



August 23, 2017

Frances R. Roggenbaum, Esquire
Saul Ewing LLP
2 North Second Street, 7th Floor
Harrisburg, PA 17101

Re: Application of Saucon Mutual Insurance Company Requesting Approval of a Series of Transactions Allowing for the Conversion of Saucon Mutual Insurance Company to a Stock Insurance Company, the Acquisition of Control of the Converted Company, to be Renamed Saucon Insurance Company, by Saucon Holding Company and the Acquisition of Control of Saucon Holding Company by Brian Regan and Michael Crofton

Dear Ms. Roggenbaum:

Attached please find the Order by which the Insurance Commissioner of the Commonwealth of Pennsylvania has approved the referenced transaction.

Please note the conditions to the Order. Additionally, in accordance with 31 Pa. Code § 25.17(c), a Form B must be filed with the Department within 15 days of the end of the month in which the referenced acquisition is consummated. Questions concerning the Form B filing requirements should be directed to Michael Gulbin, Financial Analysis Division at (717) 787-1879 / migulbin@pa.gov.

Please feel free to contact me at (717) 783-2144 / cbybee@pa.gov should you have any questions concerning the approval Order.

Sincerely,

Cressinda E. Bybee
Cressinda E. Bybee, Chief
Company Licensing Division

Attachment
cc: Michael Gulbin

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re:	:	Pursuant to the Insurance Company
Application of Saucon Mutual Insurance Company Requesting Approval of a Series of Transactions Allowing for the Conversion of Saucon Mutual Insurance Company to a Stock Insurance Company, the Acquisition of Control of the Converted Company, to be renamed Saucon Insurance Company, by Saucon Holding Company and the Acquisition of Control of Saucon Holding Company by Brian Regan and Michael Crofton	:	Mutual-to-Stock Conversion Act, Article VIII-A of the Insurance Company Law of 1921, Act of May 17, 1921, P.L. 682, <u>as amended</u> , added 1995, Dec. 21, P.L. 714, 40 P.S. §§ 911-A <u>et seq.</u> , <u>as amended</u> ; Sections 1401, 1402, and 1403 of the Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1921, P.L. 682, <u>as amended</u> , 40 P.S. §§ 991.1401-1403.
	:	Order No. ID-RC-17-12

DECISION AND ORDER

AND NOW, on this 23rd day of August, 2017, Jessica Altman, Acting Insurance Commissioner of the Commonwealth of Pennsylvania ("Commissioner"), hereby makes the following Decision and Order:

Pursuant to the Insurance Company Mutual-to-Stock Conversion Act and the Insurance Holding Companies Act and in consideration of the documents, presentations and reports received, as well as other inquiries and studies as permitted by law, the Commissioner hereby makes the following findings of fact:

FINDINGS OF FACT

Identity of the Parties

1. Saucon Mutual Insurance Company (both before and after conversion "Saucon") is a mutual property insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Bethlehem, Pennsylvania.
2. Saucon Holding Company ("Holding Company") is a newly-formed business corporation organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Bethlehem, Pennsylvania. No stock has been issued in Holding Company.

3. Brian T. Regan (“Regan”) is an individual with his principal place of business located in Allentown, Pennsylvania. Regan is the President and Chairman of the Board of Directors of Saucon.
4. Michael G. Crofton (“Crofton”) is an individual with his principal place of business located in Philadelphia, Pennsylvania. Crofton is a member of the Board of Directors of Saucon.

Adoption and Filing of Prior Proposed Plans

5. The Insurance Company Mutual-to-Stock Conversion Act, Article VIII-A of the Insurance Companies Law of 1921, Act of May 17, 1921, P.L. 682, as amended, 40 P.S. §§ 911-A et seq. (“Conversion Act”), provides that all plans of conversion of domestic mutual insurers must be filed with the Commissioner for approval or disapproval.
6. Section 807-A of the Conversion Act (40 P.S. § 917-A) provides that a domestic mutual insurer may adopt an alternative plan of conversion that does not rely in whole or in part upon issuing nontransferable subscription rights to members to purchase stock of the converted stock company if the Commissioner finds that the plan does not prejudice the interests of the policyholders, is fair and equitable, and is not inconsistent with the purpose and intent of the Conversion Act.

The Original Alternative Plan of Conversion

7. On August 27, 2014, the Board of Directors of Saucon unanimously adopted an Alternative Plan of Conversion.
8. On September 2, 2014, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an application from Saucon requesting approval to convert from a mutual to stock form (the “Conversion”).
9. As described in the Application, the Board of Directors of Saucon identified a number of objectives to be achieved through a mutual-to-stock conversion and concluded, after a review of available strategic alternatives, that the Plan was the most attractive alternative from a strategic, financial and operation point of view.
10. As specified in the Plan, Saucon’s Board of Directors determined that the Conversion provides a unique opportunity to achieve several objectives:
 - a) Rewarding members for their loyalty to the company;
 - b) Making a charitable contribution in furtherance of the company’s ongoing commitment to the community, and as a proxy for benefiting former policyholders of Saucon who will not participate in the Conversion;

- c) Modernizing the company's governance structure;
 - d) 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;
 - e) Preparing the company to re-enter the insurance underwriting business; and
 - f) Maintaining the independence of the company.
11. The Alternative Plan of Conversion provided that all members of Saucon as of August 27, 2014 ("Eligible Members"), would receive compensation in the following manner:
- a) Eligible Members who held perpetual policies would be entitled to:
 - i) Cash Payment. A cash payment equal to the number of years that the policy has been in effect from its issuance until the closing of the Conversion, multiplied by \$60.
 - ii) Return of Deposits. A return of 15% of the Eligible Member's deposits held by Saucon, if any.
 - iii) Removal of Charges for Increases in Policy Limits under Inflation Adjustment Endorsements. Saucon would no longer charge any additional deposit for the increases in policy limits.
 - b) Eligible Members who held non-perpetual policies would be entitled to:
 - i) Cash Payment. A cash payment equal to the sum of: (1) the number of years that the non-perpetual policy had been in effect from its issuance until the closing of the Conversion multiplied by \$60; and (2) an additional one-time cash payment equal to 15% of the current premium of the policy; and
 - ii) Amendment to Policy. After the conversion with respect to policies with inflation adjustments endorsement, the increases in policy limits would be based on a rate determined by an index prepared by a third party that estimates replacement cost inflation as opposed to the fixed percentage in use at the time of the conversion.
12. Pursuant to the Alternative Plan of Conversion, Saucon would make aggregate payments to policyholders in the amount of \$1,052,973.

13. The Alternative Plan of Conversion provided that Saucon would make a one-time charitable contribution of \$1,000,000 to the Lehigh Valley Community Foundation which was to be used to establish the "Saucon Insurance Company Foundation Fund."
14. The Alternative Plan of Conversion provided that Eligible Members would be given no subscription rights in either Saucon or Holding Company.
15. The Alternative Plan of Conversion provided that Holding Company would acquire the stock of Saucon and that subscription rights in Holding Company would be given to eight members of the Board of Directors and a ninth individual who is a member of the management of Saucon. Three of those investors expressed an interest in acquiring more than 10% of the outstanding shares of Holding Company and the Alternative Plan of Conversion anticipated those three investors would acquire, in the aggregate, approximately 91% of Holding Company's shares.

