

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

~~On February 4~~ On April 27, 2015, the Board of Directors of Saucon Mutual Insurance Company (“Saucon Mutual”) will consider this Second Amended and Restated Alternative Plan of Conversion of Saucon Mutual Insurance Company (the “Plan”).

**I. PROCEDURAL BACKGROUND**

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. On February 4, 2015, the Board of Directors of Saucon Mutual unanimously approved an Amended and Restated Alternative Plan of Conversion of Saucon Mutual Insurance Company (the “Interim Amended Plan”) to address those items. The Interim Amended Plan amended and restated the Original Plan in its entirety. The Department has not yet approved the Interim Amended Plan.

Subsequently, during April 2015, Saucon Mutual’s management and counsel discussed the proposed transactions contemplated by the Interim Amended Plan with the Department. The Plan is being presented to the Board of Directors of Saucon Mutual to address comments made by the Department in those discussions. 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~~ Interim Amended Plan.

**II. 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 Department on or about ~~February 6~~ May 7, 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 Members (defined in Section III.A below). The application will contain the following:

- (1) the Plan;
- (2) a form of member information statement satisfying the requirements of 40 P.S. § 913-A(f) (the “Member Information Statement”);
- (3) the form of proxy to be solicited from Eligible Members;
- (4) the proposed amended articles of incorporation and bylaws of the converted 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;

- (6) an acquisition of control statement as required by Section 1402 of the Insurance Company Act of 1921, as amended (the "Form A");
- (7) a Fairness Opinion prepared by Boenning & Scattergood;
- (8) the articles of incorporation and proposed bylaws of the holding company;
- (9) the form of shareholder agreement for the holding company;
- (10) a list of the current directors of Saucon Mutual.

### III. ~~H.~~ 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 had approximately three hundred and ninety-four (394) 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.

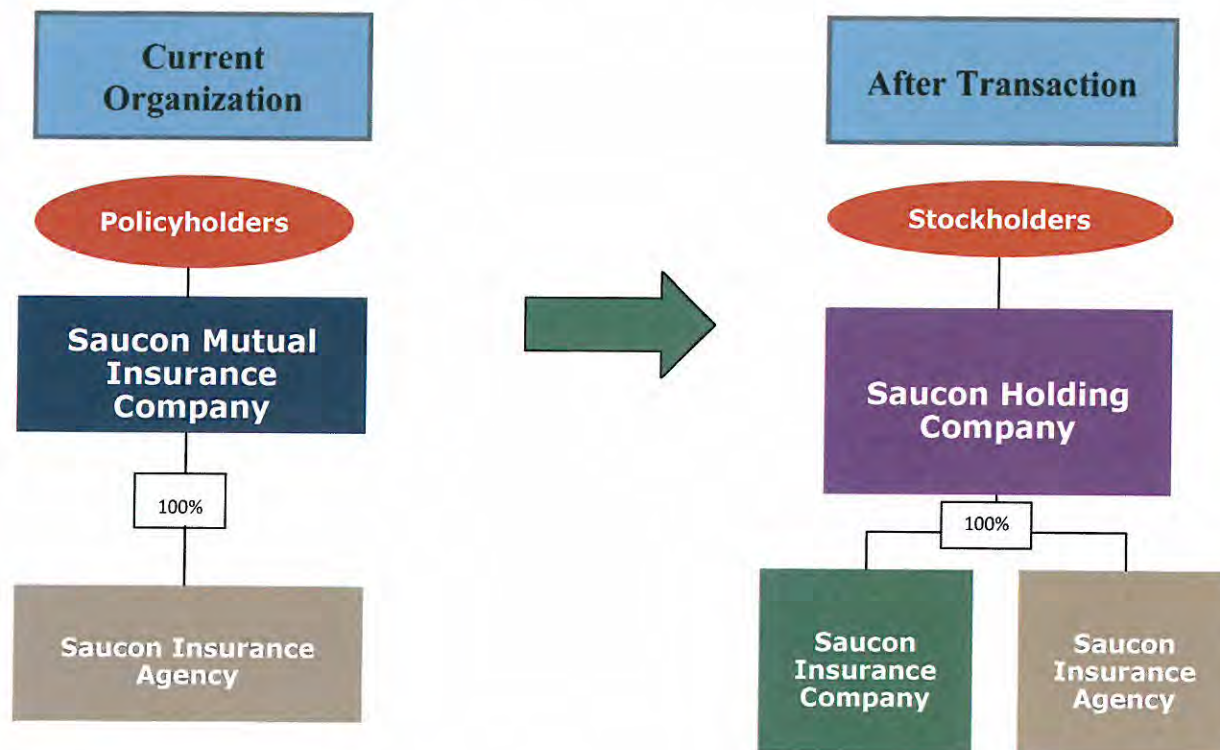
Saucon Mutual has written very few new insurance policies since 2005. Although Saucon Mutual maintains a level of surplus that satisfies relevant legal requirements, it has only four employees and believes that it does not presently have the infrastructure that would enable it to successfully resume 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 ~~H.C~~III.C, the Board of Directors of Saucon Mutual has determined that it is in the best interest of the company and its 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 ~~4.D~~ III.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~~ VI. 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, the Converted Insurance Company will issue and sell to Saucon Holding, and Saucon Holding will purchase from the Converted Insurance Company, 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 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, 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 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 the consideration described in Section ~~IV.A.V.A.~~ below (which payments will be in the aggregate amount of approximately ~~\$1,064,788~~ \$1,564,839, assuming a closing date of ~~June 30~~ July 31, 2015), and will ~~also~~ make a ~~\$1,000,000~~ contribution in the amount of \$500,000 to the Lehigh Valley Community Foundation as described in Section ~~IV.C.V.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 Members of Saucon Mutual called for the purpose of considering and voting upon the Plan as described in Section ~~VII.VIII~~ 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 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, as promptly as practical after the Plan has been duly approved by the Department and by the Eligible Members.

## **IV. ELIGIBLE MEMBERS**

### **A. Definition of Eligible Member**

All members of Saucon Mutual as of August 27, 2014 (the "Record Date") will be considered 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 that date and the closing date of the Conversion or the abandonment of the Plan. All Saucon Mutual members as of the Record Date will be eligible to receive the compensation described in Section ~~IV-V~~ and will be entitled to vote on the Plan pursuant to Section ~~VH-VIII~~.

### **B. Member Verification Process**

Saucon Mutual conducted due diligence to verify its member list. As part of this project, former members whose policies were no longer active as of the Record Date, such as members who no longer qualified for coverage, were removed from the 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 members' right to coverage has been established through affirmative contact with the member within the past year. All members remaining on the list received a "Continuing Coverage Survey" by certified mail, return receipt requested to the members' last known addresses in Saucon Mutual's records. 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 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 member files an appeal of the cancellation under Act 205. For those 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 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 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 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.

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

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

All Eligible Members are entitled to the compensation described in this Plan if the Conversion is effectuated. The compensation package that an Eligible 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.

#### I. Compensation for Eligible Members Who Hold Perpetual Policies

A. *Cash Payment.* A cash payment computed by multiplying (i) the actual number of calendar days that the policy had been in effect from its issuance until the closing date of the Conversion, by (ii) ~~\$0.1644~~ 0.2787 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~~ 1,017; 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~~ 1,051. The aggregate amount of cash payments to all members who are perpetual policyholders under this paragraph will be ~~\$704,249~~ 1,197,061, assuming a closing date of ~~June 30~~ July 31, 2015.

B. *Return of Deposits.* A return of 15% of the Eligible 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 will be

approximately ~~\$340,000~~\$334,000, less any deposits that are returned before the closing in accordance with policy terms.

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 Members Who Hold Non-Perpetual Policies

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

- A cash payment computed by multiplying (i) the actual number of calendar days that the policy had been in effect (including all renewals) from its issuance until the closing date of the Conversion, by (ii) ~~\$0.1644~~0.2787 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~~1,017; 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~~1,051. The aggregate amount of cash payments to all members who are non-perpetual policyholders under this paragraph will be ~~\$18,739~~31,978, assuming a closing date of ~~June 30~~July 31, 2015; plus
- An additional one-time cash payment equal to 15% of the current premium of the policy. The aggregate amount of cash payments to be made to members who are non-perpetual policyholders under this paragraph would be approximately \$1,800.

## 3. Aggregate Payments to Members

The aggregate amount of the payments to members described in paragraphs ~~IV.A.1.A~~V.A.1.A, ~~IV.A.1.B~~V.A.1.B and ~~IV.A.2~~V.A.2 above will be approximately ~~\$1,064,788~~\$1,564,839, assuming a closing date of ~~June 30~~July 31, 2015.

## 4. Payment Procedure

Eligible 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, as applicable, as promptly as practicable after the Effective Date.

## **B. No Subscription Rights**

No Saucon Mutual 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~~VI below.

## **C. Charitable Contribution**

On the Effective Date, the Converted Insurance Company will make a \$~~1,000,000~~500,000 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~~would be 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.

## **VI. ~~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 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. 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. 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 members in the aggregate amount of approximately \$~~1,064,788~~ 1,564,839 (assuming a ~~June 30~~ July 31, 2015 closing date) as contemplated under the Conversion and discussed in Section ~~IV.A.V.A.~~ of this Plan, the contribution of \$~~1,000,000~~ 500,000 to Lehigh Valley Community Foundation at closing as discussed in Section ~~IV.C.V.C.~~ of this Plan, and the costs and expenses of the transactions contemplated under this Plan.

