

# *Harleysville*

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*FINANCIAL CORPORATION*

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December 22, 2021

Dear Shareholder:

You are cordially invited to attend the annual meeting of shareholders of Harleysville Financial Corporation, the holding company for Harleysville Bank. The meeting will be held at the Indian Valley Country Club, located at 650 Bergey Road, Telford, Pennsylvania 18969, on Wednesday, January 26, 2022 at 9:30 a.m., Eastern time. The matters to be considered by shareholders at the annual meeting are described in the accompanying materials.

It is very important that your shares be voted at the annual meeting regardless of the number you own or whether you are able to attend the meeting in person. We urge you to mark, sign, and date your proxy card today and return it in the envelope provided, even if you plan to attend the annual meeting. This will not prevent you from voting in person, but will ensure that your vote is counted if you are unable to attend.

Your continued support of and interest in Harleysville Financial Corporation is sincerely appreciated.

Sincerely,



*Ronald B. Geib*  
Chairman of the Board



**HARLEYSVILLE FINANCIAL CORPORATION**  
271 Main Street  
Harleysville, Pennsylvania 19438  
(215) 256-8828

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD ON JANUARY 26, 2022**

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NOTICE IS HEREBY GIVEN that the annual meeting of shareholders of Harleysville Financial Corporation (the "Company") will be held at the Indian Valley Country Club, located at 650 Bergey Road, Telford, Pennsylvania 18969, on Wednesday, January 26, 2022 at 9:30 a.m., Eastern time, for the following purposes, all of which are more completely set forth in the accompanying proxy statement:

- (1) To elect three directors for a three-year term and in each case until their successors are elected and qualified;
- (2) To consider and approve the Harleysville Financial Corporation 2021 Stock Incentive Plan;
- (3) To ratify the appointment of S.R. Snodgrass, A.C. as the Company's independent public accounting firm for the year ending September 30, 2022; and
- (4) To transact such other business as may properly come before the meeting or any adjournment thereof. Management is not aware of any other such business.

The board of directors has fixed December 7, 2021 as the voting record date for the determination of shareholders entitled to notice of and to vote at the annual meeting and at any adjournment thereof. Only those shareholders of record as of the close of business on that date will be entitled to vote at the annual meeting or at any such adjournment.

By Order of the Board of Directors



*Adrian D. Gordon*  
Senior Vice President and Corporate Secretary

Harleysville, Pennsylvania  
December 22, 2021

YOU ARE CORDIALLY INVITED TO ATTEND THE ANNUAL MEETING. IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED REGARDLESS OF THE NUMBER YOU OWN. EVEN IF YOU PLAN TO BE PRESENT, YOU ARE URGED TO COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY PROMPTLY IN THE ENVELOPE PROVIDED. IF YOU ATTEND THE MEETING, YOU MAY VOTE YOUR SHARES EITHER IN PERSON OR BY PROXY. ANY PROXY GIVEN MAY BE REVOKED BY YOU IN WRITING OR IN PERSON AT ANY TIME PRIOR TO THE EXERCISE THEREOF.



**HARLEYSVILLE FINANCIAL CORPORATION**

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**PROXY STATEMENT**

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**ANNUAL MEETING OF SHAREHOLDERS**

**JANUARY 26, 2022**

**General**

This proxy statement is furnished to holders of common stock of Harleysville Financial Corporation (the “Company”), the bank holding company for Harleysville Bank (the “Bank”). Proxies are being solicited on behalf of the board of directors of the Company to be used at the annual meeting of shareholders to be held on Wednesday, January 26, 2022 at 9:30 a.m., Eastern time, and at any adjournment thereof for the purposes set forth in the Notice of Annual Meeting of Shareholders. This proxy statement is first being mailed to shareholders on or about December 22, 2021.

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be Held on January 26, 2022.** This proxy statement and the Annual Report to Shareholders for the year ended September 30, 2021 are available on our website at [www.harleysvillebank.com](http://www.harleysvillebank.com) under the tabs “About Us – Annual Meeting.”

**Voting Rights**

Only shareholders of record at the close of business on December 7, 2021 will be entitled to notice of and to vote at the annual meeting. At such date, there were 3,709,513 shares of common stock issued and outstanding and the Company had no other class of equity securities outstanding.

Each share of common stock is entitled to one vote at the annual meeting on all matters properly presented at the meeting. The presence in person or by proxy of at least a majority of the issued and outstanding shares of common stock entitled to vote is necessary to constitute a quorum at the annual meeting. The three persons receiving the greatest number of votes will be elected as directors. The affirmative vote of a majority of the total votes cast is required for approval of the proposal to ratify the appointment of the Company’s independent public accounting firm.

Under rules applicable to broker-dealers, the proposal to ratify the independent registered public accounting firm is considered a “discretionary” item upon which brokerage firms may vote in their discretion on behalf of their clients if such clients have not furnished voting instructions. The election of directors and the proposal to approve the 2021 Stock Incentive Plan are considered “non-discretionary” for which brokerage firms may not vote in their discretion on behalf of clients who do not furnish voting instructions and, thus, there may be “broker non-votes” at the meeting. Abstentions and broker non-votes will be counted for purposes of determining the presence of a quorum at the annual meeting. However, because of the required votes, abstentions and broker non-votes will have no effect on the voting for the election of directors or the proposals to approve the 2021 Stock Incentive Plan and to ratify the appointment of the Company’s independent public accounting firm.

**Recommendation of the Board of Directors**

The board of directors of the Company recommends that shareholders vote (i) FOR the nominees for director described herein; (ii) FOR approval of the 2021 Stock Incentive Plan; and (iii) FOR the ratification of S.R. Snodgrass, A.C. as the Company’s independent public accounting firm for the year ending September 30, 2022.

**Proxies**

The proxy solicited hereby, if properly signed and returned to the Company and not revoked prior to its use, will be voted in accordance with the instructions contained therein. If no contrary instructions are given, each proxy

received will be voted (i) FOR the nominees for director described herein; (ii) FOR approval of the 2021 Stock Incentive Plan; (iii) FOR the ratification of S.R. Snodgrass, A.C. as the Company’s independent public accounting firm for the year ending September 30, 2022; and (iv) upon the transaction of such other business as may properly come before the meeting, in accordance with the best judgment of the persons appointed as proxies. Any shareholder giving a proxy has the power to revoke it at any time before it is exercised by (i) filing with the secretary of the Company written notice thereof (Adrian D. Gordon, Senior Vice President and Corporate Secretary, Harleysville Financial Corporation, 271 Main Street, Harleysville, Pennsylvania 19438); (ii) submitting a duly-executed proxy bearing a later date; or (iii) appearing at the annual meeting and voting in person. Proxies solicited hereby may be exercised only at the annual meeting and any adjournment thereof and will not be used for any other meeting.

**INFORMATION WITH RESPECT TO NOMINEES FOR DIRECTOR,  
DIRECTORS WHOSE TERMS CONTINUE AND EXECUTIVE OFFICERS**

**Election of Directors**

The articles of incorporation of the Company provide that the board of directors of the Company shall be divided into three classes which are as equal in number as possible, and that the members of each class are to be elected for a term of three years and until their successors are elected and qualified. One class of directors is to be elected annually and shareholders are not permitted to cumulate their votes for the election of directors. No nominee for director is related to any other director or executive officer of the Company by blood, marriage or adoption.

Unless otherwise directed, each proxy executed and returned by a shareholder will be voted for the election of the nominees for director listed below. If any person named as nominee should be unable or unwilling to stand for election at the time of the annual meeting, the proxies will nominate and vote for any replacement nominee or nominees recommended by the board of directors. At this time, the board of directors knows of no reason why any of the nominees listed below may not be able to serve as a director if elected.

The following tables present information concerning the nominees for director and each director whose term continues, including his or her tenure as a director of the Company.

**Nominees for Director for a Three-Year Term Expiring in 2025**

Name	Age	Principal Occupation During the Past Five Years	Director Since <sup>(1)</sup>
Sanford L. Alderfer	69	Mr. Alderfer is President of Sanford Alderfer Real Estate, located in Harleysville, Pennsylvania.	2001
Mark R. Cummins	65	Mr. Cummins is the retired Executive Vice President, Chief Investment Officer and Treasurer of Harleysville Group, Inc., an insurance company that was located in Harleysville, Pennsylvania.	1995
Ronald B. Geib	67	Mr. Geib has served as Chairman of the Board since January 2017. He served as President of the Company and the Bank from January 2007 until September 2014 and as Chief Executive Officer of the Company and the Bank from January 2007 until his retirement in March 2018. Prior thereto, Mr. Geib served as President and Chief Operating Officer of the Company and the Bank from November 2002 until January 2007. Mr. Geib also served as Executive Vice President and Chief Operating Officer of the Company and the Bank from 1999 to November 2002. Mr. Geib served as the Bank’s Senior Vice President, Treasurer, and Chief Financial Officer from 1980 to 1999. Mr. Geib joined the Bank in 1976.	2001

**The Board of Directors Recommends a Vote FOR Election of the Nominees for Director.**

## Members of the Board of Directors Continuing in Office

### Directors With Terms Expiring in 2023

Name	Age	Principal Occupation During the Past Five Years	Director Since <sup>(1)</sup>
Charlotte A. Hunsberger	52	Ms. Hunsberger is a partner in the law firm of Landis, Hunsberger, Gingrich & Weik, LLP, located in Souderton, Pennsylvania.	2005
Brendan J. McGill	53	Mr. McGill has served as the Company's President since September 2014 and as Chief Executive Officer since March 2018. He also served as Chief Operating Officer from June 2010 until April 2018. Previously, Mr. McGill served as Executive Vice President and Chief Financial Officer from May 2009 until September 2014. From February 2000 until May 2009, Mr. McGill served as the Company's Senior Vice President, Treasurer and Chief Financial Officer. Mr. McGill joined the Bank in September 1999 as Senior Vice President, Chief Financial Officer and Treasurer.	2014
Keith E. Ahart	54	Mr. Ahart is Director of Investments for Franklin Mutual Insurance Company, located in Branchville, New Jersey.	2016

### Directors With Terms Expiring in 2024

Name	Age	Principal Occupation During the Past Five Years	Director Since <sup>(1)</sup>
Thomas D. Clemens	61	Mr. Clemens is the retired President of Clemens Development and Clemens Investment, located in Hatfield, Pennsylvania.	2009
George W. Meschter	69	Mr. Meschter is the President of Meschter Insurance Group, an insurance agency located in Collegeville, Pennsylvania.	1981
James L. Rittenhouse	60	Mr. Rittenhouse is a certified public accountant, certified valuation analyst, master analyst in financial forensics and a shareholder in the firm Detweiler, Hershey & Associates, P.C., located in Souderton, Pennsylvania.	2005

(1) Includes service as a director of the Bank.

## Independence of the Company's Board of Directors

It is the policy of the board of directors of the Company that a substantial majority of its directors be independent of the Company within the meaning of laws and regulations and the listing standards of the NASDAQ Stock Market, assuming that such standards were applicable to the Company.

Our board of directors has affirmatively determined that a majority of our directors are independent. All of our current directors are independent, except for Mr. McGill, who serves as our president and chief executive officer. Our board of directors also has affirmatively determined that each member of the audit committee, compensation committee and nominating committee of the board of directors is independent within the meaning of laws and regulations and the requirements of the NASDAQ Stock Market, assuming that such standards were applicable to the Company.

## **Directors Attendance at Annual Meetings**

Although we do not have a formal policy regarding attendance by members of the board of directors at annual meetings of shareholders, we expect that our directors will attend, absent a valid reason for not doing so. All of our directors attended our last annual meeting of shareholders held in January 2021.

