

CITIZENS & NORTHERN CORP  
Form DEF 14A  
March 13, 2015

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

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

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):

No fee required

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

(1) Title of each class of securities to which transaction applies:

---

(2) Aggregate number of securities to which transaction applies:

---

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

---

(4) Proposed maximum aggregate value of transaction:

---

(5) Total fee paid:

---

Fee paid previously with preliminary materials.

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 SHAREHOLDERS**

**TO BE HELD THURSDAY, APRIL 23, 2015**

**TO OUR SHAREHOLDERS:**

Notice is hereby given that the Annual Meeting of Shareholders of Citizens & Northern Corporation (the “Corporation”) will be held at the Deane Center, located at 104 Main Street, Wellsboro, Pennsylvania, on Thursday, April 23, 2015 at 2:00 P.M., local time, for the following purposes:

1. To elect two Class I directors to serve for a term of 3 years;
2. To ratify the appointment of Baker Tilly Virchow Krause, LLP as the Corporation’s independent registered public accounting firm for the year ending December 31, 2015; and
3. To transact such other business as may properly be brought before the meeting or any adjournment thereof.

The Board of Directors recommends that you vote “FOR” the election of each of the nominees for director listed in the enclosed proxy statement, and “FOR” the ratification of the appointment of Baker Tilly Virchow Krause, LLP as the Corporation’s independent registered public accounting firm for the year ending December 31, 2015.

We have elected to provide access to our proxy materials over the Internet using the Securities and Exchange Commission’s “notice and access” rules. Details regarding the business to be conducted are described in the Notice of Internet Availability of Proxy Materials (“Notice”) you received in the mail and in this proxy statement. We have also made available a copy of our 2014 Annual Report on Form 10-K with this proxy statement. We encourage you to read our Annual Report. It includes our audited financial statements and provides information about our business.

Edgar Filing: CITIZENS & NORTHERN CORP - Form DEF 14A

Your vote is important regardless of the number of shares you own. Whether or not you plan to attend the Annual Meeting, the Board of Directors encourages you to vote your shares. You may vote over the Internet, as well as by telephone, or, if you requested to receive printed proxy materials, by mailing a proxy or voting instruction card. Please review the instructions described in this proxy statement, as well as in the Notice you received in the mail. This will not prevent you from voting in person at the meeting, but will assure that your vote is counted if you are unable to attend. If you are a shareholder whose shares are registered in "street name," you will need additional documentation from your broker in order to vote in person at the meeting.

Only shareholders of record at the close of business on February 20, 2015, the record date for the Annual Meeting, are entitled to notice of, and to vote at, the Annual Meeting.

By Order of the Board of Directors,

Kimberly N. Battin  
Corporate Secretary  
Wellsboro, Pennsylvania

March 13, 2015

**TABLE OF CONTENTS**

	Page
<u>Annual Meeting Information</u>	3-5
<u>Who is entitled to vote?</u>	3
<u>On what am I voting?</u>	3
<u>How does the board of directors recommend I vote?</u>	3
<u>How are proxy materials being disseminated?</u>	3
<u>How do I vote?</u>	3
<u>How do I change my vote?</u>	4
<u>What is a quorum?</u>	4
<u>What vote is required to approve the proposals?</u>	4
<u>Who will count the vote?</u>	4
<u>How are proxies being solicited?</u>	4
<u>What is the deadline for shareholder proposals for next year’s annual meeting?</u>	5
<u>Internet Availability of Proxy Materials</u>	5
<u>Cautionary Statement Regarding Forward-Looking Statements</u>	5
<u>Proposal 1 - Election of Directors</u>	5-7
<u>Board of Directors</u>	5
<u>Nominees for Election</u>	5
<u>Director Qualifications</u>	6
<u>Executive Officers</u>	7-8
<u>Corporate Governance</u>	8-11
<u>Director Independence</u>	8
<u>Leadership Structure of the Board: Lead Independent Director</u>	9
<u>Meetings and Committees of the Board of Directors</u>	9
<u>Shareholder Communications</u>	11
<u>Related Person Transactions and Policies</u>	11
<u>Stock Ownership Guidelines</u>	11
<u>Information Concerning Security Ownership</u>	11-13
<u>Beneficial Ownership of Principal Holders</u>	12
<u>Beneficial Ownership of Executive Officers and Directors</u>	12
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	13
<u>Compensation Discussion and Analysis</u>	13-20
<u>Overview of the Executive Compensation Program</u>	13

<u>Compensation Philosophy and Program Objectives</u>	13
<u>Program Management</u>	13
<u>Program Components</u>	15
<u>Recent Actions</u>	18
<u>Consideration of Say-on-Pay Advisory Vote</u>	19
<u>Risk Management</u>	19
<u>Recoupment Policy</u>	20
<u>Compensation Committee Report</u>	20
<u>Compensation Committee Interlocks and Insider Participation</u>	20

<u>Executive Compensation Tables</u>	21-25
<u>Summary Compensation Table</u>	21
<u>Grants of Plan-Based Awards Table</u>	23
<u>Outstanding Equity Awards at Fiscal Year-End Table</u>	24
<u>Option Exercises and Stock Vested Table</u>	25
<u>Pension Benefits Table</u>	25
<u>Citizens Trust Company Pension Plan</u>	25
<u>Supplemental Executive Retirement Plan</u>	26
<u>Employment Agreements</u>	26-27
<u>Change in Control Agreements</u>	27
<u>Potential Payments Upon Termination or Change in Control</u>	28
<u>Indemnification Agreements</u>	28-29
<u>Compensation of Directors</u>	29-30
<u>Director Summary Compensation Table</u>	29
<u>Director Fees</u>	30
<u>Independent Directors Stock Incentive Plan</u>	30
<u>Proposal 2 – Ratification of Independent Registered Public Accounting Firm</u>	30
<u>Fees of Independent Public Accountants</u>	31
<u>Audit Committee Report</u>	31
<u>Annual Report on Form 10-K</u>	32
<u>Other Matters</u>	32



**90-92 Main Street**

**Wellsboro, Pennsylvania 16901**

## **PROXY STATEMENT**

**Annual Meeting of Shareholders – April 23, 2015**

### **Annual Meeting Information**

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Citizens & Northern Corporation (the “Corporation”) to be used at the Annual Meeting of Shareholders of the Corporation to be held on Thursday, April 23, 2015, at 2:00 P.M., at the Deane Center located at 104 Main Street, Wellsboro, Pennsylvania, and at any adjournments or postponements thereof. This proxy statement was first made available to shareholders on March 13, 2015.

### ***Who is entitled to vote?***

Shareholders owning Corporation common stock on February 20, 2015 are entitled to vote at the Annual Meeting or any adjournment or postponement of the meeting. Each shareholder has one vote per share on all matters to be voted on. On February 20, 2015, there were 12,263,027 shares of Corporation common stock outstanding.

### ***On what am I voting?***

You will be asked to elect two (2) Class I directors for three-year terms expiring in 2018 and to ratify the appointment of Baker Tilly Virchow Krause, LLP as the Corporation’s independent registered public accounting firm for the year ending December 31, 2015. The Board of Directors is not aware of any other matters to be presented for action at the Annual Meeting. If any other matter requiring a vote of the shareholders would be presented at the meeting, the proxies will vote according to the directions of the Corporation’s management.

***How does the Board of Directors recommend I vote on the proposals?***

The Board of Directors recommends that you vote “FOR” the election of each of the nominees for director listed in this proxy statement, and “FOR” the ratification of the appointment of Baker Tilly Virchow Krause, LLP as the Corporation’s independent registered public accounting firm for the year ending December 31, 2015.

***How are proxy materials being disseminated?***

In accordance with rules adopted by the Securities and Exchange Commission (“SEC”), we have elected to furnish proxy materials, including this proxy statement and our 2014 Annual Report on Form 10-K, to our shareholders by providing access to such documents on the Internet instead of mailing printed copies. Most shareholders will not receive printed copies of the proxy materials unless they request them. Instead, the Notice, which was mailed to most of our shareholders, provides instructions as to how you may access and review all of the proxy materials on the Internet. The Notice also instructs you as to how you may submit your proxy via the Internet. If you would like to receive a paper or email copy of our proxy materials, you should follow the instructions for requesting such materials in the Notice.

If you received more than one Notice, it means that your shares are registered differently and are held in more than one account. To ensure that all shares are voted, please either vote each account over the Internet or by telephone, or sign and return by mail all proxy cards or voting instruction forms requested in paper format.

***How do I vote?***

As described in the Notice, you may vote by any of the following methods:

*Internet.* Go to [www.voteproxy.com](http://www.voteproxy.com) 24 hours a day, seven days a week, and follow the instructions. You will need the control number that is included in the Notice, proxy card or voting instructions form that is sent to you. The Internet voting system allows you to confirm that the system has properly recorded your votes. This method of voting will be available until 11:59 p.m., Eastern Time, on April 22, 2015.

*Telephone.* Call toll-free 1-800-PROXIES 24 hours a day, seven days a week, and follow the instructions. You will need the control number that is included in the Notice, proxy card or voting instructions form that is sent to you. As with Internet voting, you will be able to confirm that the system has properly recorded your votes. This method of voting will be available until 11:59 p.m., Eastern Time, on April 22, 2015.

*Mail.* If you are a shareholder of record and you elect to receive your proxy materials by mail, you can vote by marking, dating and signing your proxy card exactly as your name appears on the card and returning it by mail in the postage-paid envelope that will be provided to you. If you hold your shares in street name and you elect to receive your proxy materials by mail, you can vote by completing and mailing the voting instructions form that will be provided by your bank, broker or other holder of record. You should mail the proxy card or voting instruction form in plenty of time to allow delivery prior to the meeting. Do not mail the proxy card or voting instruction form if you are voting over the Internet or by telephone.

*At the Annual Meeting.* Unless your shares are held in “street name”, you may vote your shares at the Annual Meeting if you attend in person. Even if you plan to attend the Annual Meeting, we encourage you to vote over the Internet or by telephone prior to the meeting. It is fast and convenient, your vote is recorded immediately, and there is no risk that postal delays will cause your vote to arrive late and therefore not be counted.

***How do I change my vote?***

If you give the vote we are soliciting, you may revoke it at any time before it is exercised:

by signing and returning a later-dated proxy; or

by giving written notice to Citizens & Northern Corporation, 90-92 Main Street, Wellsboro, PA 16901, Attention: Kimberly N. Battin, Corporate Secretary; or

by voting in person at the Annual Meeting.

A shareholder whose shares are held in street name should follow the instructions of his or her broker regarding revocation of proxies. You should note that your presence at the meeting without voting in person will not revoke an otherwise valid proxy.

***What is a quorum?***

A “quorum” is the presence at the meeting, in person or by proxy, of the holders of a majority of the outstanding shares. There must be a quorum for the meeting to be held. Abstentions are counted for purposes of determining the presence or absence of a quorum, but are not considered a vote cast under Pennsylvania law. Brokers holding shares in “street name” for their customers generally are not entitled to vote on certain matters unless they receive voting instructions from their customers. Such shares for which brokers have not received voting instructions from their customers are called “broker non-votes.” Under Pennsylvania law, broker non-votes will be counted to determine if a quorum is present with respect to any matter to be voted upon by shareholders at the meeting only if such shares have been voted at the meeting on a matter other than a procedural motion.

