

0031



Constance B. Foster  
Phone: (717) 238-7560  
Fax: (717) 257-7582  
cfoster@saul.com  
www.saul.com

January 24, 2012

RECEIVED  
Corporate & Financial Regulation

JAN 24 2012

Pennsylvania  
Insurance Department

Mr. Robert E. Brackbill  
Chief, Company Licensing Division  
Pennsylvania Insurance Department  
1345 Strawberry Square  
Harrisburg, PA 17120

**Re: Nationwide Mutual Insurance Company's Form A Application for the Acquisition and Control of or Merger with Harleysville Mutual Insurance Company, Harleysville Life Insurance Company, Harleysville Pennland Insurance Company, Harleysville Insurance Company of New York, Harleysville Preferred Insurance Company, Harleysville Worcester Insurance Company and Harleysville Insurance Company**

Dear Mr. Brackbill:

The purpose of this letter is to apprise you of some revisions and updates to the Nationwide Form A filing previously submitted to the Insurance Department on November 10, 2011 (the "Form A Filing"). The updates are as follows:

- Exhibit 4 – Attached please find a revised Exhibit 4 listing the Directors and Executive Officers of the Applicant. This revised exhibit replaces the original list, which inadvertently included individuals who are not considered Executive Officers of the Applicant.
- The fairness opinion provided by Merrill Lynch, Pierce, Fenner & Smith Incorporated as referenced in Items 4B and 6 of the Form A Filing opined to Applicant's Board of Directors that the Mergers are fair, from a financial point of view, to the Nationwide Mutual policyholders taken as a group (and not to all policyholders of the Nationwide group of companies as indicated in the original filing).
- As noted in Item 5, Future Plans of the Insurer, the management team of the Domestic Insurers immediately prior to the effective time of the Mergers will remain the same. The Applicant would like to note, in addition, that Nationwide

01

Mr. Robert E. Brackbill

January 24, 2012

Page 2

0031

will evaluate whether to add any additional executive officers to the slate of officers of the Harleysville insurance subsidiaries.

- Item 5 further discusses an advisory group that will be created to receive information and updates with respect to the integration of the Domestic Insurers into Applicant's organization. Please note that certain, not all, directors of Harleysville Mutual and HGI, will participate in the Group, and that the term of the Group and each Group member's membership will be two years from the effective time of the Mergers, not one year as suggested previously.

Finally, as referenced in the Form A Filing, please find attached the following documents to supplement the filing: Exhibit 27, Form of Change in Control Agreement Amendment; Exhibit 28, Form of Senior Leadership Team Retention Agreement; and Exhibit 29, Form of Retention Agreement.

If you have any questions regarding the foregoing, please contact me at 717-238-7560 or at [cfoster@saul.com](mailto:cfoster@saul.com).

Sincerely yours,



Constance B. Foster

Enclosures

Cc: Denise L. Skingle, Nationwide Mutual Insurance Company  
Robert A. Kauffman, Harleysville Mutual Insurance Company

NATIONWIDE MUTUAL INSURANCE COMPANY	
Lewis J. Alphin	Director
W. Kim Austen	President and Chief Operating Officer-Allied
James B. Bachmann	Director
A.I. Bell	Director
Timothy J. Corcoran	Director
Yvonne M. Curl	Director
Kenneth D. Davis	Director
Keith W. Eckel	Director and Chairman of the Board
Fred C. Finney	Director
Patricia R. Hatler	Executive Vice President and Chief Legal and Governance Officer
Terri Hill	Executive Vice President-Administration
Lawrence A. Hilsheimer	President and Chief Operating Officer-Nationwide Direct and Customer Solutions
Matthew Jauchius	Executive Vice President-Chief Marketing & Strategy Officer
Michael C. Keller	Executive Vice President-Chief Information Officer
Danie T. Kelley	Director
Gale V. King	Executive Vice President-Chief Administrative Officer
M. Diane Koken	Director
Lydia M. Marshall	Director
Terry W. McClure	Director
Michael D. Miller	Executive Vice President
Barry J. Nalebuff	Director
Mark A. Pizzi	President and Chief Operating Officer-Nationwide Insurance
Brent R. Porteus	Director
Stephen S. Rasmussen	Chief Executive Officer and Director
Mark R. Thresher	Executive Vice President-Chief Financial Officer
Kirt A. Walker	President and Chief Operating Officer-Nationwide Financial
Jeffery W. Zellers	Director

**AMENDMENT TO  
CHANGE IN CONTROL EMPLOYMENT AGREEMENT**

This Amendment, dated as of \_\_\_\_\_, 2012, amends the Change in Control Employment Agreement dated \_\_\_\_\_, 20\_\_ by and between Harleysville Group Inc. (the "Employer"), and \_\_\_\_\_ (the "Employee") (such agreement, the "CIC Agreement"). This Amendment shall be deemed effective as the "Closing Date" as defined in the Agreement and Plan of Merger, dated as of September 28, 2011, by and among Nationwide Mutual Insurance Company, Harleysville Mutual Insurance Company, Nationals Sub, Inc., and Harleysville Group Inc, as such agreement may be amended from time to time.

**WITNESSETH:**

WHEREAS, the Employer is a party to the CIC Agreement by and between the Employer and Employee.

**[WHEREAS, the Employer and Employee have entered into a Retention Bonus Agreement dated \_\_\_\_\_]**

**OR**

**[WHEREAS, the Employer and Employee have entered into a Settlement Agreement dated \_\_\_\_\_]**

WHEREAS, the Employer desires to terminate the CIC Agreement and liquidate all payments and benefits provided thereunder.