## **Shareholder Nominations**

Article III, Section 3.12 of the Company's bylaws governs nominations for election to the board and requires all such nominations, other than those made by the board, to be made at a meeting of shareholders called for the election of directors, and only by a shareholder who has complied with the notice provisions in that section. Shareholder nominations must be made pursuant to timely notice in writing to the secretary of the Company. To be timely, a shareholder's notice must be delivered to, or mailed and received at, the principal executive offices of the Company not later than (i) with respect to an election to be held at an annual meeting of shareholders, 90 days prior to the anniversary date of the mailing of proxy materials by the Company for the immediately preceding annual meeting, and (ii) with respect to an election to be held at a special meeting of shareholders for the election of directors, the close of business on the tenth day following the date on which notice of such meeting is first given to shareholders.

Each written notice of a shareholder nomination shall set forth: (a) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the shareholder is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (d) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission; and (e) the consent of each nominee to serve as a director of the Company if so elected. The presiding officer of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedures. The Company did not receive any nominations from shareholders for the annual meeting.

## **The Board of Directors and Its Committees**

Regular meetings of the board of directors of the Company and the Bank are typically held on a monthly basis and special meetings of the board of directors are held from time-to-time as needed. There were 12 meetings of the board of directors of the Company held during fiscal 2021. No director attended fewer than 75% of the aggregate of the total number of meetings of the board of directors and the total number of meetings of committees of the board on which the director served during the year.

The board of directors of the Company has established various committees, including Audit, Compensation and Human Resources and Corporate Governance and Nominating Committees.

The Compensation and Human Resources Committee, which met three times during fiscal 2021, reviews the Company's compensation programs and recommends salary and benefits for the Company's employees. The members of the committee are currently Messrs. Alderfer and Cummins and Ms. Hunsberger. The Compensation and Human Resources Committee operates pursuant to a written charter, a copy of which is available on the Company's website at [www.harleysvillebank.com](http://www.harleysvillebank.com).

The Corporate Governance and Nominating Committee, which met two times during fiscal 2021 with respect to nominations for directors for the annual meeting, advises the board of directors with respect to nominations of directors and recommends candidates to the board of directors as nominees for election, reviews existing corporate governance documents and establishes corporate governance principles for the Company, reviews nominations for director submitted by shareholders pursuant to the Company's bylaws and identifies and recommends to the board the selection of qualified individuals to serve as officers of the Company. The members of the Corporate Governance and Nominating Committee are currently Messrs. Clemens and Meschter and Ms. Hunsberger. Each of these persons is independent within the meaning of the rules of the NASDAQ Stock Market, assuming such rules were applicable to the Company. The Corporate Governance and Nominating Committee operates pursuant to a written charter, a copy of which is available on the Company's website at [www.harleysvillebank.com](http://www.harleysvillebank.com).

The Corporate Governance and Nominating Committee will also consider candidates for director suggested by its shareholders. A shareholder who desires to recommend a prospective nominee for director should submit in writing the name and qualifications, including place of principal residence and place of employment, of such persons to the Corporate Governance and Nominating Committee no later than July 31st of any year. Submissions shall be sent to the Corporate Governance and Nominating Committee, Harleysville Financial Corporation, Corporate Secretary, 271 Main Street, Harleysville, Pennsylvania 19438. The Corporate Governance and Nominating Committee also considers whether to nominate any person nominated pursuant to the provision of the Company's articles of incorporation relating to shareholder nominations, which is described above under "- Shareholder Nominations." The Corporate Governance and Nominating Committee has the authority and ability to retain a search firm to identify or evaluate potential nominees if it so desires.

The charter of the Corporate Governance and Nominating Committee sets forth certain criteria the committee may consider when recommending individuals for nomination as director including: (a) ensuring that the board of directors, as a whole, is diverse and consists of individuals with various and relevant career experience, relevant technical skills, industry knowledge and experience, financial expertise (including expertise that could qualify a director as a "financial expert," as that term is defined by the rules of the SEC), local or community ties and (b) minimum individual qualifications, including strength of character, mature judgment, familiarity with our business and industry, independence of thought and an ability to work collegially. The committee also may consider the extent to which the candidate would fill a present need on the board of directors.

The charter of the Corporate Governance and Nominating Committee also provides that a director should have:

- a solid understanding of general management best practices and their application;
- a history of making good business decisions;
- the ability to read a balance sheet, income statement, cash flow statement and understand the use of financial ratios and other indicators for evaluating Company performance;
- the ability and the time to perform during periods of both short-term and prolonged crises;
- an understanding of what it takes to attract, motivate and energize a high-performance leadership team;
- an understanding of the importance of the strategic planning process in creating a competitive advantage through strategy;
- a good reputation for high ethical standards and integrity in their personal and professional dealings;
- mature confidence and value board and team performance over individual performance; respects others, is open to the opinions of others, has good listening skills, is confident enough to ask tough questions, and can communicate persuasively;
- a history of high performance standards as reflected in the person's history of achievements;
- high intelligence, exhibit wisdom and will be expected to exercise prudence and care in carrying out the responsibilities of the position; and
- no existing or potential conflict of interest situation.

In addition, a director must be:

- a citizen of the United States of America and shall have his or her primary residence and place of employment within the Bank's market area;
- a person who has a reputation for being trusted with confidential information; and

- a person who will faithfully attend board meetings, committee meetings and the annual meeting of the shareholders and takes the time to prepare for meaningful discussion.

Once the Corporate Governance and Nominating Committee has identified a prospective nominee, the committee makes an initial determination as to whether to conduct a full evaluation of the candidate. This initial determination is based on whatever information is provided to the committee with the recommendation of the prospective candidate, as well as the committee's own knowledge of the prospective candidate, which may be supplemented by inquiries to the person making the recommendation or others.

The Audit Committee reviews the records and affairs of the Company to determine its financial condition, reviews with management and the Company's independent registered public accounting firm the systems of internal control, monitors the Company's adherence in accounting and financial reporting to generally accepted accounting principles, and performs such other duties deemed appropriate by the board of directors. The Audit Committee met five times in fiscal 2021. Messrs. Ahart, Cummins and Rittenhouse served on the Audit Committee in fiscal 2021. The members the Audit Committee are independent as defined in the listing standards of the NASDAQ Stock Market, assuming such rules were applicable to the Company. The Audit Committee operates pursuant to a written charter, a copy of which is available on the Company's website at [www.harleysvillebank.com](http://www.harleysvillebank.com).

Although such requirements are not applicable to the Company, the board of directors has determined that Messrs. Ahart, Cummins and Rittenhouse, members of the Audit Committee, meet the requirements adopted by the Securities and Exchange Commission for qualification as an audit committee financial expert. An audit committee financial expert is defined as a person who has the following attributes: (i) an understanding of generally accepted accounting principles and financial statements; (ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves; (iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity or accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the registrant's financial statements, or experience actively supervising one or more persons engaged in such activities; (iv) an understanding of internal controls and procedures for financial reporting; and (v) an understanding of audit committee functions.

### **Report of the Audit Committee**

The Audit Committee has reviewed and discussed the Company's audited financial statements with management. The Audit Committee has discussed with the independent public accounting firm the matters required to be discussed by the Statement on Auditing Standards ("SAS") No. 61, "Communication with Audit Committees," as amended by SAS No. 90, "Audit Committee Communications" as adopted by the Public Company Accounting Oversight Board in Rule 3200T. The Audit Committee has received the written disclosures and the letter from the independent public accounting firm required by Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees" and has discussed with the independent public accounting firm the auditor's independence.

Keith E. Ahart  
Mark R. Cummins  
James L. Rittenhouse

## Executive Officers Who Are Not Directors

The following table sets forth certain information with respect to the executive officers of the Company and the Bank who are not directors or nominees.

Name	Age	Position(s) with the Company and Principal Occupation During the Past Five Years
Stephen J. Kopenhaver	58	Mr. Kopenhaver has served as Senior Vice President and Chief Lending Officer for the Company and the Bank since December 2006. Mr. Kopenhaver was Senior Vice President/Commercial Services for the Company and the Bank from January 2006 to December 2006. Mr. Kopenhaver joined the Bank in 2006 and has over 30 years of commercial banking experience.
Adrian D. Gordon	50	Mr. Gordon has served as Senior Vice President and Chief Information Officer for the Company and the Bank since January 2006. Mr. Gordon also serves as the Corporate Secretary of the Company and the Bank. Mr. Gordon joined the Bank in 1995 serving as Loan Servicing Manager/Data Information Coordinator until 1997, as Information Systems Manager from 1997 until 1998, as Assistant Vice President from 1999 until 2000 and as Vice President from 2000 until January 2006.
Sheri Strouse	58	Ms. Strouse has served as Senior Vice President and Chief Retail Officer for the Company and the Bank since December 2009. Ms. Strouse served as Senior Vice President and Branch Administrator from June 2006 to December 2009. Ms. Strouse previously served as Vice President of the Bank from 2000 until January 2006 and has been with the Bank since 1997.
M. Shane Michalak	50	Mr. Michalak has served as the Senior Vice President and Chief Financial Officer of the Company and the Bank since September 2014. Mr. Michalak previously served as Vice President, Controller and Treasurer of the Company and the Bank until September 2014. Mr. Michalak joined the Bank in 2002.

**BENEFICIAL OWNERSHIP OF COMMON STOCK  
BY CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth the beneficial ownership of the common stock as of the record date, and certain other information with respect to (i) the Harleysville Bank 401(k) Plan; (ii) each director and nominee for director of the Company, (iii) certain named executive officers of the Company, and (iv) all directors, nominees for director and executive officers of the Company as a group.

<u>Name of Beneficial Owner or Number of Persons in Group</u>	<u>Amount and Nature of Beneficial Ownership as of December 7, 2021(1)(2)</u>	<u>Percent of Common Stock</u>
Harleysville Bank 401(k) Plan	205,962(3)	5.6%
Directors and Nominees for Director:		
Keith E. Ahart	2,000(4)	*
Sanford L. Alderfer	13,825(5)(6)	*
Thomas D. Clemens	23,200(4)	*
Mark R. Cummins	15,279(6)(7)	*
Ronald B. Geib	163,175(8)	4.4
Charlotte A. Hunsberger	12,087(6)(9)	*
Brendan J. McGill	94,882(10)	2.5
George W. Meschter	60,491(11)	1.6
James L. Rittenhouse	28,486(12)	*
Named Executive Officers:		
Stephen J. Kopenhaver	49,675(13)	1.3
M. Shane Michalak	42,187(14)	1.1
All Directors, Nominees for Director and Executive Officers as a group (13 persons)	608,306(15)	16.0

\*Less than 1% of the outstanding common stock.

- (1) Based upon records of the Company's transfer agent and information furnished by the respective individuals. Shares of common stock are deemed to be beneficially owned by a person if he or she directly or indirectly has or shares (i) voting power, which includes the power to vote or to direct the voting of the shares, or (ii) investment power, which includes the power to dispose or to direct the disposition of the shares. Unless otherwise indicated, the named beneficial owner has sole voting and dispositive power with respect to the shares.
- (2) A person is deemed to have beneficial ownership of any shares of common stock which may be acquired within 60 days of the record date pursuant to the exercise of outstanding stock options. Shares of common stock which are subject to stock options are deemed to be outstanding for the purpose of computing the percentage of outstanding common stock owned by such person or group but not deemed outstanding for the purpose of computing the percentage of common stock owned by any other person or group.
- (3) The Harleysville Bank 401(k) Plan (the "401(k) Plan") is an employee benefit plan with individual accounts for the benefit of participating employees, including an account which invests in common stock of the Company. The 401(k) Plan's assets are held in a trust, which the trustees are currently Sanford L. Alderfer, Mark R. Cummins and Charlotte A. Hunsberger (the "Plan Trustees"). The number of shares listed as beneficially owned by the 401(k) Plan represents the number of shares of common stock held by the plan and allocated to the accounts of participating employees as of December 7, 2021. In general, participating

employees have the power and authority to direct the voting of shares of common stock allocated to their account in the plan. In the event that participating employees do not instruct the Plan Trustees how to vote shares of common stock allocated to their account, the shares are generally voted by the Plan Trustees in their discretion, subject to the fiduciary duties of the Plan Trustees and applicable law.

