CITIZENS & NORTHERN CORP
Form DEF 14A
March 20, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
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Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))** þ Definitive Proxy Statement o Definitive Additional Materials
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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):

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

90-92 Main Street
Wellsboro, Pennsylvania 16901

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD TUESDAY, APRIL 17, 2007

TO OUR STOCKHOLDERS:

Notice is hereby given that the Annual Meeting of the stockholders of Citizens & Northern Corporation (the Corporation) will be held at Citizens & Northern Bank, located at 90 Main Street, Wellsboro, Pennsylvania, on Tuesday, April 17, 2007, at 2:00 P.M., local time, for the following purposes:

1. To elect one Class I director to serve for a term of 2 years and five Class II directors to serve for a term of 3 years; and

2. 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 27, 2007 are entitled to notice of, and to vote at, the meeting. Such stockholders may vote in person or by proxy.

All stockholders are urged to complete, sign, date and return the enclosed proxy in the accompanying envelope, whether or not you expect to attend the meeting. If you do attend the meeting, you may, if you wish, withdraw your proxy and vote your shares in person.

By Order of the Board of Directors,
Jessica R. Brown
Corporate Secretary
March 20, 2007

CITIZENS & NORTHERN CORPORATION
90-92 Main Street
Wellsboro, Pennsylvania 16901
PROXY STATEMENT
Annual Meeting of Stockholders April 17, 2007

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 17, 2007, at 2:00 P.M. at Citizens & Northern Bank (C&N Bank), located at 90 Main Street, Wellsboro, Pennsylvania, and at any adjournment thereof. The approximate date upon which this Proxy Statement and proxy will first be mailed to stockholders is March 20, 2007.

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

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

The Board of Directors has fixed the close of business on February 27, 2007 as the record date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting and at any adjournment thereof. On the record date, there were outstanding and entitled to vote 8,292,759 shares of common stock. Common stockholders will be entitled to one vote per share on all matters to be submitted at the meeting. The presence, in person or by proxy, of stockholders entitled to cast at least 50% of the votes that all stockholders are entitled to cast shall constitute a quorum at the Annual Meeting. An abstention will be considered present at the meeting for purposes of determining a quorum, but will not be counted as voting for or against the issue to which it relates. Neither abstentions nor broker non-votes will be counted as votes cast and neither will have any effect on the result of the vote, although both will count toward the determination of the presence of a quorum. The Articles of Incorporation of the Corporation do not permit cumulative voting.

No person is known by the Corporation to have beneficially owned 5% or more of the outstanding common stock of the Corporation as of February 27, 2007.

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 fourteen. 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. At the 2007 Annual Meeting, one director in Class I to serve for a two-year term and five directors in Class II to serve for a three-year term are to be elected. The Board of Directors recommended the nomination of an additional Class I director in 2007 in an effort to increase the number of Class I directors to four, which is closer to the number of Class II and Class III (5 each). It is the intention of the persons named as proxyholders on the enclosed form of proxy, unless other directions are given, to vote all shares which they represent for the election of management s nominees named in the tabulation below. Directors are elected by a plurality of the votes cast. Plurality means that the nominees receiving the highest number of votes cast are elected as directors up to the maximum number of directors who are nominated to be elected at the meeting. Any stockholder who wishes to withhold authority from

the proxyholders to vote for the election of directors, or to withhold authority to vote for any individual nominee, may do so by marking the proxy to that effect. Each director elected will continue in office until a successor has been elected. **The Board of Directors recommends a vote FOR the election of the nominees listed below, each of whom has consented to be named as a nominee and to serve if elected.** If for any reason any nominee named is not a candidate (which is not expected) when the election occurs, proxies will be voted for a substitute nominee determined by the Board of Directors.

All Directors and Nominees are independent, except for Craig Litchfield, 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 , then Independence Standards .

