

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

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MEMBER INFORMATION STATEMENT ~~AND~~ PROXY STATEMENT  
AND OFFERING DOCUMENT

for  
SPECIAL MEETING OF MEMBERS  
to be held on [DATE], ~~2015~~ 2017

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## INTRODUCTION

~~This member information statement and proxy statement is being given by the board of directors and offering document (this “Member Information Statement”) is presented 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-Eligible Members to be voted at the special meeting of members-Eligible Members of Saucon Mutual that is to be held on [DATE], 2015-2017 at [LOCATION] (the “Special Meeting”). Certain terms used in this Member Information Statement are explained in the Glossary that follows this Introduction.~~

The ~~board of directors~~-Board of Directors has called the Special Meeting to vote on a proposal to approve a ~~plan of conversion to demutualize~~ the Third Amended and Restated Alternative Plan of Conversion of Saucon Mutual Insurance Company (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~~’s conversion 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.

~~As discussed more fully in this statement, the board of directors is recommending that the members approve the Plan of Conversion. As discussed more fully in the “Conflict of Interest” section of this statement, the board of directors has a conflict of interest related to the Plan of Conversion, and members of Saucon Mutual must be fully informed about the conflict before voting on the Plan of Conversion. The directors and management of Saucon Mutual are the only people who were invited to subscribe for stock of Saucon Holding Company, the company that will be the sole shareholder of the converted Saucon Mutual. Accordingly, the board of directors’ conflict of interest is one of several factors that members should consider in voting on the Plan of Conversion.~~

~~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~~-The Board of Directors has set August 27, 2014 as the record date (the “Record Date”) for determination of ~~members-Eligible 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. Those members are referred to in this member information statement as the “Eligible Members.”~~ The principles for determining who is an Eligible Member are discussed in this Member Information Statement under the heading “Questions and Answers Relating to the Special Meeting, the Plan and the Conversion Transactions- Who is an Eligible Member of Saucon Mutual?” Only Eligible Members of Saucon Mutual 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~~ and only Eligible Members of Saucon Mutual may receive the Member Compensation or, alternately, subscribe for shares ~~this member information statement, of Saucon Holding Company, the holding company being organized to acquire the shares of the stock insurance company into which Saucon Mutual is to be converted (“Saucon Holding”), in the First Stage Offering. This Member Information Statement, its exhibits and the accompanying proxy card are being mailed to persons who are Eligible Members.~~

~~The Board of Directors is recommending that the Eligible Members approve the Plan. As discussed more fully in the “Conflict of Interest” section of this Member Information Statement, the Board of Directors has a conflict of interest related to the Plan, and the Eligible Members should consider the Board of Directors’ conflict of interest as one of the factors in voting on the Plan.~~

The Plan contemplates that Eligible Members may either receive Member Compensation, as described more fully in this Member Information Statement under the heading “Description of Member Compensation,” or subscribe for shares of Saucon Holding, subject to certain limitations, as described more fully in this Member Information Statement under the heading “Description of Saucon Holding Offering.” An Eligible Member who subscribes for the shares of Saucon Holding will not receive Member Compensation. An investment in the shares of Saucon Holding shares is subject to significant risks. Prospective investors should carefully review this Member Information Statement and all of the enclosed documents and materials, evaluate the risks, and consider whether the shares of Saucon Holding would be a suitable investment, before making an investment decision.

In order to close the transactions contemplated by the Plan ~~of Conversion~~, the Plan ~~of Conversion~~ ~~must (i) be approved by the Pennsylvania Insurance Department and (ii) must~~ be approved by the vote of at least two-thirds of the Eligible Members that are cast at the Special Meeting. Each Eligible Member is entitled to cast one vote at the Special Meeting, and may vote in person or by properly executed proxy.

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

## GLOSSARY

“Agency” means Saucon Insurance Agency, Inc., an insurance agency that is currently a wholly-owned subsidiary of Saucon Mutual and which will, upon the closing of the Conversion Transactions, become a wholly-owned subsidiary of Saucon Holding.

“Board of Directors” means the board of directors of Saucon Mutual.

“Company” refers to Saucon Mutual prior to the closing date of the Conversion Transactions, and to Saucon Insurance Company after the closing date of the Conversion Transactions.

“Control Group” means that group of individuals, each of whom was either the Chief Executive Officer of Saucon Mutual or a member of the Board of Directors of Saucon Mutual as of March 22, 2017 (the date on which the Plan was approved by the Board of Directors), even if that individual subsequently ceases to hold such status.

“Conversion Transactions” means the transactions contemplated by the Plan which will convert Saucon Mutual into a stock corporation as more fully described in this Member Information Statement under the heading “Description of Conversion Transactions.”

“Eligible Members” means any member of Saucon Mutual as of August 27, 2014. The principles for determining who is an Eligible Member are discussed in this Member Information Statement under the heading “Questions and Answers Relating to the Special Meeting, the Plan and the Conversion Transactions—Who is an Eligible Member of Saucon Mutual?”

“First Stage Offering” means the offering of all of the shares of Saucon Holding to Non-Control Group Eligible Members as more fully described in this statement under the heading “Description of Saucon Holding Offering—First Stage Offering.”

“First Stage Offering Deadline” means *[DATE] [NOTE TO PENNSYLVANIA INSURANCE DEPARTMENT- This date will be at least 40 days after the mailing of this Member Information Statement, but before the scheduled date of the Special Meeting.]*

“First Stage Offering Subscription Agreement” means a subscription agreement, in the form attached as Exhibit 4 to this Member Information Statement, that has been completed, executed and returned by a Non-Control Group Eligible Member to Saucon Mutual by the First Stage Offering Deadline.

“First Stage Offering Subscription Documents” means, with respect to a particular Eligible Member, the First Stage Offering Subscription Agreement, the questionnaire attached as Exhibit A to the First Stage Offering Subscription Agreement and, if the Eligible Member is subscribing for five percent or more of the shares of Saucon Holding, a joinder to the Saucon Holding Shareholder Agreement.

“Member Compensation” means the compensation described in this Member Information Statement under the heading “Description of Member Compensation” that, if the closing of the Conversion Transactions occurs, is to be paid to Eligible Members who do not subscribe for shares of Saucon Holding in the Saucon Holding Offering.



“Member Information Statement” means this member information statement, proxy statement and offering document.

“Non-Control Group Eligible Member” means any Eligible Member who is not a member of the Control Group.

“Plan” means the Third Amended and Restated Alternative Plan of Conversion of Saucon Mutual Insurance Company, which is being submitted to the Eligible Members for their approval at the Special Meeting. A copy of the Plan is attached to this Member Information Statement as Exhibit 1.

“Saucon Holding” means Saucon Holding Company, the stock corporation that is being organized to become the holding company of Saucon Insurance Company and of the Agency upon the closing of the Conversion Transactions.

“Saucon Holding Offering” means, collectively, the offering to subscribe for shares of Saucon Holding in the First Stage Offering and the Second Stage Offering (if there is one).

“Saucon Holding Shareholder Agreement” means the shareholder agreement of Saucon Holding, in the form attached as Exhibit 5.

“Saucon Mutual” means Saucon Mutual Insurance Company.

“Second Stage Offering” means the offering to the Control Group of all of the shares of Saucon Holding that are not subscribed for by Non-Control Group Eligible Members in the First Stage Offering, as more fully described in this statement under heading “Description of Saucon Holding Offering–Second Stage Offering.”

“Second Stage Offering Subscription Documents” means the Second Stage Offering subscription agreement and the questionnaire attached as Exhibit A to the Second Stage Offering subscription agreement, which are attached as Exhibit H to the Plan, and a joinder to the Saucon Holding Shareholder Agreement.

“Shareholder Agreement Parties” means the persons who become parties to the Saucon Holding Shareholder Agreement.

“Special Meeting” is the Special Meeting of the Eligible Members of Saucon Mutual that is to be held on [DATE], 2017 to consider and vote upon the Plan and the related amendment to the articles of incorporation of Saucon Mutual.

“StoneRidge” means StoneRidge Advisors LLC, the firm that the Pennsylvania Insurance Department engaged to perform a valuation analysis of Saucon Mutual and a fairness opinion with respect to the Conversion Transactions. StoneRidge’s reports are attached to this Member Information Statement as Exhibit 6.

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

Why has this ~~member information statement~~ Member Information Statement been sent to me?

This ~~member information statement~~ Member Information Statement has been sent to all Eligible Members of Saucon Mutual. Because Saucon Mutual is a mutual insurance company, every Eligible Member has certain voting rights ~~in his, her or its capacity as a member~~, including the right to vote on a proposed ~~demutualization of the~~ conversion of Saucon Mutual to a stock insurance company.

The ~~board of directors~~ Board of Directors of Saucon Mutual has approved a Plan ~~of Conversion~~ that would, among other things, ~~demutualize-convert~~ Saucon Mutual to a stock insurance company. ~~That Plan of~~ These transactions are referred to as the "Conversion Transactions." The Plan is being submitted to the Eligible Members of Saucon Mutual for their approval, since the closing ~~of the Conversion Transactions~~ cannot occur unless (among other things) the Plan ~~of Conversion is duly is~~ approved by the Eligible Members.

~~A-The~~ Special Meeting ~~of the members of Saucon Mutual~~ has been called so that the Eligible 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~~ Member Information Statement and the accompanying proxy materials have been sent to you to afford you the right to subscribe for shares of Saucon Holding in the Saucon Holding Offering in lieu of receiving Member Compensation and 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 purchase the ~~stock shares~~ of Saucon Insurance Company and become the sole ~~stockholder shareholder~~ of Saucon Insurance Company. Eligible Members would ~~no longer be members of not have any membership interest or rights in~~ Saucon Insurance Company ~~and they would not have any ownership interest in or rights with respect to Saucon Insurance Company except for the coverage rights but would continue to have coverage~~ under their insurance policies with Saucon Insurance Company.

~~Saucon Holding Company would issue shares of its capital stock to certain investors by means of a stock offering. This stock offering would be made available only to members of the current Saucon Mutual board of directors and management. Except to the extent that members of the Saucon Mutual board of directors and management are Eligible Members, no other Eligible Members will have the right to purchase any shares of capital stock of Saucon Holding~~

~~Company. This creates a conflict of interest for the board of directors as is discussed more fully in this statement under the heading “Conflict of Interest.”~~

- Saucon Holding would issue its shares to investors by means of a stock offering, which is referred to in this Member Information Statement as the “Saucon Holding Offering.” The Saucon Holding Offering would be made available: (i) first, to the Non-Control Group Eligible Members (this is called the “First Stage Offering”); and (ii) second, to the members of the Control Group (this is called the “Second Stage Offering”). The Saucon Holding Offering is discussed more fully in this Member Information Statement under the heading “Description of Saucon Holding Offering.” Refer to the Glossary at the beginning of this Member Information Statement for an explanation of the terms Non-Control Group Eligible Members and Control Group. The right of the members of the Control Group to participate in the Saucon Holding Offering creates a conflict of interest for the Board of Directors as is discussed more fully in this Member Information Statement under the heading “Conflict of Interest.”
- An entity reorganization would occur immediately after the ~~demutualization~~-conversion that would cause ~~Saucon Insurance the 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~~-Member Information Statement as the “Conversion Transactions.” These transactions are described more fully below under the heading “Description of ~~Demutualization~~-Conversion Transactions.”

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

If the ~~Demutualization~~-closing of the Conversion Transactions ~~occur~~ occurs, Eligible Members who do not subscribe for shares of Saucon Holding in the Saucon Holding Offering will receive consideration, including cash payments, which is referred to in this Member Information Statement as the “Member Compensation,” and is described more fully below under the heading “Description of ~~Consideration to Members.”~~Member Compensation.” However, Eligible Members who subscribe for shares in the Saucon Holding Offering will not receive that consideration.

Additionally, because Saucon ~~Mutual would be demutualized~~Insurance Company would no longer be a mutual insurance company, policyholders would no longer have voting rights (such as the right to elect directors of the ~~insurance company~~Company) or any other rights with respect to Saucon Insurance Company except for the coverage rights under their insurance policies with Saucon Insurance Company. A description of the changes in the policyholders’ rights that would result from the ~~company’s demutualization~~-Conversion Transactions 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~~-Conversion Transactions would remain in full force and effect. Saucon Mutual does not expect that the ~~Demutualization~~-Conversion Transactions will have any negative impact on the ~~company’s~~-Company’s financial strength ~~ratings nor~~ or on its ability to pay claims and policy benefits.

## How will my insurance policy be affected?

Policies of insurance issued by Saucon Mutual that are in force at the time of closing of the ~~Demutualization–Conversion~~ Transactions would remain in full force and effect. However, policyholders of Saucon Insurance Company will no longer be members of the ~~company–Company~~ and will therefore no longer have the rights of members of a mutual insurance company. These changes are described more fully below under the heading “Description of Changes in Policyholders’ Rights.”

~~In–For Eligible Members who do not subscribe for shares of Saucon Holding in the Saucon Holding Offering, in~~ the case of perpetual policies, upon closing of the ~~Demutualization–Conversion~~ Transactions, Saucon Insurance Company will return 15% of the member’s deposits held by Saucon Mutual, as described more fully below under the heading “Description of ~~Consideration to Eligible Members.~~” ~~Member Compensation.~~ ~~Members who subscribe for shares of Saucon Holding in the Saucon Holding Offering will not receive that returned deposit.~~ The return of these deposits will not affect the policies, which will continue to remain in force. Other than the deposits that are returned to members ~~at–upon the closing of the Conversion Transactions,~~ the deposits will continue to remain a liability of Saucon Insurance Company, fully refundable upon termination of each policy. ~~The perpetual deposits will not be placed at any additional risk due to the conversion because the assets of Saucon Insurance Company will be at least equal to Saucon Mutual’s assets prior to the conversion.~~

~~In addition, in the case of Eligible Members who hold perpetual policies and do not subscribe for shares of Saucon Holding in the Saucon Holding Offering, upon the closing of the Conversion Transactions those Eligible Members will no longer have to pay an additional annual deposit upon an increase in policy limits under provisions of the inflation adjustment endorsements.~~

Even after paying the ~~consideration–Member Compensation~~ that Eligible Members ~~who do not subscribe for shares of Saucon Holding in the Saucon Holding Offering~~ are to receive on account of the ~~Demutualization–Conversion~~ Transactions ~~and after expenses related to the transaction,~~ Saucon Insurance Company will continue to maintain a level of surplus in excess of relevant legal requirements. Saucon Mutual does not expect that the ~~Demutualization–Conversion~~ Transactions will have any negative impact on the ~~company’s–Company’s~~ financial strength ~~ratings~~ nor on its ability to pay claims and policy benefits.

## What rights as a member of Saucon Mutual would I lose if Saucon Mutual ~~demutualizes~~converts to a stock insurance company?

If Saucon Mutual ~~demutualizes~~converts to a stock insurance company, the members of Saucon Mutual would cease to be members of a mutual insurance company but would continue to be policyholders of Saucon Insurance Company. The primary rights that members of a mutual insurance company hold are voting rights, such as the right to elect directors and vote on a plan of conversion, and the right to receive any dividends declared by the ~~board–of–directors~~Board of Directors. Following ~~demutualization~~conversion, policyholders of Saucon Insurance Company would not, ~~as such,~~ have any voting rights or any right to participate in shareholder dividends. Policyholders would have the right to participate in policyholder dividends, ~~but~~ only if the insurance policies are amended in the future to include a participation provision and the ~~board–of–directors~~Board of Directors declares a policyholder dividend, neither of which the Board of Directors plans to do. See the discussion below under the

heading “Discussion of Conversion of a Mutual Insurance Company–Discussion of the Principal Characteristics of Saucon Mutual, and Your Rights as a Policyholder, Before and After ~~Demutualization~~the Conversion Transactions.”

In consideration for the loss of member rights upon the closing of the ~~Demutualization–Conversion~~ Transactions, ~~the each~~ Eligible ~~Members–Member~~ of Saucon Mutual will be entitled to either (i) receive the ~~compensation–Member Compensation~~ set forth in the ~~Plan of Conversion. The compensation, which Member Compensation~~ is described more fully below under the heading “Description of ~~Consideration to Eligible Members.~~” ~~The Eligible Members will not have the right to purchase any shares of the capital stock of Saucon Holding Company.~~Member Compensation”; or (ii) subscribe for shares of Saucon Holding in the Saucon Holding Offering, as described more fully below under the heading of “Description of Saucon Holding Offering.”

### **Why does Saucon Mutual want to ~~demutualize~~convert to a stock insurance company?**

The ~~board of directors–Board of Directors~~ of Saucon Mutual has determined that ~~demutualization conversion into a stock insurance company~~ is in the ~~company’s–Company’s~~ and its members’ best interests for several reasons, including:

- rewarding ~~Saucon Mutual’s~~ members for their loyalty to the ~~company~~Company;
- making a charitable contribution in furtherance of the ~~company’s–Company’s~~ ongoing commitment to the community and as a proxy for benefiting former policyholders of Saucon Mutual who will not participate in the Conversion Transactions;
- modernizing the ~~company’s–Company’s~~ governance structure;
- enabling the issuance of ~~stock–shares~~ and other financial instruments in order to raise capital, to facilitate potential acquisitions of other businesses, and to incentivize employees;
- preparing the ~~company–Company~~ to re-enter the insurance underwriting business; and
- maintaining the independence of the ~~company~~Company.

These reasons and the benefits of the ~~demutualization to both the company and its members–Conversion Transactions to both Saucon Mutual and the Eligible Members~~ are explained more fully below under the heading “Background to the ~~Proposed Demutualization of Saucon Mutual—Reasons for the Proposed Demutualization~~Conversion Transactions of Saucon Mutual–Considerations For and Against the Conversion Transactions.”

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

The closing of the ~~Demutualization–Conversion~~ Transactions will not, in and of itself, affect any of the insurance policies issued by Saucon Mutual. Thus, the terms of your policy with respect to coverage limits and deductibles and all policy documents, with the exception of the change of the ~~company~~Company’s name to Saucon Insurance Company on the declarations page and the removal of members’

rights in their capacity as members, will remain identical before and after the Demutualization Conversion Transactions. If you are a perpetual policyholder and you do not subscribe for shares of Saucon Holding in the Saucon Holding Offering, you will not have to make additional deposits unless you elect to increase coverage under the policy. ~~The~~, and the initial deposit that you made at policy inception plus all subsequent Annual Adjustment of Limits deposits, ~~will~~ will be paid to you in full upon termination of your policy – less the portion of your deposit that would be returned to you upon closing of the Demutualization Conversion Transactions as explained more fully below under the heading “Description of Consideration to Eligible Members.” Member Compensation.”

### Who is an Eligible Member of Saucon Mutual?

An Eligible Member of Saucon Mutual means any member (i.e., any policyholder) of Saucon Mutual as of August 27, 2014. In accordance with Saucon Mutual’s existing procedures, the following paragraphs illustrate the principles for determining Eligible Members of Saucon Mutual under various circumstances, assuming in each case that the policy was in force on August 27, 2014:

- Single Policy With More Than One Person Specified as the Named Insured. In the case of a policy issued by Saucon Mutual where more than one person is specified as a named insured, then all of the persons identified as a named insured are collectively considered to be the Eligible Member with respect to that policy.

For example, if a particular Saucon Mutual policy identifies the named insured as “Mr. X and Mrs. Y” then Mr. X and Mrs. Y are collectively considered to be the Eligible Member of Saucon Mutual, which means that: (i) with respect to any matter upon which members of Saucon Mutual may vote (including the vote to approve this Plan at the Special Meeting), the vote would have to be made by Mr. X and Mrs. Y, acting jointly and casting a single vote; (ii) any decision to subscribe for shares of Saucon Holding in the First Stage Offering rather than receiving the Member Compensation pursuant to the Plan would have to be made by Mr. X and Mrs. Y, acting jointly (if Mr. X and Mrs. Y in fact subscribe for shares of Saucon Holding in the Saucon Holding Offering, the subscription would have to be made by, and the issuance of the shares would be made to, Mr. X and Mrs. Y, jointly); and (iii) if Mr. X and Mrs. Y do not subscribe for shares of Saucon Holding in the Saucon Holding Offering and therefore receive Member Compensation pursuant to the Plan, then the check for the Member Compensation will be made payable to Mr. X and Mrs. Y (in the same manner that a claim on the policy would have been paid).

- Two or More Policies With the Same Named Insureds. If there are two or more Saucon Mutual policies which each identify as the named insured or named insureds a particular person or a particular set of persons, then that person or set of persons is considered to be a single Eligible Member with respect to all of those policies, in the same manner as described above under the heading “Single Policy With More Than One Person Specified as the Named Insured.”

For example, if there are two Saucon Mutual policies that each identify Mr. Z as the sole named insured, then Mr. Z would have the right to cast only one vote (and not two votes), and would make a single decision regarding whether to subscribe for shares of Saucon Holding in the Saucon Holding Offering or to receive Member Compensation. Similarly, if there are two Saucon Mutual policies that each identify “Mr. G and Mrs. H” as the named insureds, then (i)

with respect to any matter upon which members of Saucon Mutual may vote (including the vote to approve this Plan at the Special Meeting), the vote would have to be made by Mr. G and Mrs. H, acting jointly and casting a single vote (and not two votes even though they hold two policies); (ii) any decision to subscribe for shares of Saucon Holding in the First Stage Offering rather than receiving the Member Compensation pursuant to the Plan would have to be made by Mr. G and Mrs. H, acting jointly (if Mr. G and Mrs. H in fact subscribe for shares of Saucon Holding in the Saucon Holding Offering, the subscription would have to be made by, and the issuance of the shares would be made to, Mr. G and Mrs. H, jointly); and (iii) if Mr. G and Mrs. H do not subscribe for shares of Saucon Holding in the Saucon Holding Offering and therefore receive Member Compensation pursuant to the Plan, then the check for the Member Compensation will be made payable to Mr. G and Mrs. H (in the same manner that a claim on the policies would have been paid).

- Two or More Policies With Named Insureds that are Not the Same. In the case of two or more policies issued by Saucon Mutual where the named insured or named insureds on each are not the same, then the named insured or named insureds on each such policy are considered to be a separate Eligible Member.

For example, if a particular Saucon Mutual policy identifies the named insureds as “Mr. V and Mrs. W,” and a second policy identifies the named insured as “Mr. V” alone, then “Mr. V and Mrs. W” are collectively considered to be a single Eligible Member of Saucon Mutual with respect to the first policy, but Mr. V alone is considered to be a distinct Eligible Member of Saucon Mutual with respect to the second policy, with a separate right to vote and subscribe for shares of Saucon Holding in the Saucon Holding Offering or to receive Member Compensation. In this case, even if Mr. V and Mrs. W, acting jointly as the named insureds under the first policy, elect to (i) vote to approve the Plan and (ii) receive Member Compensation pursuant to the Plan rather than subscribing for shares of Saucon Holding in the Saucon Holding Offering; Mr. V (acting alone with respect to the second policy for which he is the sole named insured) could elect to vote against approving the Plan, and could elect to either subscribe for shares of Saucon Holding in the Saucon Holding Offering or receive Member Compensation.

**If my policy is terminated after August 27, 2014 (the Record Date), will I still receive consideration Member Compensation?**

If the Plan is approved and the Conversion Transactions close, an Eligible Member would receive the Member Compensation calculated through the termination date of the policy (unless that Eligible Member subscribes for shares of Saucon Holding in the Saucon Holding Offering, in which case that Eligible Member would not receive any Member Compensation.)

~~Yes, an Eligible Member would receive the loyalty payment calculated through the termination date of the policy.~~ However, in the case of a perpetual policyholder whose policy terminated after August 27, ~~no~~ 2014, the Member Compensation would not include any return of deposit ~~would be paid at the closing of the Demutualization Transactions~~ since the deposit would have already been returned when the policy was terminated. Likewise, in the case of ~~a member~~ an Eligible Member who is a non-perpetual policyholder whose policy is terminated after August 27, 2014, that Eligible Member ~~would receive the loyalty payment but~~ 's Member Compensation would not ~~receive the~~ include a return of 15%

of current premium since that Eligible Member's current premium would be \$0 as of the closing of the ~~Demutualization~~ Conversion Transactions.

The ~~consideration~~ Member Compensation is described more fully below under the heading "Description of ~~Consideration to Eligible Members~~ Member Compensation."

