

MIKE KREIDLER
STATE INSURANCE COMMISSIONER

STATE OF WASHINGTON



Phone: (360) 725-7000

FILED
Please reply to: PO Box 40255
Olympia, WA 98504-0259
FAX: (360) 586-2022

February 28, 2008

OFFICE OF
INSURANCE COMMISSIONER

2008 FEB 28 A 8:59

Hearings Unit, DIC
Patricia D. Petersen
Chief Hearing Officer

Patricia Petersen, Chief Hearing Officer
Office of the Insurance Commissioner, Hearings Unit
PO Box 40255
Olympia, WA 98504-0255
5000 Capitol Blvd.
Tumwater, WA 98501

Re: Form A – JC Flowers II L.P. and JCF DRC, L.P. - Proposed Acquisition and Control of National Merit Insurance Company

Dear Ms. Petersen:

This letter replaces the February 13, 2008 letter regarding the above subject. Attached please find the Form A Statement Regarding the Acquisition of a Domestic Insurer and associated supplementary information. The Form A relates to the proposed acquisition of control by JC Flowers II, L.P. and JCF DRC, L.P. ("Applicants") of National Merit Insurance Company, Incorporated, a Washington domiciled property and casualty insurer located in Bellevue, WA. The Applicants propose to acquire a portion of the existing common stock of National Merit's holding company, Direct Response Corporation ("DRC"), of Meriden, CT.

The Form A statement also references two requests by DRC's existing owners disclaiming their affiliation and control of the insurer and exemption from the change of control requirements, and included in this filing. Since this proposed transaction involves their sale and purchase of DRC's common stock, the OIC requests these disclaimer and exemption requests also be heard together with the Form A statement.

The Company Supervision division is satisfied that the Form A is complete, and requests that a hearing be scheduled in this matter. Mr. Thomas Rowland is the OIC staff attorney assigned to this case. If you have any questions, please call me at 360-725-7211 or Mr. Rowland at 360-725-7181.

Sincerely,


RONALD J. PASTUCH, CPA
Holding Company Manager
Company Supervision Division
E-Mail: RonP@oic.wa.gov

cc: James T. Odiorne, CPA, JD, Deputy Insurance Commissioner
Thomas Rowland, Staff Attorney

Mailing Address: P.O. Box 40255 • Olympia, WA 98504-0255
Street Address: 5000 Capitol Blvd. • Tumwater, WA 98501

RECEIVED
FEB 27 2008
INSURANCE COMMISSIONER
COMPANY SUPERVISION

John Dembeck
Counsel
Tel 212 909 6158
Fax 212 909 6836
jdembeck@debevoise.com

February 26, 2008

BY ELECTRONIC MAIL AND BY FEDERAL EXPRESS

Mr. Ronald J. Pastuch, CPA
Holding Company Manager
Company Supervision Division
Office of the Insurance Commissioner
5000 Capital Boulevard
Tumwater, Washington 98501

National Merit Insurance Company

Dear Mr. Pastuch:

This letter is submitted in connection with the pending 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. (the "Metalmark Managed Funds") relating to National Merit Insurance Company (the "Domestic Insurer") and its parent, Direct Response Corporation ("DRC"). We would like to offer some comments regarding the Declaration of Ronald J. Pastuch regarding the Metalmark Managed Fund's Disclaimer of Control (the "Declaration").

Declaration Question 1

The first question raised by the Declaration is how the Metalmark Managed Funds 37.38% share (40.71% undiluted) of DRC voting securities and 2 of 11 (up to 18) board members could not "affect" the DRC board and its direction without the proposed commitment. Under the 2007 Stockholders Agreement, J.C. Flowers II L.P. will be entitled to control a majority of the members of the DRC board, whether it be 6 of the initial 11 seats of the DRC board or any size after an increase in the size of the DRC board by J.C. Flowers II L.P. up to 13 of 18 seats of the DRC board. The Metalmark Managed Funds have submitted a Disclaimer of Control. Under RCW 48.13B.005(2), "control" means the "possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person." We respectfully submit that this statutory standard is a much higher standard than "affect." The following describes what we believe are the important factors to be considered in determining whether the

Metalmark Managed Funds will control DRC and the Domestic Insurer following the proposed transaction.

The management and policies of DRC will be determined by the DRC board (and implemented by the officers elected by that board) which, following the proposed transaction, will be controlled, absolutely, by J.C. Flowers II L.P. Under the 2007 Stockholders Agreement, there will be at least 11 DRC board members. While the Metalmark Managed Funds will have the right to designate 2 of these 11 board members, these individuals cannot by themselves under any circumstances "direct or cause the direction" of the policies of DRC – only a majority of the board members can do that. Since J.C. Flowers II L.P. will be able to designate a majority of the DRC board, it will be able to unilaterally take or block any DRC board action. The purpose of the Metalmark Managed Funds having DRC board representation in this case is predominately to monitor the performance of DRC (which has a direct effect on the value of the shares owned by the Metalmark Managed Funds) and to at least have a say (but not control) in matters before the DRC board. Observation and participation does not, in our view, equal control. The 2007 Stockholders Agreement effectively cedes control of DRC to J.C. Flowers II L.P. by ceding control of the DRC board to J.C. Flowers II L.P. By ceding control of the DRC board to J.C. Flowers II L.P. under the 2007 Stockholders Agreement, only J.C. Flowers II L.P., through its board power, controls DRC. Since J.C. Flowers II L.P. controls DRC, then the Metalmark Managed Funds cannot control DRC. We believe that this conclusion can be reached even without consideration of the effect of the proposed commitment. Furthermore, please consider the position of the Metalmark Managed Funds before and after the proposed transaction (without taking into account the proposed commitment).