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

Name, Age and Certain Biographical Information	Period of Service as a Director
Class I- MANAGEMENT S NOMINEE FOR A 2 YEAR TERM ENDING IN 2009:	
Raymond R. Mattie, 45 President of M & S Conversion Co. Inc.	
Class II MANAGEMENT S NOMINEES FOR A 3 YEAR TERM ENDING IN 2010:	
R. Bruce Haner, 59 Auto Buyer for New Car Dealers	Director since 1998
Susan E. Hartley, 49 Attorney at Law	Director since 1998
Leo F. Lambert, 53 President and General Manager of Fitzpatrick & Lambert, Inc.	Director since 2001
Edward L. Learn, 59 Former owner of Learn Hardware & Building Supply	Director since 1989
Leonard Simpson, 58 Attorney at Law	Director since 1989
Class III Continuing Directors with Terms Expiring in 2008:	
Dennis F. Beardslee, 56 Owner of Terrace Lanes Bowling Center	Director since 1999
Jan E. Fisher, 52 Executive Vice President & COO Executive of Laurel Health System, formerly Director for Healthcare Services of Laurel Health System	Director since 2002
Karl W. Kroeck, 67 Farmer	Director since 1996

Craig G. Litchfield, 59 President & Chief Executive Officer of Citizens & Northern Corporation and Citizens & Northern Bank	Director since 1996
Ann M. Tyler, 62	Director since 2002

Name, Age and Certain Biographical Information	Period of Service as a Director
Certified Public Accountant in firm of Ann M. Tyler CPA, PC	

CLASS I Continuing Directors with Terms Expiring in 2009:

R. Robert DeCamp, 66 President of Patterson Lumber Co., Inc.	Director since 1988
Edward H. Owlett, III, 52 President & CEO of Putnam Company	Director since 1994
James E. Towner, 60 General Manager of The Scranton Times, formerly Publisher of The Daily / Sunday Review	Director since 2000

CORPORATION S AND C&N BANK S EXECUTIVE OFFICERS

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

Name and Position for Last Five Years	*Age*
Craig G. Litchfield President and Chief Executive Officer of the Corporation and C&N Bank since January 1997	59
Dawn A. Besse Executive Vice President and Director of Sales, Service and Employee Development of C&N Bank since August 2000	56
Harold F. Hoose, III Executive Vice President and Director of Lending of the Bank since March 2005; formerly Vice President of C&N Bank since September 2001	40
Mark A. Hughes Treasurer of the Corporation since November 2000; Executive Vice President and Chief Financial Officer of C&N Bank since August 2000	46
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	43
Deborah E. Scott Executive Vice President and Senior Trust Officer of C&N Bank since September 1999	47

SECURITY OWNERSHIP OF MANAGEMENT

The following table shows beneficial ownership of the Corporation s common stock as of February 22, 2007 by (i) each director of the Corporation, (ii) each nominee for director, (iii) each executive officer named in the Summary Compensation Table on page 16 and (iv) all directors, the nominee, 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	8,137	
R. Robert DeCamp	5,967	
Jan E. Fisher	4,104	
R. Bruce Haner	17,119	
Susan E. Hartley	5,394(4)	
Karl W. Kroeck	3,358	
Leo F. Lambert	7,506(5)	
Edward L. Learn	7,014	
Craig G. Litchfield	78,352	
Edward H. Owlett, III	6,373	
Leonard Simpson	32,722(6) (7)	
James E. Towner	8,767	
Ann M. Tyler	7,157	
Raymond R. Mattie	175	
Dawn A. Besse	13,949	
Mark A. Hughes	16,349	
Thomas L. Rudy, Jr.	9,811	
Deborah E. Scott	19,466	
Directors, Nominee and Executive Officers as a Group (19 Persons)	256,769	3.10%

