

STATE OF WASHINGTON

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

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Hearings Unit, DIC  
Patricia D. Petersen  
Chief Hearing Officer

Wendy Galloway  
Paralegal  
(360) 725-7002  
Wendyg@oic.wa.gov



OFFICE OF  
INSURANCE COMMISSIONER

HEARINGS UNIT  
Fax: (360) 664-2782

MIKE KREIDLER

STATE OF WASHINGTON  
**DECLARATION OF MAILING**

I declare under penalty of perjury  
under the laws of the State of  
Washington that on the date listed  
below, I mailed or caused delivery  
of a true copy of this document to  
*parties listed below*  
DATED this *26th* day of *August 2008*  
at Tumwater, Washington.

Signed: W. Galloway

Patricia D. Petersen  
Chief Hearing Officer  
(360) 725-7105

BEFORE THE STATE OF WASHINGTON  
OFFICE OF INSURANCE COMMISSIONER

In the Matter of the Proposed Acquisition of  
Control of:

**SAFECO INSURANCE COMPANY OF  
AMERICA, GENERAL INSURANCE  
COMPANY OF AMERICA, FIRST  
NATIONAL INSURANCE COMPANY OF  
AMERICA, and SAFECO SURPLUS  
LINES INSURANCE COMPANY, Subsidiaries  
of SAFECO CORPORATION, a Washington  
Corporation,**

by

**LIBERTY MUTUAL HOLDING COMPANY,  
INC., LMHC MASSACHUSETTS HOLDINGS,  
INC., LIBERTY MUTUAL GROUP, INC.,  
LIBERTY MUTUAL INSURANCE  
COMPANY, LIBERTY INSURANCE  
HOLDINGS, INC., and LIH US P&C  
CORPORATION.**

NO. G08-0084

NOTICE OF HEARING

TO: Richard P. Quinlan  
Liberty Mutual  
Sr. Vice President & Deputy General Counsel  
175 Berkeley Street  
Boston, Massachusetts 02117-0140



Melvin N. Sorensen, Esquire  
Carney Badley Spellman P.S.  
701 Fifth Avenue, Suite 3600  
Seattle, Washington 98104-7010

DeAnn F. Work  
Safeco Insurance Companies  
Sr. Associate General Counsel  
Safeco Plaza  
1001 4th Avenue, Floor 27  
Seattle, WA 98154

**COPY TO:** Mike Kreidler, Insurance Commissioner  
Vernon Stoner, Chief Deputy Insurance Commissioner  
James T. Odiorne, Deputy Commissioner, Company Supervision Div.  
Ronald Pastuch, Holding Manager, Company Supervision Div.  
Carol Sureau, Deputy Commissioner, Legal Affairs Division  
Charles D. Brown, Sr. Staff Attorney, Legal Affairs Division  
Office of the Insurance Commissioner  
P.O. Box 40255  
Olympia, WA 98504-0255

**AND TO:** Linda Dalton, Sr. Assistant Attorney General  
Office of the Attorney General  
P.O. Box 40100  
Olympia, WA 98504-0100

Christina Beusch, Assistant Attorney General  
Office of the Attorney General  
P.O. Box 40100  
Olympia, WA 98504-0100

#### **DETAILS OF PROPOSED ACQUISITION**

The proposed acquiring parties in this proposed acquisition are: Liberty Mutual Holding Company Inc. (LMHC), a Massachusetts mutual privately held holding corporation which is the ultimate parent corporation of the affiliated Liberty Mutual Group of companies; LMHC wholly owns LMHC Massachusetts Holdings Inc. (LMHC MA), a Massachusetts stock holding corporation; LMHC MA wholly owns Liberty Mutual Group Inc. (LMGI), a Massachusetts stock holding corporation; LMGI wholly owns Liberty Mutual Insurance Company (LMIC), a Massachusetts stock insurance company; and Liberty Insurance Holdings, Inc. (LIHI), a Delaware business corporation wholly owns LIH US P&C Corporation (LIH US), a Delaware business holding company (all entities collectively referred to as the Applicants).