- (4) Includes 1,000 shares which may be acquired within 60 days of the record date pursuant to the exercise of vested stock options.
- (5) Includes 11,825 shares held jointly with Mr. Alderfer's wife and 2,000 shares which may be acquired within 60 days of the record date pursuant to the exercise of vested stock options.
- (6) Does not include shares of common stock held in the 401(k) Plan, for which Messrs. Alderfer and Cummins and Ms. Hunsberger are Plan Trustees. Messrs. Alderfer and Cummins and Ms. Hunsberger disclaim beneficial ownership of the shares held in the 401(k) Plan.
- (7) Includes 12,377 shares held jointly with Mr. Cummins' wife, 902 shares owned by Mr. Cummins children and 2,000 shares which may be acquired within 60 days of the record date pursuant to the exercise of vested stock options.
- (8) Includes 7,937 shares which may be acquired within 60 days of the record date pursuant to the exercise of vested stock options.
- (9) Includes 6,531 shares held jointly with Ms. Hunsberger's husband, 431 shares held as custodian for Ms. Hunsberger's children and 1,000 shares which may be acquired within 60 days of the record date pursuant to the exercise of vested stock options.
- (10) Includes 43,160 shares held by Mr. McGill in the 401(k) Plan, 20,544 shares which may be acquired within 60 days of the record date pursuant to the exercise of vested stock options and 2,228 shares of unvested restricted stock which Mr. McGill may direct the voting of.
- (11) Includes 12,740 shares owned by Meschter Insurance Group of which Mr. Meschter is President, 7,640 shares held in a trust which Mr. Meschter is trustee and 1,737 shares held by Mr. Meschter's wife as custodian for their child and 2,000 shares which may be acquired within 60 days of the record date pursuant to the exercise of vested stock options.
- (12) Includes 1,404 shares held by Mr. Rittenhouse's children and 1,000 shares which may be acquired within 60 days of the record date pursuant to the exercise of vested stock options.
- (13) Includes 4,392 shares held by Mr. Kopenhaver in the 401(k) Plan, 13,996 shares which may be acquired within 60 days of the record date pursuant to the exercise of vested stock options and 1,411 shares of unvested restricted stock which Mr. Kopenhaver may direct the voting of.
- (14) Includes 10,695 shares held by Mr. Michalak in the 401(k) Plan and 10,340 shares which may be acquired within 60 days of the record date pursuant to the exercise of vested stock options and 1,135 shares of unvested restricted stock which Mr. Michalak's may direct the voting of.
- (15) Includes 82,555 shares subject to outstanding stock options which are exercisable within 60 days of the record date, 90,402 shares held in the 401(k) Plan and 6,896 shares of unvested restricted stock which the holder may direct the voting of for all executive officers and directors as a group.

## COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

### Executive Compensation

The following table sets forth a summary of certain information concerning the compensation awarded to or paid by the Company or its subsidiaries for services rendered in all capacities during the last two fiscal years to our principal executive officer as well as our two other highest compensated executive officers. We refer to these individuals throughout this proxy statement as the “named executive officers.”

**Summary Compensation Table**

Name and Principal Position	Fiscal Year	Salary <sup>(1)</sup>	Stock Awards <sup>(2)</sup>	Option Awards <sup>(2)</sup>	Non-Equity Incentive Plan Compensation <sup>(3)</sup>	All Other Compensation <sup>(4)</sup>	Total
Brendan J. McGill <i>President and Chief Executive Officer</i>	2021	\$376,538	\$27,907	\$9,305	\$100,376	\$64,007	\$578,133
	2020	347,340	26,334	8,799	90,046	61,938	534,457
Stephen J. Kopenhaver <i>Senior Vice President and Chief Lending Officer</i>	2021	236,264	17,393	5,799	62,982	22,164	344,602
	2020	223,044	16,852	5,617	57,823	20,407	323,410
M. Shane Michalak <i>Senior Vice President and Chief Financial Officer</i>	2021	189,615	17,393	4,715	50,547	16,962	279,232
	2020	177,288	13,420	4,469	45,961	15,955	257,093

(1) Includes amounts deferred and contributed to the 401(k) Plan by the named executive officer.

(2) Reflects the aggregate grant date value computed in accordance with FASB ASC Topic 718 during the indicated fiscal year with respect to awards of restricted stock and/or stock options, as the case may be, with respect to each of the named executive officers. On August 19, 2020, Messrs. McGill, Kopenhaver and Michalak were granted stock options to purchase 3,059, 1,957 and 1,557 shares of common stock, respectively, and 1,197, 766 and 610 shares of restricted stock, respectively. The stock options have an exercise price of \$22.00 per share and vest on August 19, 2025. The restricted stock awards vest one-third per year over three years from the date of grant. On August 17, 2021, Messrs. McGill, Kopenhaver and Michalak were granted stock options to purchase 2,139, 1,333 and 1,084 shares of common stock, respectively, and 1,075, 670 and 545 shares of restricted stock, respectively. The stock options have an exercise price of \$25.96 per share and vest on August 17, 2026. The restricted stock awards vest one-third per year over three years from the date of grant. For a discussion of the assumptions used to establish the valuation of the restricted stock awards and stock options, reference is made to Note 2 of the Notes to the Consolidated Financial Statements of the Company included in the Company’s Annual Report to Shareholders for the year ended September 30, 2021.

(3) Reflects cash bonuses paid to executive officers under the Company’s Profit Sharing Incentive Plan.

(4) In fiscal 2021, includes amounts paid by the Company to the accounts of Messrs. McGill, Kopenhaver and Michalak pursuant to the 401(k) Plan of \$27,329, \$22,164 and \$16,962, respectively. Also includes for Mr. McGill in fiscal 2021, the payment of \$32,700 in director’s fees and perquisites and other benefits in the amount of \$3,978 for the cost of the personal use of a Company-provided automobile.

### Employment Agreement

The Company and the Bank entered into an employment agreement with Mr. McGill, pursuant to which the Company and the Bank agreed to employ Mr. McGill as President and Chief Executive Officer. The agreement provides for Mr. McGill to serve as Chief Executive Officer of the Company and the Bank, at a current base salary of \$400,000. The term of the agreement is five years, which term extends automatically on March 30<sup>th</sup> of each year to continue for a five year term unless the board of directors of the Company, the Bank or Mr. McGill gives advance notice not to extend the term.

The agreement is terminable with or without cause by the Company and the Bank. Mr. McGill will have no right to compensation or other benefits pursuant to the agreement for any period after voluntary termination or

termination by the Company and the Bank for cause, retirement or death. If Mr. McGill's employment is terminated due to disability, he will be entitled to a declining percentage of his base salary for the remaining term of the agreement.

If prior to a change in control of the Company or the Bank either (i) Mr. McGill terminates his employment as a result of certain adverse actions by the Company or the Bank or (ii) the agreement is terminated by the Company and the Bank other than for cause, disability, retirement or death, then Mr. McGill will be entitled to a lump sum cash severance amount equal to his base salary for the remaining term of the agreement or, if greater, for 2.99 years, with such base salary to be discounted to present value, plus a lump sum cash payment equal to the projected cost of providing continued benefits (other than insurance benefits or benefits under retirement plans, stock compensation plans or cash compensation plans) to Mr. McGill for the lesser of the remaining term of his agreement or three years. If Mr. McGill's employment is terminated concurrently with or subsequent to a change in control of the Company or the Bank, as defined, by either (a) the Company or the Bank for other than cause, disability, retirement or death or (b) Mr. McGill as a result of certain adverse actions by the Company or the Bank, then Mr. McGill will be entitled to a cash severance amount equal to three times his annual compensation. Annual compensation is defined as the average aggregate annual compensation paid to Mr. McGill and includible in his gross income for federal income tax purposes during the five calendar years preceding the year in which the date of termination occurs, and such compensation includes among other things salary, bonuses and income related to the exercise of stock options. In addition, in any of the termination events set forth in this paragraph, Mr. McGill will also be entitled to the continuation of insurance benefits similar to those he is receiving at the time of such termination for periods specified in the agreement or until he obtains full-time employment with another employer providing similar benefits, whichever occurs first, plus a lump sum cash payment equal to the projected cost of providing continued benefits (other than insurance benefits or benefits under retirement plans, stock compensation plans or cash compensation plans) to Mr. McGill for the lesser of the remaining term of his agreement or three years.

The employment agreement provides that in the event any of the payments to be made thereunder or otherwise upon termination of employment are deemed to constitute "parachute payments" within the meaning of Section 280G of the Code, then such payments and benefits received thereunder shall be reduced by the minimum amount necessary to result in no portion of the payments and benefits being non-deductible by the Company and the Bank for federal income tax purposes. Parachute payments generally are payments equal to or greater than three times the executive's base amount, which is defined to mean the executive's average annual compensation from the employer includable in the executive's gross income during the most recent five taxable years ending before the year in which a change in control of the employer occurs. Recipients of parachute payments are subject to a 20% excise tax on the amount by which such payments exceed the base amount, in addition to regular income taxes, and payments in excess of the base amount are not deductible by the employer as compensation expense for federal income tax purposes.

### **Change in Control Agreements**

The Company and the Bank have entered into change of control agreements with Messrs. Kopenhaver, Gordon and Michalak and Ms. Strouse in order to assist the Company and the Bank in maintaining a stable and competent management base. The agreements provide for a three-year term, and subject to satisfactory performance reviews, among other things, shall extend on each anniversary date for an additional year so that the remaining term will be three years, unless either the boards of directors of the Company or the Bank or the executive provides contrary written notice to the other not less than 30 days in advance of such anniversary date. The agreements are automatically extended for an additional one year upon a change in control of the Company or the Bank, as defined. In the event that the executive's employment is terminated or other certain adverse actions are taken with respect to the executive's employment within 18 months subsequent to a change in control, the agreements provide that the executive would receive a severance payment in the amount of two times the executive's annual compensation (defined as the highest annual salary plus average bonus during the last three years), the continued participation in all group, life, health, accident and disability insurance for the lesser of 36 months or until the executive's full time employment by another employer, and a cash amount equal to the projected cost of benefits provided to the executive under certain employee benefit plans for 36 months. The total amount of payments under the agreements shall be reduced by the amount necessary to result in no portion of the payments being "parachute payments" and non-deductible to the Company pursuant to Section 280G of the Internal Revenue Code.

## 401(k) Plan

The Company maintains the Harleysville Bank 401(k) Plan, a deferred salary savings plan. All officers and employees working 1,000 hours or more in a plan year, who have attained the age of 21 and have completed 12 months of service, participate in the 401(k) Plan. Under the plan, the Company or a subsidiary contributes 6% of a participant's earnings to a participant's account. In addition, participants may defer a portion of their salary by payroll deduction. The Company or a subsidiary also makes a matching contribution of 100% of the first 3% of the participant's contribution. All contributions are invested via a plan trust. The Company's first contribution of 3% is vested immediately and the Company's next 3% contribution and the Company's matching contribution is vested after three years of service. All contributions are invested via a plan trust at the direction of the participant among several options, including several different mutual funds and a Company common stock fund. Benefit payments normally are made in connection with a participant's retirement. Under current Internal Revenue Service regulations, the amount contributed to the plan and the earnings on those contributions are not subject to Federal income tax until they are withdrawn from the plan. The amount of the contributions by the Company under the 401(k) Plan to the named executive officers in fiscal 2021 are included in the Summary Compensation Table above.

## Profit Sharing Incentive Plan

The Company maintains the Profit Sharing Incentive Plan which is designed to provide cash incentive payments to the Company's officers and employees when the Company exceeds certain performance criteria. All of the Company's employees participate in the profit sharing plan, including the named executive officers. The profit sharing plan provides that the Company will make allocations to a bonus pool provided certain performance criteria are satisfied. For fiscal 2021, the bonus pool was based upon achieving levels of basic earnings per share (the "target earnings"). Awards from the bonus pool are based on each participant's base earnings as a percentage of the total base earnings of all participants, and a weighing factor which recognizes that the Company's senior management, middle management and other employees have varying levels of responsibility for the Company's overall performance. The amounts paid to the named executive officers under the profit sharing plan for fiscal 2021 are included in the Summary Compensation Table above. The total amount of incentive payments made to all employees (125 people) who received payments pursuant to the profit sharing plan for the year ended September 30, 2021 was \$805,268.