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

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

(2) In addition, an individual is deemed to be the beneficial owner if he or she has the right to acquire shares within 60 days through the exercise of any option. Therefore, the following stock options that are exercisable within 60 days after February 22, 2007 are included in the shares above: Mr. Beardslee, 2,593 shares; Mr. DeCamp, 2,056 shares; Mrs. Fisher, 1,756 shares; Mr. Haner, 2,356 shares; Ms. Hartley, 2,356 shares;

Mr. Kroeck, 1,756 shares; Mr. Lambert, 1,756 shares; Mr. Learn, 2,356 shares; Mr. Litchfield, 50,643 shares; Mr. Owlett, 3,721 shares; Mr. Simpson, 2,873 shares; Mr. Towner, 1,756 shares; Ms. Tyler, 1,756 shares; Mrs. Besse, 6,910 shares; Mr. Hughes, 9,738 shares; Mr. Rudy, 7,202 shares; and Mrs. Scott, 15,428 shares.

(3) Includes the following restricted stock awards granted under the Corporation s Stock Incentive Plan and Independent Director Stock Incentive Plan: Mr. Beardslee, 104 shares; Mr. DeCamp, 104 shares; Mrs. Fisher, 104 shares; Mr. Haner, 104 shares; Ms. Hartley, 104 shares; Mr. Kroeck, 104 shares; Mr. Lambert, 104 shares; Mr. Learn, 104

shares; Mr. Litchfield, 941 shares; Mr. Owlett, 104 shares; Mr. Simpson, 104 shares; Mr. Towner, 104 shares; Ms. Tyler, 104 shares; Mrs. Besse, 292 shares; Mr. Hughes, 422 shares; Mr. Rudy, 317 shares; and Mrs. Scott, 337 shares. Restricted stock awards vest ratably over a three-year period; however, the recipients have the right to vote all awarded shares.

(4) Includes 1,484 shares being pledged as security on borrowing facilities with C&N Bank.

(5) Includes 151 shares held in a SEP-IRA Plan for the benefit of Mr. Lambert s retirement plan.

(6) Includes 4,152 shares held in a SEP-IRA Plan for the benefit of Mr. Simpson s retirement plan.

(7) Includes 20,000 shares being pledged as security on borrowing facilities with C&N Bank.

BOARD OF DIRECTOR COMMITTEES AND ATTENDANCE

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

Executive Committee of the Corporation. The Corporation has an Executive Committee whose purpose is to monitor and oversee the Corporation s management succession plan and leadership development processes, review and provide advice and counsel to the CEO regarding the Corporation s strategic plan, mission, goals and objectives and action plans as well as various other matters and to act on behalf of and with full authority of the Board of Directors in matters that may arise between the regular monthly meetings of the Board, which require immediate Board level action. This committee consists of the following seven members of the Board of Directors: R. Robert DeCamp, R. Bruce Haner, Leo F. Lambert, Craig G. Litchfield, Edward H. Owlett, III, Leonard Simpson and James E. Towner. During 2006, the Executive Committee held ten meetings.

Nominating Committee. The Nominating Committee for each of the Corporation and C&N Bank consists of the following six independent members of the Board of Directors: R. Robert DeCamp, Jan E. Fisher, R. Bruce Haner, Edward H. Owlett, III, Leonard Simpson and James E. Towner. The purpose of the 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. The Nominating Committee held two meetings during 2006.

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

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

§ An understanding of business and financial affairs. 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 be an effective director;

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

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

§ An open-mindedness and resolve to independently analyze issues presented for consideration. Additionally, a candidate should be inquisitive and feel a duty to ask questions of management and challenge the status quo;

§ A reputation for honesty and integrity;

§ A high level of financial literacy;

§ A mature confidence and ability to approach others with self-assurance, responsibly and supportively;

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

§ Diversity (in terms of gender, race or other factors) that would reflect representation of different perspectives;

§ Residency in the geographically defined market area of the Bank, with emphasis placed on maintaining representation throughout the market area; and

§ Knowledge, judgment, skill diversity, business experience, as well as the interplay or fit of the candidate s experience and skill with the experience and skills of other Board members.