#### **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 ~~H.B.III.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.

#### **VII. ~~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, 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 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 following the closing.

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.

#### **VIII. ~~VII.~~SPECIAL MEETING OF ELIGIBLE MEMBERS**

Following the 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 Members by mailing: (i) a notice of the Special Meeting; (ii) a 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 Member may vote in favor of the Conversion; and (iv) a copy of the Plan filed with the Department (those materials collectively "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 Member at least thirty (30) days prior to the date of the Special Meeting.

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 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 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 Members.

#### **IX. ~~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 members, 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.

##### **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. Department Approval of Member Information Package Materials**

Saucon Mutual requests that the Department approve the Member Information Package described in Section ~~VII~~VIII 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. 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. An Amended and Restated Form A for this change in control was submitted to the Department together with the submission of this Plan as part of the application described in Section ~~III~~III. Saucon Mutual requests that the Department approve the Form A.

**F. 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 ~~H.B.6~~III.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~~(\$16,733,610)) or its net income as shown on such statement (~~\$295,226~~168,458). 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.

**X. ~~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.

**XI. ~~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 members for approval in accordance with 40 P.S. § 913-A(h), as described in Section ~~VII~~VIII 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 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 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.

## XII. ~~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.

## XIII. ~~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.

**XIV. ~~XIII~~. INTERPRETATION, AMENDMENT, AND TERMINATION OF THE PLAN**

**A. Amendment and Restatement of the ~~Original~~ Interim Amended Plan**

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

**B. 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.

**C. 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 Members. This Plan may be amended at any time after its approval by the Eligible 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 Members called for that purpose.

**D. 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. Binding Upon Eligible Members**

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

IN WITNESS WHEREOF, Saucon Mutual Insurance Company has caused this Plan to be executed as of this ~~4th~~ 27th day of ~~February~~ April, 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 ~~4th~~27th day of ~~February~~April, 2015, the Board of Directors for Saucon Mutual, by ~~unanimous~~the consent of ~~its members~~more than two-thirds of the directors in office, 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

**SAUCON MUTUAL INSURANCE COMPANY**  
74 W. Broad Street, Suite 300, Bethlehem, PA 18018

---

**MEMBER INFORMATION STATEMENT  
AND PROXY STATEMENT**  
for  
**SPECIAL MEETING OF MEMBERS**  
to be held on [DATE], 2015

---

## TABLE OF CONTENTS

<b>INTRODUCTION .....</b>	<b>1</b>
<b>WHY HAS THIS MEMBER INFORMATION STATEMENT BEEN SENT TO ME? .....</b>	<b>2</b>
<b>WHAT ARE THE TRANSACTIONS CONTEMPLATED BY THE PLAN OF CONVERSION? .....</b>	<b>2</b>
<b>HOW WILL THE TRANSACTIONS CONTEMPLATED BY THE PLAN OF CONVERSION AFFECT ME? .....</b>	<b>3</b>
<b>WHY DOES SAUCON MUTUAL WANT TO DEMUTUALIZE? .....</b>	<b>3</b>
<b>WILL THE CLOSING OF THE DEMUTUALIZATION TRANSACTIONS AFFECT MY INSURANCE POLICY? .....</b>	<b>3</b>
<b>WHO WILL OWN THE INSURANCE COMPANY AFTER IT DEMUTUALIZES? .....</b>	<b>4</b>
<b>HAVE THE DEMUTUALIZATION TRANSACTIONS BEEN APPROVED BY THE RELEVANT GOVERNMENT AGENCY? .....</b>	<b>4</b>
<b>WHAT VOTE OF THE MEMBERS WILL BE REQUIRED TO APPROVE THE PLAN OF CONVERSION? .....</b>	<b>5</b>
<b>WILL THE DEMUTUALIZATION TRANSACTIONS REQUIRE ANY OTHER VOTES BY THE MEMBERS AT THE SPECIAL MEETING? .....</b>	<b>5</b>
<b>CAN I CAST MY VOTE AT THE SPECIAL MEETING BY SUBMITTING A PROXY? .....</b>	<b>5</b>
<b>CAN I CHANGE MY VOTE OR REVOKE MY PROXY AFTER I RETURN MY PROXY CARD? .....</b>	<b>5</b>
<b>WHERE CAN I GET FINANCIAL INFORMATION ABOUT SAUCON MUTUAL? .....</b>	<b>6</b>
<b>HOW DOES SAUCON MUTUAL’S BOARD OF DIRECTORS RECOMMEND I VOTE? .....</b>	<b>6</b>
<b>DO I HAVE TO VOTE TO APPROVE THE PLAN OF CONVERSION IN ORDER TO RECEIVE CONSIDERATION? .....</b>	<b>6</b>
<b>WILL I HAVE THE RIGHT TO SUBSCRIBE FOR SHARES OF CAPITAL STOCK OF SAUCON HOLDING COMPANY? .....</b>	<b>6</b>
<b>WHERE CAN I GET MORE INFORMATION ABOUT THE TRANSACTIONS DESCRIBED IN THIS MEMBER INFORMATION STATEMENT? .....</b>	<b>6</b>
<b>BACKGROUND TO DEMUTUALIZATION .....</b>	<b>7</b>
<b>DESCRIPTION OF DEMUTUALIZATION .....</b>	<b>7</b>
<b>DISCUSSION OF THE PRINCIPAL CHARACTERISTICS OF SAUCON MUTUAL, AND YOUR RIGHTS AS A POLICYHOLDER, BEFORE AND AFTER DEMUTUALIZATION .....</b>	<b>7</b>
<b>RIGHT OF BOARD OF DIRECTORS TO AMEND OR WITHDRAW THE PLAN OF CONVERSION .....</b>	<b>8</b>
<b>BACKGROUND TO THE DEMUTUALIZATION TRANSACTIONS .....</b>	<b>9</b>
<b>DESCRIPTION OF SAUCON MUTUAL .....</b>	<b>9</b>
<b>BACKGROUND TO THE PROPOSED DEMUTUALIZATION .....</b>	<b>9</b>
<b>REASONS FOR THE PROPOSED DEMUTUALIZATION .....</b>	<b>10</b>
<b>DESCRIPTION OF CONSIDERATION TO MEMBERS .....</b>	<b><del>13</del>14</b>
<b>DESCRIPTION OF CONSIDERATION TO MEMBERS .....</b>	<b><del>13</del>14</b>
<b>COMPENSATION FOR MEMBERS AS OF THE RECORD DATE WHO HOLD PERPETUAL POLICIES .....</b>	<b><del>13</del>14</b>
<b>COMPENSATION FOR MEMBERS AS OF THE RECORD DATE WHO HOLD NON-PERPETUAL POLICIES .....</b>	<b><del>13</del>14</b>
<b>CERTAIN TAX CONSIDERATIONS .....</b>	<b><del>14</del>15</b>
<b>EFFECT ON POLICIES PURCHASED AFTER ADOPTION OF PLAN BY THE BOARD OF DIRECTORS .....</b>	<b><del>14</del>15</b>
<b>DESCRIPTION OF DEMUTUALIZATION TRANSACTIONS .....</b>	<b><del>15</del>16</b>
<b>DEMUTUALIZATION OF SAUCON MUTUAL .....</b>	<b><del>15</del>16</b>
<b>CHARITABLE CONTRIBUTION .....</b>	<b><del>15</del>16</b>
<b>CLOSING OF STOCK OFFERING BY SAUCON HOLDING COMPANY .....</b>	<b><del>15</del>16</b>
<b>DIAGRAM ILLUSTRATING EFFECT OF THE TRANSACTIONS .....</b>	<b><del>16</del>17</b>
<b>ENTITY REORGANIZATION OF THE AGENCY .....</b>	<b><del>16</del>17</b>
<b>PAYMENT OF CONSIDERATION TO MEMBERS .....</b>	<b><del>16</del>17</b>
<b>CIRCULATION OF NEW INSURANCE POLICY DECLARATIONS .....</b>	<b><del>16</del>17</b>
<b>DESCRIPTION OF CHANGES IN POLICYHOLDERS’ RIGHTS .....</b>	<b><del>17</del>18</b>
<b>VOTING RIGHTS .....</b>	<b><del>17</del>18</b>
<b>DIVIDENDS .....</b>	<b><del>17</del>18</b>
<b>EXCESS OF LIQUIDATION PROCEEDS OVER LIABILITIES .....</b>	<b><del>17</del>18</b>

DESCRIPTION OF CHANGES IN GOVERNANCE .....	<del>18</del> <u>19</u>
DESCRIPTION OF CHARITABLE CONTRIBUTION .....	<del>19</del> <u>20</u>
DESCRIPTION OF STOCK OFFERING OF SAUCON HOLDING COMPANY .....	<del>19</del> <u>20</u>
STOCK OFFERING .....	<del>19</del> <u>20</u>
DESCRIPTION OF SAUCON HOLDING COMPANY .....	<del>19</del> <u>20</u>
PARTICIPANTS IN STOCK OFFERING .....	<del>20</del> <u>21</u>
USE OF PROCEEDS OF STOCK OFFERING .....	<del>20</del> <u>21</u>
FAIRNESS OPINION OF BOENNING & SCATTERGOOD .....	<del>21</del> <u>22</u>
RECOMMENDATION OF THE BOARD OF DIRECTORS .....	<del>21</del> <u>22</u>

## INTRODUCTION

This member information statement and proxy statement is being given by the board of directors of Saucon Mutual Insurance Company, a Pennsylvania mutual insurance company ("Saucon Mutual"), in connection with its solicitation of proxies from members to be voted at the special meeting of members of Saucon Mutual that is to be held on [DATE], 2015 at [LOCATION] (the "Special Meeting").

