CITIZENS & NORTHERN CORP
Form DEF 14A
March 09, 2011

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 x

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14A-6(E) (2))

x 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)

Payment of Filing Fee (Check the appropriate box):

x No fee required

o Fee computed on table below per Exchange Act Rules 14a-6(i) (4) and 0-11.

(1) Tile 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):

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o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No. :

(3) Filing Party:

(4) Date Filed:

90-92 Main Street
Wellsboro, Pennsylvania 16901

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD TUESDAY, APRIL 19, 2011

TO OUR STOCKHOLDERS:

Notice is hereby given that the Annual Meeting of the stockholders of Citizens & Northern Corporation (the "Corporation") will be held at the Arcadia Theatre, located at 50 Main Street, Wellsboro, Pennsylvania, on Tuesday, April 19, 2011 at 2:00 P.M., local time, for the following purposes:

1. To elect three Class III 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 the Named Executive Officers 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";

3. To consider and act upon an advisory (non-binding) vote on frequency of the advisory vote on the compensation of our Named Executive Officers;

4. To ratify the action of the Board of Directors in the appointment of the firm of ParenteBeard LLC as independent auditors of the Corporation for the fiscal year ending December 31, 2011; and

5. 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 22, 2011 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 10, 2011

CITIZENS & NORTHERN CORPORATION
90-92 Main Street
Wellsboro, Pennsylvania 16901

PROXY STATEMENT
Annual Meeting of Stockholders – April 19, 2011

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 19, 2011, at 2:00 P.M. at the Arcadia Theatre, located at 50 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 10, 2011, 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, in favor of approving, in an advisory vote, the compensation of the Corporation's named executive officers, for the approval, in an advisory vote, that the shareholder advisory vote to approve the compensation of the Corporation's named executive officers should occur every three years, , in favor of ratifying the selection of ParenteBeard LLC as our independent auditors, 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 22, 2011 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 12,181,184 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.

Important Notice About the Availability of Proxy Materials for the Annual Meeting of Shareholders to be Held on April 19, 2011: This proxy statement, proxy card and the Corporation's annual report to shareholders are available at: www.amstock.com/proxyservices/viewmaterials.asp

PRINCIPAL STOCKHOLDERS

Set forth below is certain information with regards to those persons known to us to beneficially own more than five percent of the Common Stock of the Corporation.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

Title of Class	Name & Address of Beneficial Owner	Amount & Nature of Beneficial Ownership (1)	Percent of Class
Common Stock	Wellington Management Company, LLP ("Wellington Management") 280 Congress Street Boston, MA 02109	914,964	7.54 %
Common Stock	BlackRock Inc. 40 East 52nd Street New York, NY 10022	698,037	5.75 %

(1) All shares beneficially owned as of December 31, 2010.

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 twelve. 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. Three directors in Class III 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 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 III – MANAGEMENT'S NOMINEES FOR A 3 YEAR TERM ENDING 2014:

Dennis F. Beardslee, 60 — Director since 1999

Mr. Beardslee has owned and operated Terrace Lanes Bowling Center since 1984. He received his Bachelor of Arts from Mansfield University. He serves on several boards within his local community.

Jan E. Fisher, 56 — Director since 2002

Ms. Fisher is the Executive Vice President & Chief Operating Officer of Laurel Health System and President & Chief Executive Officer of Soldiers & Sailors Memorial Hospital, Wellsboro, PA. She has over 20 years of management experience. She received her Bachelor of Science from Purdue University and Master of Business Administration from the University of Miami. Ms. Fisher has served and continues to serve on many boards within her local community and industry.

Ann M. Tyler, 66 — Director since 2002

Ms. Tyler has been a Certified Public Accountant in her firm of Ann M. Tyler CPA, PC for over 15 years. Prior to starting her own firm, Ms. Tyler was a Certified Public Accountant with Brodart Company and Parente Randolph for over 9 years. She received her Bachelor of Arts from Lycoming College. Ms. Tyler has served and continues to serve on various boards within her community.

Class I – Continuing Directors with Terms Expiring in 2012:

Raymond R. Mattie, 47 — Director since 2007

Mr. Mattie has been the President of M & S Conversion Co. Inc. since 1992. Prior to 1992, Mr. Mattie held various positions within M&S Conversion Co. Inc. since 1979. Mr. Mattie received his Associates Degree from Williamsport Area Community College. He serves on various boards within his community.