NOW, THEREFORE, the CIC Agreement is hereby irrevocably terminated as of the Closing Date and all payments and benefits provided thereunder shall be paid **[in accordance with Section 2 of the Retention Bonus Agreement][within 30 days following the Closing Date][in accordance with the Settlement Agreement].**

Harleysville Group, Inc.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Acknowledgment:

\_\_\_\_\_  
Employee

## RETENTION BONUS AGREEMENT

This Retention Bonus Agreement (the "Agreement") is designed to encourage NAME OF EXECUTIVE (the "Employee") to remain employed with Harleysville Group Inc., a Delaware corporation (the "Company"), through the Retention Period by paying the Employee the Retention Bonus and CIC Payment as provided herein, provided that certain conditions are met.

1. Retention Period.

The "Retention Period" shall mean the period commencing on the "Closing Date," as defined in the Agreement and Plan of Merger, dated as of September 28, 2011, by and among Nationwide Mutual Insurance Company ("Nationwide"), Harleysville Mutual Insurance Company, Nationals Sub, Inc., and the Company, as such agreement may be amended from time to time, and ending on the first OR second anniversary of the Closing Date ("the Anniversary of the Closing Date").

2. Retention Bonus; Liquidation of Change-in-Control Payment; Long-Term Incentive Program.

- (a) The Employee is eligible for the "Retention Bonus" in the amount set forth below, if the Employee: (A) remains in full-time employment of the Company throughout the Retention Period, (B) satisfies the defined Performance Objectives, and (C) otherwise satisfies the provisions of this Agreement.

The amount of the Retention Bonus shall be equal to:

(x) one OR two times \$BASE SALARY; plus

(y) one OR two times the sum of the short-term incentive award(s), if any, actually paid to the Employee attributable to the portion of the performance period(s) that occur(s) during the Retention Period.<sup>1</sup>; plus

(z) one OR two times the sum of any outstanding short-term incentive award(s) eligible to be paid to the Employee attributable to the portion of the performance period(s) that occur(s) during the Retention Period but that have not been paid as of the end of the Retention Period.<sup>2</sup>

<sup>1</sup> This sum shall be prorated based on the portion of the performance period(s) occurring during the Retention Period.

<sup>2</sup> This sum shall be prorated based on the portion of the performance period(s) occurring during the Retention Period and, will be determined based on forecasting the applicable performance goals through the end of the Retention Period unless actual performance results are known at the time the Retention Bonus is calculated (in which case the actual results will be applied to the target award).

Subject to the Employee's continued employment with the Company on the Anniversary of the Closing Date and such other terms as set forth in this Agreement, the Retention Bonus shall be paid as a gross lump sum, minus applicable tax withholding, on or around (but not later than 60 days following) the Anniversary of the Closing Date. However, if the Company terminates the Employee's employment other than for Cause, or the Employee's employment is terminated due to death or Disability, in each case prior to the end of the Retention Period, the Retention Bonus shall be paid on the 60<sup>th</sup> day following the date of termination, with the short-term incentive award(s) amount prorated and determined based on actual and/or, if applicable, forecasting the performance goals through the date of termination. Notwithstanding anything herein to the contrary, any obligation of the Company to pay the Retention Bonus in the case of the Company's termination of the Employee's employment other than for Cause prior to the end of the Retention Period is conditioned upon the Employee first delivering to the Company an executed release in the form customarily used by the Company for similarly situated employees (the "Release") within 55 days of the date of termination, and the Employee not revoking such Release (with such Release becoming effective prior to the 60<sup>th</sup> day following the date of termination). The current version of the Company's standard release is attached hereto as Exhibit A to this Agreement.

(b) The Change in Control Agreement between the Employee and the Company dated DATE ("CIC Agreement") is hereby amended as follows, contingent upon the occurrence of, and effective upon, the Closing Date:

- (i) The phrase "or (c) by you other than for Good Reason," is replaced with the phrase "or (c) by you for any reason" in the introductory paragraph of Section 3.
- (ii) The phrase "for Good Reason, as such terms are defined in Subsections 3(d) and 3(c), respectively" in Section 3(b) is replaced with the phrase "as such term is defined in Subsection 3(d)."
- (iii) Section 3(c) is deleted and replaced with the following "Resignation. You may terminate your employment at any time, for any reason."
- (iv) The phrase "other than for Good Reason" is deleted from Section 4(b).
- (v) The phrase "if you shall terminate your employment for Good Reason" in Section 4(c) is replaced with the phrase "if your employment ceases due to your death or Disability."
- (vi) The third sentence in Section 5(a) is deleted.

(c) Regardless of whether the Employee executes this Agreement, the Company will take irrevocable action to cause the CIC Agreement to be terminated, and to cause all amounts deferred thereunder to be liquidated and paid by: (i) December

31, 2012, if the Closing Date occurs on or before June 1, 2012; or (ii) the first anniversary of the Closing Date, if the Closing Date occurs after June 1, 2012 (the applicable date, the "Payment Date"). The Company covenants that it will cause such termination and distribution to be conducted in accordance with the terms of this Agreement and any additional requirements of Treas. Reg. § 1.409A-3(j)(4)(ix)(B), including the requirement that all deferrals that are treated as deferred under a single plan under Treas. Reg. § 1.409A-1(c)(2) with respect to each participant that experienced the change in control event will be timely terminated and liquidated. The parties agree that no rights arising under this Agreement (other than rights under this Section 2(c)) constitute a single plan together with the CIC Agreement for this purpose. In connection with such termination, the Employee's rights will be as follows:

