

**AMENDED AND RESTATED**  
**ALTERNATIVE PLAN OF CONVERSION OF**  
**SAUCON MUTUAL INSURANCE COMPANY**

~~On August 27~~ On February 4, 2014 2015, the Board of Directors of Saucon Mutual Insurance Company ("Saucon Mutual") will consider this Amended and Restated Alternative Plan of Conversion of Saucon Mutual Insurance Company (the "Plan").

On August 27, 2014, the Board of Directors of Saucon approved an Alternative Plan of Conversion of Saucon Mutual Insurance Company (the "Original Plan"). The Original Plan was filed with the Pennsylvania Department of Insurance (the "Department") on September 2, 2014. The Department has not yet approved the Original Plan. By letter dated January 12, 2015, the Department provided a list of additional items necessary to the review of the filing of the Original Plan. The Plan, if duly approved by the affirmative vote of two-thirds of the directors of Saucon Mutual then in office, will amend and restate the Original Plan.

**I. THE APPLICATION**

If the Plan is adopted by the Board of Directors of Saucon Mutual, Saucon Mutual will file an application containing this Plan with the ~~Pennsylvania~~ Department of Insurance (the "Department") on or about ~~September 2~~ February 6, 2014 2015, which is within ninety (90) days after adoption of the Plan by the Board of Directors of Saucon Mutual and before the vote on the approval of the Plan by the mutual company's Eligible ~~Policyholders~~ Members (defined in Section III.A below). The application will contain the following:

- (1) the Plan;
- (2) a form of ~~policyholder member~~ information statement satisfying the requirements of 40 P.S. § 913-A(f) (the "~~Policyholder Member~~ Information Statement");
- (3) the form of proxy to be solicited from Eligible ~~Policyholders~~ Members;
- (4) the proposed amended articles of incorporation and bylaws of the converted ~~stock insurance~~ company;
- (5) a copy of a formal request that the Department approve "Saucon Insurance Company" as the intended name of the converted insurance company;
- ~~(5)~~(6) an acquisition of control statement as required by Section 1402 of the Insurance Company Act of 1921, as amended (the "Form A");
- ~~(6)~~(7) a Fairness Opinion prepared by Boenning & Scattergood;
- ~~(7)~~(8) the articles of incorporation and proposed bylaws of the holding company;
- ~~(8)~~(9) the form of shareholder agreement for the holding company; ~~and~~

~~(9)(10)~~ a list of the current directors of Saucon Mutual.

~~Upon the filing of the Application, Saucon Mutual shall send a notice to each Eligible Policyholder (at that policyholder's address appearing on the records of Saucon Mutual), which will: (i) advise each Eligible Policyholder of the adoption of this Plan, (ii) advise each Eligible Policyholder of the filing of this Plan with the Department, (iii) notify each Eligible Policyholder of his or her right to provide comments on this Plan to the Department and to Saucon Mutual, (iv) advise each Eligible Policyholder of the procedure to be followed in providing comments on this Plan, and (v) disclose to such Eligible Policyholder that the initial Plan is not the final approved Plan and that the Department's approval, if any, of the final Plan does not constitute or imply endorsement of this Plan or the Conversion by the Department.~~



## **II. BACKGROUND & BUSINESS PURPOSE**

### **A. Factual Background**

Saucon Mutual was incorporated in Pennsylvania on May 3, 1832 as the Farmers Fire Insurance Company of Upper and Lower Saucon Townships. It began business in 1832 and has operated as a property insurance company for over 180 years. It is approved to write homeowners and dwelling property coverages, and maintains perpetual and non-perpetual policies for these programs. Saucon Mutual does not have any assessment provisions or any participating policies that provide for a right to receive dividends. As of August 27, 2014 (the Record Date selected by Saucon Mutual's Board of Directors), Saucon Mutual ~~has had~~ approximately three hundred and ninety-four (394) ~~policyholders~~policies in force.

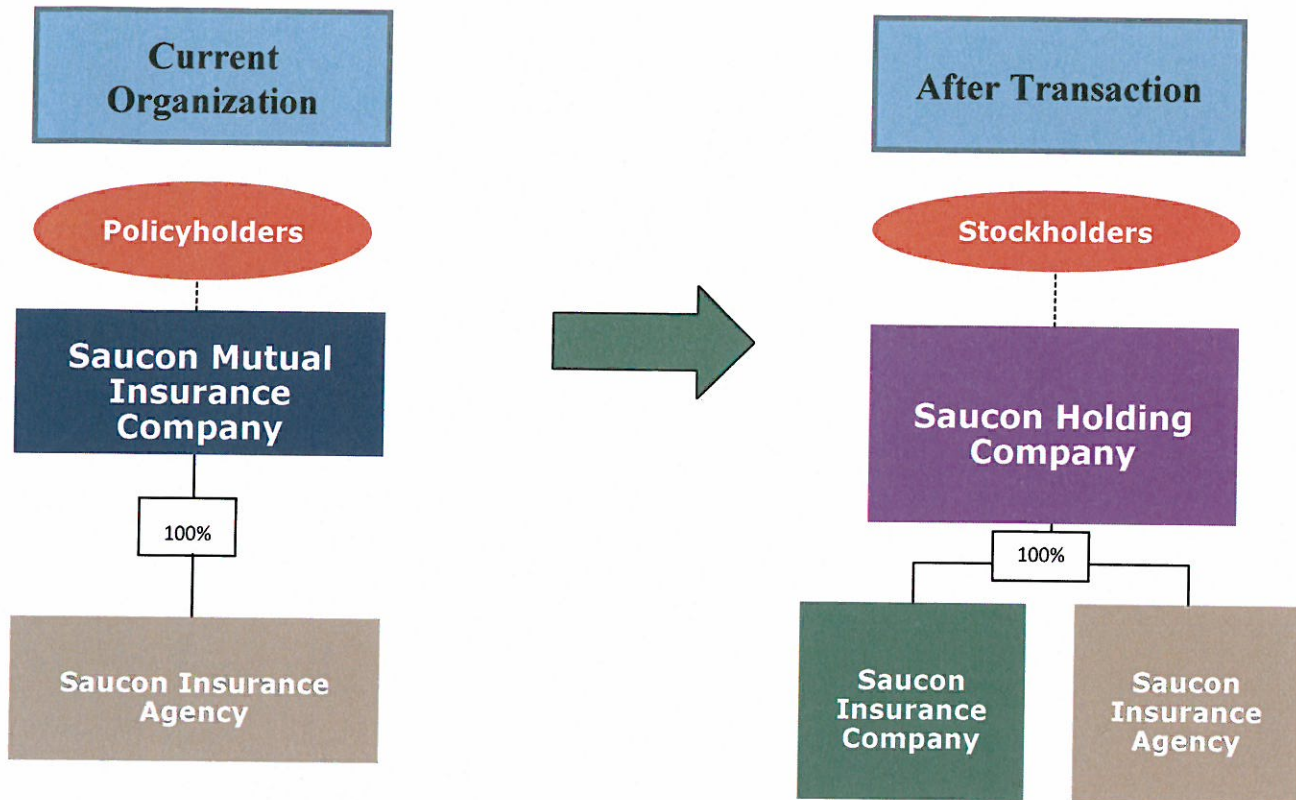
In 1991, Saucon Mutual organized Saucon Insurance Agency, Inc. (the "Agency") as a wholly-owned subsidiary. The Agency is an independent insurance agency that sells automobile insurance, homeowners insurance, business insurance and other insurance. The Agency also offers employee benefits consulting. Saucon Mutual reports the 100% of the capital stock of the Agency that it owns on its balance sheet as an asset with a value of \$1.00.

