 |
| Cost or Amortized Cost | 148,244 | 41,066 | 189,310 |
| Unrealized Loss | (3,415) | (824) | (4,239) |
| | | | |
| **Common Stock** | | | |
| Fair value | $ 42,769 | $ | $ 42,769 |
| Cost or Amortized Cost | 50,013 | | 50,013 |
| Unrealized Loss | (7,244) | | (7,244) |
| | | | |
| **Total** | | | |
| Fair value | $ 187,598 | $ 40,242 | $ 227,840 |
| Cost or Amortized Cost | 198,257 | 41,066 | 239,323 |
| Unrealized Loss | (10,659) | (824) | (11,483) |

* Asset-backed & collateralized mortgage obligations.

This table excludes securities with a fair value of less than $0.1 million classified as trading.

**Investment Positions with Unrealized Losses**

**Segmented by Type and Period of Continuous**

**Unrealized Loss at December 31, 2010**

| (dollars in thousands) | < 12 Mos. | 12 Mos. & Greater | Total |
|---|---|---|---|
| **Treasuries** | | | |
| Fair value | $ 5,689 | $ | $ 5,689 |
| Cost or Amortized Cost | 5,880 | | 5,880 |
| Unrealized Loss | (191) | | (191) |
| **Agencies** | | | |
| Fair value | $ 295,897 | $ | $ 295,897 |
| Cost or Amortized Cost | 304,374 | | 304,374 |
| Unrealized Loss | (8,477) | | (8,477) |
| **Mortgage-backed** | | | |
| Fair value | $ 43,852 | $ | $ 43,852 |
| Cost or Amortized Cost | 44,659 | | 44,659 |
| Unrealized Loss | (807) | | (807) |
| **ABS/CMO *** | | | |
| Fair value | $ 2,160 | $ | $ 2,160 |
| Cost or Amortized Cost | 2,196 | | 2,196 |
| Unrealized Loss | (36) | | (36) |
| **Corporate** | | | |
| Fair value | $ 110,772 | $ 1,951 | $ 112,723 |
| Cost or Amortized Cost | 113,813 | 2,012 | 115,825 |
| Unrealized Loss | (3,041) | (61) | (3,102) |
| **Municipals** | | | |
| Fair value | $ 80,465 | $ 996 | $ 81,461 |
| Cost or Amortized Cost | 82,652 | 1,050 | 83,702 |
| Unrealized Loss | (2,187) | (54) | (2,241) |
| **Subtotal, debt securities** | | | |
| Fair value | $ 538,835 | $ 2,947 | $ 541,782 |
| Cost or Amortized Cost | 553,574 | 3,062 | 556,636 |
| Unrealized Loss | (14,739) | (115) | (14,854) |
| **Common Stock** | | | |
| Fair value | $ 6,078 | $ | $ 6,078 |
| Cost or Amortized Cost | 6,372 | | 6,372 |
| Unrealized Loss | (294) | | (294) |
| **Total** | | | |
| Fair value | $ 544,913 | $ 2,947 | $ 547,860 |
| Cost or Amortized Cost | 559,946 | 3,062 | 563,008 |
| Unrealized Loss | (15,033) | (115) | (15,148) |

* Asset-backed & collateralized mortgage obligations.

This table excludes securities with a fair value of $0.1 million, classified as trading.

The following tables show the amortized cost, unrealized gains/losses, fair value and contractual maturities for our available-for-sale and held-to-maturity securities.

