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January 18, 2008

BY ELECTRONIC MAIL AND BY FEDERAL EXPRESS

RECEIVED

JAN 22 2008

INSURANCE COMMISSIONER  
COMPANY SUPERVISION

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  
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.**

Dear Mr. Pastuch:

J.C. Flowers II L.P. (together with its affiliates, "Flowers") submitted a Form A Statement Regarding the Acquisition of Control of Domestic Insurer to the Washington Office of the Insurance Commissioner dated May 8, 2007, as amended by Amendment No. 1 dated August 1, 2007 (the "Form A") to acquire control of Direct Response Corporation ("DRC") and its wholly owned Washington domestic insurer subsidiary, National Merit Insurance Company (the "Domestic Insurer"). Flowers submitted to you an Amendment No. 2 to the Form A dated November 5, 2007 (as amended, the "Amended Form A"). The Amended Form A submits a Stock Purchase Agreement among J.C. Flowers II L.P., The Plymouth Rock Company Incorporated ("PRC"), Stoneridge Holding LLC ("Stoneridge"), DRC and the stockholders named therein dated as of March 28, 2007, as amended on October 10, 2007 (the "Stock Purchase Agreement").<sup>1</sup> By my letter, dated January 4, 2008, we disclaimed affiliation, pursuant to RCW 48.31B.025(11) and WAC 284-18-430(1), on behalf of 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"), which are currently stockholders of DRC, in

<sup>1</sup> The Amended Form A was subsequently amended under cover letter dated January 4, 2008, in order to submit a further-amended Stock Purchase Agreement. Such amendment added JCF DRC, L.P. as a party and has no effect on the facts set forth herein.

connection with their ownership of the voting securities of DRC on the closing of the acquisition of control of the Domestic Insurer by J.C. Flowers II L.P. and JCF DRC, L.P. (the "Closing").

As indicated in my January 4, 2008 letter to you and during our meeting on January 9, 2008 to discuss the Form A and related matters, if necessary to support their disclaimer of affiliation, the Metalmark Managed Funds are prepared to execute and deliver to the Washington Office of the Insurance Commissioner (the "WOIC") a commitment (the "Commitment") under which they collectively agree with the WOIC not to vote, or execute any stockholder consents with respect to, any shares of common stock or other voting stock of DRC beneficially owned in the aggregate by the Metalmark Managed Funds in excess of 9.9% of the outstanding shares of common stock and other voting stock of DRC (such excess shares, the "Nonvoting Metalmark Shares"), without the prior written approval of the WOIC or until the Metalmark Managed Funds have received approval of an application for acquisition of control of DRC. A proposed form of Commitment was attached to my January 4, 2008 letter. You requested during our meeting on January 9, 2008 that we provide an explanation of the impact of the Commitment on a DRC stockholder vote, and the relative voting power of each of the stockholders, assuming that no approval is received from the WOIC permitting the Metalmark Managed Funds to vote any Nonvoting Metalmark Shares.

Pursuant to the Commitment, the Metalmark Managed Funds would not, without the prior approval of the WOIC, vote, or execute any stockholder consents with respect to, the Nonvoting Metalmark Shares. Any Nonvoting Metalmark Shares would continue to remain outstanding for all purposes and would be treated as being present at any stockholder meeting at which any shares beneficially owned by the Metalmark Managed Funds are voted, in person or by proxy, or are otherwise present. The election of directors will be subject to the terms of the new stockholders agreement. Therefore, the Commitment would have no impact on the election of directors or the composition of the board of directors. In this letter, we describe the impact of the Commitment on stockholder voting under two relevant scenarios: (1) stockholder votes requiring the affirmative vote of a majority, or other specified percentage, of *shares outstanding*; and (2) stockholder votes requiring the affirmative vote of a majority, or other specified percentage, of *votes cast*.

**1. Stockholder votes requiring the affirmative vote of a majority, or other specified percentage, of shares outstanding**

In connection with any stockholder vote requiring the affirmative vote of a majority, or other specified percentage, of shares outstanding and entitled to vote, the

Nonvoting Metalmark Shares would not be voted but would continue to be included as shares outstanding and entitled to vote. As a result, the relative voting percentages of the remaining DRC stockholders would be unaffected by the Commitment, and no such stockholder would gain majority voting power, acting alone, as a consequence of the Commitment. The following table lists the percentage of outstanding shares controlled by each stockholder and the percentage of outstanding shares that could be voted by each stockholder under the Commitment.

Stockholder	Number of Outstanding Shares of Voting Common Stock <sup>2</sup>	% of Outstanding Shares of Voting Common Stock	% of Outstanding Shares of Voting Common Stock that could be Voted under the Commitment
J.C. Flowers II L.P. <sup>3</sup>	123,720	46.4%	46.4%
Stoneridge <sup>4</sup>	1,225	0.5%	0.5%
PRC <sup>5</sup>	26,248	9.9%	9.9%
James M. Stone	6,578	2.5%	2.5%
Mory Katz	200	0.1%	0.1%
Morgan Stanley Capital Investors, L.P.	1,561	0.6%	0.6%
Metalmark Managed Funds	106,928	40.1%	9.9%
<b>Total:</b>	<b>266,460</b>	<b>100.0%</b>	<b>69.9%</b>

The "majority of shares outstanding" standard is required under Delaware corporate law for certain specified matters involving organic or other extraordinary changes to the corporation, such as a merger or sale of all the corporation's assets.<sup>6</sup>

<sup>2</sup> Each share is entitled to one vote.

<sup>3</sup> Shares to be held by JCF DRC, L.P., whose limited partnership interests are held by J.C. Flowers II L.P. and two parallel funds, all of which are under common control, as described in the Amended Form A.

<sup>4</sup> Stoneridge is controlled by Jeffrey C. Keil, the Chairman of the Board of PRC. As of the date of the Stock Purchase Agreement, Mr. Keil held 500 options, which are unexercised and do not currently vote.

<sup>5</sup> We understand that PRC separately has requested an exemption from the Form A requirements in respect of the acquisition.

<sup>6</sup> See Delaware General Corporation Law, §§216, 251 and 271.

For instance, in order for DRC to sell all or substantially all of its property and assets, the approval of holders of a majority of its outstanding shares entitled to vote thereon would be required.<sup>7</sup> In the case of such a proposal, the Nonvoting Metalmark Shares would be counted as "outstanding" and "entitled to vote" within the meaning of the statute.<sup>8</sup> Accordingly, the 46.4% voting power illustrated for J.C. Flowers would be maintained. The Metalmark Managed Funds would have 9.9% voting power. Consider the following illustrative examples of a proposal to sell all or substantially all of DRC's assets, in each case compared to the result that would have been obtained without the Commitment.

Example 1 -- All stockholders favor the sale proposal. A total of 69.9% of the outstanding shares (all shares other than the Nonvoting Metalmark Shares) are cast in favor and 0% against, with 30.2%<sup>9</sup> (that is, the Nonvoting Metalmark Shares) not voted. The proposal is adopted since a majority is achieved.

*Comparative result if no Commitment: A total of 100.0% of the outstanding shares are voted in favor. Outcome is the same.*

Example 2 -- Flowers favors the proposal, and the Metalmark Managed Funds and all other stockholders oppose the proposal. The result is 46.4% (Flowers' shares) of outstanding shares are voted in favor, 23.5% are voted against, and 30.2% are not voted. The proposal would not be adopted since a majority has not been achieved.

*Comparative result if no Commitment: 46.4% of outstanding shares are voted in favor, 53.6% are voted against. Outcome is the same.*

Example 3 -- Metalmark Managed Funds, Morgan Stanley Capital Investors, L.P., PRC and James M. Stone favor the proposal, and all other stockholders oppose the proposal. The result is 22.9% of outstanding shares are voted in favor, 47.0% are voted against, and 30.2% are not voted. The proposal would not be adopted since a majority has not been achieved.

