CITIZENS FINANCIAL SERVICES INC
Form DEF 14A
March 08, 2012

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. [ ])

[xx] Filed by Registrant
[ ] Filed by a Party other than the Registrant

Check the appropriate box:
[ ] Preliminary Proxy Statement
[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)2)
[xx] Definitive Proxy Statement
[ ] Definitive Additional Materials
[ ] Soliciting Material Pursuant to Section 240.14a-12

Citizens Financial Services, Inc.
(Name of Registrant as Specified in Its Charter)

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

Payment of Filing Fee (Check the appropriate box):
[xx] No fee required.
[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
1) Title of each class of securities to which transaction applies:
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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
4) Proposed maximum aggregate value of transaction:
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1) Amount Previously Paid:
2) Form, Schedule or Registration Statement No.:
3) Filing Party:
4) Date Filed:

CITIZENS FINANCIAL SERVICES, INC.
15 South Main Street
Mansfield, Pennsylvania 16933-1590

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON APRIL 17, 2012

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Citizens Financial Services, Inc. (the "Company") will be held at 12:00 noon, local time, on Tuesday, April 17, 2012 at the Tioga County Fairgrounds Main Building, 2258 Charleston Road, Wellsboro, Pennsylvania 16901, for the following purposes:

1. To elect four Class 1 directors to serve for three-year terms and until their successors are duly elected and qualified;

2. To ratify the appointment of S.R. Snodgrass, A.C., Certified Public Accountants, as the independent registered public accounting firm for the Company for the fiscal year ending December 31, 2012;

3. To approve an advisory vote to approve the compensation of the Company's named executive officers as disclosed in this proxy statement;

4. An advisory vote on the frequency of the advisory vote to approve the compensation of the Company's named executive officers; and

5. To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

NOTE: The Board of Directors is not aware of any other business to come before the meeting.

Record holders of the Company's common stock at the close of business on February 27, 2012 are entitled to receive notice of the Annual Meeting and to vote at the meeting and any adjournment or postponement of the meeting.

BY ORDER OF THE BOARD OF DIRECTORS,

/s/ Randall E. Black

Randall E. Black
Chief Executive Officer and President

March 8, 2012
Mansfield, Pennsylvania

IMPORTANT: The prompt return of proxies will save the Company the expense of further requests for proxies in order to ensure a quorum. Shareholders of record may vote their proxies by mail, by Internet, or in person. Voting instructions are printed on your proxy card or vote authorization. A printed proxy card for the Annual Meeting and a self-addressed return envelope will be mailed to all shareholders of record on March 19, 2012. No postage is required if mailed in the United States.

PROXY STATEMENT
OF
CITIZENS FINANCIAL SERVICES, INC.

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Citizens Financial Services, Inc.,(the "Company"), a Pennsylvania corporation headquartered at 15 South Main Street, Mansfield, Pennsylvania 16933-1590, to be used at the Annual Meeting of Shareholders. The Annual Meeting will be held at the Tioga County Fairgrounds Main Building, 2258 Charleston Road, Wellsboro, Pennsylvania 16901 on Tuesday, April 17, 2012 at 12:00 noon, local time. This Proxy Statement and the enclosed proxy card are being first made available on March 8, 2012 to shareholders of record as of February 27, 2012.

GENERAL INFORMATION ABOUT VOTING

Who Can Vote at the Meeting

You are entitled to vote your shares of the Company's common stock only if the records of the Company show that you held your shares as of the close of business on February 27, 2012. As of the close of business on February 27, 2012, a total of 2,900,663 shares of common stock were outstanding. Each share of common stock has one vote.

Attending the Meeting

If your shares are registered directly in your name, you are the holder of record of these shares and we are sending these proxy materials directly to you. As the holder of record, you have the right to give your proxy directly to us by mail or by voting via the Internet or to vote in person at the meeting.

If you are the beneficial owner of the Company's common stock held by a broker, bank or other nominee (i.e., in "street name"), you will need proof of your ownership of such stock to be admitted to the meeting. A recent brokerage statement or letter from a bank or broker are examples of proof of ownership. If you want to vote your shares of the Company's common stock held in street name in person at the meeting, you must obtain a written proxy in your name from the broker, bank or other nominee who is the record holder of your shares.

Quorum and Vote Required

Quorum. The Annual Meeting will be held only if there is a quorum. A quorum exists if a majority of the outstanding shares of common stock entitled to vote is represented at the meeting.

Votes Required for Proposals. In voting for the election of directors, you may vote in favor of all nominees, withhold votes as to all nominees or withhold votes as to specific nominees. There is no cumulative voting for the election of directors. Directors must be elected by a plurality of the votes cast at the Annual Meeting. The term "plurality" means that the four nominees for Class 1 directors receiving the largest number of votes cast will be elected as Class 1 directors.

In voting for the ratification of the appointment of S.R. Snodgrass, A.C., Certified Public Accountants ("S.R. Snodgrass, A.C."), as our independent registered public accounting firm, or on the advisory vote to approve the compensation of the named executive officers, you may vote in favor of the proposal, against the proposal or abstain from voting. These proposals will be decided by the affirmative vote of a majority of the votes cast at the Annual Meeting.

In voting on the frequency of the shareholder vote to approve the compensation of the named executive officers, you may vote for a frequency of one, two or three years, or you may abstain from voting. This proposal will be determined by a plurality of the votes cast at the Annual Meeting.

How We Count Votes. If you return valid proxy instructions, vote via the Internet, or attend the meeting in person, your shares will be counted for purposes of determining whether there is a quorum, even if you abstain from voting. Broker non-votes, if any, also will be counted for purposes of determining the existence of a quorum.

In the election of directors, votes that are withheld and broker non-votes will have no effect on the outcome of the election.

In counting votes on the proposals to ratify the selection of the independent registered public accounting firm and the advisory vote to approve the compensation of the named executive officers, abstentions and broker non-votes will have no effect on the proposals.

Abstentions and broker non-votes will have no effect on the outcome of the frequency of the shareholder vote on the compensation of the named executive officers.

Voting By Proxy

The Board of Directors is making available this Proxy Statement for the purpose of requesting that you allow your shares of the Company's common stock to be represented at the Annual Meeting by the persons named in the proxy card. All shares of common stock represented at the Annual Meeting by properly executed and dated proxy cards will be voted according to the instructions indicated on the proxy card or as indicated when you vote via the Internet. If you sign, date and return a proxy card without giving voting instructions, your shares will be voted as recommended by the Company's Board of Directors.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE:

- "FOR" THE ELECTION OF FOUR CLASS 1 DIRECTORS TO SERVE FOR THREE-YEAR TERMS OR UNTIL THEIR SUCCESSORS ARE DULY ELECTED AND QUALIFIED;

- "FOR" RATIFICATION OF S.R. SNODGRASS, A.C. AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

  - "FOR" THE APPROVAL OF THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS; AND

- TO HOLD THE ADVISORY VOTE TO APPROVE THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS EVERY THREE YEARS.

If any matter not described in this Proxy Statement is properly presented at the Annual Meeting, the persons named on the proxy card will use their own best judgment to determine how to vote your shares. The Company does not know of any other matters to be presented at the Annual Meeting.

You may revoke your proxy at any time before the vote is taken at the meeting. To revoke your proxy you must either advise the Secretary of the Company in writing before your common stock has been voted at the Annual Meeting, deliver a signed later dated proxy, vote on a later date via the Internet, or attend the meeting and vote your shares in person. Please note all votes cast via the Internet must be cast prior to 11:59 p.m. Eastern Time on April 16, 2012. Attendance at the Annual Meeting will not in itself constitute revocation of your proxy.

If your common stock is held in "street name," you will receive instructions from your broker, bank or other nominee that you must follow in order to have your shares voted. Your broker, bank or other nominee may allow you to deliver your voting instructions via telephone or the Internet. Please see the instruction form provided by your broker, bank or other nominee that accompanies this Proxy Statement.

CORPORATE GOVERNANCE AND BOARD MATTERS

Director Independence

The Company's Board of Directors currently consists of ten members, all of whom are independent under the listing standards of the Nasdaq Stock Market, except for Mr. Black, who is Chief Executive Officer and President of the Company and First Citizens National Bank (the "Bank"). In determining the independence of its directors, the Board considered transactions, relationships and arrangements between the Company and its directors that are not required to be disclosed in this Proxy Statement under the heading "Transactions with Related Persons," including the fact that Director van der Hiel's daughter is an employee of the Bank and loans or lines of credit that the Bank has directly or indirectly made to Directors Coolidge, Freeman, van der Hiel, Dalton, Graham, Kosa, Landy, Chappell, Black and DePaola.

