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Timothy J. Parker

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July 31, 2007

Mr. Ronald J. Pastuch
Holding Company Manager
Office of Insurance Commissioner
State of Washington
P.O. Box 40259
Olympia, WA 98504-0259

RECEIVED
AUG 02 2007
INSURANCE COMMISSIONER
COMPANY SUPERVISION

Re: ***J.C. Flowers II L.P.***
Amendment No. 1 to Form A

Dear Mr. Pastuch:

Enclosed is the referenced Form A. This differs from the Form A filed on May 10, 2007, only in adding two paragraphs to footnote 2 in Item 1(b). The footnote now includes a full description of the Applicant's ownership structure. As stated in the added language, this does not affect control over the acquired insurers. Also enclosed is a chart reflecting the ownership structure.

Please contact me if I can facilitate the approval process.

Very truly yours,

CARNEY BADLEY SPELLMAN, P.S.

Timothy J. Parker

TJP:cw
Enclosures
cc: Mr. Daniel Rabinowitz
Mr. August Alegi

JCF001 0001 ig318004

AMENDMENT NO. 1
AUGUST 1, 2007

FORM A

STATEMENT REGARDING THE
ACQUISITION OF CONTROL OF DOMESTIC INSURER

NATIONAL MERIT INSURANCE COMPANY
Name of Domestic Insurer

BY

J.C. FLOWERS II L.P.
Name of Acquiring Person (Applicant)

Filed with the OFFICE OF THE INSURANCE COMMISONER
OF THE STATE OF WASHINGTON
(State of domicile of Insurer being acquired)

Original dated: May 10, 2007

Name, Title, Address and Telephone Number of Individuals to Whom Notices and Correspondence Concerning This Statement Should Be Addressed:

J.C. Flowers II L.P.
c/o David I. Schamis
717 Fifth Avenue, 26th Floor
New York, NY 10022
Tel: (212) 404-6810
Fax: (212) 404-6899
Email: dschamis@jcfco.com

With a Copy to:

Daniel A. Rabinowitz Sullivan & Cromwell LLP 125 Broad Street New York, New York 10004 Phone: (212) 558-3471 Fax: (212) 558-3588 Email: rabinowitzd@sullcrom.com	Timothy J. Parker Carney Badley Spellman, PS 701 Fifth Avenue, Suite 3600 Seattle, Washington 98104-7010 Phone: (206) 607-4153 Fax: (206) 467-8215 Email: parker@carneylaw.com

This Statement Regarding the Acquisition of Control of the Domestic Insurer (as defined herein) (the "Statement") seeks approval of the Office of the Insurance Commissioner of the State of Washington (the "Office") pursuant to Section 48.31B.015 the Revised Code of Washington ("RCW") for the acquisition and control of the Domestic Insurer.

ITEM 1(b) IS HEREBY AMENDED TO READ AS FOLLOWS:

(b) Method of Acquisition of Control.

Overview of Transaction.

National Merit Insurance Company (the "Insurer"), a Washington-domiciled insurer, is a wholly owned subsidiary of Direct Response Corporation, a Delaware corporation (the "Company"). The Insurer is engaged in the business of underwriting personal lines property-casualty insurance. The Company's common stock ownership as of March 28, 2007 (the date of execution of the Stock Purchase Agreement described herein) is as follows, according to information received from the Company and its stockholders:

Table I: Ownership as of March 28, 2007			
Stockholder	**Shares Owned**	**% of Total Shares Outstanding**	**% of Total Shares Outstanding, Fully Diluted[1]**
The Plymouth Rock Company ("PRC")	21,349	8.0%	8.2%
James M. Stone	6,578	2.5%	6.3%
Mory Katz	200	0.1%	1.9%
The Company's management, other than Mory Katz	0	0.0%	1.5%
Morgan Stanley Capital Investors, L.P.	2,995	1.1%	1.0%
Morgan Stanley Capital Partners III, L.P.	106,895	40.1%	36.8%
MSCP III 892 Investors, L.P.	10,943	4.1%	3.8%
DR Investors, L.P.	103,891	39.0%	35.8%
DR Investors II, L.P.	13,609	5.1%	4.7%
Total:	266,461	100.0%	100.0%

J.C. Flowers II L.P., a private equity investment fund described in this Statement, proposes to acquire control (as defined in RCW Section 48.31B.005) of the Insurer as described in this Statement, and is referred to herein as the "Applicant." Control will be acquired by means of a purchase of shares of the Company's common stock from certain stockholders of the Company, as described below (the "Acquisition"), resulting in the Applicant owning 46% of the total number of outstanding shares, on an undiluted basis. The selling stockholders comprise 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. (the "Sellers").