Saucon Mutual has written very few new insurance policies since 2005. Although Saucon Mutual maintains a level of surplus that satisfies relevant legal requirements, it has only four employees and believes that it does not presently have the infrastructure that would enable it to successfully resume the underwriting of new insurance policies.

Since its organization, Saucon Mutual has been organized according to the mutual principle. For the reasons described in Section II.C, the Board of Directors of Saucon Mutual has determined that it is in the best interest of the company and its ~~policyholders~~members to convert into a stock insurance corporation.

### **B. Conversion of Saucon Mutual**

The Board of Directors of Saucon Mutual by approving this plan, will approve a series of transactions that will convert Saucon Mutual into a stock corporation, all of the capital stock of which would be held by a newly-organized stock holding corporation, and all of the capital stock of that stock holding corporation in turn would be held by investors in a stock offering that will be conducted concurrently with the conversion of Saucon Mutual (the "Conversion"). The term "Converted Insurance Company", as used in this Plan, means the stock insurance company into which Saucon Mutual will be converted upon the Conversion, which will be called "Saucon Insurance Company."



To accomplish the Conversion, the following steps will occur:

1. Creation of Holding Company Saucon Holding Company (“Saucon Holding”) has been organized as a Pennsylvania stock corporation for the purpose of becoming the holding company of the Converted Insurance Company. The articles of incorporation of Saucon Holding have been filed with the Pennsylvania Department of State, but Saucon Holding has not yet and prior to the closing of the Conversion will not have issued stock, elected any directors or officers, or engaged in any business activities. The Articles of Incorporation of Saucon Holding are attached hereto as Exhibit A, and the Bylaws of Saucon Holding are attached hereto as Exhibit B. Upon the Conversion, all individuals who are then directors of Saucon Mutual will also become directors of Saucon Holding in addition to continuing to serve as directors of the Converted Insurance Company.
2. Subscription Agreements For Saucon Holding Stock. On the Effective Date (defined in Section II.D below), Saucon Holding will enter into subscription agreements with certain investors under which those investors will subscribe for Saucon Holding’s capital stock as described in Section V. Upon the Conversion, Saucon Holding will become the sole stockholder of the Converted Insurance Company, and the investors who enter into these subscription agreements with Saucon Holding will acquire and become the holders of all of Saucon Holding’s capital stock. Those investors will also enter into the shareholder agreement of Saucon Holding in the form attached to the application.



3. Amendment to Articles of Incorporation. On the Effective Date, the Articles of Incorporation of Saucon Mutual will be amended and restated in the form attached hereto as Exhibit C to reflect the conversion of the Saucon Mutual into a stock corporation, which will include a company name change to “Saucon Insurance Company.” Saucon Mutual is concurrently formally requesting that the Department approve “Saucon Insurance Company” as the intended name of the converted insurance company.

4. Issuance and Sale of Converted Insurance Company’s Capital Stock. On the Effective Date, ~~one thousand shares of capital stock of the~~ Converted Insurance Company will issue and sell to Saucon Holding, and Saucon Holding will purchase from the Converted Insurance Company, constituting one thousand shares of the Converted Insurance Company’s capital stock, which will constitute all of the issued and outstanding shares of capital stock of the Converted Insurance Company, ~~will be issued to Saucon Holding~~ with the result that the Converted Insurance Company will become a wholly-owned subsidiary of Saucon Holding. Those authorized and outstanding shares will have a par value of \$950.00 per share. Saucon Holding will pay an aggregate purchase price of \$1,425,000 for those shares, with the result that the Converted Insurance Company’s issued and outstanding capital stock will have an aggregate par value of \$950,000.00, which is an amount sufficient to satisfy using a portion of the proceeds of the stock offering described in the preceding paragraph 2 to do so. The Converted Insurance Company will record the proceeds of that issuance and sale of the Converted Insurance Company’s ~~statutory minimum capital requirement~~ capital stock as follows: \$950,000 as paid-in capital (i.e., 1,000 shares times \$950.00 par value per share) and \$475,000 as paid-in surplus, with the result that the statutory minimum amounts of capital and of paid-in and contributed surplus for the Converted Insurance Company’s lines will have been satisfied.