Amended and Restated Alternative Plan of Conversion

16. On February 4, 2015, the Board of Directors of Saucon unanimously approved an Amended and Restated Alternative Plan of Conversion.
17. The Amended and Restated Alternative Plan of Conversion was filed with the Department on February 6, 2015.
18. The Amended and Restated Alternative Plan of Conversion provided that Eligible Members would receive compensation in the following manner:
 - a) Eligible Members who held perpetual policies would be entitled to:
 - i) Cash Payment. A cash payment equal to the number of calendar days that the policy has been in effect from its issuance until the closing of the Conversion, multiplied by \$0.1644, then rounding that amount to the nearest whole dollar.
 - ii) Return of Deposits. A return of 15% of the Eligible Member's deposits held by Saucon, if any.
 - iii) Removal of Charges for Increases in Policy Limits under Inflation Adjustment Endorsements. Saucon would no longer charge any additional deposit for the increases in policy limits.
 - b) Eligible Members who held non-perpetual policies would be entitled to:
 - i) Cash Payment. A cash payment equal to the sum of: (1) the number of calendar days that the non-perpetual policy had been in

effect from its issuance until the closing of the Conversion multiplied by \$0.1644; and (2) an additional one-time cash payment equal to 15% of the current premium of the policy

19. Pursuant to the Amended and Restated Alternative Plan of Conversion, Saucon would make aggregate payments to policyholders in the amount of \$1,064,788.
20. The Amended and Restated Alternative Plan of Conversion provided that Saucon would make a one-time charitable contribution of \$1,000,000 to the Lehigh Valley Community Foundation which was to be used to establish the "Saucon Insurance Company Foundation Fund."
21. Consistent with the Alternative Plan of Conversion, the Amended and Restated Alternative Plan of Conversion provided that:
 - a) Eligible Members would be given no subscription rights in either Saucon or Holding Company;
 - b) Holding Company would acquire the stock of Saucon; and
 - c) Subscription rights in Holding Company would be given to eight members of the Board of Directors and a ninth individual who is a member of the management of Saucon. Three of those investors expressed an interest in acquiring more than 10% of the outstanding shares of Holding Company and the Amended and Restated Alternative Plan of Conversion anticipated those three investors would acquire, in the aggregate, approximately 91% of Holding Company's shares.

Second Amended and Restated Alternative Plan of Conversion

22. On April 27, 2015, the Board of Directors of Saucon approved a Second Amended and Restated Alternative Plan of Conversion.
23. The Second Amended and Restated Alternative Plan of Conversion was filed with the Department on May 7, 2015.
24. The Second Amended and Restated Alternative Plan of Conversion provided that Eligible Members would receive compensation in the following manner:
 - a) Eligible Members who held perpetual policies would be entitled to:
 - i) Cash Payment. A cash payment equal to the number of calendar days that the policy has been in effect from its issuance until the closing of the Conversion, multiplied by \$0.2787, then rounding that amount to the nearest whole dollar.

- ii) Return of Deposits. A return of 15% of the Eligible Member's deposits held by Saucon, if any.
 - iii) Removal of Charges for Increases in Policy Limits under Inflation Adjustment Endorsements. Saucon would no longer charge any additional deposit for the increases in policy limits.
 - b) Eligible Members who held non-perpetual policies would be entitled to:
 - i) Cash Payment. A cash payment equal to the sum of: (1) the number of calendar days that the non-perpetual policy had been in effect from its issuance until the closing of the Conversion multiplied by \$0.2787; and (2) an additional one-time cash payment equal to 15% of the current premium of the policy.
- 25. Pursuant to the Second Amended and Restated Plan of Conversion, Saucon would make aggregate payments to policyholders in the amount of \$1,564,839.
- 26. The Second Amended and Revised Alternative Plan of Conversion provided that Saucon would make a one-time charitable contribution of \$500,000 to the Lehigh Valley Community Foundation which would be used to establish the "Saucon Insurance Company Foundation Fund."
- 27. Consistent with the Alternative Plan of Conversion and Amended and Restated Plan of Conversion, the Second Amended and Restated Alternative Plan of Conversion provided that:
 - a) Eligible Members would be given no subscription rights in either Saucon or Holding Company;
 - b) Holding Company would acquire the stock of Saucon; and
 - c) Subscription rights in Holding Company would be given to eight members of the Board of Directors and a ninth individual who is a member of management of Saucon. Three of those investors expressed an interest in acquiring more than 10% of the outstanding shares of Holding Company and the Second Amended and Restated Alternative Plan of Conversion anticipated those three investors would acquire, in the aggregate, approximately 91% of Holding Company's shares.
- 28. The Alternative Plan of Conversion, Amended and Restated Alternative Plan of Conversion, and Second Amended and Restated Alternative Plan of Conversion are collectively referred to as the "Prior Proposed Plans" or any one individually as a "Prior Proposed Plan."

Notice, Comments and Hearing on Prior Proposed Plans

Notice and Comments

29. On September 13, 2014, the Department published notice in the *Pennsylvania Bulletin* of receipt of the Alternative Plan of Conversion. The notice invited interested persons to submit comments to the Department regarding the Prior Proposed Plan for a forty-five (45) day period (“the Comment Period”).
30. The Department received one comment during the official Comment Period from a member of Saucon expressing opposition to the Prior Proposed Plan claiming the plan to be unfair to members.
31. The September 30, 2014, comment letter from Anthony G. Stellar (individually and as Trustee of the Deborah Stellar Trust) objected to the Prior Proposed Plan because it did not provide members the right to purchase stock. Mr. Stellar alleged that the Prior Proposed Plan, which allowed solely “insiders” to own the company, is “grossly unfair to members and an egregious act of self-dealing by a Board of Directors in violation of their fiduciary duty.” Mr. Stellar indicated that he expected to propose his own plan of conversion, requested a policyholder list so that a communication to members could be sent, and urged the Commissioner to hold a hearing.
32. The comment letter was forwarded to Saucon for response.
33. Mr. Stellar also sent a letter directly to Saucon on September 30, 2014 requesting the policyholder list.
34. In response to Mr. Stellar’s comment and letters, Saucon denied Mr. Stellar’s request for the policyholder list but offered to use a third-party vendor to distribute any communications relating to the Prior Proposed Plan to members at Mr. Stellar’s own expense. Soon after, Saucon provided Mr. Stellar the contract information for the third-party vendor that could be used to distribute communications.
35. Mr. Stellar did not take advantage of the arrangement for the use of the third-party vendor for the distribution of communications.
36. Saucon also filed a substantive response to Mr. Stellar’s comment. Specifically, Saucon noted that the Conversion Act provides for several different processes to convert a mutual insurance company into a stock insurance company, including an “Alternative Plan of Conversion” where, in lieu of subscription rights, eligible members may receive other consideration. Additionally, Saucon stated that the board took a deliberative approach in evaluating the available paths under the Conversion Act and determined that the objectives for Saucon and its policyholders could best be met by offering guaranteed consideration to members.

Finally, Saucon noted that Mr. Stellar had not yet disclosed his plan of conversion as he had indicated he would do, but even if he did, the board would need to withdraw the plan already approved and recommend Stellar's plan to policyholders before the plan would be considered by the Department or eligible to be voted on by policyholders.