The Applicants propose to acquire Safeco Corporation and all of its subsidiaries. Safeco Corporation

is a publicly traded Washington domestic holding corporation which wholly owns all Safeco affiliated companies [with the exception of its 99% ownership of Safeco Offshore Sourcing Private Limited (India)]. Washington domestic insurers wholly owned by Safeco Corporation include First National Insurance Company of America, General Insurance Company of America, Safeco Insurance Company of America, and Safeco Surplus Lines Insurance Company, all Washington-domiciled stock property and casualty insurers (collectively, the "Domestic Insurers") headquartered in Seattle, Washington. Safeco Insurance Company of America holds Washington Certificate of Authority No. 621, issued in 1958, General Insurance Company of America holds Washington Certificate of Authority No. 446, issued in 1958, First National Insurance Company of America holds Washington Certificate of Authority No. 440, issued in 1958 and Safeco Surplus Lines Insurance Company holds Washington Certificate of Authority No. 1538, issued in 1984. [Organizational Charts 1 and 2, filed by Applicants, describe the applicants and their subsidiaries in detail; Organizational Chart 3, filed by Safeco, details the Safeco Corporation and all of its subsidiaries, all of which are affected by this proposed acquisition; and Organizational Chart 4, filed by Applicants, describes the structure of the Applicant with the domestic insurers and their subsidiaries as it would exist after this proposed acquisition takes place if approved. Said Organizational Charts 1-4 are attached hereto and are by this reference incorporated herein.]

This proposed acquisition, should it be approved, would result in the acquisition of the entire Safeco organization: Safeco Corporation and all of its Domestic Insurers including all of their subsidiaries. Said proposed acquisition would also result in a change of control of all of these Domestic Insurers, and Safeco Corporation would convert from its status as a publicly traded corporation to a privately held corporation.

More specifically, Applicants propose to acquire Safeco Corporation, the domestic insurers and other affiliates for the purchase price of approximately \$6.2 billion. Should this proposed acquisition be approved, Safeco Corporation, including all of its subsidiaries, would become an indirect wholly-owned subsidiary of Liberty Mutual Holding Company Inc. and a direct wholly-owned subsidiary of LIH US P&C Corporation, resulting in a change of control of Safeco Corporation and all of its subsidiaries. (Safeco Corporation also wholly owns numerous insurers and entities in Delaware, Illinois, Indiana, Missouri, Texas and Oregon, as well as non-insurer entities in Washington State, which are all part of this proposed acquisition; these other entities are not, however, the subject of the proceeding herein.)

All documents which have been filed in this matter, including descriptions of the companies, purchase and sale agreements, and all other matters are included on the Insurance Commissioner's website and can be found for public review at [http://www.insurance.wa.gov/orders/hearings\\_proceedings7.shtml](http://www.insurance.wa.gov/orders/hearings_proceedings7.shtml).

### **NATURE OF PROCEEDING**

On May 16, 2008, the Applicants filed a Form A application with the Company Supervision Division of the Washington State Office of the Insurance Commissioner, requesting approval of its proposed acquisition. On August 5, 2008, Applicants filed extensive Amendments to Form A, and on August

5, 2008, Ronald Pastuch, CPA, Holding Company Manager of the Company Supervision Division deemed the Form A to be complete. He subsequently transmitted said Form A to the undersigned with the request that the undersigned conduct an adjudicative proceeding and make the final decision concerning whether this proposed acquisition should be approved or disapproved.

Pursuant to RCW 48.31B.015(1) and (2), on May 22, 2008, Liberty filed a preacquisition notification with the Insurance Commissioner (Form "A" Statement Regarding the Acquisition of Control of a Domestic Insurer) and on August 5, 2008, Amendment No. 1 to the Form A Statement Regarding the Proposed Acquisition of Control was filed, which shall be entered as evidence herein, which 1) includes substantial information and agreements concerning this proposed acquisition as required by RCW 48.31B.015(2) and in accordance with RCW 48.31B.020(3)(a); and which 2) includes information and agreements relative to the issues which must be the subject of findings pursuant to RCW 48.31B.015(4).