Board Leadership Structure and Board's Role in Risk Oversight

The Board of Directors has determined that the separation of the offices of Chairman of the Board and Chief Executive Officer and President will enhance Board independence and oversight. Moreover, the separation of the Chairman of the Board and Chief Executive Officer and President will allow the Chief Executive Officer and President to better focus on his responsibilities of running the Company, enhancing shareholder value and expanding and strengthening our franchise while allowing the Chairman of the Board to lead the Board in its fundamental role of providing advice to and independent oversight of management. Consistent with this determination, R. Lowell Coolidge serves as Chairman of the Board of Directors. Mr. Coolidge is independent under the listing requirements of the Nasdaq Stock Market.

Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. We face a number of risks, including credit risk, interest rate risk, liquidity risk, operational risk, strategic risk and reputation risk. Management is responsible for the day-to-day management of the risks the Company faces, while the Board, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, the Board of Directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed. To do this, the Chairman of the Board meets regularly with management to discuss strategy and risks facing the Company. Senior management attends Board meetings and is available to address any questions or concerns raised by the Board on risk management and any other matters. The Chairman of the Board and independent members of the Board work together to provide strong, independent oversight of the Company's management and affairs through its standing committees and, when necessary, special meetings of independent directors. The Board periodically meets in executive session without management present. Topics for discussion may include the evaluation of the Chief Executive Officer and President, management succession planning and such other matters as they may deem appropriate. In 2011, the Board held three executive sessions.

Code of Ethics

The Company and its wholly-owned subsidiary, the Bank, have adopted a Code of Ethics that is designed to ensure that the Company's and Bank's directors, executive officers and employees meet the highest standards of ethical conduct. The Code of Ethics requires that the Company's and Bank's directors, executive officers and employees avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner and otherwise act with integrity and in the Company's and Bank's best interest. Under the terms of the Code of Ethics, directors, executive officers and employees are required to report any conduct that they believe in good faith to be an actual or apparent violation of the Code.

Committees of the Board of Directors

The following table identifies the members of our Audit and Examination, Compensation/Human Resource, and Governance and Nominating Committees as of February 27, 2012. All members of each committee are independent in accordance with the listing standards of the Nasdaq Stock Market, Inc., except for Mr. Black, the Company's Chief Executive Officer and President, who serves on the Governance and Nominating Committee. Based on the number of independent directors currently serving on the Governance and Nominating Committee, the Company believes that the functions of this committee are sufficiently performed by the current members. The Board's Audit and Examination, Compensation/Human Resource, and Governance and Nominating Committees each operate under a written charter that is approved by the Board of Directors. Each committee reviews and reassesses the adequacy of its charter at least annually. The charters of all three committees are available in the Corporate Governance section of our website (www.firstcitizensbank.com).

Director	Audit and Examination Committee	Compensation/ Human Resource Committee	Governance and Nominating Committee
Randall E. Black			X
Robert W. Chappell		X	X
R. Lowell Coolidge			X
Mark L. Dalton	X	X	X*
Rinaldo A. DePaola		X	X
Thomas E. Freeman	X	X	X
Roger C. Graham, Jr.	X		
E. Gene Kosa	X*		
R. Joseph Landy		X*	
Number of Meetings in 2011	6	5	3

* Denotes Chairperson

Audit and Examination Committee. The Audit and Examination Committee oversees the Company's accounting and financial reporting processes. It meets periodically with the independent registered public accounting firm, management and the internal auditors to review accounting, auditing, internal control structure and financial reporting matters. The Audit and Examination Committee does not have an “audit committee financial expert.” However, the Board of Directors believes that each Audit and Examination Committee member has sufficient knowledge in financial and auditing matters to serve on the committee. The committee has the authority to engage legal counsel or other experts or consultants as it deems appropriate to carry out its responsibilities. The report of the Audit and Examination Committee required by the rules of the Securities and Exchange Committee is included in this proxy statement. See “Report of the Audit and Examination Committee.”

Compensation/Human Resource Committee. The Compensation/Human Resource Committee is appointed by the Board of Directors of the Company to assist the Board in developing compensation philosophy, criteria, goals and policies for the Company’s executive officers that reflect the values and strategic objectives of the Company and its affiliates that align their interests with the interests of the stockholders. The Committee administers the Company’s compensation plans, including the annual incentive plan, restricted stock plan and tax-qualified defined benefit plan. The Committee reviews and evaluates the terms of employment and change in control agreements for our executive officers.

Consistent with the U.S. Securities and Exchange Commission disclosure requirements, the Compensation/Human Resource Committee has assessed the Company's compensation programs and has concluded that our compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on the Company or its affiliates. Our risk assessment process included: (1) a review of program policies and practices; (2) a program analysis to identify risk; and (3) determinations as to the sufficiency of risk identification, the balance of potential risk to potential reward, risk control and the support of the programs and their risks to Company strategy. Although we reviewed all compensation programs, we focused on the programs with variability of payout, with the ability of a participant to directly affect payout and the controls on participant action and payout.

Based on the foregoing, we believe that our compensation policies and practices do not create inappropriate or unintended significant risk to the Company or our affiliates. We also believe that our incentive compensation arrangements provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage significant risks, are compatible with effective internal controls and are supported by the oversight and administration of the Compensation/Human Resource Committee with regard to executive compensation programs.

Governance and Nominating Committee. The Governance and Nominating Committee takes a leadership role in shaping governance policies and practices, including recommending to the Board of Directors the corporate governance policies and guidelines that should be adopted by the Company and monitoring compliance with these policies and guidelines. In addition, the Governance and Nominating Committee is responsible for identifying individuals qualified to become Board members, considering the candidates recommended by shareholders for Board membership, and recommending to the Board the director nominees for election at the next Annual Meeting of Shareholders. It manages the Board's annual review of its performance and recommends director candidates for each committee for appointment by the Board. The procedures of the Governance and Nominating Committee required to be disclosed by the rules of the Securities and Exchange Committee are set forth below.

In order to improve director effectiveness, each year each director evaluates every other director on an anonymous basis using a set of extensive performance criteria. The results of those evaluations are collected and analyzed by a third party service provider.

Governance and Nominating Committee Procedures

Minimum Qualifications. The Governance and Nominating Committee has adopted a set of criteria that it considers when it selects individuals to be nominated for election to the Board of Directors. A candidate must meet the eligibility requirements set forth in the Company's Articles and Bylaws, and must meet any qualification requirements set forth in any Board or committee governing documents. In particular, to encourage directors to demonstrate confidence and support of the Company, the Board of Directors has adopted a stock ownership requirement whereby effective 2012, each Company non-employee director shall beneficially own an amount of Company common stock equal to the greater of (1) three times the previous year's cash retainer, based on the previous December 31st Company common stock price or (ii) 1,000 shares. Newly appointed or elected non-employee directors shall have up to 36 months to accumulate the minimum number of qualifying shares.

The Governance and Nominating Committee will consider the following criteria in selecting nominees for initial election or appointment to the Board: financial, regulatory and business experience; familiarity with and participation in the local community; integrity, honesty and reputation; dedication to the Company and its shareholders; independence; and any other factors the Governance and Nominating Committee deems relevant, including age, geographies, size of the Board of Directors and regulatory disclosure obligations. Further, when identifying nominees to serve as director, the Governance and Nominating Committee seeks to create a Board that is strong in its collective knowledge and has a diversity of skills and experience with respect to accounting and finance, management and leadership, vision and strategy, business operations, business judgment, industry knowledge and corporate governance.

In addition, prior to nominating an existing director for re-election to the Board of Directors, the Governance and Nominating Committee will consider and review an existing director's Board and committee attendance and performance; length of Board service; experience; skills and contributions that the existing director brings to the Board; equity ownership in the Company; and independence.

Process for Identifying and Evaluating Nominees. The process the Governance and Nominating Committee follows when it identifies and evaluates individuals to be nominated for election to the Board of Directors is as follows:

Identification. For purposes of identifying nominees for the Board of Directors, the Governance and Nominating Committee relies on personal contacts of the committee and other members of the Board of Directors as well as its knowledge of members of the Bank's local communities. The Governance and Nominating Committee will also consider director candidates recommended by shareholders in accordance with the policy and procedures set forth above. The Governance and Nominating Committee has not previously used an independent search firm in identifying nominees.

