

Bybee, Cressinda

From: Roggenbaum, Frances R. <FRoggenbaum@saul.com>
Sent: Tuesday, November 10, 2015 12:13 PM
To: Bybee, Cressinda
Cc: Steven L. Bloch
Subject: RE: Saucon Mutual - Steven Bloch Public Comment
Attachments: Saucon Mutual Response to Bloch Comment.pdf

Importance: High

Ms. Bybee: I am submitting herewith Saucon Mutual's response to Steven Bloch's public comment and have copied Mr. Bloch on this submission. Please let me know if you have any questions on this submission.

Thanks so much!

Frances R. Roggenbaum
 Saul Ewing LLP
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From: Bybee, Cressinda [<mailto:cbybee@pa.gov>]
Sent: Tuesday, November 03, 2015 8:25 AM
To: Roggenbaum, Frances R.
Subject: Saucon Mutual - Steven Bloch Public Comment

The following public comment relating to the subject filing is being forwarded to you for appropriate response.

Cressinda E. Bybee | PIR | Senior Insurance Company Licensing Specialist
 Insurance Department | Bureau of Company Licensing and Financial Analysis
 1345 Strawberry Square | Hbg, PA 17120
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From: Steven L. Bloch [<mailto:sbloch@baileyglasser.com>]
Sent: Monday, November 02, 2015 3:22 PM
To: Rankin, Kimberly
Cc: Daubert, Amy
Subject: RE: Saucon Mutual Telephone Discussion

Ms. Rankin/Ms. Daubert:
 Please see the enclosed correspondence.

Thank you,
 Steven Bloch

Steven L. Bloch
Bailey & Glasser LLP
T: (610) 834-7506

From: Rankin, Kimberly [<mailto:krankin@pa.gov>]
Sent: Wednesday, October 21, 2015 12:03 PM
To: Steven L. Bloch <sbloch@baileyglasser.com>
Cc: Daubert, Amy <adaubert@pa.gov>; Frantz, Jodi (Insurance) <jodfrantz@pa.gov>; Bybee, Cressinda <cbybee@pa.gov>
Subject: Saucon Mutual Telephone Discussion

Mr. Bloch, Please see the attached correspondence. Thank you, Kim

Kimberly A. Rankin | Director, Company Licensing & Financial Analysis
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"Saul Ewing LLP <saul.com>" made the following annotations:

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Response of Saucon Mutual Insurance Company to the November 2, 2015 Comment of Steven Bloch of Bailey Glasser LLP on the Proposed Plan of Conversion

Saucon Mutual Insurance Company (“Saucon Mutual” or the “Company”) is responding to the November 2, 2015 comment letter from Steven Bloch of Bailey Glasser LLP, counsel to Saucon Mutual policyholders Marilyn Steinleitner and Tiffany Hudock, personal representative of the Estate of William Bedics (hereinafter, “Bloch Comment Letter”).

Saucon Mutual believes that substantially all of the comments in the Bloch Comment Letter have been previously addressed at the Public Informational Hearing on the Saucon Mutual Plan of Conversion (the “Hearing”), a transcript of which is posted on the website of the Pennsylvania Insurance Department (“Department”) at www.insurance.pa.gov, and other documents filed by Saucon Mutual that are also available for viewing by the public on Department’s website, including but not limited to the Saucon Mutual September 11, 2015 Response to Public Comments Made at the Hearing (“Response Letter”) and the amended Member Information Statement and Proxy Statement filed by Saucon Mutual on October 3, 2015 to ensure that all Saucon Mutual members have the information contained in the Response Letter for their consideration in voting on the Plan of Conversion (as further amended to address comments made by the Department and filed by Saucon Mutual on October 20, 2015 (hereinafter, the “Member Information Statement”). However, Saucon Mutual is happy to reiterate the information previously provided as well as respond to any statements in the Bloch Comment Letter not specifically previously addressed.

Comment No. 1 – The determination by the Saucon Mutual Board to pursue an alternative plan of conversion rather than a subscription rights conversion circumvents the letter and/or spirit of provisions in the Pennsylvania Mutual-to-Stock Conversion Act (40 P.S. § 911-A *et seq.* (the “PA Conversion Act”).