The board of directors has called the Special Meeting to vote on a proposal to approve a plan of conversion to demutualize Saucon Mutual (the "Plan of Conversion") and a related amendment of Saucon Mutual's articles of incorporation. The Plan of Conversion provides for Saucon Mutual to be converted from a mutual insurance company to a stock insurance company that will be named "Saucon Insurance Company". A copy of the Plan of Conversion is attached as Exhibit 1.

Anyone who owns a policy or policies of insurance with Saucon Mutual is a member of Saucon Mutual until the termination or non-renewal of such policy or policies.

The board of directors has set August 27, 2014 (the "Record Date") as the record date for determination of members entitled to notice of, and to vote at, the Special Meeting (and any postponements or adjournments thereof) and to receive consideration as contemplated in the Plan of Conversion. Only members of Saucon Mutual as of the Record Date are entitled to notice of, and to vote at, the Special Meeting (and any postponements or adjournments thereof). The date of this member information statement is [DATE OF MAILING], and this member information statement, its exhibits and the accompanying proxy card are being mailed to persons who are members of Saucon Mutual as of the Record Date.

In order to close the transactions contemplated by the Plan of Conversion, the Plan of Conversion must be approved by the vote of at least two-thirds of the members that are cast at the Special Meeting. Each member as of the Record Date is entitled to cast one vote at the Special Meeting, and may vote in person or by properly executed proxy.

The consummation of the transactions contemplated by the Plan of Conversion is subject to approval by the members of Saucon Mutual and by the Pennsylvania Insurance Department.

The proposed demutualization of Saucon Mutual and the other transactions contemplated by the Plan of Conversion are more fully described in this member information statement. You are strongly encouraged to read it, and its exhibits, in their entirety and consider them carefully.

## **QUESTIONS AND ANSWERS RELATING TO THE SPECIAL MEETING AND THE PLAN OF CONVERSION**

### **Why has this member information statement been sent to me?**

This member information statement has been sent to all members of Saucon Mutual as of the Record Date. Because Saucon Mutual is a mutual insurance company, every owner of an insurance policy issued by Saucon Mutual as of that date is a member of Saucon Mutual and, as such, has certain voting rights in his, her or its capacity as a member, including the right to vote on a proposed demutualization of the company.

The board of directors of Saucon Mutual has approved a Plan of Conversion that would, among other things, demutualize Saucon Mutual. That Plan of Conversion is being submitted to the members of Saucon Mutual for their approval, since the closing under it cannot occur unless (among other things) the Plan of Conversion is duly approved by the members of Saucon Mutual.

A Special Meeting of the members of Saucon Mutual has been called so that the members of Saucon Mutual can vote on the Plan of Conversion and the related amendment to Saucon Mutual's articles of incorporation. This member information statement and the accompanying proxy materials have been sent to you to solicit your proxy to vote in favor of approving the Plan of Conversion and the related amendment to Saucon Mutual's articles of incorporation.

### **What are the transactions contemplated by the Plan of Conversion?**

The Plan of Conversion contemplates the following transactions:

- Saucon Mutual would be demutualized. This means that Saucon Mutual would be converted from a mutual insurance company to a stock insurance company that would be called "Saucon Insurance Company".
- A recently formed stock holding company, called "Saucon Holding Company", would become the sole stockholder of Saucon Insurance Company.
- Saucon Holding Company would issue shares of its capital stock to certain investors by means of a stock offering.
- An entity reorganization would occur immediately after the demutualization that would cause Saucon Insurance Agency, Inc. (the "Agency"), an insurance agency that is currently a wholly-owned subsidiary of Saucon Mutual, to become a wholly-owned subsidiary of Saucon Holding Company (and a sister company of Saucon Insurance Company).

These transactions are collectively referred to in this member information statement as the "Demutualization Transactions". These transactions are described more fully below under the heading "Description of Demutualization Transactions".

### **How will the transactions contemplated by the Plan of Conversion affect me?**

If the Demutualization Transactions occur, members of Saucon Mutual as of the Record Date will receive consideration, including cash payments, which is described more fully below under the heading “Description of Consideration to Members”.

Additionally, because Saucon Mutual would be demutualized, policyholders would no longer have voting rights (such as the right to elect directors of the insurance company). A description of the changes in the policyholders’ rights that would result from the company’s demutualization is set forth below under the heading “Description of Changes in Policyholders’ Rights”.

Policies of insurance issued by Saucon Mutual that are in force at the time of closing of the Demutualization Transactions would remain in full force and effect. Saucon Mutual does not expect that the Demutualization Transactions will have any negative impact on the company’s financial strength ratings nor on its ability to pay claims and policy benefits.

### **Why does Saucon Mutual want to demutualize?**

The board of directors of Saucon Mutual has determined that demutualization is in the company’s best interests for several reasons, including:

- rewarding members for their loyalty to the company;
- making a charitable contribution in furtherance of the company’s ongoing commitment to the community;
- modernizing the company’s governance structure;
- 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;
- preparing the company to re-enter the insurance underwriting business; and
- maintaining the independence of the company.

These reasons are explained more fully below under the heading “Background to the Proposed Demutualization of Saucon Mutual – Reasons for the Proposed Demutualization”.

### **Will the closing of the Demutualization Transactions affect my insurance policy?**

The closing of the Demutualization Transactions will not, in and of itself, affect any of the insurance policies issued by Saucon Mutual, except that policyholders will cease to have voting rights and the right to share in the surplus of the mutual company, as described more fully below under the heading “Description of Changes in Policyholders’ Rights.” In all other respects, the insurance policies issued by Saucon Mutual would remain in full force and effect.

### **Who will own the insurance company after it demutualizes?**

If the Demutualization Transactions close, Saucon Insurance Company (the stock company into which Saucon Mutual would convert) will become a wholly-owned subsidiary of Saucon Holding Company, a newly-organized corporation.

Saucon Holding Company, in turn, would be owned by those investors who subscribe for capital stock in a stock offering that would close concurrently with the transactions contemplated by the Plan of Conversion, as described more fully below under the heading “Description of Stock Offering of Saucon Holding Company”.

### **Have the Demutualization Transactions been approved by the relevant government agency?**

Yes. On [DATE], the Pennsylvania Insurance Department approved:

- the Plan of Conversion;
- a Form A (Acquisition of Control of, or Merger With, a Domestic Insurer), which must be filed because the transactions will constitute a change of control of Saucon Mutual; and
- the distribution of the stock of the Agency to Saucon Holding Company.

The Pennsylvania Insurance Department was required by Pennsylvania law to approve the Plan of Conversion if it found that the Plan of Conversion does not prejudice the interests of the members, is fair and equitable, and complies with the applicable statute. Please note, however, that the Pennsylvania Insurance Department’s approval of the Plan of Conversion should not be taken as constituting the endorsement of the Demutualization Transactions by the Pennsylvania Insurance Department.

On September 2, 2014, Saucon Mutual filed the Form A and the original version of the Plan of Conversion with the Pennsylvania Insurance Department for its approval. Upon filing of that original version of the Plan of Conversion, Saucon Mutual delivered a notice to all of its members informing them of the filing and notifying them of their right to file comments on the Plan of Conversion with the Pennsylvania Insurance Department within the 30-day period following the filing.

By letter dated January 12, 2015, the Pennsylvania Insurance Department provided a list of additional items necessary to the review of the filing of the original Plan of Conversion and the related documents. On February 4, 2015, the board of directors of Saucon Mutual unanimously approved an amended and restated version of the Plan of Conversion to address those items. Subsequently, during April 2015, Saucon Mutual’s management and counsel discussed the proposed Demutualization Transactions with the Pennsylvania Insurance Department. On April 27, 2015, the board of directors of Saucon Mutual approved, by the requisite threshold, the amendment and the restatement of the ~~original plan of conversion~~ amended and restated Plan of Conversion in the form attached to this member information statement. References in this member information statement to the “Plan of Conversion” refer to this amended and restated plan of conversion. The Plan of Conversion and certain related documents were then filed with the Pennsylvania Insurance Department for its approval on ~~February 6~~ May 7, 2015. Subsequently, on [DATE], the Pennsylvania Insurance Department approved the Plan of Conversion and certain related filings and transactions as indicated above.



**What vote of the members will be required to approve the Plan of Conversion?**

Under Pennsylvania law, the Plan of Conversion may be effected only if it is approved by the affirmative vote, in present or by proxy, of at least two-thirds of the members that are cast at a meeting at which a quorum is present that is called to consider and vote upon the Plan of Conversion.

Saucon Mutual's bylaws provide that the presence of five members, either by being present at the meeting or by proxy, constitutes a quorum at any annual or special meeting of the members.

The board of directors has called the Special Meeting to occur on [DATE], 2015 to consider and vote on the Plan of Conversion. Only members as of the Record Date will be entitled to notice of, and to vote at, the Special Meeting.