Evaluation. In evaluating potential nominees, the Governance and Nominating Committee determines whether the candidate is eligible and qualified for service on the Board of Directors by evaluating the candidate under the selection criteria set forth above. In addition, the Governance and Nominating Committee will conduct a check of the individual's background and interview the candidate.

Consideration of Recommendations by Shareholders. It is the policy of the Governance and Nominating Committee of the Board of Directors of the Company to consider director candidates recommended by shareholders who appear to be qualified to serve on the Company's Board of Directors. The Governance and Nominating Committee may choose not to consider an unsolicited recommendation if no vacancy exists on the Board of Directors and the Governance and Nominating Committee does not perceive a need to increase the size of the Board of Directors. In order to avoid the unnecessary use of the Governance and Nominating Committee's resources, the Governance and Nominating Committee will consider only those director candidates recommended in accordance with the procedures set forth below.

Procedures to be Followed by Shareholders. To submit a recommendation of a director candidate to the Governance and Nominating Committee, a shareholder should submit the following information in writing, addressed to the Secretary of the Company at the main office of the Company:

1. The name and address of the person recommended as a director candidate;

2. All information relating to such person that is required to be disclosed in solicitations of proxies for election of directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended;

3. The written consent of the person being recommended as a director candidate to be named in the Proxy Statement as a nominee and to serve as a director if elected;

4. As to the person making the recommendation, the name and address, as they appear on the Company's books, of such person, and number of shares of common stock of the Company owned by such person; provided, however, that if the person is not a registered holder of the Company's common stock, the person should submit his or her name and address along with a current written statement from the record holder of the shares that reflects the recommending person's beneficial ownership of the Company's common stock; and

5. A statement disclosing whether the person making the recommendation is acting with or on behalf of any other person and, if applicable, the identity of such person.

In order for a director candidate to be considered for nomination at the Company's Annual Meeting of Shareholders, the recommendation must be received by the Governance and Nominating Committee at least 120 calendar days prior to the date the Company's Proxy Statement was released to shareholders in connection with the previous year's Annual Meeting, advanced by one year.

Director Compensation

The following table sets forth information concerning the compensation of non-employee directors during the year ended December 31, 2011.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	All Other Compensation ($)	Total ($)
Robert W. Chappell	25,753	3,735	180	29,668
R. Lowell Coolidge	41,824	3,735	117	45,676
Mark L. Dalton	27,077	3,735	180	30,992
Rinaldo A. DePaola	24,803	3,735	180	28,718
Thomas E. Freeman	24,723	3,735	180	28,638
Roger C. Graham, Jr.	27,368	3,735	180	31,283
E. Gene Kosa	26,853	3,735	180	30,768
R. Joseph Landy	26,903	3,735	180	30,818
Rudolph J. van der Hiel	30,537	3,735	117	34,389

(1) Reflects the aggregate grant date fair value computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 – Share Based Payment. The amounts were calculated based upon the Company's stock price of $37.35 on the date of grant. For all directors, stock award amounts represent grants of 100 shares of common stock made under the 2010 directors' incentive program and granted in 2011. Director incentive stock grants for 2011 are expected to be determined by the end of March 2012.

The foregoing table reflects the following arrangements:

Fees. Directors, except for Directors Coolidge, Black, and van der Hiel, received the following fees for services to the Company and the Bank: $400 for attending a board meeting, and strategic retreat or training session; $14,500 annual retainer; $300 monthly committee meeting fee, less $100 for any missed committee meeting; $150 for participation in a Board conference call; and $185 for attending an advisory board meeting. Additionally, committee chairpersons for Credit Committee, Audit and Examination Committee, Compensation/Human Resource Committee, and Governance and Nominating Committee receive a $1,500 retainer. Director Coolidge, who serves as the Company's and the Bank's Chairman, and Director van der Hiel who served as the Company's and Bank's Vice Chairman received a fixed annual sum of $39,604 and $28,502, respectively, in lieu of all director's fees in 2011. Directors Coolidge and van der Hiel also receive an advisory board fee of $185 per attended meeting.

Deferred Compensation Plan. Directors are permitted to defer their fees subject to provisions of the director's deferred compensation plan. The plan provides for the Bank to distribute funds to a director whenever he or she is no longer a member of the Board.

Life Insurance. In addition to these fees, each director is provided a $100,000 life insurance benefit. Once a director retires, insurance coverage continues but the benefit declines as the age of the retired director increases. Total premiums paid in 2011 for life insurance on behalf of the current and retired directors was $1,908.

Stock Grants/Awards. Pursuant to our 2006 Restricted Stock Plan, non-employee directors are eligible to receive an annual stock grant based on Company and Bank performance. For 2010 and 2011 performance measures were based on return on equity compared with a regionalized peer group (using a three year average for 2010 and 2011). Director incentive payments for 2010 were awarded in March 2011, and incentive payments for 2011, if any, are expected to be determined by the end of March 2012.

Meetings of the Board of Directors

The Board of Directors oversees all of the Company's business, property and affairs. The Chairman of the Board and the executive officers keep the members of the Board informed of the Company's business through discussions at Board meetings and by providing them reports and other materials. During 2011, the Company's Board of Directors held ten regular meetings. Each of the directors attended at least 75% of aggregate of the total number of meetings of the Board and the total number of meetings held by all committees of the Board on which he served.

Meetings of the Advisory Boards

The Board of Directors utilizes advisory boards in branches currently served by the Bank. Advisory boards are composed of well respected people from the community, the office manager, and a member of the Board of Directors (who serves as a non-voting member of the advisory board). The Board member serves as a communication link to share, with the advisory board, the appropriate information occurring at Board of Directors' meetings, as well as communicating to the Board of Directors advisory board issues and suggestions. Advisory boards meet monthly. A fee of $185 is paid for attendance at the monthly advisory board meeting.

Attendance at the Annual Meeting

The Company expects its directors to attend annual meetings of shareholders. All directors attended the 2011 Annual Meeting of Shareholders.

AUDIT-RELATED MATTERS

Report of the Audit and Examination Committee

The Audit and Examination Committee met with management periodically during the year to consider the adequacy of the Company's internal controls and the objectivity of its financial reporting. The Audit and Examination Committee discussed these matters with the Company's independent auditing firm and with appropriate Company financial personnel and internal auditors. The Audit and Examination Committee also discussed with the Company's senior management and independent registered public accounting firm the process used for certifications by the Company's Chief Executive Officer and Chief Financial Officer which are required for certain Company filings with the Securities and Exchange Commission.

The Audit and Examination Committee meets with the independent auditing firm, the internal auditors, the Chief Financial Officer and the Risk/Compliance Officer on a number of occasions, each of whom has unrestricted access to the Audit and Examination Committee.

Management has primary responsibility for the Company's financial statements and the overall reporting process, including the Company's system of internal controls.

The independent registered public accounting firm audited the annual financial statements prepared by management, expressed an opinion as to whether those financial statements fairly present the financial position, results of operations and cash flows of the Company in conformity with U.S. generally accepted accounting principles and discussed with the Audit and Examination Committee any issues the independent auditing firm believed should be raised with the Audit and Examination Committee.

The Audit and Examination Committee reviewed with management and S.R. Snodgrass, A.C. the Company's audited financial statements, as well as the audit of management's assessment of internal control over financial reporting and met separately with both management and S.R. Snodgrass, A.C. to discuss and review those financial statements and reports prior to issuance. Management has represented, and S.R. Snodgrass, A.C. has confirmed, to the Audit and Examination Committee, that the financial statements were prepared in accordance with U.S. generally accepted accounting principles.

The Audit and Examination Committee has received the written disclosures and the letter from S.R. Snodgrass, A.C. required by applicable requirements of the Public Company Accounting Oversight Board regarding S.R. Snodgrass, A.C.'s communications with the Audit and Examination Committee concerning independence, and has discussed with S.R. Snodgrass, A.C. its independence. The Audit and Examination Committee also discussed with S.R. Snodgrass, A.C., Certified Public Accountants, matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1. AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. The Audit and Examination Committee implemented a procedure to monitor auditor independence, reviewed audit and non-audit services performed by S.R. Snodgrass, A.C., Certified Public Accountants, and discussed with the auditors their independence.

In reliance on these reviews and discussions referred to above, the Audit and Examination Committee recommended to the Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, for filing with the Securities and Exchange Commission. The Audit and Examination Committee and the Board have also recommended the selection of S.R. Snodgrass, A.C., Certified Public Accountants, as the Company's independent registered public accounting firm for the year ending December 31, 2012.