As set forth in the PA Conversion Act, an alternative plan of conversion that “does not rely in whole or in part upon issuing nontransferable subscription rights to members to purchase stock of the converted stock company” is specifically authorized. The Department’s analysis of and approval of any alternative plan must find “that the plan does not prejudice the interests of the members, is fair and equitable and is not inconsistent with the purpose and intent” of the PA Conversion Act. Saucon Mutual’s Board adopted its proposed alternative Plan of Conversion under this specific authorization in the PA Conversion Act and believes that its adopted Plan meets the specific criteria for approval by the Department.

As set forth in the Response Letter, the Member Information Statement and the other materials filed with the Department and publicly available on the Department’s website, the Saucon Mutual Board established the following objectives for a conversion to a stock insurer: (i) rewarding Saucon Mutual’s members for their loyalty to the Company; (ii) making a charitable contribution in furtherance of the Company’s ongoing commitment to the community (including people who once were, but no longer are, policyholders of Saucon Mutual and, thus, would not receive direct compensation under a conversion); (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.

Saucon Mutual's Board believes that its adopted Plan of Conversion meets its objectives listed above as well the requirements and standards of the PA Conversion Act in the following ways:

- Rewarding Members for their Loyalty to the Company. The consideration that members of Saucon Mutual as of date of the Board's adoption of the Plan of Conversion (the "Record Date") would receive upon the closing of the Conversion would depend, in part, upon the number of years that the member's policy had remained in force as well as the premium or deposit paid by the member, thus rewarding members for their loyalty to the Company in maintaining their policies. The aggregate amount of the payments to members is estimated to be approximately \$1,564,839 assuming a July 31, 2015 closing date and will be slightly higher with a later closing date. In addition, perpetual policyholders will receive other consideration not in the form of cash payments of approximately \$500,000.
- Making a charitable contribution in furtherance of the Company's ongoing commitment to the community. Upon the closing of the Conversion, the Company will make a \$500,000 cash contribution to the Lehigh Valley Community Foundation, a public charitable organization operating since 1967 for the purposes of stewarding philanthropic resources from institutional and individual donors to community-based organizations that serve the Lehigh Valley. The contributions committee of the converted company's (Saucon Insurance Company) board of directors will make recommendations as to how those funds should be disbursed by the Foundation for charitable purposes. The members of the contribution committee will not be compensated for their service on the committee. In addition, after discussion with the Department, the Company has committed to making additional charitable contributions to the Foundation of \$100,000 per year for 5 consecutive calendar years beginning with the first full calendar year after closing of the Conversion. As mentioned above, the Board believes that such a charitable contribution will benefit not only the community in general, but also people in the community who once were, but no longer are, policyholders of the Company and, thus, will not receive direct compensation in the Conversion.
- 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:
 1. To sell the shares to investors to raise capital for the company;
 2. To secure debt and other instruments issued to financing sources;
 3. 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
 4. 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, it has written very few new insurance policies since 2005. Saucon Mutual's personnel and business systems are adequate to maintain the existing insurance policies and their renewals in full force and effect, but the Company does not presently have sufficient personnel and infrastructure to enable it to issue new insurance policies. The Board believes that converting the Company to a stock insurer 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 underwriting new insurance. Upon closing of the Conversion, the Company will begin work on developing infrastructure for underwriting insurance, including systems, claims, underwriting, documentation, and development of a distribution network. While this infrastructure is being developed, the Company intends to re-enter insurance underwriting in an indirect and measured way by initially exploring reinsurance opportunities where Saucon Insurance Company would be the quota share reinsurer of compatible products of another insurer.
- Maintaining the Independence of the Company. Upon the closing of the Conversion, the converted Company (Saucon Insurance Company) will become a wholly-owned subsidiary of Saucon Holding Company. The stock of Saucon Holding Company in turn will be purchased by investors in a concurrent stock offering. The investors in that stock offering are individuals who are Board members or members of management of Saucon Mutual, rather than being other persons or entities, including other insurance companies, thus, maintaining the independence of the Company. The stock offering is expected to raise a total of \$3,250,000 which will provide a cash reserve for future investments and needs of both Saucon Holding Company and Saucon Insurance Company. The Company will continue to be located in the Lehigh Valley offering local employment and serving Pennsylvania consumers.
- Modernizing the Company's Governance Structure. The Board 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 via the Conversion is a more appropriate structure to accomplish this goal than as a mutual company. For example, 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 member's commercial relationship with the Company and the weight of that member's vote. In 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 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.