*Available-for-Sale Securities*

The amortized cost and fair value of securities available-for-sale at September 30, 2011 and December 31, 2010 were as follows:

**Available-for-sale**

(in thousands)

| | 9/30/2011 | | | |
|---|---|---|---|---|
| **Asset Class** | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Fair Value** |
| Agencies | $ 165,399 | $ 1,274 | $ (56) | $ 166,617 |
| Corporates | 433,662 | 30,167 | (3,470) | 460,359 |
| Mortgage-backed | 239,596 | 16,477 | | 256,073 |
| ABS/CMO* | 60,598 | 2,022 | (36) | 62,584 |
| Treasuries | 21,511 | 486 | (22) | 21,975 |
| Municipals | 234,459 | 9,836 | (144) | 244,151 |
| **Total Fixed Income** | **$ 1,155,225** | **$ 60,262** | **$ (3,728)** | **$ 1,211,759** |

**Available-for-sale**

(in thousands)

| | 12/31/2010 | | | |
|---|---|---|---|---|
| **Asset Class** | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Fair Value** |
| Agencies | $ 103,133 | $ 869 | $ (1,789) | $ 102,213 |
| Corporates | 449,651 | 26,259 | (2,977) | 472,933 |
| Mortgage-backed | 243,364 | 11,584 | (807) | 254,141 |
| ABS/CMO* | 47,494 | 2,457 | (36) | 49,915 |
| Treasuries | 15,771 | 244 | (191) | 15,824 |
| Municipals | 234,456 | 4,823 | (2,241) | 237,038 |
| **Total Fixed Income** | **$ 1,093,869** | **$ 46,236** | **$ (8,041)** | **$ 1,132,064** |

*Asset-backed and collateralized mortgage obligations

The following table presents the amortized cost and fair value of available-for-sale debt securities by contractual maturity dates as of September 30, 2011, and December 31, 2010:

| AFS (in thousands) | 9/30/2011 Amortized Cost | 9/30/2011 Fair Value | 12/31/2010 Amortized Cost | 12/31/2010 Fair Value |
|---|---|---|---|---|
| **Agencies** | | | | |
| Due within 1 year | $ 503 | $ 503 | $ 2,004 | $ 2,021 |
| After 1 but within 5 years | 4,728 | 4,981 | 4,796 | 5,026 |
| After 5 but within 10 years | 93,295 | 93,756 | 39,988 | 39,712 |
| After 10 years* | 66,873 | 67,377 | 56,345 | 55,454 |
| Total | 165,399 | 166,617 | 103,133 | 102,213 |
| | | | | |
| **Corporates** | | | | |
| Due within 1 year | $ | $ | $ 1,001 | $ 1,010 |
| After 1 but within 5 years | 101,114 | 107,229 | 96,768 | 101,864 |
| After 5 but within 10 years | 311,732 | 332,629 | 327,171 | 345,049 |
| After 10 years | 20,816 | 20,501 | 24,711 | 25,010 |
| Total | 433,662 | 460,359 | 449,651 | 472,933 |
| | | | | |
| **Mortgage-backed** | | | | |
| Due within 1 year | $ | $ | $ | $ |
| After 1 but within 5 years | | | | |
| After 5 but within 10 years | 3,402 | 3,645 | 2,521 | 2,677 |
| After 10 years* | 236,194 | 252,428 | 240,843 | 251,464 |
| Total | 239,596 | 256,073 | 243,364 | 254,141 |
| | | | | |
| **Asset-backed** | | | | |
| Due within 1 year | $ | $ | $ | $ |
| After 1 but within 5 years | 3,147 | 3,262 | 4,882 | 5,137 |
| After 5 but within 10 years | 4,099 | 4,584 | 4,099 | 4,567 |
| After 10 years* | 53,352 | 54,738 | 38,513 | 40,211 |
| Total | 60,598 | 62,584 | 47,494 | 49,915 |
| | | | | |
| **Treasuries** | | | | |
| Due within 1 year | $ 6,097 | $ 6,143 | $ 3,865 | $ 3,915 |
| After 1 but within 5 years | 15,414 | 15,832 | 7,012 | 7,192 |
| After 5 but within 10 years | | | 4,894 | 4,717 |
| After 10 years* | | | | |
| Total | 21,511 | 21,975 | 15,771 | 15,824 |
| | | | | |
| **Municipals** | | | | |
| Due within 1 year | $ 8,336 | $ 8,470 | $ 14,004 | $ 14,113 |
| After 1 but within 5 years | 18,607 | 19,334 | 25,177 | 26,303 |
| After 5 but within 10 years | 100,602 | 105,654 | 74,770 | 77,028 |
| After 10 years* | 106,914 | 110,693 | 120,505 | 119,594 |
| Total | 234,459 | 244,151 | 234,456 | 237,038 |
| | | | | |
| TOTAL | $ 1,155,225 | $ 1,211,759 | $ 1,093,869 | $ 1,132,064 |