Set forth below is a description of the principal features of the main Acquisition documents.

Stock Purchase Agreement.

A copy of the Stock Purchase Agreement, dated as of March 28, 2007 (the "Stock Purchase Agreement"), among the Applicant, PRC, Stoneridge Holding LLC ("Stoneridge"), the Company

[1] This column and similar columns in the tables below as indicated reflect the percentage of ownership after giving effect to the exercise of 2,313 options, 11,813 options, 5,300 options and 4,334 options owned by PRC, Mr. Stone, Mr. Katz and management other than Mr. Katz (including 500 options held by Mr. Jeffrey C. Keil, Chairman of the Company's Board of Directors), respectively, as of the date of execution of the Stock Purchase Agreement, March 28, 2007. Each month, additional options are granted to PRC and Mr. Keil, under the terms of the Company's 2004 Management Equity Plan as adopted by the Board. Accordingly, percentages set forth in this column may differ by immaterial amounts from corresponding percentages as of the date of this Statement. Moreover, due to rounding of fractional shares and percentage points, columnar data in this Statement may not always total the sum provided.

and the stockholders listed therein is attached hereto as Exhibit 1, except that exhibits to the Stock Purchase Agreement that are also exhibits to this Statement in substantially the same form are omitted from Exhibit 1, and except that Annex D to the Stock Purchase Agreement (disclosure schedules) is submitted under separate cover.

Under the Stock Purchase Agreement, upon the terms and subject to the conditions set forth therein, on the Closing Date (defined in the Stock Purchase Agreement) the respective Sellers will sell to the Applicant, and the Applicant[2] will purchase from the respective Sellers, in exchange for $816.364 in cash per share, or $100,000,508.18 in cash in the aggregate to all Sellers, the number of shares of common stock indicated below:

---

2 A portion of the shares that the Applicant is committed to purchase will be purchased and held by certain affiliated limited partnerships of J.C. Flowers II L.P. (alternative investment vehicles) sharing common control with J.C. Flowers II L.P. These alternative partnerships exist for legal reasons unrelated to U.S. insurance laws. The holdings of such affiliated entities are aggregated with those of J.C. Flowers II L.P. for purposes of this Statement.

To give effect to this allocation of shares, the Applicant and these affiliated partnerships will purchase the shares from Sellers through a single, newly formed Alberta limited partnership organized specifically for purposes of the Acquisition (the "Acquisition Vehicle"). The equity interests in the Acquisition Vehicle will be owned exclusively by the Applicant and the affiliated partnerships, and the Acquisition Vehicle's general partner (with exclusive power to control the Acquisition Vehicle) will be a Delaware limited liability company whose sole member is J. Christopher Flowers. David Schamis will be an authorized signatory of the general partner. No person other than Mr. Flowers and Mr. Schamis (each of whom has provided biographical information below) will serve as an officer or director or the equivalent of the Acquisition Vehicle.

The Acquisition Vehicle will nominally own all of the shares to be purchased by the Applicant under the Stock Purchase Agreement and will hold no other significant assets and conduct no activities other than owning such shares and activities incidental thereto. The Acquisition Vehicle will pass through all of the incidents of ownership and control to its equityholders, consisting of the Applicant and the affiliated partnerships referred to above. The Applicant's obligations discussed in this Application will not be affected by this structure, nor does this structure affect control over the Insurers.