In consideration of its objectives for a conversion, the Board examined other mutual-to-stock conversions in Pennsylvania under the various alternatives for mutual insurer conversions in the PA Conversion Act, including:

- Subscription rights conversions (where, in exchange for the extinguishment of their membership rights in the mutual insurer, members of the mutual insurer (i.e. its policyholders) are given the right to purchase stock in the converted insurer and, if there is insufficient member interest in the purchase of such stock, the right to purchase is opened to others);
- Mutual holding company conversions (where a mutual holding company is formed with members of the mutual insurer obtaining “mutual rights” in the mutual holding company and their rights under the insurance contract remaining with the converted insurance company; and, in some mutual holding company conversions, where a stock holding company is formed in between the mutual holding company and the converted insurance company, and capital is raised for the stock holding company directly and the converting insurer indirectly by giving members and others the right to purchase stock in the stock holding company); and
- Alternative conversions as specifically authorized in the PA Conversion Act at 40 P.S. § 917-A (where, typically, members receive consideration for the extinguishment of their membership rights in the form of cash or coverage benefits, e.g. a specified amount of coverage at no cost for a specified period of time, in lieu of subscription rights in the converted insurer or a stock holding company or mutual rights in a mutual holding company).

In its examination and evaluation of prior conversions, the Board observed that, in prior subscription rights conversions and mutual holding company conversions that provided subscription rights in a stock holding company, very few members of the mutual insurers chose to purchase stock in the converting insurer or the stock holding company (possibly because of a lack of ability or desire to invest in such stock and/or, while the purchase of stock allows for the acquisition of an asset, it may be illiquid to the member and of no immediate value). Historically, subscription rights conversions benefit the sophisticated few with the vast majority of policyholders receiving nothing.

For mutual holding company conversions where the sole consideration is membership rights in the mutual holding company, there is nothing of immediate value given to the mutual insurer’s members in consideration for extinguishment of their membership rights in the converting insurer. The Board also observed that mutual holding company conversions raise no capital unless the “second step,” a stock holding company, is formed; that prior mutual holding company conversions resulted in subsequent conversion of the mutual holding company; and that few mutual holding company conversions have been pursued in recent years due to adverse litigation in prior mutual holding company conversions, the significant cost and timeframe for the two-step process, and the resulting policyholder confusion.

After consideration of the available options for converting to a stock insurer, Saucon Mutual’s Board determined that its objectives were best met via an alternative conversion with

consideration to be paid to all policyholders who were members of Saucon Mutual on the Record Date.

In determining the amount of consideration to be paid to policyholders, the Saucon Mutual Board, in conjunction with its financial advisors, determined that the consideration would exceed policyholder consideration paid in previous alternative plan conversions while allowing the Company to maintain its financial viability for pursuing its objective to re-enter the insurance underwriting business. As set forth in the Fairness Opinion issued by Boenning & Scattergood (“Boenning”), “the Financial Consideration to Saucon’s policyholders pursuant to the Plan of Conversion is fair and equitable, from a financial point of view, to the policyholders of Saucon taken as a whole.”

In conclusion, an alternative plan of conversion that “does not rely in whole or in part upon issuing nontransferable subscription rights to members to purchase stock of the converted stock company” is specifically authorized in the PA Conversion Act and the Department has the sole authority to determine if Saucon Mutual’s proposed alternative Plan of Conversion “does not prejudice the interests of the members, is fair and equitable and is not inconsistent with the purpose and intent” of the PA Conversion Act. If approved by the Department, Saucon Mutual’s members will then have the ability to vote to approve or disapprove the proposed alternative plan.

Comment No. 2 – Certain documents and materials filed by Saucon Mutual with the Department were filed as confidential documents and, as such, are not posted on the Department’s website and not available for public viewing and analysis.