***What vote is required to approve the proposals?***

The two (2) nominees for election to the Board of Directors receiving the highest number of votes cast by shareholders entitled to vote at the meeting will be elected. “Withhold” votes will have the effect of a vote against a nominee. Abstentions and broker non-votes will have no effect on the election of directors.

Approval of the appointment of Baker Tilly as the Corporation’s independent registered public accounting firm for the year ending December 31, 2015 requires the affirmative vote of a majority of the votes cast at the meeting, in person or by proxy. Abstentions and broker non-votes will have no effect in calculating the votes on these matters.

***Who will count the vote?***

The Judges of Election appointed by the Board of Directors will count the votes cast in person or by proxy at the meeting.

***How are proxies being solicited?***

The Corporation will bear its own cost of solicitation of proxies for the meeting. In addition to solicitation by mail, the company’s directors, officers and employees may solicit proxies personally or by telephone, facsimile transmission or otherwise. These directors, officers and employees will not be additionally compensated for their solicitation efforts, but may be reimbursed for out-of-pocket expenses incurred in connection with these efforts. The Corporation will reimburse brokerage firms, fiduciaries, nominees and others for their out-of-pocket expenses incurred in forwarding proxy materials to beneficial owners of shares of common stock held in their names.



***What is the deadline for shareholder proposals at next year's Annual Meeting?***

Any shareholder who, in accordance with and subject to the provisions of the proxy rules of the SEC, wishes to submit a proposal for inclusion in the Corporation's proxy statement for its 2016 Annual Meeting of Shareholders must deliver the proposal in writing to the Secretary of Citizens & Northern Corporation at the Corporation's principal executive offices at 90-92 Main Street, Wellsboro, Pennsylvania, no later than November 6, 2015.

For any proposal that is not submitted for inclusion in next year's proxy statement (as described in the preceding paragraph), but is instead sought to be presented directly at the next Annual Meeting, the Corporation's Articles of Incorporation require shareholders to give advance notice of such proposals. The required notice, which must include the information and documents set forth in the Articles of Incorporation, must be given no more than 50 days and no less than 14 days prior to the Annual Meeting. If notice is not received by the Corporation within this time frame, the Corporation will consider such notice untimely.

Under Rule 14a-4(c)(1) of the Securities Exchange Act of 1934, as amended, if any shareholder proposal intended to be presented at the Annual Meeting without inclusion in our proxy statement is received within the required time frame and is properly presented, then a proxy will have the ability to confer discretionary authority to vote on the proposal.

**Internet Availability of Proxy Materials**

**Important Notice About the Availability of Proxy Materials for the Annual Meeting of Shareholders to be Held on April 23, 2015: This proxy statement, proxy card and the Corporation's annual report to shareholders are available at: <http://www.astproxyportal.com/ast/11697/>.**

**Cautionary Statement Regarding Forward-Looking Statements**

This proxy statement and the documents that have been incorporated herein by reference may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In some cases, these statements can be identified by the use of words such as "anticipate," "believe," "can," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "should," "would" and similar expressions. Actual results and trends could differ materially from those set forth in such statements due to various risks, uncertainties and other factors. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, the following: ineffectiveness of

our business strategy due to changes in current or future market conditions; the effects of competition, and of changes in laws and regulations, including industry consolidation and development of competing financial products and services; interest rate movements; changes in credit quality; volatilities in the securities markets; and deteriorating economic conditions, and other risks and uncertainties, including those detailed in our filings with the SEC.

Although forward-looking statements help provide additional information about us, investors should keep in mind that forward-looking statements are only predictions, at a point in time, and are inherently less reliable than historical information. You are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this proxy statement. We assume no obligation to update any forward-looking statement in order to reflect any event or circumstance that may arise after the date of this proxy statement, other than as may be required by applicable law or regulation.

## PROPOSAL 1 — ELECTION OF DIRECTORS

### **Board of Directors**

Our Articles of Incorporation provide that the Board of Directors shall consist of not less than five (5) nor more than twenty-five (25) directors and that within these limits the number of directors shall be as established by the Board of Directors. The Articles further provide that the Board shall be classified into three classes, as nearly equal in number as possible. One class of directors is elected annually, and the term for each class is three (3) years. Any vacancy occurring on the Board of Directors, for any reason, may be filled by a majority of directors then in office to serve until the expiration of the term of the vacancy. There are currently ten (10) members of the Corporation's Board of Directors. Raymond R. Mattie, a Class I director, tendered his resignation from the Board of Directors, effective February 18, 2015.

At the 2015 Annual Meeting, two (2) Class I directors are to be elected to serve for a three-year term.

### **Nominees for Election**

The Board of Directors proposes the following two (2) nominees be elected as Class I directors for terms expiring at the 2018 Annual Meeting of Shareholders: Edward H. Owlett, III and James E. Towner. Each of the nominees currently serves as a director of the Corporation.

The two (2) nominees for director receiving the highest number of votes cast by shareholders entitled to vote for the election of directors shall be elected. Unless otherwise instructed, proxies received from shareholders will be voted for the nominees named in this proxy statement. If a nominee should become unavailable for any reason, proxies will be voted for a substitute nominee determined by the Board of Directors. The Board of Directors has no reason to believe that the nominees will be unable to serve if elected.

Cumulative voting does not exist in the election of directors. Each share of Corporation common stock is entitled to cast one vote for each nominee. For example, if a shareholder owns ten shares of common stock, he or she may cast up to ten votes for each of the two nominees to be elected.

**The Board of Directors recommends a vote “FOR” the election of the nominees identified above, each of whom has consented to be named as a nominee and to serve if elected.**

### **Director Qualifications**

We provide below information as of the date of this proxy statement about each nominee and director of the Corporation. The information includes information each director has given us about his/her age, all positions held, principal occupation and business experience for the past five years, and the names of other publicly-held companies of which he or she currently serves as a director or has served as a director during the past five years. In addition to the information presented below regarding each nominee’s specific experience, qualifications, attributes and skills that led the Board of Directors to conclude that he should serve as a director, we also believe that all of our directors and nominees have demonstrated good judgment, strength of character, and an independent mind, as well as a reputation for integrity and the highest personal and professional ethics.

### **Nominees as Class I Directors for a term expiring at the 2018 Annual Meeting**

#### **Edward H. Owlett, III**

Director since: 1994

Age: 60

Mr. Owlett has been the President & Chief Executive Officer of Putnam Company since 1995. Mr. Owlett was an attorney 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 the boards of various organizations within his local community. We believe Mr. Owlett’s qualifications to serve as a director of the



Corporation include his experience as an attorney, as well as his executive leadership experiences at Putnam Company.

**James E. Towner**

Director since: 2000

Age: 68

Mr. Towner is retired with over 30 years of experience with Times Shamrock Communications, including over 20 years as publisher. He has served on several nonprofit boards within his local community. He received his Bachelor of Science from Elmira College. We believe Mr. Towner's qualifications to serve as a director of the Corporation include his 14 years of experience as a director of the Corporation and experience as an executive in the communications industry.

**Continuing as Class II Directors for a term expiring at the 2016 Annual Meeting**

**R. Bruce Haner**

Director since: 1998

Age: 67

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. We believe Mr. Haner's qualifications to serve as a director of the Corporation include his over 30 years of experience as a local business owner and entrepreneur and his 16 years of experience as a director of the Corporation.

**Susan E. Hartley**

Director since: 1998

Age: 57

Ms. Hartley has been an attorney 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. We believe Ms. Hartley's qualifications to serve as a director of the Corporation include her experience as an attorney and her 16 years of experience as a director of the Corporation.

**Leo F. Lambert, Chairman**

Director since: 2001

Age: 60

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 nonprofit boards within his community. We believe Mr. Lambert's qualifications to serve as a director of the Corporation include his over 30 years of experience as a local business owner and entrepreneur and community leader.

- 6 -

**Leonard Simpson**

Director since: 1989

Age: 66

Mr. Simpson has been an attorney since 1975, having served as Sullivan County District Attorney from 1977 through 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, Samford University. Mr. Simpson has served and continues to serve on various nonprofit boards within his local community. We believe Mr. Simpson's qualifications to serve as a director of the Corporation include his experience as an attorney, his 25 years of experience as a director of the Corporation and his professional leadership experience.

**Continuing as Class III Directors for a term expiring at the 2017 Annual Meeting**

**Dennis F. Beardslee**

Director since: 1999

Age: 64

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 nonprofit boards within his local community. We believe Mr. Beardslee's qualifications to serve as a director of the Corporation include his over 25 years of experience as a local business owner and entrepreneur and his 15 years of experience as a director of the Corporation.

**Jan E. Fisher**

Director since: 2002

Age: 59

Ms. Fisher is the Executive Vice President & Chief Operating Officer of Susquehanna Health, Williamsport, PA. She previously served as the Executive Vice President & Chief Operating Officer of Laurel Health System and President & Chief Executive Officer of Soldiers & Sailors Memorial Hospital, Wellsboro, PA. 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 nonprofit boards within her local community and industry. We believe Ms. Fisher's qualifications to serve as a director of the Corporation include her over 20 years of executive management experience.

**J. Bradley Scovill**

Director since: 2015

Age: 55

Mr. Scovill became employed as President and Chief Executive Officer of the Corporation and the Bank and was appointed to the Board of Directors of the Corporation and the Bank, effective March 2, 2015. Prior to joining the Corporation and Bank, Mr. Scovill most recently served as President and Chief Operating Officer of Kish Bancorp, Inc. and Kish Bank headquartered in Belleville, Pennsylvania, where he was an executive for more than five (5) years. Prior to Kish, Mr. Scovill held various executive management positions with both PNC Bank and Sterling Financial Corporation, headquartered in Lancaster, Pennsylvania. Mr. Scovill received a Bachelor of Science Degree in Finance from The Pennsylvania State University. We believe Mr. Scovill is qualified to serve as a director of the Corporation because of his extensive experience working in financial and executive roles in the banking industry.

**Ann M. Tyler**

Director since: 2002

Age: 70

Ms. Tyler is a certified public accountant with her firm Ann M. Tyler CPA, which she owned and operated for over 15 years. Prior to starting her own firm, Ms. Tyler was a certified public accountant with Brodart Company and Parente Randolph LLC for over 9 years. She received her Bachelor of Arts from Lycoming College. Ms. Tyler has served and continues to serve on various nonprofit boards within her community. We believe Ms. Tyler's qualifications to serve as a director of the Corporation include her experience as a certified public accountant and financial expertise.

**EXECUTIVE OFFICERS**

The following table provides information regarding each of the executive officers of the Corporation and Citizens & Northern Bank (the "Bank").

**J. Bradley Scovill**

Age: 55

Effective March 2, 2015, Mr. Scovill was appointed President and Chief Executive Officer of the Corporation and the Bank. Prior to his employment with the Corporation and the Bank, Mr. Scovill most recently served as an executive with Kish Bancorp, Inc. and Kish Bank, headquartered in Belleville, Pennsylvania. Mr. Scovill was President and Chief Operating Officer of Kish Bancorp, Inc. and Kish Bank from June 2013 until February 2015, Senior Vice President and Chief Operating Officer of Kish Bank from 2011 through June 2013, and Executive Vice President and Chief Financial Officer of Kish Bank from 2009 through 2011.



**Stan R. Dunsmore**

Age: 52

Executive Vice President and Chief Credit Officer of the Bank since January 2015; formerly Vice President and Commercial Loan Sales Officer of the Bank since May 2007.

