

PENN LAUREL FINANCIAL CORP. et al -vs- SHERWOOD C. MOODY

PENN LAUREL FINANCIAL CORP.,
and CSB BANK, 434 State Street,
Curwensville, Pennsylvania 16833,
Plaintiffs

v.

SHERWOOD C. MOODY, 5 Southridge
Lane, Lewiston, ME 04240
Defendants

: IN THE COURT OF COMMON PLEAS OF
: CLEARFIELD COUNTY, PENNSYLVANIA
:
:
:

: Civil Action No. 01-204-CO

: CIVIL ACTION - LAW
:
:

NOTICE

YOU HAVE BEEN SUED IN COURT. If you wish to defend against the claims set forth in the following pages, you must take action within twenty (20) days after this Complaint and Notice are served, by entering a written appearance personally or by attorney and filing in writing with the Court your defenses or objections to the claims set forth against you. You are warned that if you fail to do so the case may proceed without you and a judgment may be entered against you by the Court without further notice for any money claimed in the Complaint or for any other claim or relief requested by the Plaintiff. You may lose money or property or other rights important to you.

YOU SHOULD TAKE THIS PAPER TO YOUR LAWYER AT ONCE. IF YOU DO NOT HAVE A LAWYER OR CANNOT AFFORD ONE, GO TO OR TELEPHONE THE OFFICE SET FORTH BELOW TO FIND OUT WHERE YOU CAN GET LEGAL HELP.

David S. Meholick, Court Administrator
Clearfield County Courthouse
Second and Market Streets
Clearfield, PA 16830
(814) 765-2641, Ext. 50-51

FILED

FEB 09 2001

William A. Shaw
Prothonotary



NOTICIA

USTED HA SIDO DEMANDADO/A EN CORTE. Si usted desea defenderse de las demandas que se presentan mas adelante en las siguientes paginas, debe tomar accion dentro de los proximos veinte (20) dias despues de la notificacion de esta Demanda y Aviso radicando personalmente o por medio de un abogado una comparecencia escrita y radicando en la Corte por escrito sus defensas de, y objeciones a, las demandas presentadas aqui en contra suya. Se le advierte de que si usted falla de tomar accion como se describe anteriormente, el caso puede proceder sin usted y un fallo por cualquier suma de dinero reclamada en la demanda o cualquier otra reclamacion o remedio solicitado por el demandante puede ser dictado en contra suya por la Corte sin mas aviso adicional. Usted puede perder dinero o propiedad u otros derechos importantes para usted.

USTED DEBE LLEVAR ESTE DOCUMENTO A SU ABOGADO INMEDIATAMENTE. SI USTED NO TIENE UN ABOGADO O NO PUEDE PAGARLE A UNO, LLAME O VAYA A LA SIGUIENTE OFICINA PARA AVERIGUAR DONDE PUEDE ENCONTRAR ASISTENCIA LEGAL.

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PENN LAUREL FINANCIAL CORP., : IN THE COURT OF COMMON PLEAS OF
and CSB BANK, 434 State Street, : CLEARFIELD COUNTY, PENNSYLVANIA
Curwensville, Pennsylvania 16833, :
Plaintiffs :
v. : Civil Action No.
SHERWOOD C. MOODY, 5 Southridge : CIVIL ACTION - LAW
Lane, Lewiston, ME 04240 :
Defendant :

COMPLAINT

1. Plaintiff Penn Laurel Financial Corp. ("Penn Laurel") is a Pennsylvania bank holding company which maintains its principal offices at 434 State Street, Curwensville, Clearfield County, Pennsylvania.

2. Plaintiff CSB Bank ("CSB") is a Pennsylvania chartered bank which is a subsidiary of Penn Laurel and which maintains its principal offices at 434 State Street, Curwensville, Clearfield County, Pennsylvania.

3. Defendant Sherwood C. Moody is an adult individual who currently resides at 5 Southridge Lane, Lewiston, Maine.

4. Defendant Moody was the President and Chief Executive Officer and was a member of the Board of Directors of Clearfield Bank & Trust Company ("Clearfield") during a period commencing prior to the events relevant to this matter and continuing until on or about June 21, 1999; and, during that time period, he was a resident of the Commonwealth of Pennsylvania.

5. Plaintiffs and Clearfield entered into a written agreement entitled "Agreement and Plan of Reorganization" (the "Reorganization Agreement") dated December 31, 1998. A copy of said Reorganization Agreement is attached hereto as Exhibit "A."

6. Plaintiffs and Clearfield also entered into an "Agreement and Plan of Merger" (the "Merger Agreement") and other agreements which are attached to the Reorganization Agreement.

7. Under the Reorganization and Merger Agreements, CSB was to merge into Clearfield and to cease to exist, and the shares of Clearfield would then be exchanged for shares of Penn Laurel, thereby making Clearfield a wholly owned subsidiary of Penn Laurel.

8. Article VI of the Reorganization Agreement is entitled "Covenants of Clearfield."

9. Section 6.8 of the Reorganization Agreement provides, in pertinent part:

Clearfield shall not, nor shall it permit any officer, director, employee, agent, consultant, counsel or other representative, to directly or indirectly solicit, encourage, initiate or engage in discussions or negotiations with, or respond to requests for information, inquiries or other communications from, any person ... concerning the fact of, or the terms and conditions of, this Agreement, or concerning any transaction with Clearfield, or any assets or business thereof ...; and Clearfield shall notify Penn Laurel immediately if any discussions or negotiations are sought to be initiated with Clearfield by any person other than Penn Laurel or if any requests for information, inquiries, proposals or communications are received from any other person.

10. Section 6.1 of the Reorganization Agreement provides, in pertinent part:

Except as otherwise consented to by Penn Laurel and CSB in writing, Clearfield shall:

... (k) not take or permit to be taken any action that would constitute a breach of any representation, warranty or covenant set forth in this Agreement; ...

(s) not solicit or encourage inquiries or proposals with respect to, furnish any information relating to, or participate in any negotiations or discussions concerning any acquisition or purchase of all or a substantial equity interest or portion of the assets in or of Clearfield or any business combination with Clearfield, other than as contemplated by this Agreement, or authorize or permit any officer, director, agent or affiliate of it to do any of the above; or fail to notify Penn Laurel immediately if any inquiries or proposals are received by, any information is requested from, or any negotiations are sought to be initiated with Clearfield....

11. Section 6.2 of the Reorganization Agreement provides, in pertinent part:

Clearfield shall cooperate with Penn Laurel and CSB and shall use its best efforts to do or cause to be done all things necessary or appropriate on its part in order to fulfill the conditions precedent set forth in Article VIII of this Agreement and to consummate this Agreement. In particular, without limiting the generality of the foregoing sentence, Clearfield shall:

... (b) ... take, in good faith, all actions that are necessary or appropriate on its part in order to secure the approval and adoption of this Agreement and the Bank Merger Agreement by its shareholders

....

12. Section 6.13 of the Reorganization Agreement provides, in pertinent part:

Clearfield shall not take (and shall use its best efforts not to permit any of its directors, officers, employees, shareholders, agents, consultants or other representatives to take) any action that would preclude treating the business combination as a "pooling of interests" for financial reporting purposes.

13. Defendant Moody entered into a written agreement with Plaintiff Penn Laurel on December 31, 1998 (the "Moody Agreement"), a copy of which is attached hereto as Exhibit "B."

14. Paragraph numbered 2 of the Moody Agreement provides, in relevant part, as follows:

[Defendant Moody] [r]epresents, warrants and agrees that until the earlier of (i) consummation of the transactions contemplated by the [Reorganization] Agreement or (ii) the termination of the [Reorganization] Agreement in accordance with its terms, [Defendant Moody] will not, directly or indirectly:

(a) ... solicit, initiate or encourage inquiries or proposals from, or participate in any discussions or negotiations with, or provide any information to, any individual, corporation, partnership, or other person, entity or group (other than Penn Laurel or CSB Bank or either of their officers, employees, representatives and agents) concerning, any sale of assets, sale of shares of capital stock, merger, consolidation, share exchange, plan of liquidation, reclassification, or similar transactions involving Clearfield, that would have the effect of permitting any person to acquire control over Clearfield, or any substantial portion of Clearfield's assets. As used herein, the term "control" means (i) the ability to direct the voting of 20% or more of the outstanding voting securities of a person having ordinary voting power in the election of directors or in the election of any other body having similar functions or (ii) the ability to

direct the management and policies of a person, whether through ownership of securities, through any contract, arrangement or understanding or otherwise

(d) Take any actions with the intent to prevent or hinder the actions contemplated by the [Reorganization] Agreement from being consummated.

15. In January of 1999, Defendant Moody received a telephone call from Timothy A. Anonick, an investment banker who is the sole employee of Anonick Financial Corporation, and Defendant Moody discussed information relating to the merger of the parties with Mr. Anonick.

16. In a telephone conversation in February or March of 1999, Defendant Moody provided Mr. Anonick with substantial information concerning the proposed merger of the parties, including the definitive terms thereof.

17. In early April of 1999, Defendant Moody again discussed the parties' proposed merger with Mr. Anonick and left Mr. Anonick with the impression that Defendant Moody was not in favor of that merger.

18. In April of 1999, Defendant Moody met with Mr. Anonick and provided him with additional information concerning the proposed merger, including that a number of Clearfield shareholders were opposed to it, and provided Mr. Anonick with the names of one or more shareholders who were opposed.

19. After having those discussions with Defendant Moody, Mr. Anonick contacted officers of Omega Financial Corporation ("Omega"), a Pennsylvania bank holding corporation which maintains its headquarters in State College, Pennsylvania, in order to determine whether Omega would be interested in making a proposal to Clearfield as an alternative to and in competition with the merger provided for in the Reorganization and Merger Agreements.

20. In discussions with officers of Omega in April of 1999, Mr. Anonick provided information to them that had previously been supplied to him by Defendant Moody concerning the fact that some Clearfield shareholders were opposed to the merger provided for in the Reorganization and Merger Agreements.

21. As a result of Mr. Anonick's providing to Omega information concerning alleged shareholder opposition which had been supplied to him by Defendant Moody, Omega began discussing Clearfield as a potential merger target for Omega with Mr. Anonick.

22. On May 10, 1999, Omega sent a letter to Clearfield which constituted an "expression of interest" in a possible merger between Omega and Clearfield and which indicated, inter alia, that Omega would be prepared to pay sixty-five dollars (\$65) per share for the shares of Clearfield.

23. On May 10, 1999, Defendant Moody had another telephone conversation with Mr. Anonick in which he confirmed the receipt of the May 10 Omega letter, and Defendant Moody had yet another telephone conversation with Mr. Anonick a few days after that in which he informed Mr. Anonick that he had been advised by counsel not to speak to Mr. Anonick anymore.

24. Nevertheless, Defendant Moody continued to speak to Mr. Anonick about the proposed merger and Omega's "expression of interest" during his tenure as Clearfield's President and Chief Executive Officer, having at least five more telephone conversations with Mr. Anonick.

25. Defendant Moody ceased his tenure as Clearfield's President and Chief Executive Officer on or about June 21, 1999, when he moved to Maine.

26. Subsequent to his departure, Defendant Moody continued to communicate with Mr. Anonick about the proposed merger, Omega, and Clearfield's shareholders through a number of telephone conversations.

27. In July of 1999, Mr. Anonick contacted one of Clearfield's shareholders, Mr. Jack Woolridge, who Defendant Moody had previously identified as a shareholder who was opposed to the proposed merger between the parties, and discussed Omega's interest with him.

28. On August 2, 1999, Mr. Anonick met with Mr. Jack Woolridge and Mr. Donald R. Mikesell, another Clearfield shareholder, in Clearfield and later that day had a public meeting with a number of shareholders of Clearfield at which Mr. Anonick distributed a written offer from Omega for the purchase of Clearfield shares from any shareholders who agreed to oppose the proposed merger between Plaintiffs and Clearfield and to exercise dissenting shareholders' rights in relation to it and requested that the shareholders present distribute copies of that written offer to other shareholders who were not present at the meeting.

29. Mr. Mikesell provided Mr. Anonick at that time with a list of shareholders who were opposed to the proposed merger, and that list included at least one member of the Clearfield Board of Directors: Mr. Rembrandt Woolridge, who is Mr. Jack Woolridge's uncle.

30. Based upon information and belief, Plaintiffs aver that Defendant Moody had knowledge of Mr. Anonick's and Mr. Jack Woolridge's efforts to foster and foment opposition to the proposed merger of the parties.

31. Based upon information and belief, Plaintiffs aver that Defendant Moody had knowledge of Mr. Anonick's efforts to interest Omega in a possible merger with Clearfield prior to Omega's May 10 letter.

32. At a meeting on September 27, 1999, Clearfield's shareholders failed to approve the merger between the parties that was the subject of the Reorganization and Merger Agreements.

33. Clearfield, acting through its officers and directors, violated the Reorganization Agreement by engaging in discussions concerning the fact of and terms and conditions of the Reorganization.

34. Clearfield violated the Reorganization Agreement by permitting one or more officers and/or directors to engage in discussions concerning the fact of and terms and conditions of the Reorganization.

35. Clearfield, acting through its officers and directors, violated the Reorganization Agreement by responding to requests for information, inquiries, and other communications concerning the fact of and terms and conditions of the Reorganization.

36. Clearfield violated the Reorganization Agreement by permitting one or more officers and/or directors to respond to requests for information, inquiries, and other communications concerning the fact of and terms and conditions of the Reorganization.

37. Clearfield violated the Reorganization Agreement by failing to notify Penn Laurel immediately of discussions sought to be initiated and requests for information, inquiries, and communications received from other persons.

38. Clearfield, acting through its officers and directors, violated the Reorganization Agreement by encouraging inquiries, furnishing information, and participating in discussions with respect to the acquisition or purchase of all or substantial equity interests in Clearfield and/or with respect to business combinations with Clearfield.

39. Clearfield violated the Reorganization Agreement by permitting one or more officers and/or directors to encourage inquiries, furnish information, and participate in discussions with

respect to the acquisition or purchase of all or substantial equity interests in Clearfield and/or with respect to business combinations with Clearfield.

40. Clearfield violated the Reorganization Agreement by failing to notify Penn Laurel immediately of inquiries received by and information requested from Clearfield.

41. Clearfield violated the Reorganization Agreement by failing to exercise its best efforts to fulfill all conditions precedent in that Agreement and by failing to take, in good faith, all actions appropriate to secure approval and adoption that Agreement and the Merger Agreement by its shareholders through numerous and repeated failures throughout the period from December 31, 1998, through September 27, 1999, including, but not limited to, the following:

a) failing to effectively and appropriately deal with any shareholders who had expressed any opposition to or concerns about the proposed merger by fully informing them of the benefits that would result from the merger and the reasonableness of the terms of the Agreements;

b) failing to take active steps to assure that all officers and directors of Clearfield were in full compliance with the terms of the Reorganization Agreement and with the individual agreements dated December 31, 1998, which each director entered into with Penn Laurel;

c) failing to take all reasonable steps to prevent Mr. Anonick from pursuing the course of action concerning the proposed merger in which he engaged and which is described above;

d) failing to take all reasonable steps to prevent Omega from pursuing the course of action concerning the proposed merger described above in which it engaged; and

e) failing to take all reasonable steps to timely and effectively communicate to all Clearfield shareholders the benefits that would result from the merger and the reasonableness of the terms of the Agreements.

42. On October 26, 1999, Plaintiffs gave Clearfield written notice that they deemed Clearfield to have violated the written Agreements between the parties.

Count I

Breach of Contract

43. Paragraphs 1 through 42 above are incorporated herein by reference.

44. Defendant Moody breached the Moody Agreement by providing information to others in violation of the terms thereof.

45. Defendant Moody breached the Moody Agreement by taking the actions alleged above with the intent to prevent or hinder the consummation of the Reorganization Agreement.

46. Defendant Moody's breaches of the Moody Agreement caused the failure of the proposed merger between Plaintiffs and Clearfield.

47. Plaintiffs expended substantial sums in an attempt to fulfill its obligations under the Reorganization and Merger Agreements, including for attorneys' fees and expenses, consultant fees, printing fees, etc., all of which constitute damages caused by Defendant Moody's breaches of the Moody Agreement.

48. On August 11, 1999, Clearfield initiated legal action against Omega in the United States District Court for the Western District of Pennsylvania (Civil Action No. 99-180J) (the "federal action") that arose from Omega's actions in relation to the proposed merger.

49. At the request and encouragement of Clearfield and with its agreement, Plaintiffs filed a Motion to Intervene in that action that was granted, and, therefore, Plaintiffs incurred substantial attorneys' fees and expenses in that litigation.

50. Plaintiffs' participation in that legal action in federal court was pursuant to and in fulfillment of its obligations under the written Agreements between the parties.

51. The attorneys' fees and expenses incurred by Plaintiffs constitute damages which they incurred as a result of Defendant Moody's breaches of the Moody Agreement and are expenses which Plaintiffs would not have had to incur in performing their obligations under that Reorganization Agreement if Defendant Moody had not breached the Moody Agreement.

52. The total expenses actually incurred to date by Plaintiffs in attempting to fulfill their obligations under the Reorganization and Merger Agreements (including, but not limited to, in participating in the federal court litigation) are \$444,797.40.

53. In addition to the suffering of the foregoing expenses, Plaintiffs have been damaged by Defendant Moody's breaches of the Moody Agreement through the loss of services of key officers and employees of Plaintiffs because of the time they expended in attempting to fulfill Plaintiffs' obligations under the Reorganization Agreements and in attempting to assure that the proposed merger was consummated and in pursuing the federal court litigation.

54. Penn Laurel and its shareholders have also been damaged by Defendant Moody's breaches of the Moody Agreement through the loss of the benefits that would have accrued to them if the merger had been consummated.

WHEREFORE, Plaintiff Penn Laurel Financial Corp. Bank respectfully requests that this Honorable Court award damages against Defendant Sherwood C. Moody in an amount in excess of \$25,000, plus interest and costs and such other relief as the Court may deem necessary and/or appropriate.

Count II

Conspiracy

55. Paragraphs 1 through 54 above are incorporated herein by reference.

56. The aforesaid actions of Defendant Moody were intended to interfere with the contractual relations between Plaintiffs and Clearfield by improperly inducing Clearfield to breach its contractual obligations to Plaintiffs.

57. The actions of Mr. Anonick and AFC constituted violations of Section 14(e) of the Securities and Exchange Act of 1934, 15 U.S.C. §78n(e) and Sections 112(b) and (g) of the Pennsylvania Banking Code, 7 P.S. §112(b) and (g).

58. Mr. Anonick and AFC also acted improperly by making the following intentional or negligent misrepresentations to shareholders of Clearfield at the meeting of August 2, 1999 and in the written agreement distributed at that meeting:

- a) representing that Clearfield shareholders could exercise rights as dissenting shareholders while also agreeing to sell their shares to Omega;

b) representing that Clearfield would retain its name if it agreed to and did merge with Omega;

c) representing that Omega's offer was superior to the merger between Plaintiffs and Clearfield that had been agreed upon;

d) failing to disclose that Omega was required to obtain various regulatory approvals, including, but not limited to, approval by the Pennsylvania Department of Banking, before making and consummating the offer itself and before any anticipated merger between it and Clearfield;

e) failing to disclose that Omega's offer could have significant tax consequences for shareholders;

f) failing to disclose how and when Omega stock would be valued for purposes of the offer;

g) failing to disclose the source of Omega stock that would be utilized for an exchange for the stock of Clearfield shareholders;

h) failing to disclose that Omega's obligations under the written offer were contingent upon the accuracy of financial information which was already out-dated; and

i) failing to disclose that AFC would be paid a large "success fee" in the event that a merger between Omega and Clearfield was ultimately consummated.

59. Defendant Moody conspired with Mr. Anonick, AFC, and Omega to commit the aforesaid unlawful acts through express and/or tacit agreements to commit such acts.

60. Based upon information and belief, Plaintiffs allege that Defendant Moody, Mr. Anonick, AFC, and Omega conspired with others, including but not limited to directors of Clearfield, to commit the aforesaid unlawful acts either through express or tacit agreements to commit such acts or through acting in concert to commit them.

61. All of the damages alleged above were caused by the conspiracy of Defendant Moody, Mr. Anonick, AFC, and Omega with others.

WHEREFORE, Plaintiffs Penn Laurel Financial Corp. and CSB Bank respectfully request that this Honorable Court award damages against Defendant Sherwood C. Moody in an amount in excess of \$25,000, plus interest and costs and such other relief as the Court may deem necessary and/or appropriate.

SHUMAKER WILLIAMS, P.C.

Dated: *February 8, 2001*

By *Laurence W. Dague*
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Attorneys for Penn Laurel Financial Corp.
and CSB Bank

:127707

EXECUTION COPY
12/31/98

AGREEMENT AND PLAN OF REORGANIZATION

AMONG

PENN LAUREL FINANCIAL CORP.

CSB BANK

AND

CLEARFIELD BANK & TRUST COMPANY

December 31, 1998

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AGREEMENT AND PLAN OF REORGANIZATION

This Agreement and Plan of Reorganization ("Agreement") is dated and made this 31st day of December, 1998, by and among Penn Laurel Financial Corp., a Pennsylvania business corporation having its corporate headquarters at 434 State Street, Curwensville, Clearfield County, Pennsylvania 16833 ("Penn Laurel"), CSB Bank, a Pennsylvania chartered banking institution and the wholly-owned subsidiary of Penn Laurel, having its corporate headquarters at 434 State Street, Curwensville, Clearfield County, Pennsylvania 16833 ("CSB"), and Clearfield Bank & Trust Company, a Pennsylvania chartered bank and trust company having its corporate headquarters at 11 North Second Street, Clearfield County, Clearfield, Pennsylvania 16830 ("Clearfield").

Background:

Penn Laurel is a Pennsylvania business corporation and a registered bank holding company. CSB is a Pennsylvania chartered banking institution and a wholly-owned subsidiary of Penn Laurel. Clearfield is a Pennsylvania chartered bank and trust company. Penn Laurel, CSB and Clearfield wish to affiliate through a business combination to form a stronger, more effective community financial institution. Subject to the terms and conditions of this Agreement, the foregoing transaction will be accomplished by means of a reorganization and merger pursuant to which Clearfield will merge with CSB. The resulting bank of the merger shall change its name to Penn Laurel Bank & Trust, relocate its corporate headquarters to 11 North Second Street, Clearfield, Pennsylvania and all of the outstanding shares of capital stock of Clearfield, par value \$1.5625 per share (the "Clearfield Common Stock") will be converted into and become the right to receive shares of common stock of Penn Laurel, par value \$5.00 per share (the "Penn Laurel Common Stock") in the manner, on the terms, and subject to the conditions of this Agreement.

NOW, THEREFORE, in consideration of the premises, mutual promises, covenants, agreements, representations and warranties hereinafter set forth, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE I**AGREEMENT AND PLAN OF MERGER**

Section 1.1. Agreement and Plan of Merger. Subject to the terms and conditions of this Agreement, Clearfield shall merge with CSB (the "Merger") in accordance with the Agreement and Plan of Merger attached as Exhibit A to this Agreement (the "Bank Merger Agreement") and pursuant to the provisions of the Pennsylvania Banking Code of 1965, as amended (the "Banking Code").

(e) Penn Laurel Common Stock.

(i) Each share of Penn Laurel Common Stock issued and outstanding immediately prior to the Effective Date, shall, on and after the Effective Date, continue to be issued and outstanding as an identical share of Penn Laurel Common Stock.

(ii) Each share of Penn Laurel Common Stock issued and held in the treasury of Penn Laurel as of the Effective Date, if any, shall, on and after the Effective Date, continue to be issued and held in the treasury of Penn Laurel.

(f) Each share of Clearfield Common Stock owned by Penn Laurel or a wholly-owned subsidiary of Penn Laurel, other than shares held in trust, managed, custodial or nominee accounts and the like, that in any such case are beneficially owned by third parties, on the Effective Date, shall be cancelled and retired and shall cease to exist and no shares of Penn Laurel or other consideration shall be deliverable in exchange therefor.

Section 2.2. Exchange of Stock Certificates. Clearfield Common Stock certificates shall be exchanged for Penn Laurel Common Stock certificates in accordance with the following procedures:

(a) Exchange Agent. The transfer agent of Penn Laurel shall act as exchange agent (the "Exchange Agent") to receive Clearfield Common Stock certificates from the holders thereof and to exchange the certificates for Penn Laurel Common Stock certificates and (if applicable) to pay cash for fractional shares of Clearfield Common Stock pursuant to Section 2.1(c) above. The Exchange Agent shall, on or promptly after the Effective Date, mail to each former shareholder of Clearfield a notice specifying the procedures to be followed in surrendering Clearfield Common Stock certificates.

(b) Surrender of Certificates. As promptly as possible after receipt of the Exchange Agent's notice, each former shareholder of Clearfield shall surrender his Clearfield Common Stock certificates to the Exchange Agent; provided, that if any former shareholder of Clearfield shall be unable to surrender his Clearfield Common Stock certificates due to loss or mutilation thereof, he may make a constructive surrender by following procedures comparable to those customarily used by Penn Laurel for issuing replacement certificates to Penn Laurel shareholders whose Penn Laurel Common Stock certificates have been lost or mutilated. Upon receiving a proper actual or constructive surrender of Clearfield Common Stock certificates from a former Clearfield shareholder, the Exchange Agent shall issue to the shareholder, in exchange therefor, a Penn Laurel Common Stock certificate representing the whole number of shares of Penn Laurel Common Stock into which the shareholder's shares of Clearfield Common Stock have been converted in accordance with this Article II, together with a check in the amount of any cash to which the shareholder is entitled, pursuant to Section 2.1(c) of this Agreement, in lieu of the issuance of a fractional share.

(c) Dividend Withholding. Dividends, if any, payable by Penn Laurel after the Effective Date to any former shareholder of Clearfield who has not, prior to the payment date, surrendered his Clearfield Common Stock certificates may, at the option of Penn Laurel, be withheld. Any dividends so withheld shall be paid, without interest, to the former shareholder of Clearfield upon proper surrender of the Clearfield Common Stock certificates. Subject to the accounting rules regarding pooling of interest method of accounting, each party shall use their best efforts to cooperate in the declaration and timing of the payment of dividends to assure that neither a windfall nor a detriment to each party's respective shareholders shall occur concerning the amount and timing of the payment of dividends.