Saucon Mutual and the applicants to the Form A Acquisition of Control filing asserted confidentiality of certain documents and materials that it was required or requested to file with the Department as part of its application for approval of the Plan of Conversion and Form A Acquisition of Control. Confidentiality was asserted pursuant to the Department’s protocol and practice on confidentiality as set forth in the “Confidentiality of Filed Documents” notice.¹

Mr. Bloch raised a question on the confidentiality of these documents and materials at the Hearing and was advised by Department Counsel of the provisions of Pennsylvania’s Right-to-Know (“RTK”) law, that Mr. Bloch, his clients and any other member of the public can make a RTK request. Counsel summarized the review process under the RTK law and specifically noted that a RTK requester could appeal to the Pennsylvania Office of Open Records any determination by the Department that a particular document or documents are confidential under provisions of the RTK law. (Saucon Mutual is not aware that, to date, any RTK request has been made to the Department.) The Department also advised at the Hearing that it believes that the

¹ Confidentiality was asserted for certain documents under provisions of the Pennsylvania Insurance Holding Companies Act, 40 P.S. § 991.1401 *et seq.*, and supporting regulations (31 PA Code Chapter 25); provisions of the Pennsylvania Right-to-Know law, 65 P.S. § 67.101 *et seq.*, including but not limited to § 67.102 and § 67.707, as containing personally sensitive information or being of a confidential, proprietary and/or trade secret nature, the disclosure of which would cause material harm to the competitive position of the Saucon Mutual and the individual applicants in the Form A; and information that falls within the definition of “trade secret” of 12 Pa. C.S. § 5302.

documents referenced in the Bloch Comment Letter are correctly categorized as confidential documents.

With respect to the reference in the Bloch Comment Letter about the \$0 book value of Saucon Insurance Agency (“SIA”), SIA serves primarily as an outlet for Saucon Mutual insureds for whom the Company has been unable to provide coverage, e.g. umbrella, auto coverage, new property purchases, etc. SIA has no full-time staff, only a limited number of carrier appointments, and is not a self-sufficient operation. For three of the past four fiscal years, the tangible book value of SIA was negative.

Comment No. 3 – That no valuation or assessment was made on the value of Saucon Mutual, the purchase price being paid for the converted Saucon Mutual or the compensation being paid to policyholders “for their ownership interest” under the alternative plan.

As described in Response Letter, the Member Information Statement and other documents in the Conversion filing made with the Department and set forth on the Department’s website, the investors in the Saucon Holding stock offering will subscribe for 3,250,000 shares of Saucon Holding common stock at a subscription price of \$1.00 per share, resulting in Saucon Holding receiving \$3,250,000 in gross proceeds. Of that amount, Saucon Holding will purchase the stock of the converted Saucon (Saucon Insurance Company) for \$1,425,000 (the amount required under Pennsylvania insurance law for Saucon Insurance Company to meet the statutory minimum paid in capital and surplus requirements), with the remainder (\$1,125,000) to be used as a cash reserve for future investments and needs of both Saucon Holding Company and Saucon Insurance Company.

The Saucon Holding share price was set to exceed the sum of the cash payments to be made by Saucon Mutual to its eligible members, the amount of the charitable contribution and the estimated costs and expenses of the Conversion transactions, with the result that, after the closing of the Conversion transactions, the total assets of Saucon Holding (on a consolidated basis with Saucon Insurance Company) would be greater than the total assets of Saucon Mutual prior to the Conversion.

With respect to the reference in the Bloch Comment Letter to an “ownership interest” of policyholders, as set forth in Saucon Mutual’s Conversion filing posted on the Department’s website, members of a mutual insurer have certain voting rights, such as the right to elect directors of the insurer and the right to approve a conversion to a stock insurer. In addition, members have the right to participate in any dividends declared by the mutual insurer’s Board. Upon conversion of a mutual insurer, these rights are extinguished.

Members of a mutual insurer do not own either the company or its surplus. As set forth in Pennsylvania law, upon the liquidation of a mutual company, the remaining proceeds (after satisfaction of liabilities and claims) would be escheated to the Commonwealth of Pennsylvania. Thus, upon liquidation of a mutual insurer, policyholders would have the right only to unpaid claims under their policies and to the amount of the unearned cash premium last paid to the

company for the current policy term. Saucon Mutual's policyholders are receiving substantially more consideration under the Conversion than they would receive if Saucon Mutual were to be liquidated.