37. The Department received two additional written comments in July and August of 2015.
38. On July 31, 2015, the Department received a request from Gerald and Janet Selber requesting information on the effects of the Prior Proposed Plan on policyholder status, premium configuration, or other possible changes going forward.
39. The comment letter was forwarded to Saucon for response.
40. In response to the comment, Saucon sent a letter dated August 5, 2015 informing Mr. and Mrs. Selber that their policyholder relationship will remain unchanged. However, membership rights will be extinguished in exchange for an increase of coverage under the inflation adjustment endorsement without further payment of additional deposits, a return of a portion of the deposit, and a cash loyalty payment.
41. On August 26, 2015, the Department received a comment from Robert R. and Susan L. Wentzel objecting to the Prior Proposed Plan inquiring as to whether their policy will remain in effect and whether the company's liquidity would be sustained, and asking why a few "nameless individuals" should control the assets of a "multi-million dollar company."
42. The comment letter was forwarded to Saucon for response.
43. Saucon responded to the Wentzels' comment by letter dated August 27, 2015. Saucon first noted that there would be no change in policyholder status or coverage if the Prior Proposed Plan was approved. Saucon then informed Mr. and Mrs. Wentzel that a portion of their current deposit would be returned to them and that they would receive cash loyalty payments and an increase of coverage under the inflation endorsements without further payment of additional deposits. In response to the question as to whether liquidity would continue to be sustained, Saucon noted that the Prior Proposed Plan would be a more amenable structure to raising capital. Finally, Saucon noted that the investors in Holding Company are deeply committed to Saucon and have worked for many years to ensure Saucon's financial viability.

Public Informational Hearing

44. Section 803-A(e) of the Conversion Act (40 P.S. § 913-A) provides that the Commissioner may hold a hearing on whether the terms of a plan of conversion comply with the Conversion Act.
45. Since the Conversion Act does not require that the Commissioner hold a hearing, the conduct of a hearing is solely at the Commissioner's discretion.
46. If the Commissioner decides to conduct a hearing, the Conversion Act does not require that the hearing be an evidentiary, trial-type hearing.
47. On July 25, 2015, the Department published notice in the *Pennsylvania Bulletin* that a public informational hearing would be held on September 1, 2015, with regards to the Prior Proposed Plan. The notice advised that the public informational hearing would provide an opportunity for policyholders and interested persons to present oral comments relevant to the Prior Proposed Plan. The notice also stated that written comments could be mailed to the Department or sent via the internet.
48. On September 1, 2015, the Department held a public informational hearing with regard to the Prior Proposed Plan.
49. During the public informational hearing, the Department described its review process.
50. During the public information hearing Saucon provided an overview of the Prior Proposed Plan and the process it conducted to arrive at the Prior Proposed Plan. Saucon's remarks included a discussion of the differences between perpetual and conventional term policies and the policyholder considerations afforded each as proposed in the Prior Proposed Plan. Saucon's remarks ended with a discussion of the process undertaken to ensure that all eligible policyholders were identified with proper contact information.
51. During the public information hearing Boenning & Scattergood, Inc. ("Boenning"), Saucon's financial advisors, described the financial advisory services provided to Saucon and a discussion of their fairness opinion.
52. During the public informational hearing, four interested persons presented their positions, and, in some cases, responded to questions posed by the Department.
 - a) Anthony Stellar read portions of his September 30, 2014 letter to then-Commissioner Consedine into the record. He also indicated that he never received a response to the letter. The Department noted that a response was issued, and urged Mr. Stellar to check the record on the Department's website. Additionally, Mr. Stellar requested information on how many

policies Saucon was selling, and inquired as to whether the company was making its money selling policies or managing investments, i.e., whether the company was simply an investment company benefiting the Board of Directors. He also indicated that the “numbers show” that Saucon is not an insurance company.

- b) Steven Bloch, Esq. also made a presentation on behalf of a “couple of” policyholders. Mr. Bloch:
- i) Noted that he sent a letter to counsel for Saucon requesting documents “submitted under seal” but his request was denied.
 - ii) Stated that Department representatives previously suggested he file a right-to-know law request but that he did not do so, but then again asked to review the confidential documents.
 - iii) Posed several questions to the company including why the company has been dormant but has maintained a surplus and how the formula for the cash compensation was derived.
 - iv) Pointed out that the charitable contribution seemed to be contrary to the interests of the policyholders, and that policyholders are receiving only nominal consideration for extinguishing their rights in the company, i.e., the right to vote and receive dividends.
 - v) Contended that the \$17 million dollar policyholder surplus belongs to policyholders, and the three individuals who would own the company are attempting to seize and appropriate that surplus – and that these individuals may then declare dividends for the benefits of themselves.
 - vi) Characterized the transaction as “a self-dealing transaction by an insider set of board of directors.”
 - vii) Took issue with the content of the Member Information Statement.
 - viii) Claimed that Boenning has an inherent conflict of interest.
 - ix) Stated that there is no basis for the determination that this transaction is fair and equitable to the policyholders.
 - x) Asserted that the company’s surplus was funded by the substantial deposits of perpetual policyholders who have been policyholders for decades.

- xi) Stated that the purposed loyalty payment (15% of the deposit) is not even close to the appropriate amount of compensation.
 - c) James Avril, a Saucon policyholder since 2005, commented that the principals of Saucon are essentially paying 20% of book value for a property and casualty company, that the conflicts of interest are irresolvable, that the company should offer policyholders an opportunity to invest in the ongoing entity, and that he himself could be convinced to buy quite a bit of stock at 20% of book value.
 - d) Charles Barber, former policyholder and president of Green Tree Perpetual Assurance Company, commented that the management of Saucon has violated its fiduciary responsibility. He also took issue with the company's failure to continue to write perpetual policies and inquired as to why the company is abandoning a product for a business plan that none of the policyholders know about. Additionally, he indicated that he is "mystified" by the valuation and the criteria that Boenning used and that policyholder's surplus should be there to create a strong company and "not to benefit the individual wealth of an insider group." He asked how many perpetual policyholders were former Green Tree policyholders.
53. At the conclusion of the public informational hearing, the Department announced that the transcript of the hearing would be posted on the Department's website along with written responses from Saucon to unanswered questions posed by the Department and public commenters during the public informational hearing. The Department announced that it would continue to accept comments for 15 days after the documents were made available on the Department's website.
54. The public information hearing was transcribed by a stenographer.
55. On September 11, 2015, the Department posted the hearing transcript on its website. The transcript of the public informational hearing is 97 pages long.
56. In addition to providing responses to the hearing commentary at the hearing itself, Saucon also filed a written response by letter dated September 11, 2015. The letter addressed the following topics:
- a) The impact of interest rates on perpetual business and Saucon's business model, the impact of the Green Tree Perpetual Insurance Company insolvency on Saucon, and the decision to place a moratorium on writing new perpetual policies.
 - b) The history of the inflation adjustment endorsement.
 - c) The fact that Saucon has not historically paid policyholder dividends.