* Investments with no stated maturities are included as contractual maturities of greater than 10 years. Actual maturities may differ due to call or prepayment rights.

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*Held-to-Maturity Debt Securities*

The carrying value and fair value of held-to-maturity securities at September 30, 2011 and December 31, 2010 were as follows:

**Held-to-maturity**

(in thousands)

| | 9/30/2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Asset Class** | | **Amortized Cost/ Carrying Value**** | | **Gross Unrecognized Gains** | | **Gross Unrecognized Losses** | | **Fair Value** |
| Agencies | $ | 299,554 | $ | 1,137 | $ | (111) | $ | 300,580 |
| Corporates | | 15,000 | | | | (400) | | 14,600 |
| Mortgage-backed | | | | | | | | |
| ABS/CMO* | | | | | | | | |
| Treasuries | | | | | | | | |
| Municipals | | 3,874 | | 160 | | | | 4,034 |
| **Total Fixed Income** | **$** | **318,428** | **$** | **1,297** | **$** | **(511)** | **$** | **319,214** |

**Held-to-maturity**

(in thousands)

| | 12/31/2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Asset Class** | | **Amortized Cost/ Carrying Value**** | | **Gross Unrecognized Gains** | | **Gross Unrecognized Losses** | | **Fair Value** |
| Agencies | $ | 288,407 | $ | 607 | $ | (6,688) | $ | 282,326 |
| Corporates | | 15,000 | | 100 | | (125) | | 14,975 |
| Mortgage-backed | | | | | | | | |
| ABS/CMO* | | | | | | | | |
| Treasuries | | | | | | | | |
| Municipals | | 5,851 | | 232 | | | | 6,083 |
| **Total Fixed Income** | **$** | **309,258** | **$** | **939** | **$** | **(6,813)** | **$** | **303,384** |

*Asset-backed and collateralized mortgage obligations

** Held-to-maturity securities are carried on the unaudited condensed consolidated balance sheets at amortized cost and changes in the fair value of these securities, other than impairment charges, are not reported on the financial statements.

The following table presents the carrying value and fair value of debt securities held-to-maturity by contractual maturity dates as of September 30, 2011 and December 31, 2010:

| | 9/30/2011 | | 12/31/2010 | |
|---|---|---|---|---|
| **HTM (in thousands)** | **Amortized Cost** | **Fair Value** | **Amortized Cost** | **Fair Value** |
| **Agencies** | | | | |
| Due within 1 year | $ 2,001 | $ 2,078 | $ 4,086 | $ 4,117 |
| After 1 but within 5 years | 1,972 | 2,158 | 3,960 | 4,351 |
| After 5 but within 10 years | 35,771 | 35,924 | 18,994 | 18,812 |
| After 10 years* | 259,810 | 260,420 | 261,367 | 255,046 |
| Total | 299,554 | 300,580 | 288,407 | 282,326 |
| | | | | |
| **Corporates** | | | | |
| Due within 1 year | $ | $ | $ | $ |
| After 1 but within 5 years | | | | |
| After 5 but within 10 years | | | | |
| After 10 years | 15,000 | 14,600 | 15,000 | 14,975 |
| Total | 15,000 | 14,600 | 15,000 | 14,975 |
| | | | | |
| **Mortgage-backed** | | | | |
| Due within 1 year | $ | $ | $ | $ |
| After 1 but within 5 years | | | | |
| After 5 but within 10 years | | | | |
| After 10 years* | | | | |
| Total | | | | |
| | | | | |
| **Asset-backed** | | | | |
| Due within 1 year | $ | $ | $ | $ |
| After 1 but within 5 years | | | | |
| After 5 but within 10 years | | | | |
| After 10 years* | | | | |
| Total | | | | |
| | | | | |
| **Treasuries** | | | | |
| Due within 1 year | $ | $ | $ | $ |
| After 1 but within 5 years | | | | |
| After 5 but within 10 years | | | | |
| After 10 years* | | | | |
| Total | | | | |
| | | | | |
| **Municipals** | | | | |
| Due within 1 year | $ 800 | $ 803 | $ 2,631 | $ 2,685 |
| After 1 but within 5 years | 3,074 | 3,231 | 3,220 | 3,398 |
| After 5 but within 10 years | | | | |
| After 10 years* | | | | |
| Total | 3,874 | 4,034 | 5,851 | 6,083 |
| | | | | |
| TOTAL | $ 318,428 | $ 319,214 | $ 309,258 | $ 303,384 |