Comment No. 4: That Boenning & Scattergood, Inc. ("Boenning"), which submitted the fairness opinion on the Saucon Mutual Plan of Conversion, has an inherent conflict of interest in that it is serving as both financial advisor to Saucon Mutual and its Board in connection with the proposed Conversion and as issuer of the fairness opinion supporting the proposed Conversion.

As set forth in the Response Letter, the Board of Saucon Mutual elected to obtain a fairness opinion even though a fairness opinion is not required by the PA Conversion Act. The Boenning engagement letter provided that 25% of the total fee was associated with the fairness opinion and only 25% of the fee (i.e. \$75,000) is contingent upon closing of the Conversion. In this way, and unlike larger fee transactions where significant portions and meaningful dollar amounts are contingent upon the fairness opinion and/or closing, the Board reduced any incentive for a fairness opinion conflict on fees owned. Also noted in the Response Letter was that the Fairness Opinion letter itself contains the basic Securities Exchange Commission requirements for investment banker fairness opinions and that fees for the Fairness Opinion provided by Boenning as well as the contingent fees do not exceed standard practice nor are they substantial.

Comment No. 5: That the Member Information Statement, Response Letter and Written Testimony for the Hearing fails to disclose and/or provides misleading material information regarding the proposed Conversion, including: (1) information, documents and data on the operations and financial prospects of Saucon Mutual and the new stock company, and an explanation of why Saucon Mutual has shuttered its operations for a decade, and can only resume operations and re-enter the insurance underwriting business after the proposed Conversion; (2) the ownership interests of the policyholders in Saucon Mutual and Saucon Mutual's assets; (3) the rationale for not providing subscription rights to policyholders under a traditional method of converting; (4) the reasons for converting to a stock company and who benefits from the Conversion; (5) the dual and conflicted role of Boenning; and (6) the fact that the Board established the purchase price and compensation to policyholders without analysis of fair or market value.

Saucon Mutual believes that the information provided in its Member Information Statement is accurate and allows for its members to be able to make a fully informed decision on whether to vote for or against the proposed Conversion. While a number of the six (6) items in this Comment No. 5 of the Bloch Comment Letter have been addressed above – as well as in the documents referenced in Comment No. 5, Saucon Mutual is providing the following responses.

Item 1: Information on Saucon Mutual's operations/financial status and its rationale for a moratorium on writing new business and resuming underwriting operations post-Conversion.

A substantial amount of information on the operations of Saucon Mutual is set forth in the Member Information Statement, Response Letter and Written Testimony, including the following information on why Saucon Mutual substantially stopped writing new business in 2005 and will re-enter the insurance underwriting business after the Conversion.

Since December 2005, the Company has written no new perpetual insurance policies and has written only a few term policies since that time. Perpetual policies are a unique product and, to Saucon Mutual's knowledge, it is one of three existing insurers in Pennsylvania that has written perpetual policies. The unique nature of perpetual policies is that, in lieu of annual premium payments, the policyholder makes one up-front payment (the deposit) and then no further payments throughout the life of the policy unless there is an increase in or addition of coverage. Upon termination of a perpetual policy, the deposit is returned in full to the policyholder. Because policyholder deposits are returnable at the end of the policy, they are treated as liabilities of the Company. Accordingly, the only source of revenue to pay claims and administrative costs under perpetual policies is the investment return on policyholder deposits.

Saucon Mutual found – as have other insurers that have offered perpetual coverage – that it is difficult to maintain financial viability in a low interest rate environment. In addition to the challenges presented by a low interest rate environment, there were a number of events that occurred in the 2004-2005 timeframe that caused the Company to declare a moratorium on writing new perpetual policies:

- First, in September of 2004, Saucon Mutual was informed by the IRS that, due to a tax law change, the Company would no longer be tax exempt. The Company realized that this change would have an impact on the profitability and policyholder surplus growth of the Company in future years.
- Second, during 2004 and 2005 the Company had a significant increase in business as a result of the Greentree Perpetual Insurance Company insolvency and Saucon Mutual's writing of many Greentree perpetual clients (Saucon Mutual reported an increase in deposits as a result of this new business in the range of \$1.5 million during 2005). A consequence of writing these new policies for former Greentree clients was a reinsurance premium quote that was \$124,000 higher than the prior year. Saucon Mutual was able to lessen the increase to only approximately \$81,000 by negotiating differing limits of reinsurance coverage and increased retention levels. However, even with this lesser reinsurance premium increase, the investment return on the total deposits then held by Saucon Mutual would not be able to cover the increased cost of reinsurance, let alone losses, overhead or profit. As a result, the Company questioned the profitability of its perpetual product and commissioned an actuarial study by Grace Actuarial Consulting Inc. to review Saucon Mutual's product and pricing. The conclusion of the actuary was that "the product loses significant amounts of money" and that the only way to try to reverse the perpetual product losses for new business was to charge a significantly higher deposit – which Saucon felt was not a feasible solution since

it was unlikely that prospective perpetual policyholders would pay the amount of deposit necessary to achieve profitability.

- Third, in mid-2005, Saucon Mutual was informed by A.M. Best that, due to the Company's declining surplus trend over the previous five years, Saucon Mutual would have to demonstrate significant changes in its business to maintain its A rating.

Each of these events also presented significant challenges to Saucon Mutual entering the insurance underwriting business for other products, i.e. term policies. For example, Saucon Mutual had minimal personnel and infrastructure needed to service its perpetual policies and, due to offering the coverage directly, had no producer relationships in place. In addition, Saucon Mutual had difficulty attracting and retaining qualified management for the Company (four CEOs have been with the Company since 2006 and it is only since Stephen Bajan's hiring in 2012 that the Company has stable management). Due to its challenges and a continued low interest rate environment, Saucon Mutual identified and met with several potential merger partners to see if it could address its challenges via merger; however, none of these discussions led to a viable merger proposal. As a result, the Board began the process of considering alternatives – including a conversion – for the Company to be able to pursue its objective of re-entering the insurance business.

It's also important to note that when A.M. Best was informed of the Plan of Conversion in September of 2014, it was satisfied that Saucon Mutual's financial strength would not be compromised by the Conversion, hence the continuation of the Company's "A" rating. However, the unknowns surrounding the risk involved in re-entering the insurance underwriting business after consummation of the Conversion led to the assignment of a negative outlook. In light of the A.M. Best's concern about the unknown risks involved in re-entering the insurance underwriting business, the Company has a conservative business plan that provides for the Company to deliberately and methodically take the steps necessary to re-enter the insurance underwriting business while preserving its surplus. Upon closing of the Conversion, the Company will immediately begin work on developing infrastructure for underwriting insurance, including systems, claims, underwriting (including hiring of an underwriter), documentation, and development of a distribution network. While this infrastructure is being developed, the Company intends to re-enter insurance underwriting in an indirect and measured way by initially exploring reinsurance opportunities where Saucon Insurance Company would be the quota share reinsurer of compatible products of another insurer. The Company will begin to engage in direct underwriting only when the necessary infrastructure and personnel are in place. The Company has already conducted research of the market and believes there is an unmet need for additional capacity for property insurance for churches, which is a market to which Saucon feels a certain affiliation because of its Moravian roots.

With respect to financial information, Saucon Mutual posts key financial highlights on its website, provides annually to all members a summary of its annual financial statement with the proxy materials mailed to members in advance of the Company's annual meeting, and includes as an exhibit to the Member Information Statement its unaudited, condensed comparative annual

statement for the fiscal years ended December 31, 2014, December 31, 2013 and December 31, 2012. In addition, more detailed information on Saucon Mutual's financial status can be viewed in its statutory financial statements which are available from the NAIC website at <https://eapps.naic.org/cis/>.

Item 2: Information on the "ownership interests" of the policyholders in Saucon Mutual and Saucon Mutual's assets.

As described above in response to Comment No. 3, members of a mutual insurer do not own either the company or its surplus. This information is clearly set forth in the Member Information Statement, as follows:

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 will no longer be members of the company and will therefore no longer enjoy these or other rights afforded to members of mutual insurance companies. 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 stockholder 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.

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 dissolution of a mutual fire insurance company, after discharging or making adequate provision for the company's liabilities for the payment of claims and return of unearned premium, all remaining assets are 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 fire 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 affect the rights of its policyholders with respect to a liquidation of the company.