The Audit and Examination Committee
of Citizens Financial Services, Inc. and First Citizens National Bank

E. Gene Kosa (Chairman)
Mark L. Dalton
Thomas E. Freeman
Roger C. Graham, Jr.

Audit Fees

The following table sets forth the fees billed to the Company for the fiscal years ending December 31, 2011 and 2010, respectively, by S.R. Snodgrass, A.C., Certified Public Accountants:

	Year Ended December 31, 2011	Year Ended December 31, 2010
Audit Fees(1)	$125,015	$84,718
Audit-Related Fees	-	-
Tax Fees(2)	-	$10,800
All Other Fees(3)	$51,306	$56,298
TOTAL	$176,321	$151,816

(1) Audit fees consist of fees for professional services rendered for the audit of the Company's financial statements as of and for the years ended December 31, 2011 and 2010, the audit of management's assessment of internal control over financial reporting for the year end December 31,2011, and review of financial statements included in the Company's quarterly reports and services normally provided by the independent registered public accounting firm in connection with statutory and regulatory filings or engagements for the years ended December 31, 2011 and 2010.

(2) Tax fees consist of compliance fees for the preparation of original tax returns. Tax fees also include fees relating to other tax advice, tax consulting and planning.

(3) Other services consisted primarily of consulting services for the facilitating of strategic planning meetings and regulatory compliance reviews.

Policy on Audit and Examination Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditing Firm

The Audit and Examination Committee is responsible for appointing and overseeing the work of the independent auditing firm. In accordance with its charter, the Audit and Examination Committee approves, in advance, all audit and permissible non-audit services to be performed by the independent auditing firm. Such approval process ensures that the external auditor does not provide any non-audit services to the Company that are prohibited by law or regulation.

In addition, the Audit and Examination Committee has established a policy regarding pre-approval of audit and permissible non-audit services provided by the independent auditing firm. Management's requests that particular services by the independent auditing firm be pre-approved under the auditor services policy must be specific as to the particular services to be provided.

The request may be made with respect to either specific services or a type of service for predictable or recurring services.

During the year ended December 31, 2011, all audit and non-audit services were approved, in advance, by the Audit and Examination Committee in compliance with these procedures.

STOCK OWNERSHIP

The following table sets forth, as of February 27, 2012, the name and address of each person who owns of record or who is known by the Board of Directors to be the beneficial owner of more than 5% of the Company's outstanding common stock, the number of shares beneficially owned by such person and the percentage of the Company's outstanding common stock so owned. A person or entity may be considered to beneficially own any shares of common stock over which the person or entity has, directly or indirectly, sole or shared voting or investing power.

Name and Address	Number of Shares Beneficially Owned		Percent of Outstanding Common Stock Beneficially Owned
R. Lowell Coolidge P.O. Box 41 Wellsboro, Pennsylvania 16901	190,000	(1)	6.6%
Robert M. Jones, Jr. (2) 805 Tanager Drive Bluefield, Virginia 24605	160,886	(2)	5.6%

(1) Mr. Coolidge beneficially owns 153,770 shares individually, and his remaining 36,230 shares are held by his spouse.
(2) Based solely on a Schedule 13G filed with the Securities and Exchange Commission on March 31, 2011.

The following table sets forth the information concerning the number of shares of Company common stock beneficially owned, as of February 27, 2012, by each present director, nominee for director and named executive officer in the compensation table set forth later in this proxy statement and by all directors and executive officers as a group. A person may be considered to beneficially own any shares of common stock over which he or she has, directly or indirectly, sole or shared voting or investment power. Unless otherwise indicated, none of the shares listed are pledged as security, and each of the named individuals has sole voting power and sole investment power with respect to the number of shares shown.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership		Percent of Class
Randall E. Black	14,047	(1)	*
Kathleen M. Campbell	4,162	(2)	*
Robert W. Chappell	3,579	(3)	*
R. Lowell Coolidge	190,000	(4)	6.6%
Mark L. Dalton	2,583	(5)	*
Rinaldo A. DePaola	6,027	(6)	*
Thomas E. Freeman	2,291		*
Roger C. Graham, Jr.	28,410		*
Mickey L. Jones	4,846	(7)	*
E. Gene Kosa	1,970	(8)	*
R. Joseph Landy	12,104	(9)	*
Terry B. Osborne	6,116	(10)	*
Rudolph J. van der Hiel	15,402	(11)	*
Jeffrey L. Wilson	1,739	(12)	*
Executive Officers and Directors as a Group (17 persons)	297,736	(13)	10.3%

* Less than 1%.
(1) Mr. Black beneficially owns 1,034 shares individually, 10,007 shares jointly with his spouse, and 262 shares are held by his spouse. Also includes 2,744 shares of restricted stock for which Mr. Black has voting but not

investment power.

(2) Ms. Campbell beneficially owns 1,837 shares individually, and 1,218 shares are held by her spouse. Also includes 594 shares of restricted stock for which Ms. Campbell has voting but not investment power, and 513 shares of restricted stock for which her spouse has voting but not investment power.

(3) Mr. Chappell beneficially owns 2,215 shares individually, 1,202 shares jointly with his mother, and his remaining 162 shares are held jointly with an unrelated third party.

(4) Mr. Coolidge beneficially owns 153,770 shares individually, and his remaining 36,230 shares are held by his spouse.

(5) Of the 2,583 beneficially owned shares, 560 shares are pledged as collateral on a loan.

(6) Mr. DePaola beneficially owns 1,696 shares individually, 2,852 shares jointly with his spouse, 1,239 shares are held by his spouse, and his remaining 240 shares are held by his spouse as custodian for their son.

(7) Mr. Jones beneficially owns 2,836 shares and 721 shares are held by his spouse. Also includes 1,289 shares of restricted stock for which Mr. Jones has voting but not investment power.

(8) Mr. Kosa beneficially owns 1,893 shares jointly with his spouse, 57 shares in an investment club, and his remaining 20 shares are held by his spouse.

(9) Mr. Landy beneficially owns 8,468 shares individually, and 3,636 shares jointly with his spouse.

(10) Mr. Osborne beneficially owns 4,696 shares jointly with his spouse. Also includes 1,420 shares of restricted stock for which Mr. Osborne has voting but not investment power. Of the 4,696 beneficially owned shares, 3,477 shares are pledged as collateral on a loan.

(11) Mr. van der Hiel beneficially owns 13,733 shares individually, 22 shares jointly with his spouse, and his remaining 1,647 shares are held by his spouse. Of the 1,647 shares held by his spouse, 363 shares are pledged as collateral on a loan.

(12) Mr. Wilson beneficially owns 884 shares individually, 559 shares jointly with his spouse, and 4 shares are held by his spouse. Also includes 292 shares of restricted stock for which Mr. Wilson has voting but not investment power.

(13) Includes 943 shares of restricted stock beneficially owned by executive officers not individually listed in the table for which the executive officer has voting but not investment power.

ITEMS TO BE VOTED ON BY STOCKHOLDERS

Item 1 Election of Directors

The Company's Board of Directors consists of ten members. The Board is divided into three classes with three-year staggered terms, known as Class 1, Class 2 and Class 3. The Class 1 directors elected at this Annual Meeting will serve for three-year terms. The Class 2 and Class 3 directors will continue to serve for one and two years, respectively, in order to complete their three-year terms.

The Board of Directors fixed the number of directors in Class 1 at four and has nominated Robert W. Chappell, Roger C. Graham, Jr., E. Gene Kosa, and R. Joseph Landy for election as Class 1 directors to hold office for three-year terms to expire at the 2015 Annual Meeting of Shareholders or until their successors are duly elected and qualified. All Board nominees are currently directors of the Company.

Unless you indicate on your proxy card, or via the Internet that your shares should not be voted for certain nominees, the Board of Directors intends that the proxies solicited by it will be voted for the election of all of the Board's nominees. If any nominee is unable to serve, the persons named on the proxy card would vote your shares to approve the election of any substitute nominee proposed by the Board of Directors. At this time, the Board of Directors knows of no reason why any nominees might be unable to serve.

The Board of Directors recommends that you vote "FOR" the election of the Board's nominees.

Information regarding the Board of Directors' nominees and the directors continuing in office is provided below. Ages are as of February 27, 2012. Based on their respective experiences, qualifications, attributes and skills set forth below, the Board of Directors determined that each current director should serve as a director.

