

DECLARATION OF MAILING

STATE IN ~~FILE~~ I declare under penalty of perjury under the laws of the State of Washington that on the date listed below, I mailed or caused delivery of a true copy of this document to parties listed below
DATED this 28th day of Nov. 2006 at Tumwater, Washington.



**OFFICE OF
INSURANCE COMMISSIONER**

FILED

2006 NOV 28 P 1:05

Signed: Wendy Galloway

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**BEFORE THE STATE OF WASHINGTON
OFFICE OF INSURANCE COMMISSIONER**

In the Matter of the Merger of:)	
)	NO. G2006-56
)	
RESPONSE INDEMNITY COMPANY OF)	FINAL ORDER APPROVING
DELAWARE with and into)	PROPOSED MERGER OF
NATIONAL MERIT INSURANCE)	RESPONSE INDEMNITY
COMPANY.)	COMPANY INTO NATIONAL
)	MERIT INSURANCE COMPANY

TO: Mory Katz, CEO
Response Indemnity Company of Delaware
500 South Broad Street
Meriden, CT 06450

Mory Katz, CEO
National Merit Insurance Company
3015 112th Avenue N.E., Suite 200
Bellevue, Washington 98004

David I. Schonbrun
Deputy General Counsel
Response Indemnity Company of Delaware
National Merit Insurance Company
500 South Broad Street
Meriden, CT 06450

August P. Alegi
Vice President, General Counsel & Secretary
Response Indemnity Company of Delaware
National Merit Insurance Company
500 South Broad Street
Meriden, CT 06450



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George Kowalsky
Vice President & Treasurer
Response Indemnity Company of Delaware
National Merit Insurance Company
500 South Broad Street
Meriden, CT 06450

COPY TO: Mike Kreidler, Insurance Commissioner
Michael G. Watson, Chief Deputy Insurance Commissioner
James T. Odiorne, Deputy Commissioner, Company Supervision Division
Carol Sureau, Deputy Commissioner, Legal Affairs Division
Thomas P. Rowland, Staff Attorney, Legal Affairs Division
Ron Pastuch, Holding Company Manager, Company Supervision Division
Office of Insurance Commissioner
PO Box 40255
Olympia, WA 98504-0255

Pursuant to chapter 34.05 RCW; Chapter 48.31 RCW and specifically RCW 48.31.010; 48.04.010; and WAC 10-08-210, and after notice to interested parties and persons (see notice detailed below), the above-entitled matter came on regularly for hearing before the Insurance Commissioner of the state of Washington on November 13, 2006, in the Office of the Insurance Commissioner, Tumwater, Washington. All persons to be affected by the above-entitled matter were given the right to be present at such hearing, during the giving of testimony, and had reasonable opportunity to inspect all documentary evidence. The Insurance Commissioner (Commissioner) appeared pro se by and through Tom Rowland, Staff Attorney in his Legal Affairs Division. Response Indemnity Company of Delaware and National Merit Insurance Company were represented by August P. Alegi, Vice President, Secretary & General Counsel for both companies and by David Schonbrun, Deputy General Counsel and Assistant Secretary for both companies.

NATURE OF PROCEEDING

By filing with the Commissioner made by August P. Alegi on August 15, 2006, Response Indemnity Company of Delaware and National Merit Insurance Company applied to the Commissioner for approval of its proposed merger of Response Indemnity Company of Delaware with and into National Merit Insurance Company. Specifically, in this proposed transaction Response Indemnity Company of Delaware and National Merit Insurance Company would merge, with National Merit Insurance emerging as the surviving entity. The requested effective date of the proposed merger is December 1, 2006.

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FINDINGS OF FACTS

Having considered the evidence and argument presented at the hearing, and the documents on file herein, the undersigned, who was properly designated to hear and make the final determination in this matter, finds as follows:

1. The hearing was duly and properly convened and all substantive and procedural requirements under the laws of the state of Washington have been satisfied.

2. Response Indemnity Company of Delaware (Response Indemnity) is a Delaware stock insurance corporation, NAIC No. 10290, with its executive offices located in Meriden, Connecticut. Response Indemnity has authorized capital stock of thirty thousand shares of common stock, \$5,000 par value per share, of which 200 are issued and outstanding. Response Indemnity is an authorized insurance corporation in Delaware, New York and Pennsylvania and is a direct to the customer auto insurance company. [Ex. 1, Application for Approval of Proposed Merger.]