Item 3: The rationale for not providing subscription rights to policyholders under a traditional method of converting.

The rationale for not providing subscription rights to policyholders is described above in response to Comment No. 1 as set forth in the Response Letter and as clearly disclosed in the Member Information Statement under the heading of "Considerations For and Against the Proposed Demutualization," as follows:

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 also examined other mutual-to-stock conversions in Pennsylvania under the various alternatives for mutual insurer conversions in Pennsylvania law, including:

- Subscription rights conversions (where, in exchange for the extinguishment of their membership rights in the mutual insurer, members of the mutual insurer (*i.e.*, its policyholders) are given the right to purchase stock in the converted insurer and, if there is insufficient member interest in the purchase of such stock, the right to purchase is opened to others);
- Mutual holding company conversions (where a mutual holding company is formed with members of the mutual insurer obtaining "mutual rights" in the mutual holding company and their rights under the insurance contract remaining with the converted insurance company; and, in some mutual holding company conversions, where a stock holding company is formed in between the mutual holding company and the converted insurance company, and capital is raised for the stock holding company directly and the converting insurer indirectly by giving members and others the right to purchase stock in the stock holding company); and
- Alternative conversions (where, typically, members receive consideration for the extinguishment of their membership rights in the form of cash or coverage benefits, e.g. a specified amount of coverage at no cost for a specified period of time).

In its examination and evaluation of prior conversions, the board observed that, in subscription rights conversions and mutual holding company conversions by other mutual insurance companies that provided subscription rights in a stock holding company, very few policyholders of the converting mutual insurers chose to purchase stock in the converting insurer or the stock holding company (possibly because of a lack of ability or desire to invest in such stock, or because, while the purchase of stock allows for the acquisition of an asset, it may be illiquid to the member and of no immediate value). Historically, subscription rights conversions benefit the sophisticated few with the vast majority of policyholders receiving nothing. The board concluded that a subscription rights conversion would not be compatible with the goal of rewarding all Eligible Members for their loyalty to the company.

For mutual holding company conversions where the sole consideration is membership rights in the mutual holding company, there is nothing of immediate value given to the mutual insurer's members in consideration for extinguishment of their membership rights in the converting insurer. The board also observed that mutual holding company conversions raise no capital unless the "second step," a stock holding company, is formed; that prior mutual holding company conversions resulted in subsequent conversion of the mutual holding company; and that few mutual holding company conversions have been pursued in recent years due to adverse litigation in prior conversions, the significant cost and timeframe for the two-step process, and the resulting policyholder confusion. The board concluded that such a mutual holding company conversion would not be compatible with the goal of rewarding members for their loyalty to the company.

After thoroughly reviewing its available strategic alternatives, the board 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 consistent 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.

Item 4: The reasons for converting to a stock company and who benefits from the Conversion.

The reasons for and benefits of the Conversion are discussed above in the response to Comment No. 1.

Item 5: The dual and conflicted role of Boenning.

In addition to the information provided above under Comment No. 4, in the Fairness Opinion issued by Boenning that will be provided to all Saucon Mutual policyholders as part of the Member Information Statement, Boenning clearly discloses its dual role as follows:

We have served as Saucon's financial advisor in connection with the Conversion and will receive a fee for our service, a portion of which is contingent upon consummation of the Conversion. We will also receive a fee for rendering this opinion. Our fee for rendering this opinion is not contingent upon any conclusion that we may reach. Saucon has also agreed to indemnify us against certain liabilities arising out of our engagement.

Item 6: That the Board established the purchase price and compensation to policyholders without analysis of fair or market value.

Purchase Price: The method of establishing the purchase price and compensation to policyholders is clearly disclosed in both the Form A Acquisition Statement and the Member Information Statement as follows:

Form A – Acquisition Statement:

Criteria Used in Determining the Nature and Amount of the Consideration. The nature and amount of consideration to be paid for by the Investors for the purchase of the Saucon Holding stock were determined so that the aggregate amount of consideration to be paid for the Saucon Holding stock would exceed the sum of the cash payments to be made to Saucon Mutual's eligible members, the amount of the charitable contribution to be made at closing by Saucon Mutual, and the estimated costs and expenses of the Conversion transactions, with the result that, after closing of the Conversion transactions, the total assets of Saucon Holding on a consolidated basis would be greater than the total assets of Saucon Mutual before the closing.

