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Steven L. Bloch
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November 2, 2015

Via Email and Regular Mail

Kimberly A. Rankin, Director
Bureau of Company Licensing & Financial Analysis
Pennsylvania Insurance Department
1209 Strawberry Square
Harrisburg, PA 17120

Re: Proposed Conversion of Saucon Mutual Insurance Company

Dear Ms. Rankin:

My firm, Bailey & Glasser LLP, represents policyholders Marilyn Steinleitner and Tiffany Hudock, personal representative of the Estate of William Bedics, in connection with the proposed conversion of Saucon Mutual Insurance Company ("Saucon Mutual"). You have solicited public comment, and this letter shall serve as further comment on the proposed conversion of Saucon Mutual, *i.e.*, in addition to the comments voiced at the hearing before the Commissioner on September 1, 2015.

As a threshold matter, much of the conduct engaged in by Saucon Mutual and its Board of Directors in connection with the proposed conversion falls outside the ambit of the Commissioner's authority, and the violation of legal and ethical obligations owed to policyholders is a matter for the courts. Our response to your solicitation of public comment is without prejudice and with full reservation of all rights on behalf of the Saucon Mutual policyholders to pursue all legal recourse in the appropriate forum. That being said, the Commissioner is charged with determining whether the alternative plan of conversion proposed by Saucon Mutual "does not prejudice the interests of the members, is fair and equitable and is not inconsistent with the purpose and intent of [the Pennsylvania Mutual-to-Stock Conversion Act]." 40 P.S. § 917-A. We do not believe that the alternative plan of conversion satisfies the tenets of the Conversion Act.

First, subscription rights in the converted stock company were offered only to the Board of Directors (and management), rather than, and to the exclusion of all other, Saucon Mutual policyholders. This deprives policyholders of the assets and value of the company, both presently and on a going-forward basis. Further, it appears that the proposed plan of conversion circumvents the letter and/or spirit of the safeguards for a traditional subscription rights conversion, in that there is no pro forma market valuation of the converted stock company by an independent expert (see 40 P.S. § 914-A(d)); no group of persons acting in concert is permitted to acquire a large block of the stock of the converted stock company (see 40 P.S. § 914-A(f)); and no directors or officers

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acting in concert are permitted to acquire a large block of the stock of the converted stock company (see 40 P.S. § 914-A(g)).

Second, materials that are crucial to the policyholders' ability to make an informed assessment of the proposed conversion and demutualization have been filed under seal, and Saucon Mutual has refused to disclose those materials, including, without limitation: (i) the minutes of the meetings of the Board of Director, and the presentations to or by the Board of Directors regarding the proposed conversion and alternative options contemplated and/or discussed by the Board; (ii) the pro forma balance sheets for the converted stock company, the holding company through which the members of the Board of Directors are purchasing Saucon Mutual, and Saucon Mutual's insurance agency, which has been allocated a \$0 book value in the conversion; and (iii) the amended and restated business plan for the converted stock company – including 3-year financial projections.

Third, there is no valuation or assessment from Saucon Mutual or the Board of Directors, let alone an independent expert, of: (i) the worth or value of Saucon Mutual and its assets; (ii) the purchase price being paid for Saucon Mutual; and/or (iii) the compensation being paid to policyholders for their ownership interests in Saucon Mutual under the alternative plan of conversion.

Fourth, Boenning & Scattergood, Inc. ("B&S"), which submitted the fairness opinion in support of the proposed conversion, has an inherent conflict of interest, in that it is serving as both financial adviser to Saucon Mutual and the Board of Directors in connection with the proposed conversion, and as issuer of the fairness opinion supporting the proposed conversion.

Fifth, the Member Information Statement and Proxy Statement ("Member Proxy") – as well as the supplemental written testimony and written response to public comment by Saucon Mutual – fails to disclose and/or provides misleading material information regarding the proposed conversion, including, without limitation: (i) information, documents and data on the operations and financial prospects of Saucon Mutual and the new stock company, and an explanation of why Saucon Mutual has shuttered its operations for a decade, and can only resume operations and re-enter the insurance underwriting business after the proposed conversion to a stock company that will be owned by the Board of Directors and management; (ii) the ownership interests of the policyholders in Saucon Mutual and Saucon Mutual's assets; (iii) the rationale for not providing subscription rights to policyholders under a traditional method of conversion; (iv) the reasons for converting to a stock company and who benefits from the conversion; (v) the dual and conflicted role of B&S; and (vi) the fact that the Board and Directors, without any analysis of fair or market value, established the purchase price for Saucon Mutual and the compensation being paid to policyholders in the proposed conversion and demutualization.

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We would be pleased to further discuss the foregoing issues and the proposed conversion with the Commissioner. Thank you for your consideration of this matter.

Very truly yours,



Steven L. Bloch

cc: Amy Daubert