5. Consideration. The Converted Insurance Company will pay and make available to each Eligible Member of Saucon Mutual ~~policyholder~~ the consideration described in Section IV.A. below (which payments will be in the aggregate amount of ~~\$1,052,973~~ approximately \$1,064,788, assuming a closing date of June 30, 2015), and will also make a \$1,000,000 contribution to the Lehigh Valley Community Foundation as described in Section IV.C. below.

6. Transfer of the Agency. Saucon Holding will also become the direct sole stockholder of the Agency immediately after the amendment of Saucon Mutual’s Articles of Incorporation. The Converted Insurance Company will distribute to Saucon Holding (as its sole stockholder) all of the issued and outstanding capital stock of the Agency. As a result of that distribution, Saucon Insurance Agency will become a wholly-owned direct subsidiary of Saucon Holding and a sister corporation (not a subsidiary) of the Converted Insurance Company.

The Conversion is subject to provisions of the Insurance Company Mutual-to-Stock Conversion Act, 40 P.S. §§ 911-A et seq. (the “Conversion Act”), the Pennsylvania Business Corporation Law, other applicable Pennsylvania laws, and the policies of the Pennsylvania Insurance Department (“Department”). This Plan is an “alternative plan of conversion” within the meaning of 40 P.S. § 917-A. This Plan and the transactions contemplated hereby are further subject to the approval of the Department. Additionally, the Plan must be approved by the affirmative vote of at least two-thirds of the votes cast at a meeting of Eligible ~~Policyholders~~ Members of Saucon Mutual called for the purpose of considering and voting upon the Plan as described in Section VII below.



### C. Reason for Conversion

Saucon Mutual's Board of Directors has determined that the Conversion provides a unique opportunity to achieve several objectives: (i) rewarding ~~policyholders~~ members for their loyalty to the company; (ii) making a charitable contribution in furtherance of the company's ongoing commitment to the community; (iii) modernizing the company's governance structure; (iv) enabling the issuance of stock and other financial instruments in order to raise capital, to facilitate potential acquisitions of other businesses, and to incentivize employees; (v) preparing the company to re-enter the insurance underwriting business; and (vi) maintaining the independence of the company.

### D. Effective Date

The effective date of the Conversion (the "Effective Date") will be the date that the Amended Articles of Incorporation are filed in the office of the Department of State of the Commonwealth of Pennsylvania or such later date as may be specified in the Amended Articles. On the Effective Date, the corporate existence of Saucon Mutual will continue as the Converted Insurance Company. Saucon Mutual seeks to file the Articles of Incorporation, and therefore close the Conversion, ~~no later than December 31, 2014~~ as promptly as practical after the Plan has been duly approved by the Department and by the Eligible Members.

## III. ~~ELIGIBLE POLICYHOLDERS~~ MEMBERS

### A. Definition of Eligible ~~Policyholder~~ Member

All ~~policyholders~~ members of Saucon Mutual as of August 27, 2014 (the "Record Date") will be considered ~~"Eligible Policyholders" and/or "Eligible Members"~~ of Saucon Mutual. The Record Date is the date that the Original Plan was approved by the Board of Directors. Saucon Mutual has not issued any new policies since August 27, 2014 and will not issue any new policies between ~~the date that the Plan was approved by the Board of Directors that date~~ and the closing date of the Conversion or the abandonment of the Plan. All Saucon Mutual ~~policyholders~~ members as of the Record Date will be eligible to receive the compensation described in Section IV and will be entitled to vote on the Plan pursuant to Section VII.

### B. ~~Policyholder~~ Member Verification Process

Saucon Mutual conducted due diligence to verify its ~~policyholder~~ member list. As part of this project, former ~~policyholders~~ members whose policies were no longer active as of the Record Date, such as ~~policyholders~~ members who no longer qualified for coverage, were removed from the ~~policyholder~~ member list.

Saucon's process included preparing a list of all issued policies that have not been affirmatively terminated. From that list Saucon removed those policies where the ~~policyholders~~ members' right to coverage has been established through affirmative contact with the ~~policyholder~~ member within the past year. All ~~policyholders~~ members remaining on the list received a "Continuing Coverage Survey" by certified mail, return receipt requested to the ~~policyholders~~ members' last known addresses in Saucon Mutual's records. ~~Policyholders~~ Members' responses to those surveys enabled Saucon Mutual to identify policies that should either remain in place or be cancelled. For policies that are to be cancelled,



appropriate notices under Act 205 have been or will be sent where the insured has not independently confirmed the right to termination. Any ~~policyholder member~~ receiving a cancellation notice will remain eligible for a cash distribution if the thirty (30) day notice period has not expired prior to the Record Date, or the ~~policyholder member~~ files an appeal of the cancellation under Act 205. For those ~~policyholders members~~ whose right to ongoing coverage could not be verified by affirmative contact or through the Continuing Coverage Survey process, Saucon Mutual has attempted or will attempt to identify those ~~policyholders members~~ through: (a) searches of public records and property inspections / surveys to confirm the name and address of the individuals; (b) running advertisements in two (2) newspapers of major circulation within Saucon Mutual's underwriting territory for a period of one week, notifying all ~~policyholders members~~ of the surveys and encouraging them to contact Saucon directly; and (c) placing a notice on Saucon Mutual's website that is consistent with the newspaper advertisement and including copies of the Continuing Coverage Survey, and a method for ~~policyholders members~~ to return the surveys electronically, by mail, or facsimile.

For policies that Saucon Mutual could not verify its obligation to provide continuing coverage through the methods described above, Saucon Mutual will allow the policies to remain in place with any cash payment that would be due in connection with the Conversion escheating to the Commonwealth of Pennsylvania.