**Will the Demutualization Transactions require any other votes by the members at the Special Meeting?**

Yes. Under Pennsylvania law, the Plan of Conversion may be effected only if, at the Special Meeting called to approve the Plan of Conversion, the amendment of Saucon Mutual's articles of incorporation in the form attached hereto as Exhibit 2 is approved by the affirmative vote, in present or by proxy, of at least two-thirds of the members that are cast at that meeting.

**Can I cast my vote at the Special Meeting by submitting a proxy?**

Yes. You can participate in the Special Meeting by proxy, by filling out and returning the attached proxy card to Saucon Mutual. Any properly-executed proxy cards received prior to the Special Meeting, and not duly and timely revoked, will be voted at the Special Meeting in accordance with the instructions indicated on the proxies.

**Can I change my vote or revoke my proxy after I return my proxy card?**

Yes. Any proxy may be revoked before it is voted. Proxies may be revoked by: (i) filing with Saucon Mutual, at or before the taking of the vote at the Special Meeting, a written notice of revocation with a date later than the proxy; (ii) executing a later dated proxy and delivering it to Saucon Mutual by mail prior to the Special Meeting, or any adjournments, postponements, rescheduling or continuations thereof; or (iii) attending the Special Meeting and voting in person (attendance at the Special Meeting will not in and of itself constitute the revocation of a proxy). Any written notice of revocation or subsequent proxy must be sent to and received by Saucon Mutual at 74 West Broad Street, Suite 300, Bethlehem PA 18018, attention: Stephen Bajan, Chief Executive Officer, or hand-delivered to Stephen Bajan at Saucon Mutual before the Special Meeting. Saucon Mutual members may obtain a new proxy by submitting a request to Stephen Bajan at Saucon Mutual, 74 West Broad Street, Suite 300, Bethlehem PA 18018.

**Where can I get financial information about Saucon Mutual?**

A copy of Saucon Mutual's unaudited, condensed comparative annual statement for the fiscal years ended December 31, 2014, December 31, 2013 and December 31, 2012 is attached to this member information statement as Exhibit 3.

**How does Saucon Mutual's board of directors recommend I vote?**

Saucon Mutual's board of directors recommends that you vote "FOR" the proposal to approve the Plan of Conversion and "FOR" the proposal to amend Saucon Mutual's articles of incorporation.

**Do I have to vote to approve the Plan of Conversion in order to receive consideration?**

No. If the Plan of Conversion is duly approved and the Demutualization Transactions close, all members of Saucon Mutual as of the Record Date will receive consideration whether they voted "FOR" approval of the Plan of Conversion, "AGAINST" approval, or did not vote at all.

**Will I have the right to subscribe for shares of capital stock of Saucon Holding Company?**

No. The proposed demutualization of Saucon Mutual has not been structured as a "subscription rights offering", which means that members of Saucon Mutual do not, in their capacity as such, have the right to subscribe for the stock that is being offered in the stock offering by Saucon Holding Company.

**Where can I get more information about the transactions described in this member information statement?**

You may contact Stephen Bajan, the Chief Executive Officer of Saucon Mutual, at 74 West Broad Street, Suite 300, Bethlehem PA 18018, telephone (610) 868-1832.

## BACKGROUND TO DEMUTUALIZATION

### Description of Demutualization

A mutual insurance company is structured differently and operated differently than a stock insurance company. The chart that follows contrasts the general characteristics of mutual insurance companies as compared to demutualized stock insurance companies. The chart also illustrates how the rights of policyholders differ in the two structures.

	<b>Mutual Insurance Companies</b>	<b>Demutualized Stock Insurance Companies</b>
<b>Disposition of proceeds of a liquidation of the company</b>	Upon liquidation of a mutual insurance company, the remaining proceeds (after satisfaction of liabilities and claims) would be escheated to the Commonwealth of Pennsylvania.	The holding company, as the sole stockholder of the company, will have the right to receive the remaining proceeds (after satisfaction of liabilities and claims). If the holding company were liquidated, its shareholders would have the right to receive the remaining proceeds (after satisfaction of the holding company's liabilities and claims).
<b>Voting interests</b>	Members have the right to vote on matters submitted to them. Each member has one vote.	Only shareholders have the right to vote. A shareholder generally has one vote per share.
<b>Transferability of membership or ownership interests</b>	Not transferable separately from the underlying policy. Membership interests end when policy expires or is terminated.	Ownership of the stock of the demutualized company is not related to the status of any insurance policy.
<b>Existence of shareholders</b>	Company has members but no shareholders.	Company has both shareholders (of the holding company) and policyholders (of the insurance company).
<b>Dividends</b>	Payable to members if and as declared by the board of directors, and subject to restrictions as provided by law.	Payable to stockholders and/or policyholders if and as declared by the board of directors, and subject to restrictions as provided by law. Policyholders do not have the right to share in the surplus of the company.
<b>Ability to conduct capital transactions</b>	Limited – can only raise capital through borrowing or through sale of subsidiary stock or assets.	Increased ability to raise capital—by selling stock and other financial instruments—and can use stock and other financial instruments to pay for acquisitions.
<b>Ability to provide employees with stock-based compensation</b>	Not possible.	The company may provide employees stock-based compensation such as stock grants and stock options.

### Discussion of the Principal Characteristics of Saucon Mutual, and Your Rights as a Policyholder, Before and After Demutualization

Membership interests will be exchanged for economic value. Policyholders of Saucon Mutual have membership interests in Saucon Mutual. Membership interests include the right to vote on matters

submitted to members (such as the election of directors), the right to share in the surplus of the company, and the right to receive consideration upon demutualization.

Upon the demutualization of Saucon Mutual as contemplated under the Plan of Conversion, all of the membership interests of all members will cease to exist and, in exchange, the members will receive the compensation set forth in the Plan of Conversion. No member will have to pay for or give up their policy in order to receive this compensation. The compensation is described more fully below under the heading "Description of Consideration to Members".

Potential for competing interests between shareholders and policyholders. A mutual insurance company is generally operated for the benefit of its policyholders, who are its members. After demutualization, the company will be owned by Saucon Holding Company. Saucon Holding Company, in turn, will be owned by the investors who participate in a stock offering by that company as described more fully below under the heading "Description of Stock Offering of Saucon Holding Company".

Some policyholders may be concerned that their interests and those of the shareholders of Saucon Holding Company might not be the same after demutualization. In particular, shareholders may be more interested in financial performance as it relates to the value of their investment in the stock, while policyholders may be more interested in financial performance as it relates to the ability of their insurance company to pay claims and as it affects the cost of insurance. Saucon Mutual believes that both policyholders and shareholders will benefit from business opportunities that the proposed demutualization will make possible because of increased access to the financial markets, enhanced financial flexibility and improved ability to attract and retain suitable employees. Saucon Mutual believes that it will be able to effectively address the competing interests of shareholders and policyholders.

Policy benefits. The closing of the Demutualization Transactions will not, in and of itself, affect any of the insurance policies issued by Saucon Mutual, except that policyholders will cease to have voting rights and other membership rights. In all other respects, the insurance policies issued by Saucon Mutual would remain in full force and effect.

### **Right of Board of Directors to Amend or Withdraw the Plan of Conversion**

Under Pennsylvania law, since the Plan of Conversion has already been approved by the Pennsylvania Insurance Department, it may be amended by the affirmative vote of at least two-thirds of the directors of Saucon Mutual; provided, however, that any such amendment also shall be subject to approval by the Pennsylvania Insurance Department. Once the Plan of Conversion is approved by the members at the special meeting that is being called for that purpose, it can be amended before the closing of the Demutualization Transactions so long as (i) the requirements set forth above are satisfied, and (ii) if the Pennsylvania Insurance Department determines the amendment to be material, the amendment is also approved by the affirmative vote of at least two-thirds of the votes cast at a meeting of the members called for that purpose.

The Plan of Conversion may be terminated at any time before the closing of the Demutualization Transactions by the affirmative vote of at least two-thirds of the directors of Saucon Mutual then in office.

## **BACKGROUND TO THE DEMUTUALIZATION TRANSACTIONS**

### **Description of Saucon Mutual.**

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.

Saucon Mutual maintains both perpetual and non-perpetual policies for homeowners and dwelling property programs. Perpetual policies are written to have no term, or date, when the policy expires. From the effective start date, the coverage exists for perpetuity. Saucon Mutual also issues policies that do have a set date when the policy expires, these are referred to as non-perpetual policies.

In 1991, Saucon Mutual organized 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 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.

Saucon Mutual's unaudited, condensed comparative annual statement for the fiscal years ended December 31, [2014](#), [December 31, 2013](#) and December 31, 2012 are attached as Exhibit 3 to this member information statement.

### **Background to the Proposed Demutualization**

Saucon Mutual's board of directors met several times in 2013 and 2014 to discuss the general strategic plan of the company. The board identified its objectives as including the following:

- Rewarding members for their loyalty to the company
- Making a charitable contribution in furtherance of the company's ongoing commitment to the community
- Modernizing the company's governance structure
- 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
- Re-entering the insurance underwriting business
- Maintaining the independence of the company

Saucon Mutual's board organized an informal strategic planning subcommittee whose members consisted of Brian T. Regan (Chairman of the Board), Stephen Bajan (the Chief Executive Officer of the company), and board member Michael Crofton. This strategic planning subcommittee presented to the whole board a proposal to address the goals identified above by engaging in the Demutualization Transactions. With the board's authorization and direction, the strategic planning subcommittee discussed the proposed transactions with the Pennsylvania Insurance Department, engaged outside

counsel to prepare the Plan of Conversion and other related documents and filings, and engaged the investment banking firm of Boenning & Scattergood to deliver a fairness opinion with respect to the Demutualization Transactions.