## Directors' Compensation

Directors of the Company received an annual fee of \$19,200, plus \$1,000 for each regular board meeting attended during fiscal 2021. For each committee meeting attended during fiscal 2021, directors of the Company, with the exception of executive officers, received \$1,200 and the chairman of each committee received \$1,800.

The following table sets forth information concerning compensation paid or accrued by the Company and its subsidiaries to each member of the board of directors during the year ended September 30, 2021. Mr. McGill has been omitted from the table as his compensation is fully reported in the Summary Compensation Table above.

Name	Fees Earned or Paid in Cash <sup>(1)</sup>	Stock Awards <sup>(2)</sup>	Option Awards <sup>(2)</sup>	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
Keith E. Ahart	\$38,700	\$ --	\$4,350	\$ --	\$ --	\$43,050
Sanford L. Alderfer	36,300	--	4,350	--	--	40,650
Thomas D. Clemens	34,100	--	4,350	--	--	38,450
Mark R. Cummins	44,100	--	4,350	--	--	48,450
Ronald B. Geib	75,900	--	4,350	--	--	80,250
Charlotte A. Hunsberger	39,900	--	4,350	--	--	44,250
George W. Meschter	35,100	--	4,350	--	--	39,450
James L. Rittenhouse	41,700	--	4,350	--	--	46,050

(Footnotes on following page)

- (1) Include payment of directors' fees for service on the board of directors of the Company and the Bank. Also includes the payment of fees for attendance at meetings of the board and committees that the director serves on as well as fees for service as chairman of a board committee.
- (2) Reflects the aggregate grant date value computed in accordance with FASB ASC Topic 718 during the indicated fiscal year with respect to awards of restricted stock and/or stock options. On August 17, 2021, stock options to acquire 1,000 shares of common stock were granted to each of Messrs. Ahart, Alderfer, Clemens, Cummins and Geib, Ms. Hunsberger, Messrs. Meschter and Rittenhouse. The stock options have an exercise price of \$25.96 and vest in five years from the date of grant. For a discussion of the assumptions used to establish the valuation of the stock options and restricted stock, reference is made to Note 2 of the Notes to the Consolidated Financial Statements of the Company included in the Company's Annual Report to Shareholders for the year ended September 30, 2021. At September 30, 2021, Messrs. Ahart, Alderfer, Clemens, Cummins and Geib, Ms. Hunsberger, Messrs. Meschter and Rittenhouse held vested options to purchase 1,000, 2,000, 1,000, 2,000, 7,937, 1,000, 2,000 and 1,000 shares of common stock, respectively, and held unvested options to purchase 5,000, 4,000, 5,000, 5,000, 4,000, 5,000, 5,000 and 5,000 shares of common stock, respectively.

## PROPOSAL TO APPROVE THE 2021 STOCK INCENTIVE PLAN

### General

Our board of directors has adopted the 2021 Stock Incentive Plan which is designed to attract and retain qualified personnel in key positions, provide directors, officers and key employees with a proprietary interest in the Company as an incentive to contribute to the success of the Company and reward directors, officers and employees for outstanding performance. The plan provides for the grant of incentive stock options intended to comply with the requirements of Section 422 of the Code ("incentive stock options"), non-incentive or compensatory stock options and awards of restricted stock and restricted stock units, which may be based upon performance goals (collectively "Awards"). Awards will be available under the plan for grant to officers, key employees and directors of the Company and its subsidiaries.

### Description of the 2021 Stock Incentive Plan

*The following description of the 2021 Stock Incentive Plan is a summary of its terms and is qualified in its entirety by reference to the plan, a copy of which is attached to this proxy statement as Appendix A.*

**Administration.** The 2021 Stock Incentive Plan will be administered and interpreted by a committee of the board of directors that is comprised solely of two or more non-employee directors. The Compensation and Human Resources Committee of the board, which is currently comprised of Messrs. Alderfer and Cummins and Ms. Hunsberger, will administer the plan.

**Stock Options.** Under the 2021 Stock Incentive Plan, the board of directors or the committee will determine which officers, key employees and non-employee directors will be granted options, whether such options will be incentive or compensatory options (in the case of options granted to employees), the number of shares subject to each option, the exercise price of each option, whether such options may be exercised by delivering other shares of common stock and when such options become exercisable. The per share exercise price of a stock option shall be at least equal to the fair market value of a share of common stock on the date the option is granted. Non-employee directors are not eligible to receive incentive stock options under the plan.

All options granted to participants under the 2021 Stock Incentive Plan shall become vested and exercisable at the rate, and subject to such limitations, as specified by the board of directors or the committee at the time of grant. Notwithstanding the foregoing, no vesting shall occur on or after a participant's employment or service with the Company or a subsidiary company is terminated for any reason other than his death, disability or retirement. Unless the committee or board of directors shall specifically state otherwise at the time an option is granted, all options granted to participants shall become vested and exercisable in full on the date an optionee terminates his employment or service with the Company or a subsidiary company because of his death, disability or retirement. In addition, all stock options will become vested and exercisable in full upon a change in control of the Company, as defined in the plan.

Each stock option or portion thereof shall be exercisable at any time on or after it vests and is exercisable until the earlier of ten years after its date of grant or three months after the date on which the employee's employment or non-employee director's service is terminated, unless extended by the committee or the board of directors to a period not to exceed five years from such termination. Unless stated otherwise at the time an option is granted, (i) if an employee or non-employee director terminates his employment or service with the Company or a subsidiary company following a change in control or as a result of disability or retirement without having fully exercised his options, the optionee shall have the right to exercise such options during the remainder of the original ten year term of the option. However, failure to exercise incentive stock options within three months after the date on which the optionee's employment terminates may result in adverse tax consequences to the optionee. If an optionee dies while serving as an employee or a non-employee director or terminates employment or service as a result of disability or retirement and dies without having fully exercised his options, the optionee's executors, administrators, legatees or distributees of his estate shall have the right to exercise such options during the one-year period following his death, provided no option will be exercisable more than ten years from the date it was granted.

Stock options are generally non-transferable except by will or the laws of descent and distribution. Notwithstanding the foregoing, an optionee who holds non-qualified options may transfer such options to his or her spouse, lineal ascendants, lineal descendants, or to a duly established trust for the benefit of one or more of these individuals. Options so transferred may thereafter be transferred only to the optionee who originally received the grant or to an individual or trust to whom the optionee could have initially transferred the option. Options which are so transferred shall be exercisable by the transferee according to the same terms and conditions as applied to the optionee.

Payment for shares purchased upon the exercise of options may be made (i) in cash or by check, (ii) by delivery of a properly executed exercise notice, together with irrevocable instructions to a broker to sell a sufficient number of shares and then to properly deliver to the Company the amount of sale proceeds to pay the exercise price, all in accordance with applicable laws and regulations, (iii) at the discretion of the board or the committee, by delivering shares of common stock (including shares acquired pursuant to the exercise of an option) equal in fair market value to the purchase price of the shares to be acquired pursuant to the option, (iv) at the discretion of the board or the committee, by withholding some of the shares of common stock which are being purchased upon exercise of an option, or (v) any combination of the foregoing.

**Share Awards.** Under the 2021 Stock Incentive Plan, the board of directors or the committee are authorized to grant restricted stock awards or restricted stock units. Under a restricted stock award, the underlying shares are issued at the time the award is granted subject to a substantial risk of forfeiture due to a restriction based on continued employment or service or the occurrence of other events as determined by the board or the committee in its sole discretion and as specified in the applicable award agreement. A restricted stock unit shall mean any unit granted that is subject to a substantial risk of forfeiture due to a restriction based on continued employment or service or the occurrence of other events as determined by the board or the committee in its sole discretion, which may be settled by the delivery of one share for each restricted stock unit, all as specified in the applicable award agreement. The award of a restricted stock unit represents the mere promise of the Company to deliver a share of common stock upon removal of the applicable restriction (or such later date as may be provided in the award agreement) in accordance with and subject to the terms and conditions of the applicable award agreement.

The board or the committee shall have sole and complete authority to determine the employees and non-employee directors to whom shares of restricted stock and restricted stock units shall be granted, the number of shares of restricted stock and/or restricted stock units to be granted to each participant, the duration of the period during which, and the conditions under which, the restricted stock and restricted stock units may be forfeited to the Company, including whether the share award is contingent upon achievement of certain performance goals and the performance goals, if any, required to be met in connection with a share award.

Restricted stock awards and restricted stock units shall be subject to such restrictions as the board or the committee may impose. These restrictions may lapse separately or in combination at such times, under such circumstances, in such installments, upon the satisfaction of performance goals or otherwise, as the board or the committee determines at the time of the grant of the Award. Except as otherwise provided in the applicable award agreement, a participant shall have all of the rights of a stockholder with respect to the shares covered by the restricted stock award, and a participant shall have none of the rights of a stockholder with respect to restricted stock units until

such time as shares are paid in settlement of the restricted stock units. Unless otherwise provided in the applicable award agreement, shares covered by restricted stock awards will be entitled to any dividends paid thereon, except that if the restricted stock award is subject to performance-based vesting requirements, then any dividends on the underlying shares will be paid or distributed to the holder at such time as the underlying shares become vested and earned by the participant. Restricted stock units awarded under the plan may, at the Committee's discretion, carry with it a right to dividend equivalents. Such right entitles the holder to be credited with an amount equal to all cash dividends paid on one share of common stock while the restricted stock unit is outstanding. Dividend equivalents will be subject to forfeiture and termination to the same extent as the corresponding restricted stock units to which the dividend equivalents relate. Unless otherwise determined by the board or the committee at the time of grant, a participant to whom shares of restricted stock shall be granted shall be entitled to vote such shares while holders of restricted stock units shall not have the right to vote.

The board or the committee is authorized to grant any share award with performance-based vesting criteria on such terms and conditions as may be selected by the board or the committee. Any such share awards with performance-based vesting criteria are referred to herein as performance awards. The board or the committee shall have the complete discretion to determine the number of performance awards granted to each participant and to designate the provisions of such performance awards.

Except as otherwise determined by the board of the committee at the time of the grant of the award, upon termination of a recipient's employment or service with the Company and all subsidiary companies during the applicable restriction period or upon failure to satisfy a performance goal during the applicable restriction period, restricted stock awards or restricted stock units that are at that time subject to restrictions shall be forfeited.

Shares of restricted stock and restricted stock units may not be sold, assigned, transferred, pledged or otherwise encumbered, prior to the time such awards become vested.

**Number of Shares Covered by the 2021 Stock Incentive Plan.** A total of 300,000 shares of common stock, which is equal to approximately 8.0% of the issued and outstanding common stock, has been reserved for future issuance pursuant to the plan. No more than 75,000, or 25%, of the shares reserved under the plan may be granted as restricted stock awards or restricted stock units to all participants in the plan. In the event of a stock split, reverse stock split, subdivision, stock dividend or any other capital adjustment, the number of shares of common stock under the plan, the number of shares to which any Award relates and the exercise price per share under any option shall be adjusted to reflect such increase or decrease in the total number of shares of common stock outstanding or such capital adjustment.

**Amendment and Termination of the 2021 Stock Incentive Plan.** The board of directors may at any time terminate or amend the 2021 Stock Incentive Plan with respect to any shares of common stock as to which awards have not been granted, subject to any required stockholder approval or any stockholder approval which the board may deem to be advisable. The board of directors may not, without the consent of the holder of an award, alter or impair any award previously granted or awarded under the plan except as specifically authorized by the plan.

Unless sooner terminated, the 2021 Stock Incentive Plan shall continue in effect for a period of ten years from October 20, 2021, the date that the plan was adopted by the board of directors. Termination of the plan shall not affect any previously granted awards.

**Awards to be Granted.** The Company has not yet made any determination as to the timing or recipients of grants of Awards under the plan.

**Federal Income Tax Consequences.** Set forth below is a summary of the federal income tax consequences under the Internal Revenue Code relating to awards which may be granted under the 2021 Stock Incentive Plan.

*Incentive Stock Options.* No taxable income is recognized by the optionee upon the grant or exercise of an incentive stock option that meets the requirements of Section 422 of the Code. However, the exercise of an incentive stock option may result in alternative minimum tax liability for the optionee. If no disposition of shares issued to an optionee pursuant to the exercise of an incentive stock option is made by the optionee within two years from the date of grant or within one year after the date of exercise, then upon sale of such shares, any amount realized in excess of

the exercise price (the amount paid for the shares) will be taxed to the optionee as a long-term capital gain and any loss sustained will be a long-term capital loss, and no deduction will be allowed to the Company for federal income tax purposes.

If shares of common stock acquired upon the exercise of an incentive stock option are disposed of prior to the expiration of the two-year and one-year holding periods described above (a “disqualifying disposition”), the optionee generally will recognize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of the shares on the date of exercise (or, if less, the amount realized on an arm's length sale of such shares) over the exercise price of the underlying options, and the Company will be entitled to deduct such amount. Any gain realized from the shares in excess of the amount taxed as ordinary income will be taxed as capital gain and will not be deductible by the Company.

An incentive stock option will not be eligible for the tax treatment described above if it is exercised more than three months following termination of employment, except in certain cases where the incentive stock option is exercised after the death or disability of the optionee. If an incentive stock option is exercised at a time when it no longer qualifies for the tax treatment described above, the option is treated as a nonqualified stock option.

*Nonqualified Stock Options.* No taxable income is recognized by the optionee at the time a nonqualified stock option is granted under the plan. Generally, on the date of exercise of a nonqualified stock option, ordinary income is recognized by the optionee in an amount equal to the difference between the exercise price and the fair market value of the shares on the date of exercise, and the Company receives a tax deduction for the same amount.

Upon disposition of the shares acquired, an optionee generally recognizes the appreciation or depreciation on the shares after the date of exercise as either a short-term or long-term capital gain or loss depending on how long the shares have been held. In general, common stock issued upon exercise of a non-qualified stock option granted under the plan will be transferable and not subject to a risk of forfeiture at the time issued.

*Restricted Stock.* A recipient of restricted stock generally will be subject to tax at ordinary income rates on the excess of the fair market value of the stock (measured at the time the stock is either transferable or is no longer subject to forfeiture) over the amount, if any, paid for such stock. However, a recipient who elects under Section 83(b) of the Internal Revenue Code within 30 days of the date of issuance of the restricted stock to be taxed at the time of issuance of the restricted stock will recognize ordinary income on the date of issuance equal to the fair market value of the shares of restricted stock at that time (measured as if the shares were unrestricted and could be sold immediately), minus any amount paid for such stock. If the shares subject to such election are forfeited, the recipient will be entitled to a capital loss for tax purposes only for the amount paid for the forfeited shares, not the amount recognized as ordinary income as a result of the Section 83(b) election. The holding period to determine whether the recipient has long-term or short-term capital gain or loss upon sale of shares begins when the forfeiture period expires (or upon issuance of the shares, if the recipient elected immediate recognition of income under Section 83(b) of the Internal Revenue Code). The Company generally will be entitled to a deduction equal to the amount that is taxable as ordinary compensation income to the participant.

*Restricted Stock Units.* A participant who is awarded restricted stock units will not recognize income at the time of grant. When a participant receives payment for restricted stock units in shares of common stock or cash, the fair market value of the shares or the amount of the cash received will be ordinary income to the participant and will be allowed as a deduction for federal income tax purposes to the Company. However, if there is a substantial risk that any shares of common stock used to pay out earned restricted stock units will be forfeited (for example, because the Committee conditions such shares on the performance of future services), the taxable event is deferred until the risk of forfeiture lapses. In this case, the participant can elect to make an election under Section 83(b) of the Internal Revenue Code, as described above. The Company can take a deduction for federal income tax purposes at the time the ordinary income is recognized by the participant.

**Section 409A of the Internal Revenue Code.** The Committee will administer and interpret the 2021 Stock Incentive Plan and all Awards in a manner consistent with the intent to satisfy the requirements of Section 409A of the Internal Revenue Code to avoid any adverse tax results thereunder to a holder of an award.

*The above description of tax consequences under federal income tax law is necessarily general in nature and does not purport to be complete. Moreover, statutory provisions are subject to change, as are their interpretations, and their application may vary in individual circumstances. Finally, the consequences under applicable state and local income tax laws may not be the same as under the federal income tax laws.*

**Accounting Treatment.** U.S. generally accepted accounting principles requires the Company to recognize the cost of employee services received in share-based payment transactions, including Awards under the 2021 Stock Incentive Plan, and measure the cost on the grant-date fair value of the Award. The cost will be recognized over the period during which an employee is required to provide service in exchange for the Award, which may result in compensation expense charged against the Company's reported earnings.

**Stockholder Approval.** Stockholder ratification of the plan will satisfy certain federal tax requirements applicable to incentive stock options.

**The Board of Directors recommends that stockholders vote FOR approval of the 2021 Stock Incentive Plan.**

## **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

In accordance with applicable federal laws and regulations, the Bank offers mortgage loans to its directors, officers and employees for the financing of their primary residences as well as various business and consumer loans. These loans are generally made on substantially the same terms as those prevailing at the time for comparable transactions with non-affiliated persons. It is the belief of management that these loans neither involve more than the normal risk of collectibility nor present other unfavorable features.

Section 22(h) of the Federal Reserve Act generally provides that any credit extended by a savings institution to its executive officers, directors and, to the extent otherwise permitted, principal shareholder(s), or any related interest of the foregoing, must (i) be on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions by the savings association with non-affiliated parties; (ii) be pursuant to underwriting standards that are no less stringent than those applicable to comparable transactions with non-affiliated parties; (iii) not involve more than the normal risk of repayment or present other unfavorable features; and (iv) not exceed, in the aggregate, the institution's unimpaired capital and surplus, as defined.

The Bank offers certain loans to its directors, executive officers and employees. It is the belief of management that these loans do not involve more than the normal risk of collectibility. These loans are made on substantially the same terms as those prevailing at the time for comparable transactions with nonaffiliated persons. Directors, executive officers and employees of the Bank receive no discount from the market interest rate for loans made by the Bank. As of September 30, 2021, two of the Company's directors and executive officers, or their affiliates, had loans outstanding with a balance in excess of \$120,000, which amounted to approximately \$1.9 million in the aggregate.

## **RATIFICATION OF THE SELECTION OF THE INDEPENDENT PUBLIC ACCOUNTING FIRM**

### **General**

The Audit Committee of the board of directors of the Company has appointed S.R. Snodgrass, A.C. as the independent public accounting firm for the Company for the year ending September 30, 2021. The board of directors has directed that the selection of the accounting firm be submitted for ratification by the shareholders at the annual meeting. The Company has been advised by S.R. Snodgrass that neither the firm nor any of its associates has any relationship with the Company or its subsidiaries other than the usual relationship that exists between independent public accounting firm and clients. S.R. Snodgrass will have representatives at the annual meeting who will have an opportunity to make a statement, if they so desire, and will be available to respond to appropriate questions.

## Auditor Fees

The following table sets forth the aggregate fees paid by us to S.R Snodgrass A.C. in fiscal 2021 and 2020, respectively, for professional services in connection with the audit of the Company's consolidated financial statements, and the fees paid by us to S.R. Snodgrass for audit-related services, tax services and all other services during fiscal 2021 and 2020, respectively.

	Fiscal Year Ended September 30,	
	2021	2020
Audit fees (1) .....	\$94,000	\$106,500
Audit-related fees (2) .....	--	--
Tax fees .....	16,975	16,625
All other fees .....	--	--
Total .....	<u>\$110,975</u>	<u>\$123,125</u>

- (1) Includes professional services rendered for the audit of the Company's annual financial statements and review of financial statements included in Forms 10-Q, or services normally provided in connection with statutory and regulatory filings, including out-of-pocket expenses.
- (2) Assurance and related services reasonably related to the performance of the audit or review of financial statements, including assistance with the adoption of Accounting Standards Updates and other attest services not required by statute or regulation.

## Pre-Approval Policy and Procedures

The Audit Committee selects the Company's independent public accounting firm and pre-approves all audit services to be provided by it to the Company. The Audit Committee also reviews and pre-approves all audit-related, tax and all other services rendered by our independent registered public accounting firm in accordance with the audit committee's charter and policy on pre-approval of audit-related, tax and other services. In its review of these services and related fees and terms, the audit committee considers, among other things, the possible effect of the performance of such services on the independence of our independent public accounting firm. Pursuant to its policy, the audit committee pre-approves certain audit-related services and certain tax services which are specifically described by the Audit Committee on an annual basis and separately approves other individual engagements as necessary. The pre-approval requirements do not apply to certain services if: (i) the aggregate amount of such services provided to the Company constitutes not more than five percent of the total amount of revenues paid by the Company to its independent auditor during the year in which the services are provided; (ii) such services were not recognized by the Company at the time of the engagement to be other services; and (iii) such services are promptly brought to the attention of the committee and approved by the committee or by one or more members of the committee to whom authority to grant such approvals has been delegated by the committee prior to the completion of the audit. The Audit Committee may delegate to one or more designated members of the committee the authority to grant required pre-approvals. The decisions of any member to whom authority is delegated to pre-approve an activity shall be presented to the full committee at its next scheduled meeting.

During the fiscal year ended September 30, 2021, each new engagement of the independent public accounting firm was approved in advance by the Audit Committee.

**The Board of Directors recommends that you vote FOR the ratification of the appointment of S.R. Snodgrass A.C. as our independent public accounting firm for the year ending September 30, 2022.**

## ANNUAL REPORTS

A copy of the Company's Annual Report to Shareholders for the year ended September 30, 2021, including the audited consolidated financial statements of the Company for the years ended September 30, 2021 and 2020, accompanies this proxy statement. Such annual report is not part of the proxy solicitation materials.

## **OTHER MATTERS**

Management is not aware of any business to come before the annual meeting other than the matters described above in this proxy statement. However, if any other matters should properly come before the meeting, it is intended that the proxies solicited hereby will be voted with respect to those other matters in accordance with the judgment of the persons voting the proxies.

The cost of the solicitation of proxies will be borne by the Company. The Company will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending the proxy materials to the beneficial owners of the common stock. In addition to solicitations by mail, directors, officers and employees of the Company may solicit proxies personally or by telephone without additional compensation.

**HARLEYSVILLE FINANCIAL CORPORATION  
2021 STOCK INCENTIVE PLAN**

**ARTICLE I  
ESTABLISHMENT OF THE PLAN**

Harleysville Financial Corporation (the “Corporation”) hereby establishes this 2021 Stock Incentive Plan (the “Plan”) upon the terms and conditions hereinafter stated.

**ARTICLE II  
PURPOSE OF THE PLAN**

The purpose of this Plan is to improve the growth and profitability of the Corporation and its Subsidiary Companies by providing Employees and Non-Employee Directors with a proprietary interest in the Corporation as an incentive to contribute to the success of the Corporation and its Subsidiary Companies, and rewarding Employees and Non-Employee Directors for outstanding performance and the attainment of targeted goals. All Incentive Stock Options issued under this Plan are intended to comply with the requirements of Section 422 of the Code and the regulations thereunder, and all provisions hereunder shall be read, interpreted and applied with that purpose in mind.

**ARTICLE III  
DEFINITIONS**

- 3.01** “Award” means an Option or Share Award granted pursuant to the terms of this Plan.
- 3.02** “Award Agreement” shall mean any written agreement, contract or other instrument or document evidencing any Award.
- 3.03** “Bank” means Harleysville Bank, the wholly owned subsidiary of the Corporation.
- 3.04** “Beneficiary” means the person or persons designated by a Participant to receive any benefits payable under the Plan in the event of such Participant’s death. Such person or persons shall be designated in writing on forms provided for this purpose by the Committee and may be changed from time to time by similar written notice to the Committee. In the absence of a written designation, the Beneficiary shall be the Participant’s surviving spouse, if any, or if none, his estate.
- 3.05** “Board” means the Board of Directors of the Corporation.
- 3.06** “Change in Control” shall mean a change in the ownership of the Corporation or the Bank, a change in the effective control of the Corporation or the Bank or a change in the ownership of a substantial portion of the assets of the Corporation or the Bank, in each case as provided under Section 409A of the Code and the regulations thereunder.
- 3.07** “Code” means the Internal Revenue Code of 1986, as amended.
- 3.08** “Committee” means a committee of two or more directors appointed by the Board pursuant to Article IV hereof.
- 3.09** “Common Stock” means shares of the common stock, \$.10 par value per share, of the Corporation.
- 3.10** “Disability” means in the case of any Participant that the Participant (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can

be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Corporation or the Bank (or would have received such benefits for at least three months if he had been eligible to participate in such plan).

**3.11** “Effective Date” means the day upon which the Board adopted this Plan.

**3.12** “Employee” means any person who is employed by the Corporation or a Subsidiary Company, or is an Officer of the Corporation or a Subsidiary Company, but not including directors who are not also Officers of or otherwise employed by the Corporation or a Subsidiary Company.

**3.13** “Exchange Act” means the Securities Exchange Act of 1934, as amended.

**3.14** “Exercise Price” means the price at which a share of Common stock may be purchased by an Optionee pursuant to an Option.

**3.15** “Fair Market Value” shall be equal to the fair market value per share of the Corporation’s Common Stock on the date an Award is granted. For purposes hereof, the Fair Market Value of a share of Common Stock shall be the closing sale price of a share of Common Stock on the date in question (or, if such day is not a trading day in the U.S. markets, on the nearest preceding trading day), as reported with respect to the principal market (or the composite of the markets, if more than one) or national quotation system in which such shares are then traded, or if no such closing prices are reported, the mean between the high bid and low asked prices that day on the principal market or national quotation system then in use. Notwithstanding the foregoing, if the Common Stock is not readily tradable on an established securities market for purposes of Section 409A of the Code, then the Fair Market Value shall be determined by means of a reasonable valuation method that takes into consideration all available information material to the value of the Corporation and that otherwise satisfies the requirements applicable under Section 409A of the Code and the regulations thereunder.

**3.16** “Incentive Stock Option” means any Option granted under this Plan which the Board intends (at the time it is granted) to be an incentive stock option within the meaning of Section 422 of the Code or any successor thereto.

**3.17** “Non-Employee Director” means a member of the Board of the Corporation or Board of Directors of the Bank who is not an Officer or Employee of the Corporation or any Subsidiary Company.

**3.18** “Non-Qualified Option” means any Option granted under this Plan which is not an Incentive Stock Option.

**3.19** “Officer” means an Employee whose position in the Corporation or Subsidiary Company is that of a corporate officer, as determined by the Board.

**3.20** “Option” means a right granted under this Plan to purchase Common Stock and includes both Incentive Stock Options and Non-Qualified Options.

**3.21** “Optionee” means an Employee or Non-Employee Director or former Employee or Non-Employee Director to whom an Option is granted under the Plan.

**3.22** “Participant” shall mean any Employee or Non-Employee Director selected by the Committee to receive an Award under the Plan and shall include all Optionees and Recipients.

**3.23** “Performance Share Award” means a Share Award granted to a Recipient pursuant to Section 9.06 of the Plan.

**3.24** “Performance Goal” means an objective for the Corporation or any Subsidiary Company or any unit thereof or any Employee of the foregoing that may be established by the Committee for a Performance Award to become vested, earned or exercisable. Performance Goals shall be based on one or more of the following criteria:

- (i) net income, as adjusted for non-recurring items;
- (ii) cash earnings;
- (iii) earnings per share;
- (iv) cash earnings per share;
- (v) return on average equity;
- (vi) return on average assets;
- (vii) assets;
- (viii) stock price;
- (ix) total stockholder return;
- (x) capital;
- (xi) net interest income;
- (xii) market share;
- (xiii) cost control or efficiency ratio; and
- (xiv) asset growth.

**3.25** “QDRO” shall mean a domestic relations order meeting such requirements as the Committee shall determine, in its sole discretion.

**3.26** “Recipient” means an Employee or Non-Employee Director who receives a Plan Share Award under the Plan.

**3.27** “Restricted Stock Award” shall mean any Award of Restricted Stock granted under Article IX of the Plan.

**3.28** “Restricted Stock” shall mean any Share granted under Article IX of the Plan that is subject to a substantial risk of forfeiture due to a restriction based on continued employment or service or the occurrence of other events as determined by the Committee in its sole discretion and as specified in the applicable Award Agreement.

**3.29** “Restricted Stock Unit” shall mean any unit granted under Article IX of the Plan that is subject to a substantial risk of forfeiture due to a restriction based on continued employment or service or the occurrence of other events as determined by the Committee in its sole discretion, which may be settled by the delivery of one Share for each Restricted Stock Unit Award, a Restricted Stock Unit represents the mere promise of the Company to deliver a Share, upon removal of the applicable restriction (or such later date as may be provided in the Award Agreement) in accordance with and subject to the terms and conditions of the applicable Award Agreement, and is not intended to constitute a transfer of “property” within the meaning of Section 83 of the Code.

**3.30** “Retirement” means (a) a termination of employment which constitutes a retirement under the qualified retirement plan maintained by the Corporation or a Subsidiary Company, or, if no such plan is applicable, which would constitute retirement under the Corporation’s qualified retirement plan, if such individual were a participant in that plan, provided, however, that the provisions of this subsection (a) will not apply as long as a Participant continues to serve as a Non-Employee Director, and (b) with respect to Non-Employee Directors, a separation from service on the Board of Directors of the Corporation and any applicable Subsidiary Company or any successors thereto after reaching age 65 and having served as a member of the Board of Directors of the Corporation and/or the Bank for a period of 5 years or more.

**3.31** “Share” shall mean a share of Common Stock, or such other security of the Company as may be designated by the Committee from time to time.

**3.32** “Share Award” mean a Restricted Stock Award or Restricted Stock Unit granted pursuant to Article IX of this Plan and includes Performance Share Awards.

**3.33** “Subsidiary Companies” means those subsidiaries of the Corporation, including the Bank, which meet the definition of “subsidiary corporations” set forth in Section 424(f) of the Code, at the time of granting of the Award in question.

## ARTICLE IV ADMINISTRATION OF THE PLAN

**4.01 Duties of the Committee.** The Plan shall be administered and interpreted by the Committee, as appointed from time to time by the Board pursuant to Section 4.02. The Committee shall have the authority to adopt, amend and rescind such rules, regulations and procedures as, in its opinion, may be advisable in the administration of the Plan, including, without limitation, rules, regulations and procedures which (i) deal with satisfaction of a Participant's tax withholding obligation pursuant to Section 13.02 hereof, (ii) include arrangements to facilitate the Optionee's ability to borrow funds for payment of the exercise or purchase price of an Award, if applicable, from securities brokers and dealers, and (iii) include arrangements which provide for the payment of some or all of such exercise or purchase price by delivery of previously-owned shares of Common Stock or other property and/or by withholding some of the shares of Common Stock which are being acquired. The interpretation and construction by the Committee of any provisions of the Plan, any rule, regulation or procedure adopted by it pursuant thereto or of any Award shall be final and binding in the absence of action by the Board.

**4.02 Appointment and Operation of the Committee.** The members of the Committee shall be appointed by, and will serve at the pleasure of, the Board. The Board from time to time may remove members from, or add members to, the Committee, provided the Committee shall continue to consist of two or more members of the Board, each of whom shall be a Non-Employee Director, as defined in Rule 16b-3(b)(3)(i) of the Exchange Act or any successor thereto. The Committee shall act by vote or written consent of a majority of its members. Subject to the express provisions and limitations of the Plan, the Committee may adopt such rules, regulations and procedures as it deems appropriate for the conduct of its affairs. It may appoint one of its members to be chairman and any person, whether or not a member, to be its secretary or agent. The Committee shall report its actions and decisions to the Board at appropriate times but in no event less than one time per calendar year.

**4.03 Revocation for Misconduct.** The Board or the Committee may by resolution immediately revoke, rescind and terminate any Award, or portion thereof, to the extent an Option has not yet been exercised or a Share Award has not yet vested, previously granted or awarded under this Plan to an Employee who is discharged from the employ of the Corporation or a Subsidiary Company for cause, which, for purposes hereof, shall mean termination because of the Employee's personal dishonesty, incompetence, willful misconduct, breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule, or regulation (other than traffic violations or similar offenses) or final cease-and-desist order. Awards granted to a Non-Employee Director who is removed for cause pursuant to the Corporation's Articles of Incorporation and Bylaws or the Bank's Charter and Bylaws shall terminate as of the effective date of such removal.

**4.04 Limitation on Liability.** Neither the members of the Board nor any member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan, any rule, regulation or procedure adopted by it pursuant thereto or any Awards granted under it. If a member of the Board or the Committee is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of anything done or not done by him in such capacity under or with respect to the Plan, the Corporation shall, subject to the requirements of applicable laws and regulations, indemnify such member against all liabilities and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in the best interests of the Corporation and its Subsidiary Companies and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

**4.05 Compliance with Laws and Regulations.** All Awards granted hereunder shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required. The Corporation shall not be required to issue or deliver any certificates for shares of Common Stock prior to the completion of any registration or qualification of or obtaining of consents or approvals with respect to such shares under any federal or state law or any rule or regulation of any government body, which the Corporation shall, in its sole discretion, determine to be necessary or advisable. Moreover, no Option may be exercised if such exercise would be contrary to applicable laws and regulations.

**4.06 Restrictions on Transfer.** The Corporation may place a legend upon any certificate representing shares acquired pursuant to an Award granted hereunder noting that the transfer of such shares may be restricted by applicable laws and regulations.

**4.07 No Deferral of Compensation Under Section 409A of the Code.** All Awards granted under the Plan are designed to not constitute a deferral of compensation for purposes of Section 409A of the Code to the extent provided by Section 409A of the Code. Notwithstanding any other provision in this Plan to the contrary, all of the terms and conditions of any Option granted under this Plan shall be designed to satisfy the exemption for stock options set forth in the regulations issued under Section 409A of the Code. Both this Plan and the terms of all Options granted hereunder shall be interpreted in a manner that requires compliance with all of the requirements of the exemption for stock options set forth in the regulations issued under Section 409A of the Code. No Optionee shall be permitted to defer the recognition of income beyond the exercise date of a Non-Qualified Option or beyond the date that the Common Stock received upon the exercise of an Incentive Stock Option is sold, and no Recipient shall be permitted to defer the recognition of income beyond the date that a Share Award or Performance Share Award shall be deemed earned pursuant to Article IX of this Plan.

## **ARTICLE V ELIGIBILITY**

Awards may be granted to such Employees and Non-Employee Directors of the Corporation and its Subsidiary Companies as may be designated from time to time by the Board or the Committee. Awards may not be granted to individuals who are not Employees or Non-Employee Directors of either the Corporation or its Subsidiary Companies. Non-Employee Directors shall not be eligible to receive Incentive Stock Options under the Plan.

## **ARTICLE VI COMMON STOCK COVERED BY THE PLAN**

**6.01 Number of Shares.** The aggregate number of shares of Common Stock which may be issued pursuant to this Plan, subject to adjustment as provided in Article X, shall be 300,000. None of such shares shall be the subject of more than one Award at any time, but if an Award as to any shares is surrendered before exercise of an Option or vesting of an Award, or expires or terminates for any reason without having been exercised in full (or, with respect to Share Awards, fully vested), or for any other reason ceases to be exercisable, the number of shares covered thereby shall again become available for grant under the Plan as if no Awards had been previously granted with respect to such shares. Shares withheld from an Award or delivered by a Participant to satisfy minimum tax withholding requirements or to pay the exercise price of Options will not be available for future grants of Awards under the Plan.