Edward H. Owlett, III, 56 — Director since 1994

Mr. Owlett has been the President & Chief Executive Officer of Putnam Company since 1995. Mr. Owlett was an Attorney at Law at Owlett & Lewis, PC from 1981 to 2001. He received his Bachelor of Science from Wharton School of Business and his Doctorate of Jurisprudence from University of Pittsburgh. He serves on various organizations within his local community.

James E. Towner, 64 — Director since 2000

Mr. Towner has over 30 years of experience with Times Shamrock Communications, including over 20 years as publisher and his current experience as the General Manager of The Scranton Times. He has served on several boards within his local community. He received his Bachelor of Science from Elmira College.

Charles H. Updegraff, Jr., 58 — Director since 2007

Mr. Updegraff has been the President and Chief Executive Officer of Citizens & Northern Corporation and Citizens & Northern Bank since January 2010; formerly President and Chief Executive Officer of Canisteo Valley Corporation and First State Bank from May 2008 to September 2010; formerly Executive Vice President and Chief Operating Officer of C&N Bank from May 2007 to January 2010; formerly President & Chief Executive Officer of Citizens Bancorp, Inc. and Citizens Trust Company from1980 to May 2007. He received his Bachelor of Science from Bloomsburg University. He has attended numerous banking schools. He has served and continues to serve on various boards in his local community.

Class II – Continuing Directors with Terms Expiring in 2013:

R. Bruce Haner, 63 Director since 1998

Mr. Haner owned and operated an auto dealership for over 30 years. Mr. Haner has attended various Pennsylvania Bankers Association, American Bankers Association, and Federal Reserve seminars and workshops.

Susan E. Hartley, 53 Director since 1998

Ms. Hartley has been an Attorney at Law since 1984. She received her Bachelor of Arts from Elmira College, Master of Arts from State University of New York at Buffalo, and Doctorate of Jurisprudence from State University of New York at Buffalo School of Law.

Leo F. Lambert, 57 Director since 2001

Mr. Lambert has been the President and General Manager of Fitzpatrick & Lambert, Inc. since 1978. Mr. Lambert received his Bachelor of Science from St. Francis College Loretto. Mr. Lambert has served and continues to serve on many boards within his community.

Edward L. Learn, 63 Director since 1989

Mr. Learn has over 45 years of management experience, including 17 years as a Manager for Ralston Purina Co. Inc. and 25 years as the owner of Learn Hardware & Building Supply.

Leonard Simpson, 62 Director since 1989

Mr. Simpson has been an Attorney at Law since 1975 and Sullivan County District Attorney from 1977 – 1993 and from 2008 until present. He received his Bachelor of Science from Gettysburg College and his Doctorate of Jurisprudence from Cumberland School of Law, Sanford University. Mr. Simpson has served and continues to serve on various boards within his local community.

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
Charles H. Updegraff, Jr. President and Chief Executive Officer of Citizens & Northern Corporation and Citizens & Northern Bank since January 2010; formerly President and Chief Executive Officer of Canisteo Valley Corporation and First State Bank from May 2008 to September 2010; formerly Executive Vice President and Chief Operating Officer of C&N Bank from May 2007 to January 2010; formerly President & Chief Executive Officer of Citizens Bancorp, Inc. and Citizens Trust Company from 1980 to May 2007.	58
Dawn A. Besse 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	59
Harold F. Hoose, III Executive Vice President and Director of Lending of C&N Bank since March 2005; formerly Vice President of C&N Bank since September 2001	43
Mark A. Hughes Treasurer of the Corporation since November 2000; Executive Vice President and Chief Financial Officer of C&N Bank since August 2000	49
George M. Raup Executive Vice President and Chief Information Officer of C&N Bank since April 2008; formerly Vice President of Citizens Trust Company	57
John M. Reber Executive Vice President and Director of Risk Management of C&N Bank since January 2011; formerly Vice President and Director of Risk Management of C&N Bank since June 2004.	44
Thomas L. Rudy, Jr. 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	46
Deborah E. Scott Executive Vice President and Director of Trust Department of C&N Bank since September 1999	51