At a board meeting on August 27, 2014, the original version of the plan of conversion and the other related documents and filings were presented to the board of directors and were unanimously approved. The board then directed that the original version of the plan of conversion and the other related documents and filings be filed with the Pennsylvania Insurance Department. Saucon Mutual filed the original version of the plan of conversion and the other related documents and filings with the Pennsylvania Insurance Department on September 2, 2014. Saucon Mutual also delivered a notice to all of its members informing them of the filing and notifying them of their right to file, with the Pennsylvania Insurance Department, comments on that original version of the plan of conversion within the 30-day period following the filing. By letter dated January 12, 2015, the Pennsylvania Insurance Department provided a list of additional items necessary to the review of the filing of the original Plan of Conversion and the related documents.

On February 4, 2015, the board of directors of Saucon Mutual unanimously approved ~~the amendment and an amended and restated version of the Plan of Conversion to address those items.~~ Subsequently, during April 2015, Saucon Mutual's management and counsel discussed the proposed Demutualization Transactions with the Pennsylvania Insurance Department. On April 27, 2015, the board of directors of Saucon Mutual approved, by the requisite threshold,<sup>1</sup> the amendment and the restatement of the original plan of conversion that had been filed on September 2, 2014. That amendment and restatement was amended and restated Plan of Conversion in the form attached to this member information statement, and references in this member information statement to the "Plan of Conversion" refer to this amended and restated plan of conversion. The Plan of Conversion and certain related documents were then filed with the Pennsylvania Insurance Department for its approval on ~~February 6~~ May 7, 2015. Subsequently, on [DATE], the Pennsylvania Insurance Department approved the Plan of Conversion and certain related filings and transactions.

The board of directors of Saucon Mutual has directed that a special meeting of the members of Saucon Mutual be called to vote upon the Plan of Conversion, and upon the related amendment to Saucon Mutual's articles of incorporation, in accordance with applicable law.

### **Reasons for the Proposed Demutualization**

Saucon Mutual's board of directors believes that the proposed demutualization and the Demutualization Transactions are the most appropriate and effective means of enabling the company to achieve the objectives designated by the board.

- Rewarding members for their loyalty to the company. As described more fully below under the heading "Description of Consideration to Members", the consideration that members of Saucon Mutual would receive upon the closing of the Demutualization Transactions would depend, in

---

<sup>1</sup> One member of the board of directors of Saucon Mutual was unable to attend the meeting at which the Plan of Conversion was presented, but subsequently indicated his support for it. All of the other members of the board of directors of Saucon Mutual were present at that meeting and voted to approve the Plan of Conversion.

part, upon the number of years that the member's policy had remained in force. This permits Saucon Mutual to reward members for their loyalty to the company by maintaining their policies. The aggregate amount of the payments to members will be approximately \$~~1,064,788~~1,564,839, assuming a ~~June 30~~July 31, 2015 closing date.

- Making a charitable contribution in furtherance of the company's ongoing commitment to the community. As described more fully below under the heading "Description of Charitable Contribution", upon the closing of the Demutualization Transactions, the company would make a ~~\$1 million~~500,000 cash contribution to the Lehigh Valley Community Foundation. The contributions committee of Saucon Insurance Company's board of directors will then make recommendations as to how those funds should be disbursed for charitable purposes. The members of the contribution committee will not be compensated for their service on the committee.
- Modernizing the company's governance structure. The board of directors of Saucon Mutual believes that it is in the company's interest to align the interests of its constituents with the growth and success of the company, and that organization as a stock corporation is a more appropriate structure to accomplish this goal than organization as a mutual company.

The authority to elect directors and make certain other decisions with respect to a Pennsylvania mutual insurance company such as Saucon Mutual lies with its members (*i.e.*, its policyholders). But each member is entitled to cast one vote—regardless of the type of policy or the amount of coverage—with respect to a matter that is submitted to the members for approval, which means that there is no particular relationship between a particular member's commercial relationship with the company and the weight of that member's vote. By way of contrast, in the case of a stock corporation, each stockholder is entitled to cast one vote per share, which means that a stockholder who wishes to enjoy a greater degree of control over the corporation can do so by acquiring more shares. The board of directors believes that it is in the company's interest to adopt a governance structure where the voting power of a constituent of the company is more closely aligned to that constituent's economic interest in the company, as represented by that constituent's investment in the company to acquire shares.

- 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. A mutual company cannot issue stock. A stock corporation, on the other hand, can issue shares of its stock and other financial instruments. Among the reasons that a stock corporation may issue shares of stock or other financial instruments are:
  - To sell the shares to investors to raise capital for the company;
  - To acquire another business, by using the stock or other financial instruments that it issues as some or all of the purchase price for the business; and
  - To incentivize employees through the issuance of stock grants, stock options and other similar equity compensation strategies, because those strategies can give the employees who receive those grants the opportunity to share in the economic benefits of the growth of the company. This can help the company attract and retain suitable employees.

- Re-entering the insurance underwriting business. While Saucon Mutual is in a stable position from a financial point of view (see Saucon Mutual’s unaudited, condensed comparative annual statement for the fiscal years ended December 31, 2014, December 31, 2013 and December 31, 2012, a copy of which are attached to this member information statement as Exhibit 3), Saucon Mutual has written very few new insurance policies since 2005. Saucon Mutual’s personnel and business systems are adequate to continue to maintain the existing insurance policies and their renewals in full force and effect, but Saucon Mutual does not presently have sufficient personnel and infrastructure to enable it to issue new insurance policies. Saucon Mutual’s board of directors believes that demutualizing the company would permit the company to implement steps to attract and retain suitable personnel and to develop appropriate infrastructure to assist the company in re-entering the business of issuing new insurance policies.
- Maintaining the independence of the company. Upon the closing of the Demutualization Transactions, Saucon Insurance Company (the stock insurance company into which Saucon Mutual would be converted) will become a wholly-owned subsidiary of Saucon Holding Company. The stock of Saucon Holding Company in turn will be owned by the investors in a concurrent stock offering. The investors in that stock offering are individuals who were board members or members of management of Saucon Mutual, rather than being other insurance companies. See “Description of Stock Offering of Saucon Holding Company”.

The Demutualization Transactions have been structured to enable the company to achieve its goals without becoming acquired by another insurance company. For this reason, the Demutualization Transactions were designed to, and are expected to, permit the company to maintain its independence.

It should be noted that while it is very difficult for a mutual insurance company to be acquired by another company because a merger with another mutual insurer or a demutualization would be necessary, it would be possible for a third party to acquire control of the stock insurance company by acquiring all or a controlling interest in the stock of Saucon Holding Company. However, the stock of Saucon Holding Company will not be publicly traded, so there is no marketplace through which such a third party can acquire Saucon Holding Company shares. In addition, the shareholders of Saucon Holding Company will enter into a shareholders agreement that will, among other things, impose restrictions on the transfer of their shares. Changes in control of a Pennsylvania stock insurance company are also subject to approval by the Pennsylvania Insurance Department in accordance with law. For these reasons, Saucon Mutual does not believe that after the Demutualization Transactions close, a subsequent change in control of Saucon Holding Company or of the stock insurance company is likely to occur in the foreseeable future.

In considering the Demutualization Transactions, the board considered Saucon Mutual’s current financial condition and future prospects, and considered the advice of its legal and financial advisors. The board thoroughly reviewed its available strategic alternatives and concluded that the approach outlined in the Plan of Conversion was the most attractive alternative from a strategic, financial and operational point of view.



The board of directors believes that the Demutualization Transactions do not prejudice the interests of the members of Saucon Mutual, are fair and equitable, and are not inconsistent with the purposes and intent of Pennsylvania's Insurance Company Mutual-to-Stock Conversion Act and has obtained an opinion to that effect from the firm of Boenning & Scattergood, the company's financial advisor. A copy of that opinion is attached to this member information statement as Exhibit 4.

## DESCRIPTION OF CONSIDERATION TO MEMBERS

### Description of Consideration to Members

Saucon Mutual's outstanding policies are either perpetual policies or non-perpetual policies. Perpetual policies are written to have no term, or date, when the policy expires. From the effective start date, the coverage exists for perpetuity. Saucon Mutual also issues policies that do have a set date when the policy expires, these are referred to as non-perpetual policies. The consideration that a particular member will receive will depend upon whether that member holds a perpetual policy or a non-perpetual policy.

#### Compensation for Members as of the Record Date Who Hold Perpetual Policies

A. *Cash Payment.* A cash payment 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 (~~including any fractional part of a whole year~~), by (ii) ~~\$60~~ 0.2787 per ~~year~~ 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~~ 1,017; 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~~ 1,051. The aggregate amount of cash payments to all members who are perpetual policyholders under this paragraph will be ~~\$704,249~~ 1,197,061, assuming a closing date of ~~June 30~~ July 31, 2015.

B. *Return of Deposits.* A return of 15% of the 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 will be approximately ~~\$340,000~~ 334,000, less any deposits that are returned before the closing in accordance with policy terms. The balance of a member's deposit (the remaining 85%) will be returnable in accordance with policy terms.

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.