**6.02 Source of Shares.** The shares of Common Stock issued under the Plan may be authorized but unissued shares, treasury shares or shares purchased by the Corporation on the open market or from private sources for use under the Plan.

## **ARTICLE VII DETERMINATION OF AWARDS, NUMBER OF SHARES, ETC.**

**7.01 Determination of Awards.** The Board or the Committee shall, in its discretion, determine from time to time which Employees and Non-Employee Directors will be granted Awards under the Plan, the number of shares of Common Stock subject to each Award, whether each Option will be an Incentive Stock Option or a Non-Qualified Stock Option, the Exercise Price of an Option and whether a Share Award will be a Performance Share Award. In making all such determinations there shall be taken into account the duties, responsibilities and performance of each Optionee, his present and potential contributions to the growth and success of the Corporation, his salary or other compensation and such other factors deemed relevant to accomplishing the purposes of the Plan.

**7.02 Limitation on Share Awards.** Notwithstanding anything contained in this Plan to the contrary, the maximum number of shares of Common Stock to which Share Awards may be issued under this Plan shall be 75,000, or 25% of the total number of shares available for issuance under this Plan. None of such shares shall be the subject of more than one Award at any time, but if a Share Award as to any shares is surrendered before vested, or expires or terminates for any reason without vesting in full, the number of shares covered thereby shall again become available for grant under the Plan as if no Awards had been previously granted with respect to such shares.

**7.03 Maximum Awards to any Person.** Notwithstanding anything contained in this Plan to the contrary, the maximum number of shares of Common Stock to which Awards may be granted to any individual in any calendar year shall be 50,000.

## **ARTICLE VIII OPTIONS**

Each Option granted hereunder shall be on the following terms and conditions:

**8.01 Stock Option Agreement.** The proper Officers on behalf of the Corporation and each Optionee shall execute a Stock Option Agreement which shall set forth the total number of shares of Common Stock to which it pertains, the exercise price, whether it is a Non-Qualified Option or an Incentive Stock Option, and such other terms, conditions, restrictions and privileges as the Board or the Committee in each instance shall deem appropriate, provided they are not inconsistent with the terms, conditions and provisions of this Plan. Each Optionee shall receive a copy of his executed Stock Option Agreement. Any Option granted with the intention that it will be an Incentive Stock Option but which fails to satisfy a requirement for Incentive Stock Options shall continue to be valid and shall be treated as a Non-Qualified Option.

### **8.02 Option Exercise Price.**

(a) **Incentive Stock Options.** The per share price at which the subject Common Stock may be purchased upon exercise of an Incentive Stock Option shall be no less than one hundred percent (100%) of the Fair Market Value of a share of Common Stock at the time such Incentive Stock Option is granted, except as provided in Section 8.09(b).

(b) **Non-Qualified Options.** The per share price at which the subject Common Stock may be purchased upon exercise of a Non-Qualified Option shall be established by the Committee at the time of grant, but in no event shall be less than one hundred percent (100%) of the Fair Market Value of a share of Common Stock at the time such Non-Qualified Option is granted.

### **8.03 Vesting and Exercise of Options.**

(a) **General Rules.** Incentive Stock Options and Non-Qualified Options shall become vested and exercisable at the rate, to the extent and subject to such limitations as may be specified by the Board or the Committee. Notwithstanding the foregoing, no vesting shall occur on or after an Employee's employment or service as a Non-Employee Director with the Corporation and all Subsidiary Companies is terminated for any reason other than his death, Disability, Retirement or a Change in Control. In determining the number of shares of Common Stock with respect to which Options are vested and/or exercisable, fractional shares will be rounded up to the nearest whole number if the fraction is 0.5 or higher, and down if it is less.

(b) **Accelerated Vesting.** Unless the Committee or Board shall specifically state otherwise at the time an Option is granted, all Options granted under this Plan shall become vested and exercisable in full on the date an Optionee terminates his employment with the Corporation or a Subsidiary Company or service as a Non-Employee Director because of his death, Disability or Retirement. In addition, all outstanding Options shall become immediately vested and exercisable in full as of the effective date of a Change in Control.

### **8.04 Duration of Options.**

(a) **General Rule.** Except as provided in Sections 8.04(b) and 8.09, each Option or portion

thereof shall be exercisable at any time on or after it vests and remain exercisable until the earlier of (i) ten (10) years after its date of grant or (ii) three (3) months after the date on which the Employee or Non-Employee Director ceases to be employed by or serve the Corporation and all Subsidiary Companies, or any successor thereto, unless the Board or the Committee in its discretion decides at the time of grant to extend such period of exercise upon termination of employment or service to a period not exceeding five (5) years.

**(b) Exceptions.** Unless the Board or the Committee shall specifically state otherwise at the time an Option is granted, if an Employee or Non-Employee Director terminates his employment or service with the Corporation or a Subsidiary Company following a Change in Control, or as a result of Disability or Retirement without having fully exercised his Options, the Optionee shall have the right to exercise such Options during the remainder of the original ten (10) year term (or five (5) year term for Options subject to Section 8.09(b) hereof) of the Option from the date of grant.

If an Optionee dies while in the employ or service of the Corporation or a Subsidiary Company or terminates employment or service with the Corporation or a Subsidiary Company as a result of Disability or Retirement and dies without having fully exercised his Options, the executors, administrators, legatees or distributees of his estate shall have the right, during the one (1) year period following his death, to exercise such Options.

In no event, however, shall any Option be exercisable more than ten (10) years (or five (5) years for Options subject to Section 8.09(b) hereof) from the date it was granted.

**8.05 Nonassignability.** Options shall not be transferable by an Optionee except by will or the laws of descent or distribution, and during an Optionee's lifetime shall be exercisable only by such Optionee or the Optionee's guardian or legal representative; provided, however, Options may be transferred pursuant to a QDRO. Notwithstanding the foregoing, or any other provision of this Plan, an Optionee who holds Non-Qualified Options may transfer such Options to his or her spouse, lineal ascendants, lineal descendants, or to a duly established trust for the benefit of one or more of these individuals. Options so transferred may thereafter be transferred only to the Optionee who originally received the grant or to an individual or trust to whom the Optionee could have initially transferred the Option pursuant to this Section 8.05. Options which are transferred pursuant to this Section 8.05 shall be exercisable by the transferee according to the same terms and conditions as applied to the Optionee.

**8.06 Manner of Exercise.** Options may be exercised in part or in whole and at one time or from time to time. The procedures for exercise shall be set forth in the written Stock Option Agreement provided for in Section 8.01 above.

**8.07 Payment for Shares.** Payment in full of the purchase price for shares of Common Stock purchased pursuant to the exercise of any Option shall be made to the Corporation upon exercise of the Option. All shares sold under the Plan shall be fully paid and nonassessable. Payment for shares may be made by the Optionee (i) in cash or by check, (ii) by delivery of a properly executed exercise notice, together with irrevocable instructions to a broker to sell a sufficient number of shares and then to properly deliver to the Corporation the amount of sale proceeds to pay the exercise price, all in accordance with applicable laws and regulations, (iii) at the discretion of the Board or the Committee, by delivering shares of Common Stock (including shares acquired pursuant to the exercise of an Option) equal in Fair Market Value to the purchase price of the shares to be acquired pursuant to the Option, (iv) at the discretion of the Board or the Committee, by withholding some of the shares of Common Stock which are being purchased upon exercise of an Option, or (v) any combination of the foregoing. With respect to subclause (iii) hereof, the shares of Common Stock delivered to pay the purchase price must have either been (x) purchased in open market transactions or (y) issued by the Corporation or pursuant to a plan thereof, in each case more than six months prior to the exercise date of the Option.

**8.08 Voting and Dividend Rights.** No Optionee shall have any voting or dividend rights or other rights of a stockholder in respect of any shares of Common Stock covered by an Option prior to the time that his name is recorded on the Corporation's stockholder ledger as the holder of record of such shares acquired pursuant to an exercise of an Option.

**8.09 Additional Terms Applicable to Incentive Stock Options.** All Options issued under the Plan as Incentive Stock Options will be subject, in addition to the terms detailed in Sections 8.01 to 8.08 above, to those contained in this Section 8.09.

(a) **Amount Limitation.** Notwithstanding any contrary provisions contained elsewhere in this Plan and as long as required by Section 422 of the Code, the aggregate Fair Market Value, determined as of the time an Incentive Stock Option is granted, of the Common Stock with respect to which Incentive Stock Options under this Plan (as well as stock options that satisfy the requirements of Section 422 of the Code under any other stock option plan or plans maintained by the Corporation or any parent or Subsidiary Company) are exercisable for the first time by the Optionee during any calendar year shall not exceed \$100,000.

(b) **Limitation on Ten Percent Stockholders.** The price at which shares of Common Stock may be purchased upon exercise of an Incentive Stock Option granted to an individual who, at the time such Incentive Stock Option is granted, owns, directly or indirectly, more than ten percent (10%) of the total combined voting power of all classes of stock issued to stockholders of the Corporation or any Subsidiary Company, shall be no less than one hundred and ten percent (110%) of the Fair Market Value of a share of the Common Stock of the Corporation at the time of grant, and such Incentive Stock Option shall by its terms not be exercisable after the earlier of the date determined under Section 8.04 or the expiration of five (5) years from the date such Incentive Stock Option is granted.

(c) **Notice of Disposition; Withholding; Escrow.** An Optionee shall immediately notify the Corporation in writing of any sale, transfer, assignment or other disposition (or action constituting a disqualifying disposition within the meaning of Section 421 of the Code) of any shares of Common Stock acquired through exercise of an Incentive Stock Option, within two (2) years after the grant of such Incentive Stock Option or within one (1) year after the acquisition of such shares, setting forth the date and manner of disposition, the number of shares disposed of and the price at which such shares were disposed of. The Corporation shall be entitled to withhold from any compensation or other payments then or thereafter due to the Optionee such amounts as may be necessary to satisfy any withholding requirements of federal or state law or regulation and, further, to collect from the Optionee any additional amounts which may be required for such purpose. The Committee may, in its discretion, require shares of Common Stock acquired by an Optionee upon exercise of an Incentive Stock Option to be held in an escrow arrangement for the purpose of enabling compliance with the provisions of this Section 8.09(c).

## ARTICLE IX SHARE AWARDS

**9.01 Grants.** Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Employees and Non-Employee Directors to whom Restricted Stock Awards and Restricted Stock Units shall be granted, the number of Shares of Restricted Stock and/or the number of Restricted Stock Units to be granted to each Participant, the duration of the period during which, and the conditions under which, the Restricted Stock and Restricted Stock Units may be forfeited to the Corporation, and the other terms and conditions of such Awards. As promptly as practicable after the granting of a Share Award pursuant to the terms hereof, the Board or the Committee shall prepare an Award Agreement evidencing the grant of the Share Award, the number of shares covered by the Share Award, whether the Share Award is a Restricted Stock Award or Restricted Stock Unit, whether the Share Award is a Performance Share Award and the terms upon which the shares subject to the Share Award shall be distributed to the Recipient.

### **9.02 Earning Plan Shares; Forfeitures.**

(a) **General Rules.** Subject to the terms hereof, Share Awards granted hereunder shall be earned at the rate and to the extent as may be specified by the Committee at the date of grant thereof. If the employment or service of a Recipient is terminated before the Share Award has been completely earned for any reason (except as specifically provided in subsections (b) and (c) below), the Recipient shall forfeit the right to any shares subject to the Share Award which have not theretofore been earned. In the event of a forfeiture of the right to any shares subject to a Share Award, such forfeited shares shall become available for grant pursuant to this Plan as if no Share Award had been previously granted with respect to such shares. No fractional shares shall be distributed pursuant to this Plan.