*Comparative result if no Commitment: 53.0% of outstanding shares are voted in favor, 47.0% are voted against. Proposal adopted; outcome is changed by Commitment.*

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<sup>7</sup> See Delaware General Corporation Law, § 271

<sup>8</sup> All shares outstanding are "entitled to vote" since they can either be voted without restriction, or in the case of the Nonvoting Metalmark Shares, are entitled to vote under Delaware corporate law and DRC's certificate of incorporation but are not voted by agreement with the WOIC (i.e., the Commitment).

<sup>9</sup> In these examples, totals may not always equal 100.0% due to rounding.

2. **Stockholder votes requiring the affirmative vote of a majority, or other specified percentage, of votes cast**

Under the Commitment, the Metalmark Managed Funds would not vote the Nonvoting Metalmark Shares without WOIC approval. Therefore, in connection with any stockholder vote requiring the affirmative vote of a majority, or other specified percentage, of votes cast, the Commitment would effectively increase the relative voting power of shares that are voted. For example, assuming that all shares are voted other than the Nonvoting Metalmark Shares, the relative voting percentages would be as follows.

Stockholder	Number of Shares of Voting Common Stock that could be Voted Under the Commitment	% of Shares of Voting Common Stock that could be Voted Under the Commitment
J.C. Flowers II L.P. <sup>10</sup>	123,720	66.5%
Stoneridge <sup>11</sup>	1,225	0.7%
PRC	26,248	14.1%
James M. Stone	6,578	3.5%
Mory Katz	200	0.1%
Morgan Stanley Capital Investors, L.P.	1,561	0.8%
Metalmark Managed Funds	26,379	14.2%
<b>Total:</b>	<b>185,911</b>	<b>100.0%</b>

Thus, as indicated in the above table, each stockholder's relative voting power would be proportionally increased as a result of the Commitment. Additionally, as indicated in the above table, assuming all shares are voted other than the Nonvoting Metalmark Shares, Flowers would control 66.5% of the vote and therefore would be able to determine the outcome of any such matter requiring approval of a majority of votes cast.

The "votes cast" standard is generally used for stockholder action pursuant to DRC's By-laws.<sup>12</sup> Even in the absence of the Commitment, a stockholder's voting power can be enhanced by the failure of another stockholder to vote.

<sup>10</sup> See footnote in prior table.

<sup>11</sup> See footnote in prior table.

<sup>12</sup> By-laws of Direct Response Corporation, §2.6.

For instance, consider a proposal to approve a transaction between DRC and an interested director. According to DRC's By-laws, this may be approved by "vote of the stockholders", indicating a "majority of votes cast" standard.<sup>13</sup>

Example 1 -- Flowers alone attends the meeting and favors the proposal. Since Flowers holds 46.4% of the shares outstanding, a quorum is not present<sup>14</sup> and therefore the proposal cannot be adopted.

*Comparative result if no Commitment: A quorum cannot be achieved since holders of a majority of outstanding shares are not present. The proposal cannot be adopted. Outcome is the same.*

Example 2 -- Metalmark Managed Funds, Morgan Stanley Capital Investors, L.P., PRC and James M. Stone favor the proposal and are the only stockholders attending the meeting. A quorum is present since together these stockholders hold 53.1% of outstanding shares. At the meeting, all stockholders present vote in favor, resulting in 100% of the total number of votes cast being cast to approve the proposal.<sup>15</sup> The proposal is therefore adopted.

*Comparative result if no Commitment: Holders of 53.1% of outstanding shares are in attendance, so a quorum is achieved. All of the stockholders present vote in favor, resulting in 100% of the votes cast being voted in favor. Proposal adopted; outcome is the same.*

Example 3 -- Metalmark Managed Funds, Morgan Stanley Capital Investors, L.P., PRC and James M. Stone favor the proposal, Flowers opposes. All of these stockholders attend the meeting. A quorum is achieved since a majority of outstanding shares is present. At the meeting, the stockholders in favor cast 60,766 votes (i.e., all their shares

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<sup>13</sup> By-laws of Direct Response Corporation, §3.14(a)(2).

<sup>14</sup> Section 2.5 of the By-laws provides that a quorum of stockholders consists of stockholders holding a majority of votes entitled to be cast, unless a larger quorum is required by law, DRC's certificate of incorporation or the By-laws. All shares outstanding are "entitled to be cast" since they can either be voted without restriction, or in the case of the Nonvoting Metalmark Shares, are entitled to vote by corporation law and DRC's certificate of incorporation but are not voted by agreement with the WOIC (i.e., the Commitment). Flowers alone cannot constitute a quorum because it holds less than a majority of outstanding shares.

<sup>15</sup> The Nonvoting Metalmark Shares are not voted, and therefore are not counted as "votes cast" for purposes of determining the result.

Mr. Ronald J. Pastuch, CPA

7

January 18, 2008

less the Nonvoting Metalmark Shares) while the stockholder opposing the proposal votes its 123,720 shares against. The proposal is defeated.

*Comparative result if no Commitment: A quorum is achieved since a majority of outstanding shares is present. At the meeting, the stockholders in favor cast 141,315 shares (i.e., all their shares) while the stockholder opposing the proposal votes its 123,720 against. The proposal is adopted; outcome is changed by Commitment.*

If you have any questions or comments, please call me at (212) 909-6158 or e-mail me at [jdembeck@debevoise.com](mailto:jdembeck@debevoise.com).

Sincerely,

*John Dembeck/IR*

John Dembeck

January 4, 2008

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

RECEIVED

JAN 07 2008

INSURANCE COMMISSIONER  
COMPANY SUPERVISION

**National Merit Insurance Company  
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.**

Dear Mr. Pastuch:

J.C. Flowers II L.P. submitted a Form A Statement Regarding the Acquisition of Control of Domestic Insurer to the Washington Office of the Insurance Commissioner dated May 8, 2007 (the "Form A") to acquire control of Direct Response Corporation ("DRC") and its wholly owned Washington domestic insurer subsidiary, National Merit Insurance Company (the "Domestic Insurer"). J.C. Flowers II L.P. submitted to you an Amendment No. 2 to the Form A dated November 5, 2007 (the "Amended Form A"). The Amended Form A submits a Stock Purchase Agreement among J.C. Flowers II L.P., The Plymouth Rock Company Incorporated, Stoneridge Holding LLC, DRC and the stockholders named therein dated as of March 28, 2007, as amended on October 10, 2007 (the "Stock Purchase Agreement").

By this letter, we disclaim affiliation, pursuant to RCW 48.31B.025(11) and WAC 284-18-430(1), on behalf of 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"), which are currently stockholders of DRC, in connection with their ownership of the voting securities of DRC on the closing of the acquisition of control of the Domestic Insurer by J.C. Flowers II L.P. (the "Closing").

The Metalmark Managed Funds

Each of the Metalmark Managed Funds is managed by Metalmark Subadvisor LLC which may be deemed to control each of them. Metalmark Subadvisor LLC is controlled by Metalmark Capital LLC. None of the Metalmark Managed Funds are bound contractually to act in concert except as provided in the 2004 Stockholders Agreement (defined below). Morgan Stanley Capital Investors, L.P. is not managed by Metalmark Subadvisor LLC.