#### **IV. COMPENSATION TO ~~POLICYHOLDERS~~MEMBERS**

##### **A. Description of Cash and Other Consideration to ~~Policyholders~~Members**

All Eligible ~~Policyholders~~Members are entitled to the compensation described in this Plan if the Conversion is effectuated. The compensation package that an Eligible ~~Policyholder~~Member will receive will depend on whether it maintains a perpetual or non-perpetual insurance policy. Perpetual policies are written to have no term, or date, when the policy expires. From the policy's effective start date, the coverage will exist in perpetuity so long as the conditions of the policy continue to be satisfied. The insured deposits money, called a deposit premium, with the insurer for insurance for the life of the risk. Saucon Mutual also issues policies that do have a set date when the policy expires, these are referred to in this Plan as non-perpetual policies.

##### **1. Compensation for Eligible ~~Policyholders~~Members Who Hold Perpetual Policies**

A. *Cash Payment.* A cash payment ~~equal to the~~ computed by multiplying (i) the actual number of years-calendar days that the policy had been in effect from its issuance until the closing date of the Conversion, multiplied by (ii) \$60 (for 0.1644 per day, then rounding that amount to the nearest whole dollar. For example, a member who is a perpetual policyholder whose policy had been in effect for 10 years (i.e., 3650 days) would receive a cash payment of \$600; and a member who is a perpetual policyholder whose policy had been in effect for 10 years plus 120 days (i.e., 3770 days) would receive a cash payment of \$620. The aggregate amount of cash payments to all members who are perpetual policyholders under this paragraph 1.A. will be \$693,195,704,249, assuming a closing date of June 30, 2015.



B. *Return of Deposits.* A return of 15% of the Eligible ~~Policyholder's~~ Member's deposits held by Saucon Mutual, if any. The aggregate amount of deposits to be returned to members who are perpetual policyholders under this paragraph ~~1.B.~~ will be approximately \$340,037,340,000, less any deposits that are returned before the closing in accordance with policy terms.

~~C. — *Amendment to Policy.* Many of the perpetual insurance policies issued by Saucon Mutual have an “Annual Adjustment of Limits” endorsement or “Automatic Increase in Insurance” endorsement (collectively, the “Inflation Adjustment Endorsement(s)”).~~ Saucon Mutual's Inflation Adjustment Endorsements are designed to provide policyholders with protection from inflation by increasing the limits of liability for certain coverages provided under policy. If a perpetual insurance policy has an Inflation Adjustment Endorsement, the maximum amount that the policyholder could receive under the policy by reason of an insured loss would increase over time.

~~Currently, with respect to perpetual insurance policies that have Inflation Adjustment Endorsements:~~

- ~~• The perpetual policyholder is charged an additional deposit annually for the increase in policy limits (with limited exceptions); and~~
- ~~• The increase in policy limits is based on a fixed percentage.~~

~~After the Conversion, and effective with respect to each perpetual policy on the next annual anniversary of the date of issuance of the perpetual policy in question that follows the closing of the transactions contemplated by the Plan, the Converted Insurance Company will implement the following changes with respect to perpetual insurance policies that have an Inflation Adjustment Endorsement:~~

- ~~• The perpetual policyholder will no longer be charged an additional deposit for the increases in policy limits; and~~
- ~~• The increases in policy limits will be based on a rate determined by an index prepared by a third party that estimates replacement cost inflation. Saucon Mutual anticipates that this flexible rate will more accurately track inflation as it relates to the repair/reconstruction of an insured property subject to a loss. Also, if it is determined by a third party survey/inspection service that the limits of liability are too high for certain coverages, the limits will be reduced.~~

C. *Removal of Charges for Increases in Policy Limits Under Inflation Adjustment Endorsements.* Many of the perpetual insurance policies issued by Saucon Mutual have inflation adjustment endorsements, which are either “Annual Adjustment of Limits” endorsements or “Automatic Increase in Insurance” endorsements. Those endorsements generally cause the policy limit of the perpetual policy to be increased each year due to inflation, but they generally require the perpetual policyholder to pay an additional annual deposit to Saucon Mutual because of that increase in the policy limit. After the Conversion, the Converted Insurance Company will discontinue its practice of requiring holders of those perpetual policies to pay those additional annual deposits, commencing on the annual anniversary of the date of issuance of that perpetual policy that follows the closing date of the Conversion.



2. Compensation for Eligible ~~Policyholders~~ Members Who Hold Non-Perpetual Policies

~~A. Cash payment~~ Payment. A cash payment equal to the sum of:

- ~~The A cash payment computed by multiplying (i) the actual number of years calendar days that the non-perpetual policy had been in effect (including all renewals) from its issuance until the closing of the Demutualization Transactions, multiplied by \$60; (for example, a non-perpetual policy that date of the Conversion, by (ii) \$0.1644 per day, then rounding that amount to the nearest whole dollar. For example, a member who is a non-perpetual policyholder whose policy had been issued and then renewed from time to time for a total period of 10 years (i.e., 3650 days) as of the closing date would receive a cash payment of \$600); and a member who is a non-perpetual policyholder whose policy had been issued and then renewed from time to time for a period of 10 years plus 120 days (i.e., 3770 days) as of the closing date would receive a cash payment of \$620. The aggregate amount of cash payments to all members who are non-perpetual policyholders under this paragraph would be \$17,990~~ will be \$18,739, assuming a closing date of June 30, 2015; plus
- An additional one-time cash payment equal to 15% of the current premium of the policy. The aggregate amount of cash payments ~~the to~~ to be made to members who are non-perpetual policyholders under this paragraph would be approximately \$1,751,800.