**Shelley L. D'Haene**

Age: 54

Executive Vice President and Senior Operations Officer of the Bank since January 2015; formerly Executive Vice President and Director of Alternate Delivery Channels of the Bank since January 2013, and Vice President and Cash Management Coordinator of the Bank since February 2006.

**Harold F. Hoose, III**

Age: 48

Executive Vice President and Director of Lending of the Bank since March 2005.

**Mark A. Hughes**

Age: 53

Treasurer of the Corporation and Executive Vice President and Chief Financial Officer of the Bank. Mr. Hughes served as Interim President and Chief Executive Officer of the Corporation and Bank from August 12, 2014 through March 1, 2015. Effective March 2, 2015, Mr. Hughes resigned from the positions of Interim President and Chief Executive Officer of the Corporation and Bank and was appointed to the positions he had formerly held as Treasurer of the Corporation since November 2000 and Executive Vice President and Chief Financial Officer of the Bank since August 2000.

**Anthony J. Peluso**

Age: 63

Vice President and Controller of the Bank. Mr. Peluso served as Interim Treasurer of the Corporation and Chief Financial Officer of the Bank from August 12, 2014 through March 1, 2015. Effective March 2, 2015, Mr. Peluso resigned from the positions of Interim Treasurer of the Corporation and Chief Financial Officer of the Bank and was appointed to the positions he had formerly held as Vice President and Controller of the Bank since March 2012.

**John M. Reber**

Age: 48

Executive Vice President and Director of Risk Management of the Bank since January 2011; formerly Vice President and Director of Risk Management of the Bank since June 2004.

**Thomas L. Rudy, Jr.**

Age: 50

Executive Vice President and Director of Branch Delivery of the Bank since February 2004; President of C&N Financial Services Corporation since January 2000.

**Deborah E. Scott**

Age: 55

Executive Vice President and Director of the Trust Department of the Bank since September 1999.

**CORPORATE GOVERNANCE**

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. The nominating process is described in more detail in the section titled "Governance and Nominating Committee" below.

**Director Independence**

During 2014 and through the date of this proxy statement, except for the individuals who served as President and Chief Executive Officer, all directors and nominees are and were independent as determined in accordance with the independence standards of the NASDAQ Stock Market. In determining the directors' independence, in addition to matters disclosed under "Related Person Transactions and Policies" on page 11 of this proxy statement, the Board of

Directors considered each director's beneficial ownership of Corporation common stock and loan transactions between the Bank and the directors, their family members and businesses with whom they are associated, as well as any contributions made by the Bank to non-profit organizations with whom such persons are associated. In each case, the Board determined that none of the transactions above impaired the independence of the director.

- 8 -



## **Leadership Structure of the Board**

In October 2014, the Board appointed Leo F. Lambert as Chairman of the Board of the Corporation and the Bank. Mr. Lambert's appointment filled vacancies created by the retirement and resignation of the former Chairman, Charles H. Updegraff, Jr., in August 2014. Mr. Updegraff had also served as President and Chief Executive Officer. Prior to Mr. Updegraff's retirement, the Board had found it advantageous to have an individual with extensive banking industry experience fill the dual roles of Chairman of the Board and Chief Executive Officer. The Board's appointment of an independent chair reflects its desire to create additional separation between the Board's role of providing oversight of corporate activities and protecting shareholder interests and the Chief Executive Officer's role of managing the Corporation and Bank.

The Board attempts to ensure that thorough, open and honest discussions take place at all Board and committee meetings, and that all of the directors are sufficiently informed about each matter that arises so as to make informed decisions. Effective upon his appointment as Chairman, Mr. Lambert presides over meetings of the Board and the Executive Committee, as well as executive sessions and meetings of the independent directors. Further, the Chairman is responsible for communicating the thoughts or concerns of the independent directors to the Chief Executive Officer. Prior to the appointment of Mr. Lambert as Chairman, James E. Towner had been designated by the independent directors to serve as Lead Director, and in that role served as chair of the Executive Committee, presided over executive sessions and meetings of the independent directors and expressed the Board's thoughts and concerns to the Chief Executive Officer.

## **Meetings and Committees of the Board of Directors**

**Board of Directors.** During 2014, the Board of Directors of the Corporation met fourteen (14) times, the Board of Directors of the Bank met fourteen (14) times, and the independent directors met in executive session and held meetings of the independent directors six (6) times. 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, except for Director Raymond R. Mattie.

Although the Corporation does not have a formal policy with respect to director attendance at the Annual Meeting of Shareholders, each director is encouraged to attend the Annual Meeting. All Directors attended the 2014 Annual Meeting of Shareholders.

**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. In 2014, the members of the Executive Committee were: Jan E. Fisher, R. Bruce Haner, Mark A. Hughes, Leo F. Lambert, Edward H. Owlett, III, Leonard Simpson, James E. Towner, and Charles H. Updegraff, Jr. During 2014, the Executive Committee held eighteen (18) meetings. Mr Hughes was appointed to fill the vacancy created as a result of Mr. Updegraff's retirement in August 2014.

***Audit Committee.*** 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 engagement of the independent registered public accounting firm for the year; review the examinations and reports from those persons; and review the annual financial statements of the Corporation. The members of the Audit Committee of the Corporation are: R. Bruce Haner, Leo F. Lambert, Edward H. Owlett, III, James E. Towner and Ann M. Tyler. The Audit Committee held four (4) meetings in 2014. All of the members of the Audit Committee are and were independent under the independence standards of the NASDAQ Stock Market.

At present, none of the members of the Audit Committee meets the definition of "audit committee financial expert" as defined in the rules adopted by the SEC. However, the Board of Directors has determined that each of the members of the Audit Committee has sufficient knowledge and experience in financial matters to effectively perform their duties as members of the Audit Committee.

The Board of Directors of the Corporation has adopted a written charter for the Audit Committee, a copy of which is available on our website at [www.cnbankpa.com](http://www.cnbankpa.com) by clicking on "Investor Relations", 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.

***Compensation Committee of the Corporation.*** The purpose of the Compensation 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 incentive programs. The members of the Compensation Committee are: Jan E. Fisher, R. Bruce Haner, Leo F. Lambert, Edward H. Owlett, III, Leonard Simpson and James E. Towner. The Compensation Committee held nine (9) meetings in 2014. All of the members of the Compensation Committee are and were independent under the independence standards of the NASDAQ Stock Market.

The Board of Directors of the Corporation has adopted a written charter for the Compensation Committee, which is available on our website at [www.cnbankpa.com](http://www.cnbankpa.com) by clicking on “Investor Relations”, then “Corporate Governance Policies”, then “Compensation Committee Charter of C&N Corp.”

***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. The members of the Governance and Nominating Committee are: Dennis F. Beardslee, Susan E. Hartley, Leo F. Lambert, Edward H. Owlett, III and Leonard Simpson. During 2014, the Governance and Nominating Committee held two (2) meetings. All members of the Governance and Nominating Committee are and were independent under the independence standards of the NASDAQ Stock Market.

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](http://www.cnbankpa.com) by clicking on “Investor Relations”, 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 the Corporation’s stakeholders, including the long-term interest of the shareholders;

A willingness to support the values, mission and vision of the Corporation;

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 and 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 in accordance with the independence standards of the NASDAQ Stock Market; and
  - Experience with a business of size similar or larger than the Corporation.

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 shareholders, and such factors may change from time to time. The Governance and Nominating Committee does, however, require that a majority of the directors be independent under the independence standards of the NASDAQ Stock Market and expects directors to meet the minimum stock ownership expectations described in the “Stock Ownership Guidelines” section.

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 Board does not have a formal written policy for considering director candidates recommended by shareholders due to the infrequency of nominations, but its long-standing informal policy is to give due consideration to any and all candidates. The evaluation procedure for candidates recommended by the shareholders 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.

***Asset Liability Committee of the Corporation.*** The purpose of the Asset Liability Committee is to stabilize and improve profitability by balancing the relationship between risk and return over an extended period of time, as well as to function as an investment committee. In 2014, the members of the Asset Liability Committee were: Susan E. Hartley, Mark A. Hughes, Edward H. Owlett, III, Ann M. Tyler and Charles H. Updegraff, Jr. (prior to Mr. Updegraff's retirement in August 2014). The Asset Liability Committee met four (4) times during 2014.

***Executive Committee of the Bank.*** The function of the Bank's Executive Committee is to monitor and oversee the Bank's management succession plan and leadership development processes and review and provide advice and counsel to the Chief Executive Officer regarding the Bank's strategic plan, mission, goals and objectives and action plans and other matters, as well as recommend policies and procedures. In 2014, the members of the Bank's Executive Committee were: Jan E. Fisher, R. Bruce Haner, Mark A. Hughes, Leo F. Lambert, Edward H. Owlett, III, Leonard Simpson, James E. Towner and Charles H. Updegraff, Jr. Mr. Hughes was appointed to fill the vacancy created by Mr. Updegraff's retirement in August 2014. During 2014, the Bank's Executive Committee held eighteen (18) meetings.

***Trust Investment Committee of the Bank.*** The Trust Investment Committee of the Bank determines the policy and investments of the Trust Department and the acceptance and relinquishment of all fiduciary relationships. In 2014, its members were: Dennis F. Beardslee, Susan E. Hartley, Mark A. Hughes, Leonard Simpson, Charles H. Updegraff, Jr. and Deborah E. Scott, Executive Vice President and Director of Trust Division of the Bank. Mr. Hughes was appointed to fill the vacancy created by Mr. Updegraff's retirement in August 2014. During 2014, the Trust Investment Committee held four (4) meetings.

***Finance and Loan Committee of the Bank.*** The primary purpose of the Finance and Loan Committee is to evaluate and act on loan requests that exceed management's lending authority between Bank Board meetings. In 2014, members of the Finance and Loan Committee were: Dennis F. Beardslee, Mark A. Hughes, Leo F. Lambert, Leonard Simpson, Ann M. Tyler and Charles H. Updegraff, Jr. Mr. Hughes was appointed to fill the vacancy created by Mr. Updegraff's retirement in August 2014. During 2014, The Finance and Loan Committee held (4) meetings.

## **Shareholder Communications**

If you wish to communicate with the Board, you may send correspondence to Kimberly Battin, Corporate Secretary, Citizens & Northern Corporation, 90-92 Main Street, Wellsboro, PA 16901. The Corporate Secretary will submit your correspondence to the Board or the appropriate committee, as applicable. You may also communicate directly with the Chairman by writing to the Chairman, Citizens & Northern Corporation, 90-92 Main Street, Wellsboro, PA 16901.

## **Related Person Transaction and Policies**

Certain directors and officers of the Corporation and Bank and their affiliates (including corporations of which such persons are officers or greater than 10% beneficial owners) were customers of, and had transactions with, the Corporation and Bank in the ordinary course of business during the year ended December 31, 2014. Similar transactions may be expected to take place in the future. Such transactions included the purchase of certificates of deposit and extensions of credit in the ordinary course of business on substantially the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with third parties and did not involve more than the normal risks of collectability or present other unfavorable features. The Corporation expects that any other transactions with directors and officers and their affiliates in the future will be conducted on the same basis.

### **Stock Ownership Guidelines**

The Board of Directors has adopted formal guidelines setting forth a minimum amount of Corporation common stock that all directors and executive officers are expected to own. Pursuant to these guidelines, independent directors are required to own common stock having a minimum value of \$100,000; the Chief Executive Officer is required to own common stock having a minimum value equal to 75% of his/her salary and target bonus; and all other Executive Vice Presidents are required to own common stock having a minimum value equal to 50% of their salary and target bonus. Each director and executive officer has five (5) years beginning June 30, 2012 or following his or her date of appointment to comply with the minimum ownership requirement. Currently, all directors and named executive officers meet the minimum requirements.