**What are the future plans for Saucon Mutual ~~after the demutualization~~ and what impact will implementation of these plans have on Saucon Insurance Company after ~~it demutualizes~~ the closing of the Conversion Transactions?**

Saucon Mutual has a conservative business plan for Saucon Insurance Company that provides for it to deliberately and methodically take the steps necessary to re-enter the insurance underwriting business while preserving its surplus. Upon the closing of the ~~Demutualization~~ Conversion Transactions, Saucon Insurance Company intends to immediately begin work on developing infrastructure for underwriting insurance, including systems, claims, underwriting staff and structure, documentation, and development of a distribution network. While this infrastructure is being developed, Saucon Insurance 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.

**Who will own the insurance company after ~~it demutualizes~~ the closing of the Conversion Transactions?**

If the ~~Demutualization~~ Conversion Transactions close, Saucon Insurance Company will become a wholly-owned subsidiary of Saucon Holding ~~Company~~, a newly-organized corporation, upon its purchase of all of the shares of Saucon Insurance Company ~~stock~~.

~~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." The offering of shares of capital stock of Saucon Holding Company has been made only to members of the current board of directors and management of Saucon Mutual, which is a conflict of interest as described more fully below under the heading "Conflict of Interest." Other Eligible Members will not have the right to purchase shares of capital stock of Saucon Holding Company.~~

Saucon Holding, in turn, would be owned by those investors who subscribe for its shares in the Saucon Holding Offering. As described more fully below under the heading "Description of Saucon Holding Offering," the Saucon Holding Offering would be made available: (i) first, to the Non-Control Group Eligible Members; and (ii) second, to the members of the Control Group.

An Eligible Member who subscribes for those shares will not have the right to receive the Member Compensation that results from the Conversion Transactions, as described more fully under the heading "Description of Member Compensation."



The right of the members of the Control Group to participate in Saucon Holding Offering creates a conflict of interest for the Board of Directors as is discussed more fully in this Member Information Statement under the heading “Conflict of Interest.”

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

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

- the Plan ~~of Conversion~~; and
- the name change to “Saucon Insurance Company”; and
- a Form A (Acquisition of Control of, or Merger With, a Domestic Insurer), which must be filed because the ~~transactions~~ Conversion Transactions will constitute a change of control of Saucon Mutual.

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 Saucon Mutual’s 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~~ Conversion Transactions by the Pennsylvania Insurance Department, and the Pennsylvania Insurance Department’s approval does not ~~impact~~ affect the right of Eligible Members to vote either for or against the Plan ~~of Conversion~~.

~~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 the original 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. In addition, the Pennsylvania Insurance Department published notice in the Pennsylvania Bulletin to advise of the filing and invite written comments to the Pennsylvania Insurance Department on the filing, and the Pennsylvania Insurance Department posted on its website at www.insurance.pa.gov all of the nonconfidential documents included in 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 the amendment and the restatement of the 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 May 7, 2015. With each of these subsequent filings, the Pennsylvania Insurance Department posted on its website at www.insurance.pa.gov all of the nonconfidential documents included in the filing and accepted comments from Saucon Mutual members and their representatives. Each of these comments was forwarded to Saucon Mutual for response and both the comment and Saucon Mutual’s response were posted on the Department’s website at www.insurance.pa.gov.~~

Additional detail regarding the filing and the Pennsylvania Insurance Department's approval of the Plan is set forth in this Member Information Statement under the heading "Background to the Conversion Transactions."

Please also note that additional approvals by the Pennsylvania Insurance Department may be required in connection with a subscription for shares of Saucon Holding in the Saucon Holding Offering by a Non-Control Group Eligible Member:

- Acquisition of five percent or more of the outstanding shares of Saucon Holding will be conditioned on approval by the Pennsylvania Insurance Department; and
- Acquisition of ten percent or more of the outstanding shares of Saucon Holding will be conditioned upon that subscriber separately filing a Form A with the Pennsylvania Insurance Department, and the Conversion Transactions and the Saucon Holding Offering would not proceed until that Form A has been approved by the Pennsylvania Insurance Department.

~~By notice in the Pennsylvania Bulletin dated July 25, 2015, the Pennsylvania Insurance Department advised of its scheduling of a Public Informational Hearing (the "Hearing") to be held on September 1, 2015 at which Saucon Mutual members and interested persons would be able to present comments on the Plan of Conversion. Saucon Mutual also mailed a notice of the Hearing to all of its Eligible Members. The Hearing was conducted on September 1, 2015 and the proceeding was recorded by a court reporter. Subsequent to the Hearing, Saucon Mutual filed a response to presentations made by commenters and questions posed by the Pennsylvania Insurance Department at the Hearing (the "Saucon Mutual Response"). Each of the Pennsylvania Insurance Department and Saucon Mutual notices of the Hearing, the written transcript of the Hearing and the Saucon Mutual Response are posted on the Pennsylvania Insurance Department's website at [www.insurance.pa.gov](http://www.insurance.pa.gov). The Plan requires that, in either case, such a subscription will be conditioned upon that subscriber using good faith efforts to timely obtain the Pennsylvania Insurance Department's approval.~~

~~As announced by the Pennsylvania Insurance Department at the Hearing, after its receipt of the Hearing transcript and the Saucon Mutual Response, the Pennsylvania Insurance Department provided an additional public comment period during which no further comments were received.~~

~~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~~ Eligible Members will be required to approve the Plan ~~of Conversion~~?**

~~Under Pennsylvania law, the Plan ~~of Conversion~~ may be effected only if ~~it is the Plan and the amendment of Saucon Mutual's articles of incorporation (in the form attached hereto as Exhibit 2) are approved by the affirmative vote, in present person or by proxy, of at least two-thirds of the Eligible 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~~ the Special Meeting.~~

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~~ Board of Directors has called the Special Meeting to occur on [DATE], ~~2015~~ to consider and vote on the Plan ~~of Conversion~~. Only Eligible Members 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 Eligible 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. Eligible 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.~~

Saucon Mutual's audited financial statements for the fiscal years ended December 31, 2016, 2015 and 2014 are attached as Exhibit 3 to this Member Information Statement. Those audited financial statements were prepared in accordance with generally accepted accounting principles in the United States.

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

Saucon Mutual's ~~board of directors~~ 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. As discussed more fully under the heading "Conflict of Interest," the Saucon Mutual

~~board of directors~~ Board of Directors has a conflict of interest ~~in regard~~ with respect to this recommendation.

**What documents must I complete and return to Saucon Mutual in order to receive Member Compensation?**

An Eligible Member who wishes to receive the Member Compensation rather than participating in the Saucon Holding Offering should complete, sign and return to Saucon Mutual the enclosed Form W-9, as described more fully under the heading “Description of Member Compensation - Instructions Related to Form W-9.” An Eligible Member who wishes to receive the Member Compensation may, but is not required to, complete, sign and return the proxy card. However, an Eligible Member who wishes to receive the Member Compensation should not complete, sign or return the First Stage Offering Subscription Agreement, the accompanying questionnaire, or the joinder to the Saucon Holding Shareholder Agreement.

**Do I have to vote to approve the Plan ~~of Conversion~~ in order to receive ~~consideration~~ the Member Compensation or participate in the Saucon Holding Offering?**

No. If the Plan ~~of Conversion is duly~~ is approved and the ~~Demutualization~~ Conversion Transactions close, all Eligible Members will ~~receive consideration~~ either receive the Member Compensation or participate in the Saucon Holding Offering, in each case whether they voted “FOR” approval of the Plan ~~of Conversion~~, “AGAINST” approval, or did not vote at all. Specifically: (i) any Eligible Member who decides not to receive the Member Compensation and therefore timely completes, signs and returns their First Stage Offering Subscription Documents to Saucon Mutual as described under the heading “Instructions for Participation in the Saucon Holding Offering,” together with tendering the subscription price, will subscribe for shares of Saucon Holding (unless one of the exceptions described under the heading “Description of Saucon Holding Offering” applies); and (ii) all other Eligible Members will receive Member Compensation.

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

Yes. Saucon Holding will issue and sell up to 3,250,000 shares of Saucon Holding’s stock, par value one cent per share, at a purchase price of one dollar per share in the Saucon Holding Offering. Subject to certain limitations detailed under the heading “Description of Saucon Holding Offering—First Stage Offering.” Eligible Members who choose to subscribe for shares of Saucon Holding may acquire as few as five hundred shares or as many as all of the available shares of Saucon Holding.

However, an investment in the shares of Saucon Holding is subject to significant risks. For more information about some of these risks, see below under the heading “Risk Factors Relevant to the Saucon Holding Offering.” An Eligible Member who subscribes for Saucon Holding’s shares will not receive Member Compensation.

**If I subscribe for shares of Saucon Holding in the Saucon Holding Offering, will I receive the Member Compensation that results from the Conversion Transactions?**

~~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. As more fully described under the heading “Conflict of Interest,” only members of the current Saucon Mutual board of directors and management were invited to participate in the stock offering by Saucon Holding Company.~~

No. Eligible Members who subscribe for shares of Saucon Holding in the Saucon Holding Offering will not receive the Member Compensation contemplated in the Plan. Each Eligible Member must elect to either receive the Member Compensation or subscribe for shares, but may not do both.

**If I subscribe for shares of Saucon Holding in the Saucon Holding Offering, what documents must I execute and return, what is the deadline for doing so, and when must I tender my subscription price?**

Participation in the First Stage Offering will be limited to Non-Control Group Eligible Members who complete and sign the First Stage Offering Subscription Documents and return them to Saucon Mutual on or before the First Stage Offering Deadline, in accordance with the instructions set forth in this Member Information Statement under the heading “Instructions for Participation in the Saucon Holding Offering.” The First Stage Offering Subscription Documents will include the First Stage Offering Subscription Agreement in the form attached as Exhibit 4 to this Member Information Statement, together with the accompanying questionnaire, and may include a joinder to the Saucon Holding Shareholder Agreement (whether an subscriber is required to complete the joinder is detailed under the heading “Description of Shareholder Agreement for Saucon Holding Company.”)

An Eligible Member who subscribes for shares of Saucon Holding must tender the subscription price on or before the First Stage Offering Deadline.

**What are the limitations on my right to subscribe for shares of Saucon Holding in the First Stage Offering?**

The right of Non-Control Group Eligible Members to subscribe for shares of Saucon Holding in the First Stage Offering will be subject to certain conditions and limitations, which are described more fully in this Member Information Statement under the heading “Description of Saucon Holding Offering.”

**What happens if I do not timely sign or return the First Stage Offering Subscription Documents?**

Only Eligible Members who timely complete, sign and return their respective First Stage Offering Subscription Documents to Saucon Mutual, and tender the subscription price in accordance with the instructions set forth below under the heading “Instructions for Participation in the Saucon Holding Offering” will be eligible to subscribe for shares of Saucon Holding. Eligible Members who do not timely return the First Stage Offering Subscription Documents will be deemed to have declined to participate in the Saucon Holding Offering but will receive the Member Compensation if the Conversion Transactions close.

**What happens if I timely sign and return the First Stage Offering Subscription Documents, and tender my subscription price, but my subscription cannot be accepted by reason of the limitations described in the Plan and this Member Information Statement?**

If an Eligible Member timely completes, signs and returns his, her and/or its First Stage Offering Subscription Documents to Saucon Mutual and concurrently tenders the subscription price, but the subscription cannot be accepted by reason of the limitations described in the Plan and this Member Information Statement, then that Eligible Member's First Stage Offering Subscription Documents will not be of any force or effect, that Eligible Member's tendered subscription price will be returned with interest, and that Eligible Member will receive the Member Compensation if and when the Conversion Transactions close.

**Where can I get more information about the risk factors that I should consider before deciding whether to subscribe for shares of Saucon Holding in the Saucon Holding Offering?**

An investment in the shares of Saucon Holding in the Saucon Holding Offering is subject to significant risks, and may be suitable only for persons with the financial capacity for making and holding long-term investments that are not readily reducible to cash. Prospective subscribers for the shares must, therefore, have adequate means of providing for their current needs and personal contingencies. Any person who cannot bear the risk of loss of their entire investment in the Saucon Holding shares should not subscribe for the shares. Some of the more significant risks are described under the heading "Risk Factors Relevant to the Saucon Holding Offering" below, and a prospective subscriber for the Saucon Holding shares should carefully evaluate these risk factors and the other information set forth in this Member Information Statement, including the Plan and the other exhibits. Prospective subscribers should consider, however, that additional factors other than those set forth below may also affect the risks of investing in Saucon Holding's shares in a manner and to a degree that cannot be foreseen at this time.

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**Has a valuation of Saucon Mutual been performed?**

Yes. StoneRidge was engaged by the Pennsylvania Insurance Department to conduct an independent valuation analysis of Saucon Mutual. As part of its review, Stoneridge stated that it reviewed extensive information and performed other due diligence. StoneRidge based its valuation on two valuation methodologies: the sum of the parts analysis and the discounted cash flow analysis. Based upon the average of these two valuation methodologies, StoneRidge selected a valuation range for Saucon of between \$2.4 million and \$3.2 million. A copy of StoneRidge's valuation report is attached to this Member Information Statement as Exhibit 6. StoneRidge's analysis is discussed in this Member Information Statement under the heading "Valuation Analysis of Saucon Mutual by StoneRidge."

The aggregate subscription price for all of the 3,250,000 shares of Saucon Holding, which are being offered in the Saucon Holding Offering for a subscription price of one dollar per share, is \$3,250,000. That aggregate subscription price is larger than the higher end of StoneRidge's valuation range for Saucon Mutual. This means that subscribers for the shares of Saucon Holding would be paying an amount for those shares in the aggregate that exceeds the higher end of StoneRidge's valuation range for Saucon Mutual.

**Has a fairness opinion been obtained with respect to the Conversion Transactions?**

[NOTE TO PENNSYLVANIA INSURANCE DEPARTMENT: PLACEHOLDER FOR DESCRIPTION OF FAIRNESS OPINION FROM STONERIDGE.]

**Where can I get more information about the transactions described in this ~~member-information statement~~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. You also may view copies of all nonconfidential documents filed by Saucon Mutual, Pennsylvania Insurance Department notices in the Pennsylvania Bulletin, comments received by the Pennsylvania Insurance Department and Saucon Mutual's responses to those comments, and information relating to ~~the~~any Public Informational Hearing on the Pennsylvania Insurance Department's website at [www.insurance.pa.gov](http://www.insurance.pa.gov). Additionally, after first scheduling an appointment, consumers may also view the application and supplemental documents at the Pennsylvania Insurance Department's Harrisburg office, which can be reached at (717) 787-0877.

## CONFLICT OF INTEREST

### Interests of Saucon Mutual's Board of Directors and Management in the ~~Demutualization Conversion~~ Transactions

In considering the recommendation by Saucon Mutual's ~~board of directors~~ Board of Directors that the Eligible Members approve the ~~Demutualization Conversion~~ Transactions, the Eligible Members should be aware that Saucon Mutual's ~~board of directors~~ Board of Directors and management have interests in the ~~Demutualization Conversion~~ Transactions ~~that are different from, or in addition to, the members generally~~. Saucon Mutual's ~~board of directors~~ Board of Directors was aware of this conflict of interest and considered it, among other matters, in reaching its decision to approve the ~~Demutualization Conversion~~ Transactions and to recommend that Saucon Mutual's Eligible Members vote in favor of approving them.

The members of the Board of Directors, who approved the Plan, have a conflict of interest because the Control Group, which largely consists of the members of the Board of Directors, seeks to acquire a controlling interest in the Company by purchasing shares of Saucon Holding in the Second Stage Offering.

~~The board of directors has a conflict of interest because they are both "selling" and "buying" Saucon Mutual as described below. As directors of Saucon Mutual, the directors have certain duties to the company, which, in the context of selling the company upon its demutualization would include obtaining the most favorable terms of the "sale" for the company and its stakeholders. As prospective purchasers of the demutualized company through their ownership interests of Saucon Holding Company, the directors want to purchase the company on the best possible terms. Because ownership of the company~~ Company is not being offered by sale on an open market, it is difficult to determine an open market value for the ~~company~~ Company. ~~If ownership of the company was offered to others~~ Company. If shares of the Company were offered on the open market, assuming that the Pennsylvania Insurance Department approved such a transaction, the sale price ~~may be~~ might have been more, the same or less than the ~~proposed~~ amount that Saucon Holding will pay. In addition, while the ~~board of directors has received a fairness opinion from Boenning & Scattergood (as more fully described below under the heading "Fairness Opinion of Boenning & Scattergood")~~ Pennsylvania Insurance Department obtained an independent valuation analysis of Saucon Mutual from StoneRidge, there can be no assurance that ~~this fairness~~ the independent valuation analysis opinion ~~is~~ presents an accurate prediction of the value of Saucon Mutual ~~on the open market~~.

Having been advised of this conflict of interest, the Eligible Members have the opportunity to vote whether to accept or reject the ~~Demutualization Transactions~~ Conversion Transactions. Additionally, Eligible Members will have the opportunity, subject to certain limitations, to subscribe for shares of Saucon Holding in the Saucon Holding Offering.

### ~~Restricted~~ Participation in the Stock Offering of Saucon Holding ~~Company~~ by Saucon Mutual's Board of Directors and Management

As part of the ~~Demutualization Conversion~~ Transactions, Saucon Insurance Company will become a wholly-owned subsidiary of Saucon Holding ~~Company~~, a recently-formed stock holding company,



through the purchase of all of the shares of Saucon Insurance Company stock for the amount a purchase price of \$1,425,000. Saucon Holding Company will in turn be owned by investors who subscribe for its shares of its stock in the Saucon Holding Offering, as described more fully below under the heading “Description of Stock Offering of Saucon Holding Company.” Offering. These investors will subscribe for 3,250,000 shares of Saucon Holding at a subscription price of one dollar per share, resulting in Saucon Holding receiving \$3,250,000 in gross proceeds.

~~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 stock offering and subscribe for shares of stock of Saucon Holding Company. Instead, the Eligible Members of Saucon Mutual will receive only the consideration described in this member information statement under the heading “Description of Consideration to Eligible Members,” and will have no further rights with respect to Saucon Holding Company or Saucon Insurance Company except for the coverage rights under their insurance policies with Saucon Insurance Company. 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. Gilechrist, 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. Drabie, 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) will acquire, in the aggregate, the balance of the Saucon Holding Company shares being offered. No other investors were invited to participate in the stock offering. These investors will subscribe for 3,250,000 shares of Saucon Holding Company common stock at a subscription price of \$1.00 per share, resulting in Saucon Holding Company receiving \$3,250,000 in gross proceeds.~~

~~The Saucon Holding Company share price was set to exceed the sum of cash payments to be made by Saucon Insurance Company to Eligible Members, the amount of the charitable contribution (as described more fully below under the heading “Description of Charitable Contribution”) and the estimated costs and expenses of the Demutualization Transactions, with the result that, after the closing of the Demutualization Transactions, the total assets of Saucon Holding Company (on a consolidated basis with Saucon Insurance Company) would be greater than the total assets of Saucon Mutual prior to the demutualization.~~

#### **~~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 includes various restrictions on the purchasers of stock, including: 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 The Saucon Holding Offering consists of the First Stage Offering and the Second Stage Offering. The First Stage Offering will be limited to Non-Control Group Eligible Members, which means that the members of Saucon Mutual’s Board of Directors and management will not have the right to participate in the First Stage Offering even if they are Eligible Members. If the First Stage Offering results in 49% or fewer of the shares of Saucon Holding being subscribed for by~~

Non-Control Group Eligible Members, then the Second Stage Offering will proceed. The Second Stage Offering will be an offering by Saucon Holding to issue and sell to members of Control Group any of the 3,250,000 shares of Saucon Holding that remain available after the end of the exercise period for the First Stage Offering, at a subscription price of one dollar per share.

- ~~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.~~

~~A copy of the form of shareholders agreement is posted on the Pennsylvania Insurance Department's website at [www.insurance.pa.gov](http://www.insurance.pa.gov).~~

•Nine individuals, all of whom are members of the Control Group, are expected to subscribe for shares of Saucon Holding in the Second Stage Offering. Saucon Mutual expects that two of those individuals will acquire, in the aggregate, up to 92.95% of the Saucon Holding shares if that many shares of Saucon Holding remain available after the conclusion of the First Stage Offering. The other seven investors will in the aggregate acquire the remaining Saucon Holding shares that will be offered, subject to the limitations described below. If for any reason any of the seven smaller Control Group investors fails to subscribe for the number of Saucon Holding shares that they had indicated an interest in subscribing for, it is expected that those shares will be re-allocated among the other participants in the Second Stage Offering. Each of the largest two investors has indicated a readiness to purchase additional Saucon Holding shares if they become available in the Second Stage Offering, but only so long as the participants in the Second Stage Offering will, in the aggregate, hold at least 51% of the outstanding shares of Saucon Holding upon the closing of the Conversion Transactions.

All members of the Control Group, since they will subscribe for shares of Saucon Holding in the Second Stage Offering, will be required to join and become parties to the Saucon Holding Shareholder Agreement, which is described more fully below under the heading “Description of Saucon Holding Offering–Description of Saucon Holding Shareholder Agreement.”

The subscription price per share for the shares of Saucon Holding that are being offered in the Saucon Holding Offering was determined in the manner described below under the heading “Description of Saucon Holding Offering–Description of Methodology for Determining Offering Price for the Saucon Holding Offering.”

### **Low Likelihood of Subsequent Change of Control**

It is expected that the transfer restrictions and share repurchase provisions set forth in the ~~shareholders agreement of~~ Saucon Holding ~~Company~~ Shareholder Agreement, together with the fact that the ~~stock shares 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 subscribers who~~ purchase the ~~stock shares of~~ Saucon Holding ~~Company, in the Saucon Holding Offering~~ 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 ~~Demutualization Conversion~~ Transactions close, a subsequent change in control of Saucon Holding ~~Company~~ or of Saucon Insurance Company is likely to occur in the foreseeable future.

### **Fairness Opinion**

#### **Evaluation of Conflict of Interest**

Each member of the ~~board of directors~~ Board of Directors recognized the conflict of interest that results from board members purchasing the ~~stock shares of~~ Saucon Holding ~~Company~~, which in turn, will purchase the ~~stock shares of~~ Saucon Insurance Company, and considered ~~them this conflict of interest~~ among other matters, in reaching their respective decision to approve the Plan ~~of Conversion~~ and to recommend ~~that it to~~ the Eligible Members ~~vote in favor of the proposal. The board of directors. The Board of Directors~~ has taken steps throughout the process of considering, approving and recommending

the ~~Demutualization-Conversion~~ Transactions to ensure that the conflict is appropriately addressed. The ~~board~~ Board of Directors worked with outside industry experts to determine objectives for the ~~company,~~ ~~as described more fully below under the heading “Background to the Demutualization Transactions—~~ ~~Background to the Proposed Demutualization.”~~ ~~The board~~ Company. The Board of Directors then reviewed available options against those objectives to determine which option it believed was best for Saucon Mutual and its members as more fully described below under the heading “Background ~~To The~~ ~~Demutualization Transactions.”~~ Because the board of directors elected to proceed with the proposed ~~Demutualization Transactions,~~ it engaged the investment banking firm of Boenning & Scattergood to deliver a fairness opinion with respect to the ~~Demutualization Transactions,~~ as described more fully below under the heading “Fairness Opinion of Boenning & Scattergood to the Conversion Transactions.” It is ultimately up to the Eligible Members, however, to determine ~~if~~ whether the proposed ~~Demutualization-Conversion~~ Transactions are in the best interests of Saucon Mutual and, in turn, their best interests. ~~Eligible Members may give whatever weight they feel is appropriate to the fairness opinion in determining how to vote on the Demutualization Transactions.~~

### **~~BACKGROUND TO DEMUTUALIZATION~~**

## DISCUSSION OF CONVERSION OF A MUTUAL INSURANCE COMPANY

### Description of ~~Demutualization~~Conversion

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~~converted stock insurance companies that have a holding company. The chart also illustrates how the rights of policyholders differ in the two structures.

|   | <b>Mutual Insurance Companies</b>   | <b><del>Demutualized</del> Stock Insurance Companies <u>That Have a Holding Company</u></b>   |
|---|---|---|
| <b>Disposition of proceeds of a liquidation of the company</b>    | Upon liquidation of a mutual insurance company <u>that is authorized to write fire insurance</u> , the remaining proceeds (after satisfaction of liabilities and claims) would be escheated to the Commonwealth of Pennsylvania (“escheat” means a reversion or forfeiture of the property back to the Commonwealth). | The holding company, as the sole <del>stockholder</del> <u>shareholder</u> of the <u>insurance</u> 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 the policy expires or is terminated.  | Ownership of the <u>shares of a stock</u> <del>of the</del> <del>demutualized</del> <u>insurance</u> 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 <u>holding company and the insurance</u> 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 <del>stockholders</del> <u>shareholders</u> and/or policyholders if and as declared by the board of directors, and subject to restrictions as provided by law.   |
| <b>Ability to conduct capital transactions</b>                    | <del>Limited—can</del> <u>Limited—can</u> 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~~the Conversion Transactions

~~Membership interests~~—Each Eligible Member’s membership interest in Saucon Mutual will be exchanged for ~~economic value~~ either Member Compensation or the right to subscribe for shares of Saucon Holding in the Saucon Holding Offering, at the Eligible Member’s election. 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 and the approval of a plan of conversion), the right to participate in any dividends declared by the ~~board of directors~~ Board of Directors, and the right to receive consideration ~~upon demutualization~~ or subscribe for shares of Saucon Holding as provided in an approved plan of conversion.