- (i) If the Employee remains in service with the Company, Nationwide or any of their respective affiliates immediately prior to the applicable Payment Date, the Employee will be paid, on the applicable Payment Date, \$AMOUNT in a cash lump sum, (the "CIC Payment"), which the Employee agrees is the total amount potentially payable under the CIC Agreement.<sup>3</sup>
- (ii) If the Employee's service has ceased prior to the applicable Payment Date under circumstances entitling him or her to payment under the CIC Agreement (as amended by this Agreement), the Employee will be paid, on the applicable Payment Date, a cash lump sum equal to all of his or her remaining entitlements under the CIC Agreement, which lump sum the parties agree will be equal to the CIC Payment, less any payment previously made to the Employee under the CIC Agreement.
- (iii) If the Employee's service has ceased prior to the applicable Payment Date under circumstances not entitling the Employee to payment under the CIC Agreement (as amended by this Agreement), the Employee will not be due any amount in connection with such termination.

For the avoidance of doubt, if Employee executes this Agreement, it is the parties' intent that the Employee shall not have the right to receive severance payments under the CIC Agreement upon a resignation of his or her employment for Good Reason on or following the Closing Date.

- (d) From and after the Closing Date, the Employee will participate in Nationwide's long-term incentive compensation award program (the "Incentive Program") in which similarly situated employees of Nationwide participate. In the event that the Company terminates the Employee's employment other than for Cause or the Employee retires (as determined pursuant to the Incentive Program) prior to the

<sup>3</sup> This number to represent amounts (payments and benefits) that would be due to Employee under the CIC Agreement as if Employee had terminated employment for "Good Reason" following a Change in Control (as defined in the CIC Agreement). These amounts will be consistent with the amounts set forth in the summary of the CIC Retention and Compensation Package.

end of a performance period under the Incentive Program, any target award under the Incentive Program for that performance period shall be paid to the Employee at the same time as awards under the Incentive Program are paid to similarly situated Nationwide employees whose employment is not terminated, and such target awards shall be pro-rated based on the number of days during the performance period that the Employee was employed by the Company and is subject to organizational performance determined at the end of the applicable performance period.

- (e) "Cause", "Disability" and "Good Reason" are each defined in the same manner as contained in the CIC Agreement.

3. Additional Terms.

- (a) The Employee agrees and acknowledges that this Agreement is not a contract of employment and that the Employee remains an at-will employee at all times.
- (b) To be eligible for the Retention Bonus set forth in Section 2(a), (i) the Company (through actions of the Company's President and Nationwide's CEO (or his designee) shall establish Performance Objectives for the Employee; and (ii) the Employee must achieve such Performance Objectives at a satisfactory level as determined by the Company's President (or his designee) and Nationwide's CEO (or his designee) at the end of the Retention Period (or such earlier time as contemplated in Section 2(a)). The "Performance Objectives" will be consistent with the responsibilities and location of the position the Employee will have with the Company as of and after the Closing Date. Satisfactory performance is defined as at least a "solid" level under Company's performance management system or some other equivalent level under a different performance management system as may be applicable, which shall be determined in the Company's sole discretion.
- (c) Nothing in this Agreement will affect the Employee's vested rights in, or accrued amounts owed to the Employee by any benefits programs in which the Employee may participate, to the extent the Employee has such vested rights or accrued amounts owed. Payments under this Agreement will not be credited as earnings within the definition of benefits "covered" compensation.
- (d) Payment of the Retention Bonus and the CIC Payment under this Agreement, as applicable, are subject to applicable withholding for employee-paid taxes, FICA, Medicare, and any other legally required or employee authorized deductions.
- (e) In the event that any payments made to the Employee under this Agreement or otherwise (the "Payments") are subject to the excise tax (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), then the Company shall pay the Employee an additional amount ("Gross Up") such that the net amount retained by the Employee after deduction of any Excise Tax on the Payments and any Federal, State and local income taxes

and Excise Tax upon the payments provided for by this Section 3(e) shall be equal to the total value of the Payments at the time such payments are to be made. For the avoidance of doubt, this Section 3(e) shall not provide the Employee any additional amounts in respect of Federal, State, and local income taxes payable by the Employee on amounts payable to the Employee under any other section of this Agreement or any other provision of the Code. For purposes of determining the amount of the Gross Up, the Employee shall be deemed to pay Federal, State and local income taxes at the highest marginal rate of taxation in the calendar year in which the Payment is to be made. State and local income taxes shall be determined based upon the state and locality of the Employee's domicile on the date such Payment is made. The determination of whether such Excise Tax is payable, the amount thereof, and the Gross Up shall be based upon the opinion of tax counsel selected by the Company and acceptable to the Employee. The Gross Up will be paid on the date the Excise Tax is required to be remitted to the IRS. If such opinion of tax counsel is not finally accepted by the IRS upon audit, then appropriate adjustments shall be computed (without interest but with Gross Up, if applicable) by such tax counsel based upon the final amount of the Excise Tax so determined, with any adjustment paid by the appropriate party in one lump cash sum within 30 days of such computation. Notwithstanding anything to the contrary in this Section 3(e), if the Payments would be subject to the Excise Tax (or any similar federal or state excise tax), but would not be so subject if the total of such Payments would be reduced by 10% or less, then such Payments shall be reduced by the minimum amount necessary so as not to cause the Company to have paid an Excess Parachute Payment as defined in Section 280G(b)(1) of the Code and so the Employee will not be subject to Excise Tax pursuant to Section 4999 of the Code. The calculation of any potential reduction pursuant to this paragraph or any disputes related thereto shall be made as described above with respect to the calculation of the Gross Up. In the event that the amount of any Payments that would be payable to or for the benefit of the Employee under this Agreement must be modified or reduced to comply with this provision, any such modification or reduction shall be made in the following order, to the extent necessary: (i) any future payments to which Treas. Reg. §1.280G-1 Q&A 24(c) does not apply (if necessary, to zero); and then (ii) any current payments to which Treas. Reg. §1.280G-1 Q&A 24(c) does not apply (if necessary, to zero); and then (iii) payments to which Treas. Reg. §1.280G-1 Q&A 24(c) applies (a "24(c) Payment") shall be reduced in the order of the ratio of such 24(c) Payment's value for purposes of Section 280G of the Code to the actual economic value of such 24(c) Payment (highest to lowest). Any necessary reduction in subcategory (i) above shall first be applied to the latest scheduled payment in such subcategory and shall continue to the extent necessary until the most current payment is reduced or eliminated. In no event shall the total Payments be reduced by more than 10% in order to avoid treatment as an Excess Parachute Payment. This Section 3(e) shall become effective upon the second business day following the Closing Date.