Before the proposed transaction, we have the following:

1. Each of Morgan Stanley Capital Partners III, L.P. and DR Investors, L.P., the largest DRC shareholders, has 39.7% and 38.5% of the outstanding voting securities of DRC.
2. Under the 2004 Stockholders Agreement, each of Morgan Stanley Capital Partners III, L.P. and DR Investors, L.P. is entitled to one DRC board seat on a six-person DRC board, or 16.6% of the DRC board voting power.
3. No one person controls the DRC board as the 2004 Stockholders Agreement neutralizes board control – no one investor controls the board so it was concluded that DRC itself was the ultimate controlling person of the Domestic Insurer.

After the proposed transaction, we will have the following:

1. J.C. Flowers II L.P. will be the largest DRC shareholder with 46.43% of the DRC voting power, on an undiluted basis. The Metalmark Managed Funds will be second largest DRC shareholder with 40.71% of the DRC voting power, on an undiluted basis. The Metalmark Managed Funds shareholder voting power after the proposed transaction (40.71%) will be nearly the same as just the Morgan Stanley Capital Partners III, L.P. shareholder voting power before the proposed transaction (39.7%).
2. Under the 2007 Stockholders Agreement, the Metalmark Managed Funds will be entitled to two DRC board seats on an 11-person DRC board, or 18.2% of the DRC board voting power. The Metalmark Managed Funds board voting power after the proposed transaction (18.2%) will be nearly the same as just Morgan Stanley Capital Partners III, L.P. before the proposed transaction (16.6%).
3. One person will control the DRC board – J.C. Flowers II L.P. While the 2004 Stockholders Agreement merely neutralizes board control, the 2007 Stockholders Agreement goes one step further – it essentially cedes DRC board control to J.C. Flowers II L.P. J.C. Flowers II L.P. will be the new ultimate controlling person of DRC and the Domestic Insurer.

We offer the proposed commitment as an additional factor if you determined it was necessary to support the Disclaimer of Affiliation of the Metalmark Managed Funds but do not believe that the proposed commitment is an essential element to that determination.

Declaration Question 2

The second question raised by the Declaration focuses on the proposed commitment to be made by the Metalmark Managed Funds of the Washington Commissioner of Insurance. The effect of the proposed commitment is explained in our January 18, 2008 letter. Unlike the 2007 Stockholders Agreement, which is binding on the shareholder-parties thereto, the proposed commitment is not an agreement among DRC stockholders. However, it is a commitment by the Metalmark Managed Funds to the Washington Commissioner of Insurance. We believe that, if the Metalmark Managed Funds violated the commitment and voted its DRC shares contrary to the commitment, that violation would be grounds for an enforcement action by the Washington Commissioner of Insurance.

As stated above, we believe that the Washington Office of Insurance Commissioner can reach the conclusion that the Metalmark Managed Funds will not control DRC following the proposed transaction solely based on the effect of the 2007 Stockholders Agreement without regard to the proposed commitment. The Washington Office of Insurance Commissioner did not object to the original disclaimers of control

Mr. Ronald J. Pastuch, CPA

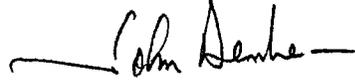
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February 26, 2008

filed by Morgan Stanley Capital Partners III, L.P. and DR Investors, L.P. on the basis of the position of these funds before the proposed transaction and no similar commitment was offered as part of those disclaimers. Furthermore, the pending non-control submission has a key element that is not present in the existing non-control position, namely under the 2007 Stockholders Agreement, J.C. Flowers II L.P. will control the DRC board and thus control DRC.

If you have any questions, call me at 212-909-6158.

Sincerely,

A handwritten signature in black ink, appearing to read "John Dembeck", with a horizontal line extending to the right.

John Dembeck

From: Origin ID: JRBA (212)909-6158
John Dembeck
Debevoise & Plimpton LLP
919 Third Avenue
43E21
New York, NY 10022



CLS 120707/21/24

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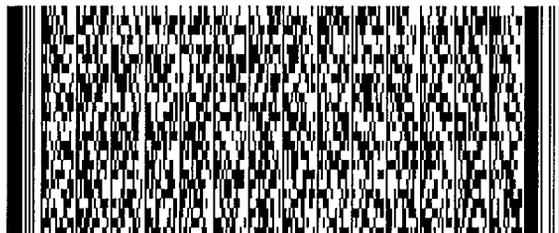


Ref # 22557-1004
Invoice #
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Dept #

TO: (360)725-7211 **BILL SENDER**
Mr. Ronald J. Pastuch, CPA
Company Supervision Division
Office of Insurance Commissioner
5000 Capital Boulevard
Tumwater, WA 98501

TRK# 7988 8246 9184
0201

WED - 27FEB **AA**
PRIORITY OVERNIGHT



98501
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XH OLMA



695 Atlantic Avenue
Boston, Massachusetts 02111

BY FACSIMILE & REGULAR MAIL

February 26, 2008

Mr. Ronald J. Pastuch, CPA
Holding Company Manager
State of Washington
Office of Insurance Commissioner
PO Box 40255
5000 Capital Blvd.
Tumwater, WA 98501

RECEIVED
FEB 27 2008
INSURANCE COMMISSIONER
COMPANY SUPERVISION

RE: J.C. Flowers II. L.P. Form A Regarding National Merit Insurance Company

Dear Mr. Pastuch:

I am writing in response to your draft Declaration Regarding The Plymouth Rock Company's Request For Form A Filing Exemption, a copy of which was faxed to me on February 20, 2008. Set forth below are the questions posed in the draft Declaration and The Plymouth Rock Company's responses thereto.