Under the existing stockholders agreement among the shareholders of DRC dated February 27, 2004, as amended (the "2004 Stockholders Agreement"), no Metalmark Managed Fund is currently able to designate a majority of DRC's board of directors. Accordingly, DRC and the Metalmark Managed Funds have historically asserted that even though Morgan Stanley Capital Partners III, L.P. and DR Investors, L.P. each holds more than 10% of DRC's voting securities, neither of these two stockholders nor any other stockholder controls the Domestic Insurer for purposes of insurance holding company regulation under Washington law. Each of Morgan Stanley Capital Partners III, L.P. and DR Investors, L.P. have disclaimers of affiliation on file with the Washington Office of the Insurance Commissioner in connection with the Domestic Insurer pursuant to RCW § 48.31B.025(11) (the "Original Disclaimers").

Form A Amendment

As stated in the Amended Form A, on the Closing, J.C. Flowers II L.P. will own outstanding voting shares of DRC entitling it to 46.4% of the voting power of DRC, on an undiluted basis. On Closing, J.C. Flowers II L.P. will be the largest stockholder of DRC. A complete statement of the ownership of DRC's securities immediately after Closing is set forth in Exhibit 2 to the Amended Form A.

The Stock Purchase Agreement, as amended, reflects a change in the stockholder's agreement to be entered into by the stockholders of DRC on Closing (the "2007 Stockholders Agreement"). 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 of Directors, whether it be 6 of the initial 11 seats of the DRC Board of Directors or any size after an increase in the size of the DRC Board of Directors by J.C. Flowers II L.P. up to 13 of 18 seats of the DRC Board of Directors. Under the 2007 Stockholders Agreement, Metalmark Subadvisor LLC, on behalf of Morgan Stanley Capital Partners III, L.P. and DR Investors, L.P., two of the four Metalmark Managed Funds, would be entitled to designate only 2 members of the DRC Board of Directors. In the case of an 11 member DRC Board of Directors, these 2 members would represent only 18.2% of the Board voting power and, in the case of an 18 member DRC Board of Directors, these 2 members would represent only 11.1% of the Board voting power. A description of the entire composition of the DRC Board of Directors as contemplated by the 2007

Stockholders Agreement is set forth in the Amended Form A, Item I(b), under the subheading "Stockholders' Agreement".

#### Metalmark Managed Funds Commitment

If necessary to support this disclaimer of affiliation, the Metalmark Managed Funds are prepared to execute and deliver to the Washington Office of the Insurance Commissioner a commitment (the "Commitment") under which they collectively agree with the Washington Office of the Insurance Commissioner not to vote, or execute any stockholder consents with respect to, any shares of common stock or other voting stock of DRC beneficially owned in aggregate by the Metalmark Managed Funds in excess of 9.9% of the outstanding shares of common stock and other voting stock of DRC, without the prior written approval of the Washington Office of the Insurance Commissioner or until the Metalmark Managed Funds have received approval of an application for acquisition of control of DRC. A proposed form of Commitment is attached to this letter.

#### Disclaimer Authority

RCW 48.31B.025(11) provides that:

A person may file with the commissioner a disclaimer of affiliation with an authorized insurer, or an insurer or a member of an insurance holding company system may file the disclaimer. The person making such a filing with the commissioner shall at the same time deliver a complete copy of the filing to each domestic insurer which is the subject of such filing. The disclaimer must fully disclose all material relationships and bases for affiliation between the person and the insurer as well as the basis for disclaiming the affiliation. After a disclaimer has been filed, the insurer is relieved of any duty to register or report under this section that may arise out of the insurer's relationship with the person unless and until the commissioner disallows the disclaimer. The commissioner shall disallow the disclaimer only after furnishing all parties in interest with notice and opportunity to be heard and after making specific findings of fact to support the disallowance.

#### Disclaimer of Affiliation

Under the structure described in this letter and the Amended Form A, on Closing, the Metalmark Managed Funds will not control DRC or the Domestic Insurer for the following reasons:

1. J.C. Flowers II, L.P. will control DRC both as to stockholder voting power (the largest stockholder with 46.4% of the voting power of DRC, on an undiluted basis) and DRC Board of Directors voting power (majority control of the DRC Board of Directors in all cases).
2. While, under the terms of the 2007 Stockholders Agreement, the Metalmark Managed Funds will designate 2 of 11 initial members of the DRC Board of Directors, in light of the DRC board voting power and control exercised by J.C. Flowers II, L.P., we do not believe that the 2 DRC board seats shared by the Metalmark Managed Funds rises to level that would grant these investors "power to direct or cause the direction of the management and policies of" DRC. This is especially so since J.C. Flowers II, L.P. will be able to remove and replace 6 of 11 initial members of the DRC Board of Directors, a majority.
3. If necessary, as a result of the Commitment, the Metalmark Managed Funds will be able to vote no more than 9.9% of the outstanding shares of common stock and other voting stock of DRC thus reducing their voting shareholdings to a position that is below the 10% presumed control threshold set forth in RCW 48.31B.005(2).

Washington December 20, 2007 Letter

Your letter of December 20, 2007 expressed several concerns which we would like to specifically address:

1. The Metalmark Managed Funds will collectively own 40.2% of the voting power of DRC, on an undiluted basis. While this is correct, this does not give rise of a control relationship for the reasons described above under Item 1 of the heading "Disclaimer of Affiliation".
2. The Metalmark Managed Funds will have representation on an 11 member DRC board. While this is correct, this does not give rise of a control relationship for the reasons described above under Item 2 of the heading "Disclaimer of Affiliation". In addition, under the Original Disclaimers, each of Morgan Stanley Capital Partners III, L.P. (originally owing 39.7% of the outstanding voting securities of DRC) and DR Investors, L.P. (originally owing 38.5% of the outstanding voting securities of DRC) have DRC board representation under the 2004 Stockholders Agreement – each being entitled to 1 DRC board seat on a 6 member DRC board, or 16.6% of the DRC board voting power. We understand that the Washington Office of the Insurance Commissioner never objected to the Original Disclaimers. We submit that, under the corporate governance structure to be put in place on Closing, having as much as 18.2% and as little as 11.1%

of the DRC board voting power is substantively no different than the 16.6% of the DRC board voting power as set forth in the 2004 Stockholders Agreement and the Original Disclaimers. Furthermore, unlike the facts in the Original Disclaimers, on Closing, J.C. Flowers II, L.P. will be the largest DRC shareholder and will have majority control of the DRC board in all cases.

3. The 2007 Stockholders Agreement allows special conditions to the Metalmark Managed Funds and not to any other investor group other than J.C. Flowers II, L.P. The restrictions on transfer under the 2007 Stockholders Agreement §§ 4.1 – 4.5 apply to each “Stockholder” which is defined to mean each investor-party to the 2007 Stockholders Agreement. The “MSCP Funds” are mentioned in § 4.1 but only in respect of an exception to the restriction on transfer that recognizes that J.C. Flowers II, L.P. and the MSCP Funds are investors organized as partnerships that may make distributions to their partners. This exception does not apply to the other investors as none of them are partnerships. A comparable exception was included in the 2004 Stockholders Agreement – see § 1.1 (General Restrictions) and the exception for “Permitted Transferees, and the § 1.2 definition of “Permitted Transferee”, sub-item (iii). Similarly, the MSCP Funds are mentioned in § 4.5 but only to clarify what an “Affiliate” is in connection with the MSCP Funds and J.C. Flowers II, L.P., in recognition of their being the only investors organized as partnerships. These special “Affiliate” definitions do not apply to the other investors as none of them are partnerships. In any case, neither of these provisions that apply to the MSCP Funds grants the Metalmark Managed Funds the “power to direct or cause the direction of the management and policies of” DRC. We assume that the concern about special conditions does not relate to the right to designate DRC board members since both the 2004 Stockholders Agreement and the 2007 Stockholders Agreement give DRC investors other than the Metalmark Managed Funds (and, in the case of the 2007 Stockholders Agreement, J.C. Flowers II, L.P.) the right to designate DRC board members.
4. You have no evidence from Citigroup Inc. to support any disclaimer of affiliation of Metalmark Capital LLC or the Metalmark Managed Funds. We understand that counsel to Citigroup, Inc. will be making its own submission in response to your letter to Citigroup Inc. dated December 21, 2007.