- (f) The Company shall pay all legal fees and expenses incurred by the Employee as a result of this Agreement (including all such fees and expenses, if any, incurred in contesting or disputing any termination or in seeking to obtain or enforce any right or benefit provided by this Agreement or in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Code to any payment or benefit). Reimbursement of such legal fees and expenses shall be made on a regular and periodic basis by the Company upon the Employee's presentation to the Company of a statement of such fees and expenses prepared by the Employee's counsel under standard and customary methods; provided, however, that any such payments shall be made by the end of the year following the year in which such fees and expenses incurred. This Section 3(f) shall become effective upon the second business day following the Closing Date.
- (g) This Agreement is intended to comply with Section 409A of the Internal Revenue Code ("Section 409A") or an exemption thereunder and shall be construed and administered in accordance with Section 409A. Any payments to be made under this Agreement upon a termination of employment shall only be made upon a "separation from service" under Section 409A. Notwithstanding the foregoing, other than as specifically set forth in Section 2(c) above, the Company makes no representations that the payments provided under this Agreement comply with Section 409A and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Employee on account of non-compliance with Section 409A provided however that, subject to the Employee's compliance with the last sentence of this Section 2(g), the Company shall be liable for any such taxes, penalties, interest or other expenses that are incurred by the Employee under Section 409A that are due to the Company's failure to perform the covenants set forth on Section 2(c). Any liability of the Company in accordance with the foregoing is conditioned upon: (i) the Employee's cooperation with the Company in the Company's performance of the covenants set forth in Section 2(c), (ii) the Employee giving written notice to the Company within 15 business day following any audit, notice or examination of the Employee's federal tax returns raising the application of Section 409A, and (iii) the Employee permitting the Company to engage counsel to contest the application of Section 409A and control that aspect of any resulting audit or proceedings to resolve the issue.

4. Nonsolicitation; Confidentiality.

- (a) Acknowledgements and Agreements. The Employee hereby acknowledges and agrees that in the performance of the Employee's duties to the Company during the Retention Period, the Employee will be brought into frequent contact with existing and potential customers of the Company. The Employee also agrees that trade secrets and confidential information of the Company, more fully described in Subsection 4(f)(i), gained by the Employee during the Employee's association with the Company, have been developed by the Company through substantial expenditures of time, effort, and money and constitute valuable and unique

property of the Company. The Employee further understands and agrees that the foregoing makes it necessary for the protection of the Company's business that the Employee be bound to certain contractual obligations protective of that business for a reasonable period thereafter, as further provided in the following Subsections.

(b) For the purposes of this Agreement, the phrase "Company's business" means the sale and distribution of commercial and personal lines property and casualty insurance policies and related products and services.

(c) Company. For the purposes of this Section 4, the Company shall include any and all direct and indirect subsidiary, parent, affiliated, or related companies of the Company for which the Employee worked or had responsibility at the time of termination of his employment and at any time during the two-year period prior to such termination. The Employee agrees that this Agreement will inure to the benefit of, and be enforceable by, the Company and its successors and assigns, including but not limited to the entities which result from the Merger referred to in Section 1 of this Agreement.

(c) Covenants.

(i) Covenants During Employment. While employed by the Company, the Employee will not compete with the Company anywhere in the world. In accordance with this restriction, but without limiting its terms, while employed by the Company, the Employee will not:

(A) enter into or engage in any business which competes with the Company's business;

(B) solicit customers, business, patronage or orders for, or sell, any products or services in competition with, or for any business that competes with, the Company's business;

(C) divert, entice, or otherwise take away any customers, business, patronage, or orders of the Company or attempt to do so; or

(D) promote or assist, financially or otherwise, any person, firm, association, partnership, corporation, or other entity engaged in any business which competes with the Company's business.