*Investments with no stated maturities are included as contractual maturities of greater than 10 years. Actual maturities may differ due to call or prepayment rights.

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The following table shows the composition of the fixed income securities in unrealized loss positions at September 30, 2011 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 | Book Value (dollars in thousands) | Fair Value | Unrealized Loss | Percent to Total |
|---|---|---|---|---|---|---|
| 1 | AAA/AA/A | Aaa/Aa/A | $ 168,065 | $ 164,460 | $ (3,605) | 85.0% |
| 2 | BBB | Baa | 21,245 | 20,611 | (634) | 15.0% |
| 3 | BB | Ba | | | | |
| 4 | B | B | | | | |
| 5 | CCC or lower | Caa or lower | | | | |
| 6 | | | | | | |
| | | Total | $ 189,310 | $ 185,071 | $ (4,239) | 100.0% |

*Short-term Investments*

Short-term investments are carried at cost, which approximates fair value. The balance at September 30, 2011 was $156.0 million compared to $39.8 million at December 31, 2010. The increase was primarily due to a $50.0 million cash deposit that was received from a commercial surety customer in lieu of a letter of credit. In addition, another $12.0 million of collateral was received from another surety customer in the third quarter of 2011. Related increases can be seen in funds held on the balance sheet, as well as in our operating cash flows for the year. These are timing issues and will flow out of cash when the customer provides the customary letter of credit and the collateral is released, respectively.

***Evaluating Investments for OTTI***

The fixed income portfolio contained 69 unrealized loss positions as of September 30, 2011. The $4.2 million in associated unrealized losses for these 69 securities represents 0.3% of the fixed income portfolio s cost basis. Of these 69 securities, ten have been in an unrealized loss position for 12 consecutive months or longer and these collectively represent $0.8 million in unrealized losses. The unrealized losses on these ten securities are due to changes in interest rates, and are not credit-specific issues. All fixed income securities in the investment portfolio continue to pay the expected coupon payments under the contractual terms of the securities. In 2009, we adopted GAAP guidance on the recognition and presentation of other-than-temporary impairment (OTTI). Accordingly, any credit-related impairment related to fixed income securities we do not plan to sell and for which we are not more-likely-than-not to be required to sell is recognized in net earnings, with the non-credit related impairment recognized in comprehensive earnings. Based on our analysis, our fixed income portfolio is of a high credit quality and we believe we will recover the amortized cost basis of our fixed income securities. We continually monitor the credit quality of our fixed income investments to assess if it is probable that we will receive our contractual or estimated cash flows in the form of principal and interest. There were no OTTI losses recognized in net earnings or other comprehensive earnings in the periods presented.

As of September 30, 2011, we held 46 common stock positions that were in unrealized loss positions. Unrealized losses on these securities totaled $7.2 million. Based on our analysis, we believe these securities will recover in a reasonable period of time and we have the intent and ability to hold these securities until recovery. Of the 46 common stock positions that were in an unrealized loss position, none have been in an unrealized loss position for 12 consecutive months or longer.

