CITIZENS & NORTHERN CORP
Form PRE 14A
March 03, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
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Check the appropriate box:

þ Preliminary Proxy Statement
o CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14A-6(E) (2))
o Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

CITIZENS & NORTHERN CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

90-92 Main Street
Wellsboro, Pennsylvania 16901

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD TUESDAY, APRIL 21, 2009

TO OUR STOCKHOLDERS:

Notice is hereby given that the Annual Meeting of the stockholders of Citizens & Northern Corporation (the Corporation) will be held at Citizens & Northern Bank, located at 90 Main Street, Wellsboro, Pennsylvania, on Tuesday, April 21, 2009, at 2:00 P.M., local time, for the following purposes:

1. To elect four Class I directors to serve for a term of 3 years;

2. To consider and approve the following advisory (non-binding) resolution:

   Resolved, that the shareholders approve the compensation paid to executives of the Corporation pursuant to the policies and procedures employed by the Corporation, as described in the Compensation Discussion and Analysis and tabular disclosure regarding named executive officer compensation (together with the accompanying narrative disclosure) in this Proxy Statement.

   and

3. To transact such other business as may properly be brought before the meeting or any adjournment or adjournments thereof.

Only stockholders of record at the close of business on February 24, 2009 are entitled to notice of, and to vote at, the meeting. Such stockholders may vote in person or by proxy.

By Order of the Board of Directors,

Jessica R. Brown
Corporate Secretary

March 12, 2009

CITIZENS & NORTHERN CORPORATION
90-92 Main Street
Wellsboro, Pennsylvania 16901
PROXY STATEMENT
Annual Meeting of Stockholders April 21, 2009

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Citizens & Northern Corporation to be used at the Annual Meeting of Stockholders of the Corporation to be held on Tuesday, April 21, 2009, at 2:00 P.M. at Citizens & Northern Bank (C&N Bank), located at 90 Main Street, Wellsboro, Pennsylvania, and at any adjournment thereof.

We have decided to use the **Notice and Access** rule adopted by the Securities and Exchange Commission to provide access to our proxy materials over the internet instead of mailing a printed copy of the **proxy** materials to each stockholder. As a result, on or about March 12, 2009, we mailed to most stockholders only a Notice of Internet Availability of Proxy Materials that tells them how to access and review the information contained in the proxy materials and how to vote their proxies over the internet. If you received only this Notice by mail, you will not receive a printed copy of the proxy materials in the mail unless you request the materials by following the instructions included in the Notice.

Shares represented by properly completed proxies will be voted in accordance with the instructions indicated thereon unless such proxies have previously been revoked. If no direction is indicated, such shares will be voted in favor of the election as directors of the nominees named below, and in the discretion of the proxy holder as to any other matters that may properly come before the Annual Meeting or any adjournment thereof. A proxy may be revoked at any time before it is voted by written notice to the Secretary of the Corporation or by attending the Annual Meeting and voting in person.

The Corporation will bear the entire cost of soliciting proxies for the Annual Meeting. In addition to the use of the mails, proxies may be solicited by personal interview, telephone, telegram, e-mail or other electronic means by the Corporation s directors, officers and employees. American Stock Transfer & Trust Company, the transfer agent and registrar for the Corporation, will assist in the distribution of proxy materials and the solicitation and tabulation of votes. Arrangements also may be made with custodians, nominees and fiduciaries for forwarding proxy materials to beneficial owners of stock held of record by such persons, and the Corporation may reimburse such custodians, nominees and fiduciaries for reasonable out-of-pocket expenses incurred by them in connection therewith.

The Board of Directors has fixed the close of business on February 24, 2009 as the record date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting and at any adjournment thereof. On the record date, there were outstanding and entitled to vote 8,961,084 shares of common stock. Common stockholders will be entitled to one vote per share on all matters to be submitted at the meeting. The presence, in person or by proxy, of stockholders entitled to cast at least 50% of the votes that all stockholders are entitled to cast shall constitute a quorum at the Annual Meeting. An abstention will be considered present at the meeting for purposes of determining a quorum, but will not be counted as voting for or against the issue to which it relates. Neither abstentions nor broker non-votes will be counted as votes cast and neither will have any effect on the result of the vote, although both will count toward the determination of the presence of a quorum. The Articles of Incorporation of the Corporation do not permit cumulative voting.

No person is known by the Corporation to have beneficially owned 5% or more of the outstanding common stock of the Corporation as of February 24, 2009.

Important Notice About the Availability of Proxy Materials for the Annual Meeting of Shareholders to be Held on April 21, 2009: This proxy statement, proxy card and the Corporation s annual report to shareholders are available at: www.amstock.com/proxyservices/viewmaterials.asp

PROPOSAL 1 ELECTION OF DIRECTORS

The Articles of Incorporation of the Corporation provide that the Board of Directors shall consist of not less than five nor more than twenty-five directors and that within these limits the numbers of directors shall be as established by the Board of Directors. The Board of Directors has set the number of directors at thirteen. The Articles further provide that the Board shall be classified into three classes, as nearly equal in number as possible. Typically, one class of directors is elected annually, and the term for each Class is typically three years. Four directors in Class I are to be elected at the Annual Meeting to serve for a three-year term. It is the intention of the persons named as proxyholders on the enclosed form of proxy, unless other directions are given, to vote all shares which they represent for the election of management s nominees named in the tabulation below. Directors are elected by a plurality of the votes cast. Plurality means that the nominees receiving the highest number of votes cast are elected as directors up to the maximum number of directors who are nominated to be elected at the meeting. Any stockholder who wishes to withhold authority from the proxyholders to vote for the election of directors, or to withhold authority to vote for any individual nominee, may do so by marking the proxy to that effect. Each director elected will continue in office until a successor has been elected. **The Board of Directors recommends a vote FOR the election of the nominees listed below, each of whom has consented to be named as a nominee and to serve if elected.** If for any reason any nominee named is not a candidate (which is not expected) when the election occurs, proxies will be voted for a substitute nominee determined by the Board of Directors.