Member Information Statement:

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 as described under the heading "Participation Stock Offering." 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 purchase the stock of Saucon Insurance Company, thereby becoming its sole stockholder and parent company. 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” and will not be entitled to receive any additional consideration or rights.

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 (Brian T. Regan, Michael G. Crofton and Martin C. Gilchrist, all of whom are board members of Saucon Mutual) will acquire, in the aggregate, approximately 91% of the Saucon Holding Company shares that will be offered, and the other six individuals (Susan C. Drabic, Bernard J. Story, Phillip J. Bell, Donna B. Goss and Rick Santee, who are all of the other members of the board of directors, and Stephen Bajan, who is the Chief Executive Officer of Saucon Mutual company) will acquire, in the aggregate, the balance of the Saucon Holding Company shares being offered.

The investors are deeply committed to the company, have worked for many years to ensure the company’s financial viability, and believe in its future. Because the process of rebuilding insurance operations for continued financial viability is likely to take a number of years to fully implement, the company wanted investors who are fully committed to the direction of the company and who accept and understand both that the possibility for any return on that investment is long-term in nature and that the company is subject to oversight by the Pennsylvania Insurance Department to assure the well-being of the insurance company and the protection of its policyholders.

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. Legally, an offering of securities such as the Saucon Holding Company stock may be made only if the offering either complies with the registration requirements under federal and state securities laws, or an exemption from registration is available. The board of directors of Saucon Mutual determined that taking into consideration Saucon Mutual's policyholder base, the amount of capital to be raised through the sale of stock of Saucon Holding Company, the costs, expenses and time commitment that a registration of the Saucon Holding Company stock under federal and state securities laws would involve, and the requirements of available exemptions from registration, the most practical alternative was to limit the stock offering of Saucon Holding Company to members of the board of directors and members of management of Saucon Mutual.

Shareholders Agreement of Saucon Holding Company

The individuals who participate in the stock offering of Saucon Holding Company will be required, as a condition to their participation, to execute a shareholders agreement of Saucon Holding Company. That shareholders agreement will provide that:

- The transfer of stock of Saucon Holding Company is restricted. In general, these restrictions provide that a shareholder of Saucon Holding Company may not transfer any shares unless either (i) the board of directors of Saucon Holding Company approves the transfer, or (ii) the transferring shareholder first gives Saucon Holding Company and the other shareholders a right of first refusal to purchase the shares. However, the agreement permits a shareholder of Saucon Holding Company to make certain transfers of stock to family members and certain other affiliates.
- If Saucon Holding Company proposes to issue new securities, it must first afford the existing shareholders a right of first refusal to purchase those shares in order to maintain their respective proportionate ownership interest.
- A shareholder of Saucon Holding Company may require Saucon Holding Company to purchase that shareholder's shares following that shareholder's death.

It is expected that the transfer restrictions and share repurchase provisions set forth in the shareholder agreement of Saucon Holding Company, together with the facts that the stock of Saucon Holding Company will not be publicly traded and that Pennsylvania law imposes restrictions and requirements on a change of control of a Pennsylvania insurance company, will in the aggregate have the result that the current board members and members of management of Saucon Mutual, once they purchase the stock of Saucon Holding Company, will own and control Saucon Holding Company and therefore Saucon Insurance Company for the foreseeable future. For these reasons, Saucon Mutual does not believe that after the closing of the Demutualization Transactions, a subsequent

change in control of Saucon Holding Company or of Saucon Insurance Company is likely to occur in the foreseeable future.

Use of Proceeds of Stock Offering

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

Use	\$
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 are expected to exceed the sum of the cash payments to be made to the Eligible Members, the amount of the charitable contributions to be made by Saucon Insurance Company, 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 with Saucon Insurance Company) will be greater than the total assets of Saucon Mutual before the closing.

In conclusion, Saucon Mutual believes that it has accurately and appropriately addressed and disclosed information in its Member Information Statement that will allow for its members to be able to make a fully informed decision on whether to vote for or against the proposed Conversion.