#### Compensation for Members as of the Record Date Who Hold Non-Perpetual Policies

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

- o A cash payment computed by multiplying (i) the actual number of ~~years~~ calendar days that the policy had been in effect (including all renewals) from its issuance until the closing date of the Conversion (~~including any fractional part of a whole year~~), by (ii) ~~\$60~~ 0.2787 per

~~year~~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~~1,017; 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~~1,051. The aggregate amount of cash payments to all members who are non-perpetual policyholders under this paragraph will be ~~\$18,739~~31,978, assuming a closing date of ~~June 30~~July 31, 2015; plus

- An additional one-time cash payment equal to 15% of the current premium of the policy. The aggregate amount of cash payments to be made to members who are non-perpetual policyholders under this paragraph would be approximately \$1,800.

### **Certain Tax Considerations**

This section discusses generally what Saucon Mutual believes to be the principal U.S. federal income tax consequences under current law for the payment of consideration to the members as contemplated by the Plan of Conversion. This discussion does not address how the federal income tax rules affect all of the possible types of members, some of whom may be subject to special rules not discussed here, nor does this discussion address state, local or foreign tax consequences, which can vary widely.

***Saucon Mutual does not provide tax advice and this discussion is not intended to be tax advice. Please consult your tax advisor to determine the federal, state, local and any applicable foreign tax consequences of the Demutualization Transactions in your particular circumstances.***

Return of Deposits to Members Who Are Perpetual Policyholders. Part of the cash payment being made to members who are perpetual policyholders will be a return by Saucon Mutual of a portion of the member's funds that are held on deposit. In general, a return of deposits to a member should not be taxable.

Cash Payments. In general, cash that is paid to a member as contemplated by the Plan of Conversion (other than the partial return of deposits) is treatment as payment for the member's membership interest in Saucon Mutual. The payment generally will result in a long- or short-term capital gain for tax purposes, depending upon whether the member in question owned his, her or its policy for more than one year at the time the cash is paid to the member. Most individuals who are U.S. citizens or residents should report the amount of the cash received as gain from "Saucon Mutual Insurance Company" on Schedule D of IRS Form 1040. Saucon Insurance Company will report cash payments to the IRS and to the members and withhold any applicable tax payments to the extent required by law.

### **Effect on Policies Purchased After Adoption of Plan by the Board of Directors**

Saucon Mutual does not intend to issue any new insurance policies prior to the closing under the Plan of Conversion. Consequently, Saucon Mutual will not issue any policies after the date that the Plan of Conversion was adopted by its board of directors and before the closing of the Demutualization Transactions.

## DESCRIPTION OF DEMUTUALIZATION TRANSACTIONS

The closing of all of the Demutualization Transactions will occur simultaneously except for the entity reorganization that will cause the Agency to become a wholly-owned subsidiary of Saucon Holding Company, which will occur promptly after the closing of the other Demutualization Transactions. The Demutualization Transactions are described below:

### **Demutualization of Saucon Mutual**

Saucon Mutual will be converted from a mutual insurance company into a stock insurance company called "Saucon Insurance Company". Saucon Mutual's articles of incorporation will be amended and restated in the form attached as exhibits to the Plan of Conversion to reflect the name change and to reflect its organization as a stock insurance company, and its bylaws will be amended and restated in the form attached as exhibits to the Plan of Conversion. A description of the material changes in the articles of incorporation and bylaws is set forth below under the heading "Description of Changes in Governance."

Saucon Insurance Company will issue and sell 1,000 shares of its capital stock to Saucon Holding Company for an aggregate purchase price of \$1,425,000. Those shares will constitute all of the outstanding shares of Saucon Insurance Company, so that Saucon Insurance Company will be a wholly-owned subsidiary of Saucon Holding Company.

The directors and officers of Saucon Mutual who are in office immediately prior to closing will remain in office as directors and officers of Saucon Insurance Company.

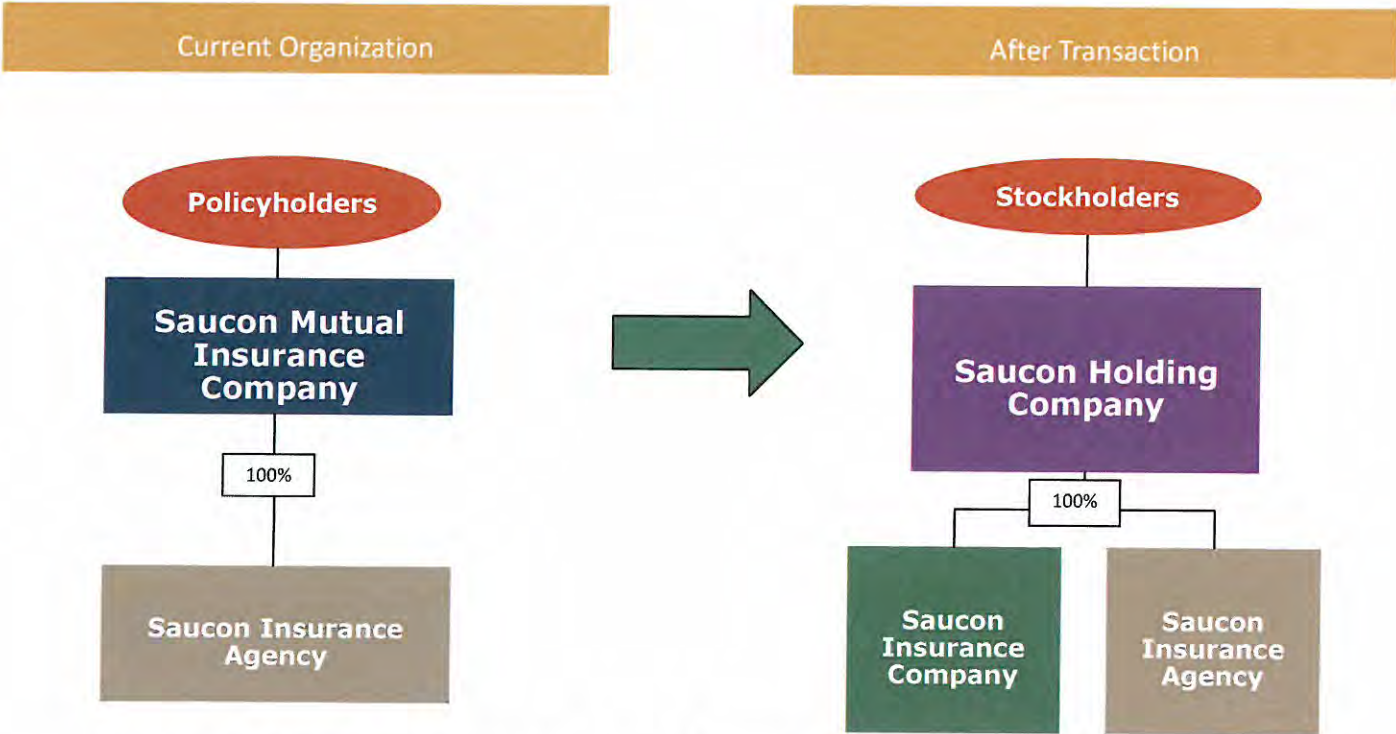
### **Charitable Contribution**

The converted company will make a ~~\$1,000,000~~ \$500,000 charitable contribution to the Lehigh Valley Community Foundation, to be held and applied as described in this member information statement under the heading "Description of Charitable Contribution".

### **Closing of Stock Offering by Saucon Holding Company**

Saucon Holding Company will sell 3,250,000 shares of its capital stock to investors for a subscription price of \$1.00 per share, as described in this member information statement under the heading "Description of Stock Offering of Saucon Holding Company". The stock of Saucon Holding Company being issued in that capital offering will constitute all of the outstanding shares of capital stock of Saucon Holding Company. As a result, the investors in that capital offering will hold all of the outstanding stock of Saucon Holding Company.

The following diagram illustrates the effect of the transactions:



Immediately following the closing, the following transactions will occur:

**Entity Reorganization of the Agency**

Saucon Insurance Company will make a distribution to Saucon Holding Company (its sole stockholder) of all of the capital stock of the Agency, with the result that the Agency will become a direct wholly-owned subsidiary of Saucon Holding Company and will be a sister company (rather than a subsidiary) of Saucon Insurance Company. This distribution will occur immediately after the closing of the demutualization.

As promptly as practicable following the closing, the following transactions will occur:

**Payment of Consideration to Members**

Saucon Insurance Company will pay to each of the Saucon Mutual members their respective consideration as described in this member information statement under the heading “Description of Consideration to Members”.

**Circulation of New Insurance Policy Declarations and/or Amendatory Endorsement**

Because of the changes in the policyholders’ rights (as described in this member information statement under the heading “Description of Changes in 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 following the closing.

## DESCRIPTION OF CHANGES IN POLICYHOLDERS' RIGHTS

Saucon Mutual is a Pennsylvania mutual insurance company. The policyholders' current rights in their capacity as members of the company are set forth in Saucon Mutual's articles of incorporation and bylaws, and under the Pennsylvania Business Corporation Law. From and after the closing of the Demutualization Transactions, policyholders of Saucon Insurance Company (the stock insurance company into which Saucon Mutual will be converted) will no longer be members of the company and will therefore no longer enjoy those rights. This section summarizes the material changes in rights that the policyholders of Saucon Mutual will experience upon the closing of the Demutualization Transactions.