Nominees for Election as Class 1 Directors – Terms Expire in 2015

Robert W. Chappell is an attorney-at-law with the firm of van der Hiel, Chappell & Loomis located in Mansfield and Rome, Pennsylvania. Mr. Chappell's 17 years expertise as a partner in a law firm and his involvement in business and civic organizations in the communities in which the Bank serves provide the Board valuable insight. Mr. Chappell's years of providing legal counsel and operating a law office position him well to continue to serve as a director for the Company. Age 45. Director of the Company and the Bank since 2006.

Roger C. Graham, Jr. is retired from Graham Construction and Excavating. Mr. Graham owned and operated Graham Construction & Excavating for 20 years. As a retired, successful business owner, Mr. Graham has a knowledgeable skill set that positions him well to continue to serve as a director for the Company. Mr. Graham is Chairman of the Credit Committee. Age 56. Director of the Company and the Bank since 2001.

E. Gene Kosa is a partner in EDKO Farms, an agricultural production and service business located in Ulysses, Pennsylvania. Mr. Kosa has successfully managed an agricultural business for 37 years. As a business owner, Mr. Kosa has a knowledgeable skill set that positions him well to continue to serve as a director for the Company. Mr. Kosa is Chairman of the Audit and Examination Committee. Age 65. Director of the Company and of the Bank since 2001.

R. Joseph Landy is an attorney-at-law with the firm of Landy & Landy located in Sayre, Pennsylvania. Mr. Landy's 33 years expertise as a partner in a law firm and his involvement in business and civic organizations in the communities in which the Bank serves provide the Board valuable insight. Mr. Landy's years of providing legal counsel and operating a law office position him well to continue to serve as a director for the Company. Mr. Landy is Chairman of the Compensation/Human Resource Committee. Age 57. Director of the Company and the Bank since 2001.

Continuing Class 2 Directors – Terms Expire in 2013

Mark. L. Dalton is a retired independent consultant/producer for Gannon Associates, an insurance company in Towanda, Pennsylvania. Mr. Dalton has 32 years of business experience, both as a business owner and consultant. As a retired business owner, Mr. Dalton has a knowledgeable skill set that positions him well to continue to serve as a director for the Company. Mr. Dalton is Chairman of the Governance and Nominating Committee. Age 57. Director of the Company since 1998 and director of the Bank since 1997.

Thomas E. Freeman is regional manager with the company Blue Ridge Communications in Mansfield, Pennsylvania. Mr. Freeman has worked in business for 32 years. His business expertise and involvement in numerous civic and philanthropic organizations provide valuable insight to the Board and position him well to serve as a director for the Company. Age 52. Director of the Company and the Bank since 2010.

Rudolph J. van der Hiel is, as of August 2005, in an "of Counsel" capacity for the Law Offices of van der Hiel, Chappell & Loomis located in Mansfield and Rome, Pennsylvania. Mr. van der Hiel is a part time Episcopal priest for various churches in Ontario, Canada, and Pennsylvania and retired attorney-at-law with the Law Offices of van der Hiel & Chappell. Mr. van der Hiel's 38 years of providing legal counsel and operating a law office, as well as his community involvement through his church affiliations, position him well to continue to serve as a director for the Company. Mr. van der Hiel has been Vice Chairman of the Company and Bank since November 2009. Age 72. Director of the Company since 1984 and director of the Bank since 1975.

Continuing Class 3 Directors – Terms Expire in 2014

Randall E. Black has served as the Chief Executive Officer and President of the Company and the Bank since April 2004, and prior to 2004 was the Chief Financial Officer for the Bank. Mr. Black's extensive experience in the local banking industry and involvement in business and civic organizations in the communities in which the Bank serves afford the Board valuable insight regarding the business and operation of the Bank. Mr. Black's knowledge of the Company's and Bank's business and history, combined with his success and strategic vision, position him well to continue to serve as our Chief Executive Officer and President. Age 45. Director of the Company and the Bank since 2004.

R. Lowell Coolidge is an attorney-at-law with the firm of Walrath and Coolidge, located in Wellsboro, Pennsylvania. Mr. Coolidge's 42 years expertise as partner in a local law firm and his involvement in business and civic organizations in the communities in which the Bank serves provide the Board valuable insight. Mr. Coolidge holds more than 5% of the Company's outstanding shares and he has been Chairman of the Company and Bank since 1998. Age 71. Director of the Company and the Bank since 1984.

Rinaldo A. DePaola is an attorney-at-law with the firm of Griffin, Dawsey, DePaola & Jones located in Towanda, Pennsylvania. Mr. DePaola's 27 years expertise as a partner in a local law firm and his involvement in business and civic organizations in the communities in which the Bank serves provide the Board valuable insight. Mr. DePaola's years of providing legal counsel and operating a law office position him well to continue to serve as a director for the Company. Age 56. Director of the Company and the Bank since 2006.

Executive Officers Who Are Not Directors

Name	Age as of February 27, 2012	Principal Occupation for Past Five Years
Gregory J. Anna	50	In April 2011 was named Senior Vice President, Information Systems Manager for the Bank. Prior to 2011 was Vice President, Technology & Operations since 2007. Prior to 2007 was Assistant Vice President, Data Operations Manager for the Bank since 2002. Mr. Anna is the husband of Kathleen M. Campbell.
Kathleen M. Campbell	51	Senior Vice President, Marketing and Training Manager for the Bank since 2002. Ms. Campbell is the wife of Gregory J. Anna.
Mickey L. Jones	51	In April 2010 was named Executive Vice President, Chief Operating Officer, and Chief Financial Officer for the Company and Bank. Prior to 2010 was Executive Vice President and Chief Financial Officer for the Company and Bank since 2007. Prior to 2007 was Senior Vice President, Chief Financial Officer and Treasurer of the Company and Bank since June 2004.
Robert B. Mosso	41	In April 2011was named Senior Vice President, Wealth Management Division Manager for the Bank. Prior to 2011 was Vice President, Wealth Management Division Manager since 2004. Prior to 2004 was a Trust Officer for the Bank. President of First Citizens Insurance Agency, Inc.
Terry B. Osborne	58	In November 2010 was named Executive Vice President, Chief Credit Officer and Secretary of the Company and Bank. Previously was Executive Vice President and Secretary of the Company and Bank since December 1991 and September 1983, respectively.
Cynthia T. Pazzaglia	53	In April 2011 was named Senior Vice President, Human Resource Manager for the Bank. Prior to 2011 was Vice President, Human Resource Manager for the Bank since 1999.
Jeffrey L. Wilson	50	In April 2011 was named Senior Vice President, Chief Lending Officer for the Bank. Prior to 2011 was Vice President, Chief Lending Officer since 2010. Prior to 2010 was a Vice President, Business Development Officer since September 1987 for the Bank.

Executive officers are elected annually and serve at the discretion of the Board.

Item 2   Ratification of Independent Registered Public Accounting Firm

The Audit and Examination Committee of the Board of Directors has appointed S.R. Snodgrass, A.C. to be the Company's independent registered public accounting firm for the 2012 fiscal year, subject to ratification by shareholders. A representative of S.R. Snodgrass, A.C. will be present at the Annual Meeting to respond to appropriate questions from shareholders and will have the opportunity to make a statement should he or she desire to do so.

If ratification of the appointment of the auditor is not approved by a majority of the votes cast by shareholders at the Annual Meeting, other independent registered public accounting firms will be considered by the Audit and Examination Committee of the Board of Directors.

The Board of Directors unanimously recommends that you vote "FOR" ratification of the appointment of S.R. Snodgrass, A.C. as the Company's independent registered public accounting firm for fiscal year 2012.

Item 3 Advisory Vote on Executive Compensation

The Board of Directors of the Company is committed to excellence in governance. As part of that commitment, and as required by federal securities laws, the Board of Directors is providing the Company's stockholders with an opportunity to provide an advisory vote on the compensation of our named executive officers as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the "Compensation Discussion and Analysis," the compensation tables and the related narrative discussion contained in this proxy statement.

This proposal, commonly known as a "say-on-pay" proposal, gives the Company's shareholders the opportunity to endorse or not endorse the Company's executive compensation program and policies through the following resolution:

"Resolved, that the compensation of the named executive officers, as described in the tabular disclosure regarding named executive officer compensation and the accompanying narrative disclosure in this proxy statement is hereby approved."

Because the vote is advisory, it will not be binding upon the Company or its Board of Directors. However, the Compensation/Human Resource Committee will review and consider the outcome of the vote when making future executive compensation arrangements.