Other than the foregoing, there are no stated minimum criteria for director nominees, although the 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 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 its service or the Board determines not to renominate a current director for re-election, the Nominating Committee identifies the desired skills and experience of a new nominee in light of the criteria above. The evaluation procedure for candidates recommended by the stockholders would be the same as is done for those recommended by the Board of Directors and management. The Committee recommends a director nominee to the Board, and the Board makes the final determination as to the nominees who will stand for election.

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

Corporate Governance Committee. The Corporate Governance Committee of the Corporation, which met four times in 2006, consists of the following five independent members of the Board of Directors: Dennis F. Beardslee, R. Bruce Haner, Susan E. Hartley, Karl W. Kroeck and Ann M. Tyler. This committee is responsible for reviewing and reporting to the Board periodically on matters of corporate governance.

Executive Committee. C&N Bank has an Executive Committee consisting of seven members of the Board of Directors who are as follows: R. Robert DeCamp, R. Bruce Haner, Leo F. Lambert, Craig G. Litchfield, Edward H. Owlett, III, Leonard Simpson and James E. Towner. 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 various matters, as well as recommend policies and procedures. During 2006, the Executive Committee held twelve meetings.

Compensation Committee. The Compensation Committee of C&N Bank, which held seven meetings in 2006, consists of the following six independent members of the Board of Directors: R. Robert DeCamp, R. Bruce Haner, Leo F. Lambert, Edward H. Owlett, III, Leonard Simpson and James E. Towner. The purpose of the committee is to discharge the responsibilities of the Board of Directors relating to compensation of the executive officers and to provide oversight of the Bank s compensation, benefit, perquisite and employee equity programs.

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

Trust Investment Committee. The Trust Investment Committee of C&N Bank, which met twelve times in 2006, consists of four members of the Board of Directors; namely, Dennis F. Beardslee, Susan E. Hartley, Edward L. Learn and Leonard Simpson until the March, 2006 meeting at which Susan E. Hartley resigned. Deborah E. Scott, Executive Vice President and Senior Trust Officer of C&NBank, 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.

Asset Liability Committee. C&N Bank also has an Asset Liability Committee, which consists of Board members R. Robert DeCamp, Jan E. Fisher, Craig G. Litchfield, Edward H. Owlett, III and Ann M. Tyler, as well as Mark A. Hughes, Executive Vice President and Chief Financial Officer of the Bank. The Asset Liability Committee met nine times during 2006. 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.

Finance and Loan Committee. C&N Bank has a Finance and Loan Committee consisting of nine members of the Board of Directors who are as follows: Dennis F. Beardslee, Susan E. Hartley, Karl W. Kroeck, Leo F. Lambert, Edward L. Learn, Craig G. Litchfield, Edward H. Owlett, III, Leonard Simpson and Ann M. Tyler. The primary purpose of this committee is to evaluate and act on loan requests that exceed management s lending authority. During 2006, the Finance and Loan Committee held five meetings.

Audit Committee. The Audit Committee of the Corporation, which held six meetings in 2006, consists of six independent members of the Board of Directors. The members of the Committee are R. Bruce Haner, Karl W. Kroeck, Leo F. Lambert, Edward H. Owlett, III, James E. Towner and Ann M. Tyler. In addition to the six meetings of the Audit Committee, the chairman and a rotating member of the Committee met with representatives of Parente Randolph, LLC, C&N Bank s internal audit department and management in May, August and November, 2006 to discuss the Corporation s quarterly 10-Q filings. The primary function of the Audit Committee is to review the

internal audit program as performed by the internal auditors, recommend to the Board of Directors the independent auditors for the year, and review the examinations and reports from those persons. None of the members of the Audit Committee meet the definition of Audit Committee financial expert as defined in the rules adopted by the Securities and Exchange Commission. The Board of Directors has determined that each of the present members of the Audit Committee have sufficient knowledge and experience in financial matters to effectively perform their duties.