Q: The OIC has determined The Plymouth Rock Company and Mr. Stone are related parties, separately own DRC voting shares, but in the aggregate are above the 10 percent control threshold. How would this related party percentage, in the aggregate, not control DRC?

A: As Mr. Stone and The Plymouth Rock Company ("PRC") are 2 separate investors in DRC and have no agreement to vote in lockstep with one another, our position is that their holdings should not be aggregated. PRC's holdings following the close of the proposed J. C. Flowers II, L.P. ("Flowers") transaction will remain under 10% and therefore below the rebuttable presumption of control. As you may know, PRC had initially committed to purchase \$5M of DRC stock from the Metalmark managed funds as part of the proposed transaction and subsequently agreed to reduce its purchase to \$4M in order to address potential regulatory concerns relating to control and remain below the 10% ownership threshold. As a result, both before and after the closing of the proposed Flowers transaction, PRC's ownership will be below 10%. Even assuming, arguendo, that the holdings of Mr. Stone and PRC were to be combined for purposes of assessing their level of control, it is clear that even under that scenario, their collective ownership would not translate into control of DRC. Specifically, the combined ownership of PRC and Mr. Stone following the transaction will be 12.32% (9.85% for PRC and 2.47% for Mr. Stone), an amount just slightly above the rebuttable presumption of control. Any such presumption is rebutted by Flowers' 46% ownership stake and its ability to control a majority of the members of the DRC Board. The share ownership of PRC, with or without adding in Mr. Stone's ownership, does not rise to the level at which it could dictate the outcome of any shareholder vote (the combined holdings of PRC and Mr. Stone will represent the 4th largest ownership position following the transaction). Simply put, even if combined, the stock

ownership of PRC and Mr. Stone do not constitute the "power to direct or cause the direction of management and policies of" DRC.

Q: How would their proposed three-seat DRC board representation of total eleven board representation not affect the DRC board and its direction?

A: Under the proposed 2007 Shareholders Agreement, PRC is entitled to designate 2 of 11 (and up to 18) members of the DRC Board. Mr. Stone is also entitled to a seat only for so long as a majority of the other Board members choose not to remove him from the Board. Note that the ability of a majority of the Board to remove Mr. Stone as a Board member was not a right the Board has under the now-expiring 2004 Shareholders Agreement, an agreement which the OIC did not determine vested either PRC or Mr. Stone with "control" over DRC. With respect to combining the Board seats of PRC and Mr. Stone for purposes of a "control" analysis, such an exercise is not appropriate for the reasons noted above and more so since Mr. Stone's tenure as a Board member is not guaranteed under the proposed Shareholders Agreement. Even assuming, arguendo, that it is appropriate to assess the voting power of PRC and Mr. Stone together i.e. assume that together they have a right to 3 Board seats, those 3 seats would not carry with them the ability to control DRC. No scenario has been proffered pursuant to which those 3 seats could dictate the outcome of a Board vote. In sum, 2 or 3 seats on a Board which at Flowers' option could have 18 members, and will initially have 11 persons, allows the minority holders to have a voice at the table and no more. It certainly does not constitute "the power to direct or cause the direction of the management or policies of" DRC.

Q: How could the consulting services provided by Mr. Stone not affect the DRC management and its policies since he is a shareholder and will be an elected board representative?

A: Mr. Stone currently has a consulting agreement with the Company (entered into among the Company, its stockholders and Mr. Stone and effective since November 2006 when Mr. Stone resigned as Chairman and a director of DRC) pursuant to which Mr. Stone agreed to make himself "available to give advice to the Company's new chairman as required and requested." Under this agreement, Mr. Stone's time is capped at 5% of his overall business time in any month. My understanding is that Mr. Stone was requested to serve as a consultant so that the Company's Chairman could receive the benefit of Mr. Stone's experience and knowledge—as a founder of DRC, a successful insurance executive and a former Commissioner of Insurance. Mr. Stone's role as a consultant to the Chairman does not carry with it any special voting rights and does not supplant the role of the Board in directing the policies, management and direction of the Company. He will presumably be offered consultancy opportunities to the extent that his considerable expertise is useful to the actual controlling shareholders and no more.

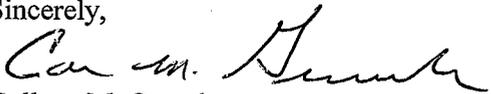
Q: Are Plymouth Rock Company and Mr. Stone aware of the proposed Metalmark's Commitment Letter? How does this Commitment Letter affect Plymouth Rock Company and Mr. Stone's voting power in DRC? Does the proposed Commitment Letter include binding authority between the DRC shareholders including the Applicants and their Shareholders Agreement? If so, how was this accomplished?