Action by the Connecticut Insurance Department

Five property/casualty insurer subsidiaries of DRC are domiciled in Connecticut. By letter dated September 14, 2007, a request for an exemption from filing a Form A was

Mr. Ronald J. Pastuch, CPA

6

January 4, 2008

made by us on behalf of the Metalmark Managed Funds to the Connecticut Insurance Department on the same basis as this request for this disclaimer of affiliation. The exemption request was granted by letter dated September 20, 2007 and a signed commitment was delivered to the Connecticut Insurance Department on September 27, 2007. Copies of these letters are enclosed for your information.

If you have any questions or comments, please call me at (212) 909-6158 or e-mail me at [jdembeck@debevoise.com](mailto:jdembeck@debevoise.com).

Sincerely,

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

John Dembeck

Enclosures

**Metalmark Subadvisor LLC  
1177 Avenue of the Americas, Floor 40  
New York, New York 10036**

\_\_\_\_\_, 2007

The Honorable Mike Kreidler, Commissioner  
Office of the Insurance Commissioner  
Insurance Building, Capital Campus  
302 Sid Snyder Avenue SW, Suite 200  
Olympia, Washington 98504

Dear Commissioner Kreidler:

Each of Morgan Stanley Capital Partners III, L.P., MSCP III 892 Investors, L.P., DR Investors, L.P. and DR Investors II, L.P. (collectively, the "Metalmark Managed Funds") hereby agrees with the Washington Office of the Insurance Commissioner (the "Office") not to vote, or execute any stockholder consents with respect to, any shares of common stock or other voting stock of Direct Response Corporation (the "Company") beneficially owned in aggregate by the Metalmark Managed Funds in excess of 9.9% of the outstanding shares of common stock and other voting stock of the Company, without the prior written approval of such Office or until such funds have received approval of an application for acquisition of control of the Company.

Sincerely,

Morgan Stanley Capital Partners III, L.P.  
MSCP III 892 Investors III, L.P.

DR Investors, L.P.  
DR Investors II, L.P.

By: MSCP III, LLC, as general partner  
for each of the above Metalmark  
Managed Funds

By: Morgan Stanley Capital Partners III,  
Inc., as general partner

By: Morgan Stanley Capital Partners III,  
Inc., its managing member

By: Metalmark Subadvisor LLC

By: Metalmark Subadvisor LLC

By: \_\_\_\_\_  
Name:  
Title: Managing Director

By: \_\_\_\_\_  
Name:  
Title: Managing Director

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September 14, 2007

EMAIL AND FEDERAL EXPRESS

State of Connecticut Insurance Department  
Attn: Beth Cook  
153 Market St.  
7th Floor  
Hartford, CT 06103

**Direct Response Corporation**

Dear Ms. Cook:

This letter is submitted in connection with the Form A Statement Regarding the Acquisition of Control of Domestic Insurer filed by J.C. Flowers II, L.P. on May 8, 2007 ("Flowers Form A") to acquire control of Direct Response Corporation ("DRC") and its wholly owned Connecticut domestic insurer subsidiaries, Connecticut Life & Casualty Company, Response Insurance Company, Response Worldwide Direct Auto insurance Company, Response Worldwide Insurance Company, and Warner Insurance Company (the "Domestic Insurers").

Under the transaction set out in the Flowers Form A, there will be three investors in DRC that will, following the closing of the transaction, own 10% or more of the voting securities of DRC. These are (i) J.C. Flowers II, L.P., (ii) Morgan Stanley Capital Partners III, L.P., MSCP III 892 Investors, L.P., DR Investors, L.P. and DR Investors II, L.P. (collectively, the "Metalmark Managed Funds"), and (iii) The Plymouth Rock Company. The Metalmark Managed Funds seek a determination by the Connecticut Insurance Department that they do not control DRC and thus are not required to submit a Form A application to acquire control of the Domestic Insurers.

J.C. Flowers II, L.P., the Metalmark Managed Funds, The Plymouth Rock Company and other DRC investors have agreed in principle to new corporate governance arrangements to be implemented at DRC following the closing of the acquisition by J.C. Flowers II L.P. (the "Proposed Structure") The details of the Proposed Structure are set out in a letter dated this same date submitted by J.C. Flowers II L.P. (the "Flowers Letter").

We believe that, under the Proposed Structure, J.C. Flowers II, L.P. will control DRC and the Domestic Insurers for the reasons set forth in the Flowers Letter.

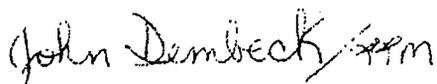
We believe that, under the Proposed Structure, the Metalmark Managed Funds will not control DRC or the Domestic Insurers for the following reasons:

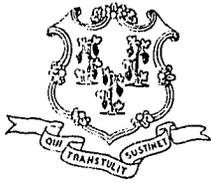
1. For the reasons set forth in the Flowers Letter, J.C. Flowers II, L.P. will control DRC both as to shareholder voting power and board voting power.
2. The Metalmark Managed Funds are prepared to execute and deliver to the Connecticut Commissioner of Insurance a commitment under which they collectively agree with the Connecticut Insurance Department not to vote, or execute any shareholder consents with respect to, any shares of common stock or other voting stock of DRC beneficially owned in aggregate by the Metalmark Managed Funds in excess of 9.9% of the outstanding shares of common stock and other voting stock of DRC, without the prior written approval of the Connecticut Insurance Department or until the Metalmark Managed Funds have received approval of an application for acquisition of control of DRC. As a result of this commitment, the Metalmark Managed Funds will be able to vote no more than 9.9% of the outstanding shares of common stock and other voting stock of DRC thus reducing their voting shareholdings to a position that is below the 10% presumed control threshold set forth in Connecticut General Statutes § 38a-129(b)(3).
3. While, under the terms of the new stockholders agreement, the Metalmark Managed Funds will designate 2 of 11 initial members of the board of DRC (or 18.2%), in light of the DRC board voting power and control exercised by J.C. Flowers II, L.P., we do not believe that the two DRC board seats shared by the Metalmark Managed rises to level that would grant these investors "power to direct or cause the direction of the management and policies of" DRC. This is especially so since J.C. Flowers II, L.P. will be able to remove and replace 6 of 11 initial members of the board of DRC, a majority.

We respectfully request your confirmation that, under Proposed Structure, the Metalmark Managed Funds may be exempted from filing a Form A application to acquire control of the Domestic Insurers with respect to its proposed shareholdings in DRC.

If you have any questions or comments, please call me at (212) 909-6158 or e-mail me at [jdembeck@debevoise.com](mailto:jdembeck@debevoise.com).