(d) Failure to Surrender Certificates. All Clearfield Common Stock certificates must be surrendered to the Exchange Agent within two (2) years after the Effective Date. In the event that any former shareholder of Clearfield shall not have properly surrendered his Clearfield Common Stock certificates within two (2) years after the Effective Date, the shares of Penn Laurel Common Stock that would otherwise have been issued to the shareholder may, at the option of Penn Laurel, be sold and the net proceeds of the sale, together with the cash (if any) to which the shareholder is entitled in lieu of the issuance of a fractional share and any previously accrued dividends, shall be held in a non-interest bearing account for the benefit of the former shareholder. From and after any sale, the sole right of the former shareholder of Clearfield shall be the right to collect the net proceeds, cash and accumulated dividends. Subject to all applicable laws of escheat, the net proceeds, cash and accumulated dividends shall be paid to the former shareholder of Clearfield, without interest, upon proper surrender of the former shareholder's certificates.

(e) Expenses of Share Surrender and Exchange. All costs and expenses associated with the foregoing surrender and exchange procedure shall be borne by Penn Laurel. Notwithstanding the foregoing, no party hereto will be liable to any holder of Clearfield Common Stock for any amount paid in good faith to a public official or agency pursuant to any applicable abandoned property, escheat or similar law.

(f) Exchange Procedures. Each certificate for shares of Clearfield Common Stock delivered for exchange under this Article II must be endorsed in blank by the registered holder thereof or be accompanied by a power of attorney to transfer the shares endorsed in blank by the holder. If more than one certificate is surrendered at one time and in one transmittal package for the same shareholder account, the number of whole shares of Penn Laurel Common Stock for which certificates will be issued pursuant to this Article II will be computed on the basis of the aggregate number of shares represented by the certificates so surrendered. If shares of Clearfield Common Stock or payments of cash are to be issued or made to a person other than the one in whose name the surrendered certificate is registered, the certificate so surrendered must be properly endorsed in blank, with signature(s) guaranteed, or otherwise in proper form for transfer, and the person to whom certificates for shares of Penn Laurel Common Stock is to be issued or to whom cash is to be paid shall pay any transfer or other taxes required by reason of the issuance or payment to a person other than the registered holder of the certificate for shares of Clearfield Common

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Stock that are surrendered. As promptly as practicable after the Effective Date, Penn Laurel shall send or cause to be sent to each shareholder of record of Clearfield Common Stock transmittal materials for use in exchanging certificates representing Clearfield Common Stock for certificates representing Penn Laurel Common Stock into which the former have been converted in the Merger.

(g) Closing of Stock Transfer Books; Cancellation of Clearfield Certificates.

Upon the Effective Date, the stock transfer books for Clearfield Common Stock will be closed and no further transfers of shares of Clearfield Common Stock will thereafter be made or recognized. All certificates for shares of Clearfield Common Stock surrendered pursuant to this Article II will be canceled by Penn Laurel.

(h) Rights Evidenced by Certificate. Each certificate for shares of Penn Laurel Common Stock issued in exchange for certificates for Clearfield Common Stock pursuant to Section 2.2(f) hereof will be dated as of the Effective Date and be entitled to dividends and all other rights and privileges pertaining to the shares of Penn Laurel Common Stock from and after the Effective Date. Until surrendered, each certificate theretofore evidencing shares of Clearfield Common Stock will, from and after the Effective Date, evidence solely the right to receive certificates for shares of Penn Laurel Common Stock pursuant to Section 2.2(f) of this Agreement. If certificates for shares of Clearfield Common Stock are exchanged for Penn Laurel Common Stock at a date following one or more record dates for the payment of dividends or of any other distribution on the shares of Penn Laurel Common Stock subsequent to the Effective Date, Penn Laurel will pay cash in an amount equal to dividends theretofore payable on the Penn Laurel Common Stock and pay or deliver any other distribution to which holders of shares of Penn Laurel Common Stock have theretofore become entitled. No interest will accrue or be payable in respect of dividends or cash otherwise payable under this Section 2.2 upon surrender of certificates for shares of Penn Laurel Common Stock. Notwithstanding the foregoing, no party hereto will be liable to any holder of Clearfield Common Stock for any amount paid in good faith to a public official or agency pursuant to any applicable abandoned property, escheat or similar law. Until the certificates for shares of Clearfield Common Stock are surrendered by a Clearfield shareholder to Penn Laurel for exchange, Penn Laurel shall have the right to withhold dividends or any other distributions, without interest, on the shares of the Penn Laurel Common Stock issuable to the shareholder.

(i) Payment Procedures. As soon as practical after the Effective Date, Penn Laurel shall make payment of the cash consideration provided for in Section 2.1(c) to each person entitled thereto.

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ARTICLE III

REPRESENTATIONS AND WARRANTIES OF CLEARFIELD

Clearfield represents and warrants to Penn Laurel and CSB, as of this date, as follows:

Section 3.1. Authority. Clearfield has all requisite corporate power and authority to enter into and perform all of its obligations under this Agreement and the Bank Merger Agreement. The execution and delivery of this Agreement and the Bank Merger Agreement and the performance of the transactions contemplated herein and therein have been duly and validly authorized by the Board of Directors of Clearfield and, except for the approval of this Agreement and the Bank Merger Agreement by its shareholders, Clearfield has taken all corporate action necessary on its part to authorize this Agreement and the Bank Merger Agreement and the performance of the transactions contemplated herein and therein. This Agreement and the Bank Merger Agreement have been duly executed and delivered by Clearfield and, assuming due authorization, execution and delivery by Penn Laurel and CSB, constitute valid and binding obligations of Clearfield, in each case enforceable against it in accordance with their respective terms, subject to bankruptcy, insolvency, and other laws of general applicability relating to or affecting creditors' rights and general equity principles. Neither the execution and delivery of this Agreement and the Bank Merger Agreement, nor consummation of the transactions contemplated hereby or thereby, nor compliance by Clearfield with any of the provisions hereof or thereof (i) conflict with or result in a breach of any provisions of the Articles of Incorporation or By-laws of Clearfield, (ii) constitute or result in a material breach of any term, condition or provisions of, or constitute a default under or give rise to any right of termination, cancellation or acceleration with respect to, or result in the creation of any lien, charge, security interest or other encumbrance upon any property or assets of Clearfield pursuant to any note, bond, mortgage, indenture, deed of trust, license, agreement or other instrument or obligation, which will have, in the aggregate, a material adverse effect on Clearfield, or (iii) violate any order, writ, injunction, decree, statute, code, ordinance, rule, regulation or judgment applicable to Clearfield.

Section 3.2. Organization and Standing. Clearfield is a duly organized bank and trust company, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania. Clearfield has full power and authority to carry out its business as now conducted and is duly qualified to do business in the states of the United States and foreign jurisdictions where its ownership or leasing of property or the conduct of its business requires qualification and where failure to so qualify would have a material adverse effect on the financial condition, results of operations, business or prospects of Clearfield.

Section 3.3. No Subsidiaries. Except as previously disclosed, Clearfield owns no subsidiaries, directly or indirectly.

Section 3.4. Capitalization. The authorized capital stock of Clearfield consists solely of 617,600 shares of capital stock, par value \$1.5625 per share, Clearfield Common Stock, of which, at the date hereof, 576,809 shares are issued and outstanding. All outstanding shares of Clearfield Common Stock have been duly authorized and are validly issued, fully paid and nonassessable.

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None of the shares of Clearfield Common Stock have been issued in violation of the preemptive rights of any person or entity. At the date hereof, there are no authorized, issued and outstanding options, convertible securities, warrants or other rights to purchase or acquire any of the Clearfield Common Stock from Clearfield. There are no outstanding agreements, restrictions, contracts, commitments or demands of any character to which Clearfield is a party, that relate to the transfer or restrict the transfer of any shares of Clearfield Common Stock. There are no shareholder agreements, understandings or commitments relating to the right of Clearfield to vote or dispose of its shares.

Section 3.5. Articles of Incorporation, Bylaws and Minute Books. The copies of the Articles of Incorporation and Bylaws of Clearfield that have been delivered to Penn Laurel and CSB are true, correct and complete. Except as previously disclosed, all minute books of Clearfield have been made available to Penn Laurel and CSB for inspection and are true, correct and complete in all material respects and record the actions taken by the Board of Directors of Clearfield at the meetings documented in the minutes.

Section 3.6. Consents. Except for the consents, approvals, filings and registrations contemplated by Sections 8.1(a) and (c) hereof, and compliance with any conditions contained therein, and the approval of this Agreement and the Bank Merger Agreement by the shareholders of Clearfield, no consents or approvals of, or filings or registrations with, any public body or authority are necessary, and no consents or approvals of any third parties are necessary, or will be, in connection with the execution and delivery of this Agreement or the Bank Merger Agreement by Clearfield, and the consummation by Clearfield of the transactions contemplated hereby. Clearfield has no reason to believe that any required consents or approvals will not be received or will be received with conditions, limitations or restrictions unacceptable to it or that would adversely impact Clearfield's ability to consummate the transactions contemplated by this Agreement.

Section 3.7. Financial Statements and Regulatory Reports. Clearfield has delivered to Penn Laurel and CSB its (i) Balance Sheets, Statements of Income, Statements of Stockholders' Equity and Statements of Cash Flows as of and for the years ended December 31, 1997 and December 31, 1996, certified by Young, Oakes, Brown & Company, P.C., of Altoona, Pennsylvania, Clearfield's independent auditors, and set forth in the Annual Report to the Shareholders of Clearfield for the year ended on December 31, 1997 (the "Clearfield Financial Statements") and (ii) Call Reports, Consolidated Reports of Condition and Income, (the aforementioned consolidated report of condition and income as of September 30, 1998, is referred to herein as the "Clearfield Balance Sheet") and accompanying schedules, filed by Clearfield with any regulatory authority for each calendar quarter, beginning with the quarter ended September 30, 1998, through the Effective Date ("Clearfield Regulatory Reports"). Each of the foregoing financial statements fairly presents the financial condition, assets and liabilities, and results of operations of Clearfield at their respective dates and for the respective periods then ended and have been prepared in accordance with generally accepted accounting principles consistently applied, except as otherwise noted in a footnote thereto and subject, in the case of the interim financial statements contained in the aforesaid Clearfield Regulatory Report, to normal recurring year-end adjustments, that are not material in any case or in the aggregate. The books and records of Clearfield are

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maintained in accordance with generally accepted accounting principles consistently applied. The Clearfield Regulatory Reports have been, or will be, prepared in accordance with applicable regulatory accounting principles and practices applied on a consistent basis throughout the periods covered by the statements, and fairly present, or will fairly present, the financial position, results of operations and changes in shareholders' equity of Clearfield as of and for the periods ended on the dates thereof, in accordance with applicable regulatory accounting principles applied on a consistent basis.

Section 3.8. Absence of Undisclosed Liabilities. Except as previously disclosed, or as reflected, noted or adequately reserved against in the Clearfield Balance Sheet, as at September 30, 1998, Clearfield had no liabilities (whether accrued, absolute, contingent or otherwise) or asset impairment that are required to be reflected, noted or reserved against therein under generally accepted accounting principles or that are, in any case or in the aggregate, material. Except as previously disclosed, since September 30, 1998, Clearfield has not incurred any liability, other than liabilities of the same nature as those set forth in the Clearfield Balance Sheet, all of which have been reasonably incurred in the ordinary course of business consistent with customary business practices of prudently managed banks (hereinafter referred to as "Ordinary Course of Business").

Section 3.9. Absence of Changes. Since September 30, 1998, Clearfield has conducted its business in the Ordinary Course of Business and, except as previously disclosed, Clearfield has not undergone any change in condition (financial or otherwise), assets, liabilities, business or operations, other than changes in the Ordinary Course of Business that have not been, either in any case or in the aggregate, materially adverse.

Section 3.10. Dividends, Distributions and Stock Purchases. Except as previously disclosed, since September 30, 1998, Clearfield has not declared, set aside, made or paid any dividend or other distribution in respect of the Clearfield Common Stock, or purchased, issued or sold any shares of Clearfield Common Stock.

Section 3.11. Taxes. Clearfield has filed all federal, state, county, municipal and foreign tax returns, reports and declarations that are required to be filed by Clearfield. Except as previously disclosed, (i) Clearfield has paid all taxes, penalties and interest that have become due pursuant thereto or that became due pursuant to assessments, and (ii) Clearfield has not received any notice of deficiency or assessment of additional taxes and no tax audits are in process. The Internal Revenue Service (the "IRS") has not, to the knowledge of Clearfield, commenced, or given notice of its intention to commence any examination or audit of the federal income tax returns of Clearfield for any year through and including the year ended December 31, 1997. Clearfield has not granted any waiver of any statute of limitations or otherwise agreed to any extension of a period for the assessment of any federal, state, county, municipal or foreign income tax. Except as previously disclosed, the accruals and reserves reflected in the Clearfield Balance Sheet are adequate to cover all taxes (including interest and penalties, if any, thereon) payable or accrued as a result of its operations for all periods prior to the date of the Clearfield Balance Sheet.

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Section 3.12. Title to and Condition of Assets. Clearfield has good and marketable title to all real and personal properties and assets reflected in the Clearfield Balance Sheet or acquired subsequent to September 30, 1998 (other than property and assets disposed of in the Ordinary Course of Business), free and clear of all liens or encumbrances of any kind whatsoever other than: (i) as reflected in the Clearfield Balance Sheet; (ii) liens of current taxes not yet due; and (iii) imperfections of title, encumbrances and easements, if any, that are not substantial in character, amount or extent and do not materially detract from the value, or interfere with the present or proposed use, of the properties and assets subject thereto. The structures and other improvements to real estate, furniture, fixtures and equipment reflected in the Clearfield Balance Sheet or acquired subsequent to September 30, 1998, are in good operating condition and repair (ordinary wear and tear excepted) and comply in all material respects with all applicable laws, ordinances and regulations, including without limitation all building codes, zoning ordinances and other similar laws. Clearfield owns or has the right to use all real and personal properties and assets necessary to the conduct of its business as now conducted.

Section 3.13. Contracts. All contracts, agreements, leases, licenses and other commitments are valid and in full force and effect, and all parties thereto have in all material respects performed all obligations required to be performed by them to date and are not in default in any material respect.

Except as disclosed on Schedule 3.13, Clearfield is not a party to or subject to (i) any employment, consulting or severance contract or arrangement with any past or present officer, director or employee, except for "at will" arrangements (ii) any plan, arrangement or contract providing for bonuses, options, deferred compensation, profit sharing or similar arrangements for or with any past or present officers, directors or employees of Clearfield; (iii) any collective bargaining agreement with any labor union relating to employees of Clearfield; (iv) any agreement that by its terms limits the payment of dividends by Clearfield; (v) any instrument evidencing or related to indebtedness for borrowed money in excess of \$20,000, whether directly or indirectly, by way of purchase money obligation, conditional sale, lease purchase, guaranty or otherwise, in respect of which Clearfield is an obligor to any person, which instrument evidences or relates to indebtedness other than deposits, repurchase agreements, bankers acceptances and "treasury tax and loan" accounts established in the Ordinary Course of Business and transactions in federal funds or that contains financial covenants or other restrictions (other than those relating to the payment of principal and interest when due) that would be applicable on or after the Effective Date to Penn Laurel or any Penn Laurel subsidiary; (vi) any contract (other than this Agreement) limiting the freedom of Clearfield to engage in any type of banking or banking-related business permissible under law; or (vii) any contract, plan or arrangement that provides for payments or benefits in certain circumstances that, together with other payments or benefits payable to any participant therein or party thereto, might render any portion of any payments or benefits subject to disallowance of deduction therefor as a result of the application of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code").

No party to any material contract, plan, arrangement or instrument that requires annual payments in excess of \$10,000 will have the right to terminate any or all of the provisions of any

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contract, plan, arrangement or instrument as a result of the transactions contemplated by this Agreement, and none of the employees of Clearfield possess the right to terminate their employment as a result of the execution of this Agreement. Except as otherwise previously disclosed, no plan, employment agreement, termination agreement, or similar agreement or arrangement to which Clearfield is a party or under which Clearfield may be liable contains provisions that permit an employee or independent contractor to terminate it without cause and continue to accrue future benefits thereunder. No agreement, plan or arrangement provides for acceleration in the vesting of benefits or payments due thereunder upon the occurrence of a change in ownership or control of Clearfield absent the occurrence of a subsequent event; provides for benefits that may cause the disallowance of a federal income tax deduction under Section 280G of the Code; or requires Clearfield to provide a benefit in the form of Clearfield Common Stock or determined by reference to the value of Clearfield Common Stock.

Section 3.14. Litigation and Governmental Directives. There is no litigation, investigation or proceeding pending, or to the knowledge of Clearfield threatened, that involves Clearfield or its properties and that, if determined adversely, would materially and adversely affect the condition (financial or otherwise), assets, liabilities, business, operations or future prospects of Clearfield; there are no outstanding orders, writs, injunctions, judgments, decrees, regulations, directives, consent agreements or memoranda of understanding issued by any federal, state or local court or governmental authority or arbitration tribunal issued against or with the consent of Clearfield that materially and adversely affect the condition (financial or otherwise), assets, liabilities, business, operations or future prospects of Clearfield or that in any manner restrict Clearfield's right to conduct its business as presently conducted, or challenge the validity or propriety of any of the transactions contemplated by the Agreement, or that could adversely affect the ability of Clearfield to perform under this Agreement; and Clearfield is not aware of any fact or condition presently existing that might give rise to any litigation, investigation or proceeding that, if determined adversely to Clearfield, would materially and adversely affect the condition (financial or otherwise), assets, liabilities, business, operations or future prospects of Clearfield.

Section 3.15. Compliance with Laws; Governmental Authorizations. Clearfield is in compliance with all statutes, laws, ordinances, rules, regulations, judgments, orders, decrees, directives, consent agreements, memoranda of understanding, permits, concessions, grants, franchises, licenses, and other governmental authorizations or approvals applicable to Clearfield or to any of its properties; all permits, concessions, grants, franchises, licenses and other governmental authorizations and approvals necessary for the conduct of the business of Clearfield as presently conducted have been duly obtained and are in full force and effect, and there are no proceedings pending, or to the knowledge of Clearfield threatened, that may result in the revocation, cancellation, suspension or materially adverse modification of any thereof; and Clearfield has not received any notification or communication from any regulatory authority (A) asserting that it is not in substantial compliance with any of the statutes, regulations or ordinances that the regulatory authorities enforce; (B) requiring or threatening to require Clearfield, or indicating that Clearfield may be required, to enter into a cease and desist order, agreement or memorandum of understanding or any other agreement restricting or limiting, or purporting to restrict or limit, in any manner the operations of Clearfield, including without limitation, any restriction on the payment of dividends (any notice,

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communication, memorandum, agreement or order described herein is referred to as a "Regulatory Agreement"); (C) threatening to revoke any license, franchise, permit or governmental authorization that is material to Clearfield; (D) requiring Clearfield to enter into any Regulatory Agreement; or (E) requesting that board resolutions be adopted pursuant to regulatory action.

Section 3.16. Insurance. All policies of insurance, including all policies of title insurance and financial institutions bonds, held by or on behalf of Clearfield are in full force and effect and no notices of cancellation have been received in connection therewith. All the policies of insurance have been issued by reputable insurers and, in respect of amounts, types and risks, the insurance is customary with industry practices for the business conducted by Clearfield.

Section 3.17. Financial Institutions Bonds. Since January 1, 1991, Clearfield has continuously maintained in full force and effect a financial institutions bond insuring Clearfield against acts of dishonesty by each of its employees. Except as previously disclosed, no claim has been made under any bond, and Clearfield is not aware of any fact or condition presently existing that might form the basis of a claim under any bond. Clearfield has no reason to believe that its present financial institutions bond will not be renewed by its carrier on substantially the same terms and at the same rate as now in effect.

Section 3.18. Labor Relations. Clearfield is not a party to or bound by any collective bargaining agreement, contract or other agreement or understanding with a labor union or labor organization, nor is Clearfield the subject of a proceeding asserting that Clearfield has committed an unfair labor practice or seeking to compel Clearfield to bargain with any labor organization as to wages and conditions of employment, nor is there any strike or other labor dispute involving Clearfield pending, or to the knowledge of Clearfield, threatened, that might materially adversely affect the condition (financial or otherwise), assets, liabilities, business or operations of Clearfield. Clearfield is not subject to or a party in any Complaint or action before the Pennsylvania Human Relations Commission, the Equal Employment Opportunity Commission, or the Department of Labor. There are no labor disputes pending, or to the knowledge of Clearfield threatened, that might materially and adversely affect the condition (financial or otherwise), assets, liabilities, business or operations of Clearfield.

Section 3.19. Employee Benefit Plans. Each "employee benefit plan", as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), that now covers any employee of Clearfield, its predecessors or affiliates, complies in all material respects with all applicable requirements of ERISA, the Code and other applicable laws. Neither Clearfield nor any of its predecessors or affiliates has engaged in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) or any breach of fiduciary responsibility under Part 4 of Title I of ERISA, with respect to which a prohibited transaction is likely to result in any material penalties or taxes under Section 502 of ERISA or Section 4975 of the Code, or any material liability to any participant or beneficiary of the plan. No material liability to the Pension Benefit Guaranty Corporation has been or is expected to be incurred by Clearfield with respect to itself or its predecessors or affiliates with respect to any plan that is subject to Title IV of ERISA, or with respect to any "single employer plan" (as defined in Section 4001(a)(15) of ERISA) currently or

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formerly maintained. No plan had an "accumulated funding deficiency" (as defined in Section 302 of ERISA) (whether or not waived) as of the last day of the end of the most recent plan year ending prior to the date hereof. The fair market value of the assets of each plan exceeds the present value of the "benefit liabilities" (as defined in Section 4001(a)(16) of ERISA) under each plan as of the end of the most recent plan year, calculated on the basis of the actuarial assumptions used in the most recent actuarial valuation for each plan. No notice of a "reportable event" (as defined in Section 4043 of ERISA) for which the 30-day reporting requirement has not been waived has been required to be filed for any of the plans within the 12-month period ending on the date hereof. Neither Clearfield, its predecessors or affiliates has provided, or is required to provide, security to any plans pursuant to Section 401(a)(29) of the Code. Clearfield, its predecessors and affiliates have contributed to no "multi-employer plan", as defined in Section 3(37) of ERISA, on or after September 26, 1980. All actuarial valuations and other documents and information concerning benefit plans delivered or made available in connection with this Agreement are true and correct as of the date(s) shown thereon, and all actuarial methods and assumptions are appropriate for the plans, and are consistent with the methods and assumptions permitted by the Code and ERISA. All the plans are funded to the extent that the assets of each plan would then be sufficient to pay all vested accrued benefits thereunder, and there would be no employer liability under Title IV of ERISA. Except as previously disclosed, since 1990, there has been no audit of any benefit plan of Clearfield by the Department of Labor, the IRS or the Pension Benefit Guaranty Corporation ("PBGC"). There has not been any audit of the Pension Plan or any of Clearfield's other employee benefit plans by the Department of Labor, the IRS or the PBGC since 1988. Clearfield, its predecessors and affiliates, have no obligation for retiree health and life benefits under any benefit plan, contract, or arrangement. Clearfield has no obligation for any post-retirement benefits under any plan, contract or arrangement except as previously disclosed on Schedule 3.19.

Section 3.20. Related Party Transactions. Except as previously disclosed, Clearfield has no contract, extension of credit, business arrangement or other relationship of any kind with any of the following persons: (i) any present or former officer or director of Clearfield; (ii) any shareholder owning five percent or more of the outstanding Clearfield Common Stock; and (iii) any "associate" (as defined in Rule 405 promulgated by the Securities and Exchange Commission (the "Commission")) of the foregoing persons or any business in which any of the foregoing persons is an officer, director, employee or five percent or greater equity owner. Each extension of credit previously disclosed has been made in the Ordinary Course of Business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable arms' length transactions with other persons that do not involve more than a normal risk of collectibility or present other unfavorable features.

Section 3.21. Complete and Accurate Disclosure. Neither this Agreement (insofar as it relates to Clearfield, Clearfield Common Stock and Clearfield's involvement in the transactions contemplated hereby) nor any financial statement, schedule, certificate, or other statement or document delivered by Clearfield to Penn Laurel or CSB in connection herewith contains any statement that, at the time and in light of the circumstances under which it is made, is false or misleading with respect to any material fact or omits to state any material fact necessary to make the statements contained herein or therein not false or misleading. In particular, without limiting the

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generality of the foregoing sentence, the information provided and the representations made by Clearfield to Penn Laurel and CSB in connection with the Registration Statement (as defined in Section 7.2(b) of this Agreement), both at the time the information and representations are provided and made and at the Effective Date, will be true and accurate in all material respects and will not contain any false or misleading statement with respect to any material fact or omit to state any material fact necessary (i) to make the statements made therein not false or misleading, or (ii) to correct any statement contained in an earlier communication with respect to the information or representations that has become false or misleading.

Section 3.22. Beneficial Ownership of Penn Laurel Common Stock. Prior to the Effective Date, Clearfield and its officers and directors will not beneficially own, in the aggregate, (within the meaning of Commission Rule 13d-3(d)(1)) more than five percent of the outstanding shares of Penn Laurel Common Stock, except as may be held by the Clearfield Trust Department.

Section 3.23. Environmental Matters. For purposes of this Section 3.23 and Section 4.22 below, the following terms shall have the indicated meaning:

"Environmental Law" means any federal, state or local law, statute, ordinance, rule, regulation, code, license, permit, authorization, approval, consent, order, judgment, decree, injunction or agreement with any governmental entity relating to: the protection, preservation or restoration of the environment (including, without limitation, air, water vapor, surface water, groundwater, drinking water supply, surface soil, subsurface soil, plant and animal life or any other natural resource); and the use, storage, recycling, treatment, generation, transportation, processing, handling, labeling, production, release or disposal of Hazardous Substances. The term Environmental Law includes without limitation: the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. §9601, *et seq.*, the Resource Conservation and Recovery Act, as amended, 42 U.S.C. §6901, *et seq.*, the Clean Air Act, as amended, 42 U.S.C. §7401, *et seq.*, the Federal Water Pollution Control Act, as amended, 33 U.S.C. §1251, *et seq.*, the Toxic Substances Control Act, as amended, 15 U.S.C. §9601, *et seq.*, the Emergency Planning and Community Right to Know Act, 42 U.S.C. §11001, *et seq.*, the Safe Drinking Water Act, 42 U.S.C. §300f, *et seq.*, and all comparable state and local laws; and any common law (including without limitation common law that may impose strict liability) that may impose liability or obligation for injuries or damages due to, or threatened as a result of, the presence of or exposure to any Hazardous Substance.