Pursuant to RCW 48.31B.015(4), the Insurance Commissioner shall approve an acquisition of a domestic insurer unless, after a public hearing thereon, it is found: 1) that after the change of control, the domestic insurer would not be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed; 2) that the effect of the acquisition of control would be substantially to lessen competition in insurance in this state or tend to create a monopoly therein; 3) that the financial condition of an acquiring party is such as might jeopardize the financial stability of the insurer, or prejudice the interests of its policyholders; 4) that the plans or proposals that the acquiring party has to liquidate the insurer, sell its assets, consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management, are unfair and unreasonable to policyholders of the insurer and not in the public interest; 5) that the competence, experience, and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders of the insurer and of the public to permit the acquisition or control; or 6) that the acquisition is likely to be hazardous or prejudicial to the insurance-buying public. Toward this end, the parties are advised that the Insurance Commissioner is expected to testify as to whether he has given reasonable advance notice to the public of the hearing scheduled herein and whether he or any members of his staff have received any objections or concerns relative to this proposed transaction and provide details of these objections or concerns. The Insurance Commissioner is also expected to testify as to the conclusions he has reached during his examination of the subject Form A, as amended, insofar as they relate to the above stated issues 1) through 6).

A duly authorized representative of the Applicants is expected to testify as to the above stated issues and as to whether the Applicants have received any objections or concerns regarding the proposed transaction and provide details of these objections or concerns. Finally, a duly authorized representative of the Safeco companies is expected to testify as to the above stated issues and as to whether the companies have received any objections or concerns relative to the proposed transaction. While live testimony from the Insurance Commissioner, the Applicants, and Safeco will be taken during the hearing as to the above identified issues, written declarations from those parties must be filed at least three working days prior to the date of the hearing. Further, oral opening statements and closing arguments from the Applicants and Safeco are expected along with written opening statements and closing arguments to be filed at least three working days prior to the date of the

hearing.

**YOU ARE HERBY NOTIFIED that a hearing will be held commencing at 10:00 a.m. Pacific Standard Time on Wednesday, September 10, 2008,** in the Office of the Insurance Commissioner, 5000 Capitol Boulevard, Tumwater, Washington 98501, to consider the acquisition of the Safeco Corporation, First National Insurance Company of America, General Insurance Company of America, Safeco Insurance Company of America, Safeco Surplus Lines Insurance Company and their subsidiaries by Liberty Mutual Holding Company Inc., LMHC Massachusetts Holdings, Inc., Liberty Mutual Group Inc., Liberty Mutual Insurance Company, Liberty Insurance Holdings, Inc. and LIH US P&C Corporation.

The hearing will be held under the authority granted the Insurance Commissioner by Chapter 48.04 RCW and RCW 48.31B.015, and shall have as its purpose consideration of the Applicants' request for approval of its proposed acquisition of control of Safeco Corporation, First National Insurance Company of America, General Insurance Company of America, Safeco Insurance Company of America, Safeco Surplus Lines Insurance Company and their subsidiaries. The hearing will be governed by the Administrative Procedure Act, Chapter 34.05 RCW, and the model rules of procedure contained in Chapter 10-08 WAC. A party who fails to attend or participate in any stage of the proceeding may be held in default in accordance with Chapter 34.05 RCW.

The Insurance Commissioner has not taken, and will not take, any position on this matter prior to entry of the Findings of Facts, Conclusions of Law and Final Order to be entered after hearing.

**YOU ARE FURTHER NOTIFIED that all interested individuals may attend the hearing in this matter without prior approval as this is a public proceeding. Further, interested parties may also listen or participate in the hearing by telephone by dialing (360) 407-3780, followed by pin number 938094#. If you encounter any difficulty accessing the conference call, stay on the line and a conference operator will assist you or you can phone the state operator directly at (360) 902-3310 for assistance.**