Through September 30, 2011, we recognized $0.3 million in other-than-temporary impairment charges for equity securities. All charges were in our equity portfolio on securities we no longer had the intent to hold. Comparatively, we did not recognize any OTTI losses on equity securities during the first nine months of 2010.

**3. FAIR VALUE MEASUREMENTS**

***Assets and Liabilities Recorded at Fair Value on a Recurring Basis***

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

We determined the fair values of certain financial instruments based on the fair value hierarchy. GAAP guidance requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance also describes three levels of inputs that may be used to measure 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:

**Pricing Level 1** is applied to valuations based on readily available, unadjusted quoted prices in active markets for identical assets. These valuations are based on quoted prices that are readily and regularly available in an active market.

**Pricing 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.

**Pricing Level 3** is applied to valuations that are derived from techniques in which one or more of the significant inputs are unobservable. Financial assets are classified based upon the lowest level of significant input that is used to determine fair value.

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.  As a part of management s process to determine fair value, we utilize widely recognized, third party pricing sources to determine our fair values.

**Corporate, Agencies, Treasuries and Municipal Bonds:** The pricing vendor uses a generic model which uses standard inputs, including (listed in 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. Further, the model uses Option Adjusted Spread (OAS) and is a multidimensional relational model. All bonds valued using these techniques are classified as Level 2. All corporate, agencies, treasuries and municipal securities were deemed Level 2.

**Mortgage-backed Securities (MBS)/Collateralized Mortgage Obligations (CMO) and Asset-backed Securities (ABS):** The pricing vendor evaluation methodology includes interest rate movements, new issue data and other pertinent 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, prepayment assumptions and to incorporate collateral performance. To evaluate CMO volatility, an OAS 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/CMO and ABS with corroborated, observable inputs are classified as Level 2. All of our MBS/CMO and ABS are deemed Level 2.

**Common Stock:** Exchange traded equities have readily observable price levels and are classified as Level 1 (fair value based on quoted market prices). All of our common stock holdings are deemed Level 1.

Assets measured at fair value in the accompanying unaudited condensed consolidated interim financial statements on a recurring basis are summarized below:

| | As of September 30, 2011 Fair Value Measurements Using | | | |
|---|---|---|---|---|
| **($ in 000s) Description** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Total** |
| Trading securities | | | | |
| Mortgage-backed | $ | $ 8 | $ | $ 8 |
| ABS/CMO* | | | | |
| Treasuries | | | | |
| Total trading securities | $ | $ 8 | $ | $ 8 |
| Available-for-sale securities | | | | |
| Agencies | $ | $ 166,617 | $ | $ 166,617 |
| Corporates | | 460,359 | | 460,359 |
| Mortgage-backed | | 256,073 | | 256,073 |
| ABS/CMO* | | 62,584 | | 62,584 |
| Treasuries | | 21,975 | | 21,975 |
| Municipals | | 244,151 | | 244,151 |
| Equity | 331,301 | | | 331,301 |
| Total available-for-sale securities | $ 331,301 | $ 1,211,759 | $ | $ 1,543,060 |
| Total | $ 331,301 | $ 1,211,767 | $ | $ 1,543,068 |

*Asset-backed & collateralized mortgage obligations

Included in the above table are acquired CBIC securities which were initially measured at fair value on the date of acquisition and evaluated as described above as of September 30, 2011. See Note 6 for further discussion of the overall acquisition.