All Directors and Nominees are independent, except for Craig G. Litchfield and Charles H. Updegraff, Jr., according to the definition of independent director under NASDAQ rules, which the Corporation uses to determine independence. The Board of Directors of the Corporation has adopted a written policy for Director Independence, which is available on our website at *www.cnbankpa.com* by clicking on Shareholder News , then Corporate Governance Policies , then Independence Standards .

The following table sets forth certain information about the director nominees and about the other directors whose terms of office will continue after the Annual Meeting.

Name, Age and Certain Biographical Information	Period of Service as a Director
CLASS I MANAGEMENT S NOMINEES FOR A 3 YEAR TERM ENDING 2012:	
Raymond R. Mattie, 45 President of M & S Conversion Co. Inc.	Director since 2007
Edward H. Owlett, III, 54 President & CEO of Putnam Company	Director since 1994
James E. Towner, 62 General Manager of The Scranton Times, formerly Publisher of The Daily / Sunday Review	Director since 2000
Charles H. Updegraff, Jr., 56 Executive Vice President and Chief Operating Officer of C&N Bank since May 2007 and President and Chief Executive Officer of Canisteo Valley Corporation and First State Bank since May 2008; formerly President & Chief Executive Officer of Citizens Bancorp, Inc. and Citizens Trust Company	Director since 2007
Class II Continuing Directors with Terms Expiring in 2010:	
R. Bruce Haner, 61 Auto Buyer for New Car Dealers	Director since 1998
Susan E. Hartley, 51 Attorney at Law	Director since 1998
Leo F. Lambert, 55 President and General Manager of Fitzpatrick & Lambert, Inc.	Director since 2001
Edward L. Learn, 61 Former owner of Learn Hardware & Building Supply	Director since 1989
Leonard Simpson, 60 Attorney at Law and Sullivan County District Attorney	Director since 1989
Class III Continuing Directors with Terms Expiring in 2011:	
Dennis F. Beardslee, 58 Owner of Terrace Lanes Bowling Center	Director since 1999
Jan E. Fisher, 54 Executive Vice President & COO of Laurel Health System, President and CEO Soldiers & Sailors Memorial Hospital, Wellsboro, PA	Director since 2002

Craig G. Litchfield, 61 Director since 1996
President & Chief Executive Officer of Citizens & Northern Corporation and
Citizens & Northern Bank

Ann M. Tyler, 64 Director since 2002
Certified Public Accountant in firm of Ann M. Tyler CPA, PC

CORPORATION S AND C&N BANK S EXECUTIVE OFFICERS

The following table sets forth certain information with respect to the current executive officers of the Corporation and C&N Bank.

Name and Position for Last Five Years	*Age*
Craig G. Litchfield	61
President and Chief Executive Officer of the Corporation and C&N Bank since January 1997	
Dawn A. Besse	57
Executive Vice President and Chief Credit Officer of C&N Bank since August 2008; formerly Executive Vice President and Director of Sales, Service and Employee Development of C&N Bank since August 2000	
Harold F. Hoose, III	41
Executive Vice President and Director of Lending of C&N Bank since March 2005; formerly Vice President of C&N Bank since September 2001	
Mark A. Hughes	47
Treasurer of the Corporation since November 2000; Executive Vice President and Chief Financial Officer of C&N Bank since August 2000	
George M. Raup	55
Executive Vice President and Chief Information Officer since April 2008; formerly Vice President of Citizens Trust Company	
Thomas L. Rudy, Jr.	44
Executive Vice President and Director of Branch Delivery of C&N Bank since February 2004; President of C&N Financial Services Corporation since January 2000	
Deborah E. Scott	49
Executive Vice President and Director of Trust Department of C&N Bank since September 1999	
Charles H. Updegraff, Jr.	56
Executive Vice President and Chief Operating Officer of C&N Bank since May 2007 and President and Chief Executive Officer of Canisteo Valley Corporation and First State Bank since May 2008; formerly President & Chief Executive Officer of Citizens Bancorp, Inc. and Citizens Trust Company	

SECURITY OWNERSHIP OF MANAGEMENT

The following table shows beneficial ownership of the Corporation s common stock as of February 24, 2009 by (i) each director of the Corporation, (ii) each executive officer named in the Summary Compensation Table on page 17 and (iii) all directors and executive officers as a group.

Name	Amount and Nature of Beneficial Ownership(1)(2)(3)	Percent of Class (if 1% or Greater)
Dennis F. Beardslee	10,322	
Jan E. Fisher	7,077	
R. Bruce Haner	19,165(4)	
Susan E. Hartley	7,629	
Leo F. Lambert	8,828(5)	
Edward L. Learn	9,361	
Craig G. Litchfield	83,430	
Raymond R. Mattie	5,227	
Edward H. Owlett, III	8,595	
Leonard Simpson	35,116(6) (7)	
James E. Towner	12,567	
Ann M. Tyler	10,380	
Charles H. Updegraff, Jr.	51,040	
Dawn A. Besse	16,149(8)	
Mark A. Hughes	24,171	
Deborah E. Scott	22,876	
Directors and Executive Officers as a Group (19 Persons)	363,247	4.05%

(1) Pursuant to the regulations of the Securities and Exchange Commission, an individual is considered to beneficially own shares of common stock if he or she directly or indirectly has or shares (a) the power to vote or direct the voting of the shares; or (b) investment power with respect to the shares, which includes the power to

dispose of or direct the disposition of the shares. Unless otherwise indicated in a footnote below, each individual holds sole voting and investment authority with respect to the shares listed.