Sincerely,

  
John Dembeck



# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

(Via First Class Mail)

September 20, 2007

John Dembeck, Esq.  
Debevoise & Plimpton LLP  
919 Third Avenue  
New York, NY 10022

Re: Request for an Exemption from Change in Control Relating to Connecticut Life and Casualty Insurance Company, Response Insurance Company, Response Worldwide Insurance Company, Response Worldwide Direct Auto Insurance Company, and Warner Insurance Company (hereinafter collectively "DRC")/Form A Filing - Docket # - EX 07-52

Dear Attorney Dembeck:

This letter is in response to your September 14, 2007 request for an exemption from a change in control relating to the 2007 Stock Purchase Agreement among J. C. Flowers II, L. P., The Plymouth Rock Company Incorporated, Stoneridge Holding LLC, Direct Response Corporation, and the Stockholders Listed on Annex A, for the Purchase of Common Stock of Direct Response Corporation, dated as of March 28, 2007 and the proposed Stockholders Agreement among Direct Response Corporation, J.C. Flowers II, L.P., The Plymouth Rock Company Incorporated, Stoneridge Holding LLC, Morgan Stanley Capital Partners III, LP, MSCP III 892 Investors, LP, Morgan Stanley Capital Investors, LP, DR Investors, LP, DR Investors II, LP (collectively the "MetalMark Managed Funds"), and James M. Stone (undated) submitted to the Connecticut Insurance Department ("Department").

Based upon the representations made in your September 14, 2007 letter, specifically that the MetalMark Managed Funds are prepared to execute and deliver to the Connecticut Insurance Commissioner a commitment under which the MetalMark Managed Funds collectively agree with the Department not to vote, or execute any shareholder consents with respect to, any shares of common stock or other voting stock of DRC beneficially owned in aggregate by the MetalMark Managed Funds in excess of 9.9% of the outstanding shares of common stock and

Exemption from Change of Control

Page 2

September 20, 2007

other voting stock of DRC, without the prior written approval of the Department or until the Metal Mark Managed Funds have received approval of an application for acquisition of control of DRC, the Department believes that as a result of the investment and relation transaction, MetalMark Managed Funds is not acquiring control of a domestic insurance company or any corporation controlling a domestic insurance company in the State of Connecticut. As a result, the Department has determined that the proposed transaction is not subject to the filing and approval requirements of Conn. Gen. Stats. Sections 38a-130, 38a-131, 38a-132, and 38a-136(i), but would fall within the permitted exemption of Conn. Gen. Stat. Section 38a-133.

We ask that you submit the referenced commitment letter immediately.

Pursuant to Insurance Holding Company Statute, Conn. Gen. Stats. §§38a-129 – 134, this letter does not fall within the exemptions permitting confidentiality. Therefore, this letter will be available for public inspection.

Sincerely,



Kathy Belfi, CPA  
Chief Examiner

CC: Joan Nakano  
Beth Cook, Esq.  
Daniel Rabinowitz, Esq.

DEBEVOISE & PLIMPTON LLP

919 Third Avenue  
New York, NY 10022  
Tel 212 909 6000  
www.debevoise.com

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

September 27, 2007

FEDERAL EXPRESS

Ms. Kathy Belfi, CPA  
Chief Examiner  
State of Connecticut Insurance Department  
153 Market Street, 6<sup>th</sup> Floor  
Hartford, Connecticut 06103

**Request for an Exemption for Change of Control Relating to Connecticut Life and Casualty Insurance Company, Response Insurance Company, Response Worldwide Insurance Company, Response Worldwide Direct Auto Insurance Company and Warner Insurance Company (hereinafter collectively "DRC")/Form A Filing – Docket # - EX 07-52**

Dear Ms. Belfi:

Thank you for your letter dated September 20, 2007. As requested, enclosed please find a commitment executed by each of Morgan Stanley Capital Partners III, L.P., MSCP III 892 Investors, L.P., DR Investors, L.P. and DR Investors II, L.P. relating to their collective power to vote shares of common stock or other voting stock of DRC.

If you have any questions or comments, please call me at (212) 909-6158 or e-mail me at [jdembeck@debevoise.com](mailto:jdembeck@debevoise.com).

Sincerely,



John Dembeck

Enclosure

Metalmark Capital LLC  
1177 Avenue of the Americas  
New York, NY 10036



**Metalmark Subadvisor LLC**  
**1177 Avenue of the Americas, Floor 40**  
**New York, New York 10036**

September 27, 2007

The Honorable Thomas R. Sullivan, Commissioner  
State of Connecticut Insurance Department  
153 Market Street, 11th Floor  
Hartford, Connecticut 06103

Dear Commissioner Sullivan:

Each of Morgan Stanley Capital Partners III, L.P., MSCP III 892 Investors, L.P., DR Investors, L.P. and DR Investors II, L.P. (collectively, the "Metalmark Managed Funds") hereby agrees with the Connecticut Department of Insurance (the "Department") not to vote, or execute any shareholder consents with respect to, any shares of common stock or other voting stock of Direct Response Corporation (the "Company") beneficially owned in aggregate by the Metalmark Managed Funds in excess of 9.9% of the outstanding shares of common stock and other voting stock of the Company, without the prior written approval of such Department or until such funds has received approval of an application for acquisition of control of the Company.

Sincerely,

Morgan Stanley Capital Partners III, L.P.  
MSCP III 892 Investors III, L.P.

By: MSCP III, LLC, as general partner  
for each of the above Metalmark  
Managed Funds

By: Morgan Stanley Capital Partners III,  
Inc., its managing member

By: Metalmark Subadvisor LLC

By: [Signature]  
Name: Kenneth F. Clifford  
Title: Managing Director

DR Investors, L.P.  
DR Investors II, L.P.

By: Morgan Stanley Capital Partners III,  
Inc., as general partner

By: Metalmark Subadvisor LLC

By: [Signature]  
Name: Kenneth F. Clifford  
Title: Managing Director

May 21, 2007

FEDERAL EXPRESS

Mr. James T. Odiorne  
Deputy Commissioner  
Office of the Insurance Commissioner  
5000 Capitol Boulevard  
Tumwater, Washington 98501

RECEIVED

MAY 22 2007

INSURANCE COMMISSIONER  
COMPANY SUPERVISION

**Morgan Stanley Capital Partners III, L.P. and DR Investors, L.P.  
Form A Exemption With Respect to  
National Merit Insurance Company**

Dear Mr. Odiorne:

J.C. Flowers II L.P. submitted a Form A Statement Regarding the Acquisition of Control of Domestic Insurer to the Office of the Insurance Commissioner dated May 8, 2007 (the "Form A") to acquire control of Direct Response Corporation ("DRC") and its wholly owned Washington domestic insurer subsidiary, National Merit Insurance Company (the "Domestic Insurer"). Concurrent with this acquisition of control, certain limitations, described herein, on each Fund's (defined below) ability to vote DRC shares will terminate. However, since it is contemplated that J.C. Flowers II L.P. will be the ultimate controlling person of DRC, we request that the Office of the Insurance Commissioner by order exempt each of Morgan Stanley Capital Partners III, L.P. and DR Investors, L.P. (the "Funds") from having to file and obtain approval of a Form A in connection with their ownership of the voting securities of DRC arising from the termination of these provisions.

I. Background Information

Each of 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") is currently a shareholder of DRC. As of March 28, 2007 (the date of the Stock Purchase Agreement described below), each of the Metalmark Managed Funds owns the respective shares owned, percentage of total shares outstanding and percentage of total shares outstanding, fully diluted of DRC set forth in Exhibit A attached, Columns (A), (B) and (C). In the case of Morgan Stanley Capital Partners III, L.P. and DR Investors, L.P., as

of March 28, 2007, the respective percentage of total shares outstanding, fully diluted of DRC are 36.8% and 35.8%.

Each of the Metalmark Managed Funds is managed by Metalmark Subadvisor LLC which may be deemed to control each of them. Metalmark Subadvisor LLC is controlled by Metalmark Capital LLC which is in turn controlled by Howard I. Hoffen. None of the Metalmark Managed Funds are bound contractually to act in concert except as provided in the 2004 Stockholders Agreement (defined below) and the 2007 Stockholders Agreement (defined below).

