MIKE KREIDLER
STATE INSURANCE COMMISSIONER

DECLARATION OF MAILING
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 17th day of March 2008 at Tumwater, Washington.
Signed Wendy Galloway

STATE OF WASHINGTON

OFFICE OF
INSURANCE COMMISSIONER

HEARINGS UNIT
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In the Matter of the Proposed Acquisition and Control of: **NATIONAL MERIT INSURANCE COMPANY,** a Washington-Domiciled Property and Casualty Insurer, by **JC FLOWERS II., L.P. and JCF DRC, L.P.** Applicants.	**NO. G08-0016** **AMENDED NOTICE OF HEARING**

TO: David I. Schamis, Managing Director
J.C. Flowers II L.P. & JCF DRC, L.P.
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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
Ronald J. Pastuch, Holding Company Manager, Company Supervision Division
Office of Insurance Commissioner
PO Box 40255
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The purpose of this Amended Notice of Hearing is solely to change the percentage of ownership proposed to be owned by The Plymouth Rock Company, Inc. due to changes made by the parties after initial filing (Form A, Ex. 2). The current proposed percentage is as noted in bold below. With the change in this percentage, the original Notice of Hearing, G08-0016 entered on March 5, 2008, as set forth below, remains effective in its entirety as of date of entry.

I. Application of J.C. Flowers II L.P. and JCF DRC, L.P. (Applicants) to acquire control of National Merit Insurance Company (National Merit) by purchasing shares of Direct Response Corporation.

By filing a Form A statement herein, J.C. Flowers II L.P., a Cayman Island exempted limited partnership, and JCF DRC, L.P., an Alberta limited partnership, ("Applicants") have requested approval from the undersigned for JCF DRC, L.P. to purchase 123,720 shares of existing common stock of Direct Response Corporation (Direct Response), for a purchase price of $101,000,554.08, from various current stockholders of Direct Response. If approved, this proposed transaction would result in JCF DRC, L.P. acquiring ultimate control over Direct Response and thereby National Merit Insurance Company (National Merit), its wholly owned subsidiary, as well.

JCF DRC, L.P. is a newly formed limited partnership, wholly owned by J.C. Flowers II L.P. and the affiliated partnerships (specifically, J.C. Flowers II-A, L.P., a province of Alberta Canada limited partnership, and J.C. Flowers II-B, L.P., a Cayman Islands exempted limited partnership, both of which are funds set up to invest in the same companies as J.C. Flowers II L.P. in cases where, for legal or other reasons, an investor cannot participate in J.C. Flowers II L.P.; these two funds, along with J.C. Flowers II L.P. and JCF DRC, L.P., are all controlled by J. Christopher Flowers, and will own 6.0% and 5.4%, respectively, of the interests in JCF DRC pursuant to J.C. Flowers II L.P. and JCF DRC, L.P. and the organizational structure chart included in the hearing file. JCF DRC, L.P. has recently been organized specifically for the purposes of the acquisition of National Merit and various other Direct Response insurance companies. JCF DRC, L.P. will pass through all benefits of ownership of National Merit shares to J.C. Flowers II L.P.

National Merit is a domestic Washington stock insurance corporation, holding Washington Certificate of Authority No. 1278. National Merit, which is headquartered in Bellevue, Washington, is engaged in the business of underwriting personal lines property-casualty insurance in Washington State and elsewhere.