A: PRC and Mr. Stone are aware of the proposed Metalmark Commitment letter, but neither Mr. Stone nor PRC is a party to the Commitment Letter. Our understanding is that since Metalmark's holdings are significantly above 10%, the Commitment Letter was offered as one means to rebut the presumption that Metalmark could control DRC. The proposed Commitment Letter, if entered into, would represent an agreement between Metalmark and the OIC. PRC, a holder of less than

10% of the stock, should not be affected by the terms of a commitment letter between one shareholder and the OIC. I would note, however, that if PRC's effective voting power does increase as a result of Metalmark's Commitment Letter, such an increase in voting power should not and would not thrust PRC into a position of control. Any increase in PRC's voting power would be offset by a proportional increase in the already dominant voting power of Flowers. PRC's voting power would be insufficient "to direct or cause the direction of the management and policies of" DRC. Flowers would remain the dominant shareholder and continue to have the power to designate a majority of the Board of Directors.

Please let me know if you would like any additional information in advance of the hearing currently scheduled for March 19, 2008. PRC, like the other DRC shareholders, is anxious to have the proposed Flowers transaction, which we believe will be in the best interests of DRC and its policyholders, approved. The Company has essentially been in a state of limbo for nearly a year while the transaction works its way through the regulatory process of the various jurisdictions. This period has been harmful to the Company and we all hope it can soon come to an end. We respect the efforts of the OIC to carefully review the proposed transaction and satisfy itself that that J.C. Flowers, the proposed controlling shareholder, satisfies the OIC's regulatory standards. We respectfully submit, however, that in this case it is clear that J.C. Flowers alone will be the dominant and controlling shareholder by any reasonable measure that is applied and that J.C. Flowers is eminently qualified to take on that role for DRC. We thank you for your attention to this matter.

Sincerely,



Colleen M. Granahan

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<p>ANITA BOVA 617-951-1593 PLYMOUTH ROCK 695 ATLANTIC AVE BOSTON MA 02111</p> <p>SHIP TO: RONALD J. PASTUCH, CPA 360-725-7211 WA OFFICE OF INSURANCE COMMISSIONER 5000 CAPITAL BLVD. TUMWATER WA 98501-4426</p>	<p>LTR</p> <p>1 OF 1</p>	<p>WA 985 0-01</p> 	<p>UPS NEXT DAY AIR</p> <p>1</p> <p>TRACKING #: 1Z 02X 189 01 9344 9210</p> 
<p>BILLING: P/P</p> <p>Cost Center: PRC</p>		<p>CS 10.0.24. WXPDE60 75.0A 01/2008</p>  <p>TIM</p>	

MIKE KREIDLER
STATE INSURANCE COMMISSIONER

STATE OF WASHINGTON



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

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Olympia, WA 98504-0259
FAX: (360) 586-2022

February 13, 2008

OFFICE OF
INSURANCE COMMISSIONER

FILED

FEB 13 2008

Patricia Petersen, Chief Hearing Officer
Office of the Insurance Commissioner, Hearings Unit
PO Box 40255
Olympia, WA 98504-0255
5000 Capitol Blvd.
Tumwater, WA 98501

Hearings Unit, OIC
Patricia D. Petersen
Chief Hearing Officer

Re: Form A – JC Flowers II L.P. and JCF DRC, L.P. - Proposed Acquisition and Control of National Merit Insurance Company

Dear Ms. Petersen:

Attached please find the Form A Statement Regarding the Acquisition of a Domestic Insurer and associated supplementary information. The Form A relates to the proposed acquisition of control by JC Flowers II, L.P. and JCF DRC, L.P. ("Applicants") of National Merit Insurance Company, Incorporated, a Washington domiciled property and casualty insurer located in Bellevue, WA. The Applicants propose to acquire a portion of the existing common stock of National Merit's holding company, Direct Response Corporation ("DRC"), of Meriden, CT.

The Form A statement also references two requests by DRC's existing owners disclaiming their affiliation and control of the insurer and exemption from the change of control requirements, and included in this filing. Since this proposed transaction involves their sale and purchase of DRC's common stock, the OIC requests these disclaimer and exemption requests also be heard together with the Form A statement.

The Company Supervision division is satisfied that the Form A is complete, and requests that a hearing be scheduled in this matter. Mr. Thomas Rowland is the OIC staff attorney assigned to this case. If you have any questions, please call me at 360-725-7211 or Mr. Rowland at 360-725-7181.

Sincerely,

Handwritten signature of Ronald J. Pastuch in cursive.

RONALD J. PASTUCH, CPA
Holding Company Manager
Company Supervision Division
E-Mail: RonP@oic.wa.gov

cc: James T. Odiorne, CPA, JD, Deputy Insurance Commissioner
Thomas Rowland, Staff Attorney

Mailing Address: P. O. Box 40255 • Olympia, WA 98504-0255
Street Address: 5000 Capitol Blvd. • Tumwater, WA 98501



CARNEY
BADLEY
SPELLMAN

Timothy J. Parker

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Email: parker@carneylaw.com

May 10, 2007

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MAY 11 2007

INSURANCE COMMISSIONER
COMPANY SUPERVISION

Mr. James T. Odiorne
Deputy Commissioner
Office of the Insurance Commissioner
P.O. Box 40255
Olympia, WA 98504-0255

Re: **Application Pursuant to Chapter 48.31B, Revised Code of Washington
for Approval of the Acquisition of Control of National Merit Insurance
Company ("Domestic Insurer")**

Dear Mr. Odiorne:

On behalf of J.C. Flowers II L.P., 717 Fifth Avenue, New York, New York 10022 (the "Applicant"), I submit the enclosed application (the "Application" or "Form A") requesting the approval of the Washington Office of Insurance Commissioner for the acquisition of control of National Merit Insurance Company pursuant to Chapter 48.31B of the Revised Code of Washington and Chapter 284-18 of the Washington Administrative Code. I am submitting only an original as I understand you are not in need of additional copies. A notification, together with a copy (including exhibits) of the Application, has been forwarded to National Merit Insurance Company.