Under the existing stockholders agreement among the shareholders of DRC dated February 27, 2004, as amended (the "2004 Stockholders Agreement"), no Metalmark Managed Fund is currently able to designate a majority of DRC's board of directors. Accordingly, DRC and the Metalmark Managed Funds have historically asserted that even though each Fund holds more than 10% of DRC's voting securities, neither of these two stockholders nor any other stockholder controls the Domestic Insurer for purposes of insurance holding company regulation under Washington law. Each of the Funds have disclaimers of affiliation on file with the Office of the Insurance Commissioner in connection with the Domestic Insurer pursuant to RCW § 48.31B.025(11) (copies of which are attached).

DRC has historically been named in the Domestic Insurer's insurance holding company registration statements as the ultimate controlling person. Thus the Metalmark Managed Funds do not currently control, and the acquisition of DRC by J.C. Flowers II L.P. and accompanying termination of the 2004 Stockholders Agreement, taken as a whole, will not increase their "power to direct or cause the direction of the management and policies of" DRC. In fact, the overall "power" of the Funds will be significantly reduced as a result of the acquisition of DRC by J.C. Flowers II L.P. (see Part III.B below)

Pursuant to a Stock Purchase Agreement among J.C. Flowers II L.P., The Plymouth Rock Company Incorporated, Stoneridge Holding LLC, DRC and designated stockholders of DRC dated as of March 28, 2007 (the "Stock Purchase Agreement"), various stockholders of DRC, consisting largely of the Metalmark Managed Funds, have agreed to sell a substantial amount of their shares of DRC to certain designated purchasers. The principal acquiring stockholder of DRC shares under the Stock Purchase Agreement is J.C. Flowers II L.P. A condition to closing of the Stock Purchase Agreement is that J.C. Flowers II L.P., The Plymouth Rock Company, Inc., Stoneridge Holding LLC, DRC, 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. and James M. Stone (together, all such parties other than DRC are referred to as the "Stockholders") enter into a new stockholders agreement (the "2007 Stockholders Agreement"). The 2007 Stockholders Agreement (Section 2.1) terminates the 2004 Stockholders Agreement.

The provisions of the 2004 Stockholders Agreement under which no Metalmark Managed Fund is currently able to designate a majority of DRC's board of directors (Section 3.5) and under which certain actions require the prior approval of the DRC board and each such action must include the affirmative vote of at least one director designated by the Metalmark Managed Funds (Section 3.7) have been extended to the earlier of (i) August 31, 2007, or (ii) the closing of the transactions (including the entering into of the 2007 Stockholders Agreement) contemplated by the Stock Purchase Agreement (the "Closing Date"). As a consequence, it is anticipated that the following transactions will happen contemporaneously: (i) the Metalmark Managed Funds will sell a substantial amount of their shares of DRC to certain designated purchasers, (ii) the Stockholders will enter into the 2007 Stockholders Agreement, and (iii) the 2004 Stockholders Agreement will terminate.

## II. Exemption Authority

RCW § 48.31B.015(5) provides that:

(5) This section does not apply to:

(a) A transaction that is subject to RCW 48.31.010, dealing with the merger or consolidation of two or more insurers;

(b) An offer, request, invitation, agreement, or acquisition that the commissioner by order has exempted from this section as: (i) Not having been made or entered into for the purpose and not having the effect of changing or influencing the control of a domestic insurer, or (ii) otherwise not comprehended within the purposes of this section.

## III. Exemption Request

We submit that, for the reasons set forth below, the ownership of the voting securities of DRC following the Closing Date by each of the Funds does not, notwithstanding the presumption of control set forth in RCW § 48.31B.005(2), result in either of the Funds controlling DRC and the Domestic Insurer. We submit that, for the reasons set forth below, the transactions described herein are not being made for purposes of and do not have the effect of changing the control of DRC and the Domestic Insurer.

### A. *Closing Date Events*

On the Closing Date, the following events will happen:

1. Section 3.5 of the 2004 Stockholders Agreement under which no Metalmark Managed Fund is able to designate a majority of DRC's board of directors will terminate.
2. Section 3.7 of the 2004 Stockholders Agreement, under which the certain actions require the prior approval of the DRC board and each such action must include the affirmative vote of at least one director designated by the Metalmark Managed Funds, will terminate. No similar provision is included in the 2007 Stockholders Agreement.
3. The Metalmark Managed Funds will sell a substantial amount of their shares of DRC to certain designated purchasers pursuant to the Stock Purchase Agreement. As a consequence, the respective percentage of total shares outstanding, fully diluted of DRC held by Morgan Stanley Capital Partners III, L.P. and DR Investors, L.P. will be reduced from 36.8% and 35.8%, respectively, to 19.2% and 13.2%, respectively.
4. The Stockholders will enter into the 2007 Stockholder Agreement.

B. *Voting Securities of DRC Following the Closing Date*

While, on the Closing Date, the percentage of total shares outstanding, fully diluted of DRC owned by Morgan Stanley Capital Partners III, L.P. and DR Investors, L.P. will be 19.2% and 13.2%, respectively, J.C. Flowers II L.P. will be the largest shareholder of DRC with a percentage of total shares outstanding, fully diluted of DRC of 42.2%. We submit that the shareholding of J.C. Flowers II L.P. alone will result in J.C. Flowers II L.P. being the sole ultimate controlling person of DRC and, as a consequence, neither of the Funds will control DRC following the Closing Date.

Furthermore, each of the Funds will execute and deliver to the Washington Commissioner of Insurance a commitment in the form attached as Exhibit B (the "Commitment") under which each of the Funds agrees with the Office of the Insurance Commissioner not to vote, or execute any shareholder consents with respect to, any shares of common stock or other voting stock of DRC beneficially owned in aggregate by such Fund in excess of 9.9% of the outstanding shares of common stock and other voting stock of DRC, without the prior written approval of the Office of the Insurance Commissioner or until such Fund has received approval of an application for acquisition of control of DRC. As a result of the Commitment, each Fund will be able to vote no more than 9.9% of the outstanding shares of common stock and other voting stock of DRC thus reducing its voting shareholdings to a position that is below the 10% presumed control threshold set forth in RCW § 48.31B.005(2). In effect, the holdings of each Fund in DRC in excess of the 9.9% of the outstanding shares of common stock and other voting stock of DRC will function like non-voting shares of DRC.

C. *Board of DRC Following the Closing Date*

On the Closing Date, the Stockholders will enter into the 2007 Stockholders Agreement, the form of which is attached as Exhibit 3 to the Form A. The 2007 Stockholders Agreement will replace in its entirety the 2004 Stockholders Agreement. Thus, on the Closing Date, Section 3.7 of the 2004 Stockholders Agreement, under which the certain actions require the prior approval of the DRC board and each such action must include the affirmative vote of at least one director designated by the Metalmark Managed Funds, will terminate. No similar provision is included in the 2007 Stockholders Agreement.

Under the 2007 Stockholders Agreement, generally, all actions taken by DRC's Board of Directors (the "Board") would require the approval of a majority of the full Board. The 2007 Stockholders Agreement provides for the composition of the Board and approval rights of the Stockholders after the acquisition. Under the 2007 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 J.C. Flowers II L.P. designees) are currently serving or have served as directors or officers of the DRC.