~~B. — Amendment to Policy. Many of the non-perpetual insurance policies have Inflation Adjustment Endorsements which provide policyholders with protection from inflation by annually increasing the limits of liability for the policy. This means that if a non-perpetual insurance policy has such an endorsement, the maximum amount that the policyholder could receive under the policy by reason of an insured loss would increase over time.~~

~~Currently, with respect to non-perpetual insurance policies that have an Inflation Adjustment Endorsement, the increase in policy limits is based on a fixed percentage.~~

~~After the Conversion, and effective with respect to each non-perpetual policy on the next renewal date of the non-perpetual policy in question that follows the closing of the transactions contemplated by the Plan, with respect to non-perpetual insurance policies with Inflation Adjustment Endorsements, the increases in policy limits will be based on a rate determined by an index prepared by a third party that estimates replacement cost inflation. Saucon Mutual anticipates that this flexible rate will more accurately track replacement cost inflation. Also, if it is determined by a third party survey/inspection service that the limits of liability are too high for certain coverages, the limits will be reduced.~~

3. Aggregate Payments to ~~Policyholders~~ Members

The aggregate amount of the payments to ~~policyholders~~ members described in paragraphs IV.A.1.A, IV.A.1.B and IV.A.2.~~A~~ above will be ~~\$1,052,973~~ approximately \$1,064,788, assuming a closing date of June 30, 2015.



#### 4. Payment Procedure

Eligible ~~Policyholders~~ Members of Saucon Mutual will receive a check issued by the Converted Insurance Company in the amounts described in clauses 1.A and 1.B, or ~~2.A~~, as applicable, as promptly as practicable after the Effective Date.

##### **B. No Subscription Rights**

No Saucon Mutual ~~policyholder~~ member, in its capacity as such, will be entitled, as part of or as a result of the Conversion, to receive any subscription right to purchase any of the capital stock of the Converted Insurance Company or to purchase any of the capital stock of any other corporation. No director or officer of Saucon Mutual will receive any subscription rights to purchase the capital stock of the Converted Insurance Company. However, the directors and officers of Saucon Mutual are being offered the right to purchase capital stock of Saucon Holding as described in Section V below.

##### **C. Charitable Contribution**

On the Effective Date, the Converted Insurance Company will make a \$1,000,000 contribution to the Lehigh Valley Community Foundation, which is to be used to establish the “Saucon Insurance Company Foundation Fund.” The Lehigh Valley Community Foundation is a philanthropic foundation established in 1967 that promotes and encourages philanthropy in the Lehigh Valley region. Bernard J. Story, the President and CEO of the Lehigh Valley Community Foundation, is a member of the board of directors of Saucon Mutual, but will receive no compensation directly tied to the Converted Insurance Company’s contribution. The Lehigh Valley Community Foundation will be entitled to receive a fee for maintaining the Saucon Insurance Company Foundation Fund. Saucon Mutual determined that the contribution to the Lehigh Valley Community Foundation was more cost-effective and straightforward than establishing a de novo foundation.

The Lehigh Valley Community Foundation will make disbursements from that fund from time to time for charitable purposes in accordance with recommendations made by the contribution committee of the Converted Insurance Company’s board of directors. The members of that contribution committee will not receive compensation for serving on that committee or attending its gift recommendation meetings.

#### **V. STOCK OFFERING OF SAUCON HOLDING**

##### **A. Saucon Holding**

Concurrently with the other transactions contemplated by the Conversion, Saucon Holding will issue and sell shares of its common stock to investors in accordance with the following stock offering plan which has been approved by the Board of Directors of Saucon Mutual (the “Stock Offering”):

1. The investors will be the eight members of the board of directors and a ninth individual who is a member of management of Saucon Mutual. Those individuals have given to Saucon Mutual non-binding expressions of their interest in purchasing all of the Saucon Holding shares that are being offered. The limitation of the scope of the offerees



who may participate in the Stock Offering helps to minimize the costs and expenses of the Stock Offering and to enable Saucon Holding to avoid incurring the costs and expenses of registering under federal and state securities laws and operating as a public company.

2. Among those nine investors, three have indicated an interest in acquiring more than 10% of the Saucon Holding shares. Accordingly, those investors are filing a Form A with the Department concurrently with the filing of this Plan. Saucon Mutual expects that those three investors will acquire, in the aggregate, approximately 91% of the Saucon Holding shares that will be offered, and the other six investors will acquire, in the aggregate, the remaining Saucon Holding shares that will be offered. If for any reason any of the six smaller investors fails to purchase at closing the number of Saucon Holding shares that they had indicated an interest in purchasing, it is expected that those shares will be re-allocated among the other investors—each of the largest three investors has indicated a readiness to purchase additional Saucon Holding shares if they became available at closing. For this reason, Saucon Mutual has a high degree of confidence that all of the Saucon Holding shares that will be offered in the Stock Offering will be purchased by the investors, in the aggregate, at the closing.

3. The Stock Offering will consist of the issuance and sale of 3,250,000 shares of Saucon Holding's common stock, par value \$0.01 per share, at a purchase price of \$1.00 per share. The Saucon Holding shares will be issued and sold to the investors described above on the Effective Date. As a result, Saucon Holding will receive \$3,250,000 in gross proceeds from the Stock Offering.

4. The closing of the Stock Offering will be effected by (i) each investor entering into a binding subscription agreement with Saucon Holding dated as of the Effective Date with respect to the shares that the investor is subscribing for and purchasing, and (ii) that investor delivering to Saucon Holding the purchase price for those shares. In addition, simultaneously with the closing of the Stock Offering, each of the investors will enter into Saucon Holding's ~~shareholder~~ shareholders agreement, the form of which is attached hereto as Exhibit D. The closing of the Stock Offering and the receipt by Saucon Holdings of the \$3,250,000 aggregate subscription amounts from the investors are conditions precedent to the effectiveness of the Conversion.

5. Saucon Holding will use the proceeds of the Stock Offering as follows: (i) Saucon Holding will purchase the capital stock of the Converted Insurance Company for \$1,425,000 which means that the Converted Insurance Company will receive that amount; (ii) Saucon Holding will pay the costs and expenses related to this Plan and the transactions contemplated hereby; and (iii) Saucon Holding will retain the balance of the proceeds as a cash reserve.