The Board of Directors unanimously recommends a vote "FOR" approval of the compensation of the named executive officers.

Item 4 Advisory Vote on the Frequency of the Shareholder Vote on Executive Compensation

As part of the Board of Director's commitment to excellence in corporate governance, and as required by federal securities laws, the Board of Directors is providing the Company's stockholders with an opportunity to provide an advisory vote on the frequency of the advisory vote on the compensation of the Company's named executive officers. The proposal gives the Company's shareholders the opportunity to determine whether the frequency of a shareholder vote on the compensation of the named executive officers will be every one, two, or three years. Shareholders may also abstain from voting on the frequency of a shareholder vote on executive compensation.

Because the vote is advisory, it will not be binding upon the Company or its Board of Directors. However, the Compensation/Human Resource Committee will review and consider the outcome of the vote when determining the frequency of a shareholder vote on executive compensation. For the reasons described below, we recommend that our shareholders select a frequency of every three years.

- Company performance should be evaluated by shareholders using a long-term approach. Our compensation program emphasizes long-term goals and our Compensation/Human Resource Committee, in considering executive performance, also gives great weight to long-term results, including growth and business trends.

- The Board believes that a three-year schedule permits shareholders sufficient time to review and draw conclusions on significant executive compensation issues and trends, reducing the potential for rapid and extreme reactions based on short-term developments and results.

- A three-year schedule would provide investors sufficient time to evaluate the effectiveness of both short- and long-term compensation strategies and related business outcomes of the Company.

- Shareholders have the opportunity, and have taken the opportunity, to communicate with us throughout the year on their concerns, including concerns regarding executive compensation. We will continue to offer our shareholders that opportunity. The formality of a vote on our compensation practices every year should not be necessary.

The Board of Directors unanimously recommends conducting a vote to approve the compensation of the named executive officers every three years. Note: shareholders are not voting to approve or disapprove this recommendation.

Compensation/Human Resource Committee Report

The Compensation/Human Resource Committee has reviewed the Compensation Discussion and Analysis that is required by the rules established by the Securities and Exchange Commission. Based on such review and discussion, the Compensation/Human Resource Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement. See “Compensation Discussion and Analysis.”

The Compensation/Human Resource Committee
of Citizens Financial Services, Inc. and First Citizens National Bank

R. Joseph Landy (Chairman)
Robert W. Chappell
Mark L. Dalton
Rinaldo A. DePaola
Thomas E. Freeman

COMPENSATION DISCUSSION AND ANALYSIS

Overview

The following discussion provides a description of our decision making process and philosophy for compensating our named executive officers in 2011. This discussion also describes the material components of each named executive officer’s total compensation package and details the reasoning behind the decisions made in 2011. This discussion should be read together with the compensation tables for our named executive officers located in the “Executive Compensation” section of this proxy statement.

Our 2011 named executive officers are Randall E. Black – Chief Executive Officer/President, Mickey L. Jones – Executive Vice President and Chief Operating Officer/Chief Financial Officer, Terry B. Osborne – Executive Vice President/Chief Credit Officer, Jeffrey L. Wilson – Senior Vice President/Chief Lending Officer and Kathleen M. Campbell – Senior Vice President/Marketing and Training Manager

Executive Summary

It is the intent of the Compensation/Human Resource Committee to provide our named executive officers with a total compensation package that is market competitive, promotes the achievement of our strategic objectives and is aligned with operating and other performance metrics to support long-term shareholder value. In addition, we have structured our executive compensation program to include elements that are intended to create an appropriate balance between risk and reward.

Business Highlights

Despite the challenging economic environment we faced in 2011, our financial performance continues to demonstrate a strong, well-capitalized, local community bank providing outstanding shareholder return and value. Some of the highlights include:

•

Increased earnings as net income was $12.8 million, or $4.40 per share, for 2011, which represented a 11.6% increase compared to net income of $11.5 million, or $3.93 per share, for 2010;

- Increased asset growth with total assets of $878.6 million, which is an increase of $66.1 million or 8.1% from December 31, 2010. The investment portfolio totaled $318.8 million as of December 31, 2011, an increase of $67.5 million from the December 31, 2010 balance of $251.3 million. Net loans increased $13.4 million to a total of $481.0 million, representing a 2.0% increase, and deposits increased $53.3 million or 7.8% since December 31, 2010.

- Improving asset quality as nonperforming loans decreased $3.1 million, or 24.8%, to $9.4 million in 2011. Approximately 86% of the Bank's non-performing loans are associated with three customer relationships. Nonperforming assets as a percent of loans was 2.11% at December 31, 2011 as compared to 2.80% at December 31, 2010;

- Increased cash dividends per share as a cash dividend of $0.295 per share was paid to shareholders on January 27, 2012, an increase of 13.5% over the January 2011 cash dividend of $0.26 per share; and

- Increasing commercial loan growth as the commercial real estate portfolio increased $13.3 million in 2011, reflecting the Company's focus on commercial lending as a means to increase loan growth and obtain deposits from farmers and small businesses throughout our market area.

Compensation Highlights

In light of our solid financial performance and to ensure our executive compensation programs support our goals to align pay with performance and maximize shareholder value without encouraging excessive risk, the Compensation/Human Resource Committee, along with our Chief Executive Officer/President, took the following actions related to our named executive officers' compensation and benefit arrangements for 2011:

ŸThe Board of Directors conducted a performance review of our Chief Executive Officer/President for purposes of evaluating his performance during the 2011 fiscal year. The Board of Directors concluded that our Chief Executive Officer/President continues to exhibit strong business and leadership skills and is moving the Company in a direction that continues to enhance long-term shareholder value. The Board intends to review our Chief Executive Officer/President's base salary in 2012 and will consider peer group data, along with the performance evaluation in its salary review.

ŸOur Chief Executive Officer/President conducted a performance review for our Executive Vice President and Chief Operating Officer/Chief Financial Officer and Executive Vice President/Chief Credit Officer for purposes of evaluating each executive's performance during the 2011 fiscal year. Our Chief Executive Officer/President concluded that based upon achievement of individual performance goals, which includes professional and leadership performance, as well as the attainment of goals set forth in the Company's strategic plan, the Executive Vice President and Chief Operating Officer/Chief Financial Officer and Executive Vice President/Chief Credit Officer continue to be strong senior executive officers who contribute greatly to the success of the Company and its affiliates. The Board intends to review the base salaries of our Executive Vice President and Chief Operating Officer/Chief Financial Officer and Executive Vice President/Chief Credit Officer in 2012 and will consider peer group data, along with the performance evaluations in its salary review. See "Role of Management" for additional information on review process.

ŸOur Chief Executive Officer/President conducted a performance review for our Senior Vice President/Chief Lending Officer and our Senior Vice President/Marketing and Training Manager for purposes of evaluating their performance during the 2011 fiscal year. Our Chief Executive Officer/President concluded that based upon achievement of individual performance goals, which includes professional and leadership performance, as well as the attainment of goals set forth in the Company's strategic plan, our Senior Vice President/Chief Lending Officer and Senior Vice President/Marketing and Training Manager continue to contribute to the success of the Company and its affiliates. Effective January 1, 2012, the Compensation/Human Resource Committee increased the annual base salary for our Senior Vice President/Chief Lending Officer by 4.35% to $120,000 and increased our Senior Vice President/Marketing and Training Manager's annual base salary to $103,247 and gave her a cash payment of $1,013 which represented an aggregate 3.0% increase in base pay.

Ÿ

As a result of our strong financial performance and the successful achievement of individual performance goals in 2010, our named executive officers received payouts under our Annual Incentive Plan in 2011. The payouts for the 2011 Plan Year have not been determined, however the Compensation/Human Resource Committee expects the plan calculations to be made and payouts determined (if any) by March 2012. The Annual Incentive Plan was revised in 2011 to change the percentage mixture of cash and stock awards. See “Performance-Based Cash Compensation” for additional information on the 2011 Annual Incentive Plan. See also “Executive Compensation—Grants of Plan-Based Awards” for information on potential incentive awards under the 2011 Annual Incentive Plan.

- The employment agreement with our Chief Executive Officer/President and the change in control agreements with our Executive Vice President and Chief Operating Officer/Chief Financial Officer and Executive Vice President/Chief Credit Officer were renewed for another year. The term of the employment agreement, as extended, will expire in June 2014 and the term of the change in control agreements will expire in January 2015, unless otherwise extended or terminated for reasons set forth in the agreements. See “Employment and Change in Control Agreements” for detailed information on the agreements with certain named executive officers.