- d) The Board's objectives in pursuing a conversion and how the Prior Proposed Plan meets each objective.
 - e) The alternatives considered by the Board before adopting the Prior Proposed Plan.
 - f) Policyholder consideration calculation.
 - g) How the stock purchasing price was determined.
 - h) The charitable contribution.
 - i) A.M. Best rating action.
 - j) Conflicts of interest of Saucon's Board and Boenning.
 - k) Policyholder/member rights.
 - l) Responses to policyholder comments.
 - m) Future plans for the company.
 - n) Timing of conversion implementation.
57. Because of technical difficulties relating to the Department's website migration, the Department extended the comment period until November 2, 2015.
58. On November 2, 2015, the Department received a comment from Steven Bloch, Esq., attorney for two Saucon policyholders. The comment notes the following:
- a) Much of Saucon's conduct falls outside the Commissioner's authority and is instead a matter for the courts.
 - b) The Alternative Plan of Conversion is not consistent with the Conversion Act because subscription rights were offered only to the Board of Directors and management.
 - c) The plan circumvents the letter and spirit of the safeguards for traditional conversions.
 - d) Materials crucial to the policyholders' ability to understand the transaction were filed "under seal" and Saucon refused to disclose these materials.
 - e) There is no valuation from Saucon, its Board of Directors or an independent expert as to the worth of Saucon or its assets, the purchase price of Saucon, or the compensation paid to policyholders.

- f) Boenning has an inherent conflict of interest in that it is serving both as financial advisor and the issuer of a fairness opinion.
 - g) The member proxy fails to disclose and/or provides misleading material information regarding the proposed conversion.
59. Saucon filed a 16-page response on November 10, 2015, noting that Saucon believes that substantially all of the comments in Bloch's letter were previously addressed at the hearing and in other documents filed by Saucon. However, Saucon reiterated the following:
- a) A plan that does not offer subscription rights is specifically authorized by the Conversion Act. Additionally, the plan meets the objectives for a conversion to a stock insurer by: (i) rewarding Saucon's members for their loyalty to Saucon; (ii) making a charitable contribution in furtherance of Saucon's ongoing commitment to the community; (iii) modernizing Saucon's governance structure; (iv) enabling the issuance of stock and other financial instruments in order to raise capital, to facilitate potential acquisitions of other businesses, and to incentivize employees; (v) preparing the Company to re-enter the insurance underwriting business; and (vi) maintaining the independence of the Company.
 - b) Historically, in subscription rights conversions and mutual holding company conversions that provided subscription rights, very few members of the mutual insurers chose to purchase stock, thereby only benefiting the "sophisticated few with the vast majority of policyholders receiving nothing." Additionally, few mutual holding company conversions have been pursued in recent years due to adverse litigation in prior mutual holding company conversions, the significant cost and timeframe for the two-step process, and the resulting policyholder confusion.
 - c) If Mr. Bloch seeks access to certain documents, he or his clients should make a right-to-know request.
 - d) The Holding Company share price was set to exceed the sum of the cash payments made by Saucon to its eligible members, the amount of the charitable contribution and the estimated costs and expenses of the Conversion transactions, with the result that, after the closing of the conversion transactions, the total assets of Holding Company (on a consolidated basis with Saucon Insurance Company) would be greater than the assets of Saucon prior to the conversion. Since mutual policyholders do not own either the company or its surplus, Saucon's policyholders would receive substantially more consideration under the Plan than they would receive if Saucon were to be liquidated.

- e) A fairness opinion is not required by the Conversion Act. Only 25% of Boenning's fee is contingent on the closing of the conversion, thereby reducing any incentive. Additionally, the fairness opinion letter contains the basic Securities Exchange Commission requirements for investment banker fairness opinions and fees do not exceed standard practice nor are they substantial.
- f) The information provided in the member information statement is accurate and allows for its members to be able to make a fully informed decision on whether to vote for or against the proposed Plan. Specifically, the member information statement contains:
 - i) The reasons why Saucon substantially stopped writing new business in 2005 including: the unique nature of perpetual insurance policies; a loss of its tax exempt status because of a tax law change in 2004; the significant increase in business as a result of the Green Tree Perpetual Insurance Company insolvency resulting in the increased cost of reinsurance; declining surplus and concerns about maintaining an A.M. Best A rating; the lack of personnel and infrastructure needed to service perpetual policies.
 - ii) Information regarding policyholder rights including voting rights, the right to dividends, and the fact that policyholders do not have the right to share in liquidation proceeds of a mutual fire insurance company incorporated in Pennsylvania.
 - iii) The rationale for not providing subscription rights to policyholders, i.e. because very few policyholders choose to purchase stock in a converting insurer or stock holding company thereby benefiting few members, there is nothing of immediate value given to the mutual insurer's members in consideration for extinguishment of their membership rights, a subscription rights offering would not be compatible with the goal of rewarding members for their loyalty.
 - iv) The reasons for converting to a stock company and benefits from the conversion.
 - v) A clear disclosure of Boenning's dual role.
 - vi) A description of how the purchase price and policyholder compensation was determined without analysis of fair market value.

Adoption and Filing of Third Amended and Restated Alternative Plan of Conversion

Background

60. After discussions with the Department over concerns with the Prior Proposed Plans, Saucon proposed to further amend the Second Amended and Restated Alternative Plan of Conversion to provide Eligible Members the right to either receive compensation or to subscribe for shares of Holding Company.
61. Section 803-A(b)(1) of the Conversion Act requires that an independent evaluation of the pro forma market value of the mutual company (“Appraisal”) be filed with the Commissioner.
62. The Department retained StoneRidge Advisors, LLC (“StoneRidge”) to prepare an Appraisal of the pro forma market value of Saucon and to provide an opinion as to the fairness, from a financial point of view, of the consideration to Eligible Members.
63. StoneRidge is an investment banking firm that is regularly engaged in performing financial analysis with respect to insurance-related businesses and their securities in connection with mergers and acquisitions, private placements as well as for corporate and other purposes.
64. On November 29, 2016, StoneRidge issued a valuation analysis concluding that a fair value range for Saucon was between \$2,400,000 and \$3,200,000.
65. On April 28, 2017, StoneRidge issued an opinion that the consideration to be received by Eligible Members, as a group, in exchange for their aggregate ownership interests, is fair, from a financial point of view, to such policyholders as a group.

Conversion

66. On March 22, 2017, the Board of Directors of Saucon unanimously adopted a Third Amended and Restated Alternative Plan of Conversion (the “Plan”).
67. On April 3, 2017, the Department received an application (which together with all material received subsequently is hereinafter collectively referenced as “Conversion Application”) from Saucon requesting approval to convert from mutual to stock form.
68. As specified in the Conversion Application, Saucon proposes to convert from mutual to stock form pursuant to Section 807-A of the Conversion Act (40 P.S. § 917-A).

Acquisition

69. The Insurance Holding Companies Act, Article XIV of the Insurance Companies Law of 1921, Act of May 17, 1921, P.L. 682, as amended, 40 P.S. §§ 991.1401 et seq. (“Insurance Holding Companies Act”), provides that all mergers or other acquisitions of control of domestic insurers must be filed with the Commissioner for approval or disapproval.
70. On April 3, 2017, the Department received an application (which together with all material received subsequently is hereinafter collectively referenced as “Acquisition Application”) from Holding Company requesting approval to purchase 100% of the issued and outstanding capital stock of Saucon and from Regan and Crofton requesting approval to each individually purchase 10% or more of the capital stock of Holding Company (the “Acquisition”).
71. Pursuant to the Third Amended and Restated Alternative Plan of Conversion, Holding Company will be acquired in a two-stage stock offering.
72. In the first stage of the stock offering (“First Stage Offering”), Eligible Members who were not serving on the Board of Directors of Saucon nor acting as the Chief Executive Officer of Saucon as of March 22, 2017 (“Non-Control Group Eligible Members”) will be offered to purchase 3,250,000 shares of Holding Company, with a par value of \$0.01 per share at a purchase price of \$1.00 per share. Each Non-Control Group Eligible Member shall have a minimum subscription of 500 shares and shall have the right to purchase as many as all of the shares of Holding Company, subject to Department approval, if such purchase exceeds 5% or more of the outstanding shares of Holding Company.
73. If the First Stage Offering results in acquisition of more than 51% of Holding Company, but less than all of the available shares of Holding Company, then the Board of Directors may abandon the Conversion.
74. If the First Stage Offering results in acquisition of 49% or less of the available shares of Holding Company, then the second stage of the stock offering (“Second Stage Offering”) will be conducted. The Second Stage Offering shall be an offering by Holding Company to members of the Board of Directors of Saucon and the Chief Executive Officer of Saucon as of March 22, 2017 (“Control Group”) to purchase any of the 3,250,000 shares of Holding Company that remain available at the end of the First Stage Offering, at a price of \$1.00 per share.
75. If no shares of Holding Company are purchased in the First Stage Offering, and as specified in the Acquisition Application, Regan and Crofton propose to purchase Holding Company stock, as follows:

	<u>Shares</u>	<u>% of Ownership</u>
Regan	2,371,000	72.95%
Crofton	650,000	20.00%

76. The Conversion Application and Acquisition Application are collectively hereinafter referenced as "Application."
77. The Application was filed with the Department pursuant to Section 803-A of the Conversion Act (40 P.S. § 913-A) and Section 1402 of the Insurance Holding Companies Act (40 P.S. § 991.1402).

Description of Proposed Mutual-to-Stock Conversion

78. As specified in the Plan, the effective date of the Conversion ("Effective Date") will be the date that the Amended Articles of Incorporation are filed with the Pennsylvania Department of State or such later date as may be specified in the amended articles.
79. As specified in the Plan, each policy in force on the Effective Date will continue in force as a policy of Saucon with all policy and contract rights under such policies remaining as they existed on the Effective Date, except that all voting rights and other membership rights afforded to policyholders as members of Saucon under the insurance policies shall be extinguished on the Effective Date.
80. As specified in the Plan, all members of Saucon as of August 27, 2014, are considered to be "Eligible Members." As of August 27, 2014, Saucon had 393 policies in force.
81. As specified in the Plan, Saucon has not issued any new policies since August 27, 2014, and will not issue any new policies until after the closing date of the Conversion.
82. Eligible Members who hold perpetual policies will be entitled to receive the following compensation ("Member Compensation"), but in each case only if the Eligible Member does not subscribe for shares of Holding Company in the Holding Company 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 Effective Date, by (ii) \$0.2787 per day, then rounding that amount to the nearest whole dollar.
 - b) Return of Deposits. A return of 15% of the Eligible Member's deposits held by Saucon, if any.
 - c) Removal of Charges for Increases in Policy Limits under Inflation Adjustment Endorsements. After the Conversion, Saucon will discontinue

its practice of requiring holders of perpetual policies with inflation adjustment endorsements from paying the additional annual deposits.

83. Eligible Members who hold non-perpetual policies will be entitled to receive the following Member Compensation, but in each case only if that Eligible Member does not subscribe for shares of Holding Company in the Holding Company Offering:
 - a) Cash Payment. An amount computed by multiplying (i) the actual number of calendar days that the non-perpetual policy had been in effect from its issuance until the Effective Date, by (ii) \$0.2787 per day, then rounding that amount to the nearest whole dollar.
 - b) Additional Payment. A one-time cash payment equal to 15% of the current premium of the non-perpetual policyholder.
84. Pursuant to the Plan, Saucon would make aggregate payments to policyholders in the amount of \$2,131,000, assuming an Effective Date of July 31, 2017.
85. As specified in the Plan, on the Effective Date, Saucon 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." The Lehigh Valley Community Foundation will make disbursements from that fund from time to time for charitable purposes in accordance with recommendations made by the Contribution Committee of Saucon's Board of Directors.
86. As specified in the Plan, Saucon shall send notice of the Eligible Members Special Meeting to vote upon the Conversion after receiving an approving determination by the Commissioner in the instant proceeding.
87. As specified in the Plan, upon receiving the affirmative vote of at least two-thirds of the votes cast by Eligible Members, Saucon may convert to the stock form by completing the required filings with the Pennsylvania Department of State.

Description of the Proposed Acquisition

88. As specified in the Application, Holding Company was organized as a Pennsylvania stock corporation for the purpose of becoming the holding company of Saucon upon conversion.
89. As specified in the Application, while the Articles of Incorporation of Holding Company have been filed with the Pennsylvania Department of State, Holding Company has not yet (and prior to the closing of the conversion will not have) issued stock, elected any directors or officers, or engaged in any business activities.

90. As specified in the Plan, concurrently with the closing of the Conversion on the Effective Date, the Articles of Incorporation for Saucon will be amended and restated in the form of the Amended Articles of Incorporation in order to bring about the Conversion and to change the name of the Converted Insurance Company to "Saucon Insurance Company."
91. As specified in the Application, upon conversion:
- a) All individuals who are then officers and directors of Saucon will remain as officers and directors of Saucon and also become the officers and directors of Holding Company; and
 - b) 1,000 shares of capital stock of Saucon, constituting all of its issued and outstanding shares of capital stock, will be purchased by Holding Company, with the result that Saucon will be a wholly-owned subsidiary of Holding Company.
92. As specified in the Application, concurrent with the Conversion, Holding Company will engage in a two-stage private offering (the "Stock Offering") to investors in accordance with a stock offering plan as summarized below:
- a) In the First Stage Offering:
 - i) Non-Control Group Eligible Members will be eligible to purchase 3,250,000 shares of Holding Company, with a par value of \$0.01 per share at a purchase price of \$1.00 per share.
 - ii) Each Non-Control Group Eligible Member shall have a minimum subscription of 500 shares and shall have the right to purchase as many as all of the shares of Holding Company subject to Department approval if such purchase exceeds 5% or more of the outstanding shares of Holding Company.
 - iii) In order to comply with Regulation D of the Securities Act of 1933, the offering will be made pursuant to Rule 506(b), as a result of which no more than 35 non-accredited investors may purchase stock. In the event that more than 35 non-accredited investors seek to purchase stock, priority will be given to the 35 largest proposed purchases.
 - b) If the First Stage Offering results in the acquisition of 49% or less of the available shares of Holding Company, then a second stage offering will be conducted. The Second Stage Offering shall be an offering by Holding Company to the individuals serving on the Board of Directors of Saucon or as the Chief Executive Officer of Saucon as of March 22, 2017 ("Control Group") to purchase any of the 3,250,000 shares of Holding

Company that remain available at the end of the First Stage Offering, at a price of \$1.00 per share. Saucon expects those investors will acquire, in the aggregate, all of the remaining Holding Company shares that will be offered.

- c) Non-Control Group Eligible Members who purchase 5% or more of the Shares of Holding Company and all Control Group members agree to enter into the Saucon Holding Shareholder Agreement.
93. The Stock Offering will be an offering of 3,250,000 shares of common stock of Holding Company, par value \$0.01 per share, at a purchase price of \$1.00 per share.
94. Holding Company will use the proceeds of the Stock Offering as follows:
- a) Holding Company will purchase the shares of Saucon for \$1,425,000.
 - b) Holding Company will reimburse Saucon for \$400,000 of the costs and expenses related to the Plan and the transactions contemplated thereby.
 - c) Holding Company will retain any balance of the proceeds as cash.
95. As specified in the Application, the closing of the Stock Offering and the issuance and sale of the Holding Company stock to the investors will occur concurrently with the other transactions contemplated by the Conversion.