(b) **Exception for Termination Due to Death or Disability.** Notwithstanding the general rule contained in Section 9.02(a), all shares subject to a Share Award held by a Recipient whose employment or service with the Corporation or any Subsidiary Company terminates due to death or Disability shall be deemed fully earned as of the Recipient's last day of employment or service with the Corporation or any Subsidiary Company and shall be distributed as soon as practicable thereafter.

(c) **Exception for a Change in Control.** Notwithstanding the general rule contained in Section 9.02(a), all shares subject to a Share Award held by a Recipient shall be deemed to be fully earned as of the effective date of a Change in Control.

### **9.03 Voting and Dividend Rights.**

(a) The holder of a Restricted Stock Award under the Plan shall have the same voting, dividend and other rights as the Corporation's other shareholders, except as otherwise stated in the Award Agreement; provided, however, that any dividends as to the portion of a Restricted Stock Award that is subject to performance-based vesting requirements will be subject to forfeiture and termination (or repayment, as applicable) to the same extent as the corresponding portion of the Restricted Stock Award to which such dividends relate.

(b) The holders of Restricted Stock Units shall have no voting rights. Prior to settlement or forfeiture, any Restricted Stock Unit awarded under the Plan may, at the Committee's discretion, carry with it a right to dividend equivalents. Such right entitles the holder to be credited with an amount equal to all cash dividends paid on one Share while the Restricted Stock Unit is outstanding. Dividend equivalents as to Restricted Stock Units will be subject to forfeiture and termination to the same extent as the corresponding Restricted Stock Units to which the dividend equivalents relate.

### **9.04 Distribution of Plan Shares.**

(a) **Timing of Distributions: General Rule.** Subject to the provisions of Section 9.06 hereof, shares shall be distributed to the Recipient or his Beneficiary, as the case may be, as soon as practicable after they have been earned.

(b) **Form of Distributions.** All shares shall be distributed in the form of Common Stock. One share of Common Stock shall be given for each share earned and distributable.

(c) **Restrictions on Selling of Plan Shares.** Share Awards may not be sold, assigned, pledged or otherwise disposed of prior to the time that they are earned and distributed pursuant to the terms of this Plan. Upon distribution, the Board or the Committee may require the Recipient or his Beneficiary, as the case may be, to agree not to sell or otherwise dispose of his distributed shares except in accordance with all then applicable federal and state securities laws, and the Board or the Committee may cause a legend to be placed on the stock certificate(s) representing the distributed shares in order to restrict the transfer of the distributed shares for such period of time or under such circumstances as the Board or the Committee, upon the advice of counsel, may deem appropriate.

**9.05 Rights of Recipients.** Unless provided elsewhere in the Plan or Award Agreement, a Recipient who receives a Share Award payable in Common Stock shall have no rights as a stockholder until the Common Stock is issued pursuant to the terms of the Award Agreement.

### **9.06 Performance Awards**

(a) **Designation of Performance Share Awards.** The Committee may determine to make any Share Award a Performance Share Award by making such Share Award contingent upon the achievement of a Performance Goal or any combination of Performance Goals. Each Performance Share Award shall be evidenced by a written agreement ("Award Agreement"), which shall set forth the Performance Goals applicable to the Performance Share Award, the maximum amounts payable and such other terms and conditions as are applicable to the Performance Share Award.

**(b) Timing of Grants.** Any Performance Share Award shall be made not later than 90 days after the start of the period for which the Performance Share Award relates and shall be made prior to the completion of 25% of such period. All determinations regarding the achievement of any Performance Goals will be made by the Committee. The Committee may not increase during a year the amount of a Performance Share Award that would otherwise be payable upon achievement of the Performance Goals but may reduce or eliminate the payments as provided for in the Award Agreement.

**(c) Performance Goals.** Performance Goals may be specified in absolute terms, in percentages, or in terms of growth from period to period or growth rates over time, as well as measured relative to the performance of a group of comparator companies, or a published or special index, or a stock market index, that the Committee deems appropriate. Any member of a comparator group or an index that disappears during a measurement period shall be disregarded for the entire measurement period. Performance Goals need not be based upon an increase or positive result under a business criterion and could include, for example, the maintenance of the status quo or the limitation of economic losses (measured, in each case, by reference to a specific business criterion).

**(d) Modification of Awards.** If the Board or the Committee determines that a change in the business, operations, corporate structure or capital structure of the Corporation or the manner in which the Corporation or a Subsidiary Company conducts its business, or other events or circumstances render Performance Goals to be unsuitable, the Committee may modify such Performance Goals in whole or in part, as the Board or the Committee deems appropriate. If a Participant is promoted, demoted or transferred to a different business unit or function during a performance period, the Committee may determine that the Performance Goals or Performance Period are no longer appropriate and may adjust, change or eliminate the Performance Goals or the applicable Performance Period as it deems appropriate to make such goals and period comparable to the initial goals and period.

**(e) Vesting of Performance Awards.** Each Performance Award shall be earned, vested and payable (as applicable) only upon the achievement of Performance Goals established by the Committee based upon one or more of the criteria set forth in Section 3.24 above, together with the satisfaction of any other conditions, such as continued employment or service, as the Committee may determine to be appropriate; provided, however, that the Board or the Committee may provide, either in connection with the grant thereof or by amendment thereafter, that achievement of such performance goals will be waived (with the Performance Award deemed earned), in whole or in part or will be deemed to have been satisfied at a specific level, that the performance period shall be shortened, and/or that the payment under the Performance Award shall be pro-rated to reflect the reduced performance period, upon (i) the termination of employment or service of a Participant by reason of death or Disability, or (ii) the occurrence of a Change in Control.

**(f) Inclusions and Exclusions from Performance Criteria.** The Board or the Committee may provide in any Performance Award, at the time the Performance Goals are established, that any evaluation of performance shall exclude or otherwise objectively adjust for any of the following events that occurs during a performance period: (a) asset write-downs or impairment charges; (b) litigation or claim judgments or settlements; (c) the effect of changes in tax laws, accounting principles or other laws or provisions affecting reported results; (d) accruals for reorganization and restructuring programs; (e) extraordinary nonrecurring items, including any such items described in the Corporation's annual report to stockholders for the applicable year; and (f) acquisitions or divestitures.

**(g) Restrictions on Grants.** Nothing contained in the Plan will be deemed in any way to limit or restrict the Committee from making any Award or payment to any person under any other plan, arrangement or understanding, whether now existing or hereafter in effect.

**(h) Distribution.** No Performance Share Award or portion thereof that is subject to the attainment or satisfaction of a condition of a Performance Goal shall be distributed or considered to be earned or vested until the Committee certifies in writing that the conditions or Performance Goal to which the distribution, earning or vesting of such Award is subject have been achieved.

**9.07 Nontransferable.** Share Awards and Performance Share Awards and rights to shares shall not be transferable by a Recipient, and during the lifetime of the Recipient, shares which are the subject of Share Awards

may only be earned by and paid to a Recipient who was notified in writing of a Share Award by the Committee pursuant to Section 9.01. No Recipient or Beneficiary shall have any right in or claim to any assets of the Plan nor shall the Corporation or any Subsidiary Company be subject to any claim for benefits hereunder.

## **ARTICLE X ADJUSTMENTS FOR CAPITAL CHANGES**

**10.01 General Adjustments.** The aggregate number of shares of Common Stock available for issuance under this Plan, the number of shares to which any outstanding Award relates, any maximum number of shares as to which Share Awards relate, the maximum number of shares that can be covered by Awards granted to a person in any calendar year, and the exercise price per share of Common Stock under any outstanding Option shall be proportionately adjusted for any increase or decrease in the total number of outstanding shares of Common Stock issued subsequent to the Effective Date of this Plan resulting from a split, subdivision or consolidation of shares or any other capital adjustment, the payment of a stock dividend, or other increase or decrease in such shares effected without receipt or payment of consideration by the Corporation.

**10.02 Adjustments for Mergers and Other Corporate Transactions.** If, upon a merger, consolidation, reorganization, liquidation, recapitalization or the like of the Corporation, the shares of the Corporation's Common Stock shall be exchanged for other securities of the Corporation or of another corporation, each Award shall be converted, subject to the conditions herein stated, into the right to purchase or acquire such number of shares of Common Stock or amount of other securities of the Corporation or such other corporation as were exchangeable for the number of shares of Common Stock of the Corporation which such Participants would have been entitled to purchase or acquire except for such action, and appropriate adjustments shall be made to the per share exercise price of outstanding Options, provided that in each case the number of shares or other securities subject to the substituted or assumed stock option and the exercise price thereof shall be determined in a manner that satisfies the requirements of Treasury Regulation §1.424-1 and the regulations issued under Section 409A of the Code so that the substituted or assumed option is not deemed to be a modification of the outstanding Options. Notwithstanding any provision to the contrary herein, the term of any Option granted hereunder and the property which the Optionee shall receive upon the exercise or termination thereof shall be subject to and be governed by the provisions regarding the treatment of any such Options set forth in a definitive agreement with respect to any of the aforementioned transactions entered into by the Corporation to the extent any such Option remains outstanding and unexercised upon consummation of the transactions contemplated by such definitive agreement.

## **ARTICLE XI AMENDMENT AND TERMINATION OF THE PLAN**

The Board may, by resolution, at any time terminate or amend the Plan with respect to any shares of Common Stock as to which Awards have not been granted, subject to any required stockholder approval or any stockholder approval which the Board may deem to be advisable for any reason, such as for the purpose of obtaining or retaining any statutory or regulatory benefits under tax, securities or other laws or satisfying any applicable stock exchange listing requirements. The Board may not, without the consent of the holder of an Award, alter or impair any Award previously granted or awarded under this Plan except as specifically authorized herein or in the applicable Award Agreement.

## **ARTICLE XII EMPLOYMENT AND SERVICE RIGHTS**

Neither the Plan nor the grant of any Awards hereunder nor any action taken by the Committee or the Board in connection with the Plan shall create any right on the part of any Employee or Non-Employee Director to continue in such capacity.

## **ARTICLE XIII WITHHOLDING**

**13.01 Tax Withholding.** The Corporation may withhold from any cash payment made under this Plan sufficient amounts to cover any applicable withholding and employment taxes, and if the amount of such cash payment

is insufficient, the Corporation may require the Participant to pay to the Corporation the amount required to be withheld as a condition to delivering the shares acquired pursuant to an Award. The Corporation also may withhold or collect amounts with respect to a disqualifying disposition of shares of Common Stock acquired pursuant to exercise of an Incentive Stock Option, as provided in Section 8.09(c).

**13.02 Methods of Tax Withholding.** The Board or the Committee is authorized to adopt rules, regulations or procedures which provide for the satisfaction of a Participant's tax withholding obligation by the retention of shares of Common Stock to which the Employee would otherwise be entitled pursuant to an Award and/or by the Participant's delivery of previously-owned shares of Common Stock or other property.

#### **ARTICLE XIV EFFECTIVE DATE OF THE PLAN; TERM**

**14.01 Effective Date of the Plan.** This Plan shall become effective on the Effective Date, and Awards may be granted hereunder no earlier than the date that this Plan is approved by stockholders of the Corporation and prior to the termination of the Plan, provided that this Plan is approved by stockholders of the Corporation pursuant to Article XV hereof.

**14.02 Term of the Plan.** Unless sooner terminated, this Plan shall remain in effect for a period of ten (10) years ending on the tenth anniversary of the Effective Date. Termination of the Plan shall not affect any Awards previously granted and such Awards shall remain valid and in effect until they have been fully exercised or earned, are surrendered or by their terms expire or are forfeited.

#### **ARTICLE XV STOCKHOLDER APPROVAL**

The Corporation shall submit this Plan to stockholders for approval at a meeting of stockholders of the Corporation held within twelve (12) months following the Effective Date, in order to meet the requirements of Section 422 of the Code and the regulations thereunder.

#### **ARTICLE XVI MISCELLANEOUS**

**16.01 Governing Law.** To the extent not governed by federal law, this Plan shall be construed under the laws of the Commonwealth of Pennsylvania.

**16.02 Pronouns.** Wherever appropriate, the masculine pronoun shall include the feminine pronoun, and the singular shall include the plural.