Direct Response, a Delaware stock corporation, owns 100% of the stock of approximately 15 insurance corporations and insurance agencies, including National Merit. As of March 28, 2007, (the date of execution of the Stock Purchase Agreement which, together with its amendment dated October 10, 2007, dictates the terms of the transaction being considered in this proceeding), the 266,461 total outstanding common stock of Direct Response was held as follows: 21,349 shares, 8% of total shares outstanding undiluted/8.2% of total shares outstanding fully diluted, owned by The Plymouth Rock Company; 6,578 shares, 2.5%/6.3%, owned by James M. Stone; 200 shares, .1%/1.9%, owned by Mory Katz; 0 shares, 0%/1.5%, owned by Direct Response's management other than Mory Katz; 2,995 shares, 1.1%/1.0%, owned by Morgan Stanley Capital Investors, L.P.; 106,895 shares, 40.1%/36.8%, owned by Morgan Stanley Capital Partners III, L.P.; 10,943 shares, 4.1%/3.8%, owned by MSCP III 892 Investors, L.P.; 103,891, 39.0%/35.8%, owned by DR Investors, L.P.; 13,609 shares, 5.1%/4.7%, owned by DR Investors II, L.P.

J.C. Flowers II L.P. is a private equity investment fund. As above, it is controlled by J. Christopher Flowers, which wholly owns JCF DRC, L.P., which is a limited partnership having no other assets or operations and existing solely to hold the subject shares proposing to be purchased. Should this proposed transaction be approved, JCF DRC, L.P. will purchase 123,720 shares of Direct Response for $816,364 in cash per share, for a total of $101,000,554.08 in cash in the aggregate from Morgan Stanley Capital Partners III, L.P., Morgan Stanley Capital Investors, L.P., MSCP III 892 Investors, L.P., DR Investors, L.P. and DR Investors II, L.P. (Sellers), specific numbers of shares to be purchased from each separate Seller set forth in said Form A. The purchase will result in JCF DRC, L.P. owning 46.4% of the total number of outstanding shares, on an undiluted basis. JCF DRC, L.P. will pass through all benefits of ownership of National Merit shares to J.C. Flowers II L.P.

Pursuant to RCW 48.31B.015(1) and (2), the Applicants have filed an Application for Approval of the Proposed Acquisition of Control of National Merit Insurance Company (Form A Statement), which shall be entered as evidence herein, which 1) includes substantial information and agreements concerning this proposed acquisition as required by RCW 48.31B.015(2) and in accordance with RCW 48.31B.020(3)(a); and which 2) includes information and agreements relative to the issues which must be the subject of findings pursuant to RCW 48.31B.015(4).

Pursuant to RCW 48.31B.015(4), the Insurance Commissioner shall approve a proposed acquisition of control involving a domestic insurer unless, after a hearing thereon, it is found: i) that after the change of control, the domestic insurer would not be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed; ii) that the effect of the acquisition would be substantially to lessen competition in insurance in this state or tend to create a monopoly therein; iii) that the financial condition of an acquiring party is such as might jeopardize the financial stability of the insurer, or prejudice the interests of its policyholders; iv) that the plans or proposals that the acquiring party 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 unfair and unreasonable to policyholders of the insurer and not in the public interest; v) that the competence, experience, and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders of the insurer and of the public to permit the acquisition; or vi) that the acquisition is likely to be hazardous or prejudicial to the insurance-buying public.

Copies of the relevant current and proposed organizational structures of the Applicants, Direct Response Corporation and National Merit are included in the hearing file and are by this reference incorporated herein.

Pursuant to RCW 48.31B.015(4), the Insurance Commissioner shall approve an acquisition of a domestic insurer unless, after a hearing thereon, it is found: 1) that after the change of control, the domestic insurer would not be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed; 2) that the effect of the acquisition of control would be substantially to lessen competition in insurance in this state or tend to create a monopoly therein; 3) that the financial condition of an acquiring party is such as might jeopardize the financial stability of the insurer, or prejudice the interests of its policyholders; 4) that the plans or

proposals that the acquiring party has to liquidate the insurer, sell its assets, consolidate or acquisition it with any person, or to make any other material change in its business or corporate structure or management, are unfair and unreasonable to policyholders of the insurer and not in the public interest; 5) that the competence, experience, and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders of the insurer and of the public to permit the acquisition or control; or 6) that the acquisition is likely to be hazardous or prejudicial to the insurance-buying public.