### **INFORMATION CONCERNING SECURITY OWNERSHIP**

Beneficial ownership of shares of the Corporation's common stock is determined in accordance with SEC Rule 13d-3, which provides that a person should be credited with the ownership of any stock held, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise, in which the person has or shares:

- Voting power, which includes power to vote or to direct the voting of the stock;
- Investment power, which includes the power to dispose or direct the disposition of the stock; or
- The right to acquire beneficial ownership within 60 days after February 20, 2015.

**Beneficial Ownership of Principal Holders**

The following table shows, to the best of the Corporation's knowledge, those persons or entities, who owned of record or beneficially, on December 31, 2014, more than 5% of the Corporation's outstanding common stock.

Name & Address of Beneficial Owner	Amount & Nature of Beneficial Ownership	Percent of Class	
BlackRock Inc. 55 East 52 <sup>nd</sup> Street New York, NY 10022	821,071 (1)	6.7	%

<sup>(1)</sup> Based on an Amendment No. 4 to Schedule 13G filed with the Securities and Exchange Commission on January 29, 2015, which reported beneficial ownership as of December 31, 2014 by BlackRock, Inc.

**Beneficial Ownership of Executive Officers and Directors**

The following table sets forth, as of February 20, 2015, and from information supplied by the respective persons, the amount and the percentage, if over 1%, of the common stock of the Corporation beneficially owned by each director, each nominee for director, each of the named executive officers and all executive officers and directors of the Corporation as a group.

Name of Individual or Identity of Group	Amount and Nature of Beneficial Ownership <sup>(1)</sup>	Percent of Class	
Dennis F. Beardslee	15,411	(2)	*
Jan E. Fisher	18,843	(3)	*
R. Bruce Haner	25,338	(4)	*
Susan E. Hartley	12,380	(5)	*
Leo F. Lambert	20,352	(6)	*
Edward H. Owlett, III	25,875	(7)	*
Leonard Simpson	38,038	(8)	*
James E. Towner	20,756	(9)	*
Ann M. Tyler	10,371	(10)	*
Charles H. Updegraff, Jr.	72,250		*
Mark A. Hughes	55,312	(11)	*
Deborah E. Scott	35,698	(12)	*
Harold F. Hoose, III	31,778	(13)	*
Dawn A. Besse	20,932	(14)	*

Edgar Filing: CITIZENS & NORTHERN CORP - Form DEF 14A

Anthony J. Peluso	5,566	(15)	*	
Directors and Executive Officers as a Group (19 Persons)	473,312		3.86	%

\* Indicates beneficial ownership of less than 1%.

- Pursuant to the regulations of the SEC, the number of shares of common stock deemed outstanding includes shares issuable pursuant to options held by the respective person or group that are currently exercisable or may be
- (1) exercised within 60 days of February 20, 2015 with an exercise price of less than \$19.32, which is the closing price on February 20, 2015 (“presently exercisable stock options”). Unless otherwise indicated, each individual holds sole voting and investment authority with respect to the shares listed.
  - (2) Includes 3,919 shares issuable pursuant to presently exercisable stock options and 854 shares of restricted stock.
  - (3) Includes 3,919 shares issuable pursuant to presently exercisable stock options and 854 shares of restricted stock.
  - (4) Includes 854 shares of restricted stock and 2,756 shares are pledged as security.
  - (5) Includes 3,919 shares issuable pursuant to presently exercisable stock options and 854 shares of restricted stock.
  - (6) Includes 2,510 shares issuable pursuant to presently exercisable stock options; 854 shares of restricted stock and 1,458 shares held by Fitzpatrick & Lambert, Inc.
  - (7) Includes 3,919 shares issuable pursuant to presently exercisable stock options and 854 shares of restricted stock.
  - (8) Includes 3,569 shares issuable pursuant to presently exercisable stock options and 854 shares of restricted stock. Of the stated amount, 25,205 shares are pledged as security.
  - (9) Includes 854 shares of restricted stock.
  - (10) Includes 3,919 shares issuable pursuant to presently exercisable stock options and 854 shares of restricted stock.
  - (11) Includes 27,616 shares issuable pursuant to presently exercisable stock options and 4,453 shares of restricted stock.



- (12) Includes 19,027 shares issuable pursuant to presently exercisable stock options and 2,375 shares of restricted stock.
- (13) Includes 18,063 shares issuable pursuant to presently exercisable stock options and 2,937 shares of restricted stock.
- (14) Includes 10,333 shares issuable pursuant to presently exercisable stock options.
- (15) Includes 1,694 shares of restricted stock.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), requires the Corporation’s directors, executive officers and persons who beneficially own more than ten percent of the Corporation’s issued and outstanding common stock to file initial reports of ownership and reports of changes in beneficial ownership with the SEC. Such persons are also required to furnish the Corporation with copies of all such reports they file.

Based solely upon a review of the reports filed pursuant to Section 16 of the Exchange Act, the Corporation believes that its directors, executive officers and greater than ten percent beneficial owners timely filed all reports required under Section 16, with the exception of Ms. Besse, Mr. Lambert, Mr. Haner, Mr. Beardslee and Mr. Peluso, who each made one late filing related to a purchase due to administrative oversight.

## **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.

### **Compensation Philosophy and Program Objectives**

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

We believe 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 long-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 45% of their total compensation, depending on their role in the organization, from short and long-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 independent outside consultant. For the 2014 planning program review, the Committee engaged Strategic Compensation Planning, Inc. of Malvern, PA to serve as its independent consultant on executive and director compensation matters. No member of the firm or any of its affiliates has a material financial interest in the Corporation, nor did they provide any other services to the Corporation for which they received in excess of \$120,000.

***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 seek information and insight from the Corporation’s Chief Financial Officer and, as circumstances dictate, other officers of the Corporation. 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 recommendations to the Board independently.

***Program Review and Pay Decision Process.*** During the fourth quarter each 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 independent compensation consultant; (2) conducts a comprehensive review of the Corporation's compensation program structure and provisions; and (3) considers salary and benefit adjustments and incentive awards for executives.

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

After deciding on the program structure for the coming calendar year, the Committee examines 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 trends. The performance of the Chief Executive Officer is reviewed and appraised by the Committee.

Based on the information gathered about each executive, the Committee formulates recommendations on possible salary adjustments for executives during the coming year. It also determines annual incentive awards for executives based on results achieved against goals and objectives defined at the beginning of the year, and determines appropriate long-term incentive awards in the form of stock-based compensation.

These recommendations are then presented to the full Board of Directors for consideration and approval, usually in December, prior to the beginning of the new year.

As incentive awards for the current year are determined, the Committee also works with the Chief Executive Officer to construct executive performance plans for the coming year. The Committee formulates their recommendations on performance goals and award opportunities for Board consideration and approval.

The Committee may also 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, long-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 current year; changes in organization role and scope of responsibility; current salary in relation to the position's market value; and any significant changes in the industry's pay practices for comparable positions.

*Annual Incentive Awards:* Competitive industry practice with respect to size of awards; and actual performance (achievement) relative to goals and objectives assigned at the beginning of the year.

*Long-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, including 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 Agreements:* The Corporation has entered into Employment Agreements with selected employees. The purposes of the Employment Agreements are to secure confidentiality about business practices and plans, preserve the customer base through noncompetition and nonsolicitation provisions and to maintain competitive industry practices.

*Change in Control:* The Corporation has entered into Change in Control Agreements with selected employees. The purpose of the Change of Control is to retain and secure key employees, and the amounts and terms are based on competitive industry practices.

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

**Competitive Benchmarking.** Annually, the Committee asks its independent compensation consultant to review survey reports on national and regional compensation practices 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. The range of institutions selected for comparison includes banking institutions that are moderately smaller and moderately larger than the Corporation, ranging between \$1 billion and \$2 billion in assets. The asset range is modified from time to time as the Corporation's operating circumstances change. For the 2014 program planning review, the independent compensation consultant selected the following institutions in Pennsylvania, New York, New Jersey, and Ohio to serve as the Corporation's peer group (the "Peer Group"):

AmeriServ Financial, Inc.	CNB Financial Corp.
Arrow Financial Corp.	ESB Financial Corp.
Canandaigua National Corp.	LNB Bancorp Inc.
Center Bancorp, Inc.	Orrstown Financial Service, Inc.
Chemung Financial Corp.	Peapack-Gladstone Financial Corp.

## Program Components

There are six (6) primary components to the Corporation's current executive compensation program:

1. **Base Salary.** Base salary is established after taking into consideration the median level of industry practice within the Peer Group for comparable positions. 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. Thereafter, salary adjustments reflect the individual's overall performance against organization expectations and may also reflect changes in industry practices. For most executive positions, salary will ordinarily provide at least 55% - 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 Corporation's annual 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 2014, corporate performance was measured based on return on average equity as compared to peer performance and the Corporation's return on equity to budgeted return on equity. Business unit goals vary based on the nature of the unit, but, where applicable, include such items as loan and deposit growth, levels of nonperforming assets, and non-interest income. Each participant's individual performance contribution is evaluated by his or her supervisor, with

the Chief Executive Officer's individual performance contribution evaluated by the Board of Directors. The Committee, in its discretion, may adjust or eliminate award payments under the Incentive Award Plan. All awards under the Incentive Award Plan are paid in cash as soon as it is practical after the end of a plan year.

- 15 -

The table below presents the performance criteria and the weighting of each criterion used in determining the annual performance incentive awards for the named executive officers in 2014:

	Performance Criteria	Criterion Weighting	Target % of Base Salary	Maximum % of Base Salary			
Mark A. Hughes <sup>(1)</sup>	Corporate Performance	71	% 24.75	% 37.13	%		
	Unit/Functional Goals Based on:						
	Bank Net Interest Margin	10	% 2.81	% 4.22	%		
	Securities Portfolio - Total Return	6	% 1.88	% 2.81	%		
	Accounting Department Results as Compared to Pre-established Goals	3	% 0.94	% 1.41	%		
	Individual Performance	10	% 3.37	% 5.06	%		
	Totals		33.75	% 50.63	%		
Anthony J. Peluso	Corporate Performance	30	% 5.25	% 7.80	%		
	Unit/Functional Goals Based on:						
	Branch and departmental financial review	20	% 3.50	% 5.20	%		
	Tax and information reporting review	20	% 3.50	% 5.20	%		
	Update internal controls analysis for new COSO standard	20	% 3.50	% 5.20	%		
	Individual Performance	10	% 1.75	% 2.60	%		
	Totals		17.50	% 26.00	%		
Deborah E. Scott	Corporate Performance	45	% 11.25	% 17.10	%		
	Unit/Functional Goals Based on:						
	Trust and Financial Management						
	Pre-tax Earnings Contribution	30	% 7.50	% 11.40	%		
	Growth in Trust Assets Under Management	15	% 3.75	% 5.70	%		
	Individual Performance	10	% 2.50	% 3.80	%		
	Totals		25.00	% 38.00	%		
Harold F. Hoose, III	Corporate Performance	45	% 13.50	% 20.25	%		
	Unit/Functional Goals Based on:						
	Growth in Outstanding Loans	30	% 9.00	% 13.50	%		
	Asset Quality - Loan Delinquency Data	15	% 4.50	% 6.75	%		
	Individual Performance	10	% 3.00	% 4.50	%		
		Totals		30.00	% 45.00	%	
Dawn A. Besse	Corporate Performance	45	% 11.25	% 17.10	%		
	Unit/Functional Goals Based on:						
	Asset Quality - Loan Delinquency Data	25	% 6.25	% 9.50	%		

Edgar Filing: CITIZENS & NORTHERN CORP - Form DEF 14A

Asset Quality - Net Charge-off Data	15	%	3.75	%	5.70	%
Efficiency Based on Number of Employees	5	%	1.25	%	1.90	%
Individual Performance	10	%	2.50	%	3.80	%
Totals			25.00	%	38.00	%

(1) For Mr. Hughes, the performance criteria and weighting information presented in the table reflect the weighted average of criteria used to determine his award based on performance for a portion of the year as Treasurer and Chief Financial Officer and a portion of the year as Interim President and Chief Executive Officer.