"Hazardous Substance" means any substance presently listed, defined, designated or classified as hazardous, toxic, radioactive or dangerous or otherwise regulated under any Environmental Law, whether by type or by quantity, including any material containing any such substance as a component. Hazardous Substances include, without limitation, petroleum or any derivative or by-product thereof, asbestos, radioactive material, and polychlorinated biphenyls.

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"Loan Portfolio Properties and Other Properties Owned" means those properties serving as collateral for loans in CSB's or Clearfield's loan portfolio as the case may be, or properties owned or operated by CSB or Clearfield (including, without limitation, in a fiduciary capacity), as the case may be.

Except as previously disclosed:

(a) Clearfield has not been and is not in violation of or liable under any Environmental Law.

(b) To the knowledge of Clearfield, , none of the Loan Portfolio Properties and Other Properties Owned have been or are in violation of or liable under any Environmental Law.

(c) Clearfield has no knowledge that any environmental contaminant, pollutant, toxic or hazardous waste or other similar substance has been generated, used, stored, processed, disposed of or discharged onto any of the real estate now or previously owned or acquired (including without limitation any real estate acquired by means of foreclosure or exercise of any other creditor's right) or leased by Clearfield, except as previously disclosed. In particular, without limiting the generality of the foregoing sentence, except as previously disclosed, Clearfield has no knowledge that: (i) any materials containing asbestos have been used or incorporated in any building or other structure or improvement located on any of the real estate now or previously owned or acquired (including without limitation any real estate acquired by means of foreclosure or exercise of any other creditor's right) or leased by Clearfield; (ii) any electrical transformers, fluorescent light fixtures with ballasts or other equipment containing PCB's are or have been located on any of the real estate now or previously owned or acquired (including without limitation any real estate acquired by means of foreclosure or exercise of any other creditor's right) or leased by Clearfield; (iii) any underground storage tanks for the storage of gasoline, petroleum products or other toxic or hazardous substances are or have ever been located on any of the real estate now or previously owned or acquired (including without limitation any real estate acquired by means of foreclosure or exercise of any other creditor's right) or leased by Clearfield.

(d) Except as previously disclosed, there is no legal, administrative, arbitration or other proceeding, claim, action, or to the knowledge of Clearfield cause of action or governmental investigation of any nature seeking to impose, or that could result in the imposition, on Clearfield of any liability arising under any local, state or federal environmental statute, regulation or ordinance including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, pending or to the knowledge of Clearfield threatened against Clearfield; there is no reasonable basis for any such proceeding, claim, action or governmental investigation; and Clearfield is not subject to any agreement, order,

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judgment, decree or memorandum by or with any court, governmental authority, regulatory agency or third party imposing any such liability.

Section 3.24. Proxy Statement/Prospectus. At the time the Proxy Statement/Prospectus (as defined in Section 7.2(b) of this Agreement) is mailed to the shareholders of Clearfield, and at all times subsequent to the mailing, up to and including the Effective Date, the Proxy Statement/Prospectus (including any pre- and post-effective amendments and supplements thereto), with respect to all information relating to Clearfield, Clearfield Common Stock, and actions taken and statements made by Clearfield in connection with the transactions contemplated herein (except for information provided by Penn Laurel and CSB) will: (i) comply in all material respects with applicable provisions of the Securities Act of 1933, as amended (the "Securities Act"), and the pertinent rules and regulations thereunder; and (ii) not contain any statement that, at the time and in light of the circumstances under which it is made, is false or misleading with respect to any material fact, or omits to state any material fact that is necessary to be stated therein in order (A) to make the statements therein not false or misleading, or (B) to correct any statement in an earlier communication with respect to the Proxy Statement/Prospectus that has become false or misleading.

Section 3.25. Non-Registration Under the Securities Exchange Act of 1934. Clearfield Common Stock is neither registered nor required to be registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and is not subject to the periodic reporting requirements imposed by Section 13 or 15(d) of the Exchange Act.

Section 3.26. Deposit Insurance. The deposits of Clearfield are insured by the Bank Insurance Fund, as administered by the Federal Deposit Insurance Corporation (the "FDIC") in accordance with the Federal Deposit Insurance Act, as amended (the "FDIA") and Clearfield has paid all assessments and filed all reports required by the FDIA.

Section 3.27. Repurchase Agreements. With respect to any agreement, pursuant to which Clearfield has purchased securities subject to an agreement to resell, if any, Clearfield has a valid, perfected first lien or security interest in the government securities or other collateral securing the repurchase agreement, and the value of the collateral equals or exceeds the amount of the debt secured thereby.

Section 3.28. Assumability of Contracts and Leases. Except as previously disclosed, all Material Contracts between Clearfield and any other entity or person are assumable and assignable and do not contain any term or provision that would accelerate or increase payments that would otherwise be due by Clearfield to the person or entity, or change or modify the provisions or terms of the leases, contracts and agreements by reason of this Agreement or the transactions contemplated hereby. Except as previously disclosed, each lease pursuant to which Clearfield, as lessee, leases real or personal property is valid and in effect in accordance with its respective terms, and there is not, under any of the leases, on the part of the lessee any material existing default or any event that, with notice or lapse of time, or both, would constitute a default, other than defaults that would not individually or in the aggregate have a material adverse effect on the financial condition, business, prospects, or operating results of Clearfield.

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Section 3.29. Loans. Except as previously disclosed, each loan reflected as an asset on Clearfield's financial statements as of September 30, 1998, or acquired since that date, is the legal, valid and binding obligation of the obligor named therein, enforceable in accordance with its terms, subject to bankruptcy, insolvency and other laws of general applicability relating to or affecting creditors' rights and to general equity principles. All loans, and the collateral and other security therefor, and the documentation for the same, meet the requirements, rules, regulations or directives of the FDIC, or other applicable governmental authorities.

Section 3.30. Adjustable Rate Mortgages. Clearfield has made all interest rate adjustments to any mortgage loan according to the terms of said mortgage loan and has complied and is in compliance in all material respects with all federal, state and other applicable laws, rules and regulations, including orders, writs, decrees, injunctions and other requirements of any court or governmental authorities having jurisdiction over adjustable rate mortgages.

Section 3.31. CRA Compliance. Clearfield has received a satisfactory compliance rating and has received a satisfactory Community Reinvestment Act rating. Clearfield has no knowledge of any facts or circumstances that would prevent it from receiving satisfactory ratings upon its next appropriate examination.

Section 3.32. Loan Loss Reserve. The loan loss reserve of Clearfield is and shall remain adequate in light of generally accepted accounting principles, directives of governmental authorities, and all regulations, rules and directives of the Banking Department of the Commonwealth of Pennsylvania (the "Banking Department") and the FDIC. No regulatory authority requested Clearfield to increase the allowance for loan losses during 1998, 1997 or 1996.

Section 3.33. Trust Department and Fiduciary Relationships. Clearfield has established, maintained and administered all fiduciary and custodian relationships, accounts and agreements; and undertaken and performed all fiduciary and custodian duties, obligations, and responsibilities in compliance with all applicable laws, statutes, rules, regulations and the governing instruments of the fiduciary and custodian relationships.

Section 3.34. Member Federal Reserve System. Clearfield is not a member of the Federal Reserve System.

Section 3.35. Year 2000 Compliance. Clearfield is in compliance with all requirements announced or promulgated by the Clearfield Regulatory Agencies and by the Federal Financial Institutions Examination Council in connection with Year 2000 preparedness and compliance.

Section 3.36. Accuracy of Representations. Clearfield will promptly notify Penn Laurel if any of the representations contained in this Article III cease to be true and correct subsequent to the date hereof. Further, no representations made by Clearfield pursuant to this Agreement contain any untrue statement of material fact or omit to state a material fact necessary to make the statements not misleading.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF PENN LAUREL

Penn Laurel represents and warrants to Clearfield, as of this date, as follows:

Section 4.1. Authority. Penn Laurel has all requisite corporate power and authority to enter into and perform all of its obligations under this Agreement and the Bank Merger Agreement. The execution and delivery of this Agreement and the Bank Merger Agreement and the consummation of the transactions contemplated herein and therein have been duly and validly authorized by the Board of Directors of Penn Laurel, and no other corporate action on the part of Penn Laurel, except approval by the shareholders of Penn Laurel, is necessary to authorize this Agreement and the Bank Merger Agreement or the consummation of the transactions contemplated herein and therein. This Agreement and the Bank Merger Agreement have been duly executed and delivered by Penn Laurel and, assuming due authorization, execution and delivery by Clearfield, and receipt of all required regulatory and shareholder approvals, constitutes a valid and binding obligation of Penn Laurel. Assuming regulatory and shareholder approval, the execution, delivery and consummation of this Agreement will not constitute a violation or breach of or default under the Articles of Incorporation or the Bylaws of Penn Laurel or any statute, rule, regulation, order, decree, directive, agreement, indenture or other instrument to which Penn Laurel is a party or by which Penn Laurel or any of its properties are bound.

Section 4.2. Organization and Standing. Penn Laurel is a business corporation that is duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania. Penn Laurel is a registered bank holding company under the Bank Holding Company Act of 1956, as amended, and has full power and lawful authority to own and hold its properties and to carry on its present business. Penn Laurel owns all of the issued and outstanding shares of capital stock of CSB. CSB is a Pennsylvania chartered banking institution validly existing and in good standing under the laws of the Commonwealth of Pennsylvania, and is duly authorized to engage in the banking business as an insured bank under the FDIA.

Section 4.3. Subsidiaries. Except for CSB and CSB Financial Services, Inc., except as previously disclosed, Penn Laurel owns no subsidiaries, directly or indirectly.

Section 4.4. Capitalization. The authorized capital stock of Penn Laurel consists of 2,500,000 shares of Penn Laurel Common Stock, par value \$5.00 per share, of which, at September 30, 1998, 346,587 shares were issued and outstanding. All outstanding shares of Penn Laurel Common Stock have been duly authorized and are validly issued, fully paid and nonassessable. The shares of Penn Laurel Common Stock to be issued in connection with the Merger have been duly authorized and, when issued in accordance with the terms of this Agreement and the Bank Merger Agreement, will be validly issued, fully paid and nonassessable. Other than 9,000 options to purchase shares of its Common Stock and its K-SOP Plan, Penn Laurel has no other outstanding options, agreements, convertible securities, warrants or other rights to purchase its stock.

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Section 4.5. Articles of Incorporation, Bylaws and Minute Books. The copies of the Articles of Incorporation and Bylaws of Penn Laurel and CSB that have been delivered to Clearfield are true, correct and complete. Except as previously disclosed, all minute books of Penn Laurel and CSB have been made available to Clearfield for inspection and are true, correct and complete in all material respects and record the actions taken by the Board of Directors of Penn Laurel and CSB at the meetings documented in the minutes.

Section 4.6. Consents. Except for the consents, approvals, filings and registrations contemplated by Sections 8.1(a) and (c) hereof, and compliance with any conditions contained therein, and the approval of this Agreement and the Bank Merger Agreement by the Board of Directors and shareholders of Penn Laurel and the shareholder of CSB, no consents or approvals of, or filings or registrations with, any public body or authority are necessary, and no consents or approvals of any third parties are necessary, or will be, in connection with the execution and delivery of this Agreement or the Bank Merger Agreement by Penn Laurel and CSB, and the consummation by Penn Laurel and CSB of the transactions contemplated hereby. Penn Laurel and CSB have no reason to believe that any required consents or approvals will not be received or will be received with conditions, limitations or restrictions unacceptable to it or that would adversely impact Penn Laurel's or CSB's ability to consummate the transactions contemplated by this Agreement.

Section 4.7. Financial Statements and Regulatory Reports. Penn Laurel has delivered to Clearfield its: (i) Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Shareholders' Equity, and Consolidated Statements of Cash Flows as of and for the years ended December 31, 1997 and December 31, 1996, certified by Walter Hopkins and Company, Public Accountants, of Clearfield, Pennsylvania, Penn Laurel's independent auditors, and set forth in the Annual Report to the shareholders of Penn Laurel for the year ended on December 31, 1997 (the "Penn Laurel Financial Statements"); and (ii) Call Reports, Consolidated Reports of Condition and Income (the foregoing Consolidated Statement of Condition being hereinafter referred to as the "Penn Laurel Balance Sheet"). Each of the foregoing financial statements fairly presents the consolidated financial position, assets, liabilities and results of operations of Penn Laurel at their respective dates and for the respective periods then ended and has been prepared in accordance with generally accepted accounting principles consistently applied, except as otherwise noted in a footnote thereto and subject, in the case of the interim financial statements contained in the aforesaid Penn Laurel Regulatory Reports, to normal recurring year-end adjustments, that are not material in any case or in the aggregate. The books and records of Penn Laurel and CSB are maintained in accordance with generally accepted accounting principles consistently applied. The Penn Laurel Regulatory Reports have been, or will be, prepared in accordance with applicable regulatory accounting principles and practices applied on a consistent basis throughout the periods covered by the statements, and fairly present, or will fairly present, the financial position, results of operations and changes in shareholders' equity of Penn Laurel or CSB, as the case may be, as of and for the periods ended on the dates thereof, in accordance with applicable regulatory accounting principles applied on a consistent basis.

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Section 4.8. Absence of Undisclosed Liabilities. Except as previously disclosed, or as reflected, noted or adequately reserved against in the Penn Laurel Balance Sheet, at September 30, 1998, Penn Laurel had no material liabilities (whether accrued, absolute, contingent or otherwise) that are required to be reflected, noted or reserved against therein under generally accepted accounting principles or which are in any case or in the aggregate material. Except as previously disclosed, since September 30, 1998, Penn Laurel has not incurred any such liability other than liabilities of the same nature as those set forth in the Penn Laurel Balance Sheet, all of which have been reasonably incurred in the Ordinary Course of Business.

Section 4.9. Absence of Changes. Since September 30, 1998, Penn Laurel and CSB have conducted their business in the Ordinary Course of Business and, except as previously disclosed, Penn Laurel and CSB have not undergone any change in condition (financial or otherwise), assets, liabilities, business or operations, other than changes in the Ordinary Course of Business that have not been, either in any case or in the aggregate, materially adverse.

Section 4.10. Dividends, Distributions and Stock Purchases. Except as previously disclosed, since September 30, 1998, Penn Laurel has not declared, set aside, made or paid any dividend or other distribution in respect of the Penn Laurel Common Stock, or purchased, issued or sold any shares of Penn Laurel Common Stock.

Section 4.11. Taxes. Penn Laurel has filed all federal, state, county, municipal and foreign tax returns, reports and declarations that are required to be filed by Penn Laurel. Except as previously disclosed, (i) Penn Laurel has paid all taxes, penalties and interest that have become due pursuant thereto or that became due pursuant to assessments, and (ii) Penn Laurel has not received any notice of deficiency or assessment of additional taxes and no tax audits are in process. The IRS has not, to the knowledge of Penn Laurel, commenced, or given notice of its intention to commence any examination or audit of the federal income tax returns of Penn Laurel for any year through and including the year ended December 31, 1997. Penn Laurel has not granted any waiver of any statute of limitations or otherwise agreed to any extension of a period for the assessment of any federal, state, county, municipal or foreign income tax. Except as previously disclosed, the accruals and reserves reflected in the Penn Laurel Balance Sheet are adequate to cover all taxes (including interest and penalties, if any, thereon) payable or accrued as a result of its operations for all periods prior to the date of the Penn Laurel Balance Sheet.

Section 4.12. Title to and Condition of Assets. Penn Laurel has good and marketable title to all real and personal properties and assets reflected in the Penn Laurel Balance Sheet or acquired subsequent to September 30, 1998 (other than property and assets disposed of in the Ordinary Course of Business), free and clear of all liens or encumbrances of any kind whatsoever other than: (i) as reflected in the Penn Laurel Balance Sheet; (ii) liens of current taxes not yet due; and (iii) imperfections of title, encumbrances and easements, if any, that are not substantial in character, amount or extent and do not materially detract from the value, or interfere with the present or proposed use, of the properties and assets subject thereto. The structures and other improvements to real estate, furniture, fixtures and equipment reflected in the Penn Laurel Balance Sheet or acquired subsequent to September 30, 1998, are in good operating condition and repair (ordinary wear and

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tear excepted) and comply in all material respects with all applicable laws, ordinances and regulations, including without limitation all building codes, zoning ordinances and other similar laws. Penn Laurel and CSB own or have the right to use all real and personal properties and assets necessary to the conduct of their business as now conducted.

Section 4.13. Contracts. All contracts, agreements, leases, licenses and other commitments are valid and in full force and effect, and all parties thereto have in all material respects performed all obligations required to be performed by them to date and are not in default in any material respect.

Except as previously disclosed, neither Penn Laurel nor CSB is a party to or subject to (i) any employment, consulting or severance contract or arrangement with any past or present officer, director or employee, except for "at will" arrangements (ii) any plan, arrangement or contract providing for bonuses, options, deferred compensation, profit sharing or similar arrangements for or with any past or present officers, directors or employees of Penn Laurel or CSB; (iii) any collective bargaining agreement with any labor union relating to employees of Penn Laurel or CSB; (iv) any agreement that by its terms limits the payment of dividends by Penn Laurel or CSB; (v) any instrument evidencing or related to indebtedness for borrowed money in excess of \$20,000, whether directly or indirectly, by way of purchase money obligation, conditional sale, lease purchase, guaranty or otherwise, in respect of which Penn Laurel or CSB is an obligor to any person, which instrument evidences or relates to indebtedness other than deposits, repurchase agreements, bankers acceptances and "treasury tax and loan" accounts established in the Ordinary Course of Business and transactions in federal funds or that contains financial covenants or other restrictions (other than those relating to the payment of principal and interest when due) that would be applicable on or after the Effective Date to Penn Laurel or any Penn Laurel subsidiary; (vi) any contract (other than this Agreement) limiting the freedom of Penn Laurel or CSB to engage in any type of banking or banking-related business permissible under law; or (vii) any contract, plan or arrangement that provides for payments or benefits in certain circumstances that, together with other payments or benefits payable to any participant therein or party thereto, might render any portion of any payments or benefits subject to disallowance of deduction therefor as a result of the application of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code").

No party to any material contract, plan, arrangement or instrument that requires annual payments in excess of \$10,000 will have the right to terminate any or all of the provisions of any contract, plan, arrangement or instrument as a result of the transactions contemplated by this Agreement, and except as previously disclosed, none of the employees of Penn Laurel or CSB possess the right to terminate their employment as a result of the execution of this Agreement. No plan, employment agreement, termination agreement, or similar agreement or arrangement to which Penn Laurel or CSB is a party or under which Penn Laurel or CSB may be liable contains provisions that permit an employee or independent contractor to terminate it without cause and continue to accrue future benefits thereunder. Except as previously disclosed, no agreement, plan or arrangement provides for acceleration in the vesting of benefits or payments due thereunder upon the occurrence of a change in ownership or control of Penn Laurel or CSB absent the occurrence of a subsequent event; provides for benefits that may cause the disallowance of a federal income tax

deduction under Section 280G of the Code; or requires Penn Laurel or CSB to provide a benefit in the form of Penn Laurel Common Stock or determined by reference to the value of Penn Laurel Common Stock.

Section 4.14. Litigation and Governmental Directives. Except as previously disclosed, there is no litigation, investigation or proceeding pending, or to the knowledge of Penn Laurel threatened, that involves Penn Laurel or CSB or their properties and that, if determined adversely, would materially and adversely affect the condition (financial or otherwise), assets, liabilities, business, operations or future prospects of Penn Laurel or CSB; there are no outstanding orders, writs, injunctions, judgments, decrees, regulations, directives, consent agreements or memoranda of understanding issued by any federal, state or local court or governmental authority or arbitration tribunal issued against or with the consent of Penn Laurel or CSB that materially and adversely affect the condition (financial or otherwise), assets, liabilities, business, operations or future prospects of Penn Laurel or CSB or that in any manner restrict Penn Laurel's or CSB's right to conduct its business as presently conducted, or challenge the validity or propriety of any of the transactions contemplated by the Agreement, or that could adversely affect the ability of Penn Laurel or CSB to perform under this Agreement; and Penn Laurel is not aware of any fact or condition presently existing that might give rise to any litigation, investigation or proceeding that, if determined adversely to Penn Laurel or CSB, would materially and adversely affect the condition (financial or otherwise), assets, liabilities, business, operations or future prospects of Penn Laurel or CSB.

Section 4.15. Compliance with Laws; Governmental Authorizations. Penn Laurel and CSB are in compliance with all statutes, laws, ordinances, rules, regulations, judgments, orders, decrees, directives, consent agreements, memoranda of understanding, permits, concessions, grants, franchises, licenses, and other governmental authorizations or approvals applicable to Penn Laurel or CSB or to any of their properties; all permits, concessions, grants, franchises, licenses and other governmental authorizations and approvals necessary for the conduct of the business of Penn Laurel and of CSB, as presently conducted, have been duly obtained and are in full force and effect, and there are no proceedings pending, or to the knowledge of Penn Laurel threatened, that may result in the revocation, cancellation, suspension or materially adverse modification of any thereof; and Penn Laurel has not received any notification or communication from any regulatory authority (A) asserting that Penn Laurel or CSB is not in substantial compliance with any of the statutes, regulations or ordinances that the regulatory authorities enforce; (B) requiring or threatening to require Penn Laurel or CSB, or indicating that Penn Laurel or CSB may be required, to enter into a cease and desist order, agreement or memorandum of understanding or any other agreement restricting or limiting, or purporting to restrict or limit, in any manner the operations of Penn Laurel or CSB, including without limitation, any restriction on the payment of dividends (any notice, communication, memorandum, agreement or order described herein is referred to as a "Regulatory Agreement"); (C) threatening to revoke any license, franchise, permit or governmental authorization that is material to Penn Laurel or CSB; (D) requiring Penn Laurel to enter into any Regulatory Agreement or; (E) requesting board resolutions be adopted pursuant to regulatory action.

Section 4.16. Insurance. All policies of insurance, including all policies of title insurance and financial institutions bonds, held by or on behalf of Penn Laurel or CSB are in full force and

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effect and no notices of cancellation have been received in connection therewith. All the policies of insurance have been issued by reputable insurers and, in respect of amounts, types and risks, the insurance is customary with industry practices for the business conducted by Penn Laurel or CSB, as the case may be.

Section 4.17. Labor Relations. Neither Penn Laurel nor CSB is a party to or bound by any collective bargaining agreement, contract or other agreement or understanding with a labor union or labor organization, nor is Penn Laurel or CSB the subject of a proceeding asserting that Penn Laurel or CSB has committed an unfair labor practice or seeking to compel Penn Laurel or CSB to bargain with any labor organization as to wages and conditions of employment, nor is there any strike or other labor dispute involving Penn Laurel or CSB pending, or to the knowledge of Penn Laurel or CSB, threatened, that might materially adversely affect the condition (financial or otherwise), assets, liabilities, business or operations of Penn Laurel or CSB, as the case may be. Neither Penn Laurel nor CSB is subject to or a party in any Complaint or action before the Pennsylvania Human Relations Commission, the Equal Employment Opportunity Commission, or the Department of Labor. There are no labor disputes pending, or to the knowledge of Penn Laurel threatened, that might materially and adversely affect the condition (financial or otherwise), assets, liabilities, business or operations of Penn Laurel or CSB.

Section 4.18. Employee Benefit Plans. Each "employee benefit plan", as defined in Section 3(3) of ERISA, that now covers any employee of Penn Laurel or CSB, its predecessors or affiliates, complies in all material respects with all applicable requirements of ERISA, the Code and other applicable laws. Neither Penn Laurel nor any of its predecessors or affiliates has engaged in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) or any breach of fiduciary responsibility under Part 4 of Title I of ERISA, with respect to which a prohibited transaction is likely to result in any material penalties or taxes under Section 502 of ERISA or Section 4975 of the Code, or any material liability to any participant or beneficiary of the plan. No material liability to the Pension Benefit Guaranty Corporation has been or is expected to be incurred by Penn Laurel with respect to itself or its predecessors or affiliates with respect to any plan that is subject to Title IV of ERISA, or with respect to any "single employer plan" (as defined in Section 4001(a)(15) of ERISA) currently or formerly maintained. No plan had an "accumulated funding deficiency" (as defined in Section 302 of ERISA) (whether or not waived) as of the last day of the end of the most recent plan year ending prior to the date hereof. The fair market value of the assets of each plan exceeds the present value of the "benefit liabilities" (as defined in Section 4001(a)(16) of ERISA) under each plan as of the end of the most recent plan year, calculated on the basis of the actuarial assumptions used in the most recent actuarial valuation for each plan. No notice of a "reportable event" (as defined in Section 4043 of ERISA) for which the 30-day reporting requirement has not been waived has been required to be filed for any of the plans within the 12-month period ending on the date hereof. Neither Penn Laurel, its predecessors nor affiliates has provided, or is required to provide, security to any plans pursuant to Section 401(a)(29) of the Code. Penn Laurel, its predecessors and affiliates have contributed to no "multi-employer plan", as defined in Section 3(37) of ERISA, on or after September 26, 1980. All actuarial valuations and other documents and information concerning benefit plans delivered or made available in connection with this Agreement are true and correct as of the date(s) shown thereon, and all actuarial methods and

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assumptions are appropriate for the plans, and are consistent with the methods and assumptions permitted by the Code and ERISA. All the plans are funded to the extent that the assets of each plan would then be sufficient to pay all vested accrued benefits thereunder, and there would be no employer liability under Title IV of ERISA. Since 1990, there has been no audit of any benefit plan of Penn Laurel or of CSB by the Department of Labor, the IRS or the PBGC. There has not been any audit of the Pension Plan or any of Penn Laurel's or CSB's other employee benefit plans by the Department of Labor, the IRS or the PBGC since 1988. Except as previously disclosed, Penn Laurel, its predecessors and affiliates, have no obligation for retiree health and life benefits under any benefit plan, contract, or arrangement. Penn Laurel and CSB have no obligation for any post-retirement benefits under any plan, contract or arrangement except as previously disclosed.