On March 28, 2007, the Applicant entered into a Stock Purchase Agreement with Direct Response Corporation, a Delaware corporation ("Direct Response"), and other parties identified in the Form A. The Stock Purchase Agreement provides, subject to regulatory approval, that the Applicant will acquire stock ownership from certain stockholders ("Sellers") of Direct Response giving Applicant control over the Domestic Insurer.

Item 9 of the Application, financial statements of the Applicant, is not included in the enclosed Application. The Applicant commenced operations in 2006 and has no historical financial information for periods prior to 2006, and the audit for the year ending December 31, 2006, its year of inception, is being prepared and will be provided forthwith.

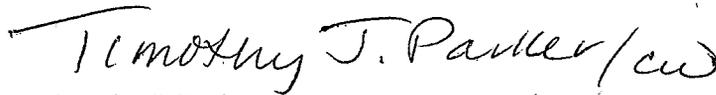
I request that you return the attached duplicate of this letter, stamped to acknowledge receipt, in the postage-paid return envelope enclosed.

Mr. James T. Odiorne
May 10, 2007
Page 2

If you have any questions or require further information with respect to the enclosed filing, please do not hesitate to contact me. My direct line is 206-607-4153.

Very truly yours,

CARNEY BADLEY SPELLMAN, P.S.


Timothy J. Parker

TJP:cw

Enclosure

cc: Mr. Daniel Rabinowitz
Mr. August Alegi
Mr. Ron Pastuch, Washington Office of Insurance Commissioner
Mr. John Dembeck, Debevoise & Plimpton, regulatory counsel to Sellers
Mr. John Bick, Davis, Polk & Wardwell, counsel to Sellers
Ms. Colleen Granahan, The Plymouth Rock Company

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)

Dated: May 8, 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
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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. INSURER AND METHOD OF ACQUISITION.

(a) Name and Address of Domestic Insurer

This Statement relates to the proposed acquisition of control of the following Washington-Domiciled insurance company:

National Merit Insurance Company
15805 NE 24th Street
Bellevue, Washington 98008-2409

(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 Applicant² 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:

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,

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.

³ See Footnote 1 for explanation of dilution.

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.

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 Diluted⁴
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:

⁴ See Footnote 1 for explanation of dilution.

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.

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 filings⁵. 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.

ITEM 2. IDENTITY AND BACKGROUND OF THE APPLICANT.

(a) The Applicant.

The name and address of the Applicant seeking to acquire control over the Insurer is:

J.C. Flowers II L.P.
717 Fifth Avenue, 26th Floor
New York, New York 10022

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.

(b) The Applicants' Business.

The Applicant, which is a Cayman Islands exempted limited partnership, and certain related alternative investment vehicles comprise an investment program established in 2006 (the "Fund") by J.C. Flowers & Co. LLC ("JCF") primarily to make privately negotiated equity and equity-related investments in the financial services industry. The Fund considers investment opportunities primarily in the U.S., Western Europe and Asia and pursues both control and strategic minority positions, generally where JCF believes it can add value and exert influence through board representation and extensive shareholder rights. The Fund seeks to form a diversified portfolio comprised of interests in several multi-billion dollar transactions as well as a number of smaller investments. The Fund has received equity commitments of \$7.0 billion, of which Mr. Flowers has committed \$200 million and other JCF professionals have committed \$69 million. As a result of these commitments, when fully called, Mr. Flowers will hold an approximately 3% equity ownership interest in the Applicant. At present, \$5.6 billion of the total commitments has not yet been called and remains outstanding.

Mr. Flowers is considered one of the preeminent investors and advisors in the financial services industry, having spent substantially all of his professional career focused on the sector. Prior to forming JCF, Mr. Flowers spent 19 years at Goldman, Sachs & Co. ("Goldman Sachs"), where he was among the founders of, and later headed, the Financial Institutions Group. In 1988, Mr. Flowers became the youngest individual since World War II elected as a general partner of Goldman Sachs as of that time.

Mr. Flowers formed JCF shortly after retiring from Goldman Sachs in 1998. Between 1998 and 2000, he (i) completed the highly successful investment in The Enstar Group, Inc. and (ii) sponsored, with Ripplewood Holdings LLC, the purchase of Shinsei Bank, Limited (formerly The Long-Term Credit Bank of Japan), from the Japanese government (collectively, the "Pre-Fund I" investments). In 2002, JCF formed J.C. Flowers I L.P. ("Fund I") with \$900 million in commitments primarily from leading financial institutions. JCF formed Fund II to pursue the same investment strategy employed in the successful Pre-Fund I and Fund I investments.

Since 1998, including the Pre-Fund I and Fund I transactions, Mr. Flowers and JCF have invested \$3.7 billion of capital from Mr. Flowers, third parties and Fund I in financial services companies. As of February 28, 2006, the most recent date for which such information is available, these investments in the aggregate had a total realized and unrealized value of \$9.8 billion.