- 16 -



**4. Long-term Performance Incentives.** The Corporation's 1995 Stock Incentive Plan provides participating executives with the ability to receive equity awards (as determined by the Committee, as administrator of the plan), and is intended to focus the recipient's efforts on the strategic directions and goals of the business, incent ownership in the Corporation and promote a vested interest in the Corporation's long-term success. Awards may take the form of incentive stock options, nonqualified options, stock appreciation rights or restricted stock. To date, all awards granted under the plan have been incentive stock options or restricted stock.

The Committee reviews and recommends approval of awards to executives 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 financial institutions. Historically, stock options awarded under the plan vest six (6) months after the grant date and expire ten (10) years after the grant date. Restricted stock awards issued to the Bank's executive officers in January 2014, 2013, 2012, and 2011 include a performance condition, as well as a requirement for continued employment, in order for the restrictions to lapse. The restrictions lapse for one-third of the total shares 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 forfeited or the restrictions on such shares have lapsed. Any shares for which the restrictions have not lapsed at the expiration of the ten (10) year period following the date of the award shall expire and revert back to the Corporation. A total of 850,000 shares of common stock may be issued under the plan. As of December 31, 2014, a balance of 286,386 shares remains available for issuance.

The Committee recommended to the Board and the Board authorized the annual awarding of stock options and restricted stock to executives and certain employees from January 2002 through January 2014, with the exception of 2006 and 2010, when no options or restricted shares were granted except for an award of restricted shares to Mr. Updegraff in 2010. The timing of awards has not been tied to the release of negative or positive material information about the Corporation.

The Corporation's policy regarding executive ownership of Corporation common stock is described in the "Stock Ownership Guidelines" section of this Proxy Statement.

**5. Nonqualified Benefits and Perquisites.** Nonqualified benefits and perquisites that may be offered by the Corporation 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 Corporation 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 in the event of a change in control of the Corporation. 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 on page 26.

6. ***Employment, Change in Control and Severance Agreements.*** In 2013, the Corporation entered into Employment Agreements with Mr. Updegraff, Mr. Hughes, Ms. Scott, and Mr. Hoose. The Employment Agreements are described in more detail on pages 26-27.

A select group of senior executives, including Ms. Besse, are parties to a Change in Control agreement with the Corporation. In the event that any of these executives is terminated following a Change in Control, they would receive a severance benefit. They would also be eligible for continued coverage under the Corporation's health and welfare benefit plans for eighteen (18) months. The Change in Control Agreement is described in more detail on page 27.

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 exceed the deduction limitations under Internal Revenue Code Section 4999.

## Recent Actions

During the first quarter of 2015, the Corporation, through the Committee and Board of Directors, has made certain decisions regarding executive compensation. The most significant actions are summarized below.

***New President and Chief Executive Officer.*** The Corporation entered into an employment agreement with J. Bradley Scovill to serve as President and Chief Executive Officer of the Corporation and Bank, effective March 2, 2015. The agreement provides for an initial three (3) year term at an initial annual base salary of \$380,000. After the initial three (3) year term, the agreement will be automatically renewed for successive twelve (12) month terms, unless either the Corporation or Mr. Scovill gives written notice of non-renewal at least ninety (90) days prior to the next renewal date. Under this agreement, Mr. Scovill received a grant of Corporation restricted common stock equal in value at the time of grant to \$100,000. The shares of restricted stock vest ratably over a three (3) year period. The agreement also provides a signing bonus in the amount of \$100,000, \$50,000 of which is payable sixty (60) days after Mr. Scovill's start date of March 2, 2015 and \$50,000 of which is payable one hundred eighty (180) days after the start date. In the event Mr. Scovill voluntarily terminates employment with the Bank, other than a termination for "Good Reason," as defined in the agreement, within eighteen (18) months of receipt of either \$50,000 installment payment, Mr. Scovill has agreed to reimburse the Bank for the full amount of the cash bonus payments actually received. The agreement also provides that Mr. Scovill shall be eligible to receive an equity award under the Corporation's 1995 Stock Incentive Plan for calendar year 2015 equal in value to \$100,000 as of the date of grant. The equity award, which normally would occur in January, 2016, may be comprised of a combination of stock options and restricted stock, each of which will have a time vest and a performance vest component. For calendar years after 2015, based on approval by the Corporation's Board of Directors, Mr. Scovill will be eligible to receive such stock based incentives as are granted to Mr. Scovill under the Corporation's 1995 Stock Incentive Plan consistent with Mr. Scovill's responsibilities and the performance of the Corporation and Mr. Scovill. The agreement also provides that Mr. Scovill shall be eligible to participate in the Corporation's Supplemental Executive Retirement Plan and will be provided with a supplemental retirement income benefit thereunder with an approximate value when vested of \$100,000. The agreement also provides Mr. Scovill with reimbursement for business expenses, five (5) weeks of paid vacation, use of a Bank-owned automobile and a country club membership. The agreement contains customary nondisclosure, non-solicitation and mutual non-disparagement provisions and a twenty-four (24) month restrictive covenant applicable to Mr. Scovill should his employment be terminated for any reason. The restrictive covenant is applicable within thirty-five (35) miles of any office of the Corporation or the Bank after voluntary or involuntary termination of the executive's employment with the Corporation and the Bank. The agreement also provides that Mr. Scovill may terminate his employment for "Good Reason" (as defined in the agreement) after notice to the Corporation or the Bank within thirty (30) days after the initial existence of the condition giving rise to the right to terminate and the failure of the Corporation or Bank to cure the situation within thirty (30) days after receipt of such notice. Additionally, the agreement provides for a lump sum payment to Mr. Scovill in the event of a termination of employment following a "change in control" (as defined in the agreement) or without "cause" (as defined by the agreement) absent a change in control, such payment to be equal to the sum of the highest annual base salary earned by Mr. Scovill during the immediately preceding three (3) years and the highest cash bonus earned with respect to one of the three preceding years, multiplied by a predetermined factor depending on whether Mr. Scovill was terminated following a change in control. Additionally, the agreement provides for the continuation of Mr. Scovill's participation in the Bank's life, disability, medical/health insurance and other welfare benefits for the continuation period set forth below (or a cash payment representing the value of such benefits). The factor applicable for purposes of determining the lump sum payment and the time period for which benefits are to be continued are set forth in the following table:

	Multiplier Factor		Benefits Continuation Period	
	Change in Control	Absent a Change in Control	Change in Control	Absent a Change in Control
Executive				
J. Bradley Scovill	2.99 X	1.0	X 3 Years	1 Year

The employment agreement with Mr. Scovill is described in greater detail in the Corporation's Current Report on Form 8-K filed on February 9, 2015 and was attached as Exhibit 10.1 thereto.

**Base Salaries.** At the beginning of 2015, executives received salary adjustments based on evaluations of corporate and individual performances and prevailing industry practices for comparable positions. Mr. Hughes' salary as Interim Chief Executive Officer remained at an annual level of \$325,000 through the end of his service in that role on March 2, 2015. Mr. Hughes' salary as Treasurer and Chief Financial Officer was set at \$252,000, effective March 2, 2015. The salary of the Interim Chief Financial Officer increased in January 2015 by 5.6% to a level of \$132,000.

**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. In the first quarter 2015, the amounts of annual cash bonuses based on 2014 performance by the named executive officers were determined. The following table sets forth the target, maximum, and actual percentages of base salary paid to the named executive officers related to their performance in 2014, 2013 and 2012:

Name	Year	Target Percentage of Base Salary	Maximum Percentage of Base Salary	Actual Percentage of Base Salary
Charles H. Updegraff, Jr.				
	2013	40	% 60	% 48
	2012	40	% 60	% 60
Mark A. Hughes				
	2014	33.75	% 50.63	% 38
	2013	30	% 45	% 39
	2012	30	% 45	% 45
Anthony J. Peluso				
	2014	17.5	% 26	% 21
Deborah E. Scott				
	2014	25	% 38	% 30
	2013	25	% 38	% 32
	2012	25	% 38	% 38
Harold F. Hoose, III				
	2014	30	% 45	% 21
	2013	25	% 45	% 20
	2012	25	% 38	% 26
Dawn A. Besse				
	2014	25	% 38	% 27
	2013	25	% 38	% 26
	2012	25	% 38	% 25

**Long-term Incentives.** As described above, the Committee utilizes equity awards as an incentive to drive future performance. In December 2014, the Committee recommended, and the Board approved, awards of restricted stock under the 1995 Stock Incentive Plan. The value of the restricted stock was \$21.04 per share, which was based on the market price of the Corporation's stock, as defined in the Plan. The following awards in the first quarter 2015 are not included in the tables within the "Executive Compensation" section of this Proxy Statement, because they were made after the end of 2014: Mr. Hughes – 3,408 shares; Mr. Peluso – 1,188 shares; Mrs. Scott- 1,680 shares; Mr. Hoose – 2,234 shares.

### Consideration of Say-On-Pay Advisory Vote

At our 2014 annual meeting of shareholders, approximately 60% of our shareholders who voted on the "say-on-pay" proposal approved the compensation we pay to our named executive officers. The Compensation Committee believes

that the shareholder vote supports our compensation philosophy. Therefore, we have not modified our practices or philosophy as a result of the 2014 advisory vote.

Also at our 2011 annual meeting, our shareholders expressed support for conducting the foregoing “say-on-pay” vote every third year.

## **Risk Management**

We do not believe that the Corporation’s compensation programs and practices present any risks that are reasonably likely to have a material adverse effect on the Corporation.

The Committee believes that the direct compensation components of the executive compensation program—salary, annual incentive opportunities, equity grants—are reasonable, competitive and approximate 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.

### **Recoupment Policy**

The Corporation has an executive compensation recoupment policy pursuant to which annual cash bonuses, stock-based awards, performance-based compensation and other forms of cash or equity compensation other than salary paid to executive officers are subject to a "clawback" pursuant to the recoupment policy in the event the Corporation is required to prepare an accounting restatement due to material non-compliance with financial reporting requirements under the securities laws.

### **Compensation Committee Report**

The Compensation Committee has reviewed and discussed with management the Compensation Discussion & Analysis that is required by the rules and regulations established by the SEC and, based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion & Analysis section 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

### **Compensation Committee Interlocks and Insider Participation**

Messrs. Haner, Lambert, Owlett, Simpson, Towner and Mrs. Fisher served as members of the Compensation Committee during 2014 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.

**Executive Compensation Tables**

The following tables set forth for the fiscal years ended December 31, 2014, 2013 and 2012, the compensation which the Corporation and its subsidiaries paid to its named executive officers.