Section 4.19. Related Party Transactions. Except as previously disclosed, Penn Laurel and CSB have no contract, extension of credit, business arrangement or other relationship of any kind with any of the following persons: (i) any present or former officer or director of Penn Laurel or CSB; (ii) any shareholder owning five percent or more of the outstanding Penn Laurel Common Stock; and (iii) any "associate" (as defined in Rule 405 promulgated by the Commission of the foregoing persons or any business in which any of the foregoing persons is an officer, director, employee or five percent or greater equity owner. Each extension of credit previously disclosed has been made in the Ordinary Course of Business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable arms' length transactions with other persons that do not involve more than a normal risk of collectibility or present other unfavorable features.

Section 4.20. Complete and Accurate Disclosure. Neither this Agreement (insofar as it relates to Penn Laurel, CSB, Penn Laurel Common Stock and Penn Laurel's and CSB's involvement in the transactions contemplated hereby) nor any financial statement, schedule, certificate, or other statement or document delivered by Penn Laurel or CSB to Clearfield in connection herewith contains any statement that, at the time and in light of the circumstances under which it is made, is false or misleading with respect to any material fact or omits to state any material fact necessary to make the statements contained herein or therein not false or misleading. In particular, without limiting the generality of the foregoing sentence, the information provided and the representations made by Penn Laurel or CSB to Clearfield in connection with the Registration Statement (as defined in Section 7.2b) of this Agreement), both at the time the information and representations are provided and made and at the Effective Date, will be true and accurate in all material respects and will not contain any false or misleading statement with respect to any material fact or omit to state any material fact necessary (i) to make the statements made therein not false or misleading, or (ii) to correct any statement contained in an earlier communication with respect to the information or representations that has become false or misleading.

Section 4.21. Beneficial Ownership of Clearfield Common Stock. Prior to the Effective Date, Penn Laurel, CSB and their officers and directors will not beneficially own, in the aggregate, (within the meaning of Commission Rule 13d-3(d)(1)) more than five percent of the outstanding shares of Clearfield Common Stock.

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Section 4.22. Environmental Matters. Except as previously disclosed:

- (a) Penn Laurel and CSB have not been and are not in violation of or liable under any Environmental Law.
- (b) To the knowledge of Penn Laurel,, none of the Loan Portfolio Properties and Other Properties Owned have been or are in violation of or liable under any Environmental Law.
- (c) Penn Laurel has no knowledge that any environmental contaminant, pollutant, toxic or hazardous waste or other similar substance has been generated, used, stored, processed, disposed of or discharged onto any of the real estate now or previously owned or acquired (including without limitation any real estate acquired by means of foreclosure or exercise of any other creditor's right) or leased by Penn Laurel, except as previously disclosed. In particular, without limiting the generality of the foregoing sentence, except as previously disclosed, Penn Laurel has no knowledge that: (i) any materials containing asbestos have been used or incorporated in any building or other structure or improvement located on any of the real estate now or previously owned or acquired (including without limitation any real estate acquired by means of foreclosure or exercise of any other creditor's right) or leased by Penn Laurel or CSB; (ii) any electrical transformers, fluorescent light fixtures with ballasts or other equipment containing PCB's are or have been located on any of the real estate now or previously owned or acquired (including without limitation any real estate acquired by means of foreclosure or exercise of any other creditor's right) or leased by Penn Laurel or CSB; (iii) any underground storage tanks for the storage of gasoline, petroleum products or other toxic or hazardous substances are or have ever been located on any of the real estate now or previously owned or acquired (including without limitation any real estate acquired by means of foreclosure or exercise of any other creditor's right) or leased by Penn Laurel or CSB.
- (d) Except as previously disclosed, there is no legal, administrative, arbitration or other proceeding, claim, action, or to the knowledge of Penn Laurel cause of action or governmental investigation of any nature seeking to impose, or that could result in the imposition, on Penn Laurel or CSB of any liability arising under any local, state or federal environmental statute, regulation or ordinance including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, pending or to the knowledge of Penn Laurel threatened against Penn Laurel or CSB; there is no reasonable basis for any such proceeding, claim, action or governmental investigation; and neither Penn Laurel nor CSB is subject to any agreement, order, judgment, decree or memorandum by or with any court, governmental authority, regulatory agency or third party imposing any such liability.

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Section 4.23. Proxy Statement/Prospectus. At the time the Proxy Statement/Prospectus (as defined in Section 7.2b) of this Agreement) is mailed to the shareholders of Clearfield, and at all times subsequent to the mailing, up to and including the Effective Date, the Proxy Statement/Prospectus (including any pre- and post-effective amendments and supplements thereto), (other than information provided by Clearfield), will: (i) comply in all material respects with applicable provisions of the Securities Act and the Exchange Act and the pertinent rules and regulations thereunder; and (ii) not contain any statement that, at the time and in light of the circumstances under which it is made, is false or misleading with respect to any material fact, or omits to state any material fact that is necessary to be stated therein in order (A) to make the statements therein not false or misleading, or (B) to correct any statement in an earlier communication with respect to the Proxy Statement/Prospectus that has become false or misleading.

Section 4.24. Non-Registration Under the Securities Exchange Act of 1934. Penn Laurel Common Stock is neither registered nor required to be registered under Section 12 of the Exchange Act and is not subject to the periodic reporting requirements imposed by Section 13 or 15(d) of the Exchange Act.

Section 4.25. Repurchase Agreements. With respect to any agreement, pursuant to which Penn Laurel or CSB has purchased securities subject to an agreement to resell, if any, Penn Laurel or CSB, as the case may be, has a valid, perfected first lien or security interest in the government securities or other collateral securing the repurchase agreement, and the value of the collateral equals or exceeds the amount of the debt secured thereby.

Section 4.26. Assumability of Contracts and Leases. Except as previously disclosed, all Material Contracts between Penn Laurel or CSB, as the case may be, and any other entity or person do not contain any term or provision that would accelerate or increase payments that would otherwise be due by Penn Laurel or CSB to the person or entity, or change or modify the provisions or terms of the leases, contracts and agreements by reason of this Agreement or the transactions contemplated hereby. Except as previously disclosed, each lease pursuant to which Penn Laurel or CSB, as lessee, leases real or personal property is valid and in effect in accordance with its respective terms, and there is not, under any of the leases, on the part of the lessee any material existing default or any event that, with notice or lapse of time, or both, would constitute a default, other than defaults that would not individually or in the aggregate have a material adverse effect on the financial condition, business, prospects, or operating results of Penn Laurel or CSB.

Section 4.27. Accuracy of Representations. Penn Laurel will promptly notify Clearfield if any of the representations contained in this Article IV cease to be true and correct subsequent to the date hereof. Further, no representations made by Penn Laurel pursuant to this Agreement contain any untrue statement of material fact or omit to state a material fact necessary to make the statements not misleading.

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ARTICLE V

REPRESENTATIONS AND WARRANTIES OF CSB

CSB represents and warrants to Clearfield, as this date, as follows:

Section 5.1. Capital Structure of CSB. CSB is authorized to issue 150,000 shares of capital stock, par value \$5.00 per share, of which 120,000 shares are outstanding and held by Penn Laurel.

Section 5.2. Organization and Standing. CSB is a Pennsylvania chartered banking institution that is duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania. CSB has full power and lawful authority to own and hold its properties and to carry on its present business.

Section 5.3. Authorized and Effective Agreement. The execution, delivery and performance of this Agreement and the Bank Merger Agreement have been duly and validly authorized by the Board of Directors of CSB. Subject to appropriate shareholder and regulatory approvals, neither the execution and delivery of this Agreement or the Bank Merger Agreement nor the consummation of the transactions provided for herein or therein will violate any agreement to which CSB is a party or by which it is bound or any law, regulation, order, decree or any provision of its Articles of Incorporation or By-laws.

Section 5.4. Financial Institutions Bonds. Since January 1, 1991, CSB has continuously maintained in full force and effect a financial institutions bond insuring CSB against acts of dishonesty by each of its employees. Except as previously disclosed, no claim has been made under any bond, and CSB is not aware of any fact or condition presently existing that might form the basis of a claim under any bond. CSB has no reason to believe that its present financial institutions bond will not be renewed by its carrier on substantially the same terms and at the same rate as now in effect.

Section 5.5. Deposit Insurance. The deposits of CSB are insured by the Bank Insurance Fund, as administered by the FDIC in accordance with the FDIA and CSB has paid all assessments and filed all reports required by the FDIA.

Section 5.6. Loans. Except as previously disclosed, each loan reflected as an asset on CSB's financial statements as of September 30, 1998, or acquired since that date, is the legal, valid and binding obligation of the obligor named therein, enforceable in accordance with its terms, subject to bankruptcy, insolvency and other laws of general applicability relating to or affecting creditors' rights and to general equity principles. All loans, and the collateral and other security therefor, and the documentation for the same, meet the requirements, rules, regulations or directives of the FDIC, or other applicable governmental authorities.

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Section 5.7. Adjustable Rate Mortgages. CSB has made all interest rate adjustments to any mortgage loan according to the terms of said mortgage loan and has complied and is in compliance in all material respects with all federal, state and other applicable laws, rules and regulations, including orders, writs, decrees, injunctions and other requirements of any court or governmental authorities having jurisdiction over adjustable rate mortgages.

Section 5.8. CRA Compliance. CSB has received a satisfactory compliance rating and has received a satisfactory Community Reinvestment Act rating. CSB has no knowledge of any facts or circumstances that would prevent it from receiving satisfactory ratings upon its next appropriate examination.

Section 5.9. Loan Loss Reserve. The loan loss reserve of CSB is and shall remain adequate in light of generally accepted accounting principles, directives of governmental authorities, and all regulations, rules and directives of the Banking Department and the FDIC. No regulatory authority requested CSB to increase the allowance for loan losses during 1998, 1997, 1996 or 1995.

Section 5.10. Member Federal Reserve System. CSB is not a member of the Federal Reserve System.

Section 5.11. Year 2000 Compliance. CSB is in compliance with all requirements announced or promulgated by the CSB Regulatory Agencies and by the Federal Financial Institutions Examination Council in connection with Year 2000 preparedness and compliance.

Section 5.12. Accuracy of Representations. CSB will promptly notify Clearfield if any of the representations contained in this Article V cease to be true and correct subsequent to the date hereof. Further, no representations made by CSB pursuant to this Agreement contain any untrue statement of material fact or omit to state a material fact necessary to make the statements not misleading.

ARTICLE VI

COVENANTS OF CLEARFIELD

From the date of this Agreement until the Effective Date (as defined in Section 11.2 of this Agreement), Clearfield covenants and agrees to do the following:

Section 6.1. Conduct of Business. Except as otherwise consented to by Penn Laurel and CSB in writing, Clearfield shall:

- (a) use all reasonable efforts to carry on its business in, and only in, the Ordinary Course of Business, consistent with past practices and written policies;

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(b) to the extent consistent with prudent business judgment, use all reasonable efforts to preserve its present business organization, to retain the services of its present officers and employees, to maintain good relationships with its employees, and to maintain its relationships with customers, suppliers and others having business dealings with Clearfield;

(c) maintain all of Clearfield's structures, equipment and other real property and tangible personal property in good repair, order and condition, except for ordinary wear and tear and damage by unavoidable casualty;

(d) use all reasonable efforts to preserve or collect all material claims and causes of action belonging to Clearfield;

(e) keep in full force and effect all insurance policies now carried by Clearfield;

(f) perform in all material respects each of Clearfield's obligations under all material agreements, contracts, instruments and other commitments to which Clearfield is a party or by which Clearfield may be bound or that relate to or affect its properties, assets and business;

(g) maintain its books of account and other records in the Ordinary Course of Business;

(h) comply in all material respects with all statutes, laws, ordinances, rules and regulations, decrees, orders, consent agreements, examination reports, memoranda of understanding and other federal, state, county, local and municipal governmental directives applicable to Clearfield and to the conduct of its business;

(i) not amend Clearfield's Articles of Incorporation or Bylaws;

(j) except in the Ordinary Course of Business, not enter into or assume any material contract, incur any material liability or obligation, make any material commitment, acquire or dispose of any property or asset or engage in any transaction or subject any of Clearfield's properties or assets to any material lien, claim, charge, or encumbrance of any kind whatsoever;

(k) not take or permit to be taken any action that would constitute a breach of any representation, warranty or covenant set forth in this Agreement;

(l) not declare, set aside or pay any dividend or make any other distribution in respect of Clearfield Common Stock, except as provided in Section 6.9 of this Article VI;

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- (m) not authorize, purchase, issue or sell (or authorize, issue or grant options, warrants or rights to purchase or sell) any shares of Clearfield Common Stock or any other equity or debt securities of Clearfield or any securities convertible into Clearfield Common Stock;
- (n) except in the Ordinary Course of Business and consistent with past practice, not increase the rate of compensation of, pay a bonus or severance compensation to, or enter into any employment, severance, deferred compensation or other agreement with any officer, director, employee or consultant of Clearfield;
- (o) not enter into any related party transaction of the kind contemplated in Section 3.20 of Article III of this Agreement except related party transactions relating to extensions of credit made in accordance with all applicable laws, regulations and rules and in the Ordinary Course of Business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable arms' length transactions with other persons that do not involve more than the normal risk of collectibility or present other unfavorable features and after disclosure of such to Penn Laurel;
- (p) not change the presently outstanding number of shares or declare or effect any capitalization, reclassification, stock dividend, stock split or like change in capitalization;
- (q) not enter into or substantially modify (except as may be required by applicable law) any pension, retirement, stock option, stock warrant, stock purchase, stock appreciation right, savings, profit sharing, deferred compensation, severance, consulting, bonus, group insurance or other employee benefit, incentive or welfare contract, or plan or arrangement, or any trust agreement related thereto, in respect to any of its directors, officers, or other employees;
- (r) not merge with or into, or consolidate with, or be purchased or acquired by, any other corporation, financial institution, entity, or person (or agree to any merger, consolidation, affiliation, purchase or acquisition) or permit (or agree to permit) any other corporation, financial institution, entity or person to be merged with it or consolidate or affiliate with any other corporation, financial institution, entity or person; acquire control over any other firm, financial institution, corporation or organization or create any subsidiary; acquire, liquidate, sell or dispose (or agree to acquire, liquidate, sell or dispose) of any assets, other than in the Ordinary Course of Business and consistent with prior practice;
- (s) not solicit or encourage inquiries or proposals with respect to, furnish any information relating to, or participate in any negotiations or discussions concerning any acquisition or purchase of all or a substantial equity interest or portion of the assets in or of Clearfield or any business combination with Clearfield, other than as contemplated by this Agreement, or authorize or permit any officer, director, agent or affiliate of it to do any of the above; or fail to notify Penn Laurel immediately if any inquiries or proposals are received

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by, any information is requested from, or any negotiations are sought to be initiated with Clearfield;

(t) not change any method, practice or principle of accounting except as may be required by generally accepted accounting principles or any applicable regulator;

(u) not make any loan or other credit facility commitment in excess of \$400,000 (including without limitation, lines of credit and letters of credit) to any affiliate as defined in Regulation O or compromise, expand, or modify any such commitment outstanding;

(v) not enter into any swap or similar commitment, agreement or arrangement which is not consistent with past practice and which increases the credit or interest rate risk over the levels existing at September 30, 1998;

(w) not enter into any derivative, cap or floor or similar commitment, agreement or arrangement, except in the ordinary course of business and consistent with past practices;

(x) take any action that would result in any of the representations and warranties of Clearfield set forth in this Agreement becoming untrue as of any date after the date hereof;

(y) not sell, exchange or otherwise dispose of any investment securities or loans that are held for sale, prior to scheduled maturity and other than pursuant to policies agreed upon from time to time by the parties;

(z) not purchase any security for its investment portfolio not rated "A" or higher by either Standard & Poor's Corporation or Moody's Investor Services, Inc.;

(aa) not waive, release, grant or transfer any rights of value or modify or change, in any material respect, any existing agreement to which Clearfield is a party, other than in the ordinary course of business consistent with past practice;

(bb) not knowingly take any action that would, under any statute, regulation or administrative practice of any regulatory agency, materially or adversely affect the ability of any party to this Agreement to obtain any required approvals for consummation of the transactions contemplated by this Agreement; and

(cc) not agree to any of the foregoing items (a) through (bb).

Section 6.2. Best Efforts. Clearfield shall cooperate with Penn Laurel and CSB and shall use its best efforts to do or cause to be done all things necessary or appropriate on its part in order to fulfill the conditions precedent set forth in Article VIII of this Agreement and to consummate this Agreement. In particular, without limiting the generality of the foregoing sentence, Clearfield shall:

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- (a) cooperate with Penn Laurel and CSB in the preparation of all required applications for regulatory approval of the transactions contemplated by this Agreement and in the preparation of the Registration Statement (as defined in Section 7.1(b) of this Agreement);
- (b) call a special or annual meeting of its shareholders and take, in good faith, all actions that are necessary or appropriate on its part in order to secure the approval and adoption of this Agreement and the Bank Merger Agreement by its shareholders at the meeting, including recommending the approval of this Agreement and the Bank Merger Agreement by the shareholders of Clearfield;
- (c) cooperate with Penn Laurel and CSB in making Clearfield's employees reasonably available for training prior to the Effective Date, to the extent that training is deemed reasonably necessary;
- (d) make additions to loan loss reserves and make loan write-offs, write-downs and other adjustments that reasonably should be made by Clearfield in light of generally accepted accounting principles, directives of governmental authorities, and all regulations, rules and directives of the FDIC, Department of Banking, and Board of Governors of the Federal Reserve System (the "FRB"), prior to the closing of Clearfield's books of account for its fiscal year ending December 31, 1998, and for the period from that date until the Effective Date;
- (e) suspend any dividend reinvestment and/or stock repurchase plan, as soon as practicable;
- (f) modify the Articles of Incorporation or Bylaws or any other documents of Clearfield as reasonably necessary to effectuate the transactions contemplated hereby; and
- (g) use its best efforts to assure that the directors of Clearfield shall have executed and delivered the Support Agreement in the form attached hereto as Exhibit B.

Section 6.3. Access to Properties and Records. Clearfield shall give to Penn Laurel, CSB and their authorized representatives (including, without limitation, their counsel, accountants, economic and environmental consultants and other designated representatives) reasonable access during normal business hours to all properties, books, contracts, documents and records of Clearfield as Penn Laurel or CSB may reasonably request, subject to the obligation of Penn Laurel, CSB and their authorized representatives to maintain the confidentiality of all non-public information concerning Clearfield obtained by reason of such access.

Section 6.4. Subsequent Financial Statements. Between the date of execution of this Agreement and the Effective Date, Clearfield shall promptly prepare and deliver to Penn Laurel and CSB, as soon as practicable, all internal monthly and quarterly financial statements, reports to shareholders and reports to regulatory authorities prepared by or for Clearfield, including all audit

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reports submitted to Clearfield by independent auditors in connection with each annual, interim or special audit of the books of Clearfield made by the accountants. In particular, without limiting the generality of the foregoing sentence, Clearfield shall deliver to Penn Laurel and CSB, as soon as practicable, a balance sheet as of December 31, 1998, and a related statement of income for the twelve (12) months then ended (which financial statements are hereinafter referred to as the "December 31, 1998 Clearfield Financial Statements"). The representations and warranties set forth in Sections 3.7, 3.8 and 3.9 of this Agreement shall apply to the December 31, 1998, Clearfield Financial Statements.

Section 6.5. Board and Committee Minutes. Clearfield shall provide to Penn Laurel, within 10 days after any meeting of the Board of Directors, or any committee thereof, or any senior or executive management committee, a copy of the minutes of the meeting.

Section 6.6. Update Information. Clearfield shall promptly disclose to Penn Laurel and CSB, in writing, any change, addition, deletion or other modification to the information previously disclosed.

Section 6.7. Notice. Clearfield shall promptly notify Penn Laurel and CSB, in writing, of any actions, claims, investigations, proceedings or other developments that, if pending or in existence on the date of this Agreement, would have been required to be disclosed to Penn Laurel and CSB in order to ensure the accuracy of the representations and warranties set forth in this Agreement or that otherwise could materially and adversely affect the condition (financial or otherwise), assets, liabilities, business operations or future prospects of Clearfield.

Section 6.8. Other Proposals. Clearfield shall not, nor shall it permit any officer, director, employee, agent, consultant, counsel or other representative, to directly or indirectly solicit, encourage, initiate or engage in discussions or negotiations with, or respond to requests for information, inquiries or other communications from, any person, other than Penn Laurel, concerning the fact of, or the terms and conditions of, this Agreement, or concerning any transaction with Clearfield, or any assets or business thereof (except that Clearfield's officers may respond to inquiries from analysts, regulatory authorities and holders of Clearfield Common Stock in the Ordinary Course of Business); and Clearfield shall notify Penn Laurel immediately if any discussions or negotiations are sought to be initiated with Clearfield by any person other than Penn Laurel or if any requests for information, inquiries, proposals or communications are received from any person other than Penn Laurel.

Section 6.9. Dividends. Between the date of this Agreement and the Effective Date, Clearfield shall only declare and pay cash dividends as provided herein. Clearfield shall only pay regular quarterly cash dividends in amounts and on dates consistent with past practices.

Section 6.10. Core Deposits. Clearfield shall use commercially reasonable efforts to maintain deposits.

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Section 6.11. Affiliate Letters. Clearfield shall deliver or cause to be delivered to Penn Laurel and CSB, at or before the Effective Date (as defined in Section 11.2 of this Agreement), a letter or agreement from each officer, director and shareholder of Clearfield who may be deemed to be an "affiliate" (as that term is defined for purposes of Commission Rules 145 and 405 under the Securities Act) of Clearfield, in form and substance satisfactory to Penn Laurel and CSB, under the terms of which each officer, director or shareholder, as the case may be, acknowledges and agrees to abide by all limitations imposed by the Securities Act and by all rules, regulations and releases promulgated thereunder with respect to the sale or other disposition of the shares of Penn Laurel Common Stock to be received by the person pursuant to the terms of this Agreement.

Section 6.12. No Purchases or Sales of Penn Laurel Common Stock During Price Determination Period. Neither Clearfield nor any executive officer or director of Clearfield nor any shareholder of Clearfield who may be deemed to be an "affiliate" (as that term is defined for purposes of Commission Rules 145 and 405 under the Securities Act) of Clearfield shall purchase or sell or submit a bid to purchase or an offer to sell, directly or indirectly, any shares of Penn Laurel Common Stock or any options, rights or other securities convertible into shares of Penn Laurel Common Stock within 20 business days of the Effective Date.

Section 6.13. Accounting Treatment. Clearfield acknowledges that the parties intend to treat the business combination contemplated by this Agreement as a "pooling of interests" for financial reporting purposes. Clearfield shall not take (and shall use its best efforts not to permit any of its directors, officers, employees, shareholders, agents, consultants or other representatives to take) any action that would preclude treating the business combination as a "pooling of interests" for financial reporting purposes.

Section 6.14. Press Releases. Clearfield shall not issue any press release related to this Agreement and the Bank Merger Agreement or the transactions contemplated hereby or thereby as to which Penn Laurel has not given its prior written consent, and shall consult with Penn Laurel as to the form and substance of other public disclosures related thereto.

Section 6.15. Phase I Environmental Audit. Clearfield shall permit, if Penn Laurel elects to do, at its own expense, a "phase I environmental audit" to be performed at any physical location owned or occupied by Clearfield on the date hereof.