(2) In addition, an individual is deemed to be the beneficial owner if he or she has the right to acquire shares within 60 days through the exercise of any option. Therefore, the following stock options that are exercisable within 60 days after February24, 2009 are included in the shares above: Mr. Beardslee, 4,606 shares; shares; Mrs. Fisher, 3,769 shares; Mr. Haner, 3,358 shares; Ms. Hartley, 4,069 shares; Mr. Lambert, 3,769 shares; Mr. Learn, 4,069 shares; Mr. Litchfield,

49,044 shares; Mr. Mattie, 1,341 shares; Mr. Owlett, 5,134 shares; Mr. Simpson, 4,186 shares; Mr. Towner, 3,484 shares; Ms. Tyler, 3,769 shares; Mr. Updegraff, 2,780 shares; Mrs. Besse, 10,975 shares; Mr. Hughes, 16,193 shares; and Mrs. Scott, 17,603 shares.

(3) Includes the following restricted stock awards granted under the Corporation s Stock Incentive Plan and Independent Director Stock Incentive Plan: Mr. Beardslee, 170 shares; Mrs. Fisher, 170 shares; Mr. Haner, 170 shares; Ms. Hartley, 170 shares; Mr. Lambert, 170 shares; Mr. Learn, 170 shares; Mr. Litchfield, 913 shares; Mr. Mattie, 142 shares; Mr. Owlett, 170 shares; Mr. Simpson, 170 shares;

Mr. Towner, 170 shares; Ms. Tyler, 170 shares; Mr. Updegraff, 315 shares; Mrs. Besse, 270 shares; Mr. Hughes, 438 shares; and Mrs. Scott, 325 shares. All of the restricted awards to the directors, with the exception of Mr. Litchfield and Mr. Updegraff, vest ratably over a three-year period. Restricted awards to the executive officers, including Mr. Litchfield and Mr. Updegraff, include 2007 awards that vest ratably over a three-year period, as well as 2009 and 2008 awards that have a performance condition in addition to a requirement for continued employment. One-third of the total shares are distributed on the anniversary date of the award based on the Corporation s attainment of a Performance Target of 100% or more of the Peer Group s average return on equity (as defined by the Committee) for the four quarters ending the third quarter of each calendar year following the award date. The Performance Target requirement continues until all Restricted Shares awarded are distributed, expired or forfeited. If all Restricted Shares awarded are not distributed within the ten (10) year period following the date of the award, they shall expire and revert back to the Corporation. Recipients have the right to vote all restricted shares.

(4) Includes 2,756 shares being pledged as security on borrowing facilities with C&N Bank.

(5) Includes 168 shares held in a SEP-IRA Plan for the benefit of Mr. Lambert s retirement plan.

(6) Includes 4,596 shares held in a SEP-IRA Plan for the benefit of Mr. Simpson s retirement plan.

(7) Includes 30,292 shares being pledged as security on borrowing facilities with C&N Bank.

(8) Includes 458 shares held in an IRA Plan for the benefit of Mrs. Besse s retirement plan.

BOARD OF DIRECTOR COMMITTEES AND ATTENDANCE

Both the Corporation s and C&N Bank s by-laws provide that the Board may create any number of committees of the Board as it deems necessary or appropriate from time to time.

Directors Attendance. The Board of Directors of the Corporation met fifteen times and the Board of Directors of C&N Bank met thirteen times in 2008. The Board of Directors also held four Executive Sessions and Independent Directors Meetings in 2008. The Executive Sessions include only members of the Board of Directors and the Independent Directors Meetings include only non-employee members. All of the directors attended at least 75% or more of the meetings of the Board of Directors of the Corporation and of the board committees on which he or she served.

Although the Company does not have a formal policy with respect to Board member attendance at the Annual Meeting of Stockholders, each member is encouraged to attend the Annual Meeting. All Directors except Director Towner attended the Annual Meeting of Stockholders held in April 2008 and the Special Meeting of Stockholders held in December 2008.

Executive Committee of the Corporation. The Corporation has an Executive Committee whose purpose is to monitor and oversee the Corporation s management succession plan and leadership development processes, review and provide advice and counsel to the CEO regarding the Corporation s strategic plan, mission, goals and objectives and action plans as well as various other matters and to act on behalf of and with full authority of the Board of Directors in matters that may arise between the regular monthly meetings of the Board, which require immediate Board level action. This committee consists of the following eight members of the Board of Directors: R. Robert DeCamp, R. Bruce Haner, Leo F. Lambert, Craig G. Litchfield, Edward H. Owlett, III, Leonard Simpson, James E. Towner and

Charles H. Updegraff, Jr. During 2008, the Executive Committee held six meetings.

Governance and Nominating Committee. Effective April 15, 2008, the Corporation established a Governance and Nominating Committee, with Dennis F. Beardslee, R. Robert DeCamp, Jan E. Fisher, R. Bruce Haner, Susan E. Hartley, Edward H. Owlett, III, and Leonard Simpson as members and the separate Corporate Governance and Nominating Committees were discontinued. The Corporate Governance Committee met once, and the combined Corporation Governance and Nominating committee met once during 2008. The purpose of the Governance and Nominating Committee is to establish criteria for Board member selection and retention, identify individuals qualified to become Board members, and recommend to the Board the individuals to be nominated and re-nominated for election as directors. This committee is also responsible for reviewing and reporting to the Board periodically on matters of corporate governance.