Notice and Comment on Third Amended and Restated Alternative Plan of Conversion

96. On April 22, 2017, the Department published notice in the *Pennsylvania Bulletin* of receipt of the amended Application. The notice invited interested parties to submit written comments with regards to Saucon's Third Amended and Restated Alternative Plan of Conversion.
97. On April 25, 2017, the Department received a comment from Richard V. Westerman. Mr. Westerman proposed changes to the Plan. These included:
- a) All perpetual policyholders should receive the benefits proposed in the plan (length of holding, 15% premium, and no future inflation deposits);
 - b) All policyholders should be eligible to purchase stock with:
 - i) 51% allocated to the Control Persons and 49% to mutual members;
 - ii) if the 49% is oversubscribed, it should be allocated; if undersubscribed, it should be added to the Control Persons' subscription; and

- iii) for mutual members, set a mandatory minimum purchase of 5,000 shares to restrict it to serious investors and minimize bookkeeping.
98. The comment was forwarded to Saucon for response.
 99. Saucon responded to Mr. Westerman's comment by letter dated April 28, 2017. Saucon noted that the Plan of Conversion was initially filed in 2014 and since that time Saucon had engaged in numerous discussions with the Department which resulted in the best aspects of subscription right and alternative plan features being incorporated in the Plan by granting the member the option of either subscribing to stock or receiving cash consideration. With regards to how the stock offering should be structured, Saucon noted that the Department felt strongly that the policyholders have the ability, if they chose to exercise it, of purchasing 100% of the shares of Holding Company.
 100. On May 3, 2017, the Department received a second comment from Richard V. Westerman. Mr. Westerman expressed his concern over the fact that the conversion could be withdrawn if policyholders subscribed to more than 49% of the available shares of Holding Company. Additionally, Mr. Westerman noted that since policyholders had to choose between purchasing shares or obtaining conversion benefits, no "rational investor would trade these substantial benefits to purchase such a speculative stock" and therefore, the Control Group was likely to retain 100% of the shares of Holding Company.
 101. This comment was forwarded to Saucon for response.
 102. Saucon responded to Mr. Westerman's comment by letter dated May 3, 2017. Saucon noted that it believed the proposed Plan provided the best of subscription rights and alternative plan features by granting policyholders either subscription rights or conversion compensation. Additionally, Saucon noted that the Department had engaged an investment banking firm to conduct a fairness opinion and that Saucon expected an opinion on the fairness in the near future.
 103. The Department reviewed and considered, in its analysis of the Application, the comment letters as well as Saucon's response to the written comments.
 104. Notice of the August 14, 2017, closing of the public comment period was published in the *Pennsylvania Bulletin* on July 29, 2017.

Public File

105. A public file has been maintained by the Department that includes all documents filed with the Department by Saucon and Holding Company (collectively "Applicant") and their representatives, except those documents which were determined to be confidential.
106. The public file contains all comments and documents received by the Department from interested persons, responses to those comments received by the Department from the Applicant, non-confidential correspondence between the Department and the Applicant, and the transcript of the public information hearing which was conducted.
107. The public file was maintained by the Department at its Harrisburg office and has been available to any interested person for inspection and copying in accordance with rules of the Department.
108. The public file has also been made available online at:
<http://www.insurance.pa.gov/Companies/IndustryActivity/CorporateTransactions/ofPublicInterest/SauconMutualInsuranceCompanyPlanofConversionFormA/Pages/default.asp>.

Department's Approval of the Conversion – Conversion Act

109. Section 807-A of the Conversion Act (40 P.S. § 917-A) provides that a domestic mutual insurer may adopt an alternative plan of conversion if the Commissioner finds that the plan does not prejudice the interests of the policyholders, is fair and equitable, and is not inconsistent with the purpose and intent of the Conversion Act.
110. Here, the Plan does not prejudice the interests of policyholders. All policies that are in force at the time of closing will remain in full force and effect.
111. Additionally, the Plan is fair and equitable, in that it provides to all members valuable consideration for giving up their member rights in the company. Specifically, policyholders will be offered the option to either subscribe to a stock offering or to accept conversion benefits. For perpetual policyholders, conversion benefits consist of a cash payment (the amount of which is calculated using factors such as how long the policy was in effect), a return of 15% of the policyholder deposit, and an inflation adjustment endorsement without charge. For non-perpetual policyholders, conversion benefits consist of a cash payment (the amount of which is calculated using factors such as how long the policy was in effect) and an additional cash payment equal to 15% of the current premium of the policy.

112. The Plan is not inconsistent with the purpose and intent of the Conversion Act in that one of the purposes of the Act is to ensure that policyholders/members are treated fairly. Here the Plan provides the policyholders/members with the best benefits of both a subscription rights plan and conversion benefits. Thus, the Plan benefits all policyholders and provides for an additional charitable contribution to the community.
113. Furthermore, the fact that the Control Group may end up purchasing a large percentage of Holding Company's available shares does not make it *per se* inconsistent with the Conversion Act. To the contrary, the Conversion Act specifically contemplates ownership by directors or officers with approval by the Commissioner. 40 P.S. §§ 914-A(f) and (g). The Control Group will only have the right to subscribe to a stock offering after the policyholders/members have had an opportunity to purchase potentially all of the shares of Holding Company.
114. Additionally, the Conversion Act does not prohibit persons from acquiring control of the converted stock company so long as the person in control comply with the provisions of 40 P.S. § 991.1401, 40 P.S. § 926-A.
115. The Department has retained StoneRidge to perform an analysis of the transaction which concluded that the transaction is fair from a financial point of view to policyholders as a group.
116. Based on the information contained in the Application, the Commissioner finds that the Plan does not prejudice the interests of the Eligible Members, is fair and equitable, and is not inconsistent with the purpose and intent of the Conversion Act.

Department's Approval of the Acquisition – Insurance Holding Companies Act

117. Section 1402(f)(1) of the Insurance Holding Companies Act establishes the standards for approval of an application for a change in control of a domestic insurer. 40 P.S. § 991.1402(f)(1).
118. An application for a change in control must be approved unless the Department finds any one of certain enumerated conditions to be present.

Licensing Requirements

119. When analyzing an application for change in control under Section 1402 of the Insurance Holding Companies Act, the Commissioner reviews the requirements for continued licensure of the domestic insurer being acquired. 40 P.S. § 991.1402(f)(1)(i).

120. The lines of insurance for which an insurance company may be incorporated and become licensed are set out in Section 202 of the Insurance Company Law 40 P.S. § 382.
121. The minimum paid up capital and paid in surplus of a stock insurer for each line of insurance is set out in Section 206 of the Insurance Company Law. 40 P.S. § 386.
122. In accordance with Section 206 of the Insurance Company Law, Saucon is currently required to maintain a minimum net worth of \$950,000 to write the lines of insurance for which it is presently licensed.
123. As specified in the Application, Saucon will be initially capitalized with \$950,000 of paid up capital stock and \$475,000 of paid in surplus.
124. On the effective date of the Conversion, Saucon would have the statutory minimum capitalization to satisfy the requirements to write the lines of insurance for which it is presently licensed.