Upon the conversion of Saucon Mutual as contemplated under the Plan, all of the membership interests of all members will cease to exist. In exchange, Eligible Members will have the right to either: (1) receive the Member Compensation in accordance with the Plan, or (2) subscribe for shares of Saucon Holding in the Saucon Holding Offering. Each Eligible Member must elect one of these two alternatives: an Eligible Member may either receive the Member Compensation, or participate in the Saucon Holding Offering by subscribing for shares, but an Eligible Member may not do both. Any Non-Control Group Eligible Member who does not complete, execute and return a First Stage Offering Subscription Agreement and tender the subscription price by the relevant deadline will be presumed to have elected not to subscribe for shares of Saucon Holding in the First Stage Offering but will receive Member Compensation.

~~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 Eligible Members will receive the compensation set forth in the Plan of Conversion. The compensation~~—The Member Compensation is described more fully below under the heading “Description of ~~Consideration to Eligible Members~~.” Member Compensation.” The Saucon Holding Offering is described more fully below under the heading “Description of Saucon Holding Offering.” Each Eligible Member should carefully read this Member Information Statement and the other accompanying materials in order to inform that Eligible Member’s decision as to the available alternatives.

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~~ conversion, the ~~company~~ 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~~ the Saucon Holding Offering, as described more fully below under the heading “Description of ~~Stock Offering of Saucon Holding Company~~ Offering.”

Some policyholders may be concerned that their interests and those of the shareholders of Saucon Holding and of Saucon Insurance Company might not be the same after ~~demutualization~~ conversion. In particular, shareholders may be more interested in financial performance as it relates to the value of their investment in the ~~stock~~ shares, 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~~ conversion 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-Conversion~~ Transactions will not, in and of itself, adversely affect any of the insurance policies issued by Saucon Mutual, except that the name of the ~~company-Company~~ will change and 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~~ members of the Board of 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 Eligible Members at the Special Meeting ~~that is being called for that purpose~~, it can be amended before the closing of the ~~Demutualization-Conversion~~ Transactions so only as 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~~ Eligible Members called for that purpose.

The Plan ~~of Conversion~~ may be terminated at any time before the closing of the ~~Demutualization Conversion~~ Transactions by the affirmative vote of at least two-thirds of the ~~directors~~ members of the Board of Directors of Saucon Mutual then in office. If that happens, then the Conversion Transactions and the Saucon Holding Offering will be abandoned, and none of the Eligible Members will be able to receive the Member Compensation or purchase shares of Saucon Holding and any previously-tendered subscription price in the Saucon Holding Offering will be returned with interest.

## BACKGROUND TO THE ~~DEMUTUALIZATION~~ CONVERSION 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 have no term, or date, when the policy expires. From the effective start date, the coverage exists until terminated. Saucon Mutual also issues ~~policies that do have a set date when the policy expires, these are referred to as~~ non-perpetual policies. Because of its focus on perpetual insurance, Saucon Mutual has not declared or paid policyholder dividends within the past 25 years.

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 three employees and believes that it does not presently have the infrastructure that would enable it to successfully resume the underwriting of new insurance policies. The following circumstances have led to this result:

The impact of interest rates on perpetual business and Saucon Mutual's business model, the impact of the Greentree Perpetual Insurance Company insolvency on Saucon Mutual, and the decision to place a moratorium on writing new perpetual policies.

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

Saucon Mutual has not written any new perpetual insurance policies since December 2005 and has written only a very limited number of term policies since that time because 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 Saucon Mutual to declare a moratorium on writing new perpetual policies:

- First, in September 2004, Saucon Mutual was informed by the IRS that, due to a tax law change, Saucon Mutual would no longer be tax exempt. Saucon Mutual realized that this change would have an impact on the profitability and policyholder surplus growth of Saucon Mutual in future years.
- Second, during 2004 and 2005, Saucon Mutual had a significant increase in business as a result of the insolvency of Greentree Perpetual Insurance Company (a competitor of Saucon Mutual) 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, Saucon Mutual 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 Mutual felt was not a feasible solution since it was unlikely that prospective perpetual policyholders would be willing to pay the amount of deposit necessary to achieve profitability.
- Third, in mid-2005, Saucon Mutual was informed by A.M. Best that, due to Saucon Mutual'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 has the personnel and infrastructure needed to service its perpetual policies, but does not have sufficient personnel or infrastructure, or any distribution channel, to issue new policies. In addition, Saucon Mutual had difficulty attracting and retaining qualified management (four CEOs have been with Saucon Mutual since 2006 and it is only since Stephen Bajan's hiring in 2012 that Saucon Mutual has had 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, Saucon Mutual's Board of Directors began the process of considering alternatives – including a conversion – for Saucon Mutual to be able to pursue its objective of re-entering the insurance business. The objectives of the Board of Directors and how they will be addressed by means of the Conversion Transactions are discussed in more detail below.

The history of the inflation endorsement.

Saucon Mutual initially issued homeowner's policies that included an inflation endorsement under which the policy limit would be adjusted on an annual basis but no additional deposits would be required. In 2008, with the Pennsylvania Insurance Department's approval, Saucon Mutual changed policy forms to modernize its policies. The new policy form provided an inflation endorsement that included a requirement of additional deposits for the increase in coverage under the inflation endorsement.

## **Background to the Proposed ~~Demutualization~~ Conversion**

Saucon Mutual's ~~board of directors~~ Board of Directors met several times in 2013 and 2014 to discuss the general strategic ~~plan direction~~ of the ~~company~~ Company. The ~~board~~ Board of Directors identified its objectives for any future transactions as including the following:

- Rewarding members for their loyalty to the ~~company~~ Company;
- Making a charitable contribution in furtherance of the ~~company's~~ Company's ongoing commitment to the community;
- Modernizing the ~~company's~~ 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~~ Company to re-enter the insurance underwriting business; and
- Maintaining the independence of the ~~company~~ 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 G. 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 and reviewed other alternative 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.~~

Saucon Mutual's Board of Directors organized an informal strategic planning subcommittee whose members consisted of Brian T. Regan (President and Chairman of the Board), Stephen Bajan (Chief Executive Officer), and board member Michael G. Crofton. The strategic planning subcommittee considered Saucon Mutual's current financial condition, future prospects and the advice of its legal and financial advisors. The strategic planning subcommittee also examined other mutual-to-stock conversion structures in Pennsylvania under the various alternatives for mutual insurer conversions permitted by 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 solely 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 exchanging their membership rights in the mutual insurance company for membership 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 the alternative plan gives members the right to purchase an ownership interest in the converted insurer or its stock holding company and/or receive consideration in exchange for 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 strategic planning subcommittee 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). Based on its review of previous transactions involving other mutual insurers, the strategic planning subcommittee concluded that a subscription rights conversion would not be compatible with the goal of rewarding 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 strategic planning subcommittee 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 strategic planning subcommittee 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 and discussing them with the Pennsylvania Insurance Department, the strategic planning subcommittee presented its conclusions to the Board of Directors. The Board of Directors concluded that pursuing an alternative plan of conversion presented the most attractive approach from a strategic, financial and operational point of view. With the authorization and direction of the Board of Directors, the strategic planning subcommittee, together with outside counsel and advisors, then prepared the original version of the plan of conversion.

At a ~~board~~ meeting of the Board of Directors on August 27, 2014, the original version of the ~~Plan of Conversion~~ plan of conversion and the other related documents and filings were presented to the ~~board of directors~~ Board of Directors and were unanimously approved. The ~~board~~ Board of Directors then directed that the original version of the ~~Plan of Conversion~~ 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~~ 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~~ plan of conversion with the Pennsylvania Insurance Department. By letter dated January 12, 2015, the Pennsylvania Insurance Department provided a list of additional items necessary to the review of the original ~~Plan of Conversion~~ plan of conversion and the related documents.

On February 4, 2015, the ~~board of directors~~ Board of Directors of Saucon Mutual unanimously approved an amended and restated ~~Plan of Conversion~~ plan of conversion to address those items. Subsequently, during April 2015, Saucon Mutual's management and counsel further discussed the proposed ~~Demutualization~~ Conversion Transactions with the Pennsylvania Insurance Department. On April 27, 2015, the ~~board of directors~~ Board of Directors of Saucon Mutual approved ~~the an~~ amendment and the restatement of the amended and restated ~~Plan of Conversion in the form attached to this member information statement, and references herein after in this member information statement to the "Plan of Conversion" refer to this restated Plan of Conversion. The Plan of Conversion and certain related documents were then filed~~ plan of conversion which was then filed, together with certain documents, with the Pennsylvania Insurance Department for its approval on May 7, 2015 (the "Second Amended Plan").

By notice in the Pennsylvania Bulletin dated July 25, 2015, the Pennsylvania Insurance Department advised of its scheduling of a Public Informational Hearing (the "Hearing") to be held on September 1, 2015 at which Saucon Mutual members and interested persons would be able to present comments on the ~~Plan of Conversion~~ plan of conversion. Saucon Mutual also mailed a notice of the Hearing to all Eligible Members. The Hearing was conducted on September 1, 2015 and the proceeding was recorded by a court reporter. Subsequent to the Hearing, Saucon Mutual filed a response to presentations made by commenters and questions posed by the Pennsylvania Insurance Department at the Hearing (the "Saucon Mutual Response").

Saucon Mutual also filed a revised version of this Member Information Statement on October 2, 2015, which included information contained in the Saucon Mutual Response. Saucon Mutual filed a subsequent version of this Member Information Statement on October 20, 2015 to address further comments made by the Pennsylvania Insurance Department. Each of the Pennsylvania Insurance Department and Saucon Mutual notices of the Hearing, the written transcript of the Hearing ~~and~~, the Saucon Mutual Response, and revised versions of the Member Information Statement are posted on the Pennsylvania Insurance Department's website at [www.insurance.pa.gov](http://www.insurance.pa.gov).

As announced by the Pennsylvania Insurance Department at the Hearing, after its receipt of the Hearing transcript and the Saucon Mutual Response, the Pennsylvania Insurance Department provided an additional public comment period during which no further comments were received.

Thereafter, in mid-December 2015, Saucon Mutual was advised of concerns by the Pennsylvania Insurance Department with the provisions of the Second Amended Plan and that no approval order would be forthcoming. After various discussions with the Pennsylvania Insurance Department on its concerns, Saucon Mutual proposed further amending the Second Amended Plan to provide to Eligible

Members the option of either subscribing for shares of Saucon Holding or receiving the Member Compensation. Saucon Holding also agreed for the Pennsylvania Insurance Department to engage an independent consultant to perform a valuation analysis of Saucon Mutual and a fairness opinion on the plan of conversion. The Pennsylvania Insurance Department engaged Stoneridge to do this work, and the resulting Stoneridge valuation report dated November 29, 2016 and the fairness opinion dated [DATE] were issued.

On March 22, 2017, the Board of Directors of Saucon Mutual unanimously approved a Third Amended and Restated Alternative Plan of Conversion in the form attached to this Member Information Statement. References in this Member Information Statement to the “Plan” refer to the Third Amended and Restated Alternative Plan of Conversion. The Plan and certain related documents, including this Member Information Statement, were then filed with the Pennsylvania Insurance Department for its approval on April 3, 2017.

[NOTE TO PENNSYLVANIA INSURANCE DEPARTMENT – THIS IS A PLACEHOLDER FOR A DESCRIPTION OF THE PROCEDURAL STEPS BETWEEN FILING AND APPROVAL]

Subsequently, on [DATE], the Pennsylvania Insurance Department approved the Plan of Conversion and certain related filings and transactions.

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

### **Considerations For and Against the ~~Proposed Demutualization~~ Conversion Transactions**

There are potential risks and benefits with the proposed ~~Demutualization~~ Conversion Transactions, just as there are risks and benefits with ~~staying with~~ Saucon Mutual’s ~~s~~ staying its current course. Saucon Mutual’s ~~board of directors~~ Board of Directors believes that the proposed ~~demutualization and the Demutualization~~ Conversion Transactions are the most appropriate and effective means of ~~enabling the company to achieve~~ achieving the objectives ~~designated~~ set by the ~~board~~ Board of Directors.

- Rewarding members for their loyalty to the ~~company~~ Company. As described more fully below under the heading “Description of ~~Consideration to Eligible Members,~~” ~~the consideration that Eligible Members of Saucon Mutual~~ Member Compensation,” the value of the Member Compensation that an Eligible Member of Saucon Mutual who does not subscribe for shares of Saucon Holding in the Saucon Holding Offering would receive upon the closing of the ~~Demutualization~~ Conversion Transactions ~~would~~ will depend, in part, upon the number of years that the Eligible Member’s policy had remained in force. This permits Saucon Mutual to reward ~~members~~ Eligible Members for their loyalty to the ~~company~~ by Company in maintaining their policies. ~~The~~ Assuming that no Non-Control Group Eligible Members subscribe for shares of Saucon Holding in the First Stage Offering, the aggregate amount of the ~~payments to members was~~ Member Compensation has been estimated to be approximately \$1,564,839 ~~2,131,000~~ assuming a July 31, ~~2015~~ 2017 closing date and will be slightly higher with a later closing date. ~~Further, the aggregate value of consideration to perpetual policyholders, not in the form of~~

cash payments, is approximately \$500,000 as described below under the heading “Description of Consideration to Eligible Members.”

- Making a charitable contribution in furtherance of the ~~company's~~ 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~~ Conversion Transactions, ~~the company~~ Saucon Insurance Company would 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 to serve the Lehigh Valley. ~~In addition, 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 Demutualization Transactions.~~ The contribution committee of Saucon Insurance Company's ~~board of directors~~ Board of Directors will make recommendations to ~~the Foundation that foundation~~ 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. The ~~board~~ Board of Directors 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 Saucon Mutual and, thus, will not ~~receive direct compensation in the Demutualization~~ have the right to participate in the Conversion Transactions.
- Modernizing the ~~company's~~ Company's governance structure. The ~~board of directors~~ Board of Directors of Saucon Mutual believes that it is in the ~~company's~~ Company's interest to align the interests of its constituents with the growth and success of the ~~company~~ Company, and that organization as a stock corporation is a more appropriate structure to accomplish this goal than organization as a mutual insurance 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~~ shareholder is entitled to cast one vote per share, which means that a ~~stockholder~~ shareholder who wishes to enjoy a greater degree of control over the corporation can do so by acquiring more shares. The ~~board of directors~~ Board of Directors believes that it is in the ~~company's~~ Company's interest to adopt a governance structure where the voting power of a constituent of the ~~company~~ Company is more closely aligned to that constituent's economic interest in the ~~company~~ Company, as represented by that constituent's ~~investment in the company to acquire shares~~ ownership interest in Saucon Holding.

- 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 secure debt and other instruments issued to financing sources;
  - 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 thus giving~~ 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.
- Preparing the ~~company~~ Company to re-enter 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~~ audited financial statements for the fiscal years ended December 31, ~~2014, December 31, 2013 and December 31, 2012, a copy of which is attached to this member information statement as Exhibit 3~~ 2016, 2015 and 2014, which are discussed below under the heading "Audited Financial Statements of Saucon Mutual" and which are attached as Exhibit 3 to this Member Information Statement), 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~~ Board of Directors believes that ~~demutualizing the~~ conversion of the Company to a stock insurance company would permit the ~~company~~ Company to implement steps to attract and retain suitable personnel and to develop appropriate infrastructure to assist the ~~company~~ Company in re-entering the business of underwriting new insurance.

As described below, upon closing of the ~~Demutualization~~ Conversion Transactions, Saucon Insurance Company intends to immediately begin work on developing infrastructure for underwriting insurance, including systems, claims, underwriting staff and structure, documentation, and development of a distribution network. While this infrastructure is being developed, Saucon Insurance 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~~ Company. Upon the closing of the ~~Demutualization~~ Conversion Transactions, Saucon Insurance Company will become a wholly-owned subsidiary of Saucon Holding ~~Company~~. The ~~stock shares~~ 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 are board members or members of management of Saucon Mutual. See "Conflict of Interest" and "Description of Stock Offering the Saucon Holding Offering. All of the subscribers for shares of Saucon Holding in the Saucon Holding Offering will be Eligible Members, members of the Control Group, or both. See "Description of Saucon Holding Company Offering" and "Conflict of Interest."~~

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

In this context 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-conversion into a stock insurance company~~ 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-shares of Saucon Holding, or by purchasing control of the Company from Saucon Holding. However, the shares 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 ~~shares of Saucon Holding Company shares~~. In addition, ~~the all~~ shareholders of Saucon Holding ~~Company will enter into a shareholders agreement~~ who are either members of the Control Group or who acquire five percent or more of the shares of Saucon Holding will be required to enter into the Saucon Holding Shareholder Agreement that will, among other things, impose restrictions on the transfer of their shares. See "Description of Shareholder Agreement of Saucon Holding."

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.~~ Although Saucon Holding could try to sell Saucon Insurance Company to a third party after the closing of the Conversion Transactions, such a transaction would have to be approved by Pennsylvania Insurance Department, as would any transactions that result in a change of control of Saucon Holding.

It is the intention and expectation of the Control Group that, assuming that the Control Group acquires the majority of the shares of Saucon Holding in the Saucon Holding Offering, no subsequent change in control of Saucon Holding or of Saucon 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 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.~~

## Risks of Re-Entering the Insurance Underwriting Business

A.M. Best, the rating agency that rates Saucon Mutual, was informed of the proposed ~~Demutualization Conversion~~ Transactions when Saucon Mutual first filed the ~~Plan of Conversion~~ original version of the ~~plan of conversion~~ with the Pennsylvania Insurance Department in September of 2014. A.M. Best was satisfied that the ~~company's~~ Company's financial strength would not be compromised by the ~~Demutualization Transactions~~ conversion transactions as proposed by that version of the ~~plan of conversion~~, hence the continuation of the ~~company's~~ Company's "A" rating. However, the unknowns surrounding the risk involved in re-entering the insurance underwriting business after closing of the ~~Demutualization Transactions~~ those conversion transactions led it to assign a negative outlook. In January 2017, A.M. Best removed the negative outlook, but Saucon Mutual's rating was downgraded from an "A" to "A-". In its press release regarding the ratings downgrade, A.M. Best noted that "[r]estructuring plans that have the potential to change the company's business profile with regard to the

source of new business and type of exposures insured have been discussed over the past few years. This new structure and profile pose execution risk and potential staffing implications.”

In light of A.M. Best’s concern about the unknown risks involved in re-entering the insurance underwriting business, the ~~company~~ Company has a conservative business plan for Saucon Insurance Company that provides for it to deliberately and methodically take the steps necessary to re-enter the insurance underwriting business while preserving its surplus. Upon the closing of the ~~Demutualization Conversion~~ Transactions, Saucon Insurance Company intends to immediately begin work on developing infrastructure for underwriting insurance, including systems, claims, underwriting staff and structure, documentation, and development of a distribution network. While this infrastructure is being developed, Saucon Insurance 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~~ Company will begin to engage in direct underwriting only when the necessary infrastructure and personnel are in place. Saucon Mutual 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 the ~~company~~ Company feels a certain affiliation because of its Moravian roots.

#### Litigation Relating to the Conversion Transactions

**[NOTE TO PENNSYLVANIA INSURANCE DEPARTMENT: This description of the litigation will be updated before dissemination of this Member Information Statement to the members, so that this description can reflect any additional developments in the litigation that occur before the statement is delivered.]**

On November 20, 2015, attorney Steven L. Block, of the plaintiffs’ firm Bailey & Glasser LLP, initiated a civil action with class and derivative allegations against Saucon Mutual, Saucon Holding and the individual members of Saucon Mutual’s Board of Directors. *Steinleitner et al. v. Saucon Mut. Ins. Co. et al.*, No 2015-cv-9456 (C.P. Dauphin). Block recruited plaintiffs by, among other things, placing an ad specifically directed to Saucon Mutual policyholders in the Allentown Morning Call and on the Bailey & Glasser website.

Plaintiffs’ complaint includes nine counts, including claims for breach of fiduciary duty, declaratory and injunctive relief due to supposedly untrue and misleading statements in the proposed proxy statement and a “fraudulent or fundamentally unfair corporate transaction,” unjust enrichment, failure to declare dividends, “aiding and abetting” breaches of fiduciary duty, and a constructive trust. By way of relief, Plaintiffs seek unspecified compensatory and punitive damages, as well as injunctive relief preventing the proxy statement from being disseminated to policyholders and prohibiting the proposed transaction from being consummated.

On November 14, 2016, defendants filed preliminary objections to plaintiffs' complaint, arguing that all matters in the complaint should be referred to the Pennsylvania Insurance Department under its primary jurisdiction, and the complaint dismissed. Defendants filed a supporting brief on November 18, 2016, plaintiffs filed an opposing brief on December 23, 2016, and defendants filed a reply brief on January 13, 2017.

Plaintiffs have also sought broad discovery from Saucon Mutual, and from certain of its financial advisors.

This litigation remains ongoing.

## **DESCRIPTION OF ~~CONSIDERATION TO ELIGIBLE MEMBERS~~ CONVERSION TRANSACTIONS**

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

### **Conversion 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 an exhibit to the Plan 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 an exhibit to the Plan. 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."

### **Issuance and Sale of Shares of Saucon Holding to the Subscribers in the Saucon Holding Offering**

Saucon Holding will issue and sell 3,250,000 shares to the subscribers who participate in the Saucon Holding Offering for a subscription price of one dollar per share, as described in this Member Information Statement under the heading "Description of Saucon Holding Offering." On the closing date of the Conversion Transactions, and subject to the conditions and limitations described under the heading "Description of Saucon Holding Offering," Saucon Holding will countersign the subscription agreements that had been signed and delivered by the subscribers in the First Stage Offering and the Second Stage Offering. The shares of Saucon Holding being issued in the Saucon Holding Offering will constitute all of the outstanding shares of Saucon Holding. As a result, the investors in the Saucon Holding Offering will hold all of the outstanding shares of Saucon Holding.

If Saucon Holding is unable to accept a subscription by a particular Eligible Member (such as by reason of the limitation on the number of non-accredited investors that is described below under the heading "Description of Saucon Holding Offering—First Stage Offering"), then that Eligible Member will instead receive the Member Compensation.

### **Purchase of Shares of Saucon Insurance Company**

Saucon Insurance Company will issue and sell 1,000 shares to Saucon Holding 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.