**YOU ARE FURTHER NOTIFIED that all interested individuals and entities may submit comments on, or objections to, this proposed acquisition to the undersigned. Said comments or objections, which will be included in the hearing record and will be considered by the undersigned prior to her making her final decision, must be submitted by 9:30 a.m. Pacific Standard Time on Wednesday, September 10, 2008, by fax, U.S. Mail, personal delivery, or email to Judge Petersen at PatriciaP@oic.wa.gov. The fax number of the undersigned is (360) 664-2782, her mailing address is PO Box 40255, Olympia, WA 98504-0255, her delivery address is 5000 Capitol Boulevard, Tumwater, Washington 98501.**

**YOU ARE FURTHER NOTIFIED that, pursuant to RCW 48.31B.015(4)(b), any person whose interest is determined by the undersigned to be affected, may present evidence and argument on all issues involved, examine and cross-examine witnesses, and offer oral and written statements, and in connection therewith may conduct discovery proceedings.**

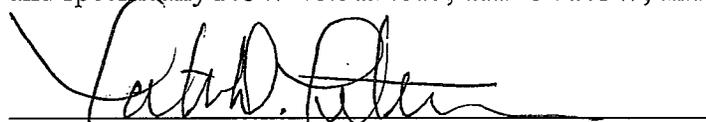
The Insurance Commissioner will appear pro se, represented by Charles D. Brown, Sr. Staff Attorney of the OIC Legal Affairs Division. He can be reached at (360) 725-7044. Liberty Mutual Holding Company, Inc., LMHC Massachusetts Holdings, Inc., Liberty Mutual Group, Inc., Liberty Mutual Insurance Company, Liberty Insurance Holdings, Inc., and LIH US P&C Corporation will be represented by Richard P. Quinlan, Sr. Vice President & Deputy General Counsel of Liberty Mutual, 175 Berkeley Street, Boston, Massachusetts 02117-0140. He can be reached at (617) 357-9500. Liberty Mutual is also represented by local counsel, Melvin N. Sorensen, Esquire of 701 Fifth Avenue, Suite 3600, Seattle, Washington 98104-7010. He can be reached at (206) 622-8020. Safeco Corporation will be represented by DeAnn F. Work, Senior Associate General Counsel of Safeco Insurance Companies. She can be reached at (206) 473-6445.

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

On August 7, 2008, the undersigned held a first prehearing conference in this matter. The parties were represented by the above stated attorneys, and 21 members of the public participated as well. During said first prehearing conference, the undersigned identified the parties and statutes involved, reviewed procedure to be expected at hearing, and responded to all questions and concerns of the parties. As stated above, **should any party or any interested individual have any further questions or concerns prior to the hearing date, they are advised to telephone or e-mail Wendy Galloway, paralegal to the undersigned, for assistance** or to schedule a second prehearing conference as necessary.

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

ENTERED at Tumwater, Washington, this 26<sup>th</sup> day of August, 2008, pursuant to Title 48 RCW and specifically RCW 48.31B.015, Title 34 RCW, and regulations applicable thereto.



**PATRICIA D. PETERSEN**  
Presiding Officer  
Chief Hearing Officer



OFFICE OF  
INSURANCE COMMISSIONER  
HEARINGS UNIT

Fax: (360) 664-2782

Patricia D. Petersen  
Chief Hearing Officer  
(360) 725-7105

Wendy Galloway  
Paralegal  
(360) 725-7002  
[wendyg@oic.wa.gov](mailto:wendyg@oic.wa.gov)

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

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

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**REQUEST FOR INTERPRETER**

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

Please check the statements that apply to you:

- I am a non-English-speaking person. I cannot readily speak or understand the English language. My primary language is \_\_\_\_\_ (insert your primary language). I need an interpreter who can translate to and from the primary language and English.
- I am unable to readily understand or communicate the spoken English language because:

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

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

Date: \_\_\_\_\_ Signed: \_\_\_\_\_

Please print or type your name: \_\_\_\_\_  
Address: \_\_\_\_\_  
Telephone: \_\_\_\_\_