SECURITY OWNERSHIP OF MANAGEMENT

The following table shows beneficial ownership of the Corporation's common stock as of February 22, 2011 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	14,774		—
Jan E. Fisher	14,472		—
R. Bruce Haner	24,267	(4)	—
Susan E. Hartley	9,729		—
Leo F. Lambert	16,324	(5)	—
Edward L. Learn	11,163		—
Raymond R. Mattie	13,485		
Edward H. Owlett, III	17,636		—
Leonard Simpson	36,453	(6)(7)	—
James E. Towner	16,294		—
Ann M. Tyler	12,344		—
Charles H. Updegraff, Jr.	71,356		—
Mark A. Hughes	34,389		—
Deborah E. Scott	25,316		—
Dawn A. Besse	18,206		
Harold F. Hoose, III	15,065		—
Directors and Executive Officers as a Group (19 Persons)	389,559		3.20 %

(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) 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 February 22, 2011 are included in the shares above: Mr. Beardslee, 5,036 shares; Mrs. Fisher, 4,499 shares; Mr. Haner, 4,088 shares; Ms. Hartley, 4,499 shares; Mr. Lambert, 4,499 shares; Mr. Learn, 4,499 shares; Mr. Mattie, 2,071 shares; Mr. Owlett, 5,264 shares; Mr. Simpson, 4,616 shares; Mr. Towner, 4,214 shares; Ms. Tyler, 4,499 shares; Mr. Updegraff, 7,310 shares; Mr. Hughes, 19,918 shares; Mrs. Scott, 18,053 shares; Mrs. Besse,13,335 shares; and Mr. Hoose, 9,510 shares.

(3) Includes the following restricted stock awards granted under the Corporation's Stock Incentive Plan and Independent Director Stock Incentive Plan: Mr. Beardslee, 145 shares; Mrs. Fisher, 145 shares; Mr. Haner, 145 shares; Ms. Hartley, 145 shares; Mr. Lambert, 145 shares; Mr. Learn, 145 shares; Mr. Mattie, 145 shares; Mr. Owlett, 145 shares; Mr. Simpson, 145 shares; Mr. Towner, 145 shares; Ms. Tyler, 145 shares; Mr. Updegraff, 10,986 shares; Mr. Hughes, 1,183 shares; Mrs. Scott, 843 shares; Mrs. Besse, 730 shares; and Mr. Hoose, 791 shares. Mr. Updegraff's restricted shares include a 2010 award of 9,125 shares that vest in 2013. All of the restricted awards to the directors, with the exception of Mr. Updegraff, vest ratably over a three-year

period. Restricted awards to the executive officers, including Mr. Updegraff, include 2011, 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 Compensation Committee of the Board of Directors) 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 1,521 shares held in a SEP-IRA Plan for the benefit of Mr. Lambert's retirement plan.
(6) Includes 4,756 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.

BOARD OF DIRECTORS COMMITTEES, LEADERSHIP STRUCTURE AND ATTENDANCE

Members of the Corporation's Board of Directors are elected by the shareholders. In selecting nominees for the shareholders' consideration, the Board attempts to identify individuals with appropriate business, financial, legal and other skills and knowledge that are essential to providing oversight of the Corporation's affairs, and who demonstrate a passion for promoting and enhancing the Corporation's financial performance and its service to the communities within our marketplace. In evaluating candidates, the Board considers diversity of educational and business background and experiences, taking into account the experience "mix" of current directors as well as that of the candidates. Also, the Board attempts to ensure that we maintain reasonable diversification of directors by geographic area throughout our marketplace. The nominating process is described in more detail in the "Governance and Nominating Committee" section that follows below.

In 2010, there were 12 members of the Corporation's Board of Directors, including 11 independent directors and 1 director who was also a member of management. The non-independent director was Mr. Updegraff (who was President and Chief Executive Officer throughout 2010 and who was appointed Chairman, effective September 23, 2010). Mr. Updegraff has a great deal of experience working in executive roles in the banking industry. After much deliberation during 2010, it was the Board's consensus that it was advantageous to have an individual with extensive banking industry experience fill the dual roles of Chief Executive Officer and Chairman of the Board.

The Board attempts to ensure that thorough, open and honest discussions take place at all full-Board and committee meetings, and that all of the directors are sufficiently informed about each matter that arises so as to take appropriate actions. The chair of the Executive Committee serves as the "Lead Director," whose role is to preside over Executive Sessions and other Independent Directors' Meetings of the Board (meetings with no members of management present), and who is responsible for communicating the independent directors' thoughts, issues or concerns to the Chief Executive Officer. Mr. Towner presently serves as Lead Director, and also served in that role throughout 2010.