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

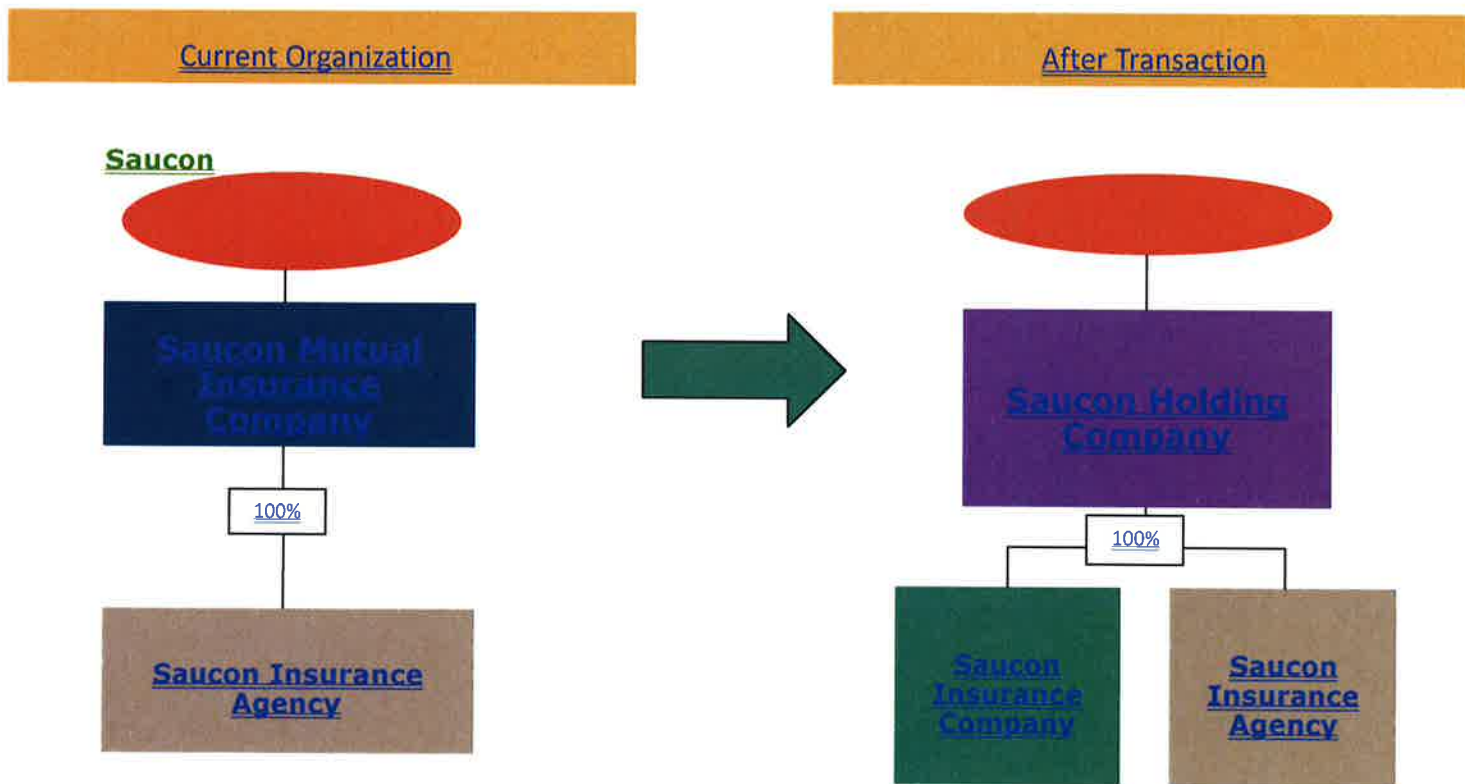
### Charitable Contribution

Saucon Insurance Company will make a \$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.” The Board of Directors 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 Saucon Mutual and, thus, will not receive direct compensation in the Conversion Transactions.

### No Public Company

The Conversion Transactions will not result in Saucon Insurance Company (or its parent company, Saucon Holding) becoming a public company, and there are no plans to cause either of them to become a public company in the foreseeable future. The Board of Directors of Saucon Mutual does not believe that it would be appropriate to incur the transactional fees and expenses, or to require management to devote the requisite attention, in connection with going public or maintaining itself as a public company.

The following diagram illustrates the effect of the transactions:



Immediately following the closing of the Conversion Transactions, the following transactions will occur:

### Entity Reorganization of the Agency

Saucon Insurance Company will make a distribution to Saucon Holding (its sole shareholder) of all of the shares of the Agency, with the result that the Agency will become a direct wholly-owned subsidiary

of Saucon Holding and will be a sister company (rather than a subsidiary) of Saucon Insurance Company. This distribution will occur immediately after the closing of the Conversion Transactions.

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

**Description** **Payment of Consideration to Eligible Members**

Saucon Insurance Company will pay to each of the Eligible Members who does not subscribe for shares of Saucon Holding their respective consideration as described in this Member Information Statement under the heading “Description of Member Compensation.”

**Distribution of Amended Insurance Policy Declarations**

As soon as reasonably possible following the closing of the Conversion Transactions, Saucon Insurance Company will prepare and deliver to Eligible Members whose policies are still in force amended insurance policy declarations that will: (1) indicate the new name of the Company; (2) no longer include mutual policy conditions; and (3) for perpetual policyholders who receive a return of deposit as part of the consideration to Eligible Members, the revised amount of the remaining perpetual deposit.

## DESCRIPTION OF MEMBER COMPENSATION

Saucon Mutual's ~~outstanding-in-force~~ policies are either perpetual policies or non-perpetual policies. Perpetual policies are written to have no term, or expiration date, and continue until terminated. Saucon Mutual also issues policies that do have a set date when the policy expires, ~~that~~ which are referred to as non-perpetual policies. The ~~consideration~~ Member Compensation that a particular Eligible Member ~~will~~ may receive will depend upon whether that Eligible Member holds a perpetual policy or a non-perpetual policy.

Eligible Members who subscribe for shares of Saucon Holding in the Saucon Holding Offering will not receive the Member Compensation described below. Each Eligible Member must elect to either receive Member Compensation, or subscribe for shares of Saucon Holding, but the Eligible Member may not do both.

The Member Compensation will consist of the following:

### Member Compensation for Eligible Members Who Hold Perpetual Policies

Eligible Members who hold perpetual policies will receive the following Member Compensation, but in each case only if that Eligible Member does not subscribe for shares of Saucon Holding in the Saucon Holding Offering:

A. *Cash Payment.* A cash payment computed by multiplying (i) the actual number of calendar days that the perpetual policy had been in effect from its issuance until the closing date of the ~~Demutualization~~ Conversion Transactions, by (ii) \$0.2787 per day, then rounding that amount to the nearest whole dollar. For example, ~~a member an~~ Eligible Member who is a perpetual policyholder whose policy had been in effect for ~~10 ten~~ years (i.e., ~~3650~~ 3652 days) would receive a cash payment of ~~\$1,017~~ 1,018; and ~~a member an~~ Eligible Member who is a perpetual policyholder whose policy had been in effect for ~~10 ten~~ years plus 120 days (i.e., ~~3770~~ 3772 days) would receive a cash payment of \$1,051. The aggregate amount of cash payments to all Eligible Members who are perpetual policyholders under this paragraph ~~was estimated to be approximately~~ (assuming that none of the perpetual policyholders subscribe for shares of Saucon Holding in the Saucon Holding Offering) will be \$1,197,061-1,269,435, assuming a closing date of the Conversion Transactions of July 31, 2015 and will be slightly higher with a later closing date. 2017; plus

B. *Return of Deposits.* A return of 15% of the ~~member's~~ Eligible Member's deposits held by Saucon Mutual, if any. The aggregate amount of deposits to be returned to ~~members~~ Eligible Members who are perpetual policyholders under this paragraph will be approximately ~~\$334,000~~ \$325,000 (assuming that none of the perpetual policyholders subscribe for shares of Saucon Holding in the Saucon Holding Offering), less any deposits that ~~are returned have~~ already been or, before the closing of the Conversion Transactions will be, returned in accordance with policy terms. The balance of a member's deposit (the remaining 85%) will be returnable in accordance with policy terms.; plus

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 and also~~ require the perpetual policyholder to pay an additional annual deposit to Saucon Mutual because of that increase in the policy limit. After the ~~closing of the Demutualization~~ Conversion Transactions, ~~the increases in policy limits under the inflation adjustment endorsements will continue, but~~ Saucon Insurance Company will discontinue its practice of requiring holders of those perpetual policies who do not subscribe for shares of Saucon Holding in the Saucon Holding Offering 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 ~~Demutualization~~ Conversion Transactions. ~~The~~ Assuming that none of the perpetual policyholders subscribe for shares of Saucon Holding in the Saucon Holding Offering, the estimated aggregate value of the removal of charges for increases in policy limits under the inflation adjustment endorsements is approximately \$500,000.

#### Member Compensation for Eligible Members Who Hold Non-Perpetual Policies

Eligible Members who hold non-perpetual policies will receive the following Member Compensation, but in each case only if that Eligible Member does not subscribe for shares of Saucon Holding in the Saucon Holding Offering:

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

- ~~A cash payment~~ An amount computed by multiplying (i) the actual number of calendar days that the non-perpetual policy had been in effect (including all renewals) from its issuance until the closing date of the ~~Demutualization~~ Conversion Transactions, by (ii) \$0.2787 per day, then rounding that amount to the nearest whole dollar. For example, ~~a member~~ an Eligible 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 ten~~ years (i.e., ~~3650-3652~~ days) as of the closing date of the Conversion Transactions would receive a cash payment of ~~\$1,017~~ 1,018; and ~~a member~~ an Eligible Member who is a non-perpetual policyholder whose policy had been issued and then renewed from time to time for a period of ~~10 ten~~ years plus 120 days (i.e., ~~3770-3772~~ days) as of the closing date of the Conversion Transactions would receive a cash payment of \$1,051. The aggregate amount of cash payments to all ~~members~~ Eligible Members who are non-perpetual policyholders under this paragraph ~~was estimated to be approximately~~ (assuming that none of the Eligible Members who are non-perpetual policyholders subscribe for shares of Saucon Holding in the Saucon Holding Offering) will be \$31,978-34,865, assuming a closing date of the Conversion Transactions of July 31, 2015 ~~and will be slightly higher with a later closing date~~ 2017; plus
- An additional one-time cash payment equal to 15% of the current premium of the non-perpetual policy. The aggregate amount of cash payments to be made to ~~members~~ Eligible Members who are non-perpetual policyholders under this paragraph ~~is estimated to~~ (assuming that none of the Eligible Members who are non-perpetual policyholders subscribe for shares of Saucon Holding in the Saucon Holding Offering) would be approximately \$1,800 1,700.



## 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~~ Member Compensation to Eligible 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 regarding~~ the federal, state, local and any applicable foreign tax consequences of the ~~Demutualization~~ Conversion Transactions in your particular circumstances.*

Return of Deposits to Members Who Are Perpetual Policyholders. Part of the cash payment being made pursuant to the Plan to Eligible Members who are perpetual policyholders and who do not participate in the Saucon Holding Offering will be a return by Saucon Mutual of a portion of the ~~member's~~ Eligible Member's funds that are held on deposit. In general, a return of deposits to ~~a member~~ an Eligible Member should not be taxable.

Cash Payments. In general, cash that is paid pursuant to the Plan to an Eligible Member ~~as contemplated by the Plan of Conversion~~ who does not participate in the Saucon Holding Offering (other than the partial return of deposits) is ~~treatment~~ treated as payment for the ~~member's~~ Eligible 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 Eligible Member in question owned ~~his, her or its~~ the policy for more than one year at the time the cash is paid to the Eligible 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 Eligible Members and withhold any applicable tax payments to the extent required by law.

### Instructions Related to Form W-9

Eligible Members who receive the Member Compensation because they do not subscribe for shares of Saucon Holding in the Saucon Holding Offering will be required to complete, sign and return to Saucon Mutual the enclosed Form W-9. The following guidelines for determining the proper social security number or taxpayer ID number to put on the Form W-9 should be followed:

- If the Eligible Member's insurance policy specifies a single person as the named insured, then the social security number of that single person should be given on the Form W-9.
- If the Eligible Member's insurance policy specifies more than one person as the named insured, then the social security number or taxpayer ID number of the first named person should be given on the Form W-9.
- If the Eligible Member's insurance policy names a valid trust, estate or pension trust as the named insured, then the taxpayer ID of that legal entity should be given on the Form W-9.

- If the Eligible Member is a legal entity such as a corporation, a tax-exempt organization, a partnership or an LLC, then the taxpayer ID of that legal entity should be given on the Form W-9.

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

Saucon Mutual does not intend to issue any policies after the date that the Plan ~~of Conversion~~ was adopted by its ~~board of directors~~ Board of Directors and before the closing of the ~~Demutualization Conversion~~ 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 an exhibit 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 an exhibit 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."~~

### ~~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.~~

### ~~Purchase of Saucon Insurance Company Stock~~

~~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.~~

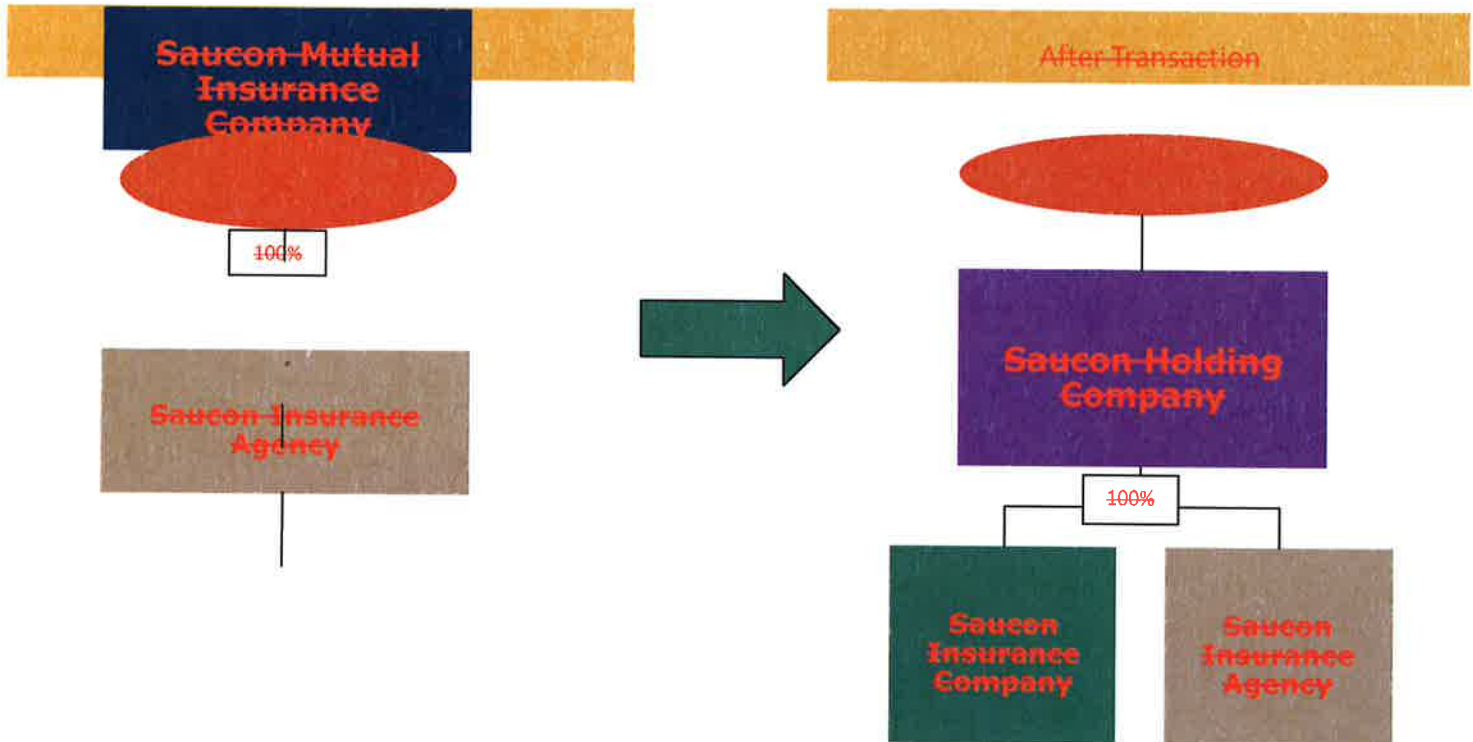
### ~~Charitable Contribution~~

~~The converted company will make a \$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." In addition, 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 Demutualization Transactions. 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 Saucon Mutual and, thus, will not receive direct compensation in the Demutualization Transactions.~~

### ~~No Public Company~~

~~The Demutualization Transactions will not result in Saucon Insurance Company (or its parent company, Saucon Holding Company) becoming a public company, and there are no plans to cause either of them to become a public company in the foreseeable future. The board of directors of Saucon Mutual does not believe that it would be appropriate to incur the transactional fees and expenses, or to require management to devote the requisite attention, in connection with going public or maintaining itself as a public company.~~

~~The following diagram illustrates the effect of the transactions:~~



Immediately following the closing of the **Demutualization** Transactions, 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 Eligible Members**

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

**Distribution of Amended Insurance Policy Declarations**

As soon as reasonably possible following the closing of the **Demutualization Transactions**, Saucon Insurance Company will prepare and deliver to Eligible Members amended insurance policy declarations that will: (1) indicate the new name of the company; (2) no longer include mutual policy conditions; and (3) for perpetual policyholders who receive a return of deposit as part of the consideration to Eligible Members, the revised amount of the remaining perpetual deposit.

**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 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 Conversion** Transactions, policyholders of Saucon Insurance Company will no longer

be members of the ~~company~~ 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~~ Conversion 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~~ conversion, a merger, a liquidation of the company or a sale of all or substantially all assets. Once the company ~~demutualizes and becomes~~ converts to a stock corporation, those voting rights are enjoyed by the company's ~~stockholder~~ shareholders 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~~ converts to a stock corporation, dividends may be payable to ~~stockholders~~ shareholders 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~~ Board of Directors does not have any present plans to declare or pay any dividends in the foreseeable future, whether or not the ~~Demutualization~~ Conversion Transactions close, with the exception of the distribution of the ~~stock~~ shares of the Agency to Saucon Holding ~~Company~~, as described under the heading "Description of ~~Demutualization~~ Conversion Transactions."

#### Excess of liquidation proceeds over liabilities.

Pennsylvania law provides that upon the dissolution of a mutual fire insurance company such as Saucon Mutual, 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~~ shareholders 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~~ Conversion Transactions will 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~~ Conversion 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<br/>(<del>before closing</del>)(<u>current</u>)</b>   | <b>Saucon Insurance Company<br/>(<del>after closing</del>)</b>   |
|---|--|--|
| <b>Authorization of Stock</b>               | None.  | 1,000 shares of <del>capital</del> -stock authorized, all of which will be purchased by and issued to Saucon Holding <del>Company</del> .  |
| <b>Election of Directors</b>                | Election by members of Saucon Mutual (1 vote per member)   | Election by Saucon Holding <del>Company</del> , which will be the company's sole <del>stockholder</del> <u>shareholder</u>   |
| <b>Initial Makeup of Board of Directors</b> | Brian T. Regan (Chairman)<br>Susan C. Drabic (Vice Chairman)<br>Phillip J. Bell<br>Michael Crofton<br>Martin C. Gilchrist<br>Donna Jean Goss<br>Richard E. Santee, Jr.<br>Bernard J. Story | No change. The incumbent board members <u>at the time of the closing of the Conversion Transactions</u> 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 <del>members of directors</del> of Saucon Holding Company.  |
| <b>Initial Officers</b>                     | Stephen Bajan (CEO)<br>Brian T. Regan (President)<br>Phillip J. Bell (Secretary)<br>Martin C. Gilchrist (Treasurer)  | No change. The incumbent officers <u>at the time of the closing of the Conversion Transactions</u> 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 <del>Company</del> .  |
| <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 <del>Company</del> will be the <del>company's</del> <u>Company's</u> sole <del>stockholders</del> <u>shareholder</u> . The <del>stockholders</del> <u>shareholders</u> of Saucon Holding <del>Company</del> (who will be the investors who acquired <del>stock in the stock offering described in this memorandum under the heading "Description of Stock Offering of shares in the</del> Saucon Holding <del>Company" Offering</del> ) will elect the directors of Saucon Holding <del>Company</del> , having one vote per share. The bylaws of Saucon Holding <del>Company</del> 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~~ Conversion Transactions, Saucon Insurance Company will make a \$500,000 contribution to the Lehigh Valley Community Foundation, which is to be used to establish the "Saucon Insurance Company Foundation Fund." ~~In addition, 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 Demutualization Transactions. The board~~ The Board of Directors believes that such charitable ~~contributions~~ contribution will benefit not only the community in general, but also people in the community who once were, but no longer are, policyholders of Saucon Mutual and, thus, will not receive direct compensation in the ~~Demutualization~~ Conversion Transactions.

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 contributions to the Lehigh Valley Community Foundation would be more cost-effective and straightforward than establishing a separate, new foundation.

The Lehigh Valley Community Foundation will make disbursements from ~~that fund~~ the Saucon Insurance Company Foundation Fund from time to time for charitable purposes in accordance with recommendations made by the contribution committee of Saucon Insurance Company's ~~board of directors~~ 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~~ Board of Directors of Saucon Mutual, but will receive no compensation directly tied to Saucon Insurance Company's contribution to the ~~Foundation~~ foundation.



## DESCRIPTION OF ~~STOCK SAUCON HOLDING OFFERING OF SAUCON HOLDING~~ COMPANY

### ~~Stock~~ Saucon Holding 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.~~

As part of the Conversion Transactions, Saucon Holding will conduct the Saucon Holding Offering, as described in the Plan under the heading “Saucon Holding Offering.” The investors who subscribe for shares of Saucon Holding in the Saucon Holding Offering will become all of the shareholders of Saucon Holding.

The aggregate subscription price for all of the 3,250,000 shares of Saucon Holding, which are being offered in the Saucon Holding Offering for a subscription price of one dollar per share, is \$3,250,000. That aggregate subscription price is larger than the higher end of StoneRidge’s valuation range for Saucon Mutual. This means that subscribers for the shares of Saucon Holding would be paying an amount for those shares in the aggregate that exceeds the higher end of StoneRidge’s valuation range for Saucon Mutual.

An investment in Saucon Holding’s shares in the Saucon Holding Offering is subject to significant risks, including the risks set forth below under the heading “Risk Factors Relevant to the Saucon Holding Offering,” and may be suitable only for persons with the financial capacity for making and holding long-term investments that are not readily reducible to cash. Prospective subscribers for the shares must, therefore, have adequate means of providing for their current needs and personal contingencies. Any person who cannot bear the risk of loss of their entire investment in the Saucon Holding shares should not subscribe for the shares.

### Description of Saucon Holding ~~Company~~

Saucon Holding ~~Company~~ was ~~organized~~ formed 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~~ Conversion Transactions, Saucon Holding ~~Company~~ will purchase the ~~stock~~ shares of Saucon Insurance Company, thereby becoming its sole ~~stockholder~~ shareholder and parent company. Immediately after the closing, by virtue of the entity reorganization described under the heading “Description of ~~Demutualization Transactions — Entity Conversion Transactions~~ Entity Reorganization of the Agency,” Saucon Holding ~~Company~~ will also become the sole ~~stockholder~~ shareholder and parent company of the Agency. The articles of incorporation and ~~proposed~~ bylaws of Saucon Holding ~~Company~~ are attached as exhibits to the Plan ~~of Conversion~~.

## **Participants in Stock Offering**

### **Subscription Rights**

The proposed ~~demutualization-conversion~~ of Saucon Mutual into a stock insurance company is not a “subscription rights ~~demutualization-conversion.~~” This means that members of Saucon Mutual, in their capacity as such, are not being offered the right to ~~partieipate in the capital offering and~~ subscribe for shares of ~~stock of Saucon Holding Company.~~ Instead, the members of Saecon 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. Saucon Insurance Company (the stock insurance company into which Saucon Mutual will convert).

However, Eligible Members and members of the Control Group are being offered the right to subscribe for shares of Saucon Holding in the Saucon Holding Offering. The Saucon Holding Offering would be made available:

1. first, to the Non-Control Group Eligible Members (this stage of the Saucon Holding Offering is referred to as the “First Stage Offering”); and
2. second, any remaining shares of Saucon Holding that are not subscribed for in the First Stage Offering would be made available for subscription by the members of the Control Group (this stage of the Saucon Holding Offering is referred to as the “Second Stage Offering”).

~~Nine individuals were invited to, and are expected to, subscribe for stock of Saecon Holding Company in the offering. These individuals are board members and members of management of Saecon 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 Saecon Mutual) will acquire, in the aggregate, approximately 91% of the Saecon 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 Riek Santee, who are all of the other members of the board of directors, and Stephen Bajan, who is the Chief Executive Officer of Saecon Mutual company) will acquire, in the aggregate, the balance of the Saecon 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 for Saucon Holding to conduct the Saucon Holding Offering, the offering must either be registered under federal and state securities laws, or an exemption from registration is must be available. The board of directors 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 shares~~ of Saucon Holding Company, and the costs, expenses and time commitment that a registered public offering of the shares of Saucon Holding would require, that a registration of the Saucon Holding Company stock Offering would not be practicable. Therefore, the Saucon Holding Offering is being conducted in the manner described in the Plan and in this Member Information Statement so as to qualify for an exemption from registration 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.~~

### **First Stage Offering**

The First Stage Offering will be an offering by Saucon Holding, to Non-Control Group Eligible Members only, to issue and sell up to 3,250,000 shares of Saucon Holding at a purchase price of one dollar per share. If any Non-Control Group Eligible Member timely fulfills the requirements to subscribe for shares of Saucon Holding in the First Stage Offering, those shares will be issued on the closing date of the Conversion Transactions.