### Voting rights.

Policyholders in their capacity as members of a mutual insurance company have the right to vote on certain matters, such as electing the company's board of directors and approving certain fundamental transactions such as a demutualization, a merger, a liquidation of the company or a sale of all or substantially all assets. Once the company demutualizes and becomes a stock corporation, those voting rights are enjoyed by the company's stockholders rather than its policyholders.

### Dividends.

The board of directors of a mutual insurance company has the right to cause the company to declare and pay dividends (subject to restrictions under applicable law), which are then paid to the policyholders in their capacity as members. Once the company demutualizes and becomes a stock corporation, dividends may be payable to stockholders and/or policyholders if and as declared by the board of directors, and subject to restrictions as provided by law. Policyholders will not have the right to share in the surplus of the company.

It should be noted that Saucon Mutual has not declared or paid any dividends in at least the past 25 years, and the board of directors does not have any present plans to declare or pay any dividends in the foreseeable future, whether or not the Demutualization Transactions close, with the exception of the distribution of the stock of the Agency to Saucon Holding Company, as described under the heading "Description of Demutualization Transactions".

### Excess of liquidation proceeds over liabilities.

Pennsylvania law provides that upon the voluntary dissolution of a mutual insurance company that is not a life insurance company, after discharging or making adequate provision for the company's liabilities, the assets that may not be properly credited to policyholders and members are to be escheated to the Commonwealth of Pennsylvania. This contrasts with the right of stockholders of a stock corporation, who generally have the right to share in the distribution of the assets of a liquidating corporation that remain after discharging or making adequate provision for the discharge of all of the corporation's liabilities.

Because the policyholders of a mutual insurance company incorporated in Pennsylvania do not have the right to share in the liquidation proceeds, Saucon Mutual does not believe that the Demutualization Transactions will materially affect the rights of its policyholders with respect to a liquidation of the company.

## DESCRIPTION OF CHANGES IN GOVERNANCE

Upon the closing of the Demutualization Transactions, the articles of incorporation and bylaws of Saucon Mutual will be amended in order to reflect its conversion into a stock insurance company. The following table summarizes the key changes in the governance of Saucon Mutual:

	<b>Saucon Mutual Insurance Company (before closing)</b>	<b>Saucon Insurance Company (after closing)</b>
<b>Authorization of Stock</b>	None.	1,000 shares of capital stock authorized, all of which will be issued to Saucon Holding Company.
<b>Election of Directors</b>	Election by members of Saucon Mutual (1 vote per member)	Election by Saucon Holding Company, which will be the company's sole stockholder
<b>Initial Makeup of Board of Directors</b>	Brian T. Regan (Chairman) Susan C. Drabic (Vice Chairman) Phillip J. Bell Michael Crofton Martin C. Gilchrist Donna Jean Goss Richard E. Santee, Jr. Bernard J. Story	No change. The incumbent board members will continue to serve until the expiration of their terms, or until their death, resignation or removal.  These individuals will also be the initial board members of Saucon Holding Company.
<b>Initial Officers</b>	Stephen Bajan (CEO) Brian T. Regan (President) Phillip J. Bell (Secretary) Martin C. Gilchrist (Treasurer)	No change. The incumbent officers will continue to serve until the expiration of their terms, or until their death, resignation or removal.  These individuals will also be the initial officers of Saucon Holding Company.
<b>Board members' term of office</b>	Three years. The board is divided into three classes with overlapping terms of office so that approximately one-third of the board members are subject to election every year.	No change.
<b>Term limits of directors</b>	Saucon Mutual's bylaws provide that all directors other than Phillip J. Bell and Susan C. Drabic may be elected to a maximum of five three-year terms.	No change, except that the closing will result in the "reset" of term limits so that all incumbent directors will be considered to be serving their first term.
<b>Holding company</b>	None	Saucon Holding Company will be the company's sole stockholder. The stockholders of Saucon Holding Company (who will be the investors who acquired stock in the stock offering described in this memorandum under the heading "Description of Stock Offering of Saucon Holding Company") will elect the directors of Saucon Holding Company, having one vote per share. The bylaws of Saucon Holding Company will be substantially similar to those of the converted insurance company. The boards of directors of both companies will consist of the same individuals.

## DESCRIPTION OF CHARITABLE CONTRIBUTION

Upon the closing of the Demutualization Transactions, Saucon Insurance Company will make a ~~\$1,000,000~~ 500,000 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, which is the region in which Saucon Mutual’s operations are conducted and where most of its members are located. Its website is <http://www.lehighvalleyfoundation.org/>. Saucon Mutual determined that the contribution to the Lehigh Valley Community Foundation ~~was~~ would be more cost-effective and straightforward than establishing a separate, new 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.

The Lehigh Valley Community Foundation will be entitled to receive a fee for maintaining the Saucon Insurance Company Foundation Fund. 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 to the Foundation.

## DESCRIPTION OF STOCK OFFERING OF SAUCON HOLDING COMPANY

### Stock Offering

As part of the Demutualization Transactions, Saucon Holding Company will close an offering of capital stock to certain investors concurrently with the closing under the Plan of Conversion. The investors who subscribe for stock of Saucon Holding Company in that offering will become all of the stockholders of Saucon Holding Company.

The investors in the Saucon Holding Company stock offering will subscribe for 3,250,000 shares of Saucon Holding Company’s common stock at a subscription price of \$1.00 per share. This means that if the closing occurs, Saucon Holding Company will receive \$3,250,000 in gross proceeds from the stock offering.

### Description of Saucon Holding Company

Saucon Holding Company was organized for the purpose of the transactions contemplated by the Plan of Conversion. It has not issued any shares of capital stock and it has not engaged in any business activities. Upon the closing of the Demutualization Transactions, Saucon Holding Company will become the sole stockholder and parent company of Saucon Insurance Company (the stock insurance company into which Saucon Mutual will be converted when it demutualizes). Immediately after the closing by virtue of the entity reorganization described under the heading “Description of Demutualization Transactions – Entity Reorganization of the Agency”, Saucon Holding Company will



also become the sole stockholder and parent company of the Agency. The articles of incorporation and bylaws of Saucon Holding Company are attached as exhibits to the Plan of Conversion.

### **Participants in Stock Offering**

The proposed demutualization of Saucon Mutual is not a subscription rights demutualization. This means that members of Saucon Mutual, in their capacity as such, are not being offered the right to participate in the capital offering and subscribe for shares of stock of Saucon Holding Company. Instead, the members of Saucon Mutual will receive the consideration described in this member information statement under the heading “Description of Consideration to Members”.

Nine individuals were invited to, and are expected to, subscribe for stock of Saucon Holding Company in the offering. These individuals are board members and members of management of Saucon Mutual. Saucon Mutual expects that three of these individuals will acquire, in the aggregate, approximately 91% of the Saucon Holding Company shares that will be offered, and the other six individuals will acquire, in the aggregate, the balance of the Saucon Holding Company being offered. In order to ensure that the stock offering would be treated as an offering exempt from the registration requirements under federal and state securities laws to minimize the costs and expenses of the stock offering, and in order to assure a continuity of control of the company, no other investors were invited to participate in the stock offering.

### **Use of Proceeds of Stock Offering**

Saucon Holding Company intends to use the proceeds of the stock offering as follows:

<b>Use</b>	<b>\$</b>
Costs and expenses of the Demutualization Transactions (which include the fees of Saucon Mutual’s financial advisor to prepare and deliver the fairness opinion, the fees and expenses of counsel, the fees and expenses of tax and accounting advisors, filing fees with the Pennsylvania Insurance Department, and printing, filing and mailing expenses).	\$700,000 (estimated)
Purchase of 1,000 shares of capital stock of Saucon Insurance Company	\$1,425,000
Cash reserve to be held by Saucon Holding Company	\$1,125,000 (estimated)

The proceeds of the stock offering will exceed the sum of the cash payments to be made to the members of Saucon Mutual, the amount of the charitable contribution to be made by Saucon Mutual, and the estimated costs and expenses of the Demutualization Transactions. This means that after the closing of the Demutualization Transactions, the total assets of Saucon Holding Company on a consolidated basis will be greater than the total assets of Saucon Mutual before the closing.

## FAIRNESS OPINION OF BOENNING & SCATTERGOOD

Saucon Mutual engaged the firm of Boenning & Scattergood as its advisor in connection with the Demutualization Transactions and to provide to the board of directors its opinion as to whether those transactions prejudice the interests of the members of Saucon Mutual, are fair and equitable to the company, and are consistent with the purposes and intent of Pennsylvania's Insurance Company Mutual-to-Stock Conversion Act, from a financial point of view. Boenning & Scattergood is an investment banking firm that specializes, among other things, in representing financial institutions such as mutual insurance companies.

On August 27, 2014, Boenning & Scattergood orally delivered, and subsequently confirmed in writing, its opinion to the board of directors of the company that, based on certain analyses and studies it performed, and subject to certain assumptions and caveats outlined in its opinion and in its accompanying presentation, the Demutualization Transactions did not prejudice the interests of the members of Saucon Mutual, were fair and equitable to the company, and were consistent with the purposes and intent of Pennsylvania's Insurance Company Mutual-to-Stock Conversion Act, from a financial point of view, as of that date. The full text of that opinion is attached as Exhibit 4 to this member information statement.