All members of the Governance and Nominating Committee are independent directors within the meaning of Rule 4200 of NASDAQ. The Board of Directors of the Corporation has adopted a written charter for the Governance and Nominating Committee, which is available on our website at *www.cnbankpa.com* by clicking on Shareholder News , then Corporate Governance Policies , then Governance and Nominating Charter .

Qualifications considered by the Governance and Nominating Committee in assessing director candidates include but are not limited to the following:

An understanding of the business and financial affairs and the complexities of a business organization. A career in business is not essential, but the candidate should have a proven record of competence and accomplishments and should be willing to commit the time and energy necessary to fulfill the role as an effective director;

A genuine interest in representing all of Citizens & Northern s stakeholders, including the long-term interest of the shareholders;

A willingness to support the Values, Mission and Vision of Citizens & Northern;

An open-mindedness and resolve to independently analyze issues presented for consideration;

A reputation for honesty and integrity;

A high level of financial literacy (i.e., the ability to read financial statements and financial ratios, and a working knowledge and familiarity with basic finance and accounting practices);

A mature confidence and ability to approach others with self-assurance, responsibly and supportively. Candidates should value Board and team performance over individual performance. Candidates should be able to raise tough questions in a manner that encourages open discussions. Additionally, a candidate should be inquisitive and curious and feel a duty to ask questions of management.

The ability, capacity, and willingness to serve as a conduit of business referrals to the organization;

Independence as defined by the NASDAQ Stock Market; and

Residency in the geographically defined market area of Citizens & Northern with emphasis placed on maintaining representation throughout the market area.

Other than the foregoing, there are no stated minimum criteria for director nominees, although the Governance and Nominating Committee may also consider such other factors as it may deem are in the best interests of the Corporation and its stockholders and such factors may change from time to time. The Governance and Nominating Committee does, however, believe it appropriate that at least one director meet the criteria for audit committee financial expert as defined by the SEC rules, even though no one currently meets this criteria, and that a majority of the Board members meet the definition of independent director under NASDAQ rules.

The Committee identifies nominees by first evaluating the current directors who are willing to continue in service. If any member of the Board does not wish to continue service or the Board determines not to re-nominate a current director for re-election, the Governance and Nominating Committee identifies the desired skills and experience of a new nominee in light of the criteria above. The evaluation procedure for candidates recommended by the stockholders would be the same as is done for those recommended by the Board of Directors and management. The Committee recommends a director nominee to the Board, and the Board makes the final determination as to the nominees who will stand for election.

Current members of the Board of Directors are polled for suggestions as to prospective candidates meeting criteria for the Governance and Nominating Committee. The Committee has the prerogative to employ and pay third party search firms, but to date has not done so.

Executive Committee. C&N Bank has an Executive Committee consisting of eight members of the Board of Directors who are as follows: R. Robert DeCamp, R. Bruce Haner, Leo F. Lambert, Craig G. Litchfield, Edward H. Owlett, III, Leonard Simpson, James E. Towner and Charles H. Updegraff, Jr. The function of this committee is to monitor and oversee the Bank s management succession plan and leadership development processes, review and provide advice and counsel to the CEO regarding C&N Bank s strategic plan, mission, goals and objectives and action plans and other matters, as well as recommend policies and procedures. During 2008, the Executive Committee held nine meetings.

Compensation Committee. The Compensation Committee of C&N Bank, which held four meetings in 2008, consists of the following seven independent members of the Board of Directors: R. Robert DeCamp, Jan E. Fisher, R. Bruce Haner, Leo F. Lambert, Edward H. Owlett, III, Leonard Simpson and James E. Towner. The purpose of the committee is to discharge the responsibilities of the Board of Directors relating to compensation of the executive officers and to provide oversight of the Bank s compensation, benefit, perquisite and employee equity programs.

The Board of Directors of C&N Bank has adopted a written charter for the Compensation Committee, which is available on our website at *www.cnbankpa.com*. Click on Shareholder News , then Corporate Governance Policies , then Compensation Committee Charter of C&N Bank .

Trust Investment Committee. The Trust Investment Committee of C&N Bank, which met seven times in 2008, consists of six members of the Board of Directors; namely, Dennis F. Beardslee, Susan E. Hartley, Edward L. Learn, Raymond R. Mattie, Leonard Simpson, and Charles H. Updegraff, Jr. Deborah E. Scott, Executive Vice President and Senior Trust Officer of the Bank, is also a member of this committee, which determines the policy and investments of the Trust Department, the acceptance of all fiduciary relationships and relinquishments of all fiduciary relationships.

Finance and Loan Committee. C&N Bank has a Finance and Loan Committee consisting of ten members of the Board of Directors who are as follows: Dennis F. Beardslee, Susan E. Hartley, Leo F. Lambert, Edward L. Learn, Craig G. Litchfield, Raymond R. Mattie, Edward H. Owlett, III, Leonard Simpson, Ann M. Tyler and Charles H. Updegraff, Jr. The primary purpose of this committee is to evaluate and act on loan requests that exceed management s lending authority. During 2008, the Finance and Loan Committee held five meetings.

Asset Liability Committee. The Corporation s Asset Liability Committee consisted of Board members R. Robert DeCamp, Jan E. Fisher, Craig G. Litchfield, Raymond R. Mattie, Edward H. Owlett, III, Ann M. Tyler and Charles H. Updegraff, Jr., as well as Mark A. Hughes, The Corporation s Treasurer and Chief Financial Officer. The Corporation s Asset Liability Committee met four times, during 2008. The purpose of the committee is to stabilize and improve profitability by balancing the relationship between risk and return over an extended period of time and to function as an investment committee.