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

The following table sets forth information concerning fees paid to Parente Randolph, LLC for the years ended December 31, 2006 and 2005. All services provided by Parente Randolph, LLC in 2006 and 2005 were pre-approved by the Audit Committee.

	Fiscal Years Ended December 31,	
	2006	2005
Audit Fees		
Audit of Annual financial statements and Audit of internal control over financial reporting and management s assertions related thereto, and reviews of Quarterly financial statements	$ 159,012	$ 162,092
Audit-Related Fees		
Audits of employee benefit plans	11,900	9,550
Tax Fees		
Preparation of Corporate tax returns	9,000	7,000
Preparation of retired employee tax returns	4,465	4,230
Aggregate of all fees billed to the Corporation by Parente Randolph, LLC	$ 184,377	$ 182,872

AUDIT COMMITTEE REPORT

On March 1, 2007, the Audit Committee of the Board of Directors reviewed and discussed the audited financial statements dated December 31, 2006 with management. They also have discussed with Parente Randolph, LLC, the independent registered public accounting firm of the Corporation, the matters for discussion as specified by the AICPA Statement of Auditing Standards No. 61. The Audit Committee has received from Parente Randolph, LLC the written communications required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees* and has discussed with Parente Randolph, LLC, its independence. Based on its review and discussions referred to above, the Committee has recommended to the Board of Directors that the audited financial statements be included in the Corporation s annual report on Form 10-K for the fiscal year ended December 31, 2006 for filing with the Securities and Exchange Commission.

Members of the Audit Committee,

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

Directors Attendance. The Board of Directors of the Corporation met thirteen times and the Board of Directors of C&N Bank met thirteen times in 2006. The Board of Directors also held four quarterly Executive Sessions and Independent Directors Meetings in 2006. The Executive Sessions include only members of the Board of Directors and the Independent Directors Meetings include only non-employee members. All of the directors attended at least 75% or more of the meetings of the Board of Directors of the Corporation and of the board committees on which he or she served.

Although the Company does not have a formal policy with respect to Board member attendance at the Annual Meeting of Stockholders, each member is encouraged to attend the Annual Meeting. All Directors attended the Annual Meeting of Stockholders held in April 2006.

STOCK OWNERSHIP GUIDELINES

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

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Messrs. DeCamp, Haner, Lambert, Owlett, Simpson and Towner served as members of the Compensation Committee during 2006 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 Citizens & Northern Corporation (C&N) executive compensation program includes a number of fixed and variable compensation and benefit components, typical of programs among comparable community banking and financial services companies in our local and regional marketplace.

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

COMPENSATION PHILOSOPHY AND PROGRAM OBJECTIVES

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

The current program provides sufficient levels of fixed income, in the forms of base salary and health & welfare benefits, to attract high caliber executive talent to the organization. It also provides competitive 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 where executives are expected to derive as much as 40% to 60% 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*.

Lastly, the current program also contains certain benefit features, provided on a selective basis, to ensure equitable benefits coverage for our highly compensated employees and transition support in the event of substantial ownership change. These provisions support retention of good performers by the organization.

We believe that the features and composition of the current program are consistent with practices of other comparable community banking and financial services organizations in our marketplace and that it balances the need for competitive pay opportunities at the executive level with shareholders expectations for reasonable return on their investment.

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. R. Robert DeCamp 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 Compensation Committee (1) receives information on current executive compensation levels in the industry and industry program practices, (2) conducts a comprehensive review of the C&N program structure and provisions, and (3) considers salary and benefit adjustments and incentive awards for executives.

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

After deciding on the program structure for the coming calendar year, the Compensation 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 Compensation Committee with input from a questionnaire provided to all Directors.

Based on the information gathered about each executive, the Compensation 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 Compensation 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.