**2014 Summary Compensation Table**

The following table contains information with respect to annual compensation for services in all capacities to the Corporation and the Bank for the fiscal year ended December 31, 2014, with comparative information for 2013 and 2012, 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:

Name and Principal Position	Year	Salary (\$)	Bonus <sup>(4)</sup> (\$)	Stock Awards <sup>(5)</sup> (\$)	Option Awards <sup>(6)</sup> (\$)	Change in Pension Value and Nonqualified All Deferred Plan Compensation <sup>(7)</sup> (\$)	Other Compensation <sup>(8)</sup> (\$)	Total Compensation <sup>(9)</sup> (\$)
CHARLES H. UPDEGRAFF, JR. Former Chairman, President and Chief Executive Officer <sup>(1)</sup>	2014	260,962	-	30,430	49,099	21,662	749,015	1,111,168
	2013	365,134	174,568	46,104	80,064	-	117,230	783,100
	2012	331,940	199,164	43,903	73,182	86,335	90,199	824,723
MARK A. HUGHES Interim President and Chief Executive Officer <sup>(2)</sup>	2014	272,365	102,433	17,117	27,632	-	41,499	461,046
	2013	230,000	90,522	28,066	48,722	-	35,229	432,539
	2012	214,000	95,883	26,976	44,960	-	33,063	414,882
ANTHONY J. PELUSO Interim Treasurer and Chief Financial Officer <sup>(3)</sup>	2014	115,556	23,721	6,012	-	-	15,385	160,674
DEBORAH E. SCOTT	2014	176,700	52,230	11,432	18,453	-	39,324	298,139



Edgar Filing: CITIZENS & NORTHERN CORP - Form DEF 14A

Executive Vice President and Director of Trust Department	2013	171,500	55,854	18,614	32,309	-	35,863	314,140
	2012	167,450	64,131	18,058	30,102	-	32,681	312,422
HAROLD F. HOOSE, III Executive Vice President and Director of Lending	2014	188,000	39,446	12,004	19,366	-	32,756	291,572
	2013	180,000	36,995	18,000	31,258	-	29,215	295,468
	2012	162,000	41,956	16,853	28,093	-	25,671	274,573
DAWN A. BESSE Executive Vice President and Chief Credit Officer	2014	162,000	43,917	10,307	16,649	-	67,043	299,916
	2013	154,750	41,276	16,693	28,984	-	49,536	291,239
	2012	150,200	38,049	15,815	26,368	-	43,846	274,278

(1) Mr. Updegraff served as Chairman, President and Chief Executive Officer throughout 2012 and 2013, and for the period January 1, 2014 through his retirement effective on August 12, 2014.

(2) Mr. Hughes served as Treasurer and Chief Financial Officer throughout 2012 and 2013, and for the period January 1, 2014 through August 11, 2014. Mr. Hughes was appointed Interim President and Chief Executive Officer effective August 12, 2014.

(3) Mr. Peluso was appointed Interim Treasurer and Chief Financial Officer, effective August 12, 2014.

(4) The 2014, 2013, and 2012 bonuses were paid pursuant to the Incentive Award Plan, which is described in the “Program Components” section of the Compensation Discussion and Analysis. The “Non-Equity Incentive Plan Compensation” column has been omitted from the Summary Compensation Table because no Named Executive Officers earned compensation during 2014, 2013 or 2012 of a type required to be disclosed in that column.

(5) The amount shown in the “Stock Awards” column for 2014, 2013 and 2012 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 \$20.45 per share for the 2014 awards, \$19.21 per share for the 2013 awards and \$18.54 per share for the 2012 restricted stock awards.

(6) 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 option were \$5.50 for the 2014 awards, \$5.56 for 2013 awards and \$5.15 for 2012 awards. See Note 13 to the consolidated financial statements, included in the Corporation’s 2014 Form 10-K, for information regarding key assumptions used in calculating the estimated fair value of stock-options.

(7) The amount shown in the column headed “Change in Pension Value and Nonqualified Deferred Plan Compensation” is attributable to Mr. Updegraff’s participation in the Citizens Trust Company Pension Plan, a defined benefit pension plan. The amount reported for 2014 is equal to the excess of the distribution to Mr. Updegraff in 2014 over the present value of the accumulated plan benefit at December 31, 2013. No amount was reported for 2013 because the present value of Mr. Updegraff’s accumulated plan benefit decreased by \$15,584. 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 has been a participant in this plan. The discount rate used to calculate the present value of accumulated plan benefits was 4.5% at December 31, 2013 and 4.0% at December 31, 2012.

(8) Amounts shown as “All Other Compensation” include the following:

Name	Year	Amounts Paid due to Termination of Employment (\$)	Employer Contributions to the Stock Ownership Plan <sup>(1)</sup> (\$)	Employer Contributions to the 401 (k) Savings Plan (\$)	Employer Contributions to the Supplemental Executive Retirement Plan (SERP) (\$)	Dollar Value of Insurance Premium paid for Group Term Life Insurance (\$)	Dividends Paid on Restricted Stock (\$)	Commissions for Insurance and Brokerage Sales (\$)	Perquisites and Other Benefits <sup>(2)</sup> (\$)	Total (\$)
Charles H. Updegraff, Jr.	2014	727,088	-	13,000	-	1,218	3,024	-	4,685	749,015
	2013	-	10,200	12,750	82,911	5,207	-	-	6,162	117,230
	2012	-	10,000	12,500	57,682	4,323	-	-	5,694	90,199
Mark A. Hughes	2014	-	10,400	13,000	15,074	637	2,388	-	-	41,499
	2013	-	10,200	12,750	11,642	637	-	-	-	35,229

Edgar Filing: CITIZENS & NORTHERN CORP - Form DEF 14A

	2012	-	10,000	12,500	9,926	637	-	-	-	33,063
Anthony J. Peluso	2014	-	5,691	7,113	-	1,828	753	-	-	15,385
Deborah E. Scott	2014	-	9,530	11,912	12,193	1,191	1,590	373	2,535	39,324
	2013	-	9,615	12,019	9,481	637	-	1,734	2,377	35,863
	2012	-	9,265	11,581	8,510	637	-	395	2,293	32,681
Harold F. Hoose, III	2014	-	9,225	11,532	6,359	415	1,575	-	3,650	32,756
	2013	-	9,009	11,262	5,219	415	-	-	3,310	29,215
	2012	-	8,165	9,100	4,631	415	-	-	3,360	25,671
Dawn A. Besse	2014	-	8,261	10,010	45,522	1,828	1,422	-	-	67,043
	2013	-	7,785	9,731	30,192	1,828	-	-	-	49,536
	2012	-	7,523	9,403	25,092	1,828	-	-	-	43,846

(1) Amounts Paid due to Termination of Employment include severance, life insurance and other health and welfare benefits paid to Mr. Updegraff as a result of his retirement and resignation on August 12, 2014.

(2) 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, perquisites include the cost of club memberships, which are used primarily, but not exclusively, for business purposes. For Mr. Hoose, perquisites include the cost of club memberships in 2013 and 2012, which were used primarily, but not exclusively, for business purposes. For Mrs. Scott and Mr. Hoose, perquisites include cell phone reimbursement, which are used primarily, but not exclusively, for business purposes.

**Grants of Plan-Based Awards Table**

The following table sets forth information concerning awards granted to the named executive officers for the year ended December 31, 2014 under the 1995 Stock Incentive Plan.

Name	Grant Date	Board/Action Date	All Other Stock Awards: Number of Shares or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards(\$)
Charles H. Updegraff, Jr.	1/4/2014	12/19/2013	1,488	8,927	20.45	79,529
Mark A. Hughes	1/4/2014	12/19/2013	837	5,024	20.45	44,749
Anthony J. Peluso	1/4/2014	12/19/2013	294	-	20.45	6,012
Deborah E. Scott	1/4/2014	12/19/2013	559	3,355	20.45	29,885
Harold F. Hoose	1/4/2014	12/19/2013	587	3,521	20.45	31,370
Dawn A. Besse	1/4/2014	12/19/2013	504	3,027	20.45	26,956

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.” The value used for restricted stock awards is \$20.45 per share, based on the market value of the stock at the grant date. The value used for options is \$5.50 per option, computed using the Black-Scholes-Merton option pricing model.

**Outstanding Equity Awards at Fiscal Year-End**

The following table sets forth information with respect to outstanding stock options and non-vested stock awards as of December 31, 2014 for the named executive officers.

Name	Option Awards			Stock Awards	
	Number of Securities Underlying Unexercised Options (#)	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 (\$)
Mark A. Hughes	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		
	5,953	15.060	1/4/2021		
	8,730	18.540	1/4/2022		
	8,763	19.210	1/3/2023		
	5,024	20.450	1/4/2024		
<b>Total:</b>	<b>40,715</b>		<b>Total:</b>	<b>2,296</b>	<b>\$ 47,458</b>
Anthony J. Peluso	-	-	-		
<b>Total:</b>	<b>0</b>		<b>Total:</b>	<b>724</b>	<b>\$ 14,965</b>
Deborah E. Scott	2,065	27.000	1/3/2015		
	1,755	22.325	1/3/2017		
	3,160	17.500	1/3/2018		
	2,700	19.880	1/5/2019		
	4,211	15.060	1/4/2021		
	5,845	18.540	1/4/2022		
	5,811	19.210	1/3/2023		
	3,355	20.450	1/4/2024		
<b>Total:</b>	<b>28,902</b>		<b>Total:</b>	<b>1,529</b>	<b>\$ 31,604</b>
Harold F. Hoose, III	420	27.000	1/3/2015		
<b>Total:</b>	<b>420</b>		<b>Total:</b>	<b>1,529</b>	<b>\$ 31,604</b>

Edgar Filing: CITIZENS & NORTHERN CORP - Form DEF 14A

	1,695	22.325	1/3/2017		
	3,055	17.500	1/3/2018		
	2,650	19.880	1/5/2019		
	3,931	15.060	1/4/2021		
	5,455	18.540	1/4/2022		
	5,622	19.210	1/3/2023		
	3,521	20.450	1/4/2024		
				1,514	\$ 31,294
Total:	26,349		Total:	1,514	\$ 31,294
Dawn A. Besse	2,065	27.000	1/3/2015		
	1,450	22.325	1/3/2017		
	2,615	17.500	1/3/2018		
	2,360	19.880	1/5/2019		
	3,689	15.060	1/4/2021		
	5,120	18.540	1/4/2022		
	5,213	19.210	1/3/2023		
	3,027	20.450	1/4/2024		
				1,367	\$ 28,256
Total:	25,539		Total:	1,367	\$ 28,256

**Option Exercises and Stock Vested**

The following table sets forth information concerning the exercise of stock options granted, and the value realized on the vesting of restricted stock, under the 1995 Stock Incentive Plan during 2014 for each of the named executive officers.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized On Vesting (\$)
Charles H. Updegraff, Jr.	41,388	60,088	2,144	\$ 43,159
Mark A. Hughes	-	-	1,302	\$ 26,209
Anthony J. Peluso	-	-	144	\$ 2,899
Deborah E. Scott	-	-	881	\$ 17,735
Harold F. Hoose, III	-	-	834	\$ 16,788
Dawn A. Besse	-	-	779	\$ 15,681

**Pension Benefits <sup>(1)</sup>**

The following table sets forth information with respect to pension benefits for the fiscal year ended December 31, 2014 for each of the named executive officers.