Table II: Acquisition of the Company's Shares by Applicant				
Seller	**Number of Shares to Be Sold to the Applicant**	**% of Total Shares Outstanding**	**% of Total Shares Outstanding, Fully-Diluted[3]**	**Cash Consideration to Be Paid by Applicant to Seller**
Morgan Stanley Capital Partners III, L.P.	43,833	16.5%	15.1%	$35,783,683.21
MSCP III 892 Investors, L.P.	5,240	2.0%	1.8%	$1,170,665.98
Morgan Stanley Capital Investors, L.P.	1,434	0.5%	0.5%	$4,277,747.36
DR Investors, L.P.	65,472	24.6%	22.6%	$53,448,983.81
DR Investors II, L.P.	6,516	2.4%	2.2%	$5,319,427.82
Total:	**122,495**	**46.0%**	**42.2%**	**$100,000,508.18**

Also pursuant to the Stock Purchase Agreement, two other persons, PRC and Stoneridge, who are unaffiliated with the Applicant, will purchase 6,124 and 1,225 shares of common stock of the Company, respectively, from Morgan Stanley Capital Partners III, L.P. As shown in Table I, above, PRC is an existing stockholder, and its purchase of shares pursuant to the Stock Purchase Agreement will result in PRC owning 10.3% of the Company's outstanding shares on an undiluted basis. In connection with this Statement, the Applicant has been informed by PRC and the Company that PRC intends to either submit a Disclaimer of Affiliation pursuant to RCW Section 48.31B.025(11), amend its existing Disclaimer on file with this Office in respect of the Insurer or request an exemption from the Form A approval requirement pursuant to RCW Section 48.31B.015(5) reflecting such 10.3% share ownership, as appropriate. Stoneridge, which is controlled by Mr. Keil, the Chairman of the Company's Board of Directors, will own less than 10% of the shares of common stock from and after the Closing Date.

Also, as a result of the Acquisition, the two Sellers that individually have a current 10%-or-greater position in the Company will reduce their ownership of the Company's common stock as indicated below.

3 See Footnote 1 for explanation of dilution.

Table III: Reduction of Ownership as a Result of the Transaction			
10%-or-Greater Seller	**Shares Owned as a Percentage of Total Shares Outstanding, as of date of Stock Purchase Agreement**	**Shares Owned as a Percentage of Total Shares Outstanding from and after the Closing Date**	**Shares Owned as a Percentage of Total Shares Outstanding from and after Closing, Fully Diluted[4]**
Morgan Stanley Capital Partners III, L.P.	40.1%	20.9%	19.2%
DR Investors, L.P.	38.9%	14.4%	13.2%

The Company and the Sellers have advised the Applicant as follows in the remainder of this paragraph: Under the Company's existing stockholders' agreement (which would expire when the Applicant acquires control), no Seller is currently able to designate a majority of the Company's board of directors. Accordingly, the Company and the Sellers have historically asserted that even though Morgan Stanley Capital Partners III, L.P. and DR Investors, L.P. each hold more than 10% of the Company's stock, neither of these two stockholders nor any other stockholder controls the Insurer for purposes of insurance holding company regulation. Morgan Stanley Capital Partners III, L.P. and DR Investors, L.P. have Disclaimers of Affiliation on file with this Office in connection with the Insurer pursuant to RCW Section 48.31B.025(11). In 2006, with the term of the existing stockholders' agreement about to expire, Morgan Stanley Capital Partners III, L.P., DR Investors, L.P., Metalmark Subadvisor LLC and certain affiliates of the foregoing filed a Form A with this Office and in the other domiciliary states. The Form A reflected the ability that these stockholders would have had to exercise control as a result of the expiration of the stockholders' agreement, which would allow them to elect directors to the full extent of voting power. In light of the Acquisition and this Statement, the Metalmark Form A has been withdrawn by letter of John Dembeck, Esq., to this Department dated April 3, 2007. In connection with this Statement, these Sellers intend either to submit a new Disclaimer, amend their current Disclaimers or request an exemption from the Form A approval requirement pursuant to RCW Section 48.31B.015(B), as appropriate.

Following completion of the Acquisition on the Closing Date, ownership of the Company's common stock will be as set forth in Exhibit 2.

