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Hearings Unit, DIC
Patricia D. Petersen
Chief Hearing Officer

BEFORE THE STATE OF WASHINGTON
OFFICE OF INSURANCE COMMISSIONER

In the Matter of the Proposed Acquisition
and Control of:

NO. G08-0182

DECLARATION OF
RONALD J. PASTUCH

NATIONAL MERIT INSURANCE
COMPANY, a Washington domiciled
property and casualty insurer and
subsidiary of DIRECT RESPONSE
CORPORATION,
by
TRINITY UNIVERSAL INSURANCE
CO.,

Applicant.

Ronald J. Pastuch, under penalty of perjury under the laws of the State of Washington,
declares as follows:

1. I am the Holding Company Manager in the Company Supervision Division of
the Washington State Office of Insurance Commissioner ("OIC"). I am over the age of
eighteen years old and I am competent to testify in this matter. I make this Declaration based
upon my personal knowledge.

2. I am also a graduate of Pacific Lutheran University, where I earned a Bachelor
of Arts Degree in Business Administration in 1988. I was certificated as a CPA in 1993, and
received my CPA license in 2003.

1 3. After graduation I worked for the Washington Department of Veterans Affairs
2 from 1980 to 1987 in accounting and human resource positions. In 1987, I joined the OIC as
3 an accountant, a position I held until 1991. From 1991 to 1993, I served as a field Insurance
4 Examiner with the OIC. At this point, I became a Financial Analyst in the OIC's Company
5 Supervision Division, a position I held in various levels from 1993 to 2006.

6 4. On February 16, 2006, I became the Holding Company Manager in the OIC's
7 Company Supervision Division. As the Holding Company Manager, my primary duties
8 consist of reviewing and approving holding company transactions, which include reviewing
9 and recommending OIC's position on insurance company acquisitions and mergers, including
10 disclaimers of control.

11 5. On September 26, 2008, Trinity Universal Insurance Company ("the
12 Applicant") filed a Form A Statement for the Approval of the Acquisition of Control of
13 National Merit Insurance Company ("National Merit"). The Applicant is a wholly owned
14 subsidiary of Unitrin, Inc., a Delaware publicly traded corporation listed on the New York
15 Stock Exchange and based in Chicago, IL. In this Statement, the Applicant proposes to
16 acquire all of the issued and outstanding common stock of Direct Response Corporation
17 ("DRC"), which indirectly wholly owns and controls National Merit. The Applicant and the
18 selling shareholders of DRC entered into a stock purchase agreement dated August 29, 2008
19 to acquire 266,460.58350 shares of DRC common stock for an aggregate cash purchase price
20 of two hundred twenty million dollars (\$220,000,000.00) subject to certain monetary
21 adjustments.

22 6. On October 15, 2008, the OIC sent a deficiency letter and requested additional
23 information regarding the Form A Statement. On November 6, 2008, the OIC requested
additional information regarding a recent application filed by the Applicant's affiliate to do
business in Washington State.

1 7. On November 17, 2008, the attorney representing the Applicant responded to
2 the OIC's October 15th and November 6th letters with the requested information. His letter
3 also included an executive summary describing the proposed transaction.

4 8. On December 1, 2008, the attorney representing the Applicant submitted a
5 letter regarding the Connecticut Department of Insurance review and pending hearing of the
6 Applicant's filed Form A Statement with the Connecticut Department. The Connecticut
7 Department was to hold its public hearing on December 10, 2008 concerning the Form A
8 Statement on DRC's Connecticut domiciled insurers listed by the Applicant.

9 9. On December 4, 2008, the OIC submitted a request to the Chief Hearing
10 Officer for a hearing to be scheduled to determine the filed Form A Statement.

11 10. On December 31, 2008, the General Counsel for National Merit filed with the
12 OIC a formal notice of the DRC stockholders agreement extension so the extended
13 stockholders agreement will expire at the closing the proposed acquisition of DRC or January
14 31, 2009, whichever is earlier.