To subscribe for shares of Saucon Holding in the First Stage Offering rather than receiving Member Compensation, follow the instructions that are described under the heading “Instructions for Participation in the Saucon Holding Offering”

Any Non-Control Group Eligible Member who does not complete, execute and return a First Stage Offering Subscription Agreement and tender the subscription price by the relevant deadline will be presumed to have elected not to subscribe for shares of Saucon Holding in the First Stage Offering but will receive Member Compensation.

The aggregate maximum subscription price for all of the shares of Saucon Holding being offered in the First Stage Offering is \$3,250,000, which is larger than the higher end of StoneRidge’s valuation range for Saucon Mutual.

The First Stage Offering will be subject to all of the following additional conditions and limitations:

Participants in the First Stage Offering Will Not Receive Any Member Compensation. Non-Control Group Eligible Members who subscribe for shares of Saucon Holding in the First Stage Offering will not receive the Member Compensation. The Member Compensation is discussed above under the heading “Description of Member Compensation.” Non-Control Group Eligible Members must elect to either receive Member Compensation, or subscribe for shares, but they may not do both.

First Stage Offering Limited to Non-Control Group Eligible Members. The First Stage Offering will be limited to Eligible Members who are not members of the Control Group. Members of the Control Group may not participate in the First Stage Offering even if they are Eligible Members.

Subscription Rights are Non-Transferable; Identity of the Non-Control Group Eligible Member Must Match the Name or Names of the Named Insured on a Saucon Mutual Policy. The right to participate in the First Stage Offering is not transferable. A Non-Control Group Eligible Member may only subscribe for shares of Saucon Holding in the First Stage Offering in his, her and/or its own name (the name or

names specified as the named insured for that Non-Control Group Eligible Member's respective policy or policies). In a case where the Eligible Member consists of more than one natural person or entity, see the "Questions and Answers Relating to the Special Meeting and the Plan—Who is an Eligible Member?" for further illustration. Saucon Holding will not accept any purported subscription in the First Stage Offering from any prospective subscriber who is not a Non-Control Group Eligible Member.

Minimum Subscription. The minimum subscription by a particular Non-Control Group Eligible Member will be for 500 shares (i.e., the minimum aggregate subscription price to be paid by a particular subscriber who is a Non-Control Group Eligible Member will be \$500.00). Saucon Holding will not be required to accept a subscription for a lesser number of shares.

Limited Exercise Period. Participation in the First Stage Offering will be limited to Non-Control Group Eligible Members who complete and sign the First Stage Offering Subscription Documents and return them to Saucon Mutual, in accordance with the instructions set forth under the heading "Instructions for Participation in the Saucon Holding Offering," on or before the First Stage Offering Deadline.

Subject to the Other Limits, a Non-Control Group Eligible Member May Subscribe for as Few as 500 or as Many as All of the Shares of Saucon Holding in the First Stage Offering. Subject to the limits set forth in this Member Information Statement (such as the minimum subscription limit, limitations on the number of non-"accredited investors" who may subscribe for shares of Saucon Holding, cutbacks, and the requirement that acquisitions of shares of Saucon Holding be approved by the Pennsylvania Insurance Department in certain circumstances), a Non-Control Group Eligible Member who elects to participate in the First Stage Offering may acquire as few as 500 shares or as many as all of the available shares of Saucon Holding.

Limitation on Number of Non-Accredited Investors. Saucon Holding will not be required to accept subscriptions from more than 35 Non-Control Group Eligible Members who do not credibly indicate, in their response to the questionnaire that is included in the First Stage Offering Subscription Documents, that they are "accredited investors" as that term is defined in Rule 501(a) promulgated by the United States Securities and Exchange Commission under the Securities Act of 1933, 17 CFR §230.501(a). The purpose of this limitation is to enable the Saucon Holding Offering to qualify for an exemption from registration under the federal and Pennsylvania securities laws. If more than 35 Non-Control Group Eligible Members who are not "accredited investors" timely deliver executed First Stage Offering Subscription Documents to Saucon Mutual, Saucon Holding will accept the First Stage Offering Subscription Documents from the 35 of such Non-Control Group Eligible Members whose First Stage Offering Subscription Documents indicate their willingness to subscribe for the largest amounts. Note that the limitation in this paragraph does not apply to Non-Control Group Eligible Members who are "accredited investors"; Saucon Holding may accept subscriptions from any number of Non-Control Group Eligible Members who are "accredited investors" regardless of the number of subscriptions received from Non-Control Group Eligible Members who are not "accredited investors." Any Non-Control Group Eligible Member who is not an "accredited investor" and whose subscription for shares of Saucon Holding is not accepted by reason of the limitation in this paragraph will instead receive the Member Compensation.

Cutbacks. In order to assure that no more than 3,250,000 shares of Saucon Holding are subscribed for in the Saucon Holding Offering, cutbacks may be applied. The aggregate number of shares of Saucon Holding that will be offered in the Saucon Holding Offering is 3,250,000 shares. Each Non-Control

Group Eligible Member may subscribe for as few as 500 such shares (per the limitation described above under the heading “Minimum Subscription”), or as many as all 3,250,000 of such shares. If Non-Control Group Eligible Members subscribe for more than 3,250,000 shares in the aggregate, then each Non-Control Group Eligible Member’s subscription will be subject to cutback as follows: each such Non-Control Group Eligible Member’s subscription will be regarded as a subscription for a number of shares of Saucon Holding equal to 3,250,000 shares multiplied by a fraction, the numerator of which is the number of shares that the Non-Control Group Eligible Member indicated as the subscription amount in the First Stage Offering Subscription Documents, and the denominator of which is the aggregate number of shares that all such Non-Control Group Eligible Members indicated as their subscription amounts in their respective First Stage Offering Subscription Documents, rounded to the nearest whole number of shares.

By way of illustration, assume that only three Non-Control Group Eligible Members subscribe for shares of Saucon Holding, but those Non-Control Group Eligible Members return subscription agreements indicating subscriptions as follows: Member A: 50,000 shares; Member B: 3,250,000 shares; Member C: 1,000,000 shares. Applying the formula above, the subscriptions would be deemed revised as follows: Member A: 37,791 shares (or 1.16% of the total); Member B: 2,456,395 shares (or 75.58% of the total); Member C: 755,814 shares (or 23.26% of the total) for a total of 3,250,00 shares subscribed for in the aggregate by Member A, Member B, and Member C.

Shareholder Agreement of Saucon Holding. Any Non-Control Group Eligible Member who, as a result of the Saucon Holding Offering, subscribes for five percent or more of the outstanding shares of Saucon Holding will, as a condition to such subscription, be required to join and become a party to the Saucon Holding Shareholder Agreement. For this reason: (i) any Non-Control Group Eligible Member who subscribes for at least 162,500 shares of Saucon Holding in the First Stage Offering (i.e., five percent of the 3,250,000 shares of Saucon Holding that will be available for subscription in the aggregate in the Saucon Holding Offering) will be required, as a condition precedent to the subscription, to execute and deliver to Saucon Mutual a joinder to the Saucon Holding Shareholder Agreement, together with that subscriber’s respective First Stage Offering Subscription Agreement and accompanying questionnaire, on or before the First Stage Offering Deadline; and (ii) any Non-Control Group Eligible Member who subscribes for fewer than 162,500 shares of Saucon Holding in the First Stage Offering but whose subscription, upon the conclusion of the Saucon Holding Offering, ends up constituting a subscription for five percent or more of the aggregate number of shares of Saucon Holding that will be outstanding upon the closing date of the Conversion Transactions will be required, as a condition precedent to the subscription, to execute and deliver to Saucon Mutual a joinder to the Saucon Holding Shareholder Agreement by such deadline prior to the closing date of the Conversion Transactions as Saucon Mutual designates (and if any such Non-Control Group Eligible Member who is described in this clause (ii) refuses to timely execute and deliver such a joinder then Saucon Holding may reject that subscription).

Requirement to Tender Subscription Price; Subscription is Legally Binding Commitment. In order to subscribe for shares of Saucon Holding in the First Stage Offering, the Non-Control Group Eligible Member must timely tender his, her and/or its entire subscription price together with the return of the fully-executed First Stage Offering Subscription Agreement and other First Stage Offering Subscription Documents, before the First Stage Offering Deadline. To the extent that all or a portion of a Non-Control Group Eligible Member’s subscription amount cannot be accepted (such as by reason of the abandonment of the Saucon Holding Offering or by reason of the cutbacks described above under the heading “Cutbacks”), then the excess portion of such tendered funds will be promptly returned. The

remaining tendered funds will be held in an interest-bearing escrow account pending the closing date of the Conversion Transactions, whereupon the subscription amount that has not already been returned will be applied to satisfy that Non-Control Group Eligible Member's subscription obligation, and any accrued interest on the funds held in the escrow account will be returned to the subscribers. Although Saucon Holding will not countersign the Subscription Agreements until the closing date of the Conversion Transactions, the execution and delivery of a First Stage Offering Subscription Agreement will be relied upon by Saucon Holding, Saucon Mutual and the other prospective participants in the Saucon Holding Offering. Consequently, a Non-Control Group Eligible Member's execution of the First Stage Offering Subscription Agreement and the other First Stage Offering Subscription Documents will be a legally binding commitment on the part of that Non-Control Group Eligible Member, which that Non-Control Group Eligible Member may not unilaterally cancel or withdraw, and which Saucon Holding may enforce.

Acquisition of Five Percent or More of the Outstanding Shares of Saucon Holding Will be Conditioned on Approval by the Pennsylvania Insurance Department. Any proposed subscription by a Non-Control Group Eligible Member for five percent or more of the shares of Saucon Holding is conditioned upon the Pennsylvania Insurance Department's approval of that subscription. If, within 30 days of the date of Saucon Mutual's receipt of such a subscriber's First Stage Offering Subscription Documents, Saucon Mutual does not receive from such a subscriber written evidence of such subscriber's good faith effort to obtain the Department's approval of that subscription, that subscription will be deemed to have been cancelled and of no further force or effect, in which case that Eligible Member will receive Member Compensation.

Acquisition of Ten Percent or More of the Outstanding Shares of Saucon Holding Will be Conditioned on Approval by the Pennsylvania Insurance Department. The "Form A" that is being filed with the Pennsylvania Insurance Department in connection with the proposed Conversion Transactions identifies those persons whom Saucon Mutual presently believes would become holders of ten percent or more of the outstanding shares of Saucon Holding upon the closing of the Conversion Transactions. If any Non-Control Group Eligible Member subscribes for ten percent or more of the shares of Saucon Holding in the First Stage Offering, then that Non-Control Group Eligible Member must separately file a Form A with the Pennsylvania Insurance Department, and the Conversion Transactions and the Saucon Holding Offering would not proceed until such Form A has been approved by the Pennsylvania Insurance Department in accordance with Section 1402 of the Insurance Company Act of 1921, as amended. Any Non-Control Group Eligible Member subscribing for ten percent or more of the shares of Saucon Holding in the First Stage Offering will be subject to such informational, notice, periodic filing and other requirements as are applicable to a holder of ten percent or more of the voting capital stock of an insurance holding company pursuant to the Pennsylvania insurance laws. If, within 30 days of the date of Saucon Mutual's receipt of such a subscriber's First Stage Offering Subscription Documents, Saucon Mutual does not receive from that subscriber written evidence of the subscriber's good faith effort to file a "Form A" with the Pennsylvania Insurance Department with respect to the proposed subscription, that subscription will be deemed to have been cancelled and of no further force or effect, in which case that Eligible Member will receive Member Compensation.

Abandonment of Conversion Transactions and Saucon Holding Offering Upon First Stage Offering Resulting in Subscriptions for More than 51%, but Less than All, of the Available Shares of Saucon Holding. As described more fully in the description of the Second Stage Offering below, shares of Saucon Holding that are not subscribed for in the First Stage Offering will be available to be subscribed

for by members of the Control Group in the Second Stage Offering. The members of the Control Group have, in the aggregate, entered into non-binding expressions of interest in subscribing in the Second Stage Offering for all of the shares of Saucon Holding that are not subscribed for in the First Stage Offering, but only so long as the members of the Control Group would thereby subscribe, in the aggregate, for at least 51% of the total number of shares of Saucon Holding.

However, if the First Stage Offering results in Non-Control Group Eligible Members subscribing for 1,657,500 or more shares (i.e., 51% of 3,250,000 shares) of Saucon Holding but fewer than 3,250,000 shares of Saucon Holding, then the Board of Directors of Saucon Mutual may abandon the Conversion Transactions and the Saucon Holding Offering, in which case Saucon Mutual will not proceed with the Conversion Transactions and Saucon Holding will not proceed with the Saucon Holding Offering. In that case, none of the Eligible Members will receive Member Compensation, and any tendered subscription funds will be returned.

### **Second Stage Offering**

If the First Stage Offering results in subscriptions by Non-Control Group Eligible Members for 49% or fewer of the shares of Saucon Holding, the Second Stage Offering will be conducted. The Second Stage Offering will be an offering by Saucon Holding to issue and sell to members of the Control Group any of the 3,250,000 shares of Saucon Holding that remain available after the end of the exercise period for the First Stage Offering, at a purchase price of one dollar per share. Any shares of Saucon Holding that are subscribed for in the Second Stage Offering will be issued on the closing date of the Conversion Transactions. The Second Stage Offering will be subject to all of the following additional conditions:

Participants in the Second Stage Offering Will Not Receive Member Compensation. Members of the Control Group who subscribe for shares of Saucon Holding in the Second Stage Offering will not receive the Member Compensation, even if they are Eligible Members. Members of the Control Group who are Eligible Members must elect to either receive the Member Compensation, or subscribe for shares, but they may not do both.

Second Stage Offering Limited to Members of the Control Group. The Second Stage Offering will be limited to members of the Control Group. The Control Group consists of 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 subscribing for all of the Saucon Holding shares that remain available after the First Stage Offering, subject to the limitations described below.

Among those nine investors, two have indicated an interest in acquiring more than ten percent of the Saucon Holding shares. Accordingly, those investors are included in the Form A that is being filed with the Pennsylvania Insurance Department concurrently with the Plan. Assuming that no shares are subscribed for in the First Stage Offering, Saucon Mutual expects that those two investors will acquire, in the aggregate, approximately 92.95% of the Saucon Holding shares that will be offered, and the other seven investors will in the aggregate acquire the remaining Saucon Holding shares that will be offered, subject to the limitations described below. If for any reason any of the seven smaller Control Group investors fails to subscribe in the Second Stage Offering for the number of Saucon Holding shares that they had indicated an interest in subscribing for, it is expected that those shares will be re-allocated among the other members of the Control Group (each of the largest two investors has indicated a

readiness to purchase additional Saucon Holding shares if they became available in the Second Stage Offering, but only so long as the members of the Control Group will, in the aggregate, hold at least 51% of the outstanding shares of Saucon Holding upon the closing of the Conversion Transactions).

Subscription Rights are Non-Transferable. The right to participate in the Second Stage Offering is not transferable. A person who is not a member of the Control Group may not subscribe for shares of Saucon Holding in the Second Stage Offering.

Process for Participating in Second Stage Offering. Members of the Control Group who participate in the Second Stage Offering will be required to complete and sign their Second Stage Subscription Documents (including the subscription agreement for the Second Stage Offering in the form attached as an exhibit to the Plan and a joinder to the Saucon Holding Shareholder Agreement), and to tender their subscription price, on or prior to the closing date of the Conversion Transactions. All of the members of the Control Group who subscribe for shares of Saucon Holding in the Second Stage Offering will be required to join and become parties to the Saucon Holding Shareholder Agreement, regardless of their subscription amounts. A Control Group member's execution of the Second Stage Offering subscription agreement and the other Second Stage Subscription Documents will be a legally binding commitment on the part of that Control Group member, which that Control Group member may not unilaterally cancel or withdraw, and which Saucon Holding may enforce.

Minimum Subscription. The minimum subscription by a member of the Control Group will be for 500 shares (i.e., a minimum aggregate subscription price to be paid by a particular member of the Control Group will be \$500.00). Saucon Holding will not be required to accept a subscription for a lesser amount.

### **Description of Methodology for Determining Offering Price for the Saucon Holding Offering**

The offering price of one dollar per share for the shares of Saucon Holding that are being offered in the Saucon Holding Offering was determined by the Board of Directors. In making that determination, the primary consideration was that the Saucon Holding Offering raise sufficient proceeds to satisfy the items that are described below under the heading "Use of Proceeds of Saucon Holding Offering." The offering price of one dollar per share was not determined based on any valuation analysis of Saucon Holding or of Saucon Mutual, and may not reflect the actual value of the shares of Saucon Holding (which could be greater than or less than one dollar per share).

### **Description of Saucon Holding Shareholder Agreement**

In connection with the Saucon Holding Offering, all members of the Control Group who subscribe for shares of Saucon Holding, and all other Eligible Members who subscribe for five percent or more of the shares of Saucon Holding, will be required to join and become parties to the Saucon Holding Shareholder Agreement, the form of which is attached to this Member Information Statement as Exhibit 5. For this reason: (i) any Non-Control Group Eligible Member who subscribes for at least 162,500 shares of Saucon Holding in the First Stage Offering (i.e., five percent of the 3,250,000 shares of Saucon Holding that will be available for subscription in the aggregate in the Saucon Holding Offering) will be required to execute and deliver to Saucon Mutual a joinder to the Saucon Holding Shareholder Agreement, together with that subscriber's respective First Stage Offering Subscription Agreement and accompanying questionnaire, on or before the First Stage Offering Deadline; and (ii) any Non-Control



Group Eligible Member who subscribes for fewer than 162,500 shares of Saucon Holding in the First Stage Offering but whose subscription, upon the conclusion of the Saucon Holding Offering, ends up constituting a subscription for five percent or more of the aggregate number of shares of Saucon Holding that will be outstanding will be required to execute and deliver to Saucon Mutual a joinder to the Saucon Holding Shareholder Agreement prior to such deadline before the closing date of the Conversion Transactions as Saucon Mutual designates (and if any such Non-Control Group Eligible Member who is described in this clause (ii) refuses to timely execute and deliver such a joinder then Saucon Holding may reject that subscription).

The following description of the Saucon Holding Shareholder Agreement is qualified in its entirety by reference to the form of that agreement which is attached to this Member Information Statement as Exhibit 5. Prospective subscribers for shares of Saucon Holding should read it and become familiar with it, because from and after the closing of the Conversion Transactions, it is expected that that agreement will cover the majority, and perhaps all, of the outstanding shares of Saucon Holding and it will therefore affect the value of an investment in the shares of Saucon Holding, whether or not a particular shareholder is a party to that agreement. Note that the bylaws of Saucon Holding will include a requirement that any person or group who after the closing of the Conversion Transactions becomes a holder of five percent or more of the shares of Saucon Holding must also join and become a party to the Saucon Holding Shareholder Agreement as a condition to being recognized as the holder of those shares.

The Saucon Holding Shareholder Agreement will impose certain covenants and obligations, and afford certain rights, to the shareholders of Saucon Holding who are parties to it (those shareholders are referred to below as "Shareholder Agreement Parties"). These covenants and rights are summarized below.

Pre-Emptive Rights. If Saucon Holding proposes to issue new shares, it must first afford to the Shareholder Agreement Parties a right of first refusal to purchase those shares in order to maintain their respective proportionate ownership interests.

Buy-Sell. If a Shareholder Agreement Party who is or becomes a director or an officer of Saucon Holding subsequently loses that status, Saucon Holding will have the right (but not the obligation) to repurchase that Shareholder Agreement Party's shares. In addition, upon the death of a Shareholder Agreement Party, that Shareholder Agreement Party's personal representative will have the right within a limited period of time following the death, but not the obligation, to require Saucon Holding to repurchase the shares. In either case, such a purchase or sale will be at the price and on the terms specified in the Saucon Holding Shareholder Agreement.

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### **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~~Restrictions on Transfer of Shares. The Saucon Holding Shareholder Agreement imposes certain restrictions on the sale, transfer, assignment, pledge, encumbrance or other disposition of shares of Saucon Holding. In general, these restrictions provide that a shareholder of Saucon Holding CompanyShareholder Agreement Party may not transfer

any shares unless either (i) the ~~board of directors~~ Board of Directors of Saucon Holding ~~Company~~ approves the transfer, or (ii) the transferring shareholder first gives Saucon Holding ~~Company~~ and the other ~~shareholders~~ Shareholder Agreement Parties a right of first refusal to purchase the shares. However, the agreement permits a ~~shareholder of Saucon Holding Company~~ Shareholder Agreement Party to make certain transfers of ~~stock~~ shares 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.~~ Covenants. Shareholder Agreement Parties must covenant to hold in confidence the confidential information of Saucon Holding, and must covenant to make such filings and take such actions as are required to comply with Pennsylvania insurance laws and the requirements of the Pennsylvania Insurance Department.

## Use of Proceeds of ~~Stock~~ Saucon Holding Offering

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

| Use  | \$   |
|--|--|
| <p><del>Costs and expenses of the Demutualization Transactions (which include the fees of Saucon Mutual's financial advisor to prepare and deliver the fairness opinion, Reimbursement of \$400,000 of the costs and expenses of the Conversion Transactions.</del></p> <p><u>Those costs and expenses include the fees and expenses of counsel, the fees and expenses of tax <del>and</del>, accounting and financial advisors, filing fees with the Pennsylvania Insurance Department, the expenses of the Pennsylvania Insurance Department's engagement of StoneRidge, and printing, filing and mailing expenses).</u></p> <p><u>The costs and expenses of the Conversion Transactions that will not be reimbursed by Saucon Holding from this amount will be borne by Saucon Insurance Company.</u></p> | <p><del>\$700,000</del><br/>(estimated) <u>\$400,000</u></p>         |
| Purchase of 1,000 shares <del>of capital stock</del> of Saucon Insurance Company   | \$1,425,000  |
| Cash <del>reserve</del> to be held by Saucon Holding <del>Company</del>  | <p><del>\$1,125,000</del><br/>(estimated)<br/><u>\$1,425,000</u></p> |

~~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.~~

### **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. A fairness opinion is not required under Pennsylvania's Insurance Company Mutual-to-Stock Conversion Act but the board of directors of Saucon Mutual nonetheless determined that it was appropriate to obtain one.~~

~~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.~~

## RISK FACTORS RELEVANT TO THE SAUCON HOLDING OFFERING

An investment in Saucon Holding's shares in the Saucon Holding Offering is subject to significant risks and may be suitable only for persons with the financial capacity for making and holding long-term investments that are not readily reducible to cash. Prospective subscribers for the shares must, therefore, have adequate means of providing for their current needs and personal contingencies. Any person who cannot bear the risk of loss of their entire investment in the Saucon Holding shares should not subscribe for the shares. Some of the more significant risks are described below, and a prospective subscriber for the Saucon Holding shares should carefully evaluate these risk factors and the other information set forth in this Member Information Statement, including the Plan and the other exhibits. Prospective subscribers should consider, however, that additional factors other than those set forth below may also affect the risks of investing in Saucon Holding's shares in a manner and to a degree that cannot be foreseen at this time. The order in which the following risks are presented is not intended to represent the magnitude of the risks described.

### Risks Relating to the Shares of Saucon Holding

The offering price of one dollar per share in the Saucon Holding Offering was not based on StoneRidge's valuation analysis. There can be no assurance that the one dollar subscription price per share at which the shares of Saucon Holding are being offered accurately represents the value of those shares. The aggregate subscription price for all of the shares of Saucon Holding of \$3,250,000 is more than the high end of StoneRidge's valuation range for Saucon Mutual.