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 fourteen times in 2010. The Board of Directors also held four Executive Sessions and Independent Directors Meetings in 2010. 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 Corporation 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 attended the Annual Meeting of Stockholders held in April 2010 except Director Learn.

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 includes the following members of the Board of Directors: Jan E. Fisher, R. Bruce Haner, Leo F. Lambert, Edward H. Owlett, III, Leonard Simpson, James E. Towner, and Charles H. Updegraff, Jr. During 2010, the Executive Committee held ten meetings.

Governance and Nominating Committee. 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. This committee consists of the following six members of the Board of Directors: Dennis F. Beardslee, Jan E. Fisher, R. Bruce Haner, Susan E. Hartley, Edward H. Owlett, III, and Leonard Simpson. During 2010, the Governance and Nominating Committee held three meetings.

All members of the Governance and Nominating Committee are independent directors within the meaning of Rule 5605 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 Committee evaluates each individual candidate in the context of the Board as a whole, with the objective of recommending a group containing a broad array of diverse experience. 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 director candidates meeting the Governance and Nominating Committee's criteria. 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 including the following members of the Board of Directors: Jan E. Fisher, R. Bruce Haner, Leo F. Lambert, 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 2010, the Executive Committee held nine meetings.

Trust Investment Committee. The Trust Investment Committee of C&N Bank, which met six times in 2010, 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 including the following members of the Board of Directors: Dennis F. Beardslee, Susan E. Hartley, Leo F. Lambert, Edward L. Learn, 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 between Board meetings. During 2010, the Finance and Loan Committee held two meetings.

Asset Liability Committee. The Corporation's Asset Liability Committee consisted of Board members, Jan E. Fisher, Susan E. Hartley, 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 seven times, during 2010. 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.

Compensation Committee. The Compensation Committee of C&N Corporation, which held eight meetings in 2010, consists of the following six independent members of the Board of Directors: 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 Corporation 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 Corp.".

Audit Committee. The Audit Committee of the Corporation, which held five meetings in 2010, 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 five meetings of the Audit Committee, the chairman and a rotating member of the Committee met with representatives of ParenteBeard LLC, C&N Bank's internal audit department and management in May, August and November, 2010 to discuss the Corporation's quarterly 10-Q filings. There was also a meeting of the full Audit Committee held in February 2010 to discuss the Corporation's 10-K filing for the year ended December 31, 2009. 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 has 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 by clicking 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 ParenteBeard LLC for the years ended December 31, 2010 and 2009. All services provided by ParenteBeard LLC in 2010 and 2009 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,	
	2010	2009
Audit Fees		
Audit of Annual financial statements and Audit of internal control over financial reporting and reviews of Quarterly financial statements	$ 201,938	$ 193,830
Audit-Related Fees		
Audits of employee benefit plans	14,100	19,600
Due diligence and other services related to registration of equity instruments	-	46,088
Tax Fees		
Preparation of Corporate tax returns	15,369	10,548
Preparation of retired employee tax returns	4,680	4,715
Other Fees		
Accounting consultation fees	3,935	17,474
Aggregate of all fees billed to the Corporation by ParenteBeard LLC	$ 240,022	$ 292,255

AUDIT COMMITTEE REPORT

On February 24, 2011, the Audit Committee of the Board of Directors reviewed and discussed the audited financial statements dated December 31, 2010 with management. They also have discussed with ParenteBeard 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 ParenteBeard LLC the written communications required by Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees" and has discussed with ParenteBeard 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, 2010 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. Haner, Lambert, Owlett, Simpson, Towner and Mrs. Fisher served as members of the Compensation Committee during 2010 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 is designed to provide 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.

We participated in the Troubled Asset Relief Program Capital Purchase Program ("TARP") 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 $26.44 million in our preferred stock and warrants. Participation in the TARP required that we implement certain restrictions and limitations on executive compensation. On August 4, 2010, the Corporation redeemed all of the preferred stock issued to the Treasury, and on September 1, 2010, the Corporation redeemed the warrants. As a result of the redemptions, the Corporation is no longer subject to TARP-related restrictions and limitations on executive compensation.

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 and subject to appropriate controls to ensure management is not incented to take excessive risk.

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 six (6) directors, all of whom qualify as independent members of the Board. Jan E. Fisher serves as Chair of the Committee. 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 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, none of the executive officers has an employment contract. 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.

