BASES OF PREMIUM

The basis used for determining the premium charge for each classification is indicated in this document. The definitions of the bases of premium are in the order that they are most commonly used, with the respective notation that will show up on monthly reports. They are as follows:

Payroll (“P”)

Payroll means remuneration. Remuneration means money or substitutes for money. Payroll includes the following items:

- a. Commissions;
- b. Bonuses;
- c. Extra pay for overtime work, except as provided in “Overtime”;
- d. Pay for holidays, vacations or periods of sickness;
- e. Payment by an employer of amounts otherwise required by law to be paid by employees to statutory insurance or pension plans, such as the Federal Social Security Act;
- f. Payment to employees on any basis other than time worked, such as piecework, profit sharing or incentive plans;
- g. Payment or allowance for hand tools or power tools used by hand provided by employees and used in their work or operations for the insured;
- h. The rental value of an apartment or a house provided for an employee based on comparable accommodations;
- i. The value of lodging, other than an apartment or house, received by employees as part of their pay, to the extent shown in the insured's records;
- j. The value of meals received by employees as part of their pay to the extent shown in the insured's records;
- k. The value of store certificates, merchandise, credits or any other substitute for money received by employees as part of their pay;
- l. The payroll of mobile equipment operators and their helpers, whether or not the operators are designated or licensed to operate automobiles. If the operators and their helpers are provided to the insured along with equipment hired under contract and their actual payroll is not known, use 1/3 of the total amount paid out by the insured for the hire of the equipment;
- m. The payroll of executive officers of a corporation and individual insureds and co-partners. Use the payroll shown on the State Exceptions (see below). For the purposes of payroll determination, managers of limited liability companies shall be considered executive officers and members of limited liability companies shall be considered co-partners;

State Exceptions:

<table>
<thead>
<tr>
<th>State</th>
<th>Payroll Limit</th>
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</thead>
<tbody>
<tr>
<td>AZ</td>
<td>$26,400</td>
</tr>
<tr>
<td>CA</td>
<td>$33,600</td>
</tr>
<tr>
<td>NV</td>
<td>$29,300</td>
</tr>
</tbody>
</table>

The executive officers of a corporation are those persons holding any of the officer positions created by the named insured's charter, constitution or by-laws or any other similar governing document.

The payroll of all executive officers of a corporation and individual insureds or co-partners engaged principally in clerical operations or as salespersons, and officers and co-partners who are inactive for the entire policy period, shall not be included for premium purposes.

For part-time or seasonal businesses the payroll amounts may be reduced by 2 percent for each full calendar week in excess of twelve during which the risk performs no operations.
n. The payroll of leased workers furnished to the named insured by a labor leasing firm. Premium on such payroll shall be based on the classifications and rates which would have applied if the leased workers had been the direct employees of the named insured. If payroll is unavailable, use 100% of the total cost of the contract for leased workers as the payroll of leased workers. The premium shall be charged on that amount as payroll;
   If investigation of a specific employee leasing contract discloses that a definite amount of the contract price represents payroll, such amount shall be considered payroll for premium computation purposes.

o. Fees paid to employment agencies for temporary personnel provided to the insured.

Payroll excludes the following items:
   a. Tips and other gratuities received by employees;
   b. Payments by an employer to group insurance or group pension plans for employees, other than payments covered by Paragraph e. under “Payroll includes the following items”;
   c. The value of special rewards for individual invention or discovery;
   d. Dismissal or severance payments except for time worked or accrued vacation;
   e. The payroll of clerical office employees;
      Clerical office employees are those employees who work in an area which is physically separated by walls, floors or partitions from all other work areas of the insured and whose duties are strictly limited to keeping the insured’s books or records or conducting correspondence, including any other employees engaged in clerical work in the same area.
   f. The payroll of salespersons, collectors or messengers who work principally away from the insured’s premises. Salespersons, collectors or messengers are those employees engaged principally in any such duties away from the premises of the employer;
      This term does not apply to any employee whose duties include the delivery of any merchandise handled, treated or sold.
   g. The payroll of drivers and their helpers if their principal duties are to work on or in connection with automobiles;
   h. The payroll of aircraft pilots or co-pilots if their principal duties are to work on or in connection with aircraft in either capacity; and
   i. The payroll of draftsmen if their duties are limited to office work only and who are engaged strictly as draftsmen in such a manner that they are not exposed to the operative hazards of the business. The payroll of these draftsmen shall be assigned to the classification "Draftsmen" – Code 91805.