1. Up to nine directors would be designated by J.C. Flowers II L.P. Under the 2007 Stockholders Agreement, J.C. Flowers II L.P. initially appoints J. Christopher Flowers and David I. Schamis.
2. Up to two directors would be designated by The Plymouth Rock Company, Inc. Under the 2007 Stockholders Agreement, The Plymouth Rock Company, Inc. initially appoints James N. Bailey and Hal Belodoff.
3. Up to two directors would be designated by Metalmark Capital, LLC on behalf of the Funds. Under the 2007 Stockholders Agreement, Metalmark Capital, LLC initially appoints Howard Hoffen and Lawrence Unrein.
4. Pursuant to the 2007 Stockholders Agreement, the remainder of the Board will consist of: Eric T. Fry, Managing Director, Metalmark Capital LLC; Jeffrey C. Keil, Managing Member, Stoneridge Holding LLC; Mory Katz, Chief Executive Officer and President of DRC; James M. Stone, Chief Executive Officer of PRC; and Sandra Urie, Chief Executive Officer and President of Cambridge Associates, LLC.
5. The Stockholders agree to cause their respective directors to initially elect Mr. Keil as Chairman of the Board.
6. 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.

J.C. Flowers II L.P. 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 (to 17). Each Stockholder agrees, under the 2007 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 DRC's Chief Executive Officer, Mr. Katz will cease to be a director, and total Board membership would thereupon be reduced by one (to 17). If Mr. Katz were no longer to be on the Board, and J.C. Flowers II L.P. exercised its right to designate nine directors, J.C. Flowers II L.P. would control nine out of 17 Board positions (a majority).

We submit that J.C. Flowers II L.P. will have ultimate control over the DRC Board under the 2007 Stockholders Agreement. Should J.C. Flowers II L.P. exercise its right to designate nine DRC directors and also exercise its right to remove Mr. Katz as a DRC director, J.C. Flowers II L.P. will have the power to designate nine of 17 DRC Board members (a majority) and have ultimate control of the DRC Board, thereby depriving each Fund control of the DRC Board. Each Fund will have a significant equity interest in DRC (most represented by functionally non-voting shares) and seeks to monitor and protect its investment by having a small DRC Board position, two of 17 Board positions. Nevertheless, despite a more than 10% position on the Board (11.76%), we submit that the two DRC Board seats shared by the Funds does not rise to level that would grant these investors "power to direct or cause the direction of the management and policies of" DRC.

Therefore, as a result of the Board arrangements contemplated above, ownership by J.C. Flowers II L.P. of a plurality of DRC shares and the Commitments, any increase in the Fund's voting ability that would have arisen from the termination of the 2004 Stockholders Agreement is completely negated.

#### IV. Action Requested

For the reasons set forth herein, we request that the Washington Commissioner of Insurance, by order pursuant to RCW § 48.31B.015(5), exempt Morgan Stanley Capital Partners III, L.P. and DR Investors, L.P. from the provisions of RCW § 48.31B.015 due to their ownership of, and ability to vote, the voting securities of DRC following the Closing Date that may arise from the termination of Sections 3.5 and 3.7 of the 2004 Stockholders Agreement described herein. Any such exemption shall be effective upon (i) the closing of the transactions, including the entering into of the 2007 Stockholders Agreement (which terminates the 2004 Stockholders Agreement), contemplated by the Stock Purchase Agreement, and (ii) Morgan Stanley Capital Partners III, L.P. and DR Investors, L.P. each executing the Commitment on or before the Closing Date and

Mr. James T. Odiorne

7

May 21, 2007

promptly submitting an original signed version to the Office of the Insurance Commissioner.

Upon the granting of the exemption order and effectiveness of the closing of the transactions contemplated by the Stock Purchase Agreement, the disclaimers of affiliation submitted by the Funds that are on file with the Office of the Insurance Commissioner in connection with the Domestic Insurer will be withdrawn as they will have been predicated on a set of facts that have since changed.

\* \* \* \* \*

If you have any questions or comments, please call me at (212) 909-6158 or e-mail me at [jdembeck@debevoise.com](mailto:jdembeck@debevoise.com).

Sincerely,



John Dembeck

Attachments

Exhibit A

Direct Response Corporation  
Share Ownership as of March 28, 2007 and after Closing Date<sup>1</sup>

Stockholder	(A) Shares Owned (as of 3/28/07)	(B) % of Total Shares Outstanding (as of 3/28/07)	(C) % of Total Shares Outstanding, Fully Diluted <sup>2</sup> (as of 3/28/07)	(D) Number of Outstanding Shares of Voting Common Stock (after Closing Date)	(E) % of Outstanding Shares of Voting Common Stock (after Closing Date)	(F) Number of Outstanding Option Shares (after Closing Date)	(G) Number of Outstanding Shares of Voting Common Stock, Fully Diluted (after Closing Date) <sup>3</sup>	(H) % of Voting Power, Fully Diluted (after Closing Date) <sup>4</sup>
J.C. Flowers II L.P.				122,495	46.0%	0	122,495	42.2%
Stoneridge Holding LLC and Jeffrey C. Keil <sup>5</sup>				1,225	0.5%	500	1,725	0.6%
The Plymouth Rock Company	21,349	8.0%	8.2%	27,473	10.3%	2,313	29,786	10.3%
James M. Stone	6,578	2.5%	6.3%	6,578	2.5%	11,813	18,391	6.3%
Mory Katz	200	0.1%	1.9%	200	0.1%	5,300	5,500	1.9%
DRC's management, other than Mory Katz	0	0.0%	1.5%	0	0.0%	3,834	3,834	1.3%
Morgan Stanley Capital Investors, L.P. <sup>6</sup>	2,995	1.1%	1.0%	1,561	0.6%	0	1,561	0.5%
Morgan Stanley Capital Partners III, L.P.	106,895	40.1%	36.8%	55,713	20.9%	0	55,713	19.2%
MSCP III 892 Investors, L.P.	10,943	4.1%	3.8%	5,703	2.1%	0	5,703	2.0%
DR Investors, L.P.	103,891	39.0%	35.8%	38,419	14.4%	0	38,419	13.2%
DR Investors II, L.P.	13,609	5.1%	4.7%	7,093	2.7%	0	7,093	2.4%
<b>Total</b>	<b>100</b>	<b>100.0%</b>	<b>100.0%</b>	<b>266,461</b>	<b>100.0%</b>	<b>23,760</b>	<b>290,220</b>	<b>100.0</b>

<sup>1</sup> Represents the same information set forth in the J.C. Flowers II. L.P. Form A dated May 8, 2007, Table I and Exhibit 2 combined.

<sup>2</sup> This column reflects 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 The Plymouth Rock Company, Mr. Stone, Mr. Katz and management other than Mr. Katz (including 500 options held by Mr. Jeffrey C. Keil, Chairman of DRC'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 DRC'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 this exemption request. Moreover, due to rounding of fractional shares and percentage points, columnar data may not always total the sum provided.

<sup>3</sup> Gives effect to the full exercise of options outstanding as of March 28, 2007. See footnote 1 for additional discussion.

<sup>4</sup> Gives effect to the full exercise of options outstanding as of March 28, 2007. See footnote 1 for additional discussion.

<sup>5</sup> As of the date of the Stock Purchase Agreement, March 28, 2007, Mr. Keil, the Chairman of the Board of DRC, holds options to purchase 500 shares. Stoneridge Holding LLC is controlled by Mr. Keil. Pursuant to the Stock Purchase Agreement, Stoneridge Holding LLC will purchase 1,225 shares. These shares and those of Mr. Keil will be under Mr. Keil's common control and are therefore aggregated in this row.

<sup>6</sup> This shareholder is not managed by Howard I. Hoffen, Metalmark Capital LLC or Metalmark Subadvisor LLC.

**Exhibit B**  
**Form of Commitment Letter**

\_\_\_\_, 2007

The Honorable Mike Kreidler, Commissioner  
Office of the Insurance Commissioner  
5000 Capitol Boulevard  
Tumwater, Washington 98501

Dear Commissioner Kreidler:

Each of Morgan Stanley Capital Partners III, L.P. and DR Investors, L.P. hereby agrees with the Office of the Insurance Commissioner not to vote, or execute any shareholder consents with respect to, any shares of common stock or other voting stock of Direct Response Corporation (the "Company") beneficially owned in aggregate by such fund in excess of 9.9% of the outstanding shares of common stock and other voting stock of the Company, without the prior written approval of such Office or until such funds has received approval of an application for acquisition of control of the Company.