- Change of Control and Severance Agreements: The Corporation has entered into Change of Control Agreements with selected employees and a Severance Agreement with Mr. Updegraff. The purpose of the Change of Control and Severance Agreements is to retain and secure key employees, and the amounts and terms are based on 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 Billion and $2 Billion 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 the Corporation's operating circumstances change. For the 2010 program planning review, the outside consultant selected the following institutions in Pennsylvania, New York, and New Jersey to serve as a peer group (the "Peer Group"):

Alliance Financial Corp.	ESB Financial Corp.
Arrow Financial Corp.	First National Community Bancorp
Canandaigua National Corp.	Peapack-Gladstone Financial Corp.
Center Bancorp, Inc.	VIST Financial Corp.
Chemung Financial Corp.	Tower Bancorp, Inc.
CNB Financial Corp.	Roma 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. For 2010, corporate performance was measured based on return on average equity and core earnings growth, as defined, over the prior year's level. 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 appreciation rights or restricted stock. All awards granted have been Incentive Stock Options or restricted stock.

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. In years when stock options were granted, the Board of Directors has typically approved stock option grants at its late December meeting, with 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. In December 2009, the Committee determined that the 2009 Performance Target requirements had not been met, and therefore there was no vesting of January 2009 and 2008 Restricted Shares. In 2010, Mr. Updegraff was awarded 9,125 shares of restricted stock. The 2010 award contained TARP-related restrictions which are no longer applicable, and the shares vest in 2013. 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, 2010, a balance of 531,801 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 2010, except for 2006 and 2010, when no options or restricted shares were granted except for the 2010 award of restricted shares to Mr. Updegraff described above. The timing of grants has not been 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, Change of Control and Severance Agreements. At present and contrary to prevailing industry practices, the Corporation does not offer formal employment contracts to any of its executives. 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 is 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.

Mr. Updegraff has a Severance Agreement with the Corporation. In the event he would be terminated for reasons other than for "cause," as defined in the Agreement, he would receive a severance benefit equal to two (2) times his annual base salary rate at the time of termination. He would also be eligible for continued medical coverage under the Corporation's plans for twenty-four (24) months.

None of the Named Executive Officers has a commitment from the Corporation for a tax gross-up payment in the event that their severance benefits following a change in control or, for Mr. Updegraff, due to other specified circumstances, exceed the deduction limits under IRS Code Section 4999.

RECENT ACTIONS: 2010 AND FIRST QUARTER 2011

During 2010 and the first quarter of 2011, 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 2011, C & N 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 in January, 2011 by 5% to a level of $316,133. The salary of the Chief Financial Officer increased in January 2011 by 2.5% to a level of $205,750.

Annual Incentives. The Board has established a series of annual Corporate, Business Unit and Individual goals for each Named Executive Officer whereby each Named Executive Officer could 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 2010, 2009 and 2008:

Name	Year	Target Percentage of Base Salary		Maximum Percentage of Base Salary		Actual Percentage of Base Salary	
Charles H. Updegraff, Jr.							
	2010	40	%	60	%	60.0	%
	2009	N/A		N/A		N/A	
	2008	24	%	36	%	23.9	%
Mark A. Hughes							
	2010	30	%	45	%	43.0	%
	2009	N/A		N/A		N/A	
	2008	24	%	36	%	23.9	%
Deborah E. Scott							
	2010	25	%	38	%	37.8	%
	2009	N/A		N/A		N/A	
	2008	20	%	30	%	17.6	%
Dawn A. Besse							
	2010	25	%	38	%	33.3	%

	2009	N/A		N/A		N/A		
	2008	20	%	30	%	18.3	%	
Harold F. Hoose, III								
	2010	25	%	38	%	28.3	%	
	2009	N/A		N/A		N/A		
	2008	20	%	30	%	18.3	%	

N/A - Not applicable. Since the Corporation had outstanding preferred stock issued to the U.S. Treasury under the TARP program, annual cash bonuses were not paid to the Named Executive Officers based on 2009 performance.

Longer-term Incentives. The Committee utilizes equity grants as an incentive to drive future performance. In December 2010, the Committee recommended equity grants that were awarded in January 2011. Effective January 4, 2011, 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 $15.06 per share, which was based on the market price of the Corporation's stock, as defined in the Plan. The following awards on January 4, 2011 are not included in the tables within the "Executive Compensation" section of this Proxy Statement, because they were made after the end of 2010: Mr. Updegraff- 9,998 options and 1,666 shares of restricted stock; Mr. Hughes- 5,953 options and 992 shares of restricted stock; Mrs. Scott- 4,211 options and 702 shares of restricted stock; Mrs. Besse- 3,689 options and 615 shares of restricted stock; and Mr. Hoose- 3,931 options and 655 shares of restricted stock.