Compensation Philosophy

Our compensation and benefits program for our named executive officers is designed to provide a competitive compensation package which includes a performance-based component that is paid in cash and Company stock. Specifically, the program is designed to accomplish the following objectives:

- Align the interests of executives with the interests of shareholders in the creation of long-term shareholder value;
- Reinforce key business objectives and deliver executive benefits in a cost effective manner;
- Encourage management ownership of our common stock; and
- Attract and retain talented members of senior management.

Management and our Compensation/Human Resource Committee work together to ensure that our named executive officers are held accountable and rewarded for delivering superior performance and enhanced shareholder returns.

Elements of Our Compensation and Benefits Program

To achieve our objectives, we structured a compensation and benefit program that provides our named executive officers with the following:

- Base salary;
- Performance-based cash compensation through our Annual Incentive Plan;
- Long-term equity awards through our Annual Incentive Plan;
- Retirement benefits; and
- Employment and change in control agreements.

The elements of a named executive officer’s total compensation package will vary depending upon the executive’s job position and responsibilities.

Base Salary

Base salaries are used to reward our executives for performing the core responsibilities of their positions and to provide them with a level of security with respect to a portion of their total compensation. Individual base salaries are determined using peer group compensation data prepared by S.R. Snodgrass, A.C., Certified Public Accountants along with other factors, such as an executive’s qualifications, experience, position responsibilities and performance in relation to established goals. The Compensation/Human Resource Committee reviews the base salaries for our named executive officers on an annual basis.

Performance-Based Cash Compensation

Our Annual Incentive Plan is designed to recognize and reward participants for their collective and individual contributions to our success. The objectives of the plan are: (i) to reward results, not effort; (ii) align our strategic plan, budget and shareholder interests with participant performance; (iii) motivate and reward participants for achieving and potentially exceeding performance goals and enabling us to attract and retain the talent needed to drive our success. The Compensation/Human Resource Committee in consultation with executive management administers the plan. All of our named executive officers participated in the 2011 Annual Incentive Plan. The 2011 Annual Incentive Plan awards (if any) will be paid out in cash and Company stock.

The incentive award opportunities noted below are shown as a percentage of base salary. For purposes of the 2011 Annual Incentive Plan, "base salary" is defined as compensation earned by a participant for services rendered to the Company, excluding the following items: profit sharing contributions, discretionary incentive compensation, cash payments received for waiving employer-paid health insurance, cell phone allowances and fringe benefits.

	2011 Annual Incentive Plan Opportunities		
Position	Minimum	Target	Maximum
Chief Executive Officer/President	0.0%	30.0%	60.0%
Executive Vice President and Chief Operating Officer/Chief Financial Officer	0.0%	20.0%	45.0%
Executive Vice President/Chief Credit Officer	0.0%	15.0%	30.0%
Senior Vice President/Chief Lending Officer	0.0%	10.0%	25.0%
Senior Vice President/Marketing and Training Manager	0.0%	10.0%	25.0%

Incentive payouts for our named executive officers have not been determined under the 2011 Annual Incentive Plan. The Company expects to receive the peer group data necessary to calculate the 2011 Plan payouts (if any) by the end of March 2012. If target or maximum performance measures are achieved, plan participants will receive a payout under the 2011 Annual Incentive Plan. If our named executive officers receive a payout under the 2011 Annual Incentive Plan, the payout will be distributed in cash and Company common stock. The percentage of stock and cash distributed as a 2011 Annual Incentive Plan payout will depend upon the executive's achievement of his or her performance goals and job position. See "Executive Compensation –Grants of Plan Based Awards" for information on potential payouts under the 2011 Annual Incentive Plan.

Performance Measures under the 2011 Annual Incentive Plan

There are three (3) categories in which performance is measured under the 2011 Annual Incentive Plan: Company/Bank performance, Branch/Departmental performance and individual performance. The Company/Bank performance goals focus on core measures of profitability, risk and compliance, credit quality and efficiency of Company and Bank resources.

For 2011, our Company/Bank goals consisted of return on equity compared with a regional peer group (using a three year average for 2011), return on assets compared with a regionalized peer group (using a three year average for 2011), earnings per share growth compared to both bank growth and a regional peer group (also using a three year average for 2011), efficiency ratio targets (compared to peer group using a three year average for 2011), credit quality targets (compared to peer group using a three year average for 2011), total shareholder return targets (compared to peer group using a three year average for 2011) and regulatory performance measurements. Departmental / branch goals included various measures, most notably loan and deposit growth, and branch profitability targets. Departmental goals included various projects, strategic initiatives and work performance measurements. The individual component was based upon the individual employee's performance appraisal. The plan's components have varying weights assigned as well as varying award opportunities based upon job function. For purposes of the 2011 incentive, participants were measured on performance from January 1, 2011 through December 31, 2011.

The following chart sets forth the 2011 goal weighting for our named executive officers.

Position	Company/Bank	Branch/Departmental	Individual
Chief Executive Officer/President	80%	10%	10%
Executive Vice President and Chief Operating Officer/Chief Financial Officer	70%	20%	10%
Executive Vice President/Chief Credit Officer	60%	30%	10%
Senior Vice President/Chief Lending Officer	50%	40%	10%
Senior Vice President/Marketing and Training Manager	50%	40%	10%

Long-Term Equity Incentives/Stock Grant Practices

Equity incentives are one of the most important elements of the total compensation package for our named executive officers. The purpose of these awards is to attract and retain superior talent, further align employees and non-employee directors with shareholder interests, closely link employee and non-employee compensation with our performance, and maintain high levels of executive and non-employee director stock ownership. It is our intent to use the grant of restricted stock under the 2006 Restricted Stock Plan as the primary vehicle for providing long-term incentive compensation opportunities to our named executive officers and for aligning their interests with those of our shareholders. In general, vesting of restricted stock awards under the 2006 Restricted Stock Plan is tied to continued service and/or satisfaction of performance goals set forth under our 2011 Annual Incentive Plan. See "Annual Incentive Plan" for information on specific performance goals for our named executive officers. Generally restricted stock awarded to our named executive officers is subject to a three (3) year vesting schedule. Shares of restricted stock vest ratably over a three-year period commencing on the first anniversary of the date of grant and continuing each anniversary date thereafter.

The Compensation/Human Resource Committee's process with respect to the determination of grant dates is made after carefully considering our timing of earnings releases and/or other material nonpublic information to ensure that there is no manipulation of the market to an executive's benefit. Similarly, we never time the release of material nonpublic information to affect the value of executive compensation. In general, the release of such information reflects established timetables for the disclosure of material nonpublic information such as earnings reports or, with respect to other events reportable under federal securities laws, the applicable requirements of such laws with respect to timing of disclosure.

Retirement Benefits

We provide retirement benefits to our named executive officers through our tax-qualified defined benefit plan and our tax-qualified defined contribution plan. Effective January 1, 2008, we converted our traditional defined benefit pension plan to an account balance-based pension plan, which is also referred to as a cash balance plan. Under our cash balance plan, participants are credited with a percentage of their compensation each year and, upon termination of employment, may receive their benefit in a lump sum or in monthly installments. Our tax-qualified defined contribution plan ("401(k) plan") provides our eligible employees with a vehicle to defer a portion of their compensation and invest their elective deferrals in a variety of investment funds. In addition, the 401(k) plan provides for an employer safe harbor contribution to eligible participants equal to 100% of a participant's elective deferrals that are not in excess of 1% of the participant's compensation, plus 50% of the participant's elective deferrals that exceed 1% of compensation. In no event will the employer safe harbor matching contributions exceed 3.5% of a participant's compensation in a plan year. We view our retirement benefits as a means of providing financial security to our employees after they have spent a substantial portion of their careers with us. All of our named executive officers participate in our retirement plans.

In addition to our cash balance plan, we also provide our Chief Executive Officer/President, Executive Vice President and Chief Operating Officer/Chief Financial Officer and Executive Vice President/Chief Credit Officer with supplemental executive retirement benefits ("SERP"). The SERP serves to help us attract and retain executive talent by providing each executive with a supplemental retirement benefit equal to a specific percentage (Chief Executive Officer/President 16.4%, Executive Vice President and Chief Operating Officer/Chief Financial Officer 13.6%, and Executive Vice President/Chief Credit Officer 14.7%) multiplied by the average annual cash compensation earned by each executive during the three (3) completed calendar years preceding the executive's termination of employment. We believe providing SERP benefits to our top management is consistent with the retirement benefits provided to similarly situated executives in our peer group. See "Executive Compensation—Retirement Benefits".