| ($ in 000s) Description | Quoted Prices in Active Markets for Identical Assets (Level 1) | | As of December 31, 2010 Fair Value Measurements Using Significant Other Observable Inputs (Level 2) | | Significant Unobservable Inputs (Level 3) | | Total | |
|---|---|---|---|---|---|---|---|---|
| Trading securities | | | | | | | | |
| Corporate | $ | | $ | | $ | | $ | |
| Mortgage-backed | | | | 15 | | | | 15 |
| ABS/CMO* | | | | | | | | |
| Treasuries | | | | | | | | |
| Total trading securities | $ | | $ | 15 | $ | | $ | 15 |
| Available-for-sale securities | | | | | | | | |
| Agencies | $ | | $ | 102,213 | $ | | $ | 102,213 |
| Corporates | | | | 472,933 | | | | 472,933 |
| Mortgage-backed | | | | 254,141 | | | | 254,141 |
| ABS/CMO* | | | | 49,915 | | | | 49,915 |
| Treasuries | | | | 15,824 | | | | 15,824 |
| Municipals | | | | 237,038 | | | | 237,038 |
| Equity | | 321,897 | | | | | | 321,897 |
| Total available-for-sale securities | $ | 321,897 | $ | 1,132,064 | $ | | $ | 1,453,961 |
| Total | $ | 321,897 | $ | 1,132,079 | $ | | $ | 1,453,976 |

*Asset-backed & collateralized mortgage obligations

As noted in the above table, we do not have any assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period. Additionally, there were no securities transferred in or out of levels 1 or 2 during the three-month and nine-month periods ended September 30, 2011.

**4. STOCK BASED COMPENSATION**

Our shareholder-approved RLI Corp. Omnibus Stock Plan (omnibus plan) was in place from 2005 to 2010. The omnibus plan provided for grants of up to 1,500,000 shares (subject to adjustment for changes in our capitalization). Since 2005, we have granted 1,227,445 stock options under this plan.

During the second quarter of 2010, our shareholders approved the RLI Corp. Long-Term Incentive Plan (LTIP), which replaces the omnibus plan and which was filed with the Securities and Exchange Commission via a Form 8-K Current Report on May 6, 2010. In conjunction with the adoption of the LTIP, effective May 6, 2010, options will no longer be granted under the omnibus plan. Awards under the LTIP may be in the form of restricted stock, stock options (nonqualified only), stock appreciation rights, performance units, as well as other stock based awards. Eligibility under the LTIP is limited to employees or directors of the company or any affiliate. The granting of awards under the LTIP is solely at the discretion of the executive resources committee of the board of directors. The total number of shares of common

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stock available for distribution under the LTIP may not exceed 2,000,000 shares (subject to adjustment for changes in our capitalization). Since 2010, we have granted 461,500 stock options under the LTIP, including 254,450 thus far in 2011.

Under the LTIP, as under the omnibus plan, we grant stock options for shares with an exercise price equal to the fair market value of the shares at the date of grant. Options generally vest and become exercisable ratably over a five-year period. Beginning with the annual grant in May 2009, options granted under both plans have an eight-year life. Prior to that grant, options were granted with a ten-year life. The related compensation expense is recognized over the requisite service period.

In most instances, 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 periods ended September 30, 2011 and 2010:

| | Number of Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value (in 000 s) |
|---|---|---|---|---|
| Outstanding options at January 1, 2011 | 1,524,982 | $ 41.32 | | |
| Options granted | 254,450 | $ 58.97 | | |
| Options exercised | (422,457) | $ 33.34 | | $ 11,220 |
| Options canceled/forfeited | (24,350) | $ 45.84 | | |
| Outstanding options at September 30, 2011 | 1,332,625 | $ 47.14 | 5.96 | $ 21,910 |
| Exercisable options at September 30, 2011 | 628,725 | $ 43.62 | 5.07 | $ 12,551 |

| | Number of Options Outstanding | | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | | Aggregate Intrinsic Value (in 000 s) |
|---|---|---|---|---|---|---|
| Outstanding options at January 1, 2010 | 1,583,803 | $ | 44.73 | | | |
| Options granted | 203,200 | $ | 55.95 | | | |
| Options exercised | (218,645) | $ | 32.91 | | $ | 4,914 |
| Options canceled/forfeited | (42,864) | $ | 46.78 | | | |
| Outstanding options at September 30, 2010 | 1,525,494 | $ | 47.87 | 5.97 | | |