(ii) Non-Solicitation Covenants Following Termination. For a period of two years following the termination of the Employee's employment, the Employee will not:

(A) directly or indirectly (including by providing assistance (financially or otherwise) to any other person, firm, association, partnership, corporation or other entity) divert, entice, or solicit, or attempt to divert, entice, or solicit, any customers of the

Company, or any prospective customers of the Company (i.e., customers identified by the Company or Nationwide as prospective customers prior to the Closing Date), in order to sell a product or service similar to that provided by the Company; provided that the Employee's employment at another entity shall not be treated as violating this provision unless the Employee is directly or indirectly and substantively involved in such actual or attempted diversion, enticement, or solicitation of any customers or prospective customers of the Company; or

- (B) interfere in any way with existing policies written with or owned by the Company or by any Nationwide company that were written during the Employee's employment with the Company.
- (iii) If it shall be judicially determined that the Employee has violated Section 4(c)(ii), then the period applicable to each obligation that the Employee shall have been determined to have violated shall automatically be extended by a period of time equal in length to the period during which such violation(s) occurred.
- (d) Non-Solicitation of Employees. The Employee will not directly or indirectly at any time during the period of the Employee's employment or for three (3) years thereafter attempt to disrupt, damage, impair, or interfere with the Company's business by raiding any of the Company's employees or soliciting any of them to resign from their employment by the Company, or by disrupting the relationship between the Company and any of its consultants, agents, representatives, or vendors. The Employee acknowledges that this covenant is necessary to enable the Company to maintain a stable workforce and remain in business.
- (e) Further Covenants.
  - (i) The Employee will keep in strict confidence, and will not, directly or indirectly, at any time, during or after the Employee's employment with the Company, disclose, furnish, disseminate, make available or, except in the course of performing the Employee's duties of employment, use any trade secrets or confidential business and technical information of the Company or its customers or vendors, without limitation as to when or how the Employee may have acquired such information. Such confidential information shall include, without limitation, (A) all information and documentation relating to the Company's proprietary products and technologies, know-how, trade secrets, discoveries, research and development activities, inventions, patents, trademarks, service marks, and other forms of intellectual property, analyses, and compilations; (B) all financial, tax and accounting information and documentation relating to the Company; and (C) all information and documentation relating to the Company's business operations and structure, marketing practices and techniques, business strategies and

capabilities, business plans, marketing plans, and relationships with customers, prospective customers, suppliers, principals, employees and others. The Employee specifically acknowledges that all such confidential information, whether reduced to writing, maintained on any form of electronic media, or maintained in the mind or memory of the Employee and whether compiled by the Company, and/or the Employee, derives independent economic value from not being readily known to or ascertainable by proper means by others who can obtain economic value from its disclosure or use, that reasonable efforts have been made by the Company to maintain the secrecy of such information, that such information is the sole property of the Company and that any retention and use of such information by the Employee during his employment with the Company (except in the course of performing his duties and obligations to the Company) or after the termination of his employment shall constitute a misappropriation of the Company's trade secrets.

- (ii) The Employee agrees that, upon termination of the Employee's employment with the Company, for any reason, the Employee shall return to the Company, in good condition, all property of the Company, including without limitation, the originals and all copies of any materials which contain, reflect, summarize, describe, analyze or refer or relate to any items of information listed in Subsection 4(f)(i). In the event that such items are not so returned, the Company will have the right to charge the Employee for all reasonable damages, costs, attorneys' fees, and other expenses incurred in searching for, taking, removing, and/or recovering such property.
- (iii) Other than as required by applicable law or regulatory authority, the parties to this Agreement agree not to divulge the terms of this Agreement publicly.

(f) Discoveries and Inventions; Work Made for Hire.

- (i) The Employee agrees that upon conception and/or development of any idea, discovery, invention, improvement, software, writing, or other material or design that: (i) relates to the business of the Company, or (ii) relates to the Company's actual or demonstrably anticipated research or development, or (iii) results from any work performed by the Employee for the Company ("Developments"), the entire right, title and interest in and to the Developments shall immediately become the sole and absolute property of the Company and its assigns. The Employee shall promptly disclose to the Company such Developments. The Employee hereby assigns any rights the Employee has or may acquire in the Developments and benefits and/or rights resulting there from throughout the United States and in all foreign countries to the Company and its assigns without further compensation and shall promptly communicate to the Company all information relating thereto. The Employee has no obligation to

assign any idea, discovery, invention, improvement, software, writing, or other material or design that the Employee conceives and/or develops entirely on the Employee's own time without using the Company's equipment, supplies, facilities, or trade secret information unless the idea, discovery, invention, improvement, software, writing, or other material or design either: (x) relates to the business of the Company, or (y) relates to the Company's actual or demonstrably anticipated research or development, or (z) results from any work performed by the Employee for the Company. The Employee agrees that any idea, discovery, invention, improvement, software, writing, or other material or design that relates to the business of the Company or relates to the Company's actual or demonstrably anticipated research or development which is conceived or suggested by the Employee, either solely or jointly with others, within one year following termination of the Employee's employment under this Agreement or any successor agreements shall be presumed to have been so made, conceived or suggested in the course of such employment with the use of the Company's equipment, supplies, facilities, and/or trade secrets.