Audit Committee. The Audit Committee of the Corporation, which held six meetings in 2008, consists of five independent members of the Board of Directors. The members of the Committee are R. Bruce Haner, Leo F. Lambert, Edward H. Owlett, III, James E. Towner and Ann M. Tyler. In addition to the six meetings of the Audit Committee, the chairman and a rotating member of the Committee met with representatives of Parente Randolph, LLC, C&N Bank s internal audit department and management in May, August and November, 2008 to discuss the Corporation s quarterly 10-Q filings. There was also a meeting of the full Audit Committee held in February 2008 to discuss the Corporation s 10-K filing for the year ended December 31, 2007. The primary function of the Audit Committee is to review the internal audit program as performed by the internal auditors, recommend to the Board of Directors the independent auditors for the year, and review the examinations and reports from those persons. None of the members of the Audit Committee meet the definition of Audit Committee financial expert as defined in the rules adopted by the Securities and Exchange Commission. The Board of Directors has determined that each of the present members of the Audit Committee have sufficient knowledge and experience in financial matters to effectively perform their duties.

The Board of Directors of the Corporation has adopted a written charter for the Audit Committee, which is available on our website at *www.cnbankpa.com*. Click on Shareholder News , then Corporate Governance Policies , then Audit Committee Charter of C&N Corp . The policies and procedures for pre-approval of engagements for non-audit services are included in the Charter.

The following table sets forth information concerning fees paid to Parente Randolph, LLC for the years ended December 31, 2008 and 2007. All services provided by Parente Randolph, LLC in 2008 and 2007 were pre-approved by the Audit Committee, or approved by management and ratified by the Audit Committee, consistent with the limits provided for in the Charter.

	Fiscal Years Ended December 31,	
	2008	2007
Audit Fees		
Audit of Annual financial statements and Audit of internal control over financial reporting and reviews of Quarterly financial statements	$ 180,021	$ 171,747
Audit-Related Fees		
Audits of employee benefit plans	18,700	17,500
Tax Fees		
Preparation of Corporate tax returns	10,000	9,500
Preparation of retired employee tax returns	4,715	4,710
Preparation of Citizens Bancorp, Inc. tax returns and related assistance	3,800	10,500
Other Fees		
Accounting consultation fees	7,268	1,399
Services related to Citizens Bancorp, Inc. merger		3,017
Aggregate of all fees billed to the Corporation by Parente Randolph, LLC	$ 224,504	$ 218,373

AUDIT COMMITTEE REPORT

On__________, 2009, the Audit Committee of the Board of Directors reviewed and discussed the audited financial statements dated December 31, 2008 with management. They also have discussed with Parente Randolph, LLC, the independent registered public accounting firm of the Corporation, the matters for discussion as specified by AICPA Statement of Auditing Standards No. 61, as amended. The Audit Committee has received from Parente Randolph, LLC the written communications required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees* and has discussed with Parente Randolph, LLC, its independence. Based on its review and discussions referred to above, the Committee has recommended to the Board of Directors that the audited financial statements be included in the Corporation s annual report on Form 10-K for the fiscal year ended December 31, 2008 for filing with the Securities and Exchange Commission.

Members of the Audit Committee,

Edward H. Owlett, III, Chairman
R. Bruce Haner
Leo F. Lambert
James E. Towner
Ann M. Tyler

STOCK OWNERSHIP GUIDELINES

The Board of Directors has not adopted formal guidelines for stock ownership by directors, but the Board encourages directors to increase their ownership over time.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Messrs. DeCamp, Haner, Lambert, Owlett, Simpson, Towner and Mrs. Fisher served as members of the Compensation Committee during 2008 and none of them was an officer or employee of the Corporation or any of its subsidiaries during that time. There are no interlocking relationships, as defined in regulations of the SEC, involving members of the Compensation Committee.

COMPENSATION DISCUSSION & ANALYSIS

OVERVIEW OF THE EXECUTIVE COMPENSATION PROGRAM

The Corporation s executive compensation program includes a number of fixed and variable compensation and benefit components, typical of programs among comparable community banking and financial services companies in our local and regional marketplace.

The program provides participating executives with an industry-competitive level of total compensation when their collective and individual performances meet or exceed the goals approved by the Board of Directors.

COMPENSATION PHILOSOPHY AND PROGRAM OBJECTIVES

We believe that the compensation program for executives should directly support the achievement of specific annual, longer-term and strategic goals of the business, and, thereby, align the interests of executives with the interests of our shareholders.

The current program provides sufficient levels of fixed income, in the forms of base salary and health and welfare benefits, to attract high caliber executive talent to the organization. It also provides annual and longer-term incentive opportunities to encourage specific performance and to reward the successful efforts of executives.

The incentive opportunities are structured to produce a performance-leveraged program format in which executives may derive as much as 30% to 40% of their total compensation over time, depending on their role in the organization, from short- and longer-term incentive opportunities, but only when performance targets are met on a consistent basis.

We believe that the features and composition of the current program provide a total compensation package for executive officers that is competitive in our marketplace, but weighted toward variable pay based on corporate and individual performance, and which contributes to the creation of shareholder value.

PROGRAM MANAGEMENT

The Compensation Committee (the Committee) of the Board of Directors has primary responsibility for the design and administration of the executive compensation program. It reviews the make-up and administration of the executive compensation program throughout the year in light of changing organization needs and operating conditions and changing trends in industry practice. In evaluating program effectiveness, the Committee utilizes information from management and the services of an outside consultant. Strategic Compensation Planning, Inc. of Malvern, PA is the Committee s consultant on executive and director compensation matters.