6. ~~5.~~ The closing of the Stock Offering and the issuance and sale of the Saucon Holding stock to the investors will occur simultaneously with the amendment to Saucon Mutual's Articles of Incorporation that effects the conversion of Saucon Mutual into a stock insurance corporation.



7. ~~6.~~ Because Saucon Holding will not have issued any shares before the Conversion, the shares being issued to the investors in the Stock Offering will be all of the outstanding shares of Saucon Holding capital stock on the Effective Date. As a result, immediately after the closing of the Conversion, the investors in the Stock Offering will in the aggregate own all of the outstanding capital stock of Saucon Holding.

Upon the Closing, as a result of the Stock Offering, and the other transactions contemplated under this Plan, the primary assets of Saucon Holding will be (i) the capital stock of the Converted Insurance Company, (ii) the capital stock of the Agency, and (iii) the remaining net proceeds of the Stock Offering.

The Converted Insurance Company's surplus will continue to be adequate even after the payments to ~~policyholders—members~~ in the aggregate amount of approximately \$1,052,973-1,064,788 (assuming a June 30, 2015 closing date) as contemplated under the Conversion and discussed in Section IV.A. of this Plan, the contribution of \$1,000,000 to Lehigh Valley Community Foundation as discussed in Section IV.C of this Plan, and the costs and expenses of the transactions contemplated under this Plan. ~~As a result, it is intended that the net proceeds of the Stock Offering be retained by Saucon Holding and not contributed to the Converted Insurance Company.~~

#### **B. No Stock Offering of Converted Insurance Company**

Other than the shares of capital stock of the Converted Insurance Company that are to be issued and sold to Saucon Holding on the Effective Date for a purchase price of \$1,425,000 in accordance with Section II.B above, it is not anticipated that the Converted Insurance Company will issue shares of capital stock. Any such issuance of shares of capital stock of the Converted Insurance Company will be done under such circumstances and at such times and for such consideration as the Board of Directors of the Converted Insurance Company may determine after the Effective Date.

### **VI. EFFECT OF CONVERSION ON THE POLICIES, POLICYHOLDERS' RIGHTS, AND COMPANY'S RIGHTS/OBLIGATIONS**

The insurance obligations of Saucon Mutual under any insurance policy issued or contract entered into by Saucon Mutual will not be changed, reduced or impaired and will continue to remain the insurance obligations of the Converted Insurance Company. ~~However, the policies will be amended in accordance with Section IV.A. Furthermore, except that~~ the following rights of policyholders will be extinguished at the effective time of the Conversion: (1) all voting rights provided under the Saucon Mutual policies, the Articles of Incorporation and Bylaws of Saucon Mutual; and applicable law; and (2) any right to share in the surplus of Saucon Mutual or of the Converted Insurance Company provided for under any of the Saucon Mutual policies. Because of ~~the amendments to the policies described in Section IV.A and the these~~ changes in the policyholders' rights, Saucon Insurance Company will prepare either new declarations and/or an amendatory endorsement for its insurance policies and will deliver them to the policyholders ~~as promptly as practicable~~ following the closing ~~of the Conversion~~.

With respect to the other rights and obligations of the Converted Insurance Company, on the Effective Date, all the property, real, personal and mixed, and franchises of Saucon Mutual, and all debts due on whatever account to it, including choses in action belonging to it, shall be deemed without



further action to be vested in and shall belong to the Converted Insurance Company, and the title to any real estate, or any interest therein, vested in Saucon Mutual shall not revert or be in any way impaired by reason of the Conversion. The Converted Insurance Company shall thenceforth be responsible for all of the liabilities of Saucon Mutual. Liens upon the property of Saucon Mutual shall not be impaired by the Conversion, and any claim existing or action or proceeding pending by or against Saucon Mutual may be prosecuted to judgment as if the Conversion had not taken place, but the Converted Insurance Company may be proceeded against or substituted in its place. Any taxes, interest, penalties and public accounts of the Commonwealth of Pennsylvania claimed against Saucon Mutual that are settled, assessed or determined prior to, concurrently with or after the Conversion shall be the liability of the Converted Insurance Company and, together with interest thereon, shall be a lien against the franchises and property, both real and personal, of the Converted Insurance Company.

## VII. SPECIAL MEETING OF ELIGIBLE ~~POLICYHOLDERS~~ MEMBERS

Following the ~~filing of the application with the Department as described in Section~~ Department's approval of the Plan, a special meeting to vote on this Plan shall be held by Saucon Mutual in accordance with its bylaws and applicable law (the "Special Meeting"). Notice of the Special Meeting will be given by Saucon Mutual to Eligible ~~Policyholders~~ Members by mailing: (i) a notice of the Special Meeting; (ii) a ~~Policyholder~~ Member Information Statement in the form attached to this application; (iii) a form of proxy in the form attached to this application authorized for use by the Department under which an Eligible ~~Policyholder~~ Member may vote in favor of the Conversion; and (iv) a copy of the Plan filed with the Department (those materials collectively "~~Policyholder~~ Member Information Package"). ~~The form of Member Information Package that has been attached to this application contains placeholders in place of the date of the Special Meeting, as the date of the Special Meeting will not be determined until after the Department approves the Plan.~~ These documents will be sent to each Eligible ~~Policyholder~~ Member at least thirty (30) days prior to the date of the Special Meeting. ~~Copies of the documents described in (i)-(iii) will be filed with and approved by the Department before they are sent to Eligible Policyholders.~~

~~Eligible Policyholders~~ Eligible Members may vote on the Plan in person at the Special Meeting or by proxy. In accordance with the bylaws of Saucon Mutual, each Eligible ~~Policyholder~~ Member may cast one vote. The Plan must be approved by the affirmative vote of at least two-thirds of the votes cast at a meeting of Eligible ~~Policyholders~~ Members of Saucon Mutual called for the purpose of considering and voting upon the Plan. In addition, the amended articles of incorporation of Saucon Mutual will be considered for adoption during the special meeting, and shall require the affirmative vote of two-thirds of the votes cast by Eligible ~~Policyholders~~ Members.