15 11. I have reviewed and analyzed these submittals. My analysis was performed
16 under the criteria set forth in RCW 48.31B.015(4). From my analysis, the domestic insurer
17 would be able to satisfy the requirements for the issuance of a license to write its current lines
18 of business for which it is presently licensed. The effect of the proposed acquisition of
19 control would not lessen competition in this state or tend to create a monopoly therein. A
20 market analysis was performed on the domestic insurer and its related insurers' direct
21 writings, the Applicant and its related insurers' direct writings, and the Washington P&C
22 market. We did not detect any violation of the competitive standard set forth in RCW
23 48.31B.020(4). The financial condition of the Applicant appears that it would not jeopardize
the financial stability of the domestic insurer or prejudice its policyholders' interest. We are
not aware of any plans or proposals by the Applicant to liquidate the domestic insurer, sell its
assets, consolidate, or merge it with any person, or make any other material changes in its

1 business or corporate structure or management that are unfair and unreasonable to the
2 domestic insurer's policyholders and not in the public interest. We verified the competence,
3 experience and integrity of those persons who would control the operation of the domestic
4 insurer with various federal, state and local officials through a third party verification firm.
5 These checks showed no records found by these officials. We are not aware that the
6 acquisition is likely to be hazardous or prejudicial to the insurance-buying public. Therefore,
7 we recommend to the presiding officer to approve the acquisition of National Merit by the
8 Applicant.

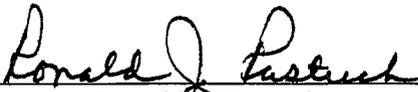
9 12. From a procedural standpoint, the OIC requires that notice of this proposed
10 acquisition be given to the public via the Internet (on the OIC's website). On October 3,
11 2008, OIC posted information on the Insurance Commissioner's website concerning the
12 proposed sale of National Merit and the OIC's review process. That information was also
13 published by *Insurance Journal*, a true and correct copy of which is attached hereto as Exhibit
14 "A". Such notice was updated by the OIC regarding the hearing, via the Notice of Hearing
15 and announcement posted on the OIC's website on December 22, 2008, a true and correct
16 copy of which is attached hereto as Exhibit "B". This notice informs the public of the January
17 9, 2009 hearing and the nature of the hearing. This notice has remained on the OIC's website
18 since December 22, 2008, and will remain posted on the website through the date of the
19 hearing. Also, notice of the hearing was published by *Insurance Journal* on its website on
20 December 29, 2008, a true and correct copy of which is attached hereto as Exhibit "C".

21 13. The Notice of Hearing informs and advises all interested parties that any
22 individual or entity is permitted to submit comments on, or objections to, this proposed
23 acquisition. The Notice of Hearing states that any questions should be directed to Wendy
24 Galloway, Paralegal to the OIC's Chief Hearing Officer.

25 14. As of the date of this Declaration, we received three email communications
26 since the filing of the Notice of Hearing. Those three email communications with attachments

1 were from attorneys separately representing the Applicant, DRC and one of DRC's selling
2 shareholders. Other than the three email communications previously stated, I personally have
3 not received any comments, questions, or objections through letter, correspondence, email, or
4 phone, nor am I aware of any comments, questions, or objections having been received by the
5 OIC's Chief Hearing Officer.

6 SIGNED this 8th day of January, 2009.

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9 _____
10 Ronald J. Pastuch
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Notice

EXHIBIT "A"

Mike Kreidler
Washington Insurance Commissioner
Web page: www.insurance.wa.gov

10/3/2008

Notice: National Merit sale

OLYMPIA, Wash. — Trinity Universal Insurance Company wants to purchase the National Merit Insurance Company. [Learn more.](#)

**INSURANCE
JOURNAL**

West News

Trinity Universal Insurance Aims to Purchase National Merit Insurance Co.

October 7, 2008

Washington's Office of the Insurance Commissioner announced that Trinity Universal Insurance Co. intends to purchase the National Merit Insurance Co. and hopes to complete the sale by the end of 2008. Before the sale can be completed, the Insurance Commissioner must approve it.