The completion of the Acquisition is subject to the satisfaction of closing conditions specified in the Stock Purchase Agreement, including:

Approval under State Insurance Law. The Acquisition is subject to the approval of the Insurance Commissioner of the State of Washington pursuant to RCW Section 48.31B.015, and this Statement constitutes the statement required by such provision. The Acquisition is also subject to the prior approval of the insurance regulators of California, Connecticut and New York, the states where the Company's other insurance company subsidiaries are domiciled, pursuant to similar provisions in those states. Statements similar to this filing are being filed with those departments around the time of this submission.

4 See Footnote 1 for explanation of dilution.

HSR Approval. The waiting period required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, must have expired or been terminated.

The Stock Purchase Agreement may be terminated unilaterally by either the Sellers or the Applicant if the Closing Date has not occurred by August 31, 2007, and will terminate in any event if the Closing Date has not occurred by March 31, 2008, unless the Closing Date has not occurred solely due to regulatory action or inaction beyond the control of any party to the Stock Purchase Agreement.

Stockholders' Agreement.

Under the Stock Purchase Agreement, the Applicant, PRC, Stoneridge, the Company, the Sellers and James M. Stone (together, all such parties other than the Company are referred to as the "Stockholders") have agreed to enter into a stockholders' agreement (the "Stockholders' Agreement") on or before the Closing Date, the form of which is included herewith as Exhibit 3.

The Stockholders' Agreement provides for the composition of the Company's Board of Directors (the "Board") and approval rights of Stockholders after the Acquisition. Under the Stockholders' Agreement, the initial Board from and after the Closing Date would comprise up to 18 persons, who may be designated as set forth below. All individuals named below other than J. Christopher Flowers and David I. Schamis (the Applicant's designees) are currently serving or have served as directors or officers of the Company.

- Up to nine directors would be designated by the Applicant. Under the Stockholders' Agreement, the Applicant initially appoints J. Christopher Flowers and David I. Schamis;

- Up to two directors would be designated by PRC. Under the Stockholders' Agreement, PRC initially appoints James N. Bailey and Hal Belodoff;

- Up to two directors would be designated by Metalmark Capital, LLC on behalf of Morgan Stanley Capital Partners III, L.P., and DR Investors, L.P. Under the Stockholders' Agreement, Metalmark Capital, LLC initially appoints Howard Hoffen and Lawrence Unrein;

- Pursuant to the Stockholders' Agreement, the remainder of the Board will consist of: Eric T. Fry, Managing Director, Metalmark Capital LLC; Jeffrey C. Keil, Managing Member, Stoneridge; Mory Katz, Chief Executive Officer and President of the Company; James M. Stone, Chief Executive Officer of PRC; and Sandra Urie, Chief Executive Officer and President of Cambridge Associates, LLC;

- The Stockholders agree to cause their respective directors to initially elect Mr. Keil as Chairman of the Board; and

- The Stockholders agree to cause their respective directors to initially elect Mr. Stone as Vice Chairman of the Board.

Additional directors may be named in the future by the Stockholders in accordance with the above guidelines. When and as new directors are named, biographical information as required under the insurance laws of this and other states will be provided to the applicable insurance departments.

The Applicant may, in its discretion, remove Mr. Katz as a director (but not from any other capacity), and the total membership of the Board would thereupon be reduced by one. Each Stockholder agrees, under the Stockholders' Agreement, that the Stockholder will take such action as is necessary to facilitate any such removal of Mr. Katz, including voting its shares in favor of such removal. Moreover, if he ceases to be the Company's Chief Executive Officer, Mr. Katz will cease to be a director, and total Board membership would thereupon be reduced by one. If Mr. Katz were no longer to be on the Board, and the Applicant exercised its right to designate nine directors, the Applicant would control nine out of 17 Board positions.

Generally, all actions taken by the Board would require the approval of a majority of the full Board. Item 8 of this Statement enumerates certain specific rights of the Stockholders with respect to the transfer of shares of the Company's common stock.

Corporate Governance of the Insurer.

The boards of directors and management of the Insurer will consist of the same individuals as prior to the Acquisition.

Analysis of Competitive Impact.

Pursuant to RCW 48.31B.015(4)(a)(ii)(A), incorporating the informational requirements of RCW Section 48.31B.020(3)(a), the Acquisition would have virtually no effect on competition in the State of Washington.

The only insurance business that is affiliated with the Applicant and that is engaged in the same lines as the Company in Washington is Affirmative Insurance Holdings and its subsidiaries. Other than the Affirmative companies, the Company would not, as a result of the Acquisition, be affiliated with other any insurance companies engaged in property-casualty insurance in Washington.

Attached as Exhibit 4 is a schedule showing, for direct written premium as reported by the relevant companies for the year ended December 31, 2005 (the most recent data available from A.M. Best), the respective market shares and ranking by line of business in Washington for (i) the Affirmative companies and (ii) the Insurer and all other insurance subsidiaries of the Company. The schedule also shows the resulting increase in such market share as a result of the Acquisition.

In addition, the schedule shows the relevant Herfindahl-Hirschman Index ("HHI") for each line of business before and after the Acquisition. The HHI is a commonly accepted measure of market concentration and is used by the U.S. Department of Justice and Federal Trade

Commission in their review of antitrust filings[5]. A market having an HHI of below 1000 is considered unconcentrated by the Federal antitrust authorities. Markets in which the HHI is between 1000 and 1800 points are considered to be moderately concentrated, and those in which the HHI is in excess of 1800 points are considered to be concentrated. Transactions that increase the HHI by more than 100 points in concentrated markets presumptively raise antitrust concerns for the DOJ and the FTC.

The schedule indicates that in no line of business in Washington would combined market share increase by even 0.01% of the entire market, and in no line would the combined market share of the Applicant and all affiliates be greater than 0.50%. This is a sufficiently small market share and increase to warrant an exemption from Washington's pre-acquisition notification requirement set forth in RCW Section 48.31B.020(2)(b)(v). Similarly, the Acquisition would have no appreciable effect on HHI, and every line in which both sets of companies are engaged is unconcentrated (below 1000) except Homeowners Multiple Peril and Private Passenger Auto No-Fault. Such lines are moderately concentrated, and, according to the Federal HHI guidelines, mergers producing an increase in the HHI of less than 100 points in moderately concentrated markets post-merger are unlikely to have adverse competitive consequences and ordinarily require no further analysis. In this case, these two lines evidence HHI increases of less than 0.01 of a point each.

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5 HHI is calculated by squaring the market share of each firm competing in the market and then summing the resulting numbers. For example, for a market consisting of four firms with shares of 20, 30, 20 and 20 percent, the HHI is 2600 ($30^2 + 30^2 + 20^2 + 20^2 = 2600$). HHI measures the concentration of the given market by taking into account the relative size and distribution of the firms in the market. HHI approaches zero when a market consists of a large number of firms of relatively equal size, and HHI increases both as the number of firms in the market decreases and as the disparity in size between those firms increases. A high HHI means a market with relatively little competition.

ITEM 13. SIGNATURE AND CERTIFICATION.

SIGNATURE

Pursuant to the requirements of Section 4, chapter 462, Laws of 1993 of the State of Washington, J.C. Flowers II L.P. has caused this application to be duly signed on its behalf in the City of New York, State of New York, on the __ day of _____, 2007.

J.C. FLOWERS II L.P.

By: _____
Name:
Title:

Attest:

By: _____
Name:
Title:

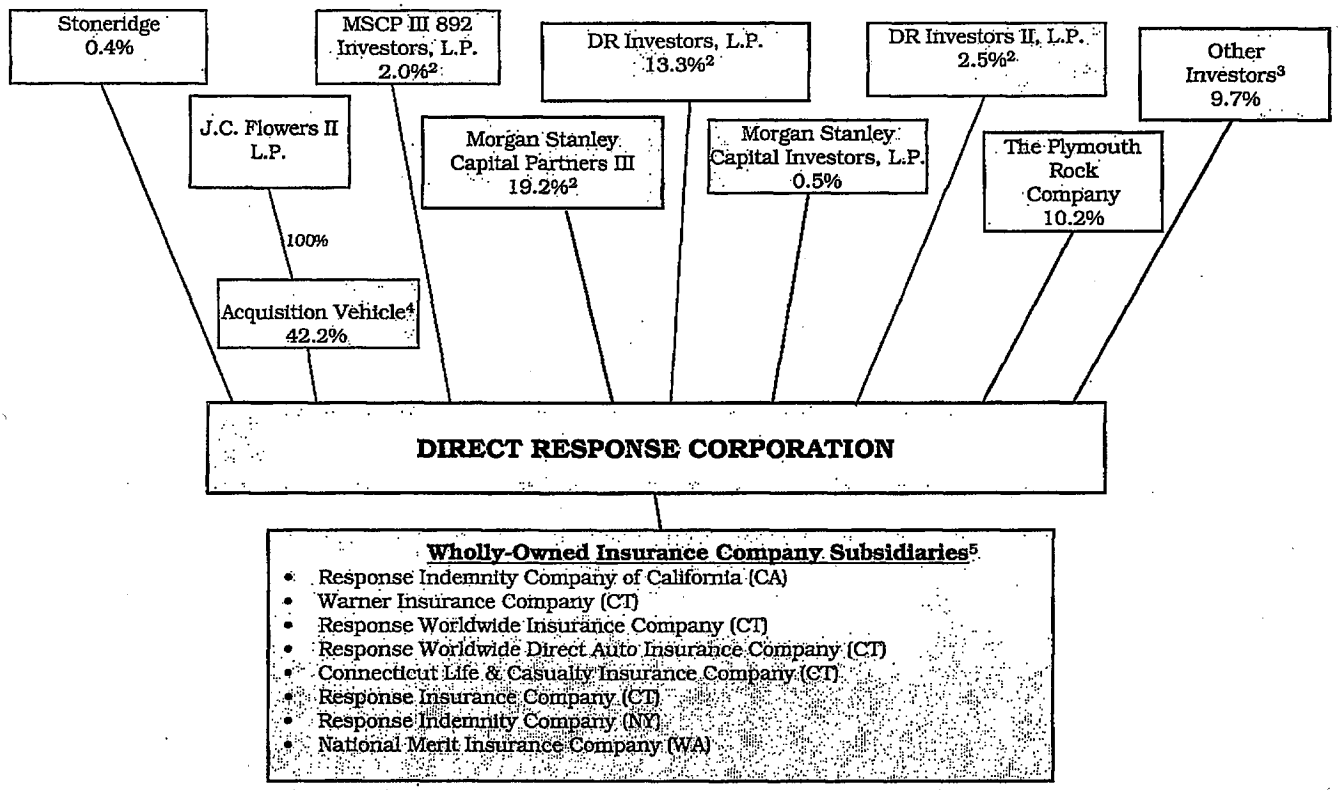
CERTIFICATION

The undersigned deposes and says that he/she has duly executed the attached application dated _____ ___, 2007, for and on behalf of J.C. Flowers II L.P.; that he/she is the _____of such company and that he/she is authorized to execute and file such instrument. Deponent further says that he/she is familiar with the instrument and the contents thereof, and that the facts therein set forth are true to the best of his/her knowledge, information and belief.

_____
Name:

EXHIBIT 6B

FULLY-DILUTED[1] OWNERSHIP OF THE COMPANY'S VOTING SECURITIES IMMEDIATELY AFTER CLOSING



1 Gives effect to the full exercise of options outstanding as of March 27, 2007. See footnote 1 to Application for additional discussion.
2 Denotes entities under common control for purposes of their holdings in Direct Response Corporation.
3 Includes: James M. Stone – 6.3%, and Mory Katz/Other Management – 3.4%.
4 See amended footnote 2 to Application for additional discussion.
5 Does not illustrate the legal entity structure below Direct Response Corporation.

NY12532:406071.1

CARNEY
BADLEY
SPELLMAN

Timothy J. Parker

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Email: parker@carneylaw.com

October 2, 2007

VIA E-MAIL AND U.S. MAIL

State of Washington
Office of Insurance Commissioner
P.O. Box 40259
Olympia, Washington 98504-0259

Attn: Ronald J. Pastuch, CPA
Holding Company Manager
Company Supervision Division

Re: Form A Application - Proposed Acquisition of National Merit Insurance Company ("Insurer") by J.C. Flowers II L.P. ("Applicant")

Dear Mr. Pastuch:

Thank you for your letter dated August 31, 2007 regarding the above-referenced matter. On behalf of the Applicant, set forth below are your questions (in italics) and our responses in turn.

1. *Under Item 4, given the limited financial resources of J.C. Flowers II L.P. as of December 31, 2006, please describe the available funding from the limited partners of the Applicant to consummate this purchase. We noted the pending purchase of another corporation by an investor group led by the Applicant for a significant amount. Please also describe any financing outside of the partnership and fund resources that may be pursued in this purchase.*

A: The Applicant is a limited partnership which, together with two smaller limited partnerships under common control with the Applicant (as described in the Form A), constitutes a private equity investment fund. In such a fund, prospective investors are solicited at or around the inception of the fund's existence to make capital commitments to the fund. Investors willing to participate in the fund's investments agree to provide amounts of capital over time at the request of the fund manager. As the fund's managers select investments from time to time over the life of the fund, the fund manager "calls" capital to make the investments; i.e., it notifies the investors that they must contribute a specific portion of their committed amounts at particular times to make selected investments. Once this capital is thus "called" and provided, the fund manager

makes the investment. The fund does not ordinarily hold large amounts of uninvested liquid assets (such as cash), since it draws on the capital commitments only at the times needed.
In the case of the J.C. Flowers funds, to participate in its investments, the Applicant's investors have previously entered into subscription agreements and related documentation with the Applicant. The Applicant began operations in 2006, and the last subscription agreements were entered into in February, 2007, when the fund became closed to new investors.

The subscription agreements entered into by investors in the fund include the Applicant's partnership agreement (or similar agreements in the case of the affiliated partnerships) and certain ancillary documents. In the subscription agreements, the investors have committed to provide, in the aggregate, approximately $7.0 billion of equity capital to the Applicant and the two affiliated limited partnerships. The investors agree to provide this capital when called for purposes of investments selected by the Applicant, expenses or other obligations. In accordance with accounting standards, these capital commitments are not recorded as assets on the Applicant's balance sheet.

Each subscription agreement is a legally binding commitment of the investor. Assuming the fund is in compliance with its obligations under the subscription agreement, the investor *must* provide the amount of capital when called. If it is not provided, the investor will be in breach of the agreement and subject to legal recourse by the fund. (In the event of such a breach by an investor, the Applicant would be entitled to specific remedies set forth in its limited partnership agreement as well as any other available legal or equitable remedies.)

Shortly before the closing of the acquisition, the Applicant and these affiliated limited partnerships intend to call the necessary amount in capital commitments from their investors in the manner described above prior to the closing in order to fund the approximately $100 million purchase price for the Direct Response Corporation ("DRC") shares. These investors will then be obligated to provide this capital for purposes of the closing, and the Applicant expects that the necessary capital will indeed be funded pursuant to the capital call.

2. *Under Item 5, the Applicant stated that the Company may in the future, to simplify its corporate structure, propose to merge the Insurer [National Merit] or other insurance subsidiaries into one another or conduct similar internal reorganizations having like effect.*

Please describe any reorganization plans which may affect National Merit over the next 3 years.

A: Neither DRC nor the Applicant has any specific plan or intent at this time to merge or consolidate the Insurer into any other DRC subsidiary. Any such transaction would be subject to Washington Insurance Code requirements, and the Office of the Insurance Commissioner would be notified of any such plans when they are developed, if at all, and any required approvals would be obtained before effectuating any such plans.

3. *Though not specifically described under Item 5, please describe any proposals or plans to merge or consolidate National Merit or its affiliates with any other insurance group that the Applicant has controlling interests.*

A: Please refer to Item 2 of this letter. There are no current plans to merge or consolidate the Insurer into any other entity, including affiliates controlled by the Applicant.

Please do not hesitate to contact the undersigned at (206) 622-8020 or parker@carneylaw.com if you have any further questions.

Very truly yours,

CARNEY BADLEY SPELLMAN, P.S.

Timothy J. Parker

TJP:cw
cc: Sally Rocker, J.C. Flowers & Co. LLC
David Rabinowitz, Sullivan & Cromwell LLP

CARNEY
BADLEY
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Timothy J. Parker

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OCT 04 2007
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October 2, 2007

VIA E-MAIL AND U.S. MAIL

RECEIVED
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INSURANCE COMMISSIONER
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State of Washington
Office of Insurance Commissioner
P.O. Box 40259
Olympia, Washington 98504-0259

Attn: Ronald J. Pastuch, CPA
Holding Company Manager
Company Supervision Division

Re: Form A Application - Proposed Acquisition of National Merit Insurance Company ("Insurer") by J.C. Flowers II L.P. ("Applicant")

Dear Mr. Pastuch:

Thank you for your letter dated August 31, 2007 regarding the above-referenced matter. On behalf of the Applicant, set forth below are your questions (in italics) and our responses in turn.

1. *Under Item 4, given the limited financial resources of J.C. Flowers II L.P. as of December 31, 2006, please describe the available funding from the limited partners of the Applicant to consummate this purchase. We noted the pending purchase of another corporation by an investor group led by the Applicant for a significant amount. Please also describe any financing outside of the partnership and fund resources that may be pursued in this purchase.*

A: The Applicant is a limited partnership which, together with two smaller limited partnerships under common control with the Applicant (as described in the Form A), constitutes a private equity investment fund. In such a fund, prospective investors are solicited at or around the inception of the fund's existence to make capital commitments to the fund. Investors willing to participate in the fund's investments agree to provide amounts of capital over time at the request of the fund manager. As the fund's managers select investments from time to time over the life of the fund, the fund manager "calls" capital to make the investments; i.e., it notifies the investors that they must contribute a specific portion of their committed amounts at particular times to make selected investments. Once this capital is thus "called" and provided, the fund manager

MIKE KREIDLER
STATE INSURANCE COMMISSIONER

STATE OF WASHINGTON

OFFICE OF
INSURANCE COMMISSIONER

Phone: (360) 725-7000
www.insurance.wa.gov

Please reply to: PO Box 40259
Olympia, WA 98504-0259
FAX: (360) 586-2022

August 31, 2007

TIMOTHY J PARKER
COUNSEL
CARNEY BADLEY SPELLMAN
701 FIFTH AVENUE, SUITE 3600
SEATTLE, WA 98104-7010

Re: Form A Application – Proposed Acquisition of National Merit Insurance Company

Dear Mr. Parker:

During our review of the Form A filing by J.C. Flowers II LP ("Applicant"), we noted the following information that requires further explanation from the Applicant. Please provide your response in the similar order which is outlined.

1. Under Item 4, given the limited financial resources of J.C. Flowers II L.P. as of December 31, 2006, please describe the available funding from the limited partners of the Applicant to consummate this purchase. We noted the pending purchase of another corporation by an investor group led by the Applicant for a significant amount. Please also describe any financing outside of the partnership and fund resources that may be pursued in this purchase.

2. Under Item 5, the Applicant stated that the Company may in the future, to simplify its corporate structure, propose to merge the Insurer [National Merit] or other insurance subsidiaries into one another or conduct similar internal reorganizations having like effect.

   Please describe any reorganization plans which may affect National Merit over the next 3 years.

3. Though not specifically described under Item 5, please describe any proposals or plans to merge or consolidate National Merit or its affiliates with any other insurance group that the Applicant has controlling interests.

We have some concerns regarding the disclaimers of affiliation filed by the other investors of Direct Response Corporation. These concerns will be addressed to their counsel.

We continue our review of the filing. We will notify you if we require additional information.

If you have any questions, please call me at 360-725-7211.

Sincerely,

RONALD J. PASTUCH, CPA
Holding Company Manager
Company Supervision Division
Fax: 360-586-2022

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