Toward this end, the parties are advised that the Insurance Commissioner is expected to testify as to whether he has given reasonable advance notice to the public of the hearing scheduled herein and whether he has received any objections or other input relative to this proposed transaction. The Insurance Commissioner is also expected to testify as to the conclusions he has reached during his examination of the subject Form A insofar as they relate to the above stated issues 1) through 6). Duly authorized representatives (not only counsel unless counsel is also an officer of each of the purchasing entities) of J.C. Flowers II L.P., JCF DRC, L.P., J.C. Flowers II-A, L.P. and J.C. Flowers II-B, L.P. are expected to testify as to the above stated issues and as to whether any of these entities or any of their subsidiaries or representatives have received any objections to the proposed transaction. While live testimony from the parties will be taken during the hearing as to the above identified issues, written declarations from those parties are also required. Further, oral opening statements and closing arguments from the Applicants are expected and a written closing argument is required.

Finally, a duly authorized representative (not only counsel, unless counsel is also an officer of National Merit) is expected to testify as to the above stated issues and as to whether National Merit has received any objections to the proposed transaction.

II. Disclaimer of Affiliation and Request for Exemption

1. Metalmark Managed Funds: As described above, the Applicants propose to purchase, and the Sellers propose to sell, specified shares of common stock of Direct Response. In particular, if this transaction were to be approved, the result would be that Morgan Stanley Capital Partners III, L.P., MSCP III 892 Investors, L.P., DR Investors, L.P. and DR Investors II, L.P. (together referred to as "Metalmark Managed Funds") would own 40.1 % of outstanding shares of voting common stock of Direct Response, 36.8% of voting power fully diluted. For this reason, by letter dated January 14, 2008, Metalmark Managed Funds filed a Disclaimer of Affiliation by Morgan Stanley Capital Partners III, L.P., MSCP III 892 Investors, L.P., DR Investors, L.P. and DR Investors II, L.P., pursuant to RCW 48.31B.025(11) and WAC 284-18-430(1). As grounds for its request, Metalmark Managed Funds states that they commit to, and are prepared to execute and deliver to the Commissioner a written commitment, under which they collectively agree with the Commissioner not to vote, or execute any stockholder consents with respect to, any shares of common stock or other voting stock of Direct Response beneficially owned in the aggregate by the Metalmark Managed Funds in excess of 9.9% of the outstanding shares of common stock and other voting stock of Direct Response without the prior written approval of the Commissioner or until the Metalmark Managed

Funds have received approval of an application for acquisition of control of Direct Response.

Pursuant to RCW 48.31B.025(11), A person may file with the commissioner a disclaimer of affiliation with an authorized insurer. The disclaimer must fully disclose all material relationship and bases for affiliation between the person and the insurer as well as the basis for disclaiming the affiliation. After a disclaimer has been filed, the insurer is relieved of any duty to register or report under this section that may arise out of the insurer's relationship with the person unless and until the commissioner disallows the disclaimer. The commissioner shall disallow the disclaimer only after furnishing all parties in interest with notice and opportunity to be heard and after making specific findings of fact to support the disallowance. Toward this end, Metalmark Managed Funds are advised that they must 1) have an authorized officer (not only its counsel unless counsel is also an officer) of Metalmark Managed Funds testify as to the basis upon which the Funds file this disclaimer of affiliation; and 2) submit said written and executed commitment, as above-referenced. Live testimony and a written Declaration are expected and will be entered into evidence during the hearing. As to disclaimer of affiliation regarding Metalmark Managed Funds, while live testimony from the parties will be taken during the hearing as to the above identified bases, written declarations from those parties are also required. Further, oral opening statements and closing arguments from Metalmark Managed Funds are expected and a written closing argument is required.

2. The Plymouth Rock Company (Plymouth Rock): If this transaction were to be approved, the result would be that Plymouth Rock would own ~~10.3%~~ **9.85%** of outstanding shares of voting common stock of Direct Response, ~~10.3%~~ **approximately 9.85%** of voting power fully diluted. For this reason, by letter dated December 19, 2007, Plymouth Rock filed a Disclaimer of Control and Request for Exemption pursuant to RCW 48.31B.015(5) and other relevant statutory provisions, requesting that it be exempted from any requirement to file and obtain approval of a Form A or equivalent submission in connection with the above proposed acquisition of control by JCF DRC L.P. (and, by pass through of benefits, J.C. Flowers II, L.P.). As grounds for its request, Plymouth Rock submits that it does not have and will not acquire as a result of the proposed transaction the ability, directly or indirectly, to control Direct Response.

Pursuant to RCW 48.31B.015(b), a person may be exempted from the requirements of RCW 48.31B.015 and related statutes and regulations if the commissioner by order has exempted that person from those requirements as not having the effect of changing or influencing the control of a domestic insurer, or effect of changing or influencing the control of a domestic insurer, or otherwise not comprehended within the purposes of RCW 48.31B.015. Toward this end, Plymouth Rock is advised that it must 1) have an authorized officer of Plymouth Rock (not only its counsel, unless counsel is also an officer) testify as to the basis upon which Plymouth Rock files this request for an exemption. Live testimony and a written Declaration are expected and will be entered into evidence during the hearing.

As to request for exemption regarding Plymouth Rock, while live testimony from the parties will be taken during the hearing as to the above identified issues, written declarations from those parties are also required. Further, oral opening statements and closing arguments from Plymouth Rock are expected and a written closing argument is required.

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YOU ARE HERBY NOTIFIED that a hearing will be held commencing at 9:00 a.m. Pacific Standard Time on Wednesday, March 19, 2008, in the Office of the Insurance Commissioner, 5000 Capitol Boulevard, Tumwater, Washington 98501, to consider 1) the proposed acquisition of control of Direct Response, including its wholly owned subsidiary, National Merit Insurance Company of Bellevue, by JCF DRC L.P. and J.C. Flowers II, L.P. which is expected to receive the pass through benefits of the Direct Response, including National Merit, stock; and 2) the disclaimer of affiliation of Metalmark Managed Funds; and 3) the request for exemption of The Plymouth Rock Company.

The hearing will be held under the authority granted the Insurance Commissioner by Chapter 48.04 RCW and RCW 48.31B.015, and shall have as its purpose consideration of the above identified criteria and entry of a final decision regarding approval of 1) this proposed acquisition and 2) the disclaimer of affiliation filed by Metalmark Managed Funds and 3) the request for exemption filed by The Plymouth Rock Company. The Insurance Commissioner has not taken, and will not take, any position on this matter prior to entry of the Findings of Facts, Conclusions of Law and Final Order to be entered after hearing.

YOU ARE FURTHER NOTIFIED that all interested individuals and entities may submit comments on, or objections to, this proposed acquisition, the disclaimer of affiliation and/or the request for exemption must be submitted by 5 p.m., Pacific Standard Time on Tuesday, March 18, 2008, and will be carefully considered by the undersigned prior to making her final decision in this matter. Said comments or objections must be submitted to the undersigned by fax, U.S. Mail, personal delivery, or email. The fax number of the undersigned is (360) 664-2782, her mailing address is PO Box 40255, Olympia, WA 98504-0255, her delivery address is 5000 Capitol Boulevard, Tumwater, Washington 98501, and her email address is PatricaP@oic.wa.gov. **Further, pursuant to RCW 48.31B.015(4)(b), any person who has an interest in this matter may appear at this proceeding and present evidence, examine and cross-examine witnesses, and offer oral and written arguments, and in connection therewith may conduct discovery proceedings as authorized by Title 34 RCW.**

Finally, all parties may participate in the hearing. They may examine witnesses and fully respond and present evidence and argument on all issues involved, as required by the Administrative Procedure Act. The hearing will be governed by the Administrative Procedure Act, Chapter 34.05 RCW, and the model rules of procedure contained in Chapter 10-08 WAC. A party who fails to attend or participate in any stage of the proceeding may be held in default in accordance with Chapter 34.05 RCW.