Overtime
Overtime means those hours worked for which there is an increase in the rate of pay:
   1) For work in any day or in any week in excess of the number of hours normally worked, or
   2) For hours worked in excess of 8 hours in any day or 40 hours in any week, or
   3) For work on Saturdays, Sundays or Holidays.
In the case of guaranteed wage agreements, overtime means only those hours worked in excess of the number specified in such agreement.
Exclusion Of Overtime Payroll
The extra pay for overtime shall be excluded from the payroll on which premium is computed as indicated in 1) or 2), provided the insured's books and records are maintained to show overtime pay separately by employee and in summary by classification.

1) If the records show separately the extra pay earned for overtime, the entire extra pay shall be excluded.
2) If the records show the total pay earned for overtime (regular pay plus overtime pay) in one combined amount, 1/3 of this total pay shall be excluded. If double time is paid for overtime and the total pay for such overtime is recorded separately, 1/2 of the total pay for double time shall be excluded.
Exclusion of overtime pay does not apply to payroll assigned to the "Stevedoring" classifications.

The rates apply per $1,000 of payroll.

Subcost (for sublet or subcontracting exposures) ("C")
The total cost of all work let or sublet in connection with each specific project including:

1) The cost of all labor, materials and equipment furnished, used or delivered for use in the execution of the work, however, do not include the cost of finished equipment installed but not furnished by the subcontractor if the subcontractor does no other work on or in connection with such equipment; and

2) All fees, bonuses or commissions made, paid or due.

The rates apply per $1,000 of Total Cost.

Gross Receipts ("G")
The gross amount charged by the named insured, concessionaires of the named insured or by others trading under the insured's name for:

a. All goods or products, sold or distributed;
b. Operations performed during the policy period;
c. Rentals; and
d. Dues or fees.

The following items shall not be deducted from gross sales:

a. Foreign exchange discounts;
b. Freight allowance to customers;
c. Total sales of consigned goods and warehouse receipts;
d. Trade or cash discounts;
e. Bad debts; and
f. Repossession of items sold on installments (amount actually collected).

The following items shall be deducted from gross sales:

a. Sales or excise taxes which are collected and submitted to a governmental division;
b. Credits for repossessed merchandise and products returned. Allowances for damaged and spoiled goods;
c. Finance charges for items sold on installments;
d. Freight charges on sales if freight is charged as a separate item on customers invoice;
e. Royalty income from patent rights or copyrights which are not product sales, and
f. Rental receipts for products liability coverage only.

The rates apply per $1,000 of Gross Sales.
**Store (or Retail Operations) (“S”)**
The total amount of gross sales for all goods and products sold, not including sales or state taxes. Trade-in or cash discounts, bad debts and freight allowances should be included.

**Square Footage (for Lessor’s Risk Only exposures) (“SF”)**
The total number of square feet of floor space at the insured premises, computed as follows:
For entire buildings, by multiplying the product of the horizontal dimensions of the outside of the outer building walls by the number of floors, including basements but do not use the area of the following:
   a. Courts and mezzanine types of floor openings.
   b. Portions of basements or floors where 50% or more of the area is used for shop or storage for building maintenance, dwelling by building maintenance employees, heating units, power plants or air-conditioning equipment.
      For tenants, determine the area they occupy in the same manner as for entire buildings.
The rates apply per 1,000 square feet of area.

**Acreage (for vacant land exposures) (“AC”)**
This classification applies solely to the existence and maintenance of property exclusive of buildings.
The rates apply per acre.