JCF has considerable experience in investing in the insurance industry. Among JCF's notable insurance holdings are Concord Re, Affirmative Insurance Holdings and Symetra Life.

Certain JCF investment funds under common control and ownership with the Applicant indirectly hold 100% of the common stock of Concord Re Limited, a Bermuda exempted, limited-life special purpose Class 3 insurer. Concord Re is a dedicated reinsurance vehicle, or sidecar, established in 2006 to provide U.S. commercial property reinsurance coverage to its sole client, Lexington Insurance Company, a subsidiary of American International Group, Inc., which has an "A plus" financial strength rating from A.M. Best Co.

JCF I and certain affiliated entities indirectly control Affirmative Insurance Holdings, Inc. ("Affirmative"), which is a holding company for two Illinois-domiciled property-casualty insurers, Affirmative Insurance Company (NAIC #42609) and Insura Property and Casualty Insurance Company (NAIC #38806). Affirmative Insurance and Insura write principally non-standard auto coverage in 12 states and are rated "B plus" by A.M. Best for financial strength. Affirmative itself is an SEC-registered company whose shares trade on The NASDAQ Stock Market LLC. JCF I has controlled Affirmative since 2006, and two JCF designees, including Mr. Schamis, currently serve on the Affirmative board of directors.

In addition, since 2004, JCF I has held a \$25 million equity investment (approximately 2% of the entire economic interest) in Symetra Financial Corporation. Symetra is the parent of Symetra Life Insurance Company, a Washington-domiciled life insurer formerly owned by Safeco Corp. with an "A" financial strength rating from A. M. Best. The investment is held indirectly through a consortium of investors including White Mountains Insurance Group Ltd. and Berkshire Hathaway.

(c) Organizational Chart and Affiliate Information.

Charts illustrating the Applicant's organizational structure and its controlled affiliates with total assets at least equal to 0.5% of the Applicant's total assets and other insurance company affiliates of Mr. Flowers are included as Exhibit 5, submitted under separate cover.

An ownership chart for the Company, as of the date of the Stock Purchase Agreement, is included in Exhibit 6A. A chart showing ownership of the Company's common stock by all Stockholders, after giving effect to the Acquisition, is included as Exhibit 6B.

No court proceedings involving a reorganization or liquidation are pending with respect to any such person identified in this Item 2(c).

ITEM 3. IDENTITY AND BACKGROUND OF INDIVIDUALS ASSOCIATED WITH THE APPLICANT.

(a) Names and Business Addresses of Directors, Executive Officers or Owners of 10% or More of Voting Securities, or the Applicant in the case of an Individual.

The only individual acting in a directorial or managerial capacity for the Applicant is Mr. Flowers, who is the director of the general partner of the Applicant's general partner. As noted above, Mr. Flowers and Mr. Schamis will be the Applicant's initial designees on the Company's board of directors. The business address of each of these individuals is J.C. Flowers & Co. LLC, 717 Fifth Avenue, 26th Floor, New York, New York 10022.

(b) Present Employment of Directors, Executive Officers or Owners of 10% or More of Voting Securities, or the Applicant in the Case of an Individual.

Mr. Flowers is the managing member of JCF and oversees all of the JCF funds, including the Applicant. Mr. Schamis is a managing director of JCF. Biographical affidavits for such individuals have been submitted to the Department under separate cover.

(c) Past Employment.

Employment information and other positions for the past five years of the required individuals are set forth in Exhibit 7 and/or the affidavits referred to above, including any required government licensing and disciplinary proceedings in connection therewith.

(d) Criminal Proceedings.

Excluding minor traffic violations, none of the persons listed in this Item 3 has ever been convicted in a criminal proceeding during the ten years immediately preceding the filing of this Statement, or is currently charged with any criminal offense.

ITEM 4. NATURE, SOURCE AND AMOUNT OF CONSIDERATION

(a) Consideration.

The consideration to be used in effecting the Acquisition consists of the Applicant's funds, including funds to be drawn from limited partners of the Applicant pursuant to capital commitments.

(b) Criteria.

The nature and amount of the consideration to be used in acquiring control of the Insurer was established by arms-length negotiation between the Sellers and the Applicant, who are unrelated.

(c) Loans.

No loan will be a source of any consideration to effect the Acquisition.

ITEM 5. FUTURE PLANS OF INSURER.

The Applicant intends to operate the Insurer substantially as it is currently operated, as a provider of low-cost automobile insurance. The Insurer will continue to market insurance principally on a direct basis to customers, developing business through mass marketing. The Applicant does not plan to discontinue any products currently offered by the Insurer or terminate any of the in-force programs of business currently being written by the Insurer. In addition, the Applicant largely intends to maintain the Insurer's relationships with reinsurers and other counterparties and service providers.

The Applicant intends that after the Closing Date the Insurer will have an experienced senior management team, with Mr. Katz continuing to serve as CEO, as he has since 1998, and with Mr. Keil continuing to serve as Chairman of the Board. The Insurer will maintain its licenses and write business in the states where it currently does so, and it is expected that the Acquisition will be invisible to the Insurer's policyholders. The Applicant plans to maintain the Insurer's "B++" rating from A.M. Best by continuing and enhancing the Insurer's underwriting results. The Insurer's executive offices and headquarters will remain in Washington, with the Company continuing to be headquartered in Connecticut. Following the consummation of the Acquisition,

the Insurer will continue to maintain its separate corporate existence and will be operated in accordance with its currently existing business plan, set forth in Exhibit 8.