StoneRidge, an investment banking firm that specializes in the insurance industry, was engaged by the Pennsylvania Insurance Department to conduct an independent valuation analysis of Saucon Mutual. As part of its review, Stoneridge stated that it reviewed extensive information and performed other due diligence. StoneRidge based its valuation on two valuation methodologies: the sum of the parts analysis and the discounted cash flow analysis. Based upon the average of these two valuation methodologies, StoneRidge selected a valuation range for Saucon Mutual of between \$2.4 million and \$3.2 million. A copy of StoneRidge's valuation is attached as Exhibit 6 to this Member Information Statement.

StoneRidge's independent valuation analysis of Saucon Mutual indicates a valuation range between \$2.4 million and \$3.2 million. However, that valuation analysis was conducted after the Plan of Conversion was first filed with the Pennsylvania Insurance Department, and is concerned with the valuation of Saucon Mutual, rather than of Saucon Holding. For this reason, that valuation analysis did not take certain factors into account, such as the expenses of carrying out the Conversion Transactions or the expected re-entry of the Company into the business of underwriting insurance after the closing of the Conversion Transactions.

The price per share at which the shares of Saucon Holding are being offered in the Saucon Holding Offering was not based upon the StoneRidge valuation analysis or upon any valuation. The one dollar subscription price per share at which the shares of Saucon Holding are being offered was determined in the manner described in this Member Information Statement under the heading "Description of Saucon Holding Offering." That determination was based on the Company's estimate of its funding requirements, rather than on perceived market value, book value or other generally established criteria. Consequently, there can be no assurance that the one dollar subscription price per share at which the shares of Saucon Holding are being offered accurately represents the value of those shares. The actual

value per share of those shares could be greater than or less than the subscription price at which they are being offered, and there can be no assurance that the shares of Saucon Holding will ever obtain a value equal to or greater than the subscription price.

The aggregate subscription price for all of the 3,250,000 shares of Saucon Holding, which are being offered in the Saucon Holding Offering for a subscription price of one dollar per share, is \$3,250,000. That aggregate subscription price is larger than the higher end of StoneRidge's valuation range for Saucon Mutual. This means that subscribers for the shares of Saucon Holding would be paying an amount for those shares in the aggregate that exceeds the higher end of StoneRidge's valuation range for Saucon Mutual.

Prospective subscribers for shares of Saucon Holding should consider StoneRidge's valuation analysis in determining whether to subscribe.

**An investor in the shares of Saucon Holding may not be able to sell the shares.**

There is no public market for the shares of Saucon Holding, and no market is expected to develop for the shares in the future. The shares are not being registered under the federal or state securities laws, in reliance on exemptions granted from such registration requirements. The shares may not be resold or otherwise transferred unless the shares are later registered under the securities laws or unless an exemption from such registration requirements is available at the time of the sale. The Company does not intend to register the securities.

In addition, anyone who becomes a holder of five percent or more of the shares of Saucon Holding will be required to join and be a party to the Saucon Holding Shareholder Agreement. The Saucon Holding Shareholder Agreement restricts the transfer of shares of Saucon Holding. Consequently, a shareholder who is a party to the Saucon Holding Shareholder Agreement may not be able to sell those shares. As a result, a shareholder could suffer an economic loss by not being able to sell all or a portion of his, her and/or its investment during times when the value of the investment has increased and conversely during times when the value of the investment is decreasing or if the shareholder needs funds that a sale of the investment would generate.

Moreover, the fact that the Saucon Holding Shareholder Agreement is expected to cover a majority of the shares of Saucon Holding may make it more difficult for a shareholder of Saucon Holding – even one who is not a party to the Saucon Holding Shareholder Agreement – to find a willing purchaser for shares.

Accordingly, a prospective subscriber for the shares of Saucon Holding should be prepared to bear the economic risk of an investment in the shares for an indefinite period. In addition, a prospective subscriber should be able to withstand the total loss of the investment. Thus, the shares are suitable only for purchase as a long-term investment, and the subscribers should be prepared to bear the economic risk of their investment for an indefinite period of time. Any stock certificates to be issued by Saucon Holding representing ownership of the shares will bear a legend stating that the shares represented thereby have not been registered under the federal or state securities laws.

**An investment in the shares of Saucon Holding may not result in any investment returns in the near term, or at all.**

An investment in the shares of Saucon Holding may not result in any investment returns. Saucon Holding's primary assets will consist of its ownership of Saucon Insurance Company. Consequently, substantially all of Saucon Holding's revenues will consist of such dividends, if any, that Saucon Insurance Company pays to Saucon Holding as its sole shareholder, and Saucon Holding's ability to pay shareholder dividends will depend upon the ability of Saucon Insurance Company to pay dividends to Saucon Holding. It is not expected that Saucon Insurance Company will pay dividends to Saucon Holding in the near term for the following reasons:

- Saucon Insurance Company will be required by law to maintain certain levels of capital and surplus;
- Saucon Insurance Company intends to re-enter the business of actively underwriting property and casualty insurance, and therefore must build up appropriate levels of working capital to support those activities; and
- Dividends paid by Saucon Insurance Company may need to be approved by the Pennsylvania Insurance Department.

For these reasons, it is highly unlikely that Saucon Holding will pay dividends to its shareholders in the near term. As a result, a prospective subscriber for shares of Saucon Holding must keep in mind the fact that Saucon Holding is not likely to provide any regular or immediate investment returns.

**If an Eligible Member does not act promptly and follow the subscription instructions, the subscription may be rejected.**

In order to subscribe for shares of Saucon Holding in the Saucon Holding Offering, an Eligible Member must follow the instructions set forth below under the heading "Instructions for Participation in the Saucon Holding Offering." Those instructions describe the documents that a prospective subscriber must complete, execute and return to the Company, the way in which the subscription price must be tendered, and the deadline for doing so. If an Eligible Member does not follow the subscription instructions, Saucon Holding may reject a subscription from that Eligible Member.

**Risks Relating to the Conversion Transactions**

**An Eligible Member who subscribes for shares of Saucon Holding will not receive Member Compensation as a result of the Conversion Transactions.**

The Conversion Transactions have been structured to afford to each Eligible Member a choice: either to receive a share of the Member Compensation described under the heading "Description of Member Compensation," or to subscribe for shares of Saucon Holding in the Saucon Holding Offering, but not both. Therefore, by electing to participate in the Saucon Holding Offering, an Eligible Member would be foregoing its Member Compensation.

**The members of the Board of Directors of Saucon Mutual are subject to a conflict of interest with respect to the Saucon Holding Offering.**

The members of the Board of Directors, who approved the Plan, have a conflict of interest because the Control Group, which largely consists of the members of the Board of Directors, seeks to acquire a controlling interest in the Company by purchasing shares of Saucon Holding in the Second Stage Offering. This conflict of interest is described above under the heading “Conflict of Interest.”

**The Plan of Conversion has resulted in litigation. The pendency of the litigation limits the ability of the Company’s management to focus on operations.**

The Plan of Conversion has resulted in litigation which remains pending, as described above under the heading “Background to the Conversion Transactions–Litigation Relating to the Conversion Transactions.” Saucon Mutual’s management has been forced to spend time dealing with this litigation that could otherwise have been spent tending to and advancing the business of the Company. Additionally, at this stage there can be no timetable for determining when the litigation will be concluded. While the Company is confident in its position in the pending litigation, there can be no assurance that the outcome of the litigation will be favorable to the Company’s position. An unfavorable final outcome of the litigation could result in a material adverse impact on the Company’s business. Litigation is subject to inherent uncertainties and the Company’s view of these matters may change in the future.

**A legal challenge to the approval of the Plan of Conversion by the Pennsylvania Insurance Department could result in uncertainty regarding the terms of the Conversion Transactions.**

The Pennsylvania Insurance Department was required to approve the Plan if it found that the Plan does not prejudice the interest of the members of the Company, is fair and equitable, and complies with the Pennsylvania Mutual-to-Stock Conversion Act. The Pennsylvania Insurance Department issued its order approving the Plan on [DATE]. A Special Meeting of the Eligible Members to consider and approve the Plan has been called for [DATE].

Pennsylvania law generally provides that any action challenging the validity of the Plan or acts taken in connection with the conversion must be commenced no later than thirty days after the Commissioner of the Pennsylvania Insurance Department approves the Plan or the Eligible Members adopt the Plan at the Special Meeting, whichever is later. Such an action would be initiated by a Petition for Review with the Commonwealth Court of Pennsylvania. The approval of the Plan by the Commissioner would likely be upheld unless the court determined that the Commissioner abused her discretion in approving the Plan. That discretion would extend to the type of review conducted by the Commissioner, including whether to hold a hearing and the type of hearing to be held. A successful challenge could result in a temporary or permanent injunction, or perhaps a remand to the Commissioner for further proceedings.

The Company is not currently aware of any lawsuits or proceedings challenging the order issued by the Pennsylvania Insurance Department to approve the Plan to demutualize Saucon Mutual. However, there can be no assurance that any such lawsuits or proceedings will not be commenced.



## Risks Related to the Company's Operations

### Saucon Mutual has not meaningfully conducted insurance underwriting since 2005, which makes it difficult to predict the future prospects and financial performance of Saucon Insurance Company.

For the reasons described above under the heading "Background to the Conversion Transactions—Description of Saucon Mutual," Saucon Mutual has no meaningful insurance underwriting experience in the past twelve years. As a result, Saucon Mutual has no effective track record from which to project future operating results. In certain respects, the position of the Company after the Conversion Transactions will resemble that of a start-up property and casualty company. There can be no assurance that the Company will be able to successfully execute its business plan.

### The Company's rating agency recently downgraded Saucon Mutual.

A.M. Best, the rating agency that rates Saucon Mutual, was informed of the proposed Conversion Transactions when Saucon Mutual first filed the original version of the plan of conversion with the Pennsylvania Insurance Department in September 2014. A.M. Best was satisfied that the Company's financial strength would not be compromised by the conversion transactions as proposed by that version of the plan of 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 closing of those conversion transactions led it to assign a negative outlook. In January 2017, A.M. Best removed the negative outlook, but Saucon Mutual's rating was downgraded from an "A" to "A-". In its press release regarding the ratings downgrade, A.M. Best noted that "[r]estructuring plans that have the potential to change the company's business profile with regard to the source of new business and type of exposures insured have been discussed over the past few years. This new structure and profile pose execution risk and potential staffing implications."

A downgrade in the financial strength rating of an insurance company adversely affects the ability of that company to write new insurance policies. Additionally, some potential purchasers of insurance policies may be subject to rules or recommendations that require or encourage them to buy insurance policies only from carriers with an "A" rating, which means that a downgrade of the Company's ratings may encourage some potential customers to place their business with a competitor of the Company.

There is a risk that the Company's resumption of an insurance underwriting business will not be able to overcome the risks that A.M. Best considered when assigning its rating.

Furthermore, the Company could in the future be subject to further ratings downgrades, which could adversely affect the Company's competitiveness and its ability to compete in the insurance underwriting business.

### The Company does not currently have the workforce or infrastructure that will be necessary to re-enter the business of underwriting insurance.

The Company's workforce is small, consisting of only three employees. In order to successfully resume an insurance underwriting business, the Company will have to attract qualified personnel, and assemble an effective management staff. Attracting additional managers and employees with industry-relevant experience will be particularly challenging for the Company given that the Company has substantially

no active insurance underwriting business, which means that new personnel will have to be responsible for initiating those operations, essentially from a start-up position. Potential personnel who have the skills and risk appetite for such an undertaking are likely to have compensation expectations that are different from those of employees of established, stable insurance companies. Competition to attract and retain suitable personnel can also increase the Company's compensation expenses.

Additionally, the business of underwriting property and casualty insurance is highly dependent upon insurance company infrastructure, including sophisticated information technology and telecommunications systems. The Company does not currently have the necessary infrastructure to underwrite new insurance policies, and must acquire or develop that infrastructure in order to process new business, perform actuarial and underwriting functions, expand its customer service capabilities, administer claims on new policies, facilitate premium collections, and otherwise administer policies.

If the Company is not successful in attracting and retaining skilled personnel as needed, and in developing effective infrastructure, the Company's effort to re-enter the insurance underwriting business will not succeed.

**The Company is dependent upon the continuing services of Stephen Bajan, its Chief Executive Officer.**

The Company is dependent upon the continuing services of Stephen Bajan, its Chief Executive Officer, who is the only officer of the Company who is a full-time employee. If Mr. Bajan's services were lost and he could not be immediately replaced, the Company would be negatively impacted.

**The Company does not currently have relationships with producers.**

Many small property and casualty insurance companies depend on independent, non-exclusive insurance agents and brokers as producers to sell their policies. The Company does not currently have relationships with such producers, and must develop a network of relationships with producers in order to successfully re-enter the business of underwriting property and casualty insurance. If the Company does not successfully establish and maintain these relationships, it will not be able to sell its insurance policies. If the Company is forced to pay higher than market commission rates to attract producers, its profitability could be negatively impacted. Furthermore, if the producers with which the Company establishes relationships are unable to attract and retain customers for the Company's products, the Company's prospects would be materially affected.

**In its order approving the Plan, the Pennsylvania Insurance Department has placed conditions on the Company and on Saucon Holding that may affect the Company's business. These conditions may adversely affect the Company's business.**

When the Pennsylvania Insurance Department issued its decision and order on [DATE] approving the Plan, the order was made subject to certain conditions, including the following:

- [NOTE TO PENNSYLVANIA INSURANCE DEPARTMENT: This placeholder will be replaced with a description of any conditions set forth in the approval order.]

Those conditions will affect the Company's freedom of action following the closing of the Conversion Transactions, and compliance with those conditions may require the Company to incur expenses that

would not have to be incurred but for the Pennsylvania Insurance Department's order, or to forego certain business or transactional opportunities. If the Company is unable to comply fully with these conditions, the Company may be subject to regulatory action which could have an adverse effect on its financial condition and results of operation.

**The Company will compete with other property and casualty insurance companies.**

The property and casualty insurance industry is highly competitive. Many of the Company's property and casualty insurance competitors have well-established national reputations and they market products that compete with those of the Company. In addition, the insurance industry consistently attracts well-capitalized new entrants to the market.

Competition in the property and casualty insurance business is based on many factors, including premiums charged, services provided, financial ratings assigned by independent rating agencies, speed of claims payments, reputation, perceived financial strength, general experience, and the management of the investment portfolio. Because the Company does not have a recent track record of underwriting insurance, it is not yet possible to determine how the Company's capabilities will compare to the offerings of the Company's competitors. Some of the Company's competitors will have resources and operational capabilities that exceed those of the Company. In order for the Company to successfully re-enter the business of underwriting property and casualty insurance, the Company must successfully compete with other property and casualty insurance companies, including mature and established companies with an established track record.

Because of the competitive nature of the insurance industry, there can be no assurance that the Company will be able to compete effectively with its industry rivals, including new entrants, or that competitive pressures will not have a material effect on its business, operating results or financial condition.

**The Company has historically focused on a narrow product, which leaves it at a competitive disadvantage.**

The Company faces a competitive disadvantage due to the fact that it has historically focused only on a narrow product: perpetual homeowners and dwelling property insurance. Some of the Company's competitors have additional competitive leverage because of the wide array of insurance products that they offer. For example, a prospective customer may find it more efficient or less expensive to purchase multiple lines of insurance coverage (such as homeowner's insurance and automobile insurance) from a single carrier. Because the Company has not historically offered, and in the near term does not anticipate offering, a range of insurance products, the Company may lose potential customers to other competitors who do offer a wider selection of insurance products.

Additionally, the business of selling homeowners insurance is cyclical in nature, and is characterized by periods of so-called "soft" market conditions in which premium rates are stable or falling, insurance is readily available and insurers' profits decline, and by periods of so-called "hard" market conditions, in which rates rise, coverage may be more difficult to find and insurers' profits increase. This cyclicity may depend upon a number of factors, including the strength or weakness of the housing market generally and, more specifically, of the housing market in the geographic regions in which the Company does business. Competitors of the Company that offer a wider range of products, or that offer them over

a wider geographic area, may be less vulnerable than the Company to insurance cycles that adversely affect the Company's business.

**As a property and casualty insurer, the Company may face significant losses from catastrophes and severe weather events.**

Because of the exposure of the Company's property and casualty insurance business to catastrophic events, the Company's operating results and financial condition may vary significantly from one period to the next. Catastrophes can be caused by various natural and man-made events, including tornadoes, hurricanes, tropical storms, cyber threats, terrorism or industrial accidents. The Company may incur catastrophe losses in its property business in excess of: (1) those experienced in prior years, (2) the average expected level used in pricing, (3) its current reinsurance coverage limits, or (4) loss estimates from external catastrophe models at various levels of probability.

The Company is exposed to catastrophes that could have a material effect on its operating results and financial condition. Although the Company has historically financed the settlement of catastrophes from operating cash flows and reinsurance, the Company's liquidity could be constrained by a catastrophe, or multiple catastrophes, which result in extraordinary losses or a downgrade of its debt or financial strength ratings. In addition, the Company is subject to claims arising from weather events such as winter storms, rain, hail and high winds, that affect the regions in eastern Pennsylvania covered by the Company's existing insurance policies and that are expected to be covered by new policies. The incidence and severity of weather conditions are largely unpredictable. There is generally an increase in the frequency and severity of property claims when severe weather conditions occur. These circumstances may result in significant losses for the Company.

**The Company is exposed to concentrated insurance risk because its property and casualty insurance policies all cover properties in eastern Pennsylvania.**

The insurance policies that the Company has written are primarily homeowners and dwelling property policies covering properties in six counties in eastern Pennsylvania and with a particular focus on the Lehigh Valley (the region where the Company's headquarters has been located since its inception). Due to this geographic concentration, the Company is particularly vulnerable to risks such as weather events that affect the regions in which the Company has written insurance, especially since a single catastrophic event such as a hurricane, thunderstorm, ice storm, blizzard, tornado, flood or other calamity may damage many properties that the Company has insured and require the Company to pay many claims at the same time.

Due to the nature of the Company's primary product, the perpetual policy, the Company is unable to issue endorsements to those policies that enable the Company to limit or preclude coverage for emerging risks not anticipated at the time of the policies' issuance.

**If the Company is unable to obtain or maintain reinsurance, its ability to write new policies and to renew existing non-perpetual policies would be adversely affected and its financial condition and results of operation could be adversely affected.**

Like other property and casualty insurers, the Company manages its risk by buying reinsurance. Reinsurance is an arrangement in which an insurance company, called the ceding company, transfers a portion of insurance risk under policies it has written to another insurance company, called the reinsurer,

and pays the reinsurer a portion of the premiums relating to those policies. Conversely, the reinsurer receives or assumes reinsurance from the ceding company. Saucon Mutual currently purchases reinsurance pursuant to reinsurance treaties to cover certain kinds of losses. However, the treaties include certain exclusions for which the reinsurers are not liable for losses, such as terrorism, mold, war, pollution and environmental impairment, and nuclear incidents. Any losses that the Company suffers that are not covered by reinsurance could subject the Company to substantial losses.

Additionally, the reinsurance treaties apply for a limited period of time and then cease to be in force unless they are renewed. The Company cannot be certain that the reinsurance treaties will be renewed or replaced prior to their expiration on satisfactory terms. If the Company is unable to renew or replace its reinsurance treaties upon terms that are satisfactory to the Company, the Company's net liability on individual risks would increase and the Company would have greater exposure to catastrophic losses. If this were to occur, the Company's underwriting results would be subject to greater variability and its underwriting capacity would be reduced. These consequences could materially adversely affect the Company's financial condition and results of operations.

**The Company's current exclusive reliance on the performance of its investment portfolio to fund its operations and satisfy its capital and surplus requirements makes the Company's success dependent on the performance of the securities markets.**

For the last several years, because Saucon Mutual has not been actively underwriting new insurance or collecting new premiums, the Company has depended exclusively upon the returns on its investment portfolio to fund its operations and expenses and to ensure that it maintains the level of capital and surplus required by law. This will remain the case for the foreseeable future until the Company successfully re-enters the insurance underwriting business. Because most of the policies previously issued by the Company are perpetual policies, the Company collected the premiums for those policies at inception and does not have an expectation of being able to collect additional premiums on those policies.

For these reasons, the Company is highly dependent on the economic environment, both in the United States and around the world. Extreme market events, such as the global financial crisis during 2008 and 2009 have at times led, and could in the future lead, to a lack of liquidity, highly volatile markets, a steep depreciation in asset values across all classes or in the classes in which the Company invests, an erosion of investor and public confidence, and widening of credit spreads. Concerns and events beyond the Company's control, such as political uncertainty, U.S. fiscal and monetary policy, changes in interest rates, changes in trade policy, Brexit, and other events and circumstances have in the past and may in the future adversely affect liquidity, increase volatility, decrease asset prices and erode confidence. Difficult economic conditions may also result in increased unemployment and a severe decline in business across a wide range of industries and regions.

These market and economic factors could negatively affect the value of the Company's investment assets or the amount of income or returns that the Company may receive from them. If the Company's investment assets decrease in value or the Company's investment income drops, the Company currently does not have alternative sources of revenue to make up for it. If the Company's investment assets decrease to such an extent that the Company no longer maintains the required statutory capital, the Pennsylvania Insurance Department could take regulatory control of the Company.

### The Company is subject to regulatory risk.

The business of underwriting property and casualty insurance is extensively regulated in Pennsylvania, the only jurisdiction in which the Company is licensed to write insurance. The Pennsylvania Insurance Department has broad regulatory powers that are designed primarily to protect policyholders, not shareholders or other investors. Pennsylvania's insurance regulations include, among other things:

- Standards of solvency, including risk-based capital measurements;
- Restrictions on the nature, quality and concentration of investments;
- Restrictions on the types of terms that the Company can include in its insurance policies;
- Requirements for the handling, reporting and adjusting of claims;
- Procedures for adjusting claims, which can affect the cost of a claim;
- Restrictions on the way rates are developed and premiums are determined;
- The manner in which agents may be appointed;
- Establishment of liabilities for unearned premiums, unpaid losses and loss adjustment expenses and other purposes;
- Limitations on the Company's ability to transact business with its affiliates;
- Mergers, acquisitions, divestitures and other change-of-control transactions;
- Licensing requirements and approvals that affect the Company's ability to do business;  
and
- Restrictions on the payment of dividends.

The Pennsylvania Insurance Department has broad discretion to deny or revoke licenses for various reasons, including the violation of laws or regulations. There is a risk that the Company will be unable to maintain all required approvals or comply fully with the wide variety of applicable laws and regulations, which are continually undergoing revision and which may be interpreted differently by the Pennsylvania Insurance Department at different times.

This extensive regulation of the Company's business may affect the cost of or the demand for the Company's products and may limit the Company's ability to charge appropriate rates or take other actions that it might pursue to increase profitability. Further, changes in the level of regulation of the insurance industry or of the sectors in which the Company operates or intends to operate, or changes in laws or regulations or interpretations by the Pennsylvania Insurance Department could impact the Company's operations and require it to bear additional costs of compliance.

## INSTRUCTIONS FOR PARTICIPATION IN THE SAUCON HOLDING OFFERING

Eligible Members who wish to participate in the Saucon Holding Offering by subscribing for shares of Saucon Holding rather than receiving the Member Compensation must follow the following instructions:

- Complete and execute the First Stage Offering Subscription Agreement, a copy of which is attached as Exhibit 4 to this Member Information Statement.
- Complete and execute the confidential subscriber questionnaire that is attached as Exhibit A to the First Stage Offering Subscription Agreement.
- If you are subscribing for at least 162,500 shares of Saucon Holding, execute the joinder to the Saucon Holding Shareholder Agreement, a copy of which is attached as Exhibit 5 to this Member Information Statement. (Note that even if you subscribe for fewer than 162,500 shares of Saucon Holding, if upon the conclusion of the Saucon Holding Offering your subscription ends up constituting a subscription for five percent or more of the aggregate number of shares of Saucon Holding that will be outstanding, your subscription will be conditioned upon your executing and delivering a joinder to the Saucon Holding Shareholder Agreement.)
- Return these materials to Saucon Mutual, care of Stephen Bajan, at 74 West Broad Street, Suite 300, Bethlehem, PA 18018 on or before the First Stage Offering Deadline. It is recommended that the materials be delivered by overnight delivery, or certified or registered mail, return receipt requested, so that there can be confirmation of delivery. Note that this deadline is in advance of the date of the Special Meeting, so that information about the outcome of the First Stage Offering can be known and discussed at the Special Meeting.
- Tender your subscription price to Saucon Holding by including a cashier's check, payable to Saucon Mutual Insurance Company, in the amount of your subscription price together with your delivery of the documents described above. (A personal check will not be accepted.) The check is to be made payable to Saucon Mutual Insurance Company because Saucon Holding will not have its own deposit accounts until the closing of the Conversion Transactions.