3. National Merit is a Washington stock insurance corporation, NAIC No. 29004, with its executive offices located in Bellevue, Washington. National Merit has authorized capital stock of thirty thousand shares of common stock, \$100 par value per share, of which all 30,000 shares are issued and outstanding. National Merit is an authorized insurance corporation in Washington, Idaho and Oregon. [Ex. 1, Application.]

4. Response Insurance Company is a Delaware insurance corporation, NAIC No. 43044, with its executive offices in Meriden, Connecticut. Response Insurance Company owns 100% of all issued and outstanding stock of both Response Indemnity and National Merit. [Ex. 1, Application.]

5. Direct Response Corporation is a Delaware corporation, with its executive offices in Meriden, Connecticut. Direct Response Corporation owns all of the issued and outstanding stock of Response Insurance Company and is the holding company and ultimate corporate parent of both Response Indemnity and National Merit. [Ex. 1, Application.]

6. Under the terms of this proposed merger, at the effective time of this proposed merger, each share of Response Indemnity that is outstanding immediately prior to the effective time of this proposed merger, and all rights in respect of such shares, would without further action be canceled and extinguished without any consideration therefore, and each share of National Merit outstanding at the effective time of this proposed merger shall be converted into, and thereafter represent, the corresponding number of shares of the surviving corporation, National Merit, common stock, par value \$100 per share. Thus, all issued and outstanding shares of the surviving corporation, National Merit, common stock shall be owned by Response Insurance Company, the parent corporation, immediately following the closing of this transaction and a certificate representing the appropriate number of shares of National Merit common stock shall be issued to Response Insurance Company. [Ex. 1, Agreement and Plan of Merger.] Further, as

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of the effective time of this proposed merger, all rights and obligations of Response Indemnity shall become the rights and obligations of National Merit as the surviving corporation.

7. Further, under the terms of this proposed merger, National Merit, the surviving corporation, would continue to exist as a domestic insurance corporation under the law of the state of Washington, with all of the rights and obligations of such surviving domestic corporation as are provided by the Washington Business Corporation Act.

8. Pursuant to RCW 48.31.010, on August 15, 2006, Response Indemnity and National Merit filed an Application for Approval of its proposed merger, together with an Agreement and Plan of Merger in this matter. [Ex. 1, Application and Agreement and Plan of Merger.] Although originally Response Indemnity and National Merit had indicated that they wished the effective date of this proposed merger to be November 1, 2006, subsequent to the filing Response Indemnity and National Merit indicated they were revising their plan to instead reflect an effective date of December 1, 2006. [Testimony of August P. Alegi; Affidavit of August P. Alegi.] It is here found that, as required, the Agreement and Plan of Merger was submitted to, and can be approved by the Commissioner, in advance of the new proposed effective date of December 1, 2006, as required.

9. The Commissioner has required that detailed notice of this proposed merger be given to the public via the internet (on the Commissioner's web site). Such notice was duly given by the Commissioner, by announcement on the Commissioner's web site notifying the public of the November 13, 2006 hearing herein and the nature of this hearing, and also by publication of the Amended Notice of Hearing entered by the undersigned on October 25, 2006. Such publication over the internet commenced October 25, 2006 and continued to the date of the hearing, all as required by the Commissioner. [Testimony of Ronald J. Pastuch, Holding Company Manager; Affidavit of Publication by Ronald J. Pastuch.] Based upon this evidence, it is here found that this notice constitutes adequate notice as required by the Commissioner.

10. In the aforereferenced Amended Notice of Hearing, interested parties were advised that any individual or entity may submit comments and questions on, or objections to, this proposed merger. Said comments or objections were to be submitted to the undersigned by specified fax, U.S. Mail, or personal delivery addresses by close of business on November 9, 2006. No comments, objections or questions of any kind were received by the undersigned. Additionally, no objections were received by Response Indemnity or National Merit. [Testimony of August P. Alegi; Affidavit of August P. Alegi.] Finally, no objections were received by the Commissioner or any of his representatives. [Testimony of Ronald J. Pastuch; Affidavit by Ronald J. Pastuch.] Based upon this evidence, it is here found that reasonable notice of this proposed merger was properly given, and that no reasonable objection exists.