Competitive Impact

125. The acquisition of control of a Pennsylvania domiciled insurer is subject to review and analysis under Section 1403 of the Insurance Holding Companies Act (40 P.S. § 991.1403) to determine whether the effect of the acquisition of control of Saucon would be to substantially lessen competition in this Commonwealth or tend to create a monopoly therein.
126. The acquisition and control of Saucon will not lessen competition or tend to create a monopoly in the Commonwealth because neither Holding Company, Regan nor Crofton control any other insurance interests in the Commonwealth.

Financial Condition of Applicants

127. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act the Department reviews the financial condition of the acquiring person(s). 40 P.S. § 991.1402(f)(1)(iii).
128. The Department reviewed post-acquisition pro forma financial statements submitted by Holding Company.
129. The Department reviewed the financial statements submitted by Regan and Crofton.
130. The financial condition of Holding Company, Regan and Crofton would not pose any impediment to the change in control of Saucon or jeopardize the financial condition of Saucon.

Plans for the Acquired Insurer

131. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the plans or proposals which the acquiring party has for the insurer. 40 P.S. § 991.1402(f)(1)(iv).
132. In particular, the Department reviews the plans or proposals which the acquiring party has to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management, to determine whether it:
 - a) Is unfair or unreasonable;
 - b) Fails to confer a benefit upon policyholders; or
 - c) Is not in the public interest.
133. As stated in the Application, there are no future plans or proposals to declare an extraordinary dividend, to liquidate Saucon, to sell its assets or to merge it with any person or persons, or to make material changes to its business operations, management or corporate structure.
134. As stated in the Application, there are no proposed changes to the officers and directors of Saucon.
135. As stated in the Application, Saucon will distribute to Holding Company all of the issued and outstanding capital stock of Saucon Insurance Agency, Inc., a wholly-owned subsidiary.
136. There is no basis in the record from which it may be concluded that the proposed transaction is unfair or unreasonable or fails to confer a benefit upon policyholders or is not in the public interest.

Management

137. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the competence, experience and integrity of the persons who will control the operations of the acquired insurer. 40 P.S. § 991.1402(f)(1)(v).
138. Biographical affidavits for all directors and officers of Saucon, to include Regan and Crofton, were reviewed by the Department.

139. The Department is satisfied that the persons who would control the operations of Saucon have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.

Hazardous or Prejudicial to Insurance Buying Public

140. When analyzing an application for an acquisition of control involving a domestic insurer under Section 1402 of the Insurance Holding Companies Act, the Department evaluates whether the merger, consolidation or other acquisition of control is likely to be hazardous or prejudicial to the insurance buying public. 40 P.S. § 991.1402(f)(1)(vi).
141. There is no indication that the projected future business of the Applicant would impose a financial burden upon policyholders.
142. Likewise, there is no indication that the transaction would result in the company being in impaired financial conditions.
143. Nor is there a threat regarding the ability of policyholders to enforce their insurance contracts.
144. There is insufficient evidence in the record from which it may be concluded that the acquisition will likely be hazardous or prejudicial to the insurance buying public.

Compliance with Pennsylvania Law

145. When analyzing an application for an acquisition of control involving a domestic insurer under Section 1402 of the Insurance Holding Companies Act, the Department reviews the transaction to determine whether the merger, consolidation or other acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A. 40 P.S. § 991.1402(f)(1)(vii).
146. The Department has evaluated the transaction as set forth in the Application as to whether it is in compliance with the laws of Pennsylvania.
147. If any of the above Findings of Fact are determined to be Conclusions of Law, they shall be incorporated in the Conclusions of Law as if fully set forth therein.

CONCLUSIONS OF LAW

1. The Conversion Act provides the Commissioner jurisdiction to review and approve or disapprove Saucon's Plan of Conversion as described in the Conversion Application.
2. Section 803-A(e) of the Conversion Act provides that the Commissioner may conduct a hearing in review of a proposed plan of conversion but does not require that the Commissioner conduct a hearing.
3. The Commissioner has the discretion to choose whether or not to conduct a hearing.
4. If a hearing is held, the Conversion Act does not require the hearing to be conducted under the Administrative Agency Law, 2 Pa. C.S. §§ 501-555 utilizing the General Rules of Administrative Practices and Procedure, 1 Pa. Code, Chapters 31, 33, and 35.
5. A public information type of hearing is appropriate under the Conversion Act in the Commissioner's review of a proposed Plan of Conversion.
6. The public informational hearing held on September 1, 2015, was a proper exercise of the Commissioner's discretion under Section 803-A of the Conversion Act.
7. Section 803-A of the Conversion Act requires that the proposed Plan of Conversion, and any amendments thereto, must be approved by not less than a two-thirds majority of the board of directors of the mutual company before it is filed with the Commissioner.
8. Saucon's Plan, and all amendments to the plan, were adopted by the requisite number of directors.
9. Section 803-A of the Conversion Act requires that a mutual insurance company proposing to convert to a stock form must file a proposed plan of conversion, and any amendments thereto, with the Commissioner for approval or disapproval.
10. Saucon's filing of its Plan, and all subsequent amendments, was in accordance with the requirements of the Conversion Act.
11. In accordance with Section 807-A of the Conversion Act, the Commissioner shall approve an alternative plan of conversion if the Commissioner finds each of the following:
 - a) the plan does not prejudice the interests of the members;

- b) the plan is fair and equitable; and
 - c) the plan is not inconsistent with the purpose and intent of the Conversion Act.
12. In accordance with Section 807-A of the Conversion Act, the Commissioner concludes that the Conversion would not prejudice the interest of the members.
13. In accordance with Section 807-A of the Conversion Act, the Commissioner concludes that the provisions of the Application are fair and equitable.
14. In accordance with Section 807-A of the Conversion Act, the Commissioner concludes that the Application is not inconsistent with the purpose and intent of the Conversion Act.
15. The Insurance Holding Companies Act grants the Commissioner jurisdiction to review and approve the Acquisition.
16. Under Section 1402 of the Insurance Holding Companies Act, the Department must approve an application for a change in control unless the Department has found that:
- a) The insurer will not be able to satisfy the requirements for the issuance of a license to operate the line or lines of business for which it is presently licensed;
 - b) The change in control will substantially lessen competition in issuance in this Commonwealth or tend to create a monopoly therein;
 - c) The financial condition of the acquiring company is such as might jeopardize the financial stability of the insurer or prejudice the interest of its policyholders;
 - d) Any plans to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make material changes in its business or corporate structure or management are unfair and unreasonable and fail to confer benefit on policyholders of the insurer and not in the public interest;
 - e) The competence, experience and integrity of those persons who would control the operations of the insurer are such that it would not be in the interest of policyholders and the general public to permit the acquisition of control;
 - f) The acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A, Insurance Company Mutual-to-Stock Conversion Act.

17. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner has not found that any of the above conditions are present with respect to the change in control of Saucon.
18. The Commissioner concludes that the Application satisfied the requirements of the Conversion Act and the Insurance Holding Companies Act.
19. If any of the above Conclusions of Law are determined to be Findings of Fact, they shall be incorporated in the Findings of Fact as if fully set forth therein.