- (ii) In order to determine the rights of the Employee and the Company in any Development, and to insure the protection of the same, the Employee agrees that during the Employee's employment, and for one year after termination of the Employee's employment under this Agreement or any successor agreements, the Employee will disclose immediately and fully to the Company any Development conceived, made, or developed by the Employee solely or jointly with others. The Company agrees to keep confidential any disclosures that are not Developments. The Employee also agrees to record descriptions of all work in the manner directed by the Company and agrees that all such records and copies, samples, and experimental materials will be the exclusive property of the Company. The Employee agrees that at the request of and without charge to the Company, but at the Company's expense, at any time during or after the Employee's employment, the Employee will execute a written assignment of the idea, discovery, invention, improvement, software, writing, or other material or design to the Company and will assign to the Company any application for letters patent or for trademark registration made thereon, and to any common-law or statutory copyright therein; and that the Employee will sign or execute all documents and perform all acts or deeds that may be necessary or desirable to enable the Company to apply for, secure and vest in the name of the Company any patent, trademark, copyright, or other property right therein in the United States and in any foreign country, and any division, renewal, continuation, or continuation in part thereof, or for any reissue of any patent issued thereon. In the event the Company is unable, after reasonable effort, and in any event after 10 business days, to secure the Employee's signature on any such document or a written assignment to the Company of any application for letters patent or to any common-law or statutory copyright

or other property right therein, whether because of the Employee's physical or mental incapacity or for any other reason whatsoever, the Employee irrevocably designates and appoints the Corporate Secretary of the Company as the Employee's attorney-in-fact to act on the Employee's behalf to execute such document or written assignment and file any such application and to do all other lawfully permitted acts to further the prosecution and issuance of such letters patent, copyright or trademark.

(iii) The Employee acknowledges that, to the extent permitted by law, all work papers, reports, documentation, drawings, photographs, negatives, tapes and masters therefor, prototypes, and other materials (hereinafter, "items"), including without limitation, any and all such items generated and maintained on any form of electronic media, generated by the Employee during the Employee's employment with the Company shall be considered a "work made for hire" and that ownership of any and all copyrights in any and all such items shall belong to the Company. The item will recognize the Company as the copyright owner, will contain all proper copyright notices, e.g., "© (creation date) Harleysville Group Inc., All Rights Reserved," and will be in condition to be registered or otherwise placed in compliance with registration or other statutory requirements throughout the world.

(g) Communication of Contents of Agreement. While employed by the Company and for two years thereafter, the Employee will communicate the contents of Section 4 of this Agreement to any person, firm, association, partnership, corporation, or other entity that the Employee intends to be employed by, associated with, or represent.

(h) Relief. The Employee acknowledges and agrees that the remedy at law available to the Company for breach of any of the Employee's obligations under this Agreement would be inadequate. The Employee therefore agrees that, in addition to any other rights or remedies that the Company may have at law or in equity, temporary and permanent injunctive relief may be granted in any proceeding which may be brought to enforce any provision contained in Subsections 4(d), 4(e), 4(f), 4(g) and 4(h) inclusive, of this Agreement, without the necessity of proof of actual damage.

(i) Reasonableness. The Employee acknowledges that the Employee's obligations under this Section 4 are reasonable in the context of the nature of the Company's business and the competitive injuries likely to be sustained by the Company if the Employee were to violate such obligations. The Employee further acknowledges that this Agreement is made in consideration of, and is adequately supported by the agreement of the Company to perform its obligations under this Agreement and by other consideration, which the Employee acknowledges constitutes good, valuable, and sufficient consideration.

5. Governing Law.

This Agreement is governed by the laws of the State of Ohio. Jurisdiction to enforce any aspect of this Agreement is proper only in Franklin County, Ohio.

6. Savings Clause.

Should any provision of this Agreement be declared by any court of competent jurisdiction to be invalid or unenforceable, the validity and enforceability of the remaining parts, terms or provisions will not be affected, and said unenforceable or invalid part, term or provision will be deemed not to be part of this Agreement.

7. Preparation of Agreement.

Regardless of which party initially drafted this Agreement, it shall not be construed against any one party and shall be construed and enforced as a mutually prepared agreement.

8. Entire and Voluntary Agreement.

The Employee acknowledges that the Employee has read, reviewed, and fully considered the terms of this Agreement, has had the opportunity to consult with legal counsel of the Employee's choosing, has made such investigation of the facts pertinent hereto as deemed necessary and appropriate, and fully understands the terms and effects of this Agreement and executes the same voluntarily of the Employee's own accord and free of any duress or coercion. This Agreement contains the entire agreement between the parties and each acknowledges there are no other agreements or understandings between them except as expressly provided for in this Agreement.

Employee

Harleysville Group Inc.

\_\_\_\_\_  
**Signature**

\_\_\_\_\_  
**Beth A. Friel**  
*Senior Vice President, Human Resources*

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

**RETENTION BONUS AGREEMENT**

This Retention Bonus Agreement (the "Agreement") is designed to encourage [redacted] (the "Employee") to remain employed with Harleysville Group Inc., a Delaware corporation (the "Company"), through the Retention Period by paying the Employee the Retention Bonus as provided herein, provided that certain conditions are met.

1. Retention Period.

The "Retention Period" shall mean the period commencing on the "Closing Date," as defined in the Agreement and Plan of Merger, dated as of September 28, 2011, by and among Nationwide Mutual Insurance Company ("Nationwide"), Harleysville Mutual Insurance Company, Nationals Sub, Inc., and the Company, and ending [redacted] months after the Closing Date.