NOTE: The Committee may be called upon to consider pay related decisions from time to time throughout the calendar year as executives are reassigned (promoted) and 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 Compensation Committee recommendations on pay and benefits for C&N 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, applicable accounting rules for expensing equity awards, and shareholder concerns about dilution and overhang.

Nonqualified Benefits: tax rules on qualified benefit plans, likely replacement income benefits for executives compared to other categories of employees within the organization, competitive industry practice for comparable type and level of executive positions.

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: while not used currently, the Committee would consider employment agreements where it determined that agreements would serve Corporation needs for confidentiality about business practices and plans and preservation of the customer base (noncompetition and nonsolicitation provisions) and competitive industry practices.

Comparator Base: The Basis for Defining Competitive Compensation Levels and Practices. The types and levels of compensation included in the C&N 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 Compensation Committee asks its outside consultant to review survey reports on national and regional compensation practice within C&N s industry group, focusing on pay levels and practices among Community Banking and Diversified Financial Services institutions based in the Mid-Atlantic Region and having between $1.0B and $2.0B of assets. This range of institutions represents banking companies that are somewhat smaller and somewhat larger than C&N. The asset range will be modified from time to time as C&N s operating circumstances change.

The consultant also examines proxy information on specific institutions that fall into the comparison standards noted. For the 2007 program planning review, the outside consultant reviewed executive compensation information from the following institutions in Pennsylvania, New York, New Jersey and Ohio:

Camco Financial Corp.	Oceanfirst Financial
Center Bancorp, Inc.	Omega Financial
ESB Financial	Parkvale Financial Corp.
Financial Institutions, Inc.	Peapack-Gladstone Financial
First Defiance	Pennsylvania Commerce
First National Community	Peoples Bancorp
FMS Financial Corp.	Tompkins Trustco
Leesport Financial Corp.	Univest Corp. of Pennsylvania

PROGRAM COMPONENTS

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

1. Base Salary. Base salary opportunities are set at the median level of industry practice for comparable jobs in like size and type community banking and financial service organizations. 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 C&N executive positions, salary will provide 60%-70% of ***total annual compensation***, when considering the value of short-term incentive awards and benefits provided by the organization.

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

3. Annual Performance Incentives. The annual performance Incentive Award Plan provides participating executives with opportunities to earn additional cash compensation in a given year when corporate and business unit operating results and individual performance contributions meet or exceed established thresholds of acceptable achievement. Currently, these awards can provide 15% to as much as 35% of an executive s total ***annual*** compensation when target levels of performance are achieved. Corporate performance is typically measured on return on average assets against a peer group and core earnings growth 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 Compensation Committee, at 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 executive efforts on the strategic directions and goals of the business and to reward them for their successes in these areas. Awards can result in additional cash compensation or equity grants in the form of stock options and restricted stock. *While the size of such awards may increase or decrease based on current business performance, it is the intention of the Compensation Committee to recommend such awards at least annually as an incentive to focus executives future efforts on longer-term needs and objectives of the business.*

Equity Grant Plans. Our 1995 Stock Incentive Plan, as amended by shareholder vote on April 15, 2003, authorizes us to grant options to purchase shares of common stock and to make restricted stock grants to our employees, directors and consultants. Our Compensation Committee is the administrator of all stock grant plans. 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 Compensation Committee reviews and recommends approval of stock option and restricted stock awards to executive officers based upon a review of competitive compensation data, its assessment of individual performance, a review of the executive s existing long-term incentives, and retention considerations. Periodic grants of stock options or restricted stock are made at the discretion of the Compensation Committee to eligible employees and, in appropriate circumstances, the Compensation Committee considers the recommendations of the Chief Executive Officer. In 2006, no options or restricted shares were granted to named executive officers. Typically, the Board of directors has approved stock option grants at its late December meeting, grants to be effective on the second stock trading day of January. The closing price of C&N stock on the first trading day is typically 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 vest at the rate of one-third each year for three (3) years following the grant date and are subject to continued employment with C&N. 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 400,000 shares of common stock may be issued under the Stock Incentive Plan. As of December 31, 2006, a balance of 131,705 shares are available for issuance.