Subsequent to the consummation of the Acquisition, the Applicant intends, from time to time, to discuss with management of the Company the future plans for the Company and may from time to time hold discussions with third parties or with management of the Company in which the Applicant may suggest or take a position with respect to the operations or policies of the Company as a means of enhancing stockholder value.

The Applicant will review periodically the Insurer's businesses, assets, corporate structures, dividend policies, capitalization, operations, properties, management and personnel and, with the approval of the Department, if applicable, may seek to make changes that the Applicant deems appropriate.

The Applicant has no current plans to liquidate the Insurer, to sell its assets (other than in the ordinary course of business), to merge it with any person or persons (except as described in the following sentences), to declare extraordinary dividends or, other than as described in Item 1, which description is incorporated herein by reference, to make any changes in the management of the Insurer. The Company may in the future, to simplify its corporate structure, propose to merge the Insurer or other insurance subsidiaries into one another or conduct similar internal reorganizations having like effect. Such transactions would occur only upon the approval of this and any other insurance departments as required by law.

ITEM 6. VOTING SECURITIES TO BE ACQUIRED.

The Company's outstanding capital stock consists of 266,461 shares of common stock, par value \$0.01 per share, 238,333 of which are presently owned of record and beneficially by the Sellers on a several basis as described in Item 1 of this Statement. Item 1 herein also describes the Applicant's percentage ownership of voting securities of the Insurer upon completion of the Acquisition. This description is incorporated herein by reference. Item 1 herein describes the terms of the Acquisition, and such description is incorporated in this Item 6 by reference. The Insurer's capital stock is wholly owned by the Company. The terms of the Acquisition were determined as a result of arm's length negotiations between unrelated persons.

ITEM 7. OWNERSHIP OF VOTING SECURITIES.

None of the Applicant, any affiliate thereof or any of the persons listed in Item 3 currently owns, directly or indirectly, any of the voting securities of the Insurer or has any right to acquire any of such voting securities, other than as set forth in the Stock Purchase Agreement.

ITEM 8. CONTRACTS, ARRANGEMENTS, OR UNDERSTANDINGS WITH RESPECT TO VOTING SECURITIES OF THE INSURER.

Item 1 contains descriptions of the provisions of the Stock Purchase Agreement and the Stockholders' Agreement to be entered concerning composition of the Company's Board after the Closing Date and related corporate-governance matters; such descriptions are incorporated herein by reference. In addition, the Stockholders' Agreement provides the following rights

among the Stockholders with respect to certain transfers of shares of the Company's common stock:

Restrictions on Transfer. No Stockholder may transfer any of its holdings of the Company's common stock to any person, other than in certain permitted transfers, without the prior approval of the Board (excluding the votes of interested Board members), before the earlier of (a) the fifth anniversary of the date of the Stockholders' Agreement or (b) the first underwritten public offering of the Company's common stock where aggregate proceeds exceed \$50 million and at least 20% of the Company's outstanding common stock has been sold to the public in that offering and any prior offerings (such offering, a "Qualified IPO"). If at any time, however, either of the Applicant or Morgan Stanley Capital Investors, L.P., Morgan Stanley Capital Partners III L.P. and MSCP III 892 Investors, L.P. (the "MSCP Parties") effects a distribution in kind of the shares of its (or its partners') common stock, then the other of the Applicant or the MSCP Parties will be permitted thereafter to effect a distribution in kind of its (or its partners') holdings of the shares of the Company's common stock, without being required to comply with the restrictions on transfer set forth in the Stockholders' Agreement.

Right of First Offer. Any transfer of the Company's common stock occurring before the earlier of (a) the fifth anniversary of the date of the Stockholders' Agreement or (b) a Qualified IPO, other than certain permitted transfers, will be subject to a right of first offer on the following terms. The Stockholder who wishes to sell the Company's common stock to a third party will present to each of the other Stockholders an offer to sell (a "Sale Offer") to each other Stockholder its pro rata share (based on their respective holdings of the Company's fully-diluted common stock) of the Company's common stock being offered (the "Offered Shares"). Each other Stockholder will have 30 days after receipt to accept the Sale Offer (including agreeing to purchase all of the Offered Shares offered to it). If any Stockholder does not accept its Sale Offer, the selling Stockholder will afford the other Stockholders an opportunity to increase the quantity of Offered Shares purchased by them by their respective pro rata shares of the Offered Shares not purchased by the original offeree. If the other Stockholders agree to acquire all of the Offered Shares, the selling Stockholder will sell the Offered Shares to the accepting Stockholders on the terms set forth in the Sale Offer. If the Stockholders do not agree to acquire all of the Common Stock proposed to be transferred, then the selling Stockholder may complete the transfer of any Offered Shares to the third party within 90 days after the date that the Sale Offer was first provided on terms no less favorable to the selling Stockholder than the terms set forth in the Sale Offer (including at no less favorable a price); provided that the consummation of such transfer will occur as soon as practicable after the 90th day if any party to the proposed transfer is required to obtain any license, registration, approval or consent or make any regulatory filing necessary for such transfer that has not been obtained or made by such time, but in any event not later than the 270th day after the date that the Sale Offer was first provided.