National Merit in Bellevue, Wash., is a wholly-owned subsidiary of the Direct Response Corp. of Meriden, Conn. Trinity Universal is a wholly-owned subsidiary of Unitrin Inc., a publicly held company located in Chicago.

Before the sale can be completed, the Commissioner's office will examine Trinity's application detailing:

- * Financial information for both companies.
- * Who will operate the company at the highest levels.
- * The business plan.
- * Market competition impacts.

Evaluation criteria

Under state law, the commissioner must approve the deal unless:

- * It would substantially lessen competition or create a monopoly.
- * The buyer's plans are unfair and unreasonable to the policyholders of the insurance company.
- * The buyer isn't competent, honest or financially sound enough to run an insurance company.
- * It is in some other way "hazardous or prejudicial to the insurance-buying public."

According to the Commissioner's office, it received the application in late September, but requested additional information to deem the application complete. The DOI expects to receive additional information by the end of October. Once the application is complete, a judge will schedule a public adjudicative hearing and decide whether to approve the sale.

For more information, visit <http://www.insurance.wa.gov/>.

Source: OIC

Find this article at:

<http://www.insurancejournal.com/news/west/2008/10/07/94392.htm>

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EXHIBIT "B"



We're here to protect insurance consumers

Trying to solve a problem with your insurance company? Have a question about which coverage is right for you? Need help navigating the Medicare maze?

Call us at 1-800-562-6900 or [file a complaint online](#)

Commissioner's priorities

[Guaranteed health benefits for all Washingtonians](#)

[Climate change and your insurance](#)

[Regulating title insurance](#)

[New laws and legislative priorities](#)

Quick links

Consumers	Agents & brokers	Insurance companies
Tips on shopping for insurance	Get a license	File your rates & forms
Avoid insurance scams	Renew your license	File, pay taxes & fees
More topics	More topics	More topics

Latest news

December 22, 2008 [Notice: Hearing scheduled on sale of National Merit to Trinity Universal](#)

December 15, 2008 [Check your insurance to make sure you're covered during the holidays](#)
Quick tips to avoid holiday mishaps

[More news](#)

News Release

Mike Kreidler
Washington Insurance Commissioner
Web page: www.insurance.wa.gov

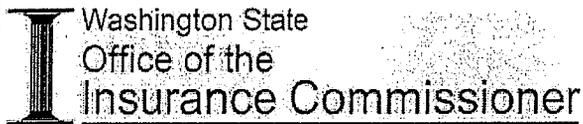
For More Information, Contact:
Public Affairs: (360) 725-7055
Office of Insurance Commissioner

12/22/2008

Notice: Hearing scheduled on sale of National Merit to Trinity Universal

Olympia, WA — The hearing is scheduled for noon on Jan. 9, 2009.

[More information](#)



National Merit sale

Trinity Universal Insurance Company wants to purchase the National Merit Insurance Company and is hoping to complete the sale by the end of 2008. Before the sale can be completed, the Insurance Commissioner must approve it.

Note: National Merit (in Bellevue, WA) is a wholly-owned subsidiary of the Direct Response Corporation of Meriden, CT. Trinity Universal is a wholly-owned subsidiary of Unitrin, Inc., a publicly held company located in Chicago.

What we look at

In all proposed sales, the companies must file an application (Form A) that details:

- Financial information for both companies.
- Who will operate the company at the highest levels.
- Their business plan.
- Market competition impacts.

Evaluation criteria

Under state law, the commissioner must approve the deal unless:

- It would substantially lessen competition or create a monopoly.
- The buyer's plans are unfair and unreasonable to the policyholders of the insurance company.
- The buyer isn't competent, honest or financially sound enough to run an insurance company.
- It is in some other way "hazardous or prejudicial to the insurance-buying public."

Status

In late September, we received the application (Form A) from National Merit.

In mid-October, we requested additional information and received that information in **mid-November**.