The Compensation Committee recommended to the Board and the Board authorized the awarding of stock options to executives and certain employees on specific dates in January 2002 through January 2005. The timing of such grants was not tied to the release of negative or positive material information about C&N. 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 company 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 all or 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 has become a virtual necessity for most senior executive level positions within C&N and most other mid-size and larger corporations because of Federal restrictions on retirement income benefits to highly compensated employees under qualified retirement income plans like pensions and 401(k) plans. A SERP, like C&N s, is intended to replace some of the benefits lost by executives under the Federally mandated restrictions. C&N 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 C&N is acquired. Annual contributions to the SERP are at the discretion of the Board of Directors, and the Board may terminate the SERP at any time. The SERP is described in more detail in a later section of this Proxy Statement.

6. Employment Contracts and Change of Control Agreements. At present and contrary to prevailing industry practices, C&N does not offer formal employment contracts to any of its executives. It may choose to offer such employment arrangements to current or future executives of C&N as circumstances warrant.

A select group of senior executives, including the Named Executive Officers, do have Change of Control agreements with C&N. In the event that any of these executives were terminated following a Change of Control, they would receive a severance benefit equal to one (1) times their annual base salary rate at the time of termination. They would also be eligible for continued coverage under the C&N health & welfare benefit plans for eighteen (18) months, as permitted under law and carrier contract.

a. *Severance in the Event of Termination Not for Cause*. In the absence of any formal employment contract with C&N, executives do not have any predetermined severance commitment from the Corporation, other than its standard severance policy for all other employees.

b. *Tax Gross-up Provision*. None of the Named Executive Officers have a commitment from the Corporation for a tax gross-up payment in the event that their severance benefits following separation exceeded the deduction limits under IRS Code Section 4999.

RECENT ACTIONS: 2006 AND FIRST QUARTER, 2007

During 2006 and the first quarter of 2007, the Company, through its Compensation 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 2006 and again in the first quarter of 2007, C&N executives received modest salary increases based on evaluations of corporate and individual performances and prevailing industry practices for comparable positions. Salary increases ranged between 2% and 10%. The largest salary increases were awarded to executives who were relatively new in their respective assignments and had already begun to demonstrate a good level of overall competency in the performance of their roles.

The salary of the Chief Executive Officer increased by 2% in January, 2007 to a level of $342,720. The salary of the Chief Financial Officer increased in January 2007 by 5% to a level of $183,756.

Annual Incentives. Executives received lower incentive awards in 2006 for 2005 performance, reflecting less than expected results against goals and objectives established for that year.

For 2006, the Board had established a series of Corporate, Business Unit and Individual goals for each Named Executive Officer. All goals were weighted to reflect their relative importance, with Corporate goals weighted at 40% or more of an executive s total annual incentive award opportunity. Executives achieved better than expected performance on ROAA against a Peer Group but achieved less than expected results on Core Earnings Growth . Executives also qualified for partial payouts against business unit and individual performance goals. The 2006 incentive award, payable in 2007, for the CEO was $83,462.40. The incentive award for the CFO was $39,959.12.

Longer-term Incentives. There were no stock grants made to executives at the beginning of 2006 based on 2005 performance results. During 2006, the Compensation Committee, on the advice of its outside consultant, changed its equity grant philosophy to make annual equity grants as an incentive to drive future performance rather than as a reward for past performance. The Committee believes this change in policy is consistent with the current practice trend among comparable banking and financial services institutions. As a result of this policy change, the Committee is recommending equity grants for executives in early 2007.