Exhibit B

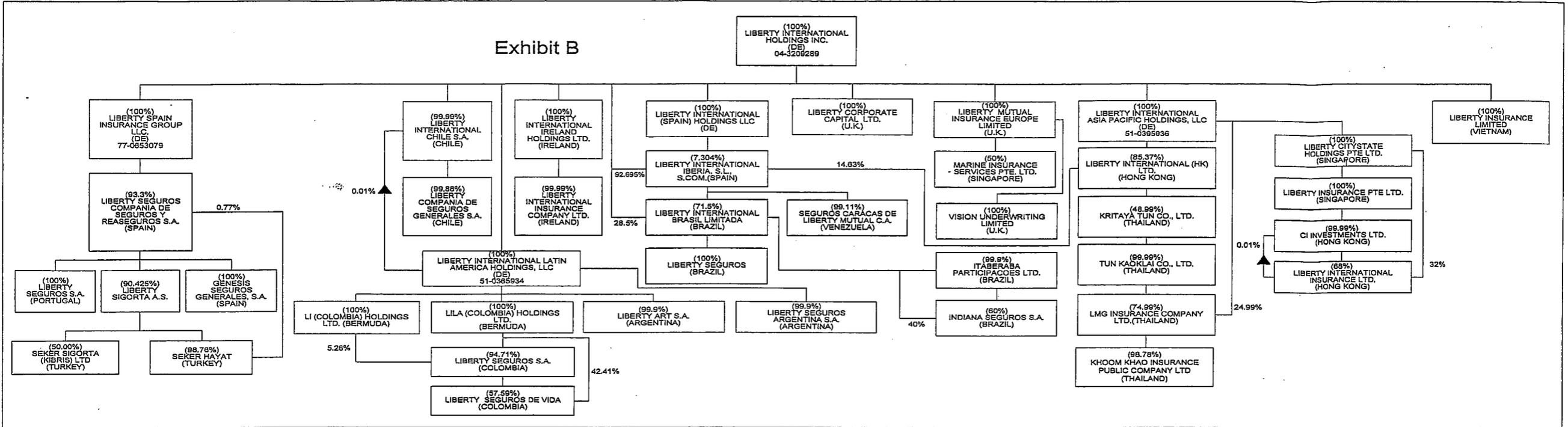