On December 4, 2008, we deemed the application complete. A public hearing is scheduled for noon on **January 9, 2009**, to decide whether to approve the sale.

Questions?

Please contact our holding company manager, Ron Pastuch, at 360-725-7211.



Judicial Proceedings

A-B | C-D | E-F | G-I | J-L | M-O | P-R | S-T | U-V | W-Z

Note: The orders below are not official. You may request official copies from our Public Disclosure Office, 360-725-7003, or email: ericm@oic.wa.gov.

Name/Docket no.	Type of action	Status	Documents are in  PDF format
Matson, Melissa H. D04-191	Appeal OIC's Revocation of Insurance Agent's License	Final Order Terminating Proceedings, Stipulation and Consent Order entered 3/3/05	Final decision Order revoking license
Monumental General Casualty Company D06-199 OAH-2006-INS-0016	Appeal OIC's Proposed Consent Order/Fine	Matter Terminated	Final decision Proposed order
Mosely, Terrence G05-80	Failure of the Commissioner to Act	Closed	Final decision Demand for hearing
Nase, Daniel D03-0233	Request for hearing	Request for hearing denied	Order to dismiss Response to motion Motion to dismiss Order revoking license
National Merit Insurance Company, a subsidiary of Direct Response Corporation, proposed acquisition by Trinity Universal Insurance Company G08-0182	Acquisition & Disclaimer of Control	Hearing: 1/9/09 @ 12:00 p.m.	Notice of hearing Acquisition summary ltr Acquisition Overview Form A Org charts, ex a & c Stock purch agmt ex b Unredacted Ex b Unitrin proxy stmt ex d Form A response Unitrin 08 financial stmt Unitrin 07 financial stmt Unitrin 06 financial stmt Unitrin 05 financial stmt Unitrin 04 financial

			stmt Unitrin 03 financial stmt Unitrin 07 report ex g-1 Unitrin 06 report ex g-2 Trinity 07 combined stmt Trinity 07 annual stmt Trinity 06 combined stmt Trinity 06 annual stmt Trinity 05 combined stmt Trinity 05 annual stmt Trinity 04 combined stmt Trinity 04 annual stmt Trinity 03 annual stmt Trinity 03 combined stmt Trinity 02 annual stmt Trinity 02 combined stmt Connecticut 12-01-08 ltr
National Merit Insurance Company acquisition of control by JC Flowers II. L.P., and JCF DRC., L.P. G08-0016	Acquisition & control	Acquisition Granted	Order granting exemption: Metalmark Plymouth Rock Co Incorp Amended hearing notice Notice of hearing Form A Stock purchase agrmnt Amendment 1 Amendment 2 Amendment 3 Metalmark disclaimer Plymouth Rock disclaimer
National States Insurance Co. D06-122	Appeal OIC's Proposed Consent Order/Fine	Proceedings terminated	Final decision Notice of hearing Demand for hearing Notice of intent
North American Dealer Co-op (NADC) D07-149	Unauthorized Insurer; Unlicensed Agents	Pending	Order on testimony Notice of hearing Demand for hearing Notice of intent



EXHIBIT "C"

West News

Washington To Hold Hearing on Purchase of National Merit Insurance

December 29, 2008

The Washington Office of the Insurance Commissioner announced it will holding a hearing at 12 p.m. on Jan. 9, 2009, to discuss the sale of Trinity Universal Insurance Co. to National Merit Insurance Co.

According to the OIC, National Merit in Bellevue, Wash., is a wholly-owned subsidiary of the Direct Response Corp. of Meriden, Conn. Trinity Universal is a wholly-owned subsidiary of Unitrin Inc., a publicly held company located in Chicago. In late September, the DOI received the application from National Merit for the purchase. The January public hearing, will help the Commissioner's office decide whether to approve the sale.

For information, visit www.insurance.wa.gov/insurers/national-merit-sale.shtml.

Source: OIC

Find this article at:

<http://www.insurancejournal.com/news/west/2008/12/29/96601.htm>

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