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

Employment Contracts and Change of Control Agreements. No substantial changes in the Company s current practice no employment contracts, limited Change of Control protection is anticipated.

STATUS OF THE PROGRAM AND LIKELY PRACTICES GOING FORWARD

The structure of the C&N program is well established. It has been refined over time to meet the changing needs of the business and to maintain a competitive posture in the marketplace for executive talent.

Currently, all of C&N s Named Executive Officers are paid salaries that fall in the competitive median (50th percentile) range of industry practice.

Recent annual incentive awards have been modest, reflecting the Corporation s less than expected results against some of the goals established for 2006 and 2005. The Board is again offering executives industry competitive incentive award opportunities in 2007 but the achievements required to earn those awards are stringent.

Equity grants to executives over the past five (5) years have been used as rewards for past performance. The Compensation Committee has recommended to the Board a change in the Corporation s equity grant practice, moving to annual grants as an incentive to encourage future performance rather than as a reward for past performance. Actual grants may still vary based on most recent Corporate performance, but it is likely that equity grants will be made annually to C&N executives.

Nonqualified Benefits. The Corporation will continue to offer supplemental retirement income benefit plans to selected executives, as a make-up for some of the benefits lost to Federal restrictions. The SERP was designed to provide a benefit equal to 20% of the participant s 5-year average monthly salary. When combined with benefits available under the C&N pension plan, most executives will receive retirement income benefits which when expressed as a percent of salary are less than the retirement income benefits afforded to other employees of the company. At its consultant s urging, the Compensation Committee will review the underlying benefit formula for this plan and make a determination if it should be modified in the future to ensure a competitive benefit opportunity for participating executives.

Perquisites. C&N s program has always been modest, offering use of a company vehicle primarily to those executives who travel among C&N s multiple branch and operations center locations and those who frequently meet with clients and prospects offsite.

Employment Contracts. As noted earlier, the Committee has no plans at present to introduce formal employment contracts for executives.

The Compensation Committee believes that the direct compensation components of the executive compensation program salary, annual incentive opportunities, equity grants are competitive and reflect the median of prevailing industry practices. However, the absence of formal employment contracts with key executives and limited severance benefit agreements place the overall program at a less than fully competitive level against its peer banking companies. The Compensation 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.

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

R. Robert DeCamp, Chairman
R. Bruce Haner
Leo F. Lambert
Edward H. Owlett, III
Leonard Simpson
James E. Towner

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, 2006 of those persons who were, at December 31, 2006, (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 ($)	Change in Pension Value and Nonqualified Deferred Plan Compensation ($)	All Other Compensation ($)	Total ($)
CRAIG G. LITCHFIELD Chairman, President and CEO	2006	336,000	83,462	6,585	30,014	55,852	511,913
MARK A. HUGHES Executive Vice President and Chief Financial Officer	2006	175,006	39,959	2,442	9,912	21,872	249,191
DEBORAH E. SCOTT Executive Vice President and Senior Trust Officer	2006	141,007	26,085	2,442	8,478	20,566	198,578
DAWN A. BESSE Executive Vice President and Director of Sales, Service and Employee Development	2006	124,800	23,840	2,442	18,134	22,566	191,782
THOMAS L. RUDY, JR. Executive Vice President and Director of Branch Delivery	2006	121,315	22,117	2,442	4,556	15,985	166,415

The bonus is paid pursuant to the Incentive Award Plan, which is described in the Program Components section of Compensation Discussion and Analysis.

The amount shown in the Stock Awards column equals the amount recognized during 2006 as compensation expense for financial statement reporting purposes as a result of restricted stock awards made in 2004 and 2005. Stock awards are valued at the closing price on the grant date. A portion of that grant-date value is recorded as expense over the vesting period applicable to the grant. There were no restricted stock awards in 2006.

The Option Awards column has been omitted from the Summary Compensation Table because no there were no stock options awarded in 2006. Accordingly, the Option Awards amounts were $0 fo