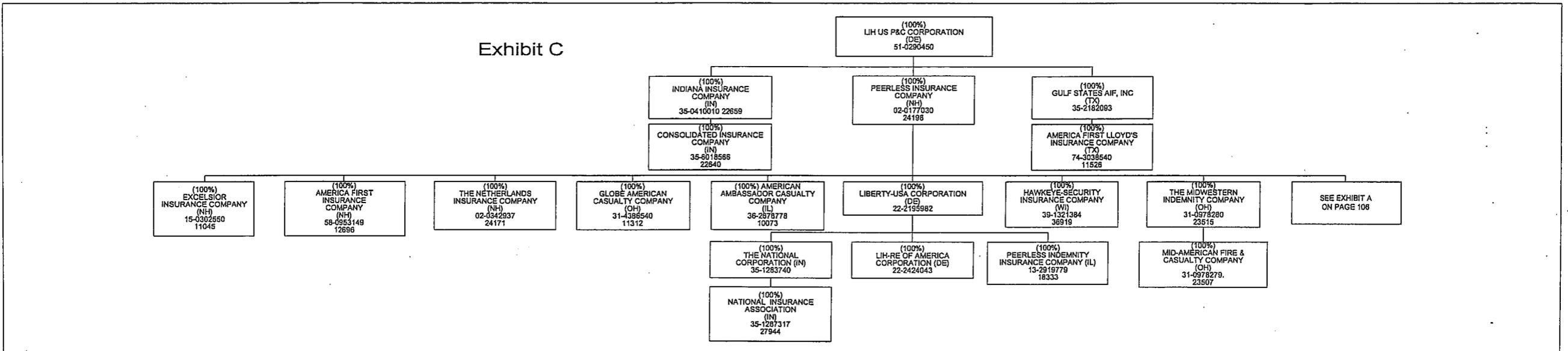
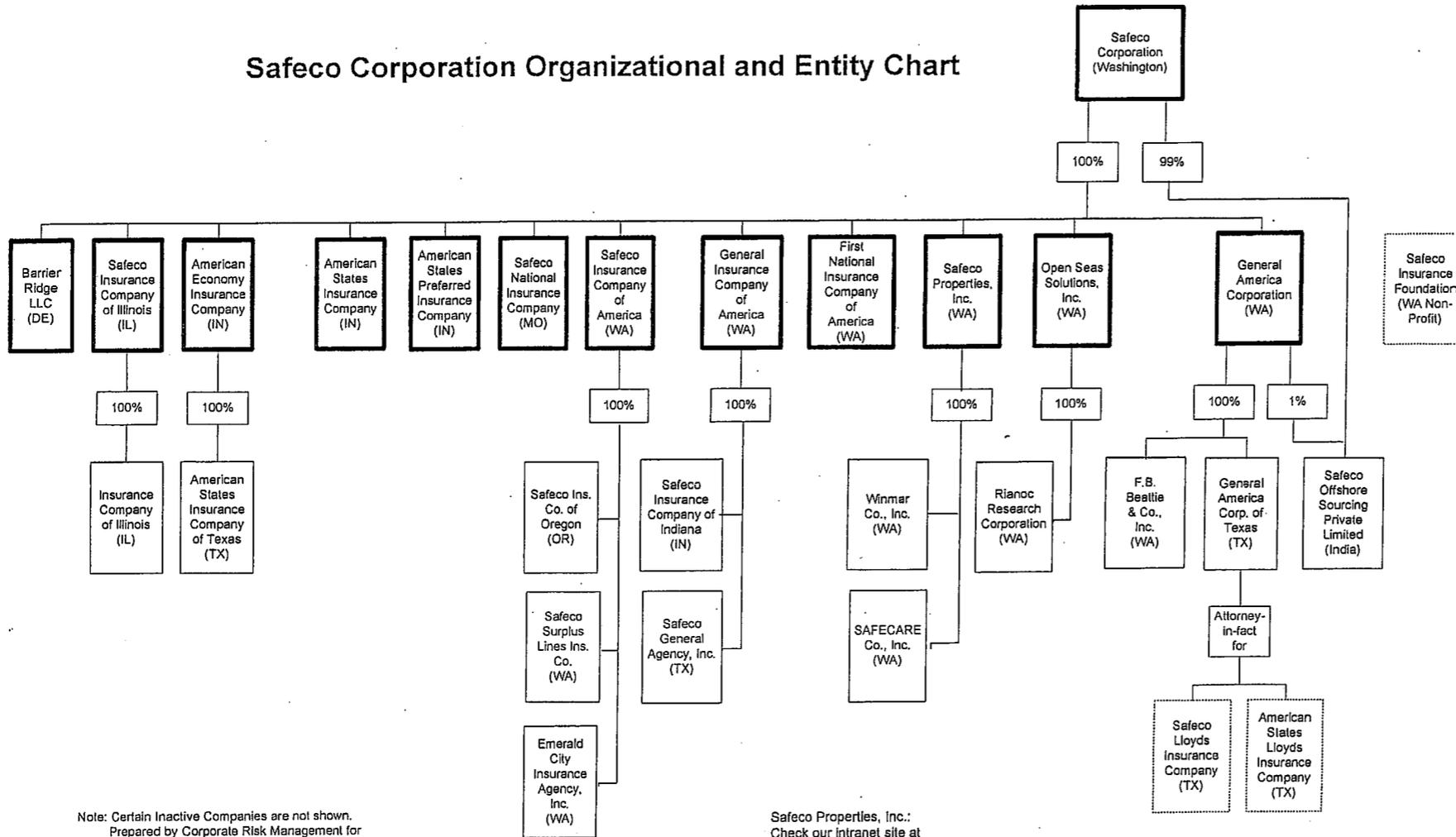