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

Severance, Employment Contracts and Change of Control Agreements. No substantial changes in the Company's current practice of not providing severance agreements (except for Mr. Updegraff), employment contracts, 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 reasonable, 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, while balancing the approach with appropriate controls to ensure that management is not incented to take excessive risks.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion & Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion & Analysis be included in the Proxy Statement.

COMPENSATION COMMITTEE

Jan E. Fisher, Chair
R. Bruce Haner
Leo F. Lambert
Edward H. Owlett, III
Leonard Simpson
James E. Towner

The above report of the Compensation Committee will not be deemed to be "soliciting material" to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference in any of our filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate the same by reference.

EXECUTIVE COMPENSATION

The following table contains information with respect to annual compensation for services in all capacities to the Corporation and C&N Bank for the fiscal year ended December 31, 2010, with comparative information for 2009 and 2008, of those persons who were, (i) the Chief Executive Officer, (ii) the Chief Financial Officer and (iii) the three (3) other most highly compensated executives (collectively, the "Named Executive Officers") to the extent such persons' total compensation exceeded $100,000:

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Change in Pension Value and Nonqualified Deferred Plan Compensation ($)	All Other Compensation ($)	Total ($)
CHARLES H. UPDEGRAFF, JR.(1)	2010	301,133	180,680	107,173	-	56,476	64,109	709,571
Chairman, President, and	2009	201,133	-	4,473	19,071	70,393	57,147	352,217
Chief Executive Officer	2008	187,100	44,724	2,363	8,757	32,306	60,182	335,432
MARK A. HUGHES	2010	200,700	86,210	-	-	-	26,652	313,562
Treasurer and	2009	192,944	-	3,678	15,682	-	22,961	235,265
Chief Financial Officer	2008	183,756	43,925	3,588	13,136	-	22,935	267,340
DEBORAH E. SCOTT	2010	158,500	59,892	-	-	-	23,558	241,950
Executive Vice President and	2009	151,000	-	2,684	11,367	-	19,755	184,806
Director of Trust Department	2008	140,419	25,734	2,713	9,954	-	20,807	199,627
DAWN A. BESSE	2010	138,900	46,257	-	-	-	34,066	219,223
Executive Vice President and	2009	135,050	-	2,286	9,936	-	25,069	172,341
Chief Credit Officer	2008	128,544	23,557	2,188	8,237	-	25,617	188,143
HAROLD F. HOOSE, III	2010	148,000	41,888	-	-	-	16,705	206,593
Executive Vice President and	2009	140,614	-	2,584	11,157	-	21,283	175,638
Director of Lending								

(1) Mr. Updegraff was an Executive Vice President and Chief Operating Officer during 2009 and 2008.

The 2008 and 2010 bonuses were paid pursuant to the Incentive Award Plan, which is described in the "Program Components" section of Compensation Discussion and Analysis. No bonuses were paid for 2009 performance.

The amount shown in the "Stock Awards" column for 2009 and 2008 equals the value of restricted stock awards determined based on the average of the high and low stock price on the grant date. The values used were $19.88 per share for the 2009 restricted stock awards, and $17.50 per share for the 2008 awards. There were no restricted stock awards granted in 2010, except shares granted to Mr. Updegraff. The value used was $11.745 per share for the 2010 restricted stock award.

The amounts shown in the "Option Awards" column are determined based on the grant date fair market value, computed using the Black-Scholes-Merton option pricing model. The grant-date fair values per options were $4.21 for 2009 awards and $3.15 for 2008 awards. See Note 13 to the consolidated financial statements, included in the Corporation's 2010 Form 10-K, for information regarding key assumptions used in calculating the estimated fair value of stock-options. There were no stock options granted in 2010.