Employment and Change in Control Agreements

We currently maintain an employment agreement with our Chief Executive Officer/President that we believe is consistent with the agreements provided to senior executive officers in our peer group. The Compensation/Human Resource Committee believes that the employment agreement with our Chief Executive Officer/President serves the interests of our Company and its shareholders by providing stability in management, outlining the terms and conditions of employment and ensuring that if a change in control is ever under consideration, our Chief Executive Officer/President will be able to advise our board of directors about the potential transaction in the best interests of shareholders, without being unduly influenced by personal considerations of losing his job. See “Executive Compensation—Employment Agreements”.

In addition to the employment agreement with our Chief Executive Officer/President, we also maintain change in control agreements with our Chief Credit Officer and our Chief Operating Officer/Chief Financial Officer. These change in control agreements provide the executives with certain protections and benefits in the event of a change in control and help maintain stability in management during a change in control transaction. See “Executive Compensation—Change in Control Agreements”.

Role of Compensation/Human Resource Committee

The Compensation/Human Resource Committee reviews and approves all of the elements of compensation for our Chief Executive Officer/President, Executive Vice President and Chief Operating Officer/Chief Financial Officer and Executive Vice President/Chief Credit Officer annually to ensure we are competitive in the market place and that the mix of benefits accurately reflects our compensation philosophy. The Compensation/Human Resource Committee operates under a written charter that establishes its responsibilities. The Compensation/Human Resource Committee reviews the charter annually to ensure that the scope of the charter is consistent with the Compensation/Human Resource Committee’s role. Under the charter, the Compensation/Human Resource Committee is also charged with general responsibility for the oversight and administration of the Bank and Company sponsored compensation and benefit plans. The charter also authorizes the Compensation/Human Resource Committee to engage consultants and other professionals without management approval to the extent deemed necessary to discharge its responsibilities.

When making compensation decisions, the Compensation/Human Resource Committee considers salary survey data to understand compensation paid to similarly situated executives in our peer group. See “Peer Group” for a list of the publicly traded financial institutions that make up our peers. In addition to peer data, our Compensation/Human Resource Committee also looks at internal pay equity, individual and company performance and relative shareholder return when making compensation decisions.

Role of Management

Management provides data, analyses, input and recommendations to the Compensation/Human Resource Committee through our Chief Executive Officer/President. The Compensation/Human Resource Committee gives significant weight to our Chief Executive Officer/President’s evaluation of each named executive officer’s performance and recommendation of appropriate compensation. However, our Chief Executive Officer/President does not participate in any decisions relating to his own compensation. The Senior Vice President, Human Resource Manager provides our Chief Executive Officer/President with salary survey data for purposes of considering base pay adjustments for our Vice President/Chief Lending Officer and our Senior Vice President/Marketing and Training Manager.

Role of Compensation Consultant

The Compensation/Human Resource Committee directly retained the services of S.R. Snodgrass, A.C., Certified Public Accountant, to assist the Company and Bank in developing and implementing a peer group for its 2011 executive compensation program. The Company and the Bank also used L.R. Webber Associates, Inc. in 2011 to evaluate the salary ranges for certain Bank and Company job positions.

Peer Group

Each year we review the list of companies included in our peer group and determine if adjustments are necessary. For purposes of 2011, our peer group consisted of the following companies which consist primarily of community banks and thrifts in Pennsylvania and New York with total assets between $500 million and $1.5 billion:

Financial Institution	Location	State
Adams County National Bank	Gettysburg	PA
Chemung Canal Trust Company	Elmira	NY
Citizens and Northern	Wellsboro	PA
CNB Bank	Clearfield	PA
Elmira Savings Bank	Elmira	NY
First Keystone National Bank	Berwick	PA
F&M Trust	Chambersburg	PA
VIST Financial	Wyomissing	PA
Orrstown Bank	Shippensburg	PA
Jersey Shore State Bank	Williamsport	PA
Penn Security Bank & Trust	Scranton	PA
Peoples Neighborhood Bank	Hallstead	PA
QNB Bank	Quakertown	PA
3rd Federal Bank	Newtown	PA
AmeriServ Financial	Johnstown	PA
Ephrata National Bank	Ephrata	PA
Mid Penn Bank	Millersburg	PA
First Columbia Bank & Trust Company	Bloomsburg	PA
Dime Bank	Honesdale	PA
First National Community Bank	Dunmore	PA
Fidelity Bank	Dunmore	PA

Executive Perquisites

We annually review the perquisites that we make available to our named executive officers. The primary perquisites for our named executive officers are certain club dues.

Stock Ownership Guidelines

We do not maintain stock ownership guidelines for our named executive officers. However, all of our named executive officers participate in our Annual Incentive Plan and we believe they maintain a meaningful interest in our Company stock through their participation in the plan and through individual purchases outside the plan. See "Stock Ownership" for information on Company stock owned by our named executive officers.

Tax and Accounting Considerations

In consultation with our advisors, we evaluate the tax and accounting treatment of each of our compensation programs at the time of adoption and on an annual basis to ensure an understanding of the financial impact of the program on the Company and the Bank.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table provides information concerning the total compensation awarded, earned or paid to the principal executive officer and principal financial officer of the Company and our three other most highly compensated executives. These five officers are referred to as our "named executive officers" in this proxy statement

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)(2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Randall E. Black	2011	256,154	2,500	43,289	-	44,640	21,148	367,731
CEO & President of	2010	235,000	10,000	37,972	43,308	168,708	17,303	512,291
the Company and Bank	2009	210,000	-	50,217	37,786	96,133	17,394	411,530
Mickey L. Jones	2011	164,039	1,500	19,571	-	38,972	9,464	233,546
Executive Vice	2010	150,000	5,000	18,510	19,582	96,595	8,978	298,665
President, Chief Operating Officer, CFO & Treasurer of the Company and Bank	2009	140,000	-	19,410	18,276	61,181	7,670	246,537
Terry B. Osborne	2011	184,039	1,500	20,505	-	102,290	11,475	319,809
Executive Vice	2010	175,000	5,000	20,985	20,535	140,270	11,936	373,726
President Chief Credit Officer & Secretary of the Company and the Bank	2009	165,000	-	20,466	19,941	105,547	10,520	321,474
Jeffrey L. Wilson	2011	113,500	-	5,827	-	14,207	5,497	139,031
Senior Vice	2010	98,963	1,500	559	5,847	9,033	4,743	120,645
President, Chief Lending Officer	2009	92,463	3,000	6,965	4,623	8,556	4,825	120,432
Kathleen M.	2011	101,224	-	8,329	-	12,783	7,577	129,913
Campbell	2010	99,239	5,142	8,653	8,356	9,759	5,465	136,614
Senior Vice President, Marketing & Training Manager	2009	98,722	-	8,824	8,478	8,007	4,985	129,016

(1) Reflects the aggregate grant date fair value computed in accordance with Financial Accounting Board Accounting Standards Codification Topic 718 – Share Based Payment. See “Outstanding Equity Awards Table” for the material terms of the 2011 grants. For 2011, stock award amounts for Mr. Black represent a grant of 1,159 restricted stock awards that vest in three equal annual installments commencing on March 24, 2012 made pursuant to the Company’s 2010 incentive program and granted in 2011. For 2011, stock award amounts for Mr. Jones represent a grant of 524 restricted stock awards that vest in three equal annual installments commencing on March 24, 2012 made pursuant to the Company’s 2010 incentive program and granted in 2011. For 2011, stock award amounts for Mr. Osborne represent a grant of 549 restricted stock awards that vest in three equal annual installments commencing on March 24, 2012 made pursuant to the Company’s 2010 incentive program and granted in 2011. For 2011, stock award amounts for Mr. Wilson represent a grant of 156 restricted stock awards that vest in three equal annual installments commencing on March 24, 2012 made pursuant to the Company’s 2010 incentive program and granted in 2011. For 2011, stock award amounts for Ms. Campbell represent a grant of 223 restricted stock awards that vest in three equal annual installments commencing on March 24, 2012 made pursuant to the Company’s 2010 incentive program and granted in 2011. See “2006 Restricted Stock Plan” for other terms and conditions of restricted stock awards.

(2) Represents awards earned by each executive under the Bank’s performance based annual incentive program. See “Incentive Program” for a description of the material terms of the 2011 program and the criteria for receiving an incentive award. Incentive awards for 2011 are expected to be determined by the end of March 2012.