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to the Insurance Company
Application of Saucon Mutual Insurance : Mutual-to-Stock Conversion Act, Article
Company Requesting Approval of a Series : VIII-A of the Insurance Company Law of
of Transactions Allowing for the : 1921, Act of May 17, 1921, P.L. 682, as
Conversion of Saucon Mutual Insurance : amended, added 1995, Dec. 21, P.L. 714,
Company to a Stock Insurance Company, : 40 P.S. §§ 911-A et seq., as amended;
the Acquisition of Control of the : Sections 1401, 1402, and 1403 of the
Converted Company, to be renamed : Insurance Holding Companies Act, Article
Saucon Insurance Company, by Saucon : XIV of the Insurance Company Law of
Holding Company and the Acquisition of : 1921, Act of May 17, 1921, P.L. 682, as
Control of Saucon Holding Company by : amended, 40 P.S. §§ 991.1401-1403.
Brian Regan and Michael Crofton : Order No. ID-RC-17-12

ORDER

Upon consideration of the foregoing, Jessica Altman, Acting Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”), hereby makes the following Order:

1. The Application of Saucon Mutual Insurance Company (“Saucon”) requesting approval of a series of transactions allowing for the conversion of Saucon to a stock insurance company and the acquisition of control of the converted company by Saucon Holding Company (“Holding Company”) is hereby approved, subject to the following conditions:
 - a) Saucon shall, within one hundred twenty (120) days of the date of this Order, send to each member whose policy was in force as of August 27, 2014 (“Eligible Member”) the notice of the members’ meeting (“Special Meeting”) to vote on the plan of conversion (“Plan of Conversion”); the notice shall be in the form contained in the conversion application and shall include the Member Information Statement and Proxy Statement for Special Meeting of Members, a full copy of the Plan of Conversion and a full copy of this Decision and Order.
 - b) Saucon shall submit any changes or additions to the Plan of Conversion or the exhibits thereto that are made subsequent to the date of this Order to the Insurance Department (“Department”) for prior approval.

- c) Saucon shall mail the notice of Special Meeting by United States Post Office Priority Mail or first-class mail, or the equivalent thereof, postage prepaid, to the last known address of each Eligible Member, at least thirty (30) days before the date of the Special Meeting.
- d) Within two (2) business days after the first mailing of the notice of Special Meeting, Saucon shall file a full copy of the notice materials, exactly as mailed to the Eligible Members, with the Department.
- e) In order to effectuate the conversion, the Plan of Conversion of Saucon must be approved by the affirmative vote of two-thirds (2/3) of the Eligible Members who cast votes in person or by proxy at the Special Meeting, as required by Section 803-A of the Insurance Company Mutual-to-Stock Conversion Act ("Conversion Act").
- f) Within two (2) business days after the conclusion of the Special Meeting, Saucon shall provide written notice to the Department of the results of the votes cast at the Special Meeting.
- g) Within thirty (30) days of the Special Meeting, Saucon shall file with the Department the minutes of the Special Meeting and the amended and restated articles of incorporation and bylaws which were adopted by the Eligible Members of Saucon.
- h) In order to effectuate the conversion, the Eligible Members must have approved the Plan of Conversion and adopted the amended articles of incorporation, and Saucon must have filed the amended articles of incorporation as adopted with the Pennsylvania Department of State, as required by Section 808-A of the Conversion Act.
- i) Saucon shall file a copy of the amended and restated articles of incorporation, as filed with and stamped as received by the Pennsylvania Department of State, with the Insurance Department within ten (10) days of receipt from the Department of State.
- j) Following approval by the Eligible Members in accordance with the Plan of Conversion, Saucon shall effectuate the conversion as contemplated in the Plan of Conversion no later than one hundred eighty (180) days following the date of this Order, unless such time is extended by the Department.

- k) No policy of Saucon in force at the time of conversion shall be terminated by reason of the conversion. Additionally, the conversion shall not change, reduce or impair in any way the insurance obligations of Saucon under any insurance policy issued or contract entered into by Saucon.
 - l) Holding Company shall follow the procedures for the private offering (“Stock Offering”) as specified in the Plan of Conversion.
 - m) Saucon shall further consult with the Department before proceeding should the Stock Offering not be fully subscribed.
 - n) Saucon shall, within thirty (30) days of the conclusion of the Stock Offering, provide a report to the Department; such report shall indicate the total shares purchased by the Eligible Members, the officers and directors of Saucon and shall identify the percentage of shares acquired, if any, by Brian Regan and Michael Crofton.
 - o) Within five (5) days of the effective date of the conversion, Saucon shall provide to the Department a copy of all final executed documents relative to the conversion.
 - p) Saucon shall, within sixty (60) days of the effective date of conversion, send a notice to its producers, in a form acceptable to the Department, giving notice of the conversion.
 - q) Saucon shall provide a list of closing documents within five (5) days after consummation of the subject transactions and shall maintain the listed documents and make them available to the Department for a period of not less than five (5) years from the date of consummation.
2. Pursuant to the Stock Offering procedures contained in the Plan of Conversion, if Holding Company shall hold a second stage Stock Offering, the application for the acquisition of control of Holding Company by Brian Regan and Michael Crofton is hereby approved.
 3. The request from Saucon to change its name subsequent to its conversion from mutual to stock form to “Saucon Insurance Company” is hereby approved, subject to any requirements of other regulatory authorities, appropriate notice being given promptly to all relevant policyholders, certificateholders, producers and other interested persons, and the filing of the Articles of Amendment with the Pennsylvania Department of State.

4. Saucon Insurance Company will be subject to the following conditions:
- a) For three (3) years following the effective date of the conversion, Saucon Insurance Company shall be prohibited from declaring or paying any dividends, returns of capital or any other types of distributions to Holding Company, without the prior approval of the Commissioner, unless said distribution has been approved by the Department as a transaction between affiliates filed under the Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1921, P.L. 682, as amended, 40 P.S. §§ 991.1401 et. seq.
 - b) For three (3) years following the effective date of the conversion, Holding Company shall be prohibited from declaring or paying any dividends, returns of capital or any other types of distributions to its shareholders, without the prior approval of the Department.
 - c) For three (3) years following the effective date of the conversion, Saucon Insurance Company shall not voluntarily withdraw its certificate of authority to engage in the business of insurance in the Commonwealth of Pennsylvania.
 - d) For three (3) years following the effective date of the conversion, Saucon Insurance Company shall not attempt to or actually domesticate to another jurisdiction.
 - e) For a period of two (2) years after the effective date of the subject transaction, Saucon Insurance Company shall not close or cease actively doing business from the corporate office of Saucon Insurance Company, located in Bethlehem, Pennsylvania or any other office located in Pennsylvania, in each case without application to and prior written approval of the Department.
 - f) Saucon Insurance Company and Holding Company shall notify the Department within two (2) business days after the receipt of any written notice of any legal or administrative proceeding challenging or in any way relating to the conversion.
 - g) Beginning with the first full quarter after closing of the conversion; Saucon Insurance Company shall commence the filing of quarterly financial statements on the quarterly statement convention blank as adopted by the National Association of Insurance Commissioners (“NAIC”). The filings should be made with both the Department and the NAIC.

- h) Beginning with year-end December 31, 2017, Saucon Insurance Company shall annually file with the Department an opinion of an appointed actuary entitled "Statement of Actuarial Opinion". The opinion shall be prepared in accordance with the property and casualty annual statement instructions prescribed by the NAIC.

This Order is effective immediately.



Jessica Altman
Acting Insurance Commissioner
Commonwealth of Pennsylvania