ARTICLE VII

COVENANTS OF PENN LAUREL AND CSB

From the date of this Agreement until the Effective Date (as defined in Section 11.2 of this Agreement), Penn Laurel and CSB covenant and agree to do the following:

Section 7.1. Conduct of Business. Except as otherwise consented to by Clearfield in writing, Penn Laurel and CSB shall:

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- (a) use all reasonable efforts to carry on their business in, and only in, the Ordinary Course of Business, consistent with past practices and written policies;
- (b) to the extent consistent with prudent business judgment, use all reasonable efforts to preserve their present business organizations, to retain the services of their present officers and employees, to maintain good relationships with their employees, and to maintain their relationships with customers, suppliers and others having business dealings with Penn Laurel or CSB, as the case may be;
- (c) maintain all of Penn Laurel's and CSB's structures, equipment and other real property and tangible personal property in good repair, order and condition, except for ordinary wear and tear and damage by unavoidable casualty;
- (d) use all reasonable efforts to preserve or collect all material claims and causes of action belonging to Penn Laurel or CSB, as the case may be;
- (e) keep in full force and effect all insurance policies now carried by Penn Laurel and CSB;
- (f) perform in all material respects each of Penn Laurel's and CSB's obligations under all material agreements, contracts, instruments and other commitments to which they are a party or by which they may be bound or that relate to or affect their properties, assets and business;
- (g) maintain their books of account and other records in the Ordinary Course of Business;
- (h) comply in all material respects with all statutes, laws, ordinances, rules and regulations, decrees, orders, consent agreements, examination reports, memoranda of understanding and other federal, state, county, local and municipal governmental directives applicable to Penn Laurel or CSB, as the case may be, and to the conduct of their business;
- (i) not amend their Articles of Incorporation or Bylaws;
- (j) except in the Ordinary Course of Business, not enter into or assume any material contract, incur any material liability or obligation, make any material commitment, acquire or dispose of any property or asset or engage in any transaction or subject any of Penn Laurel's or CSB's properties or assets to any material lien, claim, charge, or encumbrance of any kind whatsoever;
- (k) not take or permit to be taken any action that would constitute a breach of any representation, warranty or covenant set forth in this Agreement;

- (l) not declare, set aside or pay any dividend or make any other distribution in respect of Penn Laurel Common Stock, except as provided in Section 7.9 of this Article VII;
- (m) not authorize, purchase, issue or sell (or authorize, issue or grant options, warrants or rights to purchase or sell) any shares of Penn Laurel Common Stock or any other equity or debt securities of Penn Laurel or any securities convertible into Penn Laurel Common Stock, except pursuant to stock options previously issued or awarded prior to the date hereof;
- (n) except in the Ordinary Course of Business and consistent with past practice, not increase the rate of compensation of, pay a bonus or severance compensation to, or enter into any employment, severance, deferred compensation or other agreement with any officer, director, employee or consultant of Penn Laurel or CSB;
- (o) not enter into any related party transaction of the kind contemplated in Section 4.20 of Article IV of this Agreement except related party transactions relating to extensions of credit made in accordance with all applicable laws, regulations and rules and in the Ordinary Course of Business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable arms' length transactions with other persons that do not involve more than the normal risk of collectibility or present other unfavorable features and after disclosure of such to Clearfield;
- (p) not change the presently outstanding number of shares or declare or effect any capitalization, reclassification, stock dividend, stock split or like change in capitalization, except pursuant to stock options previously issued or awarded prior to the date hereof;
- (q) not enter into or substantially modify (except as may be required by applicable law) any pension, retirement, stock option, stock warrant, stock purchase, stock appreciation right, savings, profit sharing, deferred compensation, severance, consulting, bonus, group insurance or other employee benefit, incentive or welfare contract, or plan or arrangement, or any trust agreement related thereto, in respect to any of their directors, officers, or other employees;
- (r) not merge with or into, or consolidate with, or be purchased or acquired by, any other corporation, financial institution, entity, or person (or agree to any merger, consolidation, affiliation, purchase or acquisition) or permit (or agree to permit) any other corporation, financial institution, entity or person to be merged with it or consolidate or affiliate with any other corporation, financial institution, entity or person; acquire control over any other firm, financial institution, corporation or organization or create any subsidiary; acquire, liquidate, sell or dispose (or agree to acquire, liquidate, sell or dispose) of any assets, other than in the Ordinary Course of Business and consistent with prior practice;

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(s) not solicit or encourage inquiries or proposals with respect to, furnish any information relating to, or participate in any negotiations or discussions concerning any acquisition or purchase of all or a substantial equity interest or portion of the assets in or of Penn Laurel or CSB or any business combination with Penn Laurel or CSB, other than as contemplated by this Agreement, or authorize or permit any officer, director, agent or affiliate of it to do any of the above; or fail to notify Clearfield immediately if any inquiries or proposals are received by, any information is requested from, or any negotiations are sought to be initiated with Penn Laurel;

(t) not change any method, practice or principle of accounting except as may be required by generally accepted accounting principles or any applicable regulator;

(u) not make any loan or other credit facility commitment in excess of \$400,000 (including without limitation, lines of credit and letters of credit) to any affiliate as defined in Regulation O or compromise, expand, or modify any such commitment outstanding;

(v) not enter into any swap or similar commitment, agreement or arrangement which is not consistent with past practice and which increases the credit or interest rate risk over the levels existing at September 30, 1998;

(w) not enter into any derivative, cap or floor or similar commitment, agreement or arrangement, except in the ordinary course of business and consistent with past practices;

(x) take any action that would result in any of the representations and warranties of Penn Laurel or CSB set forth in this Agreement becoming untrue as of any date after the date hereof;

(y) not sell, exchange or otherwise dispose of any investment securities or loans that are held for sale, prior to scheduled maturity and other than pursuant to policies agreed upon from time to time by the parties;

(z) not purchase any security for its investment portfolio not rated "A" or higher by either Standard & Poor's Corporation or Moody's Investor Services, Inc.;

(aa) not waive, release, grant or transfer any rights of value or modify or change, in any material respect, any existing agreement to which Penn Laurel or CSB is a party, other than in the ordinary course of business consistent with past practice;

(bb) not knowingly take any action that would, under any statute, regulation or administrative practice of any regulatory agency, materially or adversely affect the ability of any party to this Agreement to obtain any required approvals for consummation of the transactions contemplated by this Agreement; and

(cc) not agree to any of the foregoing items (a) through (bb).

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Section 7.2. Best Efforts. Penn Laurel and CSB shall cooperate with Clearfield and shall use their best efforts to do or cause to be done all things necessary or appropriate on their part in order to fulfill the conditions precedent set forth in Article VIII of this Agreement and to consummate this Agreement. In particular, without limiting the generality of the foregoing sentence, Penn Laurel and CSB shall:

- (a) Penn Laurel and CSB shall promptly prepare and file, with the cooperation and assistance of Clearfield, all required applications for regulatory approval of the transactions contemplated by this Agreement and the Bank Merger Agreement;
- (b) Penn Laurel shall promptly prepare, with the cooperation and assistance of Clearfield, and file with the Commission a registration statement under the Securities Act (the "Registration Statement") for the purpose of registering the shares of Penn Laurel Common Stock to be issued under the provisions of this Agreement. Penn Laurel may rely upon all information provided to it by Clearfield in this connection, and Penn Laurel shall not be liable for any untrue statement of a material fact or any omission to state a material fact in the Registration Statement or in the proxy statement and prospectus (the "Proxy Statement/Prospectus") that is prepared as a part of the Registration Statement, if the statement is made by Penn Laurel in reliance upon any information provided to Penn Laurel by Clearfield or by its agents and representatives. Penn Laurel will advise Clearfield, after it receives notice thereof, of the time when the Registration Statement or any Pre- or Post-Effective Amendment thereto has become effective or any supplement or amendment, thereto has been filed;
- (c) Penn Laurel and CSB, with the cooperation of Clearfield, shall promptly take all actions that may be necessary or appropriate in order to comply with all applicable securities laws of any state having jurisdiction over the transactions contemplated by this Agreement;
- (d) Penn Laurel and CSB, with the cooperation of Clearfield, shall make the Penn Laurel and CSB, as the case may be, employees reasonably available for training prior to the Effective Date, to the extent that training is deemed reasonably necessary;
- (e) make additions to loan loss reserves and make loan write-offs, write-downs and other adjustments that reasonably should be made by CSB in light of generally accepted accounting principles, directives of governmental authorities, and all regulations, rules and directives of the FDIC, Department of Banking, and Board of Governors of the Federal Reserve System (the "FRB"), prior to the closing of CSB's books of account for its fiscal year ending December 31, 1998, and for the period from that date until the Effective Date;
- (f) modify the Articles of Incorporation or Bylaws or any other documents of Penn Laurel and CSB reasonably necessary to effectuate the transactions contemplated hereby; and

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(g) call a special or annual meeting of Penn Laurel's shareholders and take, in good faith, all actions that are necessary or appropriate on its part in order to secure the approval and adoption of this Agreement and the Bank Merger Agreement by its shareholders at the meeting, including recommending the approval of this Agreement and the Bank Merger Agreement by the shareholders of Penn Laurel;

(h) Support Agreement. Use its best efforts to assure that the directors of Penn Laurel shall have executed and delivered the Support Agreement in the form attached hereto as Exhibit C.

Section 7.3. Access to Properties and Records. Penn Laurel and CSB shall give to Clearfield and to its authorized representatives (including without limitation Clearfield's counsel, accountants, economic and environmental consultants and other designated representatives) reasonable access during normal business hours to all properties, books, contracts, documents and records of Penn Laurel and CSB as Clearfield may reasonably request, subject to the obligation of Clearfield and its authorized representatives to maintain the confidentiality of all non-public information concerning Penn Laurel or CSB obtained by reason of such access.

Section 7.4. Subsequent Financial Statements. Between the date of execution of this Agreement and the Effective Date, Penn Laurel and CSB shall promptly prepare and deliver to Clearfield, as soon as practicable, all internal monthly and quarterly financial statements, reports to shareholders and reports to regulatory authorities prepared by or for Penn Laurel or CSB, including all audit reports submitted to Penn Laurel or CSB by independent auditors in connection with each annual, interim or special audit of the books of Penn Laurel or CSB made by the accountants. In particular, without limiting the generality of the foregoing sentence, Penn Laurel or CSB, as the case may be, shall deliver to Clearfield, as soon as practicable, a balance sheet as of December 31, 1998, and a related statement of income for the twelve (12) months then ended (which financial statements are hereinafter referred to as the "December 31, 1998 Penn Laurel Financial Statements"). The representations and warranties set forth in Sections 4.7, 4.8 and 4.9 of this Agreement shall apply to the December 31, 1998 Penn Laurel Financial Statements.

Section 7.5. Board and Committee Minutes. Penn Laurel or CSB shall provide to Clearfield, within 10 days after any meeting of the Board of Directors, or any committee thereof, or any senior or executive management committee, a copy of the minutes of the meeting.

Section 7.6. Update Information. Penn Laurel and CSB shall promptly disclose to Clearfield, in writing, any change, addition, deletion or other modification to the information previously disclosed.

Section 7.7. Notice. Penn Laurel and CSB shall promptly notify Clearfield, in writing, of any actions, claims, investigations or other developments that, if pending or in existence on the date of this Agreement, would have been required to be disclosed to Clearfield in order to ensure the accuracy of the representations and warranties set forth in this Agreement or that otherwise could

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materially and adversely affect the condition (financial or otherwise), assets, liabilities, business operations, or future prospects of Penn Laurel or CSB.

Section 7.8. Other Proposals. Penn Laurel and CSB shall not, nor shall they permit any officer, director, employee, agent, consultant, counsel or other representative, to directly or indirectly solicit, encourage, initiate or engage in discussions or negotiations with, or respond to requests for information, inquiries or other communications from, any person, other than Clearfield, concerning the fact of, or the terms and conditions of, this Agreement, or concerning any transaction with Penn Laurel or CSB, or any assets or business thereof (except that Penn Laurel's officers may respond to inquiries from analysts, regulatory authorities and holders of Penn Laurel Common Stock in the Ordinary Course of Business); and Penn Laurel or CSB, as the case may be, shall notify Clearfield immediately if any discussions or negotiations are sought to be initiated with Penn Laurel or CSB by any person other than Clearfield or if any requests for information, inquiries, proposals or communications are received from any person other than Clearfield.

Section 7.9. Dividends. Between the date of this Agreement and the Effective Date, Penn Laurel and CSB shall only declare and pay cash dividends as provided herein. Penn Laurel and CSB shall only pay regular quarterly cash dividends in amounts and on dates consistent with past practices.

Section 7.10. Core Deposits. CSB shall use commercially reasonable efforts to maintain deposits.

Section 7.11. No Purchase or Sales of Penn Laurel Common Stock During Price Determination Period. Neither Penn Laurel nor any subsidiary of Penn Laurel, nor any executive officer or director of Penn Laurel or any subsidiary of Penn Laurel, nor any shareholder of Penn Laurel who may be deemed to be an "affiliate" (as that term is defined for purposes of Commission Rules 145 and 405 under the Securities Act) of Penn Laurel, shall purchase or sell, directly or indirectly, any shares of Penn Laurel Common Stock or any options, rights or other securities convertible into shares of Penn Laurel Common Stock within 20 days of the Effective Date; provided, however, that Penn Laurel may purchase shares of Penn Laurel Common Stock in the Ordinary Course of Business during this period pursuant to Penn Laurel's employee benefit plans or Penn Laurel's stock option plan.

Section 7.12. Accounting Treatment. Penn Laurel and CSB acknowledge that the parties intend to treat the business combination contemplated by this Agreement as a "pooling of interests" for financial reporting purposes. Penn Laurel and CSB shall not take (and shall use their best efforts not to permit any of their directors, officers, employees, shareholders, agents, consultants or other representatives to take) any action that would preclude treating the business combination as a "pooling of interests" for financial reporting purposes.

Section 7.13. Press Releases. Penn Laurel and CSB shall not issue any press release related to this Agreement and the Bank Merger Agreement or the transactions contemplated hereby or

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thereby as to which Clearfield has not given its prior written consent, and shall consult with Clearfield as to the form and substance of other public disclosures related thereto.

Section 7.14. Phase I Environmental Audit. Penn Laurel and CSB shall permit, if Clearfield elects to do, at its own expense, a "phase I environmental audit" to be performed at any physical location owned or occupied by Penn Laurel or CSB on the date hereof.

ARTICLE VIII

CONDITIONS PRECEDENT

Section 8.1. Common Conditions. The obligations of the parties to consummate this Agreement shall be subject to the satisfaction of each of the following common conditions prior to or as of the Effective Date, except to the extent that any condition shall have been waived in accordance with the provisions of Section 9.4 of this Agreement:

(a) Shareholder and Regulatory Approvals. The parties hereto are not under any obligation to consummate the Agreement until receipt of approval of the FRB (or waiver thereof), of the Banking Department, of the Federal Deposit Insurance Corporation and of any other approvals that may be necessary or required by the federal or state regulators, and all conditions and waiting periods required by the approvals, if any, have been satisfied or have expired, and until receipt of any other approvals required under the Articles of Incorporation or Bylaws of Clearfield, Penn Laurel or CSB, or from the shareholders of Clearfield or Penn Laurel or CSB, as the case may be. Provided, however, that no approval shall have imposed any condition or requirement that, in the opinion of the Board of Directors of Penn Laurel or the Board of Directors of Clearfield, renders consummation of the transactions contemplated herein inadvisable.

(b) Tax Matters. There shall have been received an opinion of counsel from Shumaker Williams, P.C., reasonably satisfactory in form and substance to Penn Laurel, CSB and Clearfield, to the effect that:

(i) The transactions contemplated by this Agreement and by the Bank Merger Agreement will constitute a reorganization within the meaning of Sections 368(a)(1)(A) and 368(a)(2)(E) the Code;

(ii) No gain or loss will be recognized by Penn Laurel or CSB or by Clearfield as a result of the reorganization;

(iii) No gain or loss will be recognized by the shareholders of Clearfield upon receipt of Penn Laurel Common Stock in exchange for Clearfield Common Stock pursuant to the provisions of this Agreement (except in respect of cash that is received in lieu of the issuance of fractional shares of Penn Laurel Common Stock

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and any shareholder of Clearfield who receives payment in cash as a dissenting shareholder);

(iv) The tax basis of the Penn Laurel Common Stock to be received by the shareholders of Clearfield pursuant to the provisions of this Agreement will be the same as the tax basis of the Clearfield Common Stock surrendered in exchange therefor;

(v) The holding periods of the Penn Laurel Common Stock to be received by the shareholders of Clearfield pursuant to the provisions of this Agreement will include the holding periods of the Clearfield Common Stock surrendered in exchange therefor, provided that the Clearfield Common Stock is held as a capital asset on the Effective Date; and

(vi) Clearfield as the surviving bank to the Merger, will carry-over and take into account all accounting items and tax attributes of CSB, including, but not limited, to earnings and profits, methods of accounting, and tax basis and holding periods of the assets of CSB.

(c) Registration Statement. The Registration Statement shall have been declared effective by the Commission; the information contained therein shall be true, complete and correct in all material respects as of the date of mailing of the Proxy Statement/Prospectus to the shareholders of Clearfield; regulatory clearance for the offering contemplated by the Registration Statement (the "Offering") shall have been received from each federal and state regulatory authority having jurisdiction over the Offering, and no stop order shall have been issued or proceedings instituted or threatened by any federal or state regulatory authority to suspend or terminate the effectiveness of the Registration Statement or the Offering.

(d) Fairness Opinions. Each of Penn Laurel and Clearfield shall have obtained from an independent financial advisor selected by the Board of Directors of Penn Laurel or Clearfield, as the case may be, an opinion, dated as of a date no later than that of the Proxy Statement/Prospectus for the special or annual meetings of Clearfield's and Penn Laurel's shareholders, contemplated by Sections 6.2(b) and 7.2(g) respectively, of this Agreement, stating that the exchange ratio of the consideration to be received by the holders of Clearfield Common Stock and given by Penn Laurel, is fair from a financial point of view, to the shareholders of the respective entities.

(e) No Suits. No action, suit or proceeding shall be pending or threatened before any federal, state or local court or governmental authority or before any arbitration tribunal that seeks to modify, enjoin or prohibit or otherwise adversely and materially affect the transactions contemplated by this Agreement.

(f) Statutes; Orders. No statute, rule, regulation, order, injunction or decree shall have been enacted, entered, promulgated or enforced by any governmental authority that

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prohibits, restricts or makes illegal the consummation of the transactions contemplated by this Agreement.

(g) Antitrust Laws. All applicable notifications, statutory and regulatory Antitrust Law requirements have been met.

(h) Other Requirements. All other requirements prescribed by law, and the Articles of Incorporation, Bylaws and contracts of the parties hereto that are necessary to the consummation of the transactions contemplated by this Agreement shall have been satisfied.

(i) Dissenting Shareholders. Holders of no more than nine percent (9%) of the issued and outstanding shares of Clearfield or Penn Laurel shall have exercised their statutory appraisal or Dissenters' Rights.

Section 8.2. Conditions Precedent to Obligations of Penn Laurel and CSB. The obligations of Penn Laurel and CSB to consummate this Agreement shall be subject to the satisfaction of each of the following conditions prior to or as of the Effective Date, except to the extent that the condition shall have been waived by Penn Laurel and CSB in accordance with the provisions of Section 9.4 of this Agreement:

(a) Accuracy of Representations and Warranties. All of the representations and warranties of Clearfield, as set forth in this Agreement and the information contained in all Clearfield Closing Documents (as defined in Section 8.2(g) of this Agreement), shall be true and correct in all material respects as of the Effective Date as if made on that date (or on the date to which it relates in the case of any representation or warranty that expressly relates to an earlier date).

(b) Covenants Performed. Clearfield shall have performed or complied in all material respects with each of the covenants required by this Agreement to be performed or complied with by it.

(c) Opinion of Counsel for Clearfield. Clearfield shall have delivered to Penn Laurel and CSB an opinion of its special counsel in form and substance reasonably satisfactory to Penn Laurel and CSB, to the effect that, as of the Effective Date:

(i) Clearfield is a Pennsylvania chartered bank and trust company, duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania and has full power and lawful authority to own and hold its properties and to carry on its present business;

(ii) Clearfield is an insured bank under the provisions of the FDIA;

(iii) the authorized capital of Clearfield consists exclusively of _____ shares of common stock, par value \$ _____ per share, of which _____ shares are

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validly issued, _____ shares are outstanding, fully paid and non-assessable and _____ shares are held as treasury shares; and, to the knowledge of counsel after reasonable inquiry, there are no outstanding obligations, options or rights of any kind entitling other persons to purchase or sell the shares granted by Clearfield, and there are no outstanding securities or other instruments of any kind convertible into the shares that have been granted by Clearfield;

(iv) Clearfield has full corporate power and authority to execute and deliver this Agreement and the Bank Merger Agreement and to carry out the transactions contemplated herein and therein, and all corporate actions required to be taken by Clearfield to authorize the execution and delivery of this Agreement and the performance of the transactions contemplated herein have been taken;

(v) this Agreement and the Bank Merger Agreement have been duly executed and delivered by Clearfield and, assuming due authorization, execution and delivery by Penn Laurel and CSB, constitute valid and binding obligations of Clearfield and are enforceable against Clearfield in accordance with their terms, subject to bankruptcy, insolvency, and other laws of general applicability relating to or affecting creditors' rights and general equity principles;

(vi) the performance of this Agreement and the Bank Merger Agreement by Clearfield will not violate the Articles of Incorporation or the Bylaws of Clearfield or, to the knowledge of counsel after reasonable inquiry, any applicable statute, rule, regulation, order, decree, directive, consent agreement, memorandum of understanding or to the knowledge of counsel, any material contract, material indenture or other material instrument to which Clearfield is a party or by which its properties are bound;

(vii) to the knowledge of counsel after reasonable inquiry, there is no action, suit or proceeding, pending or threatened, of the kind contemplated under Section 8.1(e) of this Agreement;

(viii) to the knowledge of counsel after reasonable inquiry, there is no action, suit or proceeding pending or threatened against Clearfield (except as previously disclosed or in counsel's opinion) that, if determined adversely to Clearfield, would have a material and adverse effect upon the condition (financial or otherwise), assets, liabilities, business or operations of Clearfield;

(ix) no consent, approval, authorization or order of any federal, state or local court or governmental authority is required to be obtained by Clearfield in connection with the consummation of the transactions contemplated in this Agreement, other than consents, approvals, authorizations and orders as have been obtained prior to the Effective Date; and

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(x) other legal matters incident to the matters contemplated hereby as may reasonably be requested by Penn Laurel and CSB.

For purposes of Clause (viii) above, any action, suit or proceeding seeking to recover from Clearfield damages, fines, penalties or other relief having a monetary value of \$50,000 or more shall be deemed to be "material." In giving the foregoing opinion, counsel may rely as to matters of fact without independent investigation, to the extent counsel deems reliance necessary, appropriate, and reasonable, provided, however, that reliance is expressly noted in the opinion, and on certificates of federal, state or local governmental officials and on certificates of officers and directors of Clearfield. Counsel may expressly exclude any opinions as to choice of law matters and antitrust matters and may add other qualifications and explanations of the basis of its opinions as are reasonably acceptable to Penn Laurel and CSB.

The opinion of counsel shall be governed by the Legal Opinion Accord ("Accord") of the American Bar Association Section of Business Law (1991). The term "Actual Knowledge" as used herein shall have the meaning set forth in the Accord. In addition, the opinion may be limited to present statutes, regulations, rulings and formal agency and judicial interpretations and to facts as they presently exist; in rendering the opinion, counsel need assume no obligation to revise or supplement it should the present laws be changed by the legislative or regulatory action, judicial decision or otherwise after the opinion is rendered. Counsel may assume that any agreement is the valid and binding obligation of any parties to the agreement other than Clearfield. In giving the opinion, counsel may rely as to all matters of facts or certificates of officers or directors of Clearfield and certificates of public officials, so long as such reliance and the facts thereunder are expressly stated. Counsel's opinion shall be limited to matters governed by federal laws and by the laws of the Commonwealth of Pennsylvania. With respect to matters involving the application of law other than the law of the Commonwealth of Pennsylvania, counsel may rely, to the extent it deems proper and as specified in its opinion, upon the opinion of local counsel.

(d) Accounting Treatment. Penn Laurel, CSB and their accountants shall have established to their satisfaction that, as of the Effective Date, the transactions contemplated by this Agreement can be accounted for as a "pooling of interests" for financial reporting purposes.

(e) Federal and State Securities and Antitrust Laws. Penn Laurel, CSB and their counsel shall have determined to their satisfaction that, as of the Effective Date, all applicable securities and antitrust laws of the federal government and of any state government having jurisdiction over the transactions contemplated by this Agreement shall have been complied with.

(f) Environmental Matters. No environmental problem of the kind contemplated in Section 3.25 of Article III of this Agreement, and not previously disclosed shall have been discovered that would, or that potentially could, materially and adversely affect the condition

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(financial or otherwise), assets, liabilities, business, operations or future prospects of Clearfield. The result of any "Phase I environmental audit" conducted pursuant to Section 6.16 with respect to owned or occupied bank premises shall be reasonably satisfactory to Penn Laurel

(g) Closing Documents. Clearfield shall have delivered to Penn Laurel and CSB: (i) a certificate signed by Clearfield's Chairman of the Board or President and by its Secretary, or other designated and authorized officers, verifying that, to the best of their knowledge after reasonable investigation, all of the representations and warranties of Clearfield set forth in this Agreement are true and correct in all material respects as of the Effective Date and that Clearfield has performed in all material respects each of the covenants required to be performed by it under this Agreement; (ii) all consents and authorizations of landlords and other persons that are necessary to permit this Agreement to be consummated without violation of any lease or other agreement to which Clearfield is a party or by which Clearfield or any of its properties are bound; and (iii) other certificates and documents as Penn Laurel, CSB and their counsel may reasonably request (all of the foregoing certificates and other documents being herein referred to as the "Clearfield Closing Documents").

(h) Support Agreement. A majority of the Directors of Clearfield shall have executed and delivered to Penn Laurel a "Support Agreement" in the form attached hereto as Exhibit "B".

(i) Shareholder Approval. Penn Laurel shareholders, if required, have approved and/or adopted this Agreement and the transactions contemplated thereby.

Section 8.3. Conditions Precedent to the Obligations of Clearfield. The obligation of Clearfield to consummate this Agreement shall be subject to the satisfaction of each of the following conditions prior to or as of the Effective Date, except to the extent that any such condition shall have been waived by Clearfield in accordance with the provisions of Section 9.4 of this Agreement:

(a) Accuracy of Representations and Warranties. All of the representations and warranties of Penn Laurel and CSB, as set forth in this Agreement and in the Penn Laurel Closing Documents (as defined in Section 8.3(j) of this Agreement), shall be true and correct in all material respects as of the Effective Date as if made on that date (or on the date to which it relates in the case of any representation or warranty that expressly relates to an earlier date).

(b) Covenants Performed. Penn Laurel and CSB shall have performed or complied in all material respects with each of the covenants required by this Agreement to be performed or complied with by them.

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(c) Opinion of Counsel for Penn Laurel and CSB. Penn Laurel and CSB shall have delivered to Clearfield an opinion of its special counsel, Shumaker Williams, P.C., in form and substance reasonably satisfactory to Clearfield, to the effect that, as of the Effective Date:

(i) Penn Laurel is a business corporation that is duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania;

(ii) Penn Laurel is a registered bank holding company under the Bank Holding Company Act of 1956, as amended, and has full corporate power and authority to own and hold its properties and to carry on its present business;

(iii) CSB is a Pennsylvania chartered banking institution that is duly organized and validly existing under the laws of the Commonwealth of Pennsylvania and of the United States and has full corporate power and authority to own and hold its properties and to carry on its present business;

(iv) Penn Laurel and CSB have full corporate power and authority to execute and deliver this Agreement and the Bank Merger Agreement and to carry out the transactions contemplated herein and therein, and all corporate actions required to be taken by Penn Laurel and CSB to authorize the execution and delivery of this Agreement and the performance of the transactions contemplated herein and therein have been taken;

(v) this Agreement and the Bank Merger Agreement have been duly authorized, executed and delivered by Penn Laurel and CSB and, assuming due authorization, execution and delivery by Clearfield, constitute valid and binding obligations of each of Penn Laurel and CSB and are enforceable against Penn Laurel in accordance with their terms, subject to bankruptcy, insolvency, and other laws of general applicability relating to or affecting creditors' rights and general equity principles;

(vi) to the knowledge of counsel, there is no action, suit, or proceeding pending or threatened against Penn Laurel or CSB (except as described in a schedule to this Agreement or in counsel's opinion) that, if determined adversely to Penn Laurel or CSB, would have a material and adverse affect upon the condition (financial or otherwise), assets, liabilities, business or operations of Penn Laurel or CSB;

(vii) to the knowledge of counsel after reasonable investigation, there is no action, suit or proceeding pending or threatened of the kind contemplated under Section 8.1(e) of this Agreement;

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(viii) the shares of Penn Laurel Common Stock to be issued under this Agreement have been duly authorized and, when issued in accordance with the Agreement, will be validly issued, fully paid and non-assessable;

(ix) no consent, approval, authorization or order of any federal, state or local court or governmental authority is required to be obtained by Penn Laurel or CSB in connection with the consummation of the transactions contemplated in this Agreement, other than the consents, approvals, authorizations and orders as have been obtained prior to the Effective Date; and

(x) other legal matters incident to the matters contemplated hereby as may reasonably be requested by Clearfield.