2. Retention Bonus.

- (a) The Employee is eligible for the "Retention Bonus" in the amount set forth below, if the Employee: (A) remains in full-time employment of the Company (and its successor company after the closing of the merger referenced in Section 1), throughout the Retention Period, (B) satisfies the defined Performance Objectives in accordance with Section 3(b), and (C) otherwise satisfies the provisions of this Agreement.
- (b) The amount of the Retention Bonus shall be equal to \$[redacted], which is equivalent to [redacted] times] Employee's base annual salary as of the date of this Agreement. Subject to the Employee's continued employment with the Company at the end of the Retention Period, and such other terms as set forth in this Agreement, the Retention Bonus shall be paid as a gross lump sum, minus applicable tax withholding, on or around (but not later than 60 days following) the end of the Retention Period. However, if the Company terminates the Employee's employment other than for Cause, or the Employee's employment is terminated due to death or Disability (as defined in the Company's long term disability plan), in each case prior to the end of the Retention Period, the Retention Bonus shall be paid on the 60<sup>th</sup> day following the date of termination.
- (c) If Employee resigns or otherwise voluntarily leaves Employee's current position with the Company prior to the end of the Retention Period for any reason, except to accept a position with any Nationwide affiliate, the Employee will not be eligible for, and will not receive, the Retention Bonus. If the Employee is terminated for cause during the Retention Period, no Retention Bonus will be paid. Termination for cause is defined as any reason contemplated by the employment policies and procedures of the Company, including, but not limited to breach of fiduciary duty, unacceptable number of unexcused absences, unacceptable performance, or misconduct.
- (d) Notwithstanding anything herein to the contrary, any obligation of the Company

to pay the Retention Bonus in the case of the Company's termination of the Employee's employment other than for Cause prior to the end of the Retention Period is conditioned upon the Employee first delivering to the Company an executed release in the form customarily used by the Company for similarly situated employees (the "Release") within 55 days of the date of termination, and the Employee not revoking such Release (with such Release becoming effective prior to the 60<sup>th</sup> day following the date of termination). The current version of the Company's standard release is attached hereto as Exhibit A to this Agreement.

3. Additional Terms.

- (a) The Employee agrees and acknowledges that this Agreement is not a contract of employment and that the Employee remains an at-will employee at all times.
- (b) To be eligible for the Retention Bonus set forth in Section 2(b), (i) the Company shall establish Performance Objectives for the Employee, which shall be defined by Employee's manager and discussed with Employee at the appropriate time for defining annual performance objectives; and (ii) Employee must achieve such Performance Objectives at a satisfactory level as determined by the Company, in its sole discretion, at the end of the Retention Period (or such earlier time as contemplated in Section 2(b)). Satisfactory performance is defined as at least a "solid" level under Company's performance management system or some other equivalent level under a different performance management system as may be applicable, which shall be determined in the Company's sole discretion.
- (c) Nothing in this Agreement will affect the Employee's vested rights in, or accrued amounts owed to the Employee by any benefits programs in which the Employee may participate, to the extent the Employee has such vested rights or accrued amounts owed. Payments under this Agreement will not be credited as earnings within the definition of benefits "covered" compensation.
- (d) Payment of the Retention Bonus under this Agreement, as applicable, is subject to applicable withholding for employee-paid taxes, FICA, Medicare, and any other legally required or employee authorized deductions.
- (e) This Agreement is intended to comply with Section 409A of the Internal Revenue Code ("Section 409A") or an exemption thereunder and shall be construed and administered in accordance with Section 409A. Any payments to be made under this Agreement upon a termination of employment shall only be made upon a "separation from service" under Section 409A. Notwithstanding the foregoing, the Company makes no representations that the payments provided under this Agreement comply with Section 409A and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Employee on account of non-compliance with Section 409A.

4. Nonsolicitation; Confidentiality.

(a) Acknowledgements and Agreements. The Employee hereby acknowledges and agrees that in the performance of the Employee's duties to the Company during the Retention Period, the Employee will be brought into frequent contact with existing and potential customers of the Company. The Employee also agrees that trade secrets and confidential information of the Company, more fully described in Subsection 4(f)(i), gained by the Employee during the Employee's association with the Company, have been developed by the Company through substantial expenditures of time, effort, and money and constitute valuable and unique property of the Company. The Employee further understands and agrees that the foregoing makes it necessary for the protection of the Company's business that the Employee be bound to certain contractual obligations protective of that business for a reasonable period thereafter, as further provided in the following Subsections.

(b) For the purposes of this Agreement, the phrase "Company's business" means the sale and distribution of commercial and personal lines property and casualty insurance policies and related products and services.

(c) Company. For the purposes of this Section 4, the Company shall include any and all direct and indirect subsidiary, parent, affiliated, or related companies of the Company for which the Employee worked or had responsibility at the time of termination of his employment and at any time during the two-year period prior to such termination. The Employee agrees that this agreement will inure to the benefit of, and be enforceable by, the Company and its successors and assigns, including but not limited to the entities which result from the Merger referred to in Section 1 of this Agreement.

(d) Covenants.

(i) Covenants During Employment. While employed by the Company, the Employee will not compete with the Company anywhere in the world. In accordance with this restriction, but without limiting its terms, while employed by the Company, the Employee will not:

- (A) enter into or engage in any business which competes with the Company's business;
- (B) solicit customers, business, patronage or orders for, or sell, any products or services in competition with, or for any business that competes with, the Company's business;
- (C) divert, entice, or otherwise take away any customers, business, patronage, or orders of the Company or attempt to do so; or