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
Charles H. Updegraff, Jr.	Supplemental Executive Retirement Plan(2)	6	\$ 333,028	\$ 0
	Citizens Trust Company Pension Plan(3)	25	\$ 0	\$ 781,127
	Total		\$ 333,028	\$ 781,127

Mark A. Hughes	Supplemental Executive Retirement Plan(2)	14	\$ 135,236	\$ 0
Anthony J. Peluso	Supplemental Executive Retirement Plan(2)	0	\$ 0	\$ 0
Deborah E. Scott	Supplemental Executive Retirement Plan(2)	16	\$ 110,218	\$ 0
Harold F. Hoose, III	Supplemental Executive Retirement Plan(2)	10	\$ 47,432	\$ 0
Dawn A. Besse	Supplemental Executive Retirement Plan(2)	14	\$ 271,465	\$ 0

(1) Values are as of December 31, 2014, which is the measurement date used by the Corporation for financial reporting purposes.

(2) A nonqualified plan, described in more detail below.

(3) A tax-qualified defined benefit plan, described in more detail below.

### **Citizens Trust Company Pension Plan**

Mr. Updegraff was a participant in the Citizens Trust Company Pension Plan, a tax-qualified defined benefit 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 participant and to freeze benefit accruals. The Corporation acquired Citizens Bancorp, Inc. and its wholly-owned subsidiary, Citizens Trust Company, effective May 1, 2007.



## **Supplemental Executive Retirement Plan**

The Corporation maintains a Supplemental Executive Retirement Plan (“SERP”) to provide a supplemental retirement income to designated key employees. The Board of Directors determines employees eligible to participate, as well as the amount of the Corporation’s annual contribution to each participant’s account, if any. The annual contribution is deposited into each participant’s account held in a trust account at the Bank. While the Bank’s Trust and Financial Management Group manages the trust assets, each participant may direct the investment of the funds credited to their account. All assets in the trust are subject to the claims of the Bank’s creditors in the event of insolvency. The Board of Directors may terminate the SERP at any time.

Historically, the Corporation’s annual contribution has been based on a formula designed to provide an annual benefit equal to 20% of the individual’s highest five-year average compensation, and assumes retirement at age 65. In determining the annual contribution amounts, the Corporation assumes interest rates of 8% for preretirement and 6% for postretirement and utilizes a standard mortality table. The actual amount available to be distributed to a participant at separation of service depends upon the return on the investment of the funds held in the account over time. The actual investment returns do not impact the Corporation’s determination of the annual contribution. Investment returns are allocated to participant accounts daily based on units held of each investment.

Amounts credited to a participant’s account do not vest until the earlier of: (i) the participant reaching age 55 with 5 years of participation in the SERP; (ii) the death of the participant; (iii) the disability of the participant; or (iv) a change in control of the Corporation as defined in the SERP.

Amounts credited to a participant’s account are payable, at the election of the participant, in monthly or annual installments upon retirement after age 55 with 5 years of participation in the SERP, the participant’s death or disability, or a change in control of the Corporation.

## **Employment Agreements**

On September 19, 2013, the Corporation and the Bank entered into employment agreements with Mr. Updegraff, Mr. Hughes, Mr. Hoose and Mrs. Scott (collectively, the “Employment Agreements”). The following summarizes the material terms of the Employment Agreements. In connection with Mr. Updegraff’s retirement and resignation on August 12, 2014, the Corporation and Bank agreed to compensate him in accordance with Section 7 of his employment agreement, which was described in the Corporation’s Current Report on Form 8-K filed on September 19, 2013 and was attached as Exhibit 10.1 thereto.

The initial term of the Employment Agreement with Mr. Hughes expires September 19, 2016, and provides that the term of such agreement shall be automatically renewed on each September 19<sup>th</sup> for successive three (3) year terms, unless either the Corporation or the executive gives written notice of nonrenewal at least 90 days prior to the next renewal date. The Employment Agreements of Mr. Hoose and Mrs. Scott expire September 30, 2015 and provide that the term of such agreement shall be automatically extended an additional twelve (12) months, unless written notice of nonrenewal is provided no later than July 19, 2015 and by July 19<sup>th</sup> of each successive calendar year thereafter.

Under the Employment Agreements, each executive is eligible to receive annual incentive payments and stock based incentives as determined by the Compensation Committee, which may, but need not be, issued under any incentive plan maintained by the Company, and is eligible to participate in any retirement plan, deferred compensation plan, welfare benefit plan or other benefit program in which full-time employees of the Bank are eligible to participate.

The Employment Agreements also provide each executive with reimbursement of business expenses and paid vacation in accordance with Corporation or Bank policies and procedures and, with respect to Mr. Hoose, use of a Bank owned automobile and a country club membership. Mrs. Scott's Employment Agreement also provides for the use of a Bank owned automobile.

Each Employment Agreement contains customary nondisclosure and mutual nondisparagement provisions and, in the case of Mr. Hughes, a twenty-four (24) month non-competition and non-solicitation covenant and, in the case of Mr. Hoose and Mrs. Scott, an eighteen (18) month non-competition and non-solicitation covenant, in each case applicable within thirty-five (35) miles of any office of the Corporation or the Bank after voluntary or involuntary termination of the executive's employment with the Corporation and the Bank.

Each Employment Agreement also provides that the executive may terminate his or her employment for "good reason" (as defined in the agreement) after notice to the Corporation or the Bank within thirty (30) days after the initial existence of the condition giving rise to the right to terminate and the failure of the Corporation or Bank to cure the situation within thirty (30) days after receipt of such notice.

Additionally, each Employment Agreement provides for a lump sum payment to the executive in the event of a termination of employment following a “change in control” (as defined in the agreement) or a termination without “cause” (as defined in the agreement) absent a change in control, such payment to be equal to the sum of the highest annual base salary earned by the executive during the immediately preceding three (3) years, plus the highest cash bonus and other incentive compensation earned with respect to one of the three preceding years, plus the highest value of stock options and other stock incentives awarded to the executive in one of the immediately preceding three years, multiplied by a predetermined factor depending on the executive and whether the executive was terminated following a change in control. Additionally, each of the Employment Agreements provides for the continuation of the executive’s participation in the Bank’s life, disability, medical/health insurance and other welfare benefits in effect during the one (1) year period preceding the termination of employment (or a cash payment representing the value of such benefits). The factor applicable to each of the executives for purposes of determining the lump sum payment and the time period for which benefits are to be continued are set forth in the following table.

The employment agreements in effect on December 31, 2014 do not provide for an excise tax gross-up pursuant to Section 280G of the Internal Revenue Code. In the event any payments to our named executive officers would otherwise constitute a parachute payment under Section 280G of the Internal Revenue Code, the payments will be limited to the greater of (1) the dollar amount which can be paid to such named executive officer without triggering an excise tax under Section 4999 of the Internal Revenue Code or (ii) the greatest after-tax dollar amount after taking into account any excise tax incurred under Section 4999 of the Internal Revenue Code with respect to such parachute payments.

Executive	Multiplier Factor			Benefits Continuation Period	
	Change in Control	Without Cause	Absent a Change in Control	Change in Control	Without Cause Absent a Change in Control
Mark A. Hughes	2.99	X	1.0	X 3 Years	1 Year
Harold F. Hoose, III	1.5	X	0.5	X 18 Months	6 Months
Deborah E. Scott	1.5	X	0.5	X 18 Months	6 Months

### Change in Control Agreements

The Corporation and Bank have entered into Change in Control Agreements (the “Agreements”) with Mrs. Besse and certain other officers (each an “Employee”). The purpose of the Agreements is to retain and secure key employees and encourage their continued attention and dedication to their assigned duties without the distraction of potential disturbing circumstances arising from the possibility of a change in control of the Corporation or Bank.

The Change in Control Agreements provide for a lump sum severance benefit in the event that certain events take place after there is a “change in control”, as defined in the Agreement, of the Corporation, or for a period of twenty-four (24) months thereafter. The Agreements do not provide for any payment in the event that the Employee remains

employed for more than twenty-four (24) months following the change in control.

Under the Agreements, the term “termination” means the termination of the employment of the Employee either by the Corporation for any reason other than death, disability, or “cause”, or by resignation of the Employee upon the occurrence of one or more of the following events: a significant change in the Employee’s authorities or duties; a reduction in annual salary or a material reduction in benefits; the relocation of the Employee’s office to a location more than 35 miles from the location of the Employee’s office immediately prior to the employment period; the inability of the Employee to exercise the authorities, powers, functions or duties associated with the Employee’s position; or the failure of the Corporation to obtain a satisfactory agreement from any successor to assume and agree to perform the Agreement in the same manner and extent as if no succession had taken place.

In the event of a termination, the Agreements provide severance benefits of (i) Employer-paid group medical insurance continuation premiums for a period of eighteen (18) months after the date of termination; and (ii) a lump sum payment in cash no later than thirty (30) business days after the date of termination equal to the sum of the Employee’s unpaid salary, accrued vacation pay and unreimbursed business expenses through and including the date of termination; and an amount equal to one times the Employee’s base salary in effect immediately prior to the date of termination. Each Agreement contains customary non-disclosure provisions and a twelve (12) month non-solicitation covenant following termination of employment.

The Agreements terminate each December 31, but are automatically extended for additional one-year periods unless written notice is provided by the Corporation or Employee that such party does not wish to extend the term. If a change in control occurs during the original or extended term of the Agreements, the term shall continue for a period of twenty-four (24) months and end upon the expiration of such twenty-four (24) month period.

**Potential Payments upon Termination or Change in Control**

The table that follows provides quantitative information regarding contracts, agreements, plans or arrangements that provide for payments to a named executive officer upon termination of employment. The table does not include information with respect to contracts, agreements, plans or arrangements to the extent they do not discriminate in scope, terms, or operation, in favor of executive officers or the registrant and that are available generally to all salaried employees.

As of December 31, 2014:

Name	Cash (\$)	Supplemental Executive Retirement Plan Benefit (\$)	Health and Welfare Benefits (\$)	Value of Restricted Stock Subject to Acceleration (\$)
<b>Termination Due to Retirement:</b>				
Mark A. Hughes	-	-	-	-
Anthony J. Peluso	-	-	-	-
Deborah E. Scott	-	110,218	-	-
Harold F. Hoose, III	-	-	-	-
Dawn A. Besse	-	271,465	-	-
<b>Termination Due to Disability</b>				
Mark A. Hughes	-	135,236	-	-
Anthony J. Peluso	-	-	-	-
Deborah E. Scott	-	110,218	-	-
Harold F. Hoose, III	-	47,432	-	-
Dawn A. Besse	-	271,465	-	-
<b>Termination Without Cause or for Good Reason - Before a Change in Control</b>				
Mark A. Hughes	445,036	-	11,726	-
Anthony J. Peluso	-	-	-	-
Deborah E. Scott	145,877	110,218	3,926	-
Harold F. Hoose, III	139,607	-	6,407	-
Dawn A. Besse	-	271,465	-	-
<b>Termination Due to Death</b>				
Mark A. Hughes	-	135,236	-	-
Anthony J. Peluso	-	-	-	-
Deborah E. Scott	-	110,218	-	-
Harold F. Hoose, III	-	47,432	-	-
Dawn A. Besse	-	271,465	-	-

Termination Without Cause or for Good Reason - Upon or After  
a Change in Control

Mark A. Hughes	1,330,658	135,236	35,178	47,458
Anthony J. Peluso	-	-	-	14,965
Deborah E. Scott	437,631	110,218	11,778	31,604
Harold F. Hoose, III	418,821	47,432	19,221	31,294
Dawn A. Besse*	162,000	271,465	11,777	28,256

\*Mrs. Besse retired as of December 31, 2014 and her Change in Control Agreement terminated as of that date.