If these materials, and your subscription price, are not received by the First Stage Offering Deadline, then you will not be regarded as having subscribed for shares of Saucon Holding in the First Stage Offering, and you will receive the Member Compensation upon the closing of the Conversion Transactions.

Please note that an Eligible Member who subscribes for shares of Saucon Holding in the First Stage Offering, and the members of the Control Group who subscribe for shares of Saucon Holding in the Second Stage Offering, will not receive the Member Compensation that is described in this Member Information Statement under the heading "Description of Member Compensation."

**INSTRUCTIONS FOR VOTING ON ADOPTION OF THE PLAN AND RELATED  
AMENDMENT TO SAUCON MUTUAL'S ARTICLES OF INCORPORATION**

The Special Meeting will be held at [TIME], [DATE] at [LOCATION]. [NOTE TO PENNSYLVANIA INSURANCE DEPARTMENT: DATE OF MEETING TO BE LATER THAN FIRST STAGE OFFERING DEADLINE.] Detailed instructions for voting on the adoption of the Plan and related amendments to Saucon Mutual's Articles of Incorporation are set forth in the "Saucon Mutual Insurance Company—Special Meeting of Policyholders—Voting Instruction" attached as Exhibit 7 to this Member Information Statement.

If the Conversion Transactions close, Eligible Members who do not subscribe for shares of Saucon Holding will receive the Member Compensation, regardless of whether or not they vote for the Plan.



## AUDITED FINANCIAL STATEMENTS OF SAUCON MUTUAL

Saucon Mutual's audited financial statements for the fiscal years ended December 31, 2016, 2015 and 2014 are attached as Exhibit 3 to this Member Information Statement. Those audited financial statements were prepared in accordance with generally accepted accounting principles in the United States.

## FAIRNESS OPINION OF STONERIDGE

[NOTE TO PENNSYLVANIA INSURANCE DEPARTMENT: THIS IS A PLACEHOLDER FOR A DESCRIPTION OF THE STONERIDGE FAIRNESS OPINION.]

## VALUATION ANALYSIS OF SAUCON MUTUAL BY STONERIDGE

StoneRidge was engaged by the Pennsylvania Insurance Department to conduct an independent valuation analysis of Saucon Mutual. On November 29, 2016, StoneRidge delivered the Saucon Mutual Insurance Company Valuation Analysis to the Pennsylvania Insurance Department. A copy of StoneRidge's report is attached to this Member Information Statement as Exhibit 6.

StoneRidge stated that as part of its review, it reviewed extensive information and performed other due diligence. Additionally, StoneRidge considered comparable public companies and comparable merger and acquisition transactions. StoneRidge determined that these comparable analyses were not relevant because the lack of comparability to the specific circumstances of Saucon Mutual, which has not issued new policies in the last ten years and which has focused on the perpetual homeowners insurance market.

StoneRidge based its valuation on two valuation methodologies: the sum of the parts analysis and the discounted cash flow analysis. Based upon the average of these two valuation methodologies, StoneRidge selected a valuation range for Saucon Mutual of between \$2.4 million and \$3.2 million.

StoneRidge's valuation was not intended, and must not be construed, as a recommendation of any kind as to the advisability of subscribing for the shares of Saucon Holding in the Saucon Holding Offering. In preparing the valuation, StoneRidge relied upon and assumed the accuracy and completeness of financial, statistical and other information provided to it by Saucon Mutual. StoneRidge did not independently verify the financial statements and other information provided to it by Saucon Mutual, nor did StoneRidge value independently Saucon Mutual's assets and liabilities. The valuation considered Saucon Mutual only as a going concern and should not be considered as an indication of its liquidation value. The valuation was necessarily based upon estimates of a number of matters, all of which are subject to change from time to time.

The aggregate subscription price for all of the shares of Saucon Holding is \$3,250,000, which is larger than the higher end of StoneRidge's valuation range for Saucon Mutual. This means that subscribers for the shares of Saucon Holding would be paying an amount for those shares in the aggregate that exceeds the higher end of StoneRidge's valuation range for Saucon Mutual.

## RECOMMENDATION OF THE BOARD OF DIRECTORS

On ~~April 27~~March 22, 2015 ~~2017~~, the ~~board of directors~~ Board of Directors of Saucon Mutual approved and adopted the Plan ~~of Conversion~~ by the requisite majority and without opposition. **The ~~board of directors~~ 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.**

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## ~~SHAREHOLDERS~~ SHAREHOLDER AGREEMENT

This ~~Shareholders~~ Shareholder Agreement (as executed and as it may be amended, modified, supplemented or restated from time to time, as provided herein, this “**Agreement**”), dated as of [~~CLOSING DATE~~ EFFECTIVE DATE] (the “**Effective Date**”), is entered into among Saucon Holding Company, a Pennsylvania corporation (the “**Company**”), each Person identified on **Schedule A** hereto and executing a ~~signature page~~ joinder hereto (each, an “**Original Shareholder**” and, collectively, the “**Original Shareholders**”) and each other Person who after the date hereof acquires securities of the Company and agrees to become a party to, and bound by, this Agreement as a Shareholder by executing a ~~Joinder~~ joinder to this Agreement. All parties to this Agreement other than the Company are each referred to herein as a “**Shareholder**” and, collectively, the “**Shareholders.**”

### BACKGROUND

~~A. The Original Shareholders are all of the shareholders of the Company.~~

A. The Company was incorporated to acquire and hold all of the capital stock of Saucon Insurance Company pursuant to the Third Amended and Restated Alternative Plan of Conversion of Saucon Mutual Insurance Company (the “**Insurance Company Demutualization Plan**”).

B. The Original Shareholders consist of (i) persons who acquired at least 5% of the shares of capital stock of the Company in the First Stage Offer (as that term is defined in the Insurance Company Demutualization Plan), and (ii) all of those individuals who were members of the “Control Group” as that term is defined in the Insurance Company Demutualization Plan (i.e., individuals who were members of the board of directors or executive officers of Saucon Mutual Insurance Company at the time that the Insurance Company Demutualization Plan was adopted), all of whom acquired shares of capital stock of the Company in the Second Stage Offer (as that term is defined in the Insurance Company Demutualization Plan). The Original Shareholders were required to enter into this Agreement as a condition precedent to their acquisition of the shares of the Company.

~~BC.~~ The Company and the Shareholders desire to enter into this Agreement to govern their mutual relationships, including provisions relating to the transfer of shares of capital stock of the Company.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

### ARTICLE I DEFINITIONS

**Section 1.01 Definitions.** When used in this Agreement with initial capital letters, the following terms have the meanings specified or referred to in this **Section 1.01**:

**“Additional Allotment Availability Notice”** has the meaning set forth in **Section 4.03(e)(iv)**.

**“Additional Allotment Exercise Notice”** has the meaning set forth in **Section 4.03(e)(iv)**.

**“Additional Allotment Option Period”** has the meaning set forth in **Section 4.03(e)(iv)**.

**“Agreed Company Value”** means (A) ~~during calendar year 2015~~at any time on or prior to June 30, 2017, \$3,250,000 and (B) thereafter an amount, as of any such time, equal to (i) \$3,250,000 plus (ii) the cumulative increase in the net book value of the Company’s assets, on a consolidated basis with the Company’s Subsidiaries, since December 31, ~~2015~~2016, as set forth in the Company’s audited consolidated financial statements for all of the completed fiscal years from December 31, ~~2015-2016~~ until the time in question (it being acknowledged that the amount referred to in this clause (ii) may be a negative number).

**“Agreement”** has the meaning set forth in the Preamble.

**“Applicable Law”** means all applicable provisions of (a) constitutions, treaties, statutes, laws (including the common law), rules, regulations, decrees, ordinances, codes, proclamations, declarations or orders of any Governmental Authority; (b) any consents or approvals of any Governmental Authority; and (c) any orders, decisions, advisory or interpretative opinions, injunctions, judgments, awards, decrees of, or agreements with, any Governmental Authority.

**“Board”** means the board of directors of the Company.

**“Business Day”** means a day other than a Saturday, Sunday or other day on which commercial banks in Bethlehem, Pennsylvania are authorized or required to close.

**“Company”** has the meaning set forth in the Preamble.

**“Company Confidential Information”** means any confidential and proprietary information of the Company or of any Subsidiary of the Company or any of their respective clients, including without limitation customer lists, data, business plans, know-how, trade secrets, and other proprietary and confidential information or material, whether or not explicitly labeled as such, in each case so long as it is neither generally known nor readily ascertainable by the public.

**“Company Exercise Notice”** has the meaning set forth in **Section 4.03(e)(ii)**.

**“Company Option Period”** has the meaning set forth in **Section 4.03(e)(ii)**.

**“Excluded Issuance”** means an issuance or sale of any capital stock of the Company or Stock Equivalents in connection with: (a) a grant to any existing or prospective Directors, officers or other employees of the Company or any Subsidiary of the Company pursuant to a

stock option plan or similar equity-based plans or other compensation agreement; (b) the exercise of any warrants or other rights to acquire capital stock of the Company; (c) any acquisition by the Company or any Subsidiary of the Company of any equity interests, assets, properties or business of any Person; (d) any merger, consolidation or other business combination involving the Company or any Subsidiary of the Company; (e) the commencement of any public offering of the securities of the Company that is registered under the Securities Act; (f) any subdivision of capital stock of the Company (by a split of capital stock of the Company or otherwise), payment of stock dividend, reclassification, reorganization or any similar recapitalization; (g) any private placement of warrants to purchase capital stock of the Company to lenders or other institutional investors (excluding the Shareholders) in any arm's length transaction in which such lenders or investors provide debt financing to the Company or any Subsidiary of the Company; (h) a joint venture, strategic alliance or other commercial relationship with any Person (including Persons that are customers, suppliers and strategic partners of the Company or any Subsidiary of the Company) relating to the operation of the Company's or any Subsidiary of the Company's business and not for the primary purpose of raising equity capital; or (i) any office lease or equipment lease or similar equipment financing transaction in which the Company or any Subsidiary of the Company obtains from a lessor or vendor the use of such office space or equipment for its business.

**"Deceased Shareholder Put Notice"** has the meaning set forth in **Section 3.01**.

**"Exercising Shareholder"** has the meaning set forth in **Section 4.03(e)(iv)**.

**"Family Members"** has the meaning set forth in ~~Error! Reference source not found.~~ **Section 4.02(a)**.

**"First Offer Notice"** has the meaning set forth in **Section 4.03(a)**.

**"Fully Diluted Basis"** means, as of any date of determination: all shares of issued and outstanding capital stock of the Company and all shares of capital stock of the Company issuable upon the exercise or conversion of any outstanding Stock Equivalents as of such date, whether or not such Stock Equivalent is at the time exercisable or convertible that are issuable upon the conversion or exercise of any outstanding Stock Equivalents as of such date, whether or not such Stock Equivalent is at the time exercisable or convertible.

**"Fully Exercising Shareholder"** has the meaning set forth in **Section 2.01(d)**.

**"Governmental Authority"** means any federal, state, local or foreign government or political subdivision thereof, or any agency or instrumentality of such government or political subdivision, or any self-regulated organization or other non-governmental regulatory authority or quasi-governmental authority (to the extent that the rules, regulations or orders of such organization or authority have the force of law), or any arbitrator, court or tribunal of competent jurisdiction.

“**Initial Shareholder**” means each Person identified as a Shareholder as of the date hereof.

“**Insurance Company Demutualization Plan**” has the meaning set forth in Paragraph A of the Background.

“**Issuance Notice**” has the meaning set forth in **Section 2.01(b)**.

~~“**Joinder Agreement**” means a joinder agreement with the Company that is reasonably satisfactory to the Company under which the Transferee joins and becomes a party to this agreement.~~

“**New Securities**” means any authorized but unissued shares of capital stock or any Stock Equivalents.

“**Offered Stock**” has the meaning set forth in **Section 4.03(a)**.

“**Offering Shareholder**” has the meaning set forth in **Section 4.03(a)**.

“**Over-allotment Exercise Period**” has the meaning set forth in **Section 2.01(d)**.

“**Over-allotment Notice**” has the meaning set forth in **Section 2.01(d)**.

“**Permitted Transfer**” means a Transfer of capital stock of the Company or Stock Equivalents carried out pursuant to **Section 4.02**.

“**Permitted Transferee**” means a recipient of a Permitted Transfer.

“**Person**” means an individual, corporation, partnership, joint venture, limited liability company, Governmental Authority, unincorporated organization, trust, association or other entity.

“**Pre-emptive Acceptance Notice**” has the meaning set forth in **Section 2.01(c)**.

“**Pre-emptive Exercise Period**” has the meaning set forth in **Section 2.01(c)**.

“**Pro Rata Portion**” means, for any Shareholder as of any particular time, a fraction determined by dividing (a) the number of shares of capital stock of the Company on a Fully Diluted Basis owned by such Shareholder immediately prior to such time by (b) the aggregate number of shares of capital stock of the Company on a Fully Diluted Basis owned by all of the Shareholders immediately prior to such time.

“**Prospective Purchaser**” has the meaning set forth in **Section 2.01(b)**.

“**Prospective Transferee**” has the meaning set forth in **Section 4.03(a)**.

**“Remaining New Securities”** has the meaning set forth in **Section 2.01(d)**.

**“Securities Act”** means the Securities Act of 1933, as amended, or any successor federal statute, and the rules and regulations thereunder, which are in effect at the time.

**“Shareholder”** has the meaning set forth in the Preamble.

**“Shareholders”** has the meaning set forth in the Preamble.

**“Shareholder Exercise Notice”** has the meaning set forth in **Section 4.03(e)(iii)**.

**“Shareholder Option Period”** has the meaning set forth in **Section 4.03(e)(iii)**.

**“Stock Equivalents”** means any stock option and any other security or obligation that is by its terms, directly or indirectly, convertible into or exchangeable or exercisable for shares of capital stock of the Company, and any option, warrant or other right to subscribe for, purchase or acquire shares of capital stock of the Company or Stock Equivalents (disregarding any restrictions or limitations on the exercise of such rights).

**“Subsidiary”** means, with respect to any Person, any other Person of which a majority of the outstanding shares or other equity interests having the power to vote for directors or comparable managers are owned, directly or indirectly, by the first Person.

**“Transfer”** means to, directly or indirectly, sell, transfer, assign, pledge, encumber, hypothecate or similarly dispose of, either voluntarily or involuntarily, by operation of law or otherwise, or to enter into any contract, option or other arrangement or understanding with respect to the sale, transfer, assignment, pledge, encumbrance, hypothecation or similar disposition of, any shares of capital stock of the Company or Stock Equivalents owned by a Person or any interest (including a beneficial interest) in any capital stock of the Company or Stock Equivalents owned by a Person. **“Transfer,”** when used as a noun, have a correlative meaning.

**“Transfer Offer”** has the meaning set forth in **Section 4.03(a)(iii)**.

**“Transferee”** means a recipient of, or proposed recipient of, a Transfer, including a Permitted Transferee or a Prospective Transferee.

**“Transferor”** means a Shareholder who makes a Transfer.

**Section 1.02 Interpretation.** For purposes of this Agreement: (a) the words “include,” “includes” and “including” are to be deemed to be followed by the words “without limitation;” (b) the word “or” is not exclusive; and (c) the words “herein,” “hereof,” “hereby,” “hereto” and “hereunder” refer to this Agreement as a whole. The definitions given for any defined terms in this Agreement apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun includes the corresponding masculine, feminine



and neuter forms. Unless the context otherwise requires, references herein: (x) to Articles, Sections, Exhibits and Schedules mean the Articles and Sections of, and Exhibits and Schedules attached to, this Agreement; (y) to an agreement, instrument or other document means such agreement, instrument or other document as amended, supplemented and modified from time to time to the extent permitted by the provisions thereof; and (z) to a statute means such statute as amended from time to time and includes any successor legislation thereto and any regulations promulgated thereunder. This Agreement is to be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting an instrument or causing any instrument to be drafted. The Exhibits and Schedules referred to herein are to be construed with, and as an integral part of, this Agreement to the same extent as if they were set forth verbatim herein.

## ARTICLE II PRE-EMPTIVE RIGHTS

### Section 2.01 Pre-emptive Right.

(a) **Issuance of New Securities.** The Company hereby grants to each Shareholder a separate right to purchase its Pro Rata Portion (subject to its over-allotment option in **Section 2.01(d)** below) of any New Securities that the Company may from time to time propose to issue or sell to any party; *provided*, that the provisions of this **Section 2.01** will not apply to any Excluded Issuance.

(b) **Additional Issuance Notices.** The Company shall give written notice (an “**Issuance Notice**”) of any proposed issuance or sale of New Securities described in **Section 2.01(a)** to the Shareholders within 5 days following any meeting of the Board at which any such issuance or sale is approved. If applicable, the Issuance Notice is to be accompanied by a written offer from any prospective purchaser seeking to purchase the applicable New Securities (a “**Prospective Purchaser**”) and is to set forth the material terms and conditions of the proposed issuance or sale, including:

- (i) the number and description of New Securities proposed to be issued;
- (ii) the proposed issuance date, which is to be at least twenty (20) days from the date of the Issuance Notice;
- (iii) the proposed purchase price per share of New Securities and all other material terms of the offer or sale; and
- (iv) if the consideration to be paid by the Prospective Purchaser includes non-cash consideration, the fair market value thereof, as determined in good faith by the Board.

(c) **Exercise of Pre-emptive Rights.** Each Shareholder will for a period of 10 days following the receipt of an Issuance Notice (the “**Pre-emptive Exercise Period**”) have the right to elect irrevocably to purchase all or any portion of its Pro Rata Portion of any New Securities

on the terms and conditions, including the purchase price, set forth in the Issuance Notice by delivering a written notice to the Company (a “**Pre-emptive Acceptance Notice**”) specifying the number of New Securities it desires to purchase up to its Pro Rata Portion. The delivery of a Pre-emptive Acceptance Notice by a Shareholder will be a binding and irrevocable offer by such Shareholder to purchase the New Securities described therein. The failure of a Shareholder to deliver a Pre-emptive Acceptance Notice by the end of the Pre-emptive Exercise Period will constitute a waiver of its rights under this **Section 2.01(c)** with respect to the purchase of such New Securities, but will not affect its rights with respect to any future issuances or sales of New Securities.

(d) **Over-allotment.** No later than 5 days following the expiration of the Pre-emptive Exercise Period, the Company shall give written notice (the “**Over-allotment Notice**”) to each Shareholder specifying the number of New Securities that each Shareholder has agreed to purchase (including, for the avoidance of doubt, where such number is zero) and the aggregate number of remaining New Securities, if any, not elected to be purchased by the Shareholders pursuant to **Section 2.01(c)** (the “**Remaining New Securities**”). Each Shareholder exercising its rights to purchase its Pro Rata Portion of the New Securities in full (a “**Fully Exercising Shareholder**”) will have a right of over-allotment such that if there are any Remaining New Securities, such Fully Exercising Shareholder may purchase all or any portion of its pro rata portion of the Remaining New Securities, based on the relative Pro Rata Portions of all Fully Exercising Shareholders. Each Fully Exercising Shareholder may elect to purchase its allotment of Remaining New Securities by giving written notice to the Company specifying the number of Remaining New Securities it desires to purchase within 5 days of receipt of the Over-allotment Notice (the “**Over-allotment Exercise Period**”).

(e) **Sales to the Prospective Purchaser.** Following the expiration of the Pre-emptive Exercise Period and, if applicable, the Over-allotment Exercise Period, the Company will be free to complete the proposed issuance or sale of New Securities described in the Issuance Notice with respect to which Shareholders declined to exercise the pre-emptive right set forth in this **Section 2.01** on terms no less favorable to the Company than those set forth in the Issuance Notice (except that the amount of New Securities to be issued or sold by the Company may be reduced); *provided*, that: (i) such issuance or sale is closed within 60 days after the expiration of the Pre-emptive Exercise Period and, if applicable, the Over-allotment Exercise Period; and (ii) for the avoidance of doubt, the price at which the New Securities are sold to the Prospective Purchaser is at least equal to or higher than the purchase price described in the Issuance Notice. In the event the Company has not sold such New Securities within such time period, the Company may not thereafter issue or sell any New Securities without first again offering such securities to the Shareholders in accordance with the procedures set forth in this **Section 2.01**.

(f) **Closing of the Issuance.** The closing of any purchase by any Shareholder is to be consummated concurrently with the consummation of the issuance or sale described in the Issuance Notice. Upon the issuance or sale of any New Securities in accordance with this **Section 2.01**, the Company shall deliver the New Securities in certificated form, free and clear of

any liens (other than those arising hereunder and those attributable to the actions of the purchasers thereof), and the Company shall so represent and warrant to the purchasers thereof, and further represent and warrant to such purchasers that such New Securities will be, upon issuance thereof to such purchasers and after payment therefor, duly authorized, validly issued, fully paid and non-assessable. Each Shareholder shall deliver to the Company the purchase price for the New Securities purchased by it by certified or bank check or wire transfer of immediately available funds. Each party to the purchase and sale of New Securities shall take all such other actions as may be reasonably necessary to consummate the purchase and sale including, without limitation, entering into such additional agreements as may be necessary or appropriate.

### **ARTICLE III BUY-SELL**

**Section 3.01 Death of Shareholder.** Upon the death of a Shareholder, the Shareholder's personal representative may, within 60 days following the date of death, deliver a written notice to the Company (the "**Deceased Shareholder Put Notice**"), whereupon the Company shall purchase all of the deceased Shareholder's shares of capital stock of the Company at the price and on the terms set forth in **Section 3.03**. If no Deceased Shareholder Put Notice is delivered by the personal representative of a deceased Shareholder within the aforesaid 60-day period, then the Company will not be obligated to purchase that deceased Shareholder's shares under this Article III.

**Section 3.02 Termination of Shareholder's Status as a Director or Officer of the Company.** If a Shareholder ~~is~~were a director or an officer of the Company on the Effective Date and, for any reason, that Shareholder's status as a director or officer of the Company terminates, then within the time period specified in **Section 3.03** the Company may, but subject to **Section 3.01** will not be required to, purchase all of the affected Shareholder's shares of capital stock of the Company at the price and on the terms set forth in **Section 3.03**. The parties agree that this Section 3.02 will not apply with respect to any shares of capital stock of the Company held by a person who was not a director or an officer of the Company on the Effective Date.

**Section 3.03 Price and Terms of a Purchase of Shares Under Section 3.01 or Section 3.02.** In the event of a purchase of shares of capital stock of the Company under **Section 3.01** or **Section 3.02**, the purchase price per share will be an amount equal to the greater of (A) \$1.00 per share; or (B) (i) the Agreed Company Value as of the date of death or termination, as applicable, divided by (ii) the number of outstanding shares of capital stock of the Company on a Fully Diluted Basis as of the date of death or termination, as applicable; and the closing of such purchase is to occur at a date and time specified by the Company (not more than 120 days following the date of death or the date of termination of the affected Shareholder's status as a director or officer, as applicable), and all of the affected Shareholder's shares of capital stock of the Company are to be deemed to have been repurchased at the closing. At the closing, the Company shall pay the purchase price for the shares in question either, at the Company's option, in a lump sum in cash or in the form of the Company's promissory note providing for principal

payments in five equal annual installments on the first, second, third, fourth and fifth anniversaries of the closing date, with each installment bearing interest at the mid-term applicable federal rate in effect on the closing date. Notwithstanding the foregoing, if at any time the Board determines in good faith that the Company does not have sufficient available cash to pay in full, or is restricted by law from paying in full, any installment due on any note described in this **Section 3.03**, the Company may defer the payment of that installment until such time as the Board determines in good faith that the Company has sufficient available cash to pay that installment or is otherwise permitted by law to pay it, whereupon the Company will pay it. Each Shareholder hereby irrevocably appoints the officers of the Company as such Shareholder's true and lawful attorney in the name, place and stead of such Shareholder, such appointment being coupled with an interest, to execute, sign, acknowledge and file all papers which are necessary or desirable to effect any sale of that Shareholder's shares under this **Section 3.03**.