The Committee currently consists of seven (7) directors, all of whom qualify as independent members of the Board. R. Robert DeCamp serves as Chair of the Committee. Jan E. Fisher, R. Bruce Haner, Leo F. Lambert, Edward H. Owlett, III, Leonard Simpson, and James E. Towner also serve on the Committee.

Role of Executive Management in the Pay Decision Process. The Committee is responsible for recommending compensation related decisions to the Board of Directors for final approval. In formulating its recommendations, the Committee will regularly seek information about the performance of the business, organization staffing requirements and the performance levels of incumbent executives from the Chief Executive Officer. It will also utilize the services of the Company s Chief Operating Officer and Chief Financial Officer and, as circumstances suggest, other officers of the Company. The Committee weighs the information provided by officers carefully, especially the recommendations of the Chief Executive Officer on decisions affecting subordinate executives, but ultimately makes its decisions and formulates recommendations for Board approval independently.

Program Review and Pay Decision Process. During the Fall of a calendar year, the Committee (1) receives base salaries and annual and long-term incentive information on current executive compensation levels in the industry and industry program practices provided by its compensation consultant, (2) conducts a comprehensive review of the compensation program structure and provisions, and (3) considers salary and benefit adjustments and incentive awards for executives.

After examining the information provided by its outside consultant, the Committee determines (1) if the content and structure of the compensation program is still competitive, (2) if the current provisions remain consistent with the Corporation s overall pay philosophy, and (3) if the compensation program continues to support achievement of business objectives.

After deciding on the program structure for the coming calendar year, the Committee will examine the current compensation and benefit levels of incumbent executives in light of their continuing or changing roles in the business, the assessments of their individual performances by the Chief Executive Officer, and industry practice trends. The performance of the Chief Executive Officer is reviewed and appraised by the Committee with input from a questionnaire provided to all Directors.

Based on the information gathered about each executive, the Committee will formulate recommendations on possible salary adjustments for executives during the coming calendar year. It will also determine annual incentive awards for executives based on results achieved against goals and objectives defined at the beginning of the year, and it will determine appropriate longer-term incentive awards, usually in the form of stock options and restricted stock grants.

These recommendations will be presented to the full Board of Directors for consideration, usually in December, prior to the beginning of the new fiscal (calendar) year.

As incentive awards for the year ending are calculated, the Committee is also working with the Chief Executive Officer to construct executive performance plans for the coming calendar year (the new fiscal year). The Committee will formulate their recommendations on performance goals and award opportunities for Board consideration and approval.

The Committee may be called upon to consider pay related decisions from time to time throughout the calendar year as executives are reassigned or new executives join the organization. In these instances, the Committee will review all aspects of the executive s compensation including base salary level, annual incentive opportunities, longer-term incentive awards, participation in special benefit plans, and employment contract provisions, if applicable.

Pay Decision Factors and Considerations. The following factors typically influence Committee recommendations on pay and benefits for executives:

Salary: executive s overall performance during the year ending, changes in organization role and scope of responsibility, current salary in relation to the position s market value, any significant changes in the industry s pay practices for comparable positions.

Annual Incentive Awards: competitive industry practice with respect to size of awards, actual performance (achievement) against goals and objectives assigned at the beginning of the fiscal year.

Longer-term Incentive Awards: competitive industry practice with respect to size of awards and the typical mix of stock options, restricted shares and other forms of equity-based grants, recent performance of the Corporation and the individual executive and shareholder concerns about dilution and overhang.

Perquisites: the needs of the executive s position, i.e., frequency of need to travel to other Corporation locations, or to meet with Corporation clients and prospective clients, and competitive industry practices for comparable executive roles.

Employment Contracts: Currently, Charles H. Updegraff, Jr. is the only executive officer with an employment contract. Mr. Updegraff s employment contract was originally with Citizens Bancorp, Inc., which the Corporation assumed by merger on May 1, 2007. It will terminate on December 31, 2009. The Committee will authorize employment agreements if it determines that the agreements will serve Corporation needs for confidentiality about business practices and plans and preservation of the customer base (noncompetition and nonsolicitation provisions) and competitive industry practices.

Comparator Base: The Basis for Defining Competitive Compensation Levels and Practices. The types and levels of compensation included in the executive compensation program are consistent with current features and programming trends among similar size and type organizations in the Corporation s local and regional marketplace.

Annually, the Committee asks its outside consultant to review survey reports on national and regional compensation practice within the Corporation s industry group, focusing on pay levels and practices among Community Banking and Diversified Financial Services institutions based in the Mid-Atlantic Region and having between $1.0B and $2.0B of assets. This range of institutions includes banking companies that are somewhat smaller and somewhat larger than the Corporation. The asset range will be modified from time to time as Corporation s operating circumstances change. For the 2008 program planning review, the outside consultant selected the following institutions in Pennsylvania, New York, New Jersey and Ohio to serve as a peer group (the Peer Group):

Alliance Financial Corp.	First National Community Bancorp
Arrow Financial Corp.	Northfield Bancorp, Inc.
Camco Financial Corp.	Parkvale Financial Corp.
Canandaigua National Corp.	Peapack-Gladstone Financial Corp.
Center Bancorp, Inc.	Pennsylvania Commerce Bancorp
ESB Financial Corp.	Peoples Bancorp Inc.
Financial Institutions, Inc.	Univest Corp. of Pennsylvania
First Defiance Financial Corp.	VIST Financial Corp.