## RECOMMENDATION OF THE BOARD OF DIRECTORS

On ~~February 4~~April 27, 2015, the board of directors of Saucon Mutual ~~unanimously~~ approved and adopted the Plan of Conversion by the requisite majority and without opposition. **The board of directors of Saucon Mutual recommends that you vote:**

**“FOR” the adoption of the Plan of Conversion; and**

**“FOR” the related amendment of Saucon Mutual's articles of incorporation.**

**SAUCON MUTUAL INSURANCE COMPANY**  
**74 W. Broad Street**  
**Suite 300**  
**Bethlehem, PA 18018**

**NOTICE OF SPECIAL MEETING OF MEMBERS**

To be held on [DATE], 2015

To the Members of Saucon Mutual Insurance Company:

NOTICE IS HEREBY GIVEN that a special meeting of members (the "Special Meeting") of Saucon Mutual Insurance Company, a Pennsylvania mutual insurance company ("Saucon Mutual"), will be held on [DATE], 2015, at \_\_\_\_\_ beginning at \_\_\_\_\_, for the following purposes:

1. To consider and vote upon a proposal to adopt the Second Amended and Restated Plan of Conversion, approved by the Board of Directors of Saucon Mutual on ~~February 4~~ April 27, 2015 (the "Plan of Conversion").
2. To consider and vote upon amendments to Saucon Mutual's articles of incorporation required to convert the company from a mutual insurance company to a stock insurance company.
3. To transact such other business, if any, as may properly come before the Special Meeting or any adjournments, postponements, rescheduling or continuations thereof.

A copy of the Plan of Conversion is enclosed with the member information statement accompanying this notice.

**Saucon Mutual's Board of Directors has approved and adopted the Plan of Conversion and recommends that you vote:**

**"FOR" the adoption of the Plan of Conversion; and**

**"FOR" the related amendment of Saucon Mutual's articles of incorporation.**

All members of Saucon Mutual are cordially invited to attend the Special Meeting. To ensure your representation at the Special Meeting, however, you are urged to sign, date and complete the enclosed proxy card and mail it in the accompanying envelope, whether or not you expect to attend the Special Meeting. No postage is required if mailed in the United States. A Saucon Mutual member may vote in person, even if such member has returned a proxy card, by revoking his, her or its proxy at or before the meeting.

**If you have any questions about the Special Meeting, please contact Stephen Bajan, the Chief Executive Officer of Saucon Mutual, at 74 West Broad Street, Suite 300, Bethlehem PA 18018, telephone (610) 868-1832. You can vote (1) by attending the Special Meeting**

**and voting in person or (2) by completing and returning the enclosed proxy card to our attention. Please see the attached voting instruction sheet for more information.**

By Order of the Board of Directors,

Phillip Bell  
Corporate Secretary  
Bethlehem, PA

**YOUR VOTE IS IMPORTANT. TO VOTE, PLEASE SIGN, DATE AND COMPLETE THE ENCLOSED PROXY CARD AND MAIL IT PROMPTLY IN THE ENCLOSED ENVELOPE.**

**Saucon Mutual Insurance Company  
Special Meeting of Members  
Voting Instructions**

**Special Meeting: Date, Time and Place**

The Special Meeting of members of Saucon Mutual Insurance Company will be held on [DATE], 2015, at \_\_\_\_\_, at \_\_\_\_\_.

**Ways to Vote:**

- **In Person** - Attend the Special Meeting and cast your vote(s).
- **By Mail** - You can vote by mail by filling out the enclosed proxy card(s) and returning it (or them if you have multiple proxy cards) in the envelope provided.

**Who is Eligible to Vote?**

- Saucon Mutual Insurance Company members as of the close of business on the Record Date, which is August 27, 2014, are eligible to vote. If you received a proxy statement, you are entitled to vote.
- Each policyholder with a policy of insurance that was in effect on the Record Date is a member of Saucon Mutual Insurance Company and has one (1) vote.

**What is the Vote Required?**

- The Plan of Conversion will be adopted if the proposal receives approval from at least two-thirds of votes cast at the Special Meeting through voting in person, by proxy, (return by mail), by telephone or by Internet.
- The articles of incorporation will be amended if the proposed amendment receives approval from at least two-thirds of votes cast at the Special Meeting through voting in person or by proxy (return by mail).

**Revoking Your Vote:**

- You can change or revoke your vote by mailing a notice of revocation or a later dated proxy to Saucon Mutual, which must be received by Saucon Mutual prior to 11:59 p.m., Eastern Standard Time on [DATE], 2015, or by attending the Special Meeting and voting in person.

**Receipt of Proxy Statement**

Certain members of Saucon Mutual who share the same address may receive only one copy of the proxy statement, but this will not impact the number of votes you are entitled to cast. This practice, known as “householding,” is designed to reduce printing and postage costs. If you would like additional copies of the proxy statement, please contact Stephen Bajan, the Chief Executive Officer of Saucon Mutual, at 74 West Broad Street, Suite 300, Bethlehem PA 18018, telephone (610) 868-1832.

# Special Meeting Proxy Card

[Proxy Card Number]

Saucon Mutual Insurance Company  
74 W. Broad Street  
Suite 300  
Bethlehem, PA 18018

Special Meeting of Members  
[DATE], 2015  
[LOCATION]

Mr. / Mrs. Member  
1234 Main Street  
Anywhere, USA 12345

Upon arrival, please present this admission ticket and photo identification and any other required documents.

**Please review the Special Meeting of Members - Voting Instructions, which provide detailed instructions for completing this Proxy Card. Using a black ink pen, mark your votes with an X. You must complete Sections A (Voting Items) and C (Authorized Signature). You are urged to mail this Proxy Card in the accompanying envelope, whether or not you expect to attend the Special Meeting.**

## A. Voting Items

The Board of Directors recommend voting FOR items 1 and 2.

1. Adopt the Second Amended and Restated Plan of Conversion of Saucon Mutual Insurance Company, which was approved by the Board of Directors of Saucon Mutual on ~~February 4~~ April 27, 2015.
2. Amend Saucon Mutual Insurance Company's articles of incorporation as necessary to convert the company from a mutual insurance company to a stock insurance company.

	For	Against	Abstain
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## B. Non-Voting Items

Please print your new address below.

Change of Address

## C. Authorized Signature

Please sign exactly as the name(s) appears. Joint policyholders should each sign. When signing as an attorney, executor, administrator corporate officer, trustee, guardian, or custodian, please give your full title.

Date (mm/dd/yy)

Signature 1

Signature 2

Dear Member:

As a member of Saucon Mutual Insurance Company, you are receiving the accompanying member information statement in connection with a Special Meeting of the members of Saucon Mutual. The Special Meeting will be held on [DATE], 2015.

On ~~February 4~~April 27, 2015, the Board of Directors of Saucon Mutual approved ~~an~~ a Second Amended and Restated Alternative Plan of Conversion (which this document refers to as the Plan of Conversion). The Plan of Conversion and certain related documents were then filed with the Pennsylvania Insurance Department for its approval on ~~February 6~~May 7, 2015. Subsequently, on [DATE], the Pennsylvania Insurance Department approved the Plan of Conversion and certain related filings and transactions. The transactions contemplated by the Plan of Conversion have not yet closed, and cannot close until the Plan of Conversion is approved by the vote of at least two-thirds of the members of Saucon Mutual that are cast at the Special Meeting.

At the Special Meeting, we are seeking the members' approval of Saucon Mutual's conversion from a mutual insurance company to a stock insurance company and related amendments to Saucon Mutual's articles of incorporation.

**Saucon Mutual's Board of Directors has approved and adopted the Plan of Conversion and recommends that you vote:**

**"FOR" the adoption of the Plan of Conversion; and**

**"FOR" the related amendment of Saucon Mutual's articles of incorporation.**

Saucon Mutual's Board of Directors wishes to reward the members for their loyalty to the company, and give them an opportunity to receive cash payments and other consideration while leaving the policies in force. This proposed transaction would also result in Saucon Mutual making a ~~\$1-million~~500,000 charitable contribution in furtherance of the company's ongoing commitment to the community.

If the Plan of Conversion is approved and the proposed transactions close, you will be entitled to receive:

**A total cash payment of ~~\$4,023.00~~[AMOUNT]**

This will be comprised of a ~~\$3,414~~[AMOUNT] return of deposit and a ~~\$609~~[AMOUNT] payment in recognition of your loyalty to Saucon Mutual. In addition, an indexed inflation-protection endorsement will continue for the life of your policy with no further deposits required from you. **[FOR PERPETUAL POLICYHOLDERS ONLY:** The balance of your deposit will be returnable in accordance with policy terms.]

**[This section is a sample individual compensation for a perpetual policyholder. It will be individualized for each policyholder. This section will be adjusted accordingly for non-perpetual policyholders].**

The enclosed member information statement summarizes the important features of the Plan of Conversion, such as cash payments and other consideration that members will receive if the proposed transactions close. A copy of the Plan of Conversion is also enclosed. We urge you to read these materials carefully.

You can vote (1) by attending the Special Meeting and voting in person or (2) by completing and returning the enclosed proxy card. Please see the Voting Instructions for more information.

If you have any questions, please contact Stephen Bajan, the Chief Executive Officer of Saucon Mutual, at 74 West Broad Street, Suite 300, Bethlehem PA 18018, telephone (610) 868-1832. We look forward to receiving your proxy vote or seeing you at the Special Meeting. Your vote is important.

Best regards,

Stephen Bajan  
Chief Executive Officer