## VIII. INSURANCE DEPARTMENT APPROVAL

### A. Public Hearing

This Plan will be submitted to the Department, which may order a hearing on whether the terms of this Plan comply with Pennsylvania law, including the Conversion Act. If a hearing is ordered by the Department, it is required by law to give written notice to Saucon Mutual and other interested persons, all of whom have the right to appear at the hearing.



**B. Department Approval of Plan**

The Department will approve the Plan if the Department finds that the Plan does not prejudice the interests of the policyholdersmembers, is fair and equitable, and complies with the Conversion Act. Since subscription rights will not be issued, no determination by the Department will be required in connection therewith. ~~Saucon Mutual requests the Department's approval of the Plan prior to the Special Meeting of the Policyholder described in Section VII. Saucon Mutual anticipates that this Special Meeting will be scheduled to occur on or about November 25, 2014.~~

**C. Department Approval of Intended Name**

Saucon Mutual is requesting that the Department approve "Saucon Insurance Company" as the intended name of the converted insurance company.

**D. ~~C.Policyholder~~ Department Approval of Member Information Package Materials**

~~Saucon Mutual has targeted December 31, 2014 for the closing of the conversion. Given that timeline and Saucon Mutual's desire to give its Eligible Policyholders adequate time to consider the Plan, Saucon Mutual requests the Department's approval to send to the Eligible Policyholders the documentation described in Section VII above in advance of the Department's approval of the Plan. Saucon Mutual will notify its Eligible Policyholders in these documents that the Department has not yet approved the Plan of Conversion. The Special Meeting is anticipated to be scheduled on or about November 25, 2014. Saucon Mutual is required to give written notice of the Special Meeting to Eligible Policyholders at least 30 days in advance of the meeting date. Accordingly, Saucon Mutual requests that the Department approve Saucon Mutual's distribution to the Policyholders of the Policyholder Information Package by October 10, 2014. Saucon Mutual understands that if the Plan is materially amended, the Policyholder Information Package will have to be revised accordingly, and re-circulated to the Eligible Policyholders which may result in the need to reschedule or postpone the date of the Special Meeting.~~

Saucon Mutual requests that the Department approve the Member Information Package described in Section VII above so that, as promptly as practicable following the Department's approval of the Plan, Saucon Mutual may call and hold a special meeting of the Eligible Members to approve the Plan.

**E. ~~D.~~ Department Approval of Form A**

As part of the proposed conversion, Saucon Holding Company, Brian T. Regan, Michael G. Crofton, and Martin C. Gilchrist (the "Applicants") will acquire "control" of the Converted Insurance Company. ~~A~~ An Amended and Restated Form A for this change in control ~~will be~~ was submitted to the Department together with the submission of this Plan as part of the application described in Section I. Saucon Mutual requests that the Department approve the Form A.

**F. ~~E.~~ Notice of Dividend or Other Distribution**

Immediately after the filing of the amendment to the Articles of Incorporation that converts Saucon Mutual into the Converted Insurance Company, the Converted Insurance Company will distribute to Saucon Holding (as its sole stockholder) all of the capital stock of the Agency as described



in Section II.B.6. This will result in Saucon Holding, rather than the Converted Insurance Company, becoming the direct sole stockholder of the Agency. The capital stock of the Agency is booked on Saucon Holding's balance sheet at \$1.00. The distribution of the Agency stock by the Converted Insurance Company to Saucon Holding will not be an extraordinary dividend as the value of the stock to be distributed (\$1) is less than ten percent (10%) of Converted Insurance Company's surplus as shown on its last annual statement (\$16,434,269) or its net income as shown on such statement (\$295,226). Neither the Converted Insurance Company nor Saucon Mutual will have made any other dividends within the 12-month period preceding this distribution. In accordance with 40 P.S. § 991.1404(e), Saucon Mutual hereby provides notice to the Department of this dividend from the Converted Insurance Company to Saucon Holding.

### **IX. POLICIES ISSUED AFTER ADOPTION OF PLAN**

Saucon Mutual will not issue any insurance policies between the date that its Board of Directors adopts this Plan and the earlier of (i) the Effective Date or (ii) the abandonment of this Plan in accordance with the Conversion Act. Accordingly, no notices contemplated under Section 40 P.S. § 913-A(b)(4) of the Conversion Act will be given.

### **X. ARTICLES OF INCORPORATION & BYLAWS OF THE CONVERTED INSURANCE COMPANY**

Concurrently with the closing of the Conversion, the Articles of Incorporation of Saucon Mutual will be amended and restated in the form attached hereto as Exhibit C in order to change the name of the Converted Insurance Company to "Saucon Insurance Company" and for other purposes, and will thereafter be the Articles of Incorporation of the Converted Insurance Company unless and until amended, restated or superseded in accordance with applicable law. The amendment to the articles of incorporation will be submitted to Saucon Mutual's ~~policyholders~~ members for approval in accordance with 40 P.S. § 913-A(h), as described in Section VII above.

The Articles of Incorporation of the Converted Insurance Company will provide for 1,000 authorized shares of capital stock, par value \$950.00 per share. The Converted Insurance Company will issue and sell those 1,000 authorized shares ~~will be issued to and held by Saucon Holding. Accordingly, the Converted Insurance Company's issued and outstanding capital stock will have an aggregate par value of \$950,000.00, which is an amount sufficient to satisfy~~ to Saucon Holding for an aggregate purchase price of \$1,425,000. The Converted Insurance Company will record proceeds of that issuance and sale of its capital stock as follows: \$950,000 as paid-in capital (i.e., 1,000 shares times \$950.00 par value per share) and \$475,000 as paid-in surplus, with the result that the statutory minimum amounts of capital and of paid-in and contributed surplus for the Converted Insurance Company's ~~statutory minimum capital requirement~~ lines will have been satisfied.