PROGRAM COMPONENTS

There are six (6) elements in the current executive compensation program:

1. ***Base Salary***. Base salary opportunities are established taking into consideration the median level of industry practice within the Peer Group for comparable jobs. Within the defined competitive range, an executive s salary level is based initially on his/her qualifications for the assignment and experience in similar level and type roles. Ongoing, salary adjustments reflect the individual s overall performance of the job against organization expectations and may also reflect changes in industry practices. For most executive positions, salary will ordinarily provide at least 60% 70% of ***total annual compensation***, when considering the value of short-term and long-term incentive awards and benefits provided by the organization.

2. ***Health and Welfare Benefits***. Executives participate in the Corporation s qualified health and welfare benefits programs on the same terms and conditions as all other employees of the Corporation.

3. ***Annual Performance Incentives***. The annual performance Incentive Award Plan provides participating executives with opportunities to earn additional cash compensation in a given year when corporate and business unit operating results and individual performance contributions meet or exceed established thresholds of acceptable achievement. Currently, these awards can provide as much as approximately 40% of an executive s total annual compensation when target levels of performance are achieved. For 2008, corporate performance was measured based on return on average equity and core earnings growth, as defined, over the prior year s level. These same criteria will be used to evaluate corporate performance for 2009. Business unit goals vary based on the nature of the unit, but, where applicable, would include such items as loan and deposit growth, and non-interest income. The Committee, in its discretion, may adjust award payments under the Incentive Award Plan based on extraordinary circumstances, conflicts with long-term financial and development objectives, or below standard individual participant performance. All awards under the Incentive Award Plan are paid in cash as soon as it is practical after the end of a plan year.

4. ***Longer-term Performance Incentives***. Executives are eligible to participate in longer-term incentive award plans established to focus their efforts on the strategic directions and goals of the business and incent ownership in the Corporation, promoting a vested interest in the Corporation s long-term success. Awards may be made in the form of qualified options (Incentive Stock Options, as defined in the Internal Revenue Code), nonqualified options, stock appreciations rights or restricted stock. All awards granted have been Incentive Stock Options or restricted stock. While the size of such awards may increase or decrease based on current business performance, it is the intention of the Committee to recommend such awards at least annually as an incentive to focus executives future efforts on longer-term needs and objectives of the business.

Equity Grant Plans. Our 1995 Stock Incentive Plan, as most recently amended by shareholder vote on April 15, 2008, authorizes us to grant options to purchase shares of common stock and to make restricted stock grants to our employees. The Committee is the administrator of the Stock Incentive Plan. Stock option or restricted stock grants may be made at the commencement of employment and from time to time to meet other specific retention or performance objectives. The Committee reviews and recommends approval of stock option and restricted stock awards to executive officers based upon its assessment of individual performance, a review of the executive s existing long-term incentives, and retention considerations. Peer Group data regarding stock-based compensation has not reflected much consistency among the financial institutions. Periodic grants of stock options or restricted stock are made at the discretion of the Committee to eligible employees and, in appropriate circumstances, the Committee considers the recommendations of the Chief Executive Officer. Typically, the Board of Directors has approved stock option grants at its late December meeting, grants to be effective on the second stock trading day of January in the following year. The average of the high and low price of the Corporation s stock on the first trading day is used as the exercise price for the option grants. Generally, employee stock option grants vest six (6) months after the grant date, and generally expire 10 years after the grant date. Restricted stock grants made in 2007 and previous years vest at the rate of one-third each year for three (3) years following the grant date and are subject to continued employment with the Corporation. Restricted stock awards made in January 2009 and 2008 include a performance condition, as well as a requirement for continued employment. One-third of the total shares are distributed on the anniversary date of the award based on the Corporation s attainment of a Performance Target of 100% or more of the Peer Group s average return on equity (as defined by the Committee) for the four quarters ending the third quarter of each calendar year following the award date. The Performance Target requirement continues until all Restricted Shares awarded are distributed, expired or forfeited. If all Restricted Shares awarded are not distributed within the ten (10) year period following the date of the award, they shall expire and revert back to the Corporation. Incentive stock options and restricted stock grants also include certain other terms necessary to assure compliance with the Internal Revenue Code of 1986, as amended. A total of 850,000 shares of common stock may be issued under the Stock Incentive Plan. As of December 31, 2008, a balance of 498,030 shares is available for issuance.

The Committee recommended to the Board and the Board authorized the awarding of stock options and restricted stock to executives and certain employees on specific dates in January 2002 through January 2009, except for 2006, when no options or restricted shares were granted. The timing of such grants was not tied to the release of negative or positive material information about the Corporation. Prior to the January 2002 awards, options were awarded from time to time, as recommended by the Committee and approved by the Board. No formal structured program of granting annual awards had been developed prior to 2001.

The Corporation has not established a policy regarding executive ownership of company stock and/or retention guidelines applicable to equity awards to executives.

5. ***Nonqualifed Benefits and Perquisites***. These provisions include participation in a supplemental retirement income plan (SERP) as well as, in many instances, use of a company-provided automobile. In a few instances, the company pays a portion of an executive s membership dues for a golf or social club, when such membership can facilitate the conduct of business with clients.

The SERP is intended to replace some of the benefits lost by executives under Federally mandated restrictions on retirement income benefits to highly compensated employees under qualified retirement income plans like pensions and 401(k) plans. The Corporation s SERP provides a retirement benefit to participants who retire after attaining age 55, with 5 years of service. Participants vest earlier than age 55 in the event of disability, death or if the Corporation is acquired. Annual contributions to the SERP are at the discretion of the Board of Directors, and the Board may terminate the SERP at any time. The SERP is described in more detail in a later section of this Proxy Statement.