- (D) promote or assist, financially or otherwise, any person, firm, association, partnership, corporation, or other entity engaged in any business which competes with the Company's business.
- (ii) Non-Solicitation Covenants Following Termination. For a period of two years following the termination of the Employee's employment, the Employee will not:
  - (A) directly or indirectly (including by providing assistance (financially or otherwise) to any other person, firm, association, partnership, corporation or other entity) divert, entice, or solicit, or attempt to divert, entice, or solicit, any customers of the Company, or any prospective customers of the Company (i.e., customers identified by the Company or Nationwide as prospective customers prior to the Closing Date), in order to sell a product or service similar to that provided by the Company; provided that an Employee's employment at another entity shall not be treated as violating this provision unless Employee is directly or indirectly and substantively involved in such actual or attempted diversion, enticement, or solicitation of any customers or prospective customers of the Company; or
  - (B) interfere in any way with existing policies written with or owned by the Company or by any Nationwide company that were written during the Employee's employment with the Company.
- (iii) If it shall be judicially determined that the Employee has violated Section 4(c)(ii), then the period applicable to each obligation that the Employee shall have been determined to have violated shall automatically be extended by a period of time equal in length to the period during which such violation(s) occurred.
- (e) Non-Solicitation of Employees. The Employee will not directly or indirectly at any time during the period of the Employee's employment or for three (3) years thereafter attempt to disrupt, damage, impair, or interfere with the Company's business by raiding any of the Company's employees or soliciting any of them to resign from their employment by the Company, or by disrupting the relationship between the Company and any of its consultants, agents, representatives, or vendors. The Employee acknowledges that this covenant is necessary to enable the Company to maintain a stable workforce and remain in business.
- (f) Further Covenants.
  - (i) The Employee will keep in strict confidence, and will not, directly or indirectly, at any time, during or after the Employee's employment with the Company, disclose, furnish, disseminate, make available or, except in the course of performing the Employee's duties of employment, use any

trade secrets or confidential business and technical information of the Company or its customers or vendors, without limitation as to when or how the Employee may have acquired such information. Such confidential information shall include, without limitation, (A) all information and documentation relating to the Company's proprietary products and technologies, know-how, trade secrets, discoveries, research and development activities, inventions, patents, trademarks, service marks, and other forms of intellectual property, analyses, and compilations; (B) all financial, tax and accounting information and documentation relating to the Company; and (C) all information and documentation relating to the Company's business operations and structure, marketing practices and techniques, business strategies and capabilities, business plans, marketing plans, and relationships with customers, prospective customers, suppliers, principals, employees and others. The Employee specifically acknowledges that all such confidential information, whether reduced to writing, maintained on any form of electronic media, or maintained in the mind or memory of the Employee and whether compiled by the Company, and/or the Employee, derives independent economic value from not being readily known to or ascertainable by proper means by others who can obtain economic value from its disclosure or use, that reasonable efforts have been made by the Company to maintain the secrecy of such information, that such information is the sole property of the Company and that any retention and use of such information by the Employee during his employment with the Company (except in the course of performing his duties and obligations to the Company) or after the termination of his employment shall constitute a misappropriation of the Company's trade secrets.

- (ii) The Employee agrees that, upon termination of the Employee's employment with the Company, for any reason, the Employee shall return to the Company, in good condition, all property of the Company, including without limitation, the originals and all copies of any materials which contain, reflect, summarize, describe, analyze or refer or relate to any items of information listed in Subsection 4(f)(i). In the event that such items are not so returned, the Company will have the right to charge the Employee for all reasonable damages, costs, attorneys' fees, and other expenses incurred in searching for, taking, removing, and/or recovering such property.
- (iii) Other than as required by applicable law or regulatory authority, the parties to this Agreement agree not to divulge the terms of this Agreement publicly.
- (g) Communication of Contents of Agreement. While employed by the Company and for two years thereafter, the Employee will communicate the contents of Section 4 of this Agreement to any person, firm, association, partnership,

corporation, or other entity that the Employee intends to be employed by, associated with, or represent.

- (h) Relief. The Employee acknowledges and agrees that the remedy at law available to the Company for breach of any of the Employee's obligations under this Agreement would be inadequate. The Employee therefore agrees that, in addition to any other rights or remedies that the Company may have at law or in equity, temporary and permanent injunctive relief may be granted in any proceeding which may be brought to enforce any provision contained in Subsections 4(d), 4(e), 4(f), and 4(g) inclusive, of this Agreement, without the necessity of proof of actual damage.
- (i) Reasonableness. The Employee acknowledges that the Employee's obligations under this Section 4 are reasonable in the context of the nature of the Company's business and the competitive injuries likely to be sustained by the Company if the Employee were to violate such obligations. The Employee further acknowledges that this Agreement is made in consideration of, and is adequately supported by the agreement of the Company to perform its obligations under this Agreement and by other consideration, which the Employee acknowledges constitutes good, valuable, and sufficient consideration.

5. Governing Law.

This Agreement is governed by the laws of the State of Ohio. Jurisdiction to enforce any aspect of this agreement is proper only in Franklin County, Ohio.

6. Savings Clause.

Should any provision of this Agreement be declared by any court of competent jurisdiction to be invalid or unenforceable, the validity and enforceability of the remaining parts, terms or provisions will not be affected, and said unenforceable or invalid part, term or provision will be deemed not to be part of this Agreement.

7. Preparation of Agreement.

Regardless of which party initially drafted this Agreement, it shall not be construed against any one party and shall be construed and enforced as a mutually prepared agreement.

8. Entire and Voluntary Agreement.

The Employee acknowledges that the Employee has read, reviewed, and fully considered the terms of this Agreement, has had the opportunity to consult with legal counsel of the Employee's choosing, has made such investigation of the facts pertinent hereto as deemed necessary and appropriate, and fully understands the terms and effects of this Agreement and executes the same voluntarily of the Employee's own accord and free of any duress or coercion. This Agreement contains the entire agreement between

0031

the parties and each acknowledges there are no other agreements or understandings between them except as expressly provided for in this Agreement.

[Associate]

Harleysville Group, Inc.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Beth A. Friel  
Senior Vice President, Human Resources

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

01