Concurrently with the closing of the Conversion, the Bylaws of Saucon Mutual will be amended and restated in the form attached hereto as Exhibit E and will thereafter be the Bylaws of the Converted Insurance Company unless and until amended, restated or superseded in accordance with applicable law. The Bylaws of the Converted Insurance Company will provide for term limits and other qualification requirements that are substantially the same as those that are presently applicable to the board of directors of Saucon Mutual. However, the closing of the Conversion will result in the "reset" of term



limits so that all directors of the Converted Insurance Company will be considered to be serving their first term. Furthermore, the Bylaws of the Converted Insurance Company establish a contribution committee of the board of directors that will make recommendations regarding distributions from the Saucon Insurance Company Foundation Fund. Members of the contribution committee will not be compensated for their services on that committee. Finally, the minimum number of directors on the Audit Committee and the Nominating and Compensation Committee will be reduced from 3 to 2 directors.

## **XI. DIRECTORS & OFFICERS**

The directors and officers of Saucon Mutual immediately prior to the Effective Date will continue to serve as the directors and officers of the Converted Insurance Company. As of the date that this Plan was adopted, the directors and officers of Saucon Mutual were the individuals identified in the form attached hereto as Exhibit F. For purposes of staggering their three-year terms of office, the bylaws of the Converted Insurance Company divide the Board of Directors into three classes. Exhibit F identifies each director's class and the year that the director's term will expire. Each director will remain in the same class, as a director of the Converted Insurance Company, as he or she was in as a director of Saucon Mutual. As a result, the expiration date of the term of office of each director of the Converted Insurance Company will be the same date that the director's current term of office would have expired had the conversion not taken place. Effective as of the Effective Date, the membership of committees of the Converted Insurance Company's board of directors will be adjusted so as to ensure that each committee's membership includes the requisite proportion of independent directors. Exhibit F also identifies the independent directors of the Converted Insurance Company's board of directors, and the members of its Audit Committee and its Nominating and Compensation Committee, as of the Effective Date.

## **XII. CONTINUED OPERATIONS OF THE CONVERTED INSURANCE COMPANY**

The Converted Insurance Company will remain an insurance company insuring homeowners and dwelling property coverage, domiciled in the Commonwealth of Pennsylvania.

## **XIII. INTERPRETATION, AMENDMENT, AND TERMINATION OF THE PLAN**

### **A. Amendment and Restatement of the Original Plan**

Upon the adoption of this Plan by the Board of Directors of Saucon Mutual, the Original Plan is hereby deemed to have been amended and restated in its entirety in the form hereof.

### **B. ~~A.~~ Interpretation of the Plan**

Subject to the Conversion Act, other applicable law and orders of the Department, the Chief Executive Officer of Saucon Mutual or his designee shall have the power to interpret and construe this Plan and to determine all questions of eligibility, status and rights of policies, policyholders, members and others. It is recognized that unforeseen circumstances may occur and questions may arise which are not specifically covered by any provision of this Plan or applicable law, and the Chief Executive Officer of Saucon Mutual or his designee shall have the power and authority to resolve such questions. The determination of the Chief Executive Officer of Saucon Mutual or his designee in all matters within his



province shall be binding and conclusive upon Saucon Mutual, its members, and the Converted Insurance Company and its policyholders. ~~The Chief Executive Officer may also make such additions, changes or modifications to this Plan as he deems necessary, appropriate or convenient, consistent with the Conversion Act, other applicable law and orders of the Department.~~

**C. ~~B.~~ Amendment**

This Plan may be amended, as follows:

1. Before Approval by the Department This Plan may be amended at any time before it is approved by the Department by the affirmative vote of not less than two-thirds of the directors of Saucon Mutual then in office.
2. After Approval by the Department. This Plan may be amended at any time after its approval by the Department by the affirmative vote of not less than two-thirds of the directors of Saucon Mutual then in office; provided, however, that any such amendment also shall be subject to approval by the Department.
3. After Approval by the Eligible ~~Policyholders~~ Members. This Plan may be amended at any time after its approval by the Eligible ~~Policyholders~~ Members and prior to the Effective Date by the affirmative vote of not less than two-thirds of the directors of Saucon Mutual then in office; provided, however, that any such amendment also shall be subject to approval by the Department; and provided further that, if such amendment is determined by the Department to be material, such amendment shall be subject to approval by the affirmative vote of at least two-thirds of the votes cast at a meeting of the Eligible ~~Policyholders~~ Members called for that purpose.

**D. ~~C.~~ Termination**

This Plan may be terminated at any time before the Effective Date by the affirmative vote of not less than two-thirds of the directors of Saucon Mutual then in office.

**E. ~~D.~~ Binding Upon Eligible ~~Policyholders~~ Members**

By approving this Plan, the Eligible ~~Policyholders~~ Members of Saucon Mutual authorize the amendment and termination of this Plan in accordance with Section XIII.



IN WITNESS WHEREOF, Saucon Mutual Insurance Company has caused this Plan to be  
| executed as of ~~27th~~ this 4th day of ~~August~~ February, ~~2014~~ 2015.

By: \_\_\_\_\_  
Stephen Bajan, Chief Executive Officer

By: \_\_\_\_\_  
Phillip Bell, Secretary



**CERTIFICATION OF CORPORATE SECRETARY**

I, Phillip Bell, Secretary for Saucon Mutual Insurance Company, certify that on the ~~27<sup>th</sup>~~4<sup>th</sup> day of ~~August~~February, ~~2014~~2015, the Board of Directors for Saucon Mutual, by unanimous consent of its members, found the Plan of Conversion above to be fair and equitable, consistent with the requirements of the Conversion Act, and in the best interests of Saucon Mutual, and adopted the Plan.

By: \_\_\_\_\_

Phillip Bell, Secretary