For purposes of Clause (vi) above, any action, suit or proceeding seeking to recover from Penn Laurel damages, fines, penalties or other relief having a monetary value of \$50,000 or more shall be deemed to be "material." In giving the foregoing opinion, counsel may rely as to matters of fact without reasonable investigation, to the extent counsel deems reliance necessary, appropriate and reasonable, provided, however, that such reliance is expressly noted in the opinion, and on certificates of federal, state or local governmental officials and on certificates of officers and directors of Penn Laurel and CSB. Counsel may exclude any opinions as to choice of law matters and antitrust matters and may add other qualifications and explanations of the basis of its opinions as are reasonably acceptable to Clearfield.

The opinion of counsel shall be governed by the Legal Opinion Accord ("Accord") of the American Bar Association Section of Business Law (1991). The term "Actual Knowledge" as used herein shall have the meaning set forth in the Accord. In addition, the opinion may be limited to present statutes, regulations, rulings and formal agency and judicial interpretations and to facts as they presently exist; in rendering the opinion, counsel need assume no obligation to revise or supplement it should the present laws be changed by the legislative or regulatory action, judicial decision or otherwise after the opinion is rendered. Counsel may assume that any agreement is the valid and binding obligation of any parties to the agreement other than Penn Laurel or CSB. In giving the opinion, counsel may rely as to all matters of facts or certificates of officers or directors of Penn Laurel or CSB and certificates of public officials, so long as such reliance and the facts thereunder are expressly stated. Counsel's opinion shall be limited to matters governed by federal laws and by the laws of the Commonwealth of Pennsylvania. With respect to matters involving the application of Pennsylvania law, counsel may rely, to the extent it deems proper and as specified in its opinion, upon the opinion of local counsel.

(d) Accounting Treatment. Clearfield and its accountants shall have established to its satisfaction that, as of the Effective Date, the transactions contemplated by this Agreement can be accounted for as a "pooling of interests" for financial reporting purposes.

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(e) Federal and State Securities and Antitrust Laws. Clearfield and its counsel shall have determined to their satisfaction that, as of the Effective Date, all applicable securities and antitrust laws of the federal government and of any state government having jurisdiction over the transactions contemplated by this Agreement shall have been complied with.

(f) Environmental Matters. No environmental problem of the kind contemplated in Section 4.25 of Article IV of this Agreement, and not previously disclosed shall have been discovered that would, or that potentially could, materially and adversely affect the condition (financial or otherwise), assets, liabilities, business, operations or future prospects of Penn Laurel or CSB, as the case may be. The result of any "Phase I environmental audit" conducted pursuant to Section 7.16 with respect to owned or occupied premises shall be reasonably satisfactory to Clearfield.

(g) Closing Documents. Penn Laurel and CSB shall have delivered to Clearfield: (i) a certificate from each of Penn Laurel and CSB signed by its President and by its Secretary, or other designated and authorized officers, verifying that, to the best of their knowledge after reasonable investigation, all of the representations and warranties of Penn Laurel or CSB, as the case may be, set forth in this Agreement are true and correct in all material respects as of the Effective Date and that Penn Laurel or CSB, as the case may be, has performed in all material respects each of the covenants required to be performed by it under this Agreement; (ii) all consents and authorizations of landlords and other persons that are necessary to permit this Agreement to be consummated without violation of any lease or other agreement to which Penn Laurel or CSB, as the case may be, is a party or by which Penn Laurel or CSB or any of its properties are bound; and (iii) other certificates and documents as Clearfield and its counsel may reasonably request (all of the foregoing certificates and other documents being herein referred to as the "Penn Laurel Closing Documents").

(h) Support Agreement. A majority of the Directors of Penn Laurel shall have executed and delivered to Clearfield a "Support Agreement" in the form attached hereto as Exhibit "C".

(i) Shareholder Approval. Clearfield's shareholders shall have approved and/or adopted this Agreement and the transactions contemplated hereunder.

ARTICLE IX

TERMINATION, AMENDMENT AND WAIVER

Section 9.1. Termination. This Agreement may be terminated at any time before the Effective Date (whether before or after authorization, approval and adoption by the shareholders) as follows:

- (a) Mutual Consent. This Agreement may be terminated by mutual consent of the parties upon the affirmative vote of a majority of each of the Boards of Directors of Clearfield and Penn Laurel, followed by written notices given to each of the other parties.
- (b) Unilateral Action by Penn Laurel and CSB. This Agreement may be terminated unilaterally by the affirmative vote of a majority of the Board of Directors of Penn Laurel, followed by written notice given to Clearfield, if: (i) there has been a material breach by Clearfield of any representation, warranty or covenant set forth in this Agreement and the breach has not been cured within thirty (30) days after written notice of the breach has been given by Penn Laurel to Clearfield; or (ii) any condition precedent to Penn Laurel's and CSB's obligations, as set forth in Article VIII of this Agreement, remains unsatisfied, through no fault of Penn Laurel or CSB, on October 31, 1999.
- (c) Unilateral Action By Clearfield. This Agreement may be terminated unilaterally by the affirmative vote of a majority of the Board of Directors of Clearfield, followed by written notice given to Penn Laurel and CSB, if: (i) there has been a material breach by Penn Laurel or CSB of any representation, warranty or covenant set forth in this Agreement and the breach has not been cured within thirty (30) days after written notice of the breach has been given to Penn Laurel and CSB; or (ii) any condition precedent to Clearfield's obligations as set forth in Article VIII of this Agreement remains unsatisfied, through no fault of Clearfield, on October 31, 1999.
- (d) Automatic Termination. If, for any reason, this transaction shall not have been consummated by October 31, 1999, this Agreement shall terminate automatically as of that date unless extended, in writing, prior thereto.

Section 9.2. Effect of Termination.

- (a) Effect. In the event of termination, this Agreement shall become null and void and the transactions contemplated herein shall thereupon be abandoned, except that the provisions relating to limited liability and confidentiality set forth in Sections 9.2(b) and 9.2(c) of this Agreement shall survive the termination.
- (b) Limited Liability. The termination of this Agreement in accordance with the terms of Section 9.1 shall create no liability on the part of any party, or on the part of any party's directors, officers, shareholders, agents or representatives, except that, if this Agreement is terminated by Penn Laurel and CSB by reason of a material breach by Clearfield, or, if this Agreement is terminated by Clearfield by reason of a material breach by Penn Laurel or CSB, and the breach involves an intentional, willful or grossly negligent misrepresentation or breach of covenant, the breaching party shall be liable to the non-breaching party or parties for all costs and expenses reasonably incurred by the non-breaching party or parties in connection with the preparation, execution and consummation of this Agreement, including the fees of its or their counsel, accountants, consultants and other representatives.

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(c) Confidentiality. In the event of the termination of this Agreement, the parties shall not use or disclose to any other person any confidential information obtained by them during the course of their investigation of the other party or parties.

Section 9.3. Amendment. To the extent permitted by law, this Agreement may be amended at any time before the Effective Date (whether before or after authorization, approval and adoption by the shareholders of Penn Laurel or Clearfield) by a written instrument duly authorized, executed and delivered by Penn Laurel and CSB and by Clearfield; provided, however, that any amendment to the provisions of Article II of this Agreement relating to the consideration to be received by the shareholders of Clearfield in exchange for their shares of Clearfield Common Stock shall not take effect until the amendment has been approved, adopted or ratified by the shareholders of Clearfield and Penn Laurel in accordance with applicable federal and state law.

Section 9.4. Waiver. Any term or condition of this Agreement may be waived, to the extent permitted by law, by the party or parties entitled to the benefit thereof at any time before the Effective Date (whether before or after authorization, approval and adoption by the shareholders of Clearfield) by a written instrument duly authorized, executed and delivered by the party or parties.

ARTICLE X

RIGHTS OF DISSENTING SHAREHOLDERS

Section 10.1. Rights of Dissenting Shareholders. The shareholders of Clearfield and Penn Laurel shall be entitled to and may exercise dissenters' rights if and to the extent they are entitled to do so under the provisions of applicable law.

ARTICLE XI

CLOSING AND EFFECTIVE DATE

Section 11.1. Closing. Provided that all conditions precedent set forth in Article VIII of this Agreement shall have been satisfied or shall have been waived in accordance with Section 9.4 of this Agreement, the parties shall hold a closing (the "Closing") at the offices of Penn Laurel at 434 State Street, Curwensville, Pennsylvania, or another mutually agreed upon location, within thirty (30) days after the last to occur of the: (1) receipt of all required regulatory approvals and after the expiration of all applicable waiting periods; (2) approval by the Clearfield and Penn Laurel shareholders, respectively at which time the parties shall deliver the Clearfield Closing Documents, the Penn Laurel/CSB Closing Documents, and other documents and instruments as may be necessary or appropriate to effectuate the purposes of this Agreement.

Section 11.2. Effective Date. The Merger shall become effective and this Agreement and the Bank Merger Agreement shall be consummated on the date upon which Articles of Merger shall

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be filed with the Pennsylvania Department of State, or such later date as shall be specified as the Effective Date in the Articles of Merger pursuant to the mutual agreement of Penn Laurel, CSB and Clearfield and in accordance with the Pennsylvania Banking Code (the "Effective Date"). At the Effective Date, CSB shall cease to exist as a separate banking institution, and Clearfield shall become the surviving institution in the Merger with the name Penn Laurel Bank & Trust.

ARTICLE XII

NO SURVIVAL OF REPRESENTATIONS AND WARRANTIES

Section 12.1. No Survival. The representations and warranties of Clearfield and of Penn Laurel and CSB set forth in this Agreement shall expire and be terminated on the Effective Date upon consummation of the transactions contemplated by this Agreement, and no such representation or warranty shall thereafter survive.

ARTICLE XIII

POST-MERGER AGREEMENTS

Section 13.1. Employees.

(a) Immediately after the Effective Date, Penn Laurel Bank & Trust shall employ all of the Clearfield employees and all of the CSB employees who are in good standing, actively at work, and employed by Clearfield and CSB, respectively, as of the Effective Date on such terms as the resulting Board of Directors shall approve. It is understood and agreed by the parties to this Agreement that this Section 13.1(a) shall not create any implied or express rights of employment to any employee.

(b) After the Effective Date, all benefit, health, welfare and insurance plans of the resulting bank will be agreed upon and/or revised, modified, amended or supplemented only with the approval of the resulting Board of Directors or as otherwise required by law.

Section 13.2. Officers. Immediately after the Effective Date, William L. Bertram shall be appointed and employed as the Chairman of the Board of Directors of Penn Laurel and of Penn Laurel Bank & Trust for a term of two years; Larry W. Brubaker shall be appointed and employed as the President and Chief Executive Officer of Penn Laurel and of Penn Laurel Bank & Trust for a term of three years, and Wesley M. Weymers and Sherwood C. Moody shall each be appointed and employed as an Executive Vice President of Penn Laurel and of Penn Laurel Bank & Trust, for a term of three years. Each of the above named executives (the "Executives") shall be employed pursuant to an employment agreement that is mutually agreeable to the parties hereof and the Executives, respectively. Such agreements shall be subject to the approval of, and executed by the

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parties and each of the Executives, respectively, within 90 days of the date hereof, but no later than prior to the Effective Date.

Section 13.3. Board Appointments.

a. Immediately after the Effective Date, the Board of Directors of Penn Laurel and Penn Laurel Bank & Trust, shall consist of all persons who were members of the Board of Directors of Penn Laurel and Clearfield on the date hereof, with the addition of Mr. Wesley M. Weymers, to each respective Board of Directors. After the Effective Date, each Director of Penn Laurel and Clearfield shall serve on the Board of Directors of Penn Laurel, as Penn Laurel Bank & Trust, in the Class of Director that they currently serve of their respective companies' Board of Directors.

b. Prior to the Effective Date, Penn Laurel, CSB and Clearfield shall each amend, if necessary, their respective bylaws so that the retirement age for director service shall be 72, or the end of a Directors' term if during said term, he or she shall have attained the age of 72. Any director who is currently grandfathered from any director service age restriction of either Penn Laurel, CSB or Clearfield shall continue to be grandfathered. The number of directors serving as directors of Penn Laurel and Penn Laurel Bank & Trust shall only be reduced as a result of attrition, i.e., death, resignation, non-grandfathered age restrictions or regulatory action.

ARTICLE XIV

GENERAL PROVISIONS

Section 14.1. Expenses. Except as provided in Section 9.2(b) of this Agreement, each party shall pay its own expenses incurred in connection with this Agreement and the consummation of the transactions contemplated herein except for such expenses as have been mutually agreed upon, i.e., preparation of all documentation. For purposes of this Section 14.1, the cost of printing the Proxy Statement/Prospectus shall be deemed to be an expense of Penn Laurel and Clearfield.

Section 14.2 Access; Confidentiality. The parties hereby agree to conduct the investigations and discussions contemplated by Section 6.3 and Section 7.2 of this Agreement in a manner that will not interfere unreasonably with normal operations and customer and employee relationships. If the transactions contemplated by this Agreement are not consummated, the parties hereby agree to destroy or return all documents and records obtained from the other or their respective representatives, during the course of any investigation and will cause all information with respect to the other party obtained pursuant to this Agreement or preliminarily thereto to be kept confidential, except to the extent the information becomes public through no fault of the party that has obtained the information or any of its respective representatives or agents and except to the extent disclosure of such information is legally required. Each party hereby agrees to give the other party prompt notice of any contemplated disclosure where disclosure is so legally required.

Section 14.3. Notices. All notices, claims, requests, demands and other communications that are required or permitted to be given under this Agreement shall be in writing and shall be

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deemed to have been duly delivered if delivered in person, transmitted by facsimile machine (but only if receipt is acknowledged in writing), mailed by registered or certified mail, return receipt requested or sent by recognized overnight delivery service guaranteeing next day delivery addressed as follows:

- (a) If to Penn Laurel Financial Corp. and/or CSB to:

Penn Laurel Financial Corp.
434 State Street
Curwensville, Pennsylvania 16833
Attention: Larry W. Brubaker

With a copy to:

Shumaker Williams, P.C.
3425 Simpson Ferry Road
Camp Hill, Pennsylvania 17011
Attention: Nicholas Bybel, Jr.

- (b) If to Clearfield Bank & Trust Company to:

Clearfield Bank & Trust Company
11 North Second Street
Clearfield, Pennsylvania 16830
Attention: Sherwood C. Moody

With a copy to:

Tucker Arensberg, P.C.
1500 One PPG Place
Pittsburgh, Pennsylvania 15222
Attention: William T. Harvey

Section 14.4. Captions. The captions contained in this Agreement are for reference purposes only and are not part of this Agreement.

Section 14.5. Counterparts. This Agreement may be executed simultaneously in several counterparts, each of which shall be deemed an original, but all the counterparts together shall be deemed to be one and the same instrument.

Section 14.6. Severability. If any provision of this Agreement or the application thereof to any party or circumstance shall be invalid or unenforceable to any extent, the remainder of this Agreement and the application of the provisions to other parties or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

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Section 14.7. Parties in Interest. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that the rights and obligations of any party under this Agreement may not be assigned or delegated by that party without the prior written consent of each other party.

Section 14.8. Entire Agreement. This Agreement, including the documents and other writings referred to herein or delivered pursuant hereto, sets forth the entire understanding and agreement of the parties hereto and supersedes any and all prior agreements, arrangements and understandings, oral or written, relating to the subject matter hereof.

Section 14.9. Governing Law. This Agreement shall be governed by and construed in accordance with the domestic internal laws of the Commonwealth of Pennsylvania, without regard to the conflict laws principles thereof.

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IN WITNESS WHEREOF, intending to be legally bound hereby, this Agreement is executed
as of the day and year first above written.

ATTEST:

PENN LAUREL FINANCIAL CORP.

By: *James P. Kolar*By: *[Signature]*

[CORPORATE SEAL]

ATTEST:

CSB BANK

By: *James P. Kolar*By: *[Signature]*

[BANK SEAL]

ATTEST:

CLEARFIELD BANK & TRUST COMPANY

By: *William G. Finner*By: *Sherwood A. Moody**David*
CEO

[BANK SEAL]

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AGREEMENT AND PLAN OF MERGER
of
CLEARFIELD BANK & TRUST COMPANY
and
CSB BANK

THIS AGREEMENT AND PLAN OF MERGER (the "Merger Agreement") is dated as of December 31, 1998, by and between CSB BANK ("CSB"), a Pennsylvania chartered bank, having its principal office at 434 State Street, Curwensville, Pennsylvania 16833, and CLEARFIELD BANK & TRUST COMPANY ("Clearfield"), a Pennsylvania chartered bank and trust company, having its principal office at 11 North Second Street, Clearfield, Pennsylvania 16830 (the two parties being sometimes collectively referred to as the "Constituent Banks") each acting pursuant to resolutions approved and adopted by the vote of a majority of its directors.

BACKGROUND:

WHEREAS, Clearfield and CSB are parties to an Agreement and Plan of Reorganization of even date herewith (the "Reorganization Agreement") that provides, among other things, for the execution of the Merger Agreement and the merger of Clearfield and CSB (the "Merger") in accordance with the terms and conditions set forth therein and herein; and

WHEREAS, the respective Boards of Directors of Clearfield and CSB deem the Merger of Clearfield and CSB in accordance with the Reorganization Agreement and pursuant to the terms and conditions herein set forth or referred to, desirable and in the best interests of the Constituent Banks and their respective shareholders; and

WHEREAS, the respective Boards of Directors of Clearfield and CSB have adopted resolutions approving and adopting this Merger Agreement, and the respective Boards of Directors of CSB, Penn Laurel Financial Corp., a Pennsylvania corporation and parent of CSB ("Penn Laurel") and Clearfield have adopted resolutions approving and adopting the Reorganization Agreement, and the Boards of Directors of Clearfield and CSB have directed that this Merger Agreement be submitted to their respective shareholders;

WHEREAS, the approval of this Merger Agreement and the Reorganization Agreement requires the approval of the shareholders of the Constituent Banks, as required by applicable laws and by each party's Articles of Incorporation and Bylaws;

WHEREAS, one hundred percent (100%) of the outstanding shares of capital stock of CSB (the "CSB Common Stock") are held by its sole shareholder, Penn Laurel;

12/31/98

NOW, THEREFORE, in consideration of their mutual covenants and agreements contained herein and in the Reorganization Agreement, and for the purpose of stating the method, terms and conditions of the Merger, and such other details and provisions as are deemed desirable, the parties hereto, intending to be legally bound hereby, agree as follows:

1. The Merger. Subject to the terms and conditions of this Merger Agreement and the Reorganization Agreement, and in accordance with the laws of the Commonwealth of Pennsylvania, on the Effective Date (as defined in Section 11.2 of the Reorganization Agreement, and referred to herein as the "Effective Date"), CSB shall be merged with and into Clearfield pursuant to the Pennsylvania Banking Code of 1965, as amended (the "Banking Code"), and Clearfield shall be the surviving institution. On the Effective Date, the separate existence of CSB shall cease, and Clearfield shall be the surviving institution (the "Surviving Institution"), the principal and branch offices of CSB shall become authorized offices of Clearfield; and all the property (real, personal and mixed), rights, powers, duties, and obligations of Clearfield and CSB shall be taken and deemed to be transferred to and vested in the Surviving Institution, without further act or deed, as provided by applicable laws and regulations.

2. Name. The name of the Surviving Institution shall be "Penn Laurel Bank & Trust Company," and the location of its principal office shall be 11 North Second Street, Clearfield, Pennsylvania 16830.

3. Articles of Incorporation. The Articles of Incorporation of Clearfield as in effect immediately prior to the Effective Date, as may be amended in furtherance of the Reorganization Agreement and the Merger Agreement at the Effective Date, shall be the Articles of Incorporation of the Surviving Institution, until amended in accordance with applicable law.

4. Bylaws. The Bylaws of CSB as in effect immediately prior to the Effective Date, as may be amended in furtherance of the Reorganization Agreement and the Merger Agreement, at the Effective Date, shall be the Bylaws of the Surviving Institution, until amended in accordance with applicable law.

5. Conversion of Shares. The manner and basis of converting shares of common stock of the Constituent Banks shall be as follows:

5.1 Conversion of Clearfield Common Stock. On the Effective Date, the shares of Clearfield Common Stock then outstanding and eligible for conversion under Article II of the Reorganization Agreement shall be converted into the right to receive shares of common stock of Penn Laurel, par value \$5.00 per share (the "Penn Laurel Common Stock") in accordance with the terms of and as provided in Section 2.1(a) of the Reorganization Agreement.

12/31/98

5.2 Stock of CSB. The shares of CSB Common Stock issued and outstanding immediately prior to the Effective Date shall continue to be issued and outstanding shares of common stock of the Surviving Institution. From and after the Effective Date, each certificate that, prior to the Effective Date, represented shares of CSB Common Stock, shall evidence ownership of shares of such common stock of the Surviving Institution.

6. Surrender and Exchange of Clearfield Certificates. On the Effective Date, the outstanding shares of Clearfield Common Stock shall be exchanged for and shall become the right to receive shares of Penn Laurel Common Stock in accordance with and as provided for in Section 2.2 of the Reorganization Agreement.

7. Effect of Merger. On the Effective Date, the Surviving Institution shall succeed, without further act or deed, to all of the property, rights, powers, duties and obligations of the Constituent Banks in accordance with the Banking Code. Any claim existing or action pending by or against either of the Constituent Banks may be prosecuted to judgment as if the Merger had not taken place, and the Surviving Institution may be substituted in its place.

8. Continuation of Business. The Surviving Institution shall continue in business with the assets and liabilities of each of the Constituent Banks. The Surviving Institution shall be a bank and trust company organized and having perpetual existence under the laws of the Commonwealth of Pennsylvania. The branch offices of the Surviving Institution shall consist of CSB's and Clearfield's present branch offices and any other branch office or offices that CSB and Clearfield may be authorized to have as of the Effective Date. The headquarters of the Surviving Institution shall be at 11 North Second Street, Clearfield, Pennsylvania 16830.

9. Board of Directors and Officers. The Directors of CSB and of Clearfield as in effect immediately prior to the Effective Date shall be the Directors of the Surviving Institution, until such time as their successors have been elected, qualified, or appointed. Each director shall serve in the Class of Director that he or she currently serves, provided, however, that all classes of Directors shall be as equal as possible. The Officers of the Surviving Institution shall be as follows:

William L. Bertram
Larry W. Brubaker
Sherwood C. Moody
Wesley M. Wymers

Chairman of the Board
President
Executive Vice President
Executive Vice President

The officers of the Surviving Institution shall serve until their successors are appointed.

10. Dissenters' Rights of Clearfield's Shareholders. The rights and remedies of a dissenting shareholder under the Banking Code and Subchapter D of Chapter 15 of the Pennsylvania Business Corporation Law of 1988, as amended (15 Pa. C.S. §1571, et seq.), shall be afforded to any

holder of Clearfield Common Stock who objects to this Merger and who takes the necessary steps to perfect the rights of a dissenting shareholder, to the extent required under such laws.

11. Effective Date of the Merger. The Effective Date of the Merger shall be as defined and provided for in Section 11.2 of the Reorganization Agreement.

12. Further Assurances. If at any time the Surviving Institution shall consider or be advised that any further assignments, conveyances or assurances are necessary or desirable to vest, perfect or confirm in the Surviving Institution title to any property or rights of Clearfield or CSB, or otherwise carry out the provisions hereof, the proper officers and directors of Clearfield or CSB, as of the Effective Date, on behalf of Clearfield or CSB, respectively, shall execute and deliver any and all proper assignments, conveyances and assurances, and do all things necessary or desirable to vest, perfect or confirm title to such property or rights in the Surviving Institution and otherwise carry out the provisions hereof.

13. Shareholder Approval. This Merger Agreement shall be approved and adopted by the affirmative vote of the shareholders of each Constituent Bank as required by applicable law and by the Constituent Banks' Articles of Incorporation and Bylaws.

14. Termination and Amendment. Notwithstanding prior approval by the respective shareholders of Clearfield and CSB, this Merger Agreement shall be terminated and the Merger shall be abandoned in the event that, prior to the Effective Date, the Reorganization Agreement is terminated, as provided therein. If there is such termination after the delivery of Articles of Merger to the Pennsylvania Department of State, the parties shall execute and file with the Pennsylvania Department of State, prior to the Effective Date, a statement of termination, pursuant to Section 1902 of the Pennsylvania Business Corporation Law of 1988, as amended. Notwithstanding prior approval by the shareholders of Clearfield and CSB, this Agreement may be amended in any respect in the manner and subject only to the limitations set forth in Section 9.3 of the Reorganization Agreement.

15. Counterparts; Headings. This Merger Agreement may be executed in several counterparts, and by the parties hereto on separate counterparts, each of which will constitute an original. The headings and captions contained herein are for reference purposes only and do not constitute a part hereof.

16. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania.

EXECUTION COPY
12/31/98

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound hereby, by their officers thereunto duly authorized, have executed this Merger Agreement as of the day and year first above written.

ATTEST:

CLEARFIELD BANK & TRUST COMPANY

By: William G. Fisher By: Sherwood C. Moody
President & CEO

[BANK SEAL]

ATTEST:

CSB BANK

By: William E. Kikat By: [Signature]

[BANK SEAL]

:90150

December 31, 1998

PENN LAUREL FINANCIAL CORP.

Gentlemen:

The undersigned understands that Penn Laurel Financial Corp. ("Penn Laurel"), is about to enter into an Agreement and Plan of Reorganization (the "Agreement") with Clearfield Bank & Trust Company ("Clearfield"), pursuant to which each of the outstanding shares of Clearfield Common Stock (as defined in the Agreement) will be converted into the right to receive shares of Penn Laurel Common Stock, as defined and specified in the Agreement.

In order to induce Penn Laurel to enter into the proposed transaction, and intending to be legally bound hereby, the undersigned (the "Shareholder") hereby irrevocably:

1. Agrees to be present (in person or by proxy) at all meetings of shareholders of Clearfield, and any adjournment or postponement thereof, as contemplated in the Agreement, and to vote, or cause to be voted, the shares of Clearfield Common Stock as to which the shareholder has or shares voting power, individually or, to the extent of the Shareholder's proportionate interest, jointly with other persons, as set forth herein and described on Schedule A, attached hereto, and incorporated herein by reference in its entirety, as well as other shares of Clearfield Common Stock over which the Shareholder may hereafter acquire beneficial ownership in such capacities (collectively the "Shares") in favor of the Agreement and the transactions contemplated thereby, and shall use his or her best efforts to cause the transactions to be effected. The Shareholder further agrees that he or she will use his or her best efforts to cause any other shares of Clearfield Common Stock over which he or she has or shares voting power to be voted in favor of the Agreement and the proposed transaction.

2. Represents, warrants and agrees that until the earlier of (i) consummation of the transactions contemplated by the Agreement or (ii) the termination of the Agreement in accordance with its terms, the Shareholder will not, directly or indirectly:

- (a) vote any of the Shares in favor of, or cause or permit any of the Shares to be voted in favor of, or solicit, initiate or encourage inquiries or proposals from, or participate in any discussions or negotiations with, or provide any information to, any individual, corporation, partnership, or other person, entity or group (other than Penn Laurel or CSB Bank or either of their officers, employees, representatives and agents) concerning, any sale of assets, sale of shares of capital stock, merger,

EXHIBIT B
EXECUTION COPY
12/31/98

consolidation, share exchange, plan of liquidation, reclassification, or similar transactions involving Clearfield, that would have the effect of permitting any person to acquire control over Clearfield, or any substantial portion of Clearfield's assets. As used herein, the term "control" means (i) the ability to direct the voting of 20% or more of the outstanding voting securities of a person having ordinary voting power in the election of directors or in the election of any other body having similar functions or (ii) the ability to direct the management and policies of a person, whether through ownership of securities, through any contract, arrangement or understanding or otherwise;

(b) pledge, hypothecate, grant a security interest in, sell, transfer or otherwise dispose of or encumber any of the Shares, except by gift or to fulfill an already existing charitable pledge, and will not enter into any agreement, arrangement or understanding that would, during that term (i) restrict, (ii) establish a right of first refusal to, or (iii) otherwise relate to the transfer or voting of the Shares; except the pledge, hypothecation or grant of security interest in connection with a renewal of an existing loan, the pledge, hypothecation, grant of security interest, or a transfer or other distribution in connection with a bankruptcy proceeding or a court ordered liquidation, or a transfer or other disposition upon the death of the Shareholder under the laws of descent and distribution;

(c) Vote or execute any written consent to rescind or amend in any manner any prior vote or written consent, as a shareholder of Clearfield, to approve or adopt the Agreement; and

(d) Take any actions with the intent to prevent or hinder the actions contemplated by the Agreement from being consummated.

3. Agrees not to sell, or in any other way reduce the risk of the Shareholder relative to, any shares of common stock of Clearfield or of common stock of Penn Laurel, during the period commencing on the first day of the Price Determination Period and ending on the date on which financial results covering at least thirty (30) days of post-Merger combined operations of Clearfield and Penn Laurel have been published within the meaning of Section 210.01 of the SEC's Codification of Financial Reporting Policies.

4. Agrees that Clearfield will not be bound by any attempted sale of any shares of Clearfield common stock, and Clearfield's transfer agent shall be given an appropriate stop transfer order and shall not be required to register any such attempted sale, unless the sale has been effected in compliance with the terms of this Letter Agreement; and further agrees that the certificate representing shares of Clearfield common stock owned by the Shareholder may be endorsed with a restrictive legend consistent with the terms of this Letter Agreement.

5. Acknowledges and agrees that the provisions of paragraphs 3 and 4 hereof, to the extent the Shareholder can control any of the following persons or entities, also apply to shares of Penn Laurel common stock or Clearfield common stock, whether or not received

in the Merger, for the period referred to in paragraph 3 above, owned by (i) his or her spouse, (ii) any of his or her relatives or relatives of his or her spouse occupying his or her home, (iii) any trust or estate in which he or she, his or her spouse, or any such relative owns at least a 10% beneficial interest or of which any of them serves as trustee, executor or in any similar capacity, and (iv) any corporation or other organization in which the Shareholder, any affiliate of the Shareholder, his or her spouse, or any such relative owns at least 10% of any class of equity securities or of the equity interest.

It is understood and hereby agreed that this Agreement: (i) relates solely to the capacity of Shareholder as a shareholder or beneficial owner of the Shares and is not in any way intended to affect the exercise of Shareholder's responsibilities and fiduciary duties as a director or officer of Clearfield; (ii) shall in all respects be governed by and construed under the laws of the Commonwealth of Pennsylvania, all rights and remedies being governed by such laws; and (iii) shall be binding upon and inure to the benefit of, and shall be enforceable by, the parties hereto and their respective personal representatives, successors and assigns, except that there may be no transfer or assignment of any of the rights or obligations hereunder without the prior written consent of Penn Laurel.

Sincerely,

Sherwood C. Moody
(Signature of Shareholder)
(as owner of 208 shares*)

Sherwood C. Moody
(Print name of Shareholder)

* Describe beneficial ownership of Shareholder on Schedule A attached hereto.

SCHEDULE A

Print or type name of Director or Officer: Sherwood C. Moody

**SHARES
OF
CLEARFIELD FINANCIAL CORP.
COMMON STOCK
BENEFICIALLY OWNED**

As of December 31, 1998

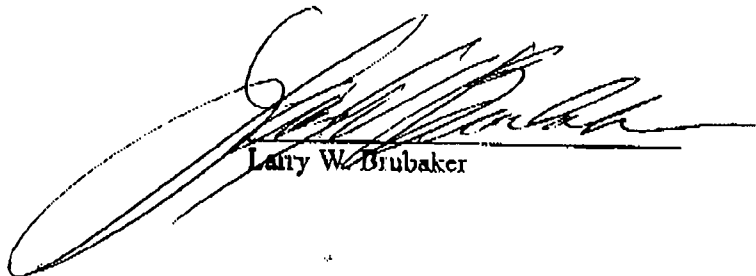
<u>Name(s) of Record Owners</u>	<u>Capacity of Director's/Officer's Beneficial Ownership</u>	<u>Number of Shares</u>
Sherwood C. Moody and MaryAnn Moody, Jt, WROS		208

VERIFICATION

The undersigned, Larry W. Brubaker, hereby verifies and states that:

1. He is President and CEO of Penn Laurel Financial Corporation and Chairman of the Board of CSB Bank;
2. He is authorized to make this Verification on their behalf;
3. The facts set forth in the foregoing Complaint are true and correct to the best of his knowledge, information and belief; and
4. He is aware that any false statements herein are made subject to the penalties of 18 Pa.C.S.A. §4904, relating to unsworn falsification to authorities.

Dated:



Larry W. Brubaker

FILED

FEB 09 2001

W
W
William A. Shaw
Prothonotary

Atty Daque pd

\$80.00

acc Atty Daque

PENN LAUREL FINANCIAL CORP.
and CSB BANK,

Plaintiffs,

v.

SHERWOOD C. MOODY,

Defendant.

IN THE COURT OF COMMON PLEAS OF
CLEARFIELD COUNTY, PENNSYLVANIA

Civil Action No. 01-204-CD

CIVIL ACTION - LAW

PRAECIPE FOR APPEARANCE

Filed On Behalf Of Sherwood C. Moody,
Defendant.

Counsel of Record:

Bradley S. Tupi, Esquire
Pa. I.D. #28682
John E. Graf, Esquire
Pa. I.D. #60771
Vance E. Antonacci, Esquire
Pa. I.D. #83725
TUCKER ARENSBERG, P.C.
1500 One PPG Place
Pittsburgh, PA 15222
412-566-1212

FILED

FEB 20 2001

William A. Shaw
Prothonotary

PENN LAUREL FINANCIAL CORP.
and CSB BANK,

Plaintiffs,

v.

SHERWOOD C. MOODY,

Defendant

: IN THE COURT OF COMMON PLEAS OF
: CLEARFIELD COUNTY, PENNSYLVANIA

:
:
:
: Civil Action No. 01-204-CD

:
:
: CIVIL ACTION - LAW
:
:

PRAECIPE FOR APPEARANCE

TO: PROTHONOTARY

Please enter our appearance on behalf of Sherwood C. Moody, Defendant in the above-captioned matter.

Respectfully submitted,

TUCKER ARENSBERG, P.C.

By: 

Bradley S. Tupi, Esquire

Pa. I.D. #28682

John E. Graf, Esquire

Pa. I.D. #60771

Vance E. Antonacci, Esquire

Pa. I.D. #83725

1500 One PPG Place

Pittsburgh PA 15222

(412) 566-1212

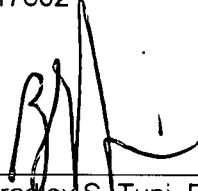
Attorneys for Defendant

CERTIFICATE OF SERVICE

The undersigned counsel hereby certifies that on the 15 day of February, 2001, true and correct copies of the foregoing Praecipe for Appearance were served on counsel of record by United States mail, postage prepaid, addressed as follows:

Laurence W. Dague, Esquire
Angela L. Thomas, Esquire
Melissa A. Swauger, Esquire
Shumaker Williams, P.C.
P.O. Box 88
Harrisburg, PA 17108

Howard L. Kelin, Esquire
Kegel Kelin Almy & Grimm, LLP
24 North Lime Street
Lancaster, PA 17602



Bradley S. Tupi, Esquire
John E. Graf, Esquire
Vance E. Antonacci, Esquire

FILED

FEB 20 2001

0121170 CC
William A. Shaw
Prothonotary

37

PENN LAUREL FINANCIAL CORP.,
and CSB BANK,

Plaintiffs

v.

SHERWOOD C. MOODY,

Defendant

: IN THE COURT OF COMMON PLEAS OF
: CLEARFIELD COUNTY, PENNSYLVANIA

:
:
: Civil Action No. 01-204-CD

:
: CIVIL ACTION - LAW

AFFIDAVIT OF SERVICE

COMMONWEALTH OF PENNSYLVANIA

:
: SS.

COUNTY OF CUMBERLAND

:

I, Michele A. Connor, being duly sworn according to law depose and say that on February 12, 2001, she served a Complaint, a Request for Production of Documents and two (2) Notices of Deposition upon Defendant Sherwood Moody by depositing a true and correct copy of same in the possession of the United States mail, certified mail, return receipt requested, addressed at 5 Southridge Lane, Lewiston, ME 04240. A copy of the signed return receipt card dated February 14, 2001 is attached hereto.

Dated: 2/19/01

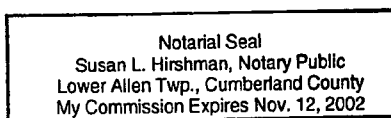
Michele A. Connor
Michele A. Connor

Sworn to and subscribed before me

this 19th day of February, 2001.

Susan L. Hirshman
Notary Public

My Commission Expires:



Member, Pennsylvania Association of Notaries

FILED

FEB 22 2001

William A. Shaw
Prothonotary

:128011

SENDER:

- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece next to the article number.

I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address
2. ☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

Sherwood C. Moody
5 Southridge Lane
Lewiston, ME 04240

4a. Article Number

7000 0600 0025 5544 278

4b. Service Type

- | | |
|---|---|
| <input type="checkbox"/> Registered | <input type="checkbox"/> Insured |
| <input checked="" type="checkbox"/> Certified | <input type="checkbox"/> COD |
| <input type="checkbox"/> Express Mail | <input type="checkbox"/> Return Receipt for Merchandise |

7. Date of Delivery

2-14-01

8. Addressee's Address (Only if requested and fee is paid)

5. Signature (Addressee)

6. Signature (Agent)

PS Form 3811, October 1990

☆U.S. GPO: 1990-273-861

DOMESTIC RETURN RECEIPT

**U.S. Postal Service
CERTIFIED MAIL RECEIPT**

(Domestic Mail Only; No Insurance Coverage Provided)

LEWISTON ME 04240

Postage	\$ 43.95
Certified Fee	\$1.90
Return Receipt Fee (Endorsement Required)	\$1.50
Restricted Delivery Fee (Endorsement Required)	\$0.00
Total Postage & Fees	\$ 47.35

0011
22

Postmark
Here

02/12/2001

Recipient's Name (Please Print Clearly) (to be completed by mailer)

Sherwood C. Moody

Street, Apt. No., or PO Box No.

5 Southridge Lane

City, State, ZIP+4

Lewiston, ME 04240

PS Form 3800, February 2000

See Reverse for Instructions

FILED

FEB 22 2001

William A. Shaw
Prothonotary

IN THE COURT OF COMMON PLEAS OF CLEARFIELD COUNTY, PENNSYLVANIA

PENN LAUREL FINANCIAL CORP.,
and CSB BANK, 434 State Street,
Curwensville, Pennsylvania 16833,

Plaintiffs,

v.

SHERWOOD C. MOODY,

Defendant.

Civil Action - Law

Civil Action No. 01-204-CD

ANSWER AND NEW MATTER

Filed on behalf of Defendant,
Sherwood C. Moody

Counsel of Record for this Party:

Bradley S. Tupi, Esquire
Pa. I.D.#28682

John E. Graf, Esquire
Pa. I.D. #60771

Vance E. Antonacci, Esquire
Pa. I.D. #83725

TUCKER ARENSBERG, P.C.

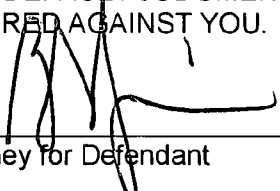
1500 One PPG Place
Pittsburgh, PA 15222

(412) 566-1212

TO PLAINTIFFS:

Jury Trial Demanded.

YOU ARE HEREBY NOTIFIED TO
PLEAD TO THE ENCLOSED ANSWER
AND NEW MATTER WITHIN TWENTY
(20) DAYS FROM SERVICE HEREOF
OR A DEFAULT JUDGMENT MAY BE
ENTERED AGAINST YOU.



Attorney for Defendant

FILED

MAR 07 2001

William A. Shaw
Prothonotary

1. Admitted.
2. Admitted.
3. Admitted.
4. Admitted, except the correct date is June 25, 1999.
5. Admitted.
6. Admitted.

7. Denied as stated. The allegations of Paragraph 7 of the Complaint attempt to paraphrase the provisions of the written Agreement and Plan of Merger ("Merger Agreement") and Agreement and Plan of Reorganization ("Reorganization Agreement"), both of which speak for themselves. The allegations of Paragraph 7 of the Complaint are therefore denied as stated.

8. Admitted.

9. Denied as stated. The portions of the Reorganization Agreement set forth in the Complaint are accurately transcribed. However, key portions of the Agreement have been omitted from the quoted portions, including language in Section 6.8 that permits Clearfield to speak to outside parties: "except that Clearfield's officers may respond to inquiries from analysts, regulatory authorities and holders of Clearfield Common Stock in the Ordinary Course of Business." Because Plaintiffs have failed to include this pertinent language, the allegations of Paragraph 9 of the Complaint are denied as stated.

10. Admitted.

11. Admitted.

12. Admitted.

13. Admitted.

14. Admitted.

15. Admitted in part and denied in part. It is admitted that in January of 1999, Mr. Moody received a telephone call from Timothy Anonick. It is denied that Mr. Moody discussed any non-public information relating to the merger of Clearfield and CSB/Penn Laurel with Anonick. To the contrary, at no time did Mr. Moody transmit to or discuss with Anonick any substantive, non-public information regarding the merger of Clearfield and CSB/Penn Laurel.

16. Denied. It is denied that in February or March of 1999 Mr. Moody provided Anonick with "substantial information concerning the proposed merger" of Clearfield and CSB/Penn Laurel, including the definitive terms of the merger. To the contrary, at no time did Mr. Moody divulge any substantive, non-public information to Anonick regarding the proposed merger of Clearfield and CSB/Penn Laurel.

17. Denied in part and denied as stated in part. It is denied as stated that any conversation between Mr. Moody and Anonick took place in early April. However, in mid-April of 1999, Mr. Moody received a telephone call from Anonick. It is denied that in that conversation Mr. Moody "again discussed the parties' proposed merger with Mr. Anonick." Mr. Moody did not provide to Anonick, during this telephone conversation or at any time, any substantive, non-public information regarding the terms or the status of the merger. To the contrary, Anonick told Mr. Moody about the terms and conditions of the proposed merger between Clearfield and CSB/Penn Laurel. It is denied that Anonick was left with the "impression" that Mr. Moody was not in favor of the merger. First, there is no way for Mr. Moody to discern what Anonick's subjective impressions were of his telephone conversations with Mr. Moody, and such allegation is therefore denied. Moreover, Mr. Moody did not in any way, shape or form, at any time during the period of time relevant to this case, take any action or make any statement that would lead

an objective, reasonable observer to believe that Mr. Moody was not in favor of the merger between Clearfield and CSB/Penn Laurel. To the contrary, Mr. Moody at all times worked diligently in support of the merger.

18. Denied in part. It is denied that Mr. Moody provided Anonick information concerning the proposed merger. To the contrary, Mr. Moody did not provide Anonick with any substantive, non-public information regarding the proposed merger between Clearfield and CSB/Penn Laurel. It is denied that Mr. Moody told Anonick that certain Clearfield shareholders were opposed to the merger, and it is denied that Mr. Moody told Anonick the names of one or more shareholders who were opposed. To the contrary, Mr. Moody did not tell Anonick that certain Clearfield shareholders were opposed to the merger, and did not identify any persons as shareholders opposed to the merger.

19. Denied. It is denied that Anonick contacted Omega Financial Corporation ("Omega") on the basis of any information provided by or discussions with Mr. Moody. To the contrary, Mr. Moody provided no substantive, non-public information to Anonick regarding the proposed merger between Clearfield and CSB/Penn Laurel. With regard to the remaining allegations, following a reasonable investigation, Mr. Moody is without sufficient information to admit or deny the allegations of Paragraph 19 of the Complaint, and such allegations are therefore denied.

20. Denied. It is denied that Anonick did provide or could have provided to Omega information supplied by Mr. Moody about Clearfield shareholders opposed to the proposed merger. To the contrary, Mr. Moody provided no substantive, non-public information regarding the proposed Clearfield - CSB/Penn Laurel merger to Anonick. Mr. Moody further did not provide

any information to Anonick regarding "the fact that some Clearfield shareholders were opposed to the merger." With regard to the remaining allegations of Paragraph 20 of the Complaint, following a reasonable investigation Mr. Moody is without sufficient information to admit or deny the substance of April 1999 discussions between Anonick and Omega officers, and such allegations are therefore denied.

21. Denied. It is denied that Mr. Moody provided any information to Anonick regarding shareholder opposition to the proposed Clearfield - CSB/Penn Laurel merger. To the contrary, as set forth above, Mr. Moody provided no substantive information whatsoever to Anonick regarding the proposed Clearfield - CSB/Penn Laurel merger, and specifically did not provide any information regarding shareholder opposition to the proposed merger. With regard to the remaining allegations set forth in Paragraph 21 of the Complaint, following a reasonable investigation, Mr. Moody is without sufficient information to admit or deny the contents of Omega's discussions with Anonick regarding Clearfield as a potential merger target for Omega, and such allegations are therefore denied.

22. Admitted in part and denied in part. It is admitted that on or about May 10, 1999, Omega sent a letter to Clearfield. The remainder of the allegations contained within Paragraph 22 of the Complaint are denied as stated. These allegations attempt to paraphrase the contents of the May 10, 1999 letter, which speaks for itself, and such allegations are therefore denied as stated.

23. Admitted in part and denied as stated in part. It is denied that Mr. Moody had a conversation with Anonick on May 10, 1999. To the contrary, Anonick called Mr. Moody on May 11, 1999. It is admitted that during the May 11, 1999, conversation with Anonick, Mr. Moody

confirmed receipt of the May 10, 1999 letter from Omega. It is admitted that during a telephone conversation in May of 1999 Mr. Moody informed Anonick that he had been advised not to speak to Anonick.

24. Denied as stated. It is admitted that Anonick continued to call Mr. Moody even after Mr. Moody had informed Anonick that he had been advised not to speak with him. It is denied that Mr. Moody had any substantive conversations with Anonick about the proposed Clearfield - CSB/Penn Laurel merger or Omega's "expression of interest." To the contrary, when Anonick called Mr. Moody, Mr. Moody told him he could not speak with him..

25. Denied in part. Mr. Moody's last day as Clearfield's President and Chief Executive Officer was June 25, 1999.

26. Denied as stated. It is admitted that Anonick continued to call Mr. Moody even after Mr. Moody had moved to Maine. It is denied that Mr. Moody had any substantive conversations with Anonick about the proposed Clearfield - CSB/Penn Laurel merger or Omega's "expression of interest" or Clearfield's shareholders. To the contrary, when Anonick called Mr. Moody, Anonick would report to Mr. Moody on Anonick's efforts to pursue a transaction for Omega.

27. Denied. It is denied that Mr. Moody identified Jack Woolridge to Anonick as a Clearfield shareholder opposed to the proposed Clearfield - CSB/Penn Laurel merger. To the contrary, Mr. Moody did not identify Jack Woolridge to Anonick as a shareholder opposed to the proposed merger. Furthermore, Mr. Moody did not identify anyone to Anonick as a shareholder opposed to the proposed merger. With regard to the remainder of the allegations of

Paragraph 27 of the Complaint, following a reasonable investigation, Mr. Moody is without sufficient information to admit or deny the allegations that Anonick contacted Jack Woolridge in July 1999 to discuss Omega's interest in acquiring Clearfield, and such allegations are therefore denied.

28. Denied. Following a reasonable investigation, Mr. Moody is without sufficient information to admit or deny the allegation in Paragraph 28 of the Complaint that Anonick met with Jack Woolridge in Clearfield on August 2, 1999 prior to a meeting with other Clearfield shareholders. Such allegations are therefore denied. With regard to the remaining allegations of Paragraph 28 of the Complaint, following a reasonable investigation Mr. Moody is without sufficient information to admit or deny the events and discussions at the alleged meeting, and such allegations are therefore denied.

29. Denied. Following a reasonable investigation, Mr. Moody is unable to admit or deny the allegations of Paragraph 29 of the Complaint, and such allegations are therefore denied.

30. Denied as stated. It is denied that Mr. Moody had specific knowledge of any concerted effort between Anonick and Jack Woolridge to foment opposition among Clearfield shareholders at any time prior to the meeting on August 2, 1999. To the contrary, the first that Mr. Moody learned of Anonick's and Jack Woolridge's efforts to bring Omega's offer to purchase shares directly to the attention of Clearfield shareholders was after the August 2, 1999 meeting. By way of further answer, Mr. Moody was aware of the opposition by certain Clearfield shareholders, including Jack Woolridge, to the proposed merger, and that opposition to the

merger among shareholders was growing due, in whole or in part, to the actions and failures to act on the part of Plaintiffs, as set forth in the New Matter below.

31. Denied. It is denied that Mr. Moody had knowledge of Anonick's efforts to interest Omega in a potential merger with Clearfield prior to Omega's May 10, 1999 letter. To the contrary, Mr. Moody first became aware of Omega's interest in a merger with Clearfield only after delivery of the May 10, 1999 letter.

32. Admitted.

33. The allegations of Paragraph 33 of the Complaint constitute conclusions of law to which no response is required, and are therefore denied. The allegations of Paragraph 33 are directed at Clearfield, which is not a party to this action, and so no answer by Mr. Moody is required. In the event that any response is required, the allegations are denied. To the contrary, Clearfield, its officers and directors in no way violated the Reorganization Agreement. It is specifically denied that Clearfield's officers and directors improperly engaged in any discussions "concerning the fact of and terms and conditions of the Reorganization." To the contrary, the officers and directors of Clearfield had no improper discussions concerning the fact of or the terms and conditions of the "Reorganization."

34. The allegations of Paragraph 34 of the Complaint constitute conclusions of law to which no response is required, and are therefore denied. The allegations of Paragraph 34 are directed at Clearfield, which is not a party to this action, and so no answer by Mr. Moody is required. In the event that any response is required, the allegations are denied. To the contrary, Clearfield did not violate the Reorganization Agreement in any way. Further, no officer and/or

director of Clearfield engaged in any improper "discussions concerning the fact of and terms and conditions of the Reorganization," nor did Clearfield give permission for any such discussions.

35. The allegations of Paragraph 35 of the Complaint constitute conclusions of law to which no response is required, and are therefore denied. The allegations of Paragraph 35 are directed at Clearfield, which is not a party to this action, and so no answer by Mr. Moody is required. In the event that any response is required, the allegations are denied. To the contrary, neither Clearfield, its officers nor its directors violated the Reorganization Agreement. Further, neither Clearfield, its officers nor its directors responded to requests for information, inquiries and other communications concerning the fact of or the terms and conditions of the Reorganization so as to constitute a violation of any contractual or other obligation to Plaintiffs.

36. The allegations of Paragraph 36 of the Complaint constitute conclusions of law to which no response is required, and are therefore denied. The allegations of Paragraph 36 are directed at Clearfield, which is not a party to this action, and so no answer by Mr. Moody is required. In the event that any response is required, the allegations are denied. To the contrary, neither Clearfield, its officers nor its directors violated the Reorganization Agreement. Further, Clearfield did not permit its officers or directors to respond to requests for information, inquiries and other communications concerning the fact of or terms and conditions of the Reorganization so as to constitute a violation of any contractual or other obligation.

37. The allegations of Paragraph 37 of the Complaint constitute conclusions of law to which no response is required, and are therefore denied. The allegations of Paragraph 37 are directed at Clearfield, which is not a party to this action, and so no answer by Mr. Moody is required. In the event that any response is required, the allegations are denied. To the contrary,

Clearfield did not violate the Reorganization Agreement. Further, Clearfield did, in fact, notify CSB/Penn Laurel in a timely fashion of discussions, requests for information, inquiries and communications, such as the Omega letter.