Exhibit C



Organizational Chart 2

# Safeco Corporation Organizational and Entity Chart



Note: Certain Inactive Companies are not shown.  
 Prepared by Corporate Risk Management for  
 Insurance Program Purposes only.

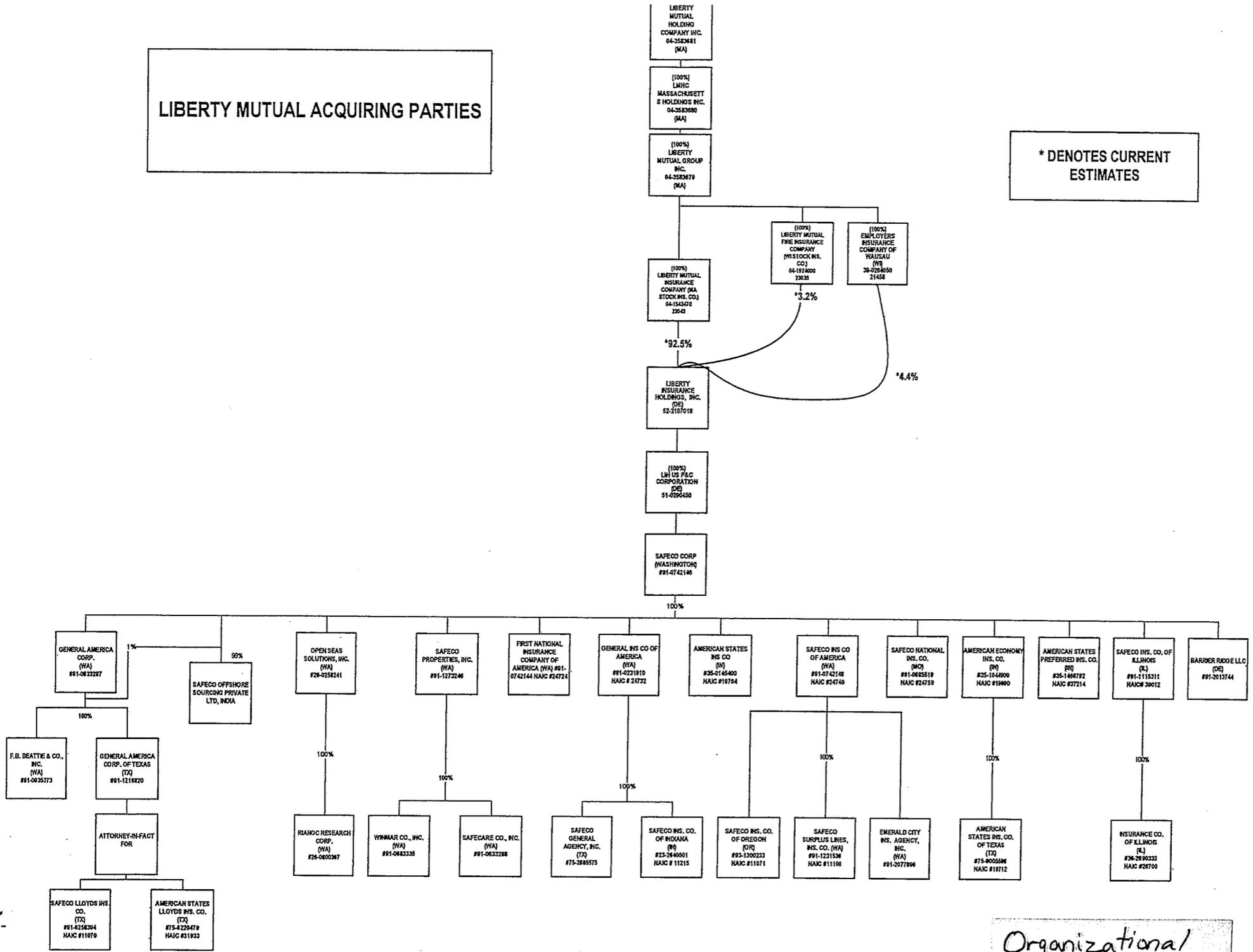
Revised January 14, 2008

Safeco Properties, Inc.:  
 Check our intranet site at  
<http://inside.safeco.com/CorpRiskMgmt/>

Organizational  
 Chart 3

LIBERTY MUTUAL ACQUIRING PARTIES

\* DENOTES CURRENT ESTIMATES



Organizational Chart 4