**Indemnification Agreements**

On April 20, 2004, the shareholders of the Corporation authorized the Corporation to enter into indemnification agreements (the "Indemnification Agreements") with the directors of the Corporation and the Bank and certain officers of Bank, as designated by the Board of Directors. The primary purpose of the Indemnification Agreements is to ensure the ability of the Corporation and Bank to continue to attract and retain responsible, competent and otherwise qualified directors and officers. Indemnification Agreements have been entered into with all Directors of the Bank and the Corporation, as well as the Corporation's and Bank's Executive Officers as named on pages 6-8.

The Indemnification Agreements provide to covered directors and officers the most advantageous of any combination of benefits under (i) the benefits provided by the Bylaws of the Corporation in effect as of the date the agreements were entered into; (ii) the benefits provided by the Bylaws, the Articles of Incorporation or their equivalent of the Corporation in effect at the time indemnification expenses are incurred by an indemnitee; (iii) the benefits allowable under Pennsylvania law in effect on the date of the agreements; (iv) the benefits allowable under the law of the jurisdiction under which the Corporation exists at the time indemnifiable expenses are incurred by an indemnitee; (v) the benefits available under a liability insurance policy obtained by the Corporation and its subsidiaries in effect on the date of the agreements; (vi) the benefits available under a liability insurance policy obtained by the Corporation and its subsidiaries, in effect at the time the indemnifiable expenses are incurred by an indemnitee; and (vii) such other benefits as are or may otherwise be available to the indemnitee.

The Corporation is not obligated to, nor has it agreed to provide funding for its obligations under the agreements. The Corporation is obligated, however, to pay its obligations under the agreements from general assets or insurance. The agreements do require the Corporation to continue to purchase D&O Coverage for so long as it is available on a commercially reasonable basis.

The indemnification available pursuant to the agreements is subject to a number of exclusions. No indemnification is required under the agreements with respect to any claim as to which it is finally proven by clear and convincing evidence in a court of competent jurisdiction that the covered person acted or failed to act with deliberate intent to cause injury to the Corporation or a subsidiary thereof or with reckless disregard for the Corporation's best interest. The Corporation is also not required to make any payment finally determined by a court to be unlawful or any payment required under Section 16(b) of the Securities and Exchange Act of 1934, as amended. In addition, any claim (or part thereof) against an indemnitee which falls within the prohibitions of 12 C.F.R. §7.5217 (i.e., a prohibition on indemnification or insurance coverage for expenses, penalties or other payments incurred in connection with an action by a banking regulatory agency which results in a final order assessing monetary penalties or requiring affirmative action in the form of payment to said bank) is excluded from indemnification under the agreements.

## **Compensation of Directors**

The following table summarizes the compensation paid by the Corporation and Bank to directors for the fiscal year ended December 31, 2014, other than Mark A. Hughes and Charles H. Updegraff, Jr., who did not receive compensation as a director.

### **DIRECTOR COMPENSATION** <sup>(1)(2)(3)</sup>

Fees

Name	Earned or Paid in Cash <sup>(4)</sup> (\$)	Stock Awards <sup>(5)</sup> (\$)	Option Awards <sup>(6)</sup> (\$)	Total (\$)
Dennis F. Beardslee	38,250	2,209	3,553	44,012
Jan E. Fisher	49,150	2,209	3,553	54,912
R. Bruce Haner	45,750	2,209	3,553	51,512
Susan E. Hartley	38,750	2,209	3,553	44,512
Leo F. Lambert	50,550	2,209	3,553	56,312
Raymond R. Mattie	35,650	2,209	3,553	41,412
Edward H. Owlett, III	56,750	2,209	3,553	62,512
Leonard Simpson	54,250	2,209	3,553	60,012
James E. Towner	54,450	2,209	3,553	60,212
Ann M. Tyler	39,150	2,209	3,553	44,912

<sup>(1)</sup> The columns disclosing non-equity incentive plan compensation, changes in pension value and nonqualified deferred compensation earnings, and other forms of compensation have been omitted from the table because no director earned any compensation during 2014 of a type required to be disclosed in those columns.

<sup>(2)</sup> As of December 31, 2014, each non-employee director owned 317 shares of common stock awarded pursuant to the Independent Directors Stock Incentive Plan (described below) for which transfer restrictions had not yet lapsed. For each director, those shares had a value of \$6,552 based on the closing price of the Corporation's common stock on December 31, 2014 (the last business day of the year).

<sup>(3)</sup> Effective January 5, 2015, the Corporation awarded 713 shares of restricted stock under the Independent Director Stock Incentive Plan to each director. The value of the restricted stock was \$21.04 per share, based on the market price of the Corporation's stock on January 2, 2015, and vest over (1) one year. The awards made in January 2015 are not included in the table.

<sup>(4)</sup> Includes annual cash retainer, Committee chair retainer (if any) and attendance fees.



(5) The amount shown in the “Stock Awards” column equals the value of restricted stock awards, determined based on the grant date fair market value of \$20.45 per share.

(6) The amount shown in the “Option Awards” column equals the value of 2014 awards of \$5.50 per option, determined based on the grant date fair market value, computed using the Black-Scholes-Merton option pricing model. See Note 13 to the consolidated financial statements, included in the Corporation’s Annual Report on Form 10-K for the year ending December 31, 2014 for information regarding key assumptions used in calculating the estimated fair market value of stock options.

**Director Fees.** Compensation of the Board of Directors is established by the Board upon recommendation of the Compensation Committee. In developing its recommendations for 2014, the Compensation Committee considered information provided by Strategic Compensation Planning, Inc., an independent compensation consultant.

Non-employee directors receive cash compensation for their service as directors in accordance with the following fee schedule. Employee directors are not entitled to additional compensation for board or committee service.

Annual Fees:	
Cash Retainer (all Directors)	\$20,000
Committee Chairman:	
Audit Committee	\$5,000
Compensation Committee	\$5,000
Executive Committee	\$7,500
All Other Committees	\$4,000
Per-Meeting Attendance Fees:	
Board meetings (all Directors)	\$1,000
Committee meetings	
Audit Committee	\$600
Executive Committee	\$600
All Other Committees	\$500

The annual retainer fee for the Chairman of the Board was established at \$15,000, to be paid beginning in 2015.

A director who, by invitation, attends a meeting of a committee of which he or she is not a regular member will be paid the same attendance fee as is payable to members of that committee. Attendance fees are not doubled in the event

of joint meetings of the Corporation and Bank Boards.

***Independent Directors Stock Incentive Plan.*** In addition to cash fees, non-employee directors may also receive compensation in the form of Corporation common stock or stock options under the Independent Directors Stock Incentive Plan. This plan permits awards of nonqualified stock options and/or restricted stock to non-employee directors. A total of 135,000 shares of common stock may be issued under the Independent Directors Stock Incentive Plan. The recipient's right to exercise stock options under this plan vests immediately and expires 10 years from the date of grant. The exercise prices of all stock options awarded under the Independent Directors Stock Incentive Plan are equal to the fair market value on the grant date. Restricted stock awards issued under the plan through December 31, 2014 vest ratably over three (3) years. As of December 31, 2014, a balance of 30,775 shares remain available for issuance under the Independent Directors Stock Incentive Plan.

#### PROPOSAL 2 — RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Baker Tilly Virchow Krause, LLP (“Baker Tilly”), formerly ParenteBeard, LLC (“ParenteBeard”) has been the independent registered public accounting firm appointed by the Corporation to audit its financial statements since 1981, and was selected by the Board as the independent registered public accounting firm for the Corporation for the fiscal year ending December 31, 2015. No member of the firm or any of its associates has a material financial interest in the Corporation. A representative of Baker Tilly is expected to be present at the Annual Meeting to answer appropriate questions from shareholders and will be afforded an opportunity to make any statement that the firm desires.

The affirmative vote of a majority of the votes cast at the meeting, in person or by proxy, is required to ratify the appointment of Baker Tilly as the Corporation's independent registered public accounting firm. Abstentions and broker non-votes will have no effect in calculating the votes on this matter.

The Board of Directors recommends a vote “FOR” ratification of the appointment of Baker Tilly Virchow Krause, LLP as the Corporation's independent registered public accounting firm for the fiscal year ending December 31, 2015.

**Fees of Independent Public Accountants**

The following table sets forth information concerning fees paid to independent public accountants for the years ended December 31, 2014 and 2013. On October 1, 2014, the Corporation was notified that the audit practice of ParenteBeard was combined with Baker Tilly in a transaction pursuant to which ParenteBeard combined its operations with Baker Tilly and certain of the professional staff and partners of ParenteBeard joined Baker Tilly either as employees or partners of Baker Tilly. On October 1, 2014, ParenteBeard resigned as the auditors of the Corporation and with the approval of the Audit Committee Baker Tilly was engaged as its independent registered public accounting firm. All services provided by Baker Tilly or ParenteBeard in 2014 and 2013 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 Audit Committee Charter.

	Fiscal Years Ended December 31,			
	ParenteBeard	Baker Tilly	Total	ParenteBeard
	2014	2014	2014	2013
<b>Audit Fees</b>				
Audit of Annual financial statements and Audit of internal control over financial reporting and reviews of Quarterly financial statements	\$ 23,200	\$158,060	\$181,260	\$ 215,659
<b>Audit-Related Fees</b>				
Audits of employee benefit plans	16,100	-	16,100	15,900
<b>Tax Fees</b>				
Preparation of Corporation tax return	19,150	-	19,150	19,027
Preparation of retired employee tax return	-	-	-	5,750
<b>Other Fees</b>				
XBRL	-	-	-	1,172
Aggregate of all fees billed to the Corporation	\$ 58,450	\$158,060	\$216,510	\$ 257,508

**Audit Committee Report**

On February 26, 2015, the Audit Committee of the Board of Directors reviewed and discussed with management the audited financial statements dated December 31, 2014. The Audit Committee also discussed with Baker Tilly, the independent registered public accounting firm of the Corporation, the matters required to be discussed with those charged with governance pursuant to the Public Company Accounting Oversight Board Auditing Standard No. 16 (Communication with Audit Committees).

The Audit Committee has received from Baker Tilly, the written disclosure and the letter required by PCAOB Rule 3526 (Communication with Audit Committees Concerning Independence) and has discussed Baker Tilly's independence with its representatives. These items relate to that firm's independence from the Corporation.

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, 2014 for filing with the Securities and Exchange Commission.

**Audit Committee**

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

ANNUAL REPORT ON FORM 10-K

A copy of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC, was made available to shareholders with this proxy statement. The Annual Report on Form 10-K is also available at [www.cnbankpa.com](http://www.cnbankpa.com).

**A paper copy of the Annual Report on Form 10-K will be furnished to shareholders free of charge upon written request. Such requests should be directed to the Treasurer of Citizens & Northern Corporation at 90-92 Main Street, Wellsboro, PA, 16901, or by phone at 570-724-3411.**

OTHER MATTERS

The management of the Corporation does not intend to bring any other matters before the Annual Meeting and is not presently informed of any other business which others may bring before such meeting. However, if any other matters should properly come before such meeting or any adjournment thereof, it is the intention of the persons named in the accompanying proxy to vote on such matters as they, in their discretion, determine.