The amount shown in the column headed "Change in Pension Value and Nonqualified Deferred Plan Compensation" for 2010, 2009 and 2008 is attributable to Mr. Updegraff's participation in the Citizens Trust Company Pension Plan, a defined benefit pension plan. This plan covers certain employees who were employed by Citizens Trust Company on December 31, 2002, when the plan was amended to discontinue admittance of any future participants and to freeze benefit accruals. The Corporation acquired Citizens Bancorp, Inc., and its wholly-owned subsidiary, Citizens Trust Company, effective May 1, 2007. Mr. Updegraff is the only Named Executive Officer who is a participant in this plan. The discount rate used to calculate the present value of accumulated plan benefit was 5.50% at December 31, 2010 and 2009. In 2008, for financial reporting purposes the Corporation adopted a December 31 measurement date for this plan, while in 2007, a September 30 measurement date was used. Accordingly, the amount of change in pension value reported for Mr. Updegraff for 2008 was determined based on the 15-month period ended December 31, 2008. The discount rate used to calculate the present value of accumulated plan benefit was 6.25% at December 31, 2008 and 5.80% as September 30, 2007.

The "Non-Equity Incentive Plan Compensation" column has been omitted from the Summary Compensation Table because no Named Executive Officers earned compensation during 2010, 2009, or 2008 of a type required to be disclosed in that column.

Amounts shown as "All Other Compensation" include the following:

ALL OTHER COMPENSATION TABLE

Name	Year	Employer Contributions to the Employee Stock Ownership Plan ($)	Employer Contributions to the 401 (k) Employee Savings Plan ($)	Employer Contributions to the Supplemental Executive Retirement Plan (SERP) ($)	Dollar Value of Insurance Premium paid for Group Term Life Insurance ($)	Commissions for Insurance and Brokerage Sales ($)	Perquisites and Other Personal Benefits ($)	Total ($)
Charles H. Updegraff, Jr.								
	2010	9,800	12,250	33,225	2,694	-	6,140	64,109
	2009	4,900	12,250	25,587	1,898	-	12,512	57,147
	2008	8,176	10,220	24,490	1,928	-	15,368	60,182
Mark A. Hughes								
	2010	8,045	10,056	8,136	415	-	-	26,652
	2009	4,746	11,864	5,936	415	-	-	22,961
	2008	7,367	9,209	5,944	415	-	-	22,935
Deborah E. Scott								
	2010	6,441	8,052	6,529	637	466	1,433	23,558
	2009	4,786	8,959	3,584	637	124	1,665	19,755
	2008	5,729	7,161	5,109	415	405	1,988	20,807
Dawn A. Besse								
	2010	5,604	7,005	20,266	1,191	-	-	34,066
	2009	3,200	8,000	12,678	1,191	-	-	25,069
	2008	5,189	6,487	12,750	1,191	-	-	25,617
Harold Hoose								
	2010	5,947	6,000	3,680	277	-	801	16,705
	2009	3,385	8,462	2,887	277	-	6,272	21,283

For Mr. Updegraff, Mrs. Scott and Mr. Hoose, perquisites and other personal benefits include the estimated personal use portion of the cost of a company-supplied automobile. For Mr. Updegraff and Mr. Hoose, perquisites include the cost of club memberships, which are used primarily, but not exclusively, for business purposes.

GRANTS OF PLAN-BASED AWARDS

The following table sets forth information with respect to grants of plan-based awards for the year ended December 31, 2010 for the Named Executive Officers.

Name	Grant Date	Board/ Committee Action Date	All Other Stock Awards: Number of Shares of Stock or Units (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards
Charles H. Updegraff, Jr.	3/5/2010	2/18/2010	9,125	N/A	107,173

The grant date fair market value of stock award is computed in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification" (the "ASC") topic 718, "Compensation—Stock Compensation." Tl value used for restricted stock awards is $11.745 per share, based on the market value of the stock at the grant date.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table sets forth information with respect to outstanding equity awards as of December 31, 2010 for the Named Executive Officers.

Name		Number of Securities Underlying Unexercised Options (#) Exercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)
Charles H. Updegraff, Jr.		2,780	17.500	1/3/2018		
		4,530	19.880	1/5/2019		
					9,440	$ 140,278
	Total:	7,310		Total:	9,440	$ 140,278
Mark A. Hughes		2,828	17.000	1/2/2012		
		2,700	20.730	1/2/2013		
		2,145	26.590	1/2/2014		
		2,065	27.000	1/3/2015		
		2,285	22.325	1/3/2017		
		4,170	17.500	1/3/2018		
		3,725	19.880	1/5/2019		
					321	$ 4,770
	Total:	19,918				