**Section 3.04 Life Insurance.** The Company may, but will not be required to, procure and maintain a life insurance policy with respect to any one or more Shareholders in order to permit the Company to apply the proceeds of such insurance policy to the purchase price for shares under **Section 3.01**. If the proceeds of any such insurance policy exceed the purchase price for such Shareholder's shares, the Company may retain the excess.

#### **ARTICLE IV TRANSFER**

##### **Section 4.01 General Restrictions on Transfer.**

(a) **Shareholders.** Each Shareholder acknowledges and agrees that such Shareholder (or any Permitted Transferee of such Shareholder) may not Transfer any shares of capital stock of the Company except:

(i) With the prior written consent of the Board (and in compliance with whatever conditions and procedures the Board specifies);

(ii) pursuant to **Section 4.02**; or

(iii) in compliance with **Section 4.03**.

(b) **Other Transfer Restrictions.** Notwithstanding any other provision of this Agreement (including **Section 4.02** and **Section 4.03**), each Shareholder agrees that it will not, directly or indirectly, Transfer any of its capital stock of the Company or Stock Equivalents, and the Company agrees that it may not issue any capital stock of the Company or Stock Equivalents:

(i) unless any required approvals from the Pennsylvania Insurance Department have been duly obtained, and any filings required to be made with the Pennsylvania Insurance Department by the Company, the Transferor, the Transferee or any other Person in connection with such Transfer or issuance have been duly made;

(ii) except as permitted under the Securities Act and other applicable federal or state securities or blue sky laws, and then, with respect to a Transfer of capital stock of the Company or Stock Equivalents, if requested by the Company, only upon delivery to the Company of a written opinion of counsel in form and substance satisfactory to the Company to the effect that such Transfer may be effected without registration under the Securities Act;

(iii) if such Transfer or issuance would cause the Company or any of the Company Subsidiaries to be required to register as an investment company under the Investment Company Act of 1940, as amended; or

(iv) if such Transfer or issuance would cause the assets of the Company or any Subsidiary of the Company to be deemed "Plan Assets" as defined under the Employee Retirement Income Security Act of 1974 or its accompanying regulations or result in any "prohibited transaction" thereunder involving the Company or any Subsidiary of the Company.

(c) **Joinder Agreement.** No Transfer of capital stock of the Company or Stock Equivalents pursuant to any provision of this Agreement may be deemed completed until the Transferee has entered into a ~~Joinder Agreement~~joinder in the form attached to this Agreement pursuant to which the Transferee joins and becomes a party to this Agreement as a Shareholder.

(d) **Transfers in Violation of this Agreement.** Any Transfer or attempted Transfer of any capital stock of the Company or Stock Equivalents in violation of this Agreement, including any failure of a Transferee, as applicable, to enter into a ~~Joinder~~joinder to this Agreement pursuant to **Section 4.01(c)** above, will be null and void, no such Transfer may be recorded on the Company's books and the purported Transferee in any such Transfer is not to be treated (and the Shareholder proposing to make any such Transfer is to continue be treated) as the owner of such capital stock of the Company or Stock Equivalents for all purposes of this Agreement.

**Section 4.02 Permitted Transfers.** Subject to **Section 4.01** above, including the requirement to enter into a ~~Joinder~~joinder to this Agreement pursuant to **Section 4.01(c)** above, the provisions of **Section 4.03** will not apply to any Transfer by any Shareholder of any of its capital stock of the Company or Stock Equivalents, to:

(a) such Shareholder's spouse, descendants (including adoptive relationships and stepchildren) and the spouses of each such natural persons (collectively, "**Family Members**");

(b) a trust under which the distribution of capital stock of the Company may be made only to such Shareholder and/or any Family Members of such Shareholder;

(c) a charitable remainder trust, the income from which will be paid only to such Shareholder during his life;

(d) a corporation, partnership or limited liability company, the shareholders, partners or members of which are only such Shareholder and/or Family Members of such Shareholder; or

(e) such Shareholder's executors, administrators, testamentary trustees, legatees or beneficiaries for bona fide estate planning purposes, either by will or by the laws of intestate succession.

**Section 4.03 Right of First Offer.**

(a) **Offered Stock.** Before making a Transfer of shares of capital stock of the Company under this **Section 4.03**, in addition to complying with all of the relevant requirements of **Section 4.01**, the Shareholder who proposes to make the Transfer (the "**Offering Shareholder**") must deliver a written notice (the "**First Offer Notice**") to the Company and to all of the other Shareholders, which First Offer Notice must specify:

(i) the applicable aggregate number of shares proposed to be Transferred by the Offering Shareholder (the "**Offered Stock**"); and

(ii) the purchase price per share for the Offered Stock and the other material terms and conditions of the Transfer Offer.

(b) The First Offer Notice will constitute the Offering Shareholder's offer to Transfer all of the Offered Stock to the Company and the other Shareholders in accordance with the provisions of this **Section 4.03**, which offer will be irrevocable until the end of the Shareholder Option Period described in **Section 4.03(e)(iii)**.

(c) By delivering the First Offer Notice, the Offering Shareholder represents and warrants to the Company and each other Shareholder that:

(i) the Offering Shareholder has full right, title and interest in and to the Offered Stock described in the First Offer Notice;

(ii) the Offering Shareholder has all the necessary power and authority and has taken all necessary action to Transfer the Offered Stock described in the First Offer Notice as contemplated by this **Section 4.03**; and

(iii) the Offered Stock described in the First Offer Notice is free and clear of any and all liens other than those arising as a result of or under the terms of this Agreement.

(d) **Exception for Permitted Transfers.** Notwithstanding anything herein to the contrary, the right of first refusal in **Section 4.03(a)** will not apply to any Transfer Offer or Transfer of Shares (or applicable Stock Equivalents) that are permitted by and made in accordance with **Section 4.02**.

(e) **Exercise of Right of First Offer; Over-Allotment Option.**

(i) Upon receipt of the First Offer Notice, the Company and each other Shareholder will have the right to purchase the Offered Stock on the terms and at the purchase price set forth in the First Offer Notice in the following order of priority: *first*, the Company will

have the right to purchase all or any portion of Offered Stock in accordance with the procedures set forth in **Section 4.03(e)(ii)**, and *thereafter*, to the extent the Company does not exercise its right in full, the other Shareholders will collectively have the right to purchase up to all of the Offered Stock in accordance with the procedures set forth in **Section 4.03(e)(iii)** and **Section 4.03(e)(iv)**.

(ii) The Company may exercise its initial right to purchase any Offered Stock by delivering a written notice (the “**Company Exercise Notice**”) to the Offering Shareholder and the other Shareholders within 30 days of receipt of the First Offer Notice (the “**Company Option Period**”), stating the ~~applicable number(s)~~ number (including where such number is zero) of shares of Offered Stock the Company elects to purchase on the terms and purchase price(s) set forth in the First Offer Notice. The Company Exercise Notice will be binding upon delivery and irrevocable by the Company. If the Company fails to deliver a Company Exercise Notice within the 30-day period then the Company will be deemed to have delivered a Company Exercise Notice, upon the expiration of that period, stating that the Company elects not to purchase any Offered Stock.

(iii) If the Company does not elect to purchase all of the Offered Stock, the other Shareholders may purchase the remaining Offered Stock not elected to be purchased by the Company. For a period of 30 days following the receipt of a Company Exercise Notice in which the Company has elected to purchase less than all the Offered Stock (such period, the “**Shareholder Option Period**”), each other Shareholder may elect to purchase all or any portion of its Pro Rata Portion of remaining Offered Stock by delivering a written notice to the Company and the Offering Shareholder (a “**Shareholder Exercise Notice**”) stating the applicable number(s) (including where such number is zero) of shares of Offered Stock that such Shareholder elects to purchase on the terms and purchase price(s) set forth in the First Offer Notice. The Shareholder Exercise Notice will be binding upon delivery and irrevocable by the Shareholder delivering it. If any Shareholder fails to deliver a Shareholder Exercise Notice within the 30-day period then that Shareholder will be deemed to have delivered a Shareholder Exercise Notice, upon the expiration of that period, stating that that Shareholder elects not to purchase any Offered Stock.

(iv) If the other Shareholders pursuant to **Section 4.03(e)(iii)** do not, in the aggregate, elect to purchase all of the remaining Offered Stock not purchased by the Company, each Shareholder electing pursuant to **Section 4.03(e)(iii)** to purchase its entire Pro Rata Portion of remaining Offered Stock (each, an “**Exercising Shareholder**”) may purchase all or any portion of any remaining Offered Stock not elected to be purchased by the Company and the other Shareholders. As promptly as practicable following the Shareholder Option Period, the Offering Shareholder shall deliver a written notice to each Exercising Shareholder (an “**Additional Allotment Availability Notice**”) stating the number(s) and type(s) of remaining Offered Stock available for purchase following the Shareholder Exercise Period. For a period of 30 days following the receipt of an Additional Allotment Availability Notice (such period, the “**Additional Allotment Option Period**”), each Exercising Shareholder may elect to purchase all

or any portion of remaining Offered Stock by delivering a written notice to the Company and the Offering Shareholder (an “**Additional Allotment Exercise Notice**”) specifying the number(s) and type(s) of additional remaining Offered Stock it desires to purchase on the terms and applicable purchase price(s) set forth in the First Offer Notice. The Additional Allotment Exercise Notice will be binding upon delivery and irrevocable by the Exercising Shareholder.

(v) The failure of the Company or any Shareholder to deliver a Company Exercise Notice or a Shareholder Exercise Notice, respectively, by the end of the Company Option Period or the Shareholder Option Period, respectively, will constitute a waiver by the Company or that Shareholder, as applicable, of the applicable rights of first refusal under this **Section 4.03** with respect to the Transfer of the Offered Stock pursuant to that First Offer Notice, but will not affect their respective rights with respect to any future Transfers.

(f) **Allocation of Offered Stock.** Upon the expiration of the Shareholder Option Period or, if applicable, the expiration of the Additional Allotment Option Period, the remaining Offered Stock not selected for purchase in its entirety by the Company pursuant to **Section 4.03(e)(ii)** is to be allocated for purchase among the Exercising Shareholders in accordance with their respective Pro Rata Portions or as they may otherwise mutually agree.

(g) **Consummation of Sale to the Company and/or Other Shareholders.** If the Company and/or the other Shareholders have, in the aggregate, exercised their respective rights to purchase any of the Offered Stock, then the Offering Shareholder shall sell such Offered Stock to the Company and/or such other Shareholders, and the Company and/or such other Shareholders, as the case may be, shall purchase such Offered Stock, within 60 days following the expiration of the Shareholder Option Period or, if applicable, the Additional Allotment Option Period (either of which period may be extended for a reasonable time to the extent reasonably necessary to make any required filings with and/or obtain required approvals or consents from, the Pennsylvania Insurance Department and/or any other Governmental Authority). Each Shareholder shall take all actions as may be reasonably necessary to consummate the sale contemplated by this **Section 4.03(g)**, including, without limitation, entering into agreements and delivering certificates and instruments and consents as may be deemed necessary or appropriate. At the closing of any sale and purchase pursuant to this **Section 4.03(g)**, the Offering Shareholder shall deliver to the Company and/or the participating Shareholders certificates representing the Offered Stock to be sold, free and clear of any liens or encumbrances (other than those contained in this Agreement), accompanied by evidence of transfer, against receipt of the purchase price therefor from the Company and/or such Shareholders by certified or official bank check or by wire transfer of immediately available funds.

(h) **Sale to Third Party.** If the Company and/or the other Shareholders have not collectively elected to purchase all of the Offered Stock, then, provided the Offering Shareholder has also complied with the provisions of **Section 4.01**, to the extent applicable, the Offering Shareholder may Transfer the remaining Offered Stock to a third party, at a price per share not less than that specified in the First Offer Notice and on other terms and conditions which are not



materially more favorable in the aggregate to the purchaser than those specified in the First Offer Notice, but only to the extent that such Transfer occurs within 90 days after expiration of the Shareholder Option Period or, if applicable, the Additional Allotment Option Period. Any Offered Stock not Transferred within such 90-day period will be subject to the provisions of this **Section 4.03** upon subsequent Transfer.

## ARTICLE V COVENANTS

**Section 5.01 Company Confidential Information.** Each Shareholder must at all times from and after the date of this Agreement hold in strict confidence all Company Confidential Information that they possess or acquire and, except as required by applicable law, may not use or disclose such Company Confidential Information to any Person except on behalf of the company or otherwise in accordance with the Company's normal business practices. The covenant in this **Section 5.01** survives the termination of any Shareholder's status as a shareholder of the Company.

**Section 5.02 Regulatory Requirements.** Each Shareholder must at all times take such actions, make such filings, and use its respective best efforts to enable the Company to take such actions and make such filings (including providing information to the Company), so as to comply and to cause the Company to comply with the filing and reporting requirements of the insurance laws of Pennsylvania or as otherwise required by the Pennsylvania Insurance Department.

~~**Section 5.3—Limitation of Ownership of Shares of Insurance Company.** For so long as each Shareholder is a shareholder of the Company, such Shareholder may not directly or indirectly acquire or hold shares of capital stock representing 10% or more of the voting capital stock of any insurance company other than any Subsidiary of the Company.~~

## ARTICLE VI MISCELLANEOUS

**Section 6.01 Expenses.** All costs and expenses, including fees and disbursements of counsel, financial advisors and accountants, incurred in connection with the preparation and execution of this Agreement, or any amendment or waiver hereof, and the transactions contemplated hereby are to be paid by the party incurring such costs and expenses.

**Section 6.02 Further Assurances.** In connection with this Agreement and the transactions contemplated hereby, the Company and each Shareholder hereby agrees, at the request of the Company or any other Shareholder, to execute and deliver such additional documents, instruments, conveyances and assurances and to take such further actions as may be required to carry out the provisions hereof and give effect to the transactions contemplated hereby.

**Section 6.03 Notices.** All notices, requests, consents, claims, demands, waivers and other communications hereunder are to be in writing and will be deemed to have been given: (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by facsimile or e-mail of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient; or (d) on the third day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the respective parties at the following addresses (or at such other address for a party as is specified in a notice given in accordance with this **Section 6.03**):

If to the Company:

74 W. Broad Street  
Suite 300  
Bethlehem, PA 18018  
Facsimile: 610.317.0998  
Attn: Chief Executive Officer

If to a Shareholder, to such Shareholder's respective mailing address as set forth on **Schedule A**.

**Section 6.04 Headings.** The headings in this Agreement are inserted for convenience or reference only and are in no way intended to describe, interpret, define, or limit the scope, extent or intent of this Agreement or any provision of this Agreement.

**Section 6.05 Severability.** If any term or provision of this Agreement is held to be invalid, illegal or unenforceable under Applicable Law in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other term or provision of this Agreement or invalidate or render unenforceable such term or provision in any other jurisdiction. Upon such determination that any term or other provision is invalid, illegal or unenforceable, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

**Section 6.06 Entire Agreement.** This Agreement constitutes the sole and entire agreement of the parties to this Agreement with respect to the subject matter contained herein, and supersedes all prior and contemporaneous understandings, agreements, representations and warranties, both written and oral, with respect to such subject matter.

**Section 6.07 Successors and Assigns; Assignment.** Subject to the rights and restrictions on Transfers set forth in this Agreement, this Agreement will be binding upon and will inure to the benefit of the parties hereto and their respective permitted successors and permitted assigns.

**Section 6.08 No Third-party Beneficiaries.** This Agreement is for the sole benefit of the parties hereto (and their respective heirs, executors, administrators, successors and assigns) and nothing herein, express or implied, is intended to or will confer upon any other Person, including any creditor of the Company, any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

**Section 6.09 Amendment.** No provision of this Agreement may be amended or modified except by an instrument in writing executed by the Company and Shareholders holding a majority of the issued and outstanding shares of capital stock of the Company, except that the Company may amend Schedule A from time to time to reflect the joinder of parties to this Agreement pursuant to an issuance or transfer of capital stock of the Company that is not in contravention of this Agreement, in which case such amendment of Schedule A will not require any action on the part of any of the Shareholders. Any such written amendment or modification will be binding upon the Company and each Shareholder.

**Section 6.10 Waiver.** No waiver by any party of any of the provisions hereof will be effective unless explicitly set forth in writing and signed by the party so waiving. No waiver by any party will operate or be construed as a waiver in respect of any failure, breach or default not expressly identified by such written waiver, whether of a similar or different character, and whether occurring before or after that waiver. No failure to exercise, or delay in exercising, any right, remedy, power or privilege arising from this Agreement will operate or be construed as a waiver thereof, nor will any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. For the avoidance of doubt, nothing contained in this **Section 6.10** will diminish any of the explicit and implicit waivers described in this Agreement, including in, **Section 4.03(e)(v)**, and **Section 6.12** hereof.

**Section 6.11 Governing Law.** All issues and questions concerning the application, construction, validity, interpretation and enforcement of this Agreement are to be governed by and construed in accordance with the internal laws of the Commonwealth of Pennsylvania, without giving effect to any choice or conflict of law provision or rule (whether of the Commonwealth of Pennsylvania or any other jurisdiction).

**Section 6.12 Waiver of Jury Trial.** Each party hereto hereby acknowledges and agrees that any controversy which may arise under this Agreement is likely to involve complicated and difficult issues and, therefore, each such party irrevocably and unconditionally waives any right it may have to a trial by jury in respect of any legal action arising out of or relating to this Agreement or the transactions contemplated hereby.

**Section 6.13 Equitable Remedies.** Each party hereto acknowledges that a breach or threatened breach by such party of any of its obligations under this Agreement would give rise to irreparable harm to the other parties, for which monetary damages would not be an adequate remedy, and hereby agrees that in the event of a breach or a threatened breach by such party of any such obligations, each of the other parties hereto will, in addition to any and all other rights

and remedies that may be available to them in respect of such breach, be entitled to equitable relief, including a temporary restraining order, an injunction, specific performance and any other relief that may be available from a court of competent jurisdiction (without any requirement to post bond).

**Section 6.14 Remedies Cumulative.** The rights and remedies under this Agreement are cumulative and are in addition to and not in substitution for any other rights and remedies available at law or in equity or otherwise.

**Section 6.15 Counterparts.** This Agreement may be executed in counterparts, each of which is to be deemed an original, but all of which together are to be deemed to be one and the same agreement. A signed copy of this Agreement delivered by facsimile, e-mail or other means of electronic transmission is to be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

**Section 6.16 Legend.** In addition to any other legend required by Applicable Law, all certificates representing issued and outstanding capital stock of the Company will bear a legend substantially in the following form:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO A ~~SHAREHOLDERS~~ SHAREHOLDER AGREEMENT AMONG THE COMPANY AND ITS SHAREHOLDERS, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL EXECUTIVE OFFICE OF THE COMPANY. NO TRANSFER, SALE, ASSIGNMENT, PLEDGE, HYPOTHECATION OR OTHER DISPOSITION OF THE SHARES REPRESENTED BY THIS CERTIFICATE MAY BE MADE EXCEPT IN ACCORDANCE WITH THE PROVISIONS OF SUCH ~~SHAREHOLDERS~~ SHAREHOLDER AGREEMENT.

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY OTHER APPLICABLE SECURITIES LAWS AND MAY NOT BE TRANSFERRED, SOLD, ASSIGNED, PLEDGED, HYPOTHECATED OR OTHERWISE DISPOSED EXCEPT (A) PURSUANT TO A REGISTRATION STATEMENT EFFECTIVE UNDER SUCH ACT AND LAWS, OR (B) PURSUANT TO AN EXEMPTION FROM REGISTRATION THEREUNDER.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

**The Company:**

Saucon Holding Company

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

Name:

Title:

[Shareholder Name]

-

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

Name:

[Shareholder Name]

-

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

Name:

**SCHEDULE A**  
**SHAREHOLDERS**

| <b>Shareholder Name and Address</b> |
|-------------------------------------|
| [NAME AND ADDRESS]                  |
| [NAME AND ADDRESS]                  |
| [NAME AND ADDRESS]                  |

**JOINDER TO SAUCON HOLDING SHAREHOLDER AGREEMENT**

Reference is made to that certain Shareholder Agreement dated as of [EFFECTIVE DATE] (the “**Saucon Holding Shareholder Agreement**”) among Saucon Holding Company, a Pennsylvania corporation (the “**Company**”) and each Person identified on Schedule A thereto. Capitalized terms used in this Joinder to Saucon Holding Shareholder Agreement that are not defined herein have the respective meanings given them in the Saucon Holding Shareholder Agreement.

The undersigned person, being a holder of shares of capital stock of Saucon Holding Company, hereby joins and becomes a party to the Saucon Holding Shareholder Agreement as a Shareholder, with respect to any shares of capital stock now held or hereafter acquired by the undersigned, and hereby becomes bound by all of the terms, conditions and covenants therein as a Shareholder. The undersigned acknowledges that he, she or it has received a copy of the Saucon Holding Shareholder Agreement and has reviewed it.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Joinder to Saucon Holding Shareholder Agreement as of the date written below.

\_\_\_\_\_  
(signature of Shareholder)

\_\_\_\_\_  
(signature of Shareholder, if shares are held jointly)

\_\_\_\_\_  
(print name of Shareholder)

\_\_\_\_\_  
(print name of Shareholder, if shares are held jointly)

\_\_\_\_\_  
Date

Address for notices:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Acknowledged and accepted:

**SAUCON HOLDING COMPANY**

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

Name: \_\_\_\_\_

Title: \_\_\_\_\_

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

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Dear Member:

As a member of Saucon Mutual Insurance Company, you are receiving the accompanying ~~member information statement~~ Member Information Statement, Proxy Statement and Offering Document in connection with a Special Meeting of the members of Saucon Mutual. The Special Meeting will be held on [DATE], ~~2015~~2017.

On ~~April 27~~March 22, 2015 2017, the Board of Directors of Saucon Mutual approved a ~~Second~~ Third 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 ~~May 7~~April 3, 2015 2017. 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, or alternatively to become shareholders of the new holding company, while leaving the policies in force. This proposed transaction would also result in Saucon Mutual making a \$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:~~

The transactions contemplated by the Plan of Conversion will give you the right to either receive "Member Compensation" which is described below, or subscribe for shares of Saucon Holding (the holding company being organized to acquire the shares of the stock insurance company into which Saucon Mutual is to be converted) in lieu of receiving the Member Compensation.

Your Member Compensation (which you would receive following the closing of the transactions contemplated by the Plan of Conversion if you do not subscribe for shares of Saucon Holding) would consist of:

**A total cash payment of \$[AMOUNT]**

This will be comprised of a \$[AMOUNT] return of deposit and a \$[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].**

If you decide to subscribe for the shares of Saucon Holding, you will not receive Member Compensation but would instead be required to sign and return certain documents and tender the subscription price for the shares for which you would be subscribing, all by the requisite deadline. The offering of the shares of Saucon Holding is described more fully in the Member Information Statement, Proxy Statement and Offering Document. An investment in the shares of Saucon Holding is subject to significant risks, some of which are described in that document. Please note that if you decide to subscribe for the shares of Saucon Holding rather than receiving Member Compensation, the deadline to sign and return the shares and tender the subscription price is earlier than the deadline to return the proxy card.

The enclosed ~~member information statement~~ Member Information Statement, Proxy Statement and Offering Document 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~~ the Member Consideration that you may receive as a result of the transactions contemplated by the Plan of Conversion, and the terms of the offering for shares of Saucon Holding that you may choose to participate in in lieu of receiving Member Consideration. 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

**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-Third~~ Amended and Restated Alternative Plan of Conversion, approved by the Board of Directors of Saucon Mutual on ~~April 27~~ March 22, 2015-2017 (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~~ Member Information Statement, Proxy Statement and Offering Document that accompanies 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 member of 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,

Philip 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~~ “Eligible Members” who 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.~~
- Consult the enclosed Member Information Statement, Proxy Statement and Offering Document, under the heading “Questions and Answers Relating to the Special Meeting, the Plan and the Conversion Transactions – Who is an Eligible Member of Saucon Mutual?” for an explanation of the principles of determining who is entitled to 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~~ card, the Member Information Statement, Proxy Statement and Offering Document, and the other related documents, 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~~ Member Information Statement, Proxy Statement and Offering

| Document, 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]. ~~2016~~2017  
[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-Third~~ Amended and Restated Plan of Conversion of Saucon Mutual Insurance Company, which was approved by the Board of Directors of Saucon Mutual on ~~April 27~~ ~~March 22, 2015~~ 2017.
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

## B. Non-Voting Items

Change of Address

Please print your new address below.

## 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