6. ***Employment Contracts and Change of Control Agreements***. At present and contrary to prevailing industry practices, the Corporation does not offer formal employment contracts to any of its executives, except for Charles H. Updegraff, Jr. (as discussed in the Pay Decision Factors and Considerations section in the Compensation Discussion & Analysis). It may choose to offer such employment arrangements to current or future executives as circumstances warrant.

A select group of senior executives, including the Named Executive Officers, have Change of Control agreements with the Corporation. In the event that any of these executives were terminated following a Change of Control, they would receive a severance benefit equal to one (1) times their annual base salary rate at the time of termination. They would also be eligible for continued coverage under the Corporation s health and welfare benefit plans for eighteen (18) months, as permitted under law and carrier contract. None of the Named Executive Officers have a commitment from the Corporation for a tax gross-up payment in the event that their severance benefits following a change in control exceed the deduction limits under IRS Code Section 4999.

RECENT ACTIONS: 2008 AND FIRST QUARTER 2009

During 2008 and the first quarter of 2009, the Corporation, through the Committee and Board of Directors, has made a number of important decisions regarding executive compensation. The most important actions are summarized here.

Base Salaries. At the beginning of 2009, executives received modest salary increases based on evaluations of corporate and individual performances and prevailing industry practices for comparable positions.

The salary of the Chief Executive Officer increased by 1.5% in January, 2009 to a level of $348,000. The salary of the Chief Financial Officer increased in January 2009 by 5% to a level of $192,944.

Annual Incentives. The Board establishes a series of annual Corporate, Business Unit and Individual goals for each Named Executive Officer whereby each Named Executive Officer may receive an annual cash bonus equal to a percentage of base salary, depending upon achievement of performance goals. The following were the target, maximum, and actual percentages of base salary paid to the Named Executive Officers related to their performance in 2008, with comparative information for 2007 and 2006:

Name	Year	Target Percentage	Maximum Percentage	Actual Percentage
Craig G. Litchfield				
	2008	32%	48%	31.9%
	2007	40%	60%	0.0%
	2006	40%	60%	24.8%
Mark A. Hughes				
	2008	24%	36%	23.9%
	2007	30%	45%	0.0%
	2006	30%	45%	22.8%
Charles H. Updegraff, Jr.				
	2008	24%	36%	23.9%
Deborah E. Scott				
	2008	20%	30%	17.6%
	2007	25%	38%	0.0%
	2006	25%	38%	18.5%
Dawn A. Besse				
	2008	20%	30%	18.3%
	2007	25%	38%	0.0%
	2006	25%	38%	19.1%

Longer-term Incentives. The Committee utilizes equity grants as an incentive to drive future performance. In December 2008, the Committee recommended equity grants that were awarded in January 2009. Effective January 5, 2009, the Corporation awarded options and restricted stock under the Stock Incentive Plan. The exercise price of the options, and the value of the restricted stock, was $19.88 per share, which was based on the market price of the Corporation s stock, as defined in the Plan. The following awards on January 5, 2009 are not included in the tables within the Executive Compensation section of this Proxy Statement, because they were made after the end of 2008: Mr. Litchfield- 7,780 options and 380 shares of restricted stock; Mr. Hughes- 4,530 options and

225 shares of restricted stock; Mr. Updegraff- 3,725 options and 185 shares of restricted stock; Mrs. Scott- 2,700 options and 135 shares of restricted stock and Mrs. Besse- 2,360 options and 115 shares of restricted stock.

Nonqualified Benefits and Perquisites. No changes have been made to existing participation practices or benefit levels in current program offerings.

Employment Contracts and Change of Control Agreements. Except as may be required to comply with recently enacted legislation (described in the following section), no substantial changes in the Company s current practice of not providing employment contracts (except for Mr. Updegraff), as well as limited Change of Control protection, are anticipated.

The Committee believes that the direct compensation components of the executive compensation program salary, annual incentive opportunities, equity grants are competitive and reflect the median of prevailing industry practices. The Committee intends to maintain the current leveraged approach to total compensation, directly tying a significant portion of an executive s total earnings to achievements against goals and objectives approved by the Board of Directors.

REQUIREMENTS OF RECENTLY ENACTED LEGISLATION

We participated in the Troubled Asset Relief Program Capital Purchase Program (referred to in this section as the TARP Program) established under the Emergency Economic Stabilization Act of 2008 (the EESA) pursuant to which, on January 16, 2009, the U.S. Department of the Treasury (Treasury) invested approximately $26.44 million in our preferred stock and warrants. Participation in the TARP Program requires that we implement certain restrictions and limitations on executive compensation, in particular severance pay, requires a review of our incentive compensation programs to ensure that they do not encourage our senior executive officers to take unnecessary and excessive risks, and limits our ability to receive tax deductions related to senior executive pay.

Additionally, on February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (the ARRA), which amends the EESA by, among other things, directing Treasury to issue regulations implementing strict limitations on compensation paid or accrued by financial institutions, like us, participating in the TARP Program. These limitations are to include:

A prohibition on paying or accruing bonus, incentive or retention compensation for at least the five most highly compensated employees, other than certain awards of long-term restricted stock or bonuses payable under existing employment agreements;

A prohibition on making any payments to the five highest paid executive officers and the next five most highly compensated employees for departure from the Company, other than payments for services performed or benefits accrued;

Subjecting bonus, incentive and retention payments made to the five highest paid executive officers and the next 20 most highly compensated employees to repayment (clawback) if based on statements of earnings, revenues, gains or other criteria that are later found to be materially inaccurate;

A proh