The Insurance Commissioner will appear pro se, by and through Thomas Rowland of his Legal Affairs Division. He can be reached at (360) 725-7181. JC Flowers II L.P and JCF DRC, L.P. will be represented by Daniel A. Rabinowitz of Sullivan & Cromwell LLP, 125 Broad Street, New York, New York 10004. He can be reached at (212) 558-3471. Mr. Timothy J. Parker of Carney, Badley,

Spellman, P.S., 701 Fifth Avenue, Suite 3600, Seattle, Washington 98104-7010 is also representing JC Flowers II L.P., and JCF DRC, L.P., as local counsel. He can be reached at (206) 607-4153. Mary Cotter, attorney with Ryan, Swanson & Cleveland, PLLC, 1201 Third Avenue, Suite 3400, Seattle, Washington 98101-3034 will be representing Direct Response Corporation. She can be contacted at (206) 251-2554. John Dembeck of Debevoise & Plimpton LLP and Counsel for Metalmark Managed Funds, 919 Third Avenue, New York, New York 10022, can be reached at (212) 909-6158. Colleen M. Granahan, will be representing The Plymouth Rock Company, 695 Atlantic Avenue, Boston, Massachusetts and can be reached at (617) 951-1645.

Based upon a delegation of authority from the Insurance Commissioner, the undersigned will conduct the hearing and will make the final decision and enter the final order relative to this matter without input from the Insurance Commissioner or his staff or any other individual who has knowledge of the issues here, except as will be presented as evidence in the hearing. Her address is Office of the Insurance Commissioner, P.O. Box 40255, Olympia, WA 98504-0255 and her telephone number is (360) 725-7105. All questions or concerns should be directed to Wendy Galloway, Paralegal to the undersigned, who may be reached at the telephone, e-mail and fax number specified above.

Pursuant to WAC 10-08-040(2) and in accordance with ch. 2.42 RCW, if a limited English-speaking or hearing impaired or speech impaired party or witness needs an interpreter, a qualified interpreter will be appointed. There will be no cost to the party or witness therefore, except as may be provided by ch. 2.42 RCW. Following this Notice is a form you may use to advise the Chief Hearing Officer of our need for an interpreter.

ENTERED at Olympia, Washington, this 17th day of March, 2008, pursuant to Title 48 RCW and specifically RCW 48.31B.015, Title 34 RCW, and regulations applicable thereto.

PATRICIA D. PETERSEN
Presiding Officer
Chief Hearing Officer

MIKE KREIDLER
STATE INSURANCE COMMISSIONER

STATE OF WASHINGTON

Phone: (360) 725-7000

OFFICE OF
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To request an interpreter, complete and mail this form to:

Chief Hearing Officer
Office of Insurance Commissioner
P.O. Box 40255
Olympia, Washington 98504-0255

REQUEST FOR INTERPRETER

I am a party or witness in Matter No. _____, before the Insurance Commissioner. I NEED AN INTERPRETER and request that one be furnished.

Please check the statements that apply to you:

☐ I am a non-English-speaking person. I cannot readily speak or understand the English language. My primary language is _____ (insert your primary language). I need an interpreter who can translate to and from the primary language and English.

☐ I am unable to readily understand or communicate the spoken English language because:

- ☐ I am deaf.
- ☐ I have an impairment of hearing.
- ☐ I have an impairment of speech.

[Please state below or on the reverse side any details which would assist the commissioner or presiding officer in arranging for a suitable interpreter, or in providing appropriate mechanical or electronic amplification, viewing, or communication equipment.]

Date: _____ Signed: _____

Please print or type your name: _____
Address: _____
_____
Telephone: _____