Affiliate Transactions. The Company may not enter into a transaction with any Stockholder or any affiliate or associate (as such terms are defined in the Stockholders' Agreement) of the Company unless such transaction has been approved by two-thirds of the disinterested Board members and is on terms that are at least as favorable to the Company and the Stockholders as an arm's length transaction would have been (the "Affiliate Transaction Requirement").

Tag-Along Rights. If any Stockholder proposes to transfer (a "Transferring Stockholder") any or all of its holdings of the Company's common stock to a person other than a permitted transferee, each other Stockholder (a "Tag-Along Stockholder") will have the right to cause a number of such Tag-Along Stockholder's shares of the Company's common stock equal to (x) the number of shares of common stock proposed to be transferred by the Transferring Stockholder multiplied by (y) the Tag-Along Stockholder's pro rata share, to be sold to such person for the same consideration per share and otherwise on the same terms and conditions upon which the Transferring Stockholder proposes to sell, exchange or otherwise dispose of its holdings of the Company's common stock. These rights will not apply, however, in the event of any transfer pursuant to (i) registration rights under the Stockholders' Agreement; (ii) any transfer pursuant to Rule 144 of the Securities Act of 1933; or (iii) any transfer in a transaction registered under the Securities Act.

Drag-Along Rights. If the Applicant and/or any of its affiliates determines to transfer all of the Applicant's or its affiliates' holdings of the shares of the Company's common stock to any non-affiliate person (a "Drag Transfer"), then, at the Applicant's option, each of the other Stockholders will be obligated to transfer to such person, concurrently with the Drag Transfer, on equivalent terms and conditions, all of such Stockholder's holdings of the shares of the Company's common stock (the "Drag-Along Right"). In the event that the Applicant and/or any of its affiliates transfer shares to entities controlled by it, the Drag-Along Right may be exercised only if (i) the Applicant receives an appraisal of the shares from a nationally recognized investment banking firm and the price to be paid is at least equal to the appraisal value and (ii) the Applicant receives all approvals required under the Affiliate Transaction Requirement.

Pre-emptive Rights. The Company will give each Stockholder at least 20 business days' notice of any proposed issuance by the Company of any equity securities, and each Stockholder or any affiliate of such Stockholder will be entitled to purchase up to such Stockholder's pro rata share of the equity securities proposed to be issued, at the price and on the terms specified in such notice. Any Stockholder or any affiliate of such Stockholder willing to purchase such Stockholder's pro rata share of these equity securities will also be entitled to acquire such Stockholder's pro rata share of any equity securities remaining unpurchased by the other Stockholders who received the notice. These pre-emptive rights will not apply to any issuance by the Company of any equity securities (i) in a transaction registered under the Securities Act, (ii) pursuant to an incentive compensation plan or employment agreement or arrangement with the Company or any of its subsidiaries, (iii) as consideration in connection with Acquisitions of businesses or assets, (iv) pursuant to the exercise of a convertible security or instrument, (v) in connection with any recapitalization or reclassification, or (vi) in any stock dividend.

ITEM 9. RECENT PURCHASES OF VOTING SECURITIES.

There have been no purchases of any voting securities of the Insurer by the Applicant, any of its affiliates or any person listed in Item 3 herein during the 12 calendar months preceding the filing of this Statement.

ITEM 10. RECENT RECOMMENDATIONS TO PURCHASE.

Except in connection with the Acquisition, there have been no recommendations to purchase any voting security of the Insurer made by the Applicant, any of its affiliates or any person listed in Item 3 herein, or by anyone based upon interviews or at the suggestion of the Applicant during the 12 calendar months preceding the filing of this Statement.

ITEM 11. AGREEMENTS WITH BROKER-DEALERS.

There are no agreements, contracts or understandings with any broker-dealer regarding the solicitation of voting securities of the Insurer for tender.

ITEM 12. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Exhibits.

The following Exhibits are attached to this Statement:

EXHIBIT NUMBER	EXHIBIT TITLE
1	Stock Purchase Agreement dated as of March 28, 2007 (Annex D submitted under separate cover).
2	Ownership of the Company's common stock post-Acquisition.
3	Form of Stockholders' Agreement.
4	Schedule of Market Shares in Washington.
5	Organizational Charts of the Applicant (submitted under separate cover).
6A	Organizational Chart of the Company (as of the date of the Stock Purchase Agreement).
6B	Organizational Chart of the Company (post-Acquisition).
7	Information concerning Directors, Officers and Owners of 10% or more of Voting Securities.
8	Business Plan.
9	J.C. Flowers II L.P. Financial Information (submitted under separate cover).

(b) Financial Statements.

The audited financial statements of the Applicant for the year ended December 31, 2006 are included in Exhibit 9, submitted under separate cover. The Applicant commenced operations during 2006 and therefore no financial statements exist for any period prior to the year ending December 31, 2006.

(c) Tender Offer, Agreements for Voting Securities, Annual Reports.

There are no tender offers or agreements to acquire or exchange any voting securities of the Insurer, and no related soliciting material, other than the Stock Purchase Agreement, a copy of which is attached as Exhibit 1 as described in Item 1.

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 8th day of May, 2007.

J.C. FLOWERS II L.P.

By: 
Name: David I. Schamis
Title: Managing Director

Attest:

By: 
Name: Sally Racker
Title: Managing Director

CERTIFICATION

The undersigned deposes and says that he/she has duly executed the attached application dated May 8th, 2007, for and on behalf of J.C. Flowers II L.P.; that he/she is the Managing Director 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: