

STATE OF WASHINGTON

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STATE INSURANCE COMMISSIONER



OFFICE OF
INSURANCE COMMISSIONER

FILED

MAR 27 2008

HEARINGS UNIT
Fax: (360) 664-2782

Hearing Unit, OIC
Patrick J. Petersen
Chief Hearing Officer

In the Matter of the Acquisition of Control
of:

NO. G08-0016

NATIONAL MERIT INSURANCE
COMPANY, a Washington domiciled
insurer

ORDER APPROVING ACQUISITION
OF CONTROL OF NATIONAL MERIT
INSURANCE COMPANY BY
J.C. FLOWERS II L.P. AND JCF DRC,
L.P.

By J.C. FLOWERS II L.P. and JCF DRC,
L.P. ("Applicants")

TO: Timothy J. Parker
Carney Badley Spellman, P.S.
701 Fifth Avenue, Suite 3600
Seattle, WA 98104-7010

Mr. Daniel A. Rabinowitz
Sullivan & Cromwell LLP
125 Broad Street
New York, NY 10004-2498

COPY TO: Mary Cotter, Esquire
Mory Katz, President/CEO
Susan Clafin VP & General Counsel
Mike Kreidler, Insurance Commissioner
Michael G. Watson, Chief Deputy Insurance Commissioner
Thomas P. Roland, Staff Attorney

Pursuant to Chapter 48.04 RCW, Chapter 34.05 RCW, RCW 48.31B.015, and Chapter 284-18 WAC, 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 commencing at 9:00 a.m. on March 19, 2008 in the Office of the Insurance Commissioner, 5000 Capitol Blvd., Tumwater, WA 98501. 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, to examine witnesses and present oral and written statements. The Insurance Commissioner (Commissioner) was represented by Mr. Ronald Pastuch of the Company Supervision Division of the Office of the Insurance Commissioner and Mr. Thomas Rowland, Office of the Insurance Commissioner Staff Attorney. The Applicants were represented by Timothy J. Parker and Daniel A. Rabinowitz, Attorneys at Law.

* Admitted to practice in New York.



NATURE OF PROCEEDING

By filing Form A (which is its preacquisition notification and application for approval of this proposed acquisition) dated May 8, 2007, and filed with the Insurance Commissioner on May 10, 2007, the Applicants have applied for the Commissioner's approval of their proposed acquisition of control of National Merit Insurance Company ("NMIC"), a Washington domiciled insurance company. Applicants propose to acquire control of NMIC by acquiring 46.43% of the outstanding stock of NMIC's holding company, Direct Response Corporation, in a negotiated acquisition. Applicants propose to acquire such outstanding stock from present stockholders Morgan Stanley Capital Partners III, L.P., MSCP III 892 Investors, L.P., Morgan Stanley Capital Investors, L.P., DR Investors, L.P., and DR Investors II, L.P. RCW 48.31B.015, part of the Washington insurer Holding Company Act, requires that the Commissioner approve the acquisition unless, after a public hearing to examine the evidence and determine whether the proposed acquisition satisfies the applicable statutory criteria, the Commissioner determines it should not be approved.

FINDINGS OF FACT

Having considered the written and oral evidence presented at the hearing, and the documents on file herein, including the Form A Statement Regarding the Acquisition of Control of a Domestic Insurer dated May 8, 2008, and filed with the Commissioner on May 10, 2007, and Amendments dated August 1, 2007, November 5, 2007, and January 4, 2008, and the exhibits to the Form A, the testimony of Edward Grebow and Ronald Pastuch, and the entire hearing file, the undersigned 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. NMIC is a subsidiary of Direct Response Corporation. The Applicants propose to acquire control over NMIC by purchasing 46.43% of the outstanding shares of Direct Response Corporation from their current owners, Morgan Stanley Capital Partners III, L.P., MSCP III 892 Investors, L.P., Morgan Stanley Capital Investors, L.P., DR Investors, L.P., and DR Investors II, L.P., and thereby acquire indirect control over NMIC. JCF DRC, L.P. will acquire the shares by purchasing them from the several sellers at a purchase price of \$816.364/share or \$101,000,554.08 in the aggregate.
3. J.C. Flowers II L.P., together with certain related funds under common control, is a private equity limited partnership with approximately \$7.0 billion in capital commitments. J.C. Flowers II L.P. was founded by J. Christopher Flowers, who oversees the fund's investments and activities. In addition to J.C. Flowers II L.P., two limited partnerships under common control with J.C. Flowers II L.P., which participate in the same investment opportunities as J.C. Flowers II L.P. on a side-by-side basis, will

participate in the Direct Response Corporation transaction for legal reasons affecting certain investors and not having anything to do with insurance law. These two affiliated partnerships will each ultimately own less than 10% of the equity of Direct Response Corporation, and their interests are accordingly aggregated with those of J.C. Flowers II L.P. for purposes of this Order. JCF DRC, L.P. is a newly formed acquisition vehicle that will be wholly owned by, and under common control with, J.C. Flowers II L.P. and the two affiliated funds referred to above. JCF DRC, L.P. has been organized specifically for this transaction, to acquire and hold the above-mentioned shares of Direct Response Corporation, and will have no other significant activities or assets. JCF DRC, L.P. is organized as a limited partnership (i) whose limited partnership interests are owned by J.C. Flowers II L.P. and the two affiliates and (ii) whose general partner is a separate limited partnership ultimately controlled by J. Christopher Flowers.

4. J.C. Flowers II L.P. and JCF DRC, L.P. are, or at the time of the acquisition will be, financially sound and adequately capitalized to complete the acquisition of control and to operate NMIC and its parent.
5. The acquisition will be effected pursuant to a Stock Purchase Agreement dated March 28, 2007, and amended October 10, 2007 and December 8, 2007, among the Applicants, The Plymouth Rock Company Incorporated, Stoneridge Holding LLC, Direct Response Corporation and the sellers.
6. Applicants properly filed their Form A, dated May 8, 2007, on May 10, 2007, and Amendments dated August 1, 2007, November 5, 2007, and January 4, 2008. The requested effective date of this proposed acquisition is as soon as possible after approval of the application. The Form A contains the information required by the Insurance Commissioner and by applicable statute and is satisfactory to the Insurance Commissioner.
7. After the proposed acquisition of control, NMIC will continue to 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.
8. The effect of this proposed acquisition of control would not be substantially to lessen competition in insurance in this state or to create a monopoly therein. The acquisition, if approved, will not result in a highly concentrated market.
9. The financial condition of the Applicants is not such as might, after completion of the proposed acquisition, jeopardize the financial stability of Direct Response Corporation or NMIC or prejudice the interests of NMIC policyholders.
10. After completion of this proposed acquisition, there are no planned material changes to NMIC's business or corporate structures or management which are unfair or unreasonable to the NMIC policyholders or not in the public interest.

11. It cannot be found that the competence, experience, and integrity of those persons who would control the operation of Direct Response Corporation and NMIC after the proposed acquisition are such that it would not be in the interest of NMIC policyholders and of the public to permit the acquisition of control.
12. It is not likely that this proposed acquisition is hazardous or prejudicial to the insurance-buying public.
13. After completion of this proposed acquisition, the rights and privileges of NMIC policyholders will be preserved.
14. The Notice of Hearing herein [Ex. 1], which contains information concerning this proposed acquisition and the public hearing thereon, was published in its entirety on the Washington State Insurance Commissioner's website on March 5, 2008 and continuously from that time until the date of the hearing herein. Said forms of notice are as required by the undersigned. It is here found that this notice constitutes reasonable and adequate notice to interested parties.
15. As indicated in the subject Notice of Hearing [Ex. 1, page 3] entered by the undersigned on 3-5-2008 and published as set forth above, all interested parties were given the opportunity to submit any comments on, or objections to, this proposed acquisition to the undersigned. All interested parties were also advised in said Notice of Hearing that they would be given the opportunity to present evidence at hearing and to examine and cross-examine witnesses and offer oral and written arguments, and in connection therewith to conduct discovery proceedings. No objections or communications of any kind were received by the undersigned from non-parties. Further, no communications of any kind was received from outside parties by Applicants or Direct Response Corporation. Further, no objections were received by the Insurance Commissioner. Based upon this evidence, it is here found that no reasonable objection to this proposed acquisition exists.
16. Based upon the above findings of facts, which address the statutory criteria for filing, review and approval of acquisitions of control of insurers domiciled in Washington State, and which criteria were set forth by the undersigned in the above-referenced Notice of Hearing, it is here found that this proposed acquisition satisfies the criteria of RCW 48.31B.015 and that the application should be approved.
17. The sole witness appearing on behalf of the Commissioner was Ronald Pastuch of the Company Supervision Division of the Office of the Insurance Commissioner. Mr. Pastuch presented his testimony in a detailed and credible manner and exhibited no apparent biases. Mr. Pastuch testified as cited above and further testified that the Commissioner received no objection to this proposed acquisition.
18. Edward Grebow, Managing Director of J.C. Flowers II L.P. and an authorized person of JCF DRC, L.P. testified on behalf of J.C. Flowers II L.P. and JCF DRC, L.P.

Mr. Grebow presented his testimony in a detailed and credible manner and exhibited no inappropriate biases.

19. The application of J.C. Flowers II L.P. and JCF DRC, L.P. for approval of the proposed acquisition of control of Direct Response Corporation and NMIC should be approved.

CONCLUSIONS OF LAW

1. Pursuant to Chapter 48.31B RCW, the Insurance Commissioner has jurisdiction over the plan of acquisition and change of control of NMIC.
2. Based upon Finding of Fact No. 5 above, the Applicant properly filed its Form A dated May 8, 2007, on May 10, 2007, and Amendments dated August 1, 2007, November 5, 2007, and January 4, 2008, and such application, Form A, contains the information required by RCW 48.31B.015(2).
3. Based upon Finding of Fact No. 6 above, after the change of control, NMIC, which is wholly owned by Direct Response Corporation, will continue to satisfy the requirements for a certificate of authority to conduct insurance business in this state, as contemplated by RCW 48.31B(4)(a)(i).
4. Based upon Finding of Fact No. 7 above, the change in control of NMIC will not substantially lessen competition in insurance in this state or tend to create a monopoly in this state, as contemplated by RCW 48.31B(4)(a)(ii).
5. Based upon Finding of Fact No. 8 above, the financial condition of the Applicants is such that the financial stability of NMIC will not be jeopardized by the acquisition, and the interests of the NMIC policyholders will not be prejudiced, as contemplated by RCW 48.31B.015(4)(a)(iii).
6. Based upon Finding of Fact No. 10 above, the competence, experience, and integrity of those persons who will control the operation of Direct Response Corporation and NMIC are such that this acquisition would not be against the interest of the NMIC policyholders or of the public, as contemplated by RCW 48.31B.015(4)(a)(v).
7. Based upon Findings of Fact Nos. 9, 10, 11, and 12 above, the acquisition of NMIC is not likely to be hazardous or prejudicial to the insurance buying public, as contemplated by RCW 48.31B.015(a)(vi).
8. Based upon Finding of Fact Nos. 13, 14, 15, and 16, reasonable notice to interested parties has been given, and no objections exist.
9. Based upon the above Findings of Fact, the provisions of the Insurance Code of the State of Washington, Chapter 48.31B RCW, and specifically RCW 48.31B.015

governing approval of acquisitions, have been met. Pursuant to Chapter 48.31 RCW, and specifically RCW 48.31B.015, Applicants' request for approval of this proposed acquisition is granted.

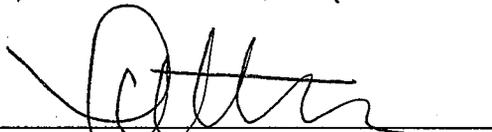
ORDER

On the basis of the foregoing Findings of Fact and Conclusions of Law, to the effect that the statutory criteria for approval of this proposed acquisition have been met, and to the effect that approval of this proposed acquisition should be granted,

IT IS HEREBY ORDERED that the application of the J.C. Flowers II L.P. and JCF DRC, L.P. for the Insurance Commissioner's approval of its proposed acquisition of Direct Response Corporation and NMIC, upon the terms included into evidence in this proceeding, is GRANTED effective immediately. Consummation of this transaction may occur, provided that the parties have complied with all other statutes which govern this transaction.

This Order is entered pursuant to Title 48 RCW, and specifically RCW 48.31B.015, Title 34 RCW, and regulations applicable thereto.

ENTERED at Olympia, Washington, this 27th day of March, 2008.

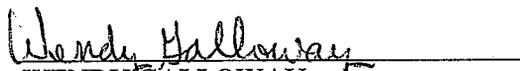


Patricia Petersen
OIC Chief Hearing Officer

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 the parties listed on the first page and to Ronald Pastuch, David I. Schamis, David I. Schonbrun, John Dembeck, Colleen M. Granahan and the parties listed above.

DATED this 28th day of March, 2008.



WENDY GALLOWAY