38. The allegations of Paragraph 38 of the Complaint constitute conclusions of law to which no response is required, and are therefore denied. The allegations of Paragraph 38 are directed at Clearfield, which is not a party to this action, and so no answer by Mr. Moody is required. In the event that any response is required, the allegations are denied. To the contrary, neither Clearfield, its officers nor its directors violated the Reorganization Agreement. Further, neither Clearfield, its officers nor its directors encouraged inquiries, furnished information or participated in discussions with any third parties with respect to the acquisition or purchase of all of or a substantial equity interest in Clearfield and/or with respect to business combinations with Clearfield.

39. The allegations of Paragraph 39 of the Complaint constitute conclusions of law to which no response is required, and are therefore denied. The allegations of Paragraph 39 are directed at Clearfield, which is not a party to this action, and so no answer by Mr. Moody is required. In the event that any response is required, the allegations are denied. To the contrary, neither Clearfield, its officers nor its directors violated the Reorganization Agreement. Further, Clearfield did not permit any of its officers or directors to encourage inquiries, furnish information, or participate in discussions with any third parties with respect to the acquisition or purchase of all of or a substantial equity interest in Clearfield and/or with respect to business combinations with Clearfield.

40. The allegations of Paragraph 40 of the Complaint constitute conclusions of law to which no response is required, and are therefore denied. The allegations of Paragraph 40 are directed at Clearfield, which is not a party to this action, and so no answer by Mr. Moody is required. In the event that any response is required, the allegations are denied. To the contrary, Clearfield did not violate the Reorganization Agreement. Further, Clearfield did, in fact, notify CSB/Penn Laurel in a timely fashion of inquiries made by outside parties.

41. The allegations of Paragraph 41 of the Complaint constitute conclusions of law to which no response is required, and are therefore denied. The allegations of Paragraph 41 are directed at Clearfield, which is not a party to this action, and so no answer by Mr. Moody is required. In the event that any response is required, the allegations are denied. To the contrary, neither Clearfield nor its officers nor its directors violated the Reorganization Agreement. Further, Clearfield did exercise its best efforts to fulfill all conditions precedent in the Reorganization Agreement, and did take, in good faith, all actions appropriate to secure approval of the Reorganization Agreement and the Merger Agreement by its shareholders. Mr. Moody specifically denies the allegations contained in Subparagraphs 41(a) through 41(e) of the Complaint:

- (a) Mr. Moody denies that Clearfield failed to deal effectively and appropriately with shareholders that expressed opposition to or concerns about the proposed merger by fully informing them of the benefits that would result from the merger and the reasonableness of the terms of the Agreements. To the contrary, Clearfield made active efforts to contact and inform its shareholders of the value and benefits of the Clearfield - CSB/Penn Laurel merger within the constraints of Securities and Exchange Commission Rule 145(b)(1), which limits communications by a merging party to its shareholders;
- (b) Mr. Moody denies that Clearfield failed to take active steps to assure that all of its officers and directors were in full compliance with the terms of the Reorganization Agreement and with the individual agreements dated December 31, 1998 that directors entered into with CSB/Penn Laurel. To

the contrary, no Clearfield officer or director breached any duty, contractual or otherwise, to CSB/Penn Laurel. Further, Clearfield, with the full support of its Board of Directors, took vigorous steps so that the proposed merger between Clearfield and CSB/Penn Laurel would be approved by its shareholders.

- (c) Mr. Moody denies that Clearfield failed to take all reasonable steps to prevent Anonick from pursuing the course of action concerning the proposed merger in which he engaged. To the contrary, Clearfield took aggressive action to halt Anonick's activities.
- (d) Mr. Moody denies that Clearfield failed to take all reasonable steps to prevent Omega from pursuing the course of action concerning the proposed merger in which it engaged. To the contrary, Clearfield took aggressive action to halt Omega's activities
- (e) Mr. Moody denies that Clearfield failed to deal effectively and appropriately with shareholders who had expressed opposition to or concerns about the proposed merger by fully informing them of the benefits that would result from the merger and the reasonableness of the terms of the Agreements. To the contrary, Clearfield made active efforts to contact and inform its shareholders of the value and benefits of the Clearfield - CSB/Penn Laurel merger. Mr. Moody denies that Clearfield failed to take all reasonable steps to timely and effectively communicate to all Clearfield shareholders the benefits that would result from the merger and the reasonableness of the terms of the Agreements. To the contrary, Clearfield did take all reasonable steps to so communicate to its shareholders within the constraints of Securities and Exchange Commission Rule 145(b)(1), which limits communications by a merging party to its shareholders.

42. The events alleged in Paragraph 42 of the Complaint occurred after Mr. Moody's tenure as President and Chief Executive Officer at Clearfield. Accordingly, following reasonable investigation, Mr. Moody is without knowledge or information sufficient to admit or deny whether, on or about October 26, 1999, Plaintiffs sent Clearfield a letter stating that Plaintiffs deemed Clearfield to have violated the Reorganization and Merger Agreements. Mr. Moody denies that Clearfield did violate the Merger Agreement or Reorganization Agreement. To the contrary, Clearfield did not violate the Merger Agreement or Reorganization Agreement.

COUNT I: BREACH OF CONTRACT

43. The allegations of Paragraphs 1 through 42 of this Answer and New Matter are incorporated as if fully set forth.

44. Denied. It is denied that Mr. Moody breached the Mr. Moody Agreement or that Mr. Moody provided information to others in violation of the Moody Agreement. To the contrary, Mr. Moody did not breach the Mr. Moody Agreement and did not provide information to others in violation of the Moody Agreement.

45. Denied. It is denied that Mr. Moody breached the Mr. Moody Agreement or that Mr. Moody intended to prevent or hinder the consummation of the Reorganization Agreement. To the contrary, Mr. Moody did not breach the Mr. Moody Agreement and worked diligently toward the consummation of the Reorganization Agreement.

46. Denied. It is denied that Mr. Moody breached the Mr. Moody Agreement or that any alleged breaches by Mr. Moody caused the failure of the proposed merger between Plaintiffs and Clearfield. To the contrary, Mr. Moody did not breach the Mr. Moody Agreement and worked diligently in support of the merger. The merger failed because of Clearfield shareholder opposition, which was aided and abetted by the actions and failures to act on the part of Plaintiffs, as set forth in the New Matter below.

47. Denied and denied as stated. It is admitted that Plaintiffs expended substantial sums of money in pursuing the proposed merger between Clearfield and CSB/Penn Laurel for completion. By way of further answer, Clearfield likewise spent significant sums. It is denied that

any sums expended by Plaintiffs in moving the merger toward completion are recoverable as items of damage against Mr. Moody. To the contrary, Mr. Moody has breached no contractual or other obligation to CSB/Penn Laurel. Further, no action or inaction by Mr. Moody resulted in any harm to Plaintiffs.

48-51. The events alleged in Paragraphs 48-51 of the Complaint occurred after Mr. Moody's tenure as President and Chief Executive Officer at Clearfield. Accordingly, following reasonable investigation, Mr. Moody is without knowledge or information sufficient to admit or deny them. It is specifically denied, however, that any attorneys' fees and expenses incurred by Plaintiffs in joining the Omega Litigation as intervenors constitute damages based upon Mr. Moody's alleged breach of the Moody Agreement. To the contrary, the attorneys' fees and expenses incurred by Plaintiffs in intervening in the Omega Litigation were accrued strictly as a result of Plaintiffs' own decision to join the action, a decision which, upon information and belief, was made to protect and enhance the interests of Plaintiffs alone. It is denied that Mr. Moody breached any obligation to Plaintiffs, contractual or otherwise. To the contrary, Mr. Moody committed no such breach.

52. Denied. Following reasonable investigation, Mr. Moody is without sufficient information to admit or deny the allegations of Paragraph 52 of the Complaint, and such allegations are therefore denied. Further, to the extent that the allegations of Paragraph 52 imply that Plaintiffs are due any portion of the monies expended in pursuing the merger with Clearfield as recoverable items of damage in this action, such allegations are denied. To the contrary, Plaintiffs are due no damages in this action.

53. Denied. It is denied that Mr. Moody committed any breach of the Moody Agreement. To the contrary, Mr. Moody abided by his obligations under the Moody Agreement. It is denied that Plaintiffs have suffered any damage due to the loss of services of key officers and employees. To the contrary, Plaintiffs of their own volition pursued the proposed merger and reorganization, knowing that the merger could not take place without the approval of shareholders representing a two-thirds (2/3) majority of outstanding shares. At all relevant times, Plaintiffs were well aware of the possibility that the merger would not be approved by a sufficient number of Clearfield shareholders. It is denied that Plaintiffs have suffered any loss as a result of any breach of any obligation, contractual or otherwise, on the part of Mr. Moody. To the contrary, Plaintiffs have suffered no loss as a result of any breach of any obligation, contractual or otherwise, on the part of Mr. Moody.

54. Denied. It is denied that Mr. Moody committed any breach of the Moody Agreement. To the contrary, Mr. Moody abided by his obligations under the Moody Agreement. It is denied that CSB/Penn Laurel and its shareholders have been damaged by any breach by Mr. Moody of the Moody Agreement through the loss of benefits which would have accrued to them had the merger occurred. To the contrary, neither CSB/Penn Laurel nor its shareholders have suffered any damage or loss as a result of any actions or inactions of Mr. Moody.

WHEREFORE, Defendant Sherwood C. Moody respectfully requests that this Honorable Court enter judgment in his favor and against the Plaintiffs Penn Laurel Financial Corporation and CSB Bank.

COUNT II: CONSPIRACY

55. The allegations of Paragraphs 1 through 54 of this Answer and New Matter are incorporated as if fully set forth.

56. Denied. It is denied that Mr. Moody intended to interfere with contractual relations between Plaintiffs and Clearfield, and it is denied that Mr. Moody improperly induced Clearfield to breach its contractual obligations to Plaintiffs. To the contrary, during his tenure as Clearfield's President and Chief Executive Officer, Mr. Moody steadfastly worked in support of the merger, notwithstanding complaints from Clearfield shareholders and lack of timely cooperation from Plaintiffs. Clearfield did not breach its contractual obligations to Plaintiffs.

57. The allegations of Paragraph 57 of the Complaint constitute conclusions of law to which no response is required, and are therefore denied. The allegations of Paragraph 57 are directed at Anonick and Anonick Financial Corporation, who are not parties to this action, and so no answer by Mr. Moody is required.

58. The allegations of Paragraph 58 of the Complaint constitute conclusions of law to which no response is required, and are therefore denied. The allegations of Paragraph 58 are directed at Anonick and Anonick Financial Corporation, who are not parties to this action, and so no answer by Mr. Moody is required. The actions by Anonick and AFC alleged in Paragraph 58 of the Complaint occurred after Mr. Moody's tenure as President and Chief Executive Officer at Clearfield. Accordingly, following reasonable investigation, Mr. Moody is without knowledge or information sufficient to admit or deny them.

59. Denied. It is denied that there was any conspiracy among Omega, Anonick, AFC and Mr. Moody to commit any unlawful act. To the contrary, Mr. Moody did not enter into any agreement to perform or participate in any illegal act performed by Anonick, AFC or Omega. During his tenure as Clearfield's President and Chief Executive Officer, Mr. Moody steadfastly worked in support of the merger, notwithstanding complaints from Clearfield shareholders and Anonick's meddling.

60. Denied. It is denied that Mr. Moody agreed with Anonick, AFC, Omega or anyone else, including directors of Clearfield, to commit any illegal act. It is denied that Mr. Moody acted in concert with Anonick, AFC, Omega or anyone else, including directors of Clearfield, to commit any illegal act. To the contrary, Mr. Moody never agreed with Anonick, AFC, Omega or anyone else, including directors of Clearfield, to commit any illegal act, and never acted in concert with Anonick, AFC, Omega or anyone else, including directors of Clearfield, to commit any illegal act. During his tenure as Clearfield's President and Chief Executive Officer, Mr. Moody steadfastly worked in support of the merger, notwithstanding complaints from Clearfield shareholders and Anonick's meddling.

61. Denied. Mr. Moody denies that Plaintiffs suffered any damage as a result of the "conspiracy" claimed in Count II of the Complaint. To the contrary, Plaintiffs have suffered no damages and there was no conspiracy involving Mr. Moody to perform any illegal act.

WHEREFORE, Defendant Sherwood C. Moody respectfully requests that this Honorable Court enter judgment in his favor and against the Plaintiffs Penn Laurel Financial Corporation and CSB Bank.

NEW MATTER

62. The allegations of Paragraphs 1-61 of this Answer and New Matter are incorporated as if fully set forth.

63. Far from breaching his obligations under the Moody Agreement, Mr. Moody cooperated and assisted Plaintiffs in every respect in attempting to obtain the approval of the proposed merger by Clearfield shareholders. Such efforts and cooperation and assistance with Plaintiffs included, but were not limited to:

- (a) Participating in the meetings of the Joint Task Force;
- (b) Answering dozens of angry calls from Clearfield shareholders;
- (c) Consulting with Plaintiffs and their counsel about Omega's May 10, 1999 letter announcing Omega's interest in acquiring Clearfield and the possibility of a \$65.00 per share purchase price by Omega;
- (d) Reluctantly acquiescing to the wishes of Plaintiffs and their counsel in identifying Omega's May 10, 1999 letter, in filings with the Securities and Exchange Commission, as an expression of interest by an out-of-town bank that had made a proposal to acquire Clearfield shares.

64. The merger would have been disapproved regardless of any communications between Mr. Moody and Anonick, because even before Anonick's meddling, a sufficient number of shareholders were opposed to defeat the merger.

65. Assuming that the conduct of Anonick, AFC and Omega contributed to Clearfield shareholders' disapproval of the merger, the actions of Anonick, AFC and Omega were premised upon information available from sources other than Mr. Moody:

- (a) It was common knowledge in Clearfield that certain shareholders were opposed to the proposed merger.
- (b) The preliminary proxy statement, filed on April 2, 1999 with the SEC, is and was a public document, readily available for review and analysis by anyone. The preliminary proxy statement included all pertinent information relating to the proposed merger, and attached as Exhibits the Reorganization Agreement, the Merger Agreement and all other pertinent agreements between the parties. Upon information and belief, to the extent that Anonick, AFC and Omega had any knowledge of the terms and conditions of the proposed merger, they gleaned them from the publicly available filings with the SEC.

66. Securities and Exchange Commission Rule 145(b)(1), interpreting the Securities Act of 1933, severely limits the information that a party to a proposed merger may communicate to its shareholders in connection with the merger. Specifically, Rule 145(b)(1) prohibits a party to a proposed merger from touting or otherwise advocating the approval of the merger until the parties file a preliminary proxy statement, Form S-4, with the Securities and Exchange Commission. Even after the Form S-4 has been filed, Rule 145(b)(1) restricts the merging party from communicating any persuasive information to shareholders not contained in the Form S-4.

67. Mr. Moody and Clearfield used best efforts to fulfill the conditions precedent under the Reorganization Agreement and to take in good faith all actions necessary to secure the approval of the merger by Clearfield shareholders. Mr. Moody and Clearfield acted as expeditiously as possible, and communicated information regarding the benefits of the proposed merger to shareholders as persuasively as possible, within the restrictions set forth in SEC Rule 145(b)(1).

68. The ability of Mr. Moody and Clearfield to communicate effectively with Clearfield shareholders was severely hampered by Plaintiffs' dilatory conduct. Section 7.2(b) of the

Reorganization Agreement required Plaintiffs to use best efforts to "promptly" prepare and file with the SEC the appropriate registration statements, including the preliminary proxy statement. In violation of its duties and responsibilities under section 7.2(b), Plaintiffs did not promptly and timely file a preliminary proxy statement. To the contrary, Plaintiffs filed the preliminary proxy statement on April 2, 1999 -- over three months after the initial signing of the Reorganization Agreement and the announcement of the proposed merger. During this three-month period, under SEC Rule 145(b)(1), Mr. Moody and Clearfield were prevented from advocating the approval of the merger or touting the benefits of the merger to Clearfield shareholders. During this time in which Mr. Moody and Clearfield could not communicate with Clearfield shareholders regarding the benefits of the merger, shareholder resistance to the proposed merger grew into sufficient numbers to result in the merger not being approved by Clearfield shareholders. Accordingly, the failure of the proposed merger to be approved by Clearfield shareholders was due in whole or in part to the dilatory conduct of Plaintiffs in tardily preparing and filing the preliminary proxy statement with the SEC, and otherwise in tardily performing other duties required of them under the Reorganization Agreement.

69. Section 7.13 of the Reorganization Agreement required that Plaintiffs not issue any press release related to the merger without first submitting the press release to Clearfield for review and obtaining Clearfield's written approval of the press release. On or about December 31, 1998, Plaintiffs issued a press release to the Clearfield Progress newspaper and other media outlets without giving Clearfield a sufficient amount of time to review the press release and without receiving Clearfield's written approval. The press release was presented as having language which was non-negotiable. This press release, when it appeared as part of a news story in the Progress, was written in such a fashion that it was interpreted by many Clearfield shareholders that Clearfield, the larger of the two merging banks, was being acquired

by CSB. The press release and the news stories based upon it engendered immediate negative reaction among a substantial number of Clearfield shareholders, who strongly believed that Clearfield, as the larger bank, should be the surviving entity. Had the press release been submitted for proper review to Clearfield, Clearfield would have ensured that the press release was worded in such a manner as to make the merger announcement more attractive to Clearfield shareholders. As a direct result of Plaintiff's failure to permit Clearfield sufficient time to review the press release and to receive Clearfield's written approval, Plaintiffs generated significant antipathy toward the merger among Clearfield shareholders immediately after the merger was announced. Accordingly, the failure of the proposed merger to be approved by Clearfield shareholders was due in whole or in part to the conduct of Plaintiffs in issuing the initial press release announcing the proposed merger without permitting Clearfield sufficient review or obtaining Clearfield's written approval, in violation of the Reorganization Agreement.

70. Between the April 2, 1999 filing of the preliminary proxy statement and Mr. Moody's departure on June 25, 1999, Plaintiffs took little action to move the merger forward to the point where it could be voted upon by Clearfield shareholders. As noted above, under the Reorganization Agreement, it was Plaintiffs' duty and responsibility to file a registration statement and other documents with the SEC so that the shareholder vote could take place. The timetable for merger approval as late as April 1999 reflected that the Clearfield shareholders meeting regarding the proposed merger would take place in June 1999, and, in fact, in March 1999, Clearfield had sent a notice to shareholders indicating that the merger vote would take place in June. However, Plaintiffs did not file the appropriate amendments to the preliminary proxy statement with the SEC in a timely manner. Plaintiffs' failure to make these filings in a timely fashion, in violation of section 7.2 of the Reorganization Agreement, necessitated that the shareholders' vote be postponed. During the long delay between the announcement of the

proposed merger in December 1998 and the final shareholder vote, shareholder antipathy toward the proposed merger on the part of a significant number of Clearfield shareholders grew. Accordingly, the failure of the proposed merger to be approved by Clearfield shareholders was due in whole or in part to the dilatory conduct of Plaintiffs in failing to make the appropriate filings with the SEC in a timely and expeditious manner in violation of the Reorganization Agreement, and thereby unduly delaying the final vote on the proposed merger by Clearfield shareholders.

71. Plaintiffs' action is barred, in whole or in part, by the statute of limitations.

72. Plaintiffs' action should be dismissed because of Plaintiffs' failure to join indispensable parties.

73. Plaintiffs' Complaint fails to state a claim upon which relief can be granted.

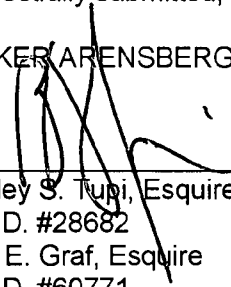
74. Mr. Moody cannot, as a matter of law, be held liable in contract for actions taken in his capacity as an officer and/or director of Clearfield.

WHEREFORE, Defendant Sherwood C. Moody respectfully requests that this Honorable Court enter judgment in his favor and against Plaintiffs Penn Laurel Financial Corporation and CSB Bank.

Jury Trial Demanded.

Respectfully submitted,

TUCKER ARENSBERG, P.C.



Bradley S. Tupi, Esquire

Pa. I.D. #28682

John E. Graf, Esquire

Pa. I.D. #60771

Vance E. Antonacci, Esquire

Pa. I.D. #83725

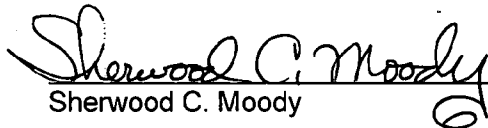
1500 One PPG Place
Pittsburgh PA 15222
(412) 566-1212

Attorneys for Defendant,
Sherwood C. Moody

Lit218733_1 03/05/01

VERIFICATION

I, Sherwood C. Moody, depose and state that the facts contained in the foregoing Answer and New Matter are true and correct to the best of my knowledge, information and belief. I make this verification subject to the penalties of 18 Pa. C.S. § 4904, relating to unsworn falsification to authorities.

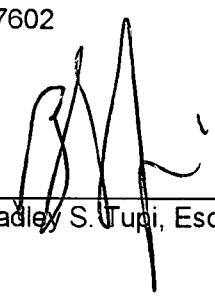

Sherwood C. Moody

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of this Answer and New Matter were served upon the following counsel by U.S. Mail, this 5th day of March, 2001:

Laurence W. Dague, Esquire
Shumaker Williams, P.C.
P.O. Box 88
Harrisburg, PA 17108

Howard L. Kelin, Esquire
Kegel Kelin Almy & Grimm, LLP
24 North Lime Street
Lancaster, PA 17602



Bradley S. Tupi, Esquire

FILED

MAR 07 2001

William A. Shaw
Prothonotary

PENN LAUREL FINANCIAL CORP.,
and CSB BANK,

Plaintiffs

v.

CLEARFIELD BANK & TRUST
COMPANY, TIMOTHY A. ANONICK,
and ANONICK FINANCIAL
CORPORATION,

Defendants

: IN THE COURT OF COMMON PLEAS OF
: CLEARFIELD COUNTY, PENNSYLVANIA

: Civil Action No. 00-414-CD

: CIVIL ACTION - LAW

PENN LAUREL FINANCIAL CORP.,
and CSB BANK,

Plaintiffs

v.

SHERWOOD C. MOODY,

Defendant

: IN THE COURT OF COMMON PLEAS OF
: CLEARFIELD COUNTY, PENNSYLVANIA

: Civil Action No. 01-204-CD


: CIVIL ACTION - LAW

COPY

ORDER

AND NOW, this 21 day of March, 2001, upon consideration of the consent hereto
by all of the parties through their counsel at a status conference held by the Court this day, IT IS
HEREBY ORDERED that the above-captioned cases are consolidated for all purposes under Civil
Action No. 00-414-CD.

BY THE COURT:


25th Judicial District
Specter, esq. J.

xc: Laurence W. Dague, Esquire
Bradley S. Tupi, Esquire
Howard L. Kelin, Esquire

FILED

MAR 21 2001
0/12:23/01
William A. Shaw
Prothonotary

sent to Dague, Tupi &
KELIN

IN THE COURT OF COMMON PLEAS OF CLEARFIELD COUNTY, PENNSYLVANIA
CIVIL ACTION - LAW

PENN LAUREL FINANCIAL CORP.,
and CSB BANK,
Plaintiffs

v.

CLEARFIELD BANK & TRUST
COMPANY, TIMOTHY A. ANONICK,
and ANONICK FINANCIAL
CORPORATION,
Defendants

NO. 00 - 414 - CD

- a n d -

PENN LAUREL FINANCIAL CORP.
and CSB BANK,
Plaintiffs

v.

SHERWOOD C. MOODY,
Defendant

NO. 01 - 204 - CD

ORDER

NOW, this 23rd day of April, 2001, upon consideration of Plaintiffs' Motion for Bifurcation, IT IS HEREBY ORDERED that the Motion for Bifurcation is GRANTED and that discovery, pre-trial proceedings, and trial of all liability issues shall be bifurcated from the discovery and trial of damage issues in the above captioned consolidated matters.

BY THE COURT:

FILED

APR 26 2001

William A. Shaw
Prothonotary

xc: Laurence W. Dague, Esquire
Bradley S. Tupi, Esquire
Howard L. Kelin, Esquire
Court Administrator

J. Michael Williamson, Judge
Specially Presiding
25th Judicial District of Pennsylvania

J. MICHAEL WILLIAMSON
JUDGE

COURT OF COMMON PLEAS
25TH JUDICIAL DISTRICT
OF PENNSYLVANIA
COURT HOUSE
LOCK HAVEN, PA 17745

Date: 08/11/2003

Clearfield County Court of Common Pleas

User: BHUDSON

Time: 02:39 PM

ROA Report

Page 1 of 1

Case: 2001-00204-CD

Current Judge: J. Michael Williamson

Penn Laurel Financial Corp., CSB Bank vs. Sherwood C. Moody

Civil Other

Date		Judge
02/09/2001	Filing: Civil Complaint Paid by: Dague, Laurance W. (attorney for Penn Laurel Financial Corp.) Receipt number: 1818180 Dated: 02/09/2001 Amount: \$80.00 (Check) Two Certified Copies to Attorney Dague	No Judge
02/20/2001	Praeipce for Appearance, on behalf of Sherwood C. Moody, Defendant. Filed by s/Bradley S. Tupi, Esq. Cert of Service no cc	No Judge
02/22/2001	Affidavit of Service, Complaint, a Request for Production of Documents and two (2) Notices of deposition upon Defendant Moody. Filed by s/Michele A. Connor no cc	No Judge
03/07/2001	Answer and New Matter, filed by s/Bradley S. Tupi, Esq. No Certified Copies Certificate of Service, s/Bradley S. Tupi, Esq. No Certified Copies	No Judge
03/21/2001	ORDER, filed AND NOW, this 21th day of March, 2001, IT IS HEREBY ORDERED that the above-captioned cases are consolidated for all purposes under Civil Acton No. 00-414-CD Cert. to Atty's Dague, Tupi & Kelin	J. Michael Williamson
04/26/2001	ORDER, NOW, this 23rd day of April, 2001, re: Motion for Bifurcation is GRANTED. by the Court, s/J. Michael Williamson, Judge	J. Michael Williamson
10/03/2002	Case Discontinued--Original Praeipce to Discontinue filed to 00-414-CD, consolidated with 01-204-CD.	J. Michael Williamson