Sincerely,

Morgan Stanley Capital Partners III, L.P.  
By: MSCP III, LLC, as general partner  
By: Morgan Stanley Capital Partners III,  
Inc., its managing member  
By: Metalmark Subadvisor LLC

By: \_\_\_\_\_  
Name:  
Title: Managing Director

DR Investors, L.P.  
By: Morgan Stanley Capital Partners III, Inc,  
as general partner  
By: Metalmark Subadvisor LLC

By: \_\_\_\_\_  
Name:  
Title: Managing Director

### DISCLAIMER OF AFFILIATION

The undersigned Kenneth F. Clifford, a duly authorized representative signing on behalf of the entity named below, Morgan Stanley Capital Partners III, L.P., pursuant to Washington Insurance Code §48.31B.025(11), hereby makes this Disclaimer of Affiliation claiming that Morgan Stanley Capital Partners III, L.P., does not control Direct Response Corporation ("DRC" or the "Company").

DRC is a Delaware holding company formed to operate insurers that engage in the business of selling private passenger automobile insurance through direct marketing channels. The undersigned hereby certifies:

- 1) The Company has informed the undersigned that the number of authorized, issued, and outstanding voting securities (Common and Preferred) of DRC as of the date of this Disclaimer is as follows:
  - a) Authorized 1,500,000
  - b) Issued and Outstanding 359,350.778
- 2) Morgan Stanley Capital Partners, III, L.P., owns 142,527.215 shares or 39.7% of the outstanding voting securities, as of the date of this Disclaimer, and affiliated persons/entities of Morgan Stanley Capital Partners III, L.P., own an additional 175,250.563 shares, as of the date of this Disclaimer.
- 3) The undersigned is party to an Amended and Restated Shareholders Agreement dated as of April 18, 1996 (the "Shareholders Agreement"), as further amended on December 7, 2000 ("December 2000 Amendment") that was entered into by all of the shareholders of DRC. The Shareholders Agreement governs the rights and obligations of the shareholders of DRC with respect to certain matters involving the governance and control of DRC.
- 4) Except as set forth in Section 1.7 of the Shareholders Agreement, neither Morgan Stanley Capital Partners III, L.P., nor its affiliates has a right to acquire, directly or indirectly, additional voting stock of DRC. Morgan Stanley Capital Partners III, L.P., is entitled to designate one of the six members of the Board of Directors of DRC.
- 5) With regard to the voting of shares, the charter provides that the shareholders are to vote consistent with the Shareholders Agreement and as recommended by the board of directors of DRC. The Shareholders Agreement provides that the shareholders of DRC vote their shares and take all other actions necessary to ensure that seats on the board are allocated so that no party can elect a majority of the board of directors of DRC.
- 6) Morgan Stanley Capital Partners III, L.P., hereby represents that it does not possess, directly or indirectly, by virtue of its ownership of voting securities of DRC or otherwise, the power to direct or cause the direction of the management or policies of DRC and disclaims any control of DRC. Consequently, no information should be required of Morgan Stanley Capital Partners III, L.P., on any registration filed by DRC or any of its subsidiaries, pursuant to Washington Insurance Code §48.31B.025(11).

The undersigned hereby declares under penalties of perjury that all matters set forth above are true and correct.

Executed this \_\_\_ day of August, 2003 at New York, New York.

Morgan Stanley Capital Partners III, L.P.

By: MSCP III, LLC, its general partner

By: Morgan Stanley Capital Partners III Inc., as Member

By: *Kenneth F. Clifford*  
Kenneth F. Clifford  
Managing Director

State of New York

County of New York

Personally appeared before me the above-named Kenneth F. Clifford, personally known to me, who, being duly sworn, deposes and says that he executed the above instrument and that the statements and responses contained therein are complete, true, and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 3<sup>rd</sup> September day of ~~August~~, 2003.

*Michelle C. Fausto*  
(Notary Public)

(SEAL)

My Commission Expires *July 20, 2006*

MICHELLE C. FAUSTO  
Notary Public, State of New York  
No. 01FA6005492  
Qualified in New York County  
Commission Expires *5/20/2006*

## DISCLAIMER OF AFFILIATION

The undersigned Kenneth F. Clifford, a duly authorized representative signing on behalf of the entity named below, DR Investors, L.P., pursuant to Washington Insurance Code §48.31B.025(11), hereby makes this Disclaimer of Affiliation claiming that DR Investors, L.P., does not control Direct Response Corporation ("DRC" or the "Company").

DRC is a Delaware holding company formed to operate insurers that engage in the business of selling private passenger automobile insurance through direct marketing channels. The undersigned hereby certifies:

- 1) The Company has informed the undersigned that the number of authorized, issued, and outstanding voting securities (Common and Preferred) of DRC as of the date of this Disclaimer is as follows:

a) Authorized	1,500,000
b) Issued and Outstanding	359,350.778
- 2) DR Investors, L.P., owns 138,521.267 shares or 38.5% of the outstanding voting securities, as of the date of this Disclaimer, and affiliated persons/entities of DR Investors, L.P., own an additional 179,256.511 shares, as of the date of this Disclaimer.
- 3) The undersigned is party to an Amended and Restated Shareholders Agreement dated as of April 18, 1996 (the "Shareholders Agreement"), as further amended on December 7, 2000 ("December 2000 Amendment") that was entered into by all of the shareholders of DRC. The Shareholders Agreement governs the rights and obligations of the shareholders of DRC with respect to certain matters involving the governance and control of DRC.
- 4) Except as set forth in Section 1.7 of the Shareholders Agreement, neither DR Investors, L.P., nor its affiliates has a right to acquire, directly or indirectly, additional voting stock of DRC. DR Investors, L.P., is entitled to designate one of the six members of the Board of Directors of DRC.
- 5) With regard to the voting of shares, the charter provides that the shareholders are to vote consistent with the Shareholders Agreement and as recommended by the board of directors of DRC. The Shareholders Agreement provides that the shareholders of DRC vote their shares and take all other actions necessary to ensure that seats on the board are allocated so that no party can elect a majority of the board of directors of DRC.
- 6) DR Investors, L.P., hereby represents that it does not possess, directly or indirectly, by virtue of its ownership of voting securities of DRC or otherwise, the power to direct or cause the direction of the management or policies of DRC and disclaims any control of DRC. Consequently, no information should be required of DR Investors, L.P., on any registration filed by DRC or any of its subsidiaries, pursuant to Washington Insurance Code §48.31B.025(11).

The undersigned hereby declares under penalties of perjury that all matters set forth above are true and correct.

Executed this \_\_\_ day of August, 2003 at New York, New York.

DR Investors, L.P.

By: MSCP III, LLC, its general partner

By: Morgan Stanley Capital Partners III, Inc., as Member

By: *Kenneth F. Clifford*  
Kenneth F. Clifford  
Managing Director

State of New York

County of New York

Personally appeared before me the above-named Kenneth F. Clifford, personally known to me, who, being duly sworn, deposes and says that he executed the above instrument and that the statements and responses contained therein are complete, true, and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 3<sup>rd</sup> September day of ~~August~~, 2003.

*Michelle C. Fausto*  
(Notary Public)

(SEAL)

My Commission Expires *May 20, 2006*

MICHELLE C. FAUSTO  
Notary Public, State of New York  
No. 01FA6005482  
Qualified in New York County  
Commission Expires *5/20/06*

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



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