11. After the proposed merger is consummated, National Merit will continue to be able to satisfy the requirements for its license to transact insurance business of the state of Washington in the line or lines of insurance for which it is presently licensed. [Testimony of Ronald J. Pastuch; Testimony of August P. Alegi.]

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12. The effect of the proposed merger would not be to substantially lessen competition in insurance in this state or tend to create a monopoly therein. [Testimony of Ronald J. Pastuch; Testimony of August P. Alegi.]

13. The proposed merger would not jeopardize the financial stability of National Merit or prejudice the interest of its policyholders. [Testimony of Ronald J. Pastuch; Testimony of August P. Alegi.]

14. National Merit has no plans or proposals to liquidate National Merit, sell its assets, consolidate or merge it with any person, or structure, or management, which are unfair and unreasonable to policyholders of National Merit or not in the public interest.

15. The competence, experience, and integrity of those persons who would control the operation of National Merit are not such that it would not be in the interest of policyholders of National Merit or of the public to permit this proposed merger. [Testimony of Ronald J. Pastuch; Testimony of August P. Alegi.]

16. This proposed merger is not likely to be hazardous or prejudicial to the insurance-buying public. [Testimony of Ronald J. Pastuch; Testimony of August P. Alegi.]

17. No director, officer, member, or subscriber of either Response Indemnity or National Merit will receive any fee, commission, other compensation or valuable consideration whatsoever, for in any manner aiding, promoting or assisting in the merger, other than their regular salary as an employee of Response Indemnity or National Merit. [Testimony of August P. Alegi.]

18. The proposed merger of Response Indemnity and National Merit is consistent with and governed by the applicable laws of the state of Washington, and they have complied with such laws. [Testimony of Ronald J. Pastuch; Testimony of August P. Alegi.]

19. Based upon the evidence presented herein, this proposed merger is fair, equitable and consistent with law. [Testimony of Ronald J. Pastuch; Testimony of August P. Alegi.]

20. The sole witness for the Commissioner was Ronald J. Pastuch, Holding Company Manager in the Commissioner's Company Supervision Division. Mr. Pastuch presented his testimony in a detailed and credible manner and exhibited no apparent biases.

21. August P. Alegi, Vice President, Secretary and General Counsel for both Response Indemnity and National Merit, appeared as a witness for Response Indemnity and National Merit. Mr. Alegi presented his testimony in a detailed and credible manner and exhibited no apparent biases.

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22. George Kowalsky, CPA, CPCU, Vice President-Finance and Treasurer of both Response Indemnity and National Merit, appeared as a witness for Response Indemnity and National Merit. Mr. Kowalsky presented his testimony in a detailed and credible manner and exhibited no apparent biases.

23. Based upon the above findings of facts, it is here found that the application of Response Indemnity and National Merit for approval of its proposed merger, whereby Response Indemnity shall merge with and into National Merit, is reasonable and should be approved.

CONCLUSIONS OF LAW

1. The proposed plan of merger was submitted to the Commissioner in advance of the merger, in compliance with RCW 48.31.010(1)(a) and RCW 48.31B.015(1) and (2).

2. Notice of this proposed merger, as required by the Commissioner, has been given, in compliance with RCW 48.31.010(1)(b).

3. This proposed merger is fair, equitable, consistent with law, and no reasonable objection exists, as contemplated by RCW 48.31.010(1)(b).

4. No director, officer, member, or subscriber of Response Indemnity or National Merit has received or shall receive, except for their regular salaries, any fee, commission, other compensation or valuable consideration whatsoever, for in any manner aiding, promoting or assisting in this merger. This is in compliance with RCW 48.31.010(1)(c).

5. The proposed merger will in all other respects be governed by the general laws of the state of Washington relating to business corporations as contemplated by RCW 48.31.010(1)(d).

6. After consummation of the proposed merger, National Merit will continue to be able to satisfy the requirements for its license to conduct the business of insurance in the state of Washington in the lines of insurance for which it is presently licensed, as contemplated by RCW 48.31B.015(4)(a)(i).

7. The effect of this proposed merger will not be substantially to lessen competition in insurance in Washington State or tend to create a monopoly therein, as contemplated by RCW 48.31B.015(4)(a)(ii).

8. The financial condition of National Merit is not such as might jeopardize its stability as a result of this proposed merger, or prejudice the interest of its policyholders, as contemplated by RCW 48.31B.015(4)(a)(iii).

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9. The plans or proposals that National Merit has to liquidate the insurer, sell its assets, consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management, are not unfair or unreasonable to policyholders of National Merit and are not against the public interest, as contemplated by RCW 48.31B.015(4)(a)(iv).

10. The competence, experience, and integrity of those persons who would control the operation of National Merit are not such that it would not be in the interest of policyholders of National Merit and the public to permit this proposed merger, as contemplated by RCW 48.31B.015(4)(a)(v).

11. This proposed merger is not likely to be hazardous or prejudicial to the insurance-buying public, as contemplated by RCW 48.31B.015(4)(a)(vi).

12. The requirements of the Insurance Code of the state of Washington, and specifically Chapter 48.31 RCW governing approval of mergers, have been met. Pursuant to Title 48 RCW, Title 34 RCW, and applicable regulations, approval of this proposed merger should be granted.

ORDER

On the basis of the foregoing Findings of Fact and Conclusions of Law, to the effect 1) the proposed plan of merger was submitted to the Commissioner in advance of the merger; 2) proper and adequate notice of this proposed merger, as required by the Commissioner, has been given to the public; 3) this proposed merger is fair, equitable, consistent with law, and no reasonable objection exists; 4) no director, officer, member, or subscriber of Response Indemnity or National Merit has received or shall receive, except for their regular salaries, any fee, commission, other compensation or valuable consideration whatsoever, for in any manner aiding, promoting or assisting in this merger; 5) this proposed merger will in all other respects be governed by the general laws of the state of Washington relating to business corporations; 6) after consummation of the proposed merger, National Merit will continue to be able to satisfy the requirements for its license to conduct the business of insurance in the state of Washington in the lines of insurance for which it is presently licensed; 7) the effect of this proposed merger will not be substantially to lessen competition in insurance in Washington State or tend to create a monopoly therein; 8) the financial condition of National Merit is not such as might jeopardize its stability as a result of this proposed merger, or prejudice the interest of its policyholders; 9) the plans or proposals that National Merit has to liquidate the insurer, sell its assets, consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management, are not unfair or unreasonable to policyholders of National Merit and are not against the public interest; 9) the competence, experience, and integrity of those persons who would control the operation of National Merit are not such that it would not be in the interest of policyholders of National Merit and the public to permit this proposed merger; 10) this proposed merger is not likely to be hazardous or prejudicial to the insurance-buying public;

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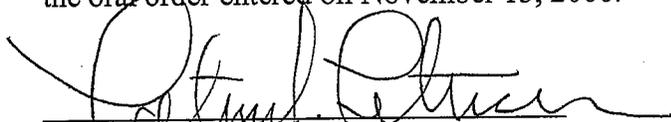
11) the requirements of the Insurance Code of the state of Washington, and specifically Chapter 48.31 RCW governing approval of mergers, have been met; and that 12) pursuant to Title 48 RCW, Title 34 RCW, and applicable regulations, approval of this proposed merger should be granted,

IT IS HEREBY ORDERED that the application of Response Indemnity and National Merit, for the Commissioner's approval of the proposed merger of Response Indemnity with and into National Merit is hereby **APPROVED**. On November 13, 2006, at the conclusion of the hearing in this matter, the undersigned orally ordered that the application was approved and such approval was effective as of that date.

IT IS FURTHER ORDERED that the effective date of the proposed merger shall be 12:01 a.m. on December 1, 2006.

THIS ORDER is entered pursuant to RCW 48.04.010, Chapter 48.31 RCW, Title 34 RCW, WAC 10-08-210.

THIS ORDER entered this 28th day of November, 2006, at Tumwater, Washington, confirms the oral order entered on November 13, 2006.



PATRICIA D. PETERSEN

Presiding Officer