

CITIZENS FINANCIAL SERVICES INC  
Form DEF 14A  
March 12, 2009

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

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. [ ])

- Filed by 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-12

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

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.  
 Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- 1) Title of each class of securities to which transaction applies:
  - 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.  
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- 1) Amount Previously Paid:
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  - 3) Filing Party:
  - 4) Date Filed:

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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD ON APRIL 21, 2009

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Citizens Financial Services, Inc. (the "Company") will be held at 12:00 noon, local time, on Tuesday, April 21, 2009 at the Tioga County Fairgrounds Main Building, 2258 Charleston Road, Wellsboro, Pennsylvania 16901, for the following purposes:

1. To elect four Class 3 directors to serve for three-year terms and until their successors are duly elected and qualified;
2. To ratify the appointment of S.R. Snodgrass, A.C., Certified Public Accountants, as the independent registered public accounting firm for the Company for the fiscal year ending December 31, 2009; and
3. To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

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

Record holders of Company common stock at the close of business on March 2, 2009 are entitled to receive notice of the Annual Meeting and to vote at the meeting and any adjournment or postponement of the meeting. The Annual Meeting may be adjourned to permit the Company to solicit proxies in the event that there are insufficient votes for a quorum or to approve any of the proposals at the time of the meeting. A list of shareholders entitled to vote at the Annual Meeting will be available at Citizens Financial Services, Inc., 15 South Main Street, Mansfield, Pennsylvania 16933-1590, for a period of ten days prior to the Annual Meeting and will also be available at the Annual Meeting itself.

BY ORDER OF THE BOARD OF DIRECTORS,

/s/ Randall E. Black  
Randall E. Black  
Chief Executive Officer and President

March 12, 2009  
Mansfield, Pennsylvania

IMPORTANT: The prompt return of proxies will save the Company the expense of further requests for proxies in order to ensure a quorum. Shareholders of record may vote their proxies by mail, by Internet, or in person. Voting instructions are printed on your proxy card or vote authorization. A printed proxy card for the Annual Meeting and a self-addressed envelope will be mailed to all shareholders of record on March 23, 2009. No postage is required if mailed in the United States.

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PROXY STATEMENT  
OF  
CITIZENS FINANCIAL SERVICES, INC.

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This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Citizens Financial Services, Inc., (the “Company”), a Pennsylvania corporation headquartered at 15 South Main Street, Mansfield, Pennsylvania 16933-1590, to be used at the Annual Meeting of Shareholders. The Annual Meeting will be held at the Tioga County Fairgrounds Main Building, 2258 Charleston Road, Wellsboro, Pennsylvania 16901 on Tuesday, April 21, 2009 at 12:00 noon, local time. This Proxy Statement and the enclosed proxy card are being first made available on March 12, 2009 to shareholders of record as of March 2, 2009.

GENERAL INFORMATION ABOUT VOTING

Who Can Vote at the Meeting

You are entitled to vote your shares of Company common stock only if the records of the Company show that you held your shares as of the close of business on March 2, 2009. As of the close of business on March 2, 2009, a total of 2,837,776 shares of common stock were outstanding. Each share of common stock has one vote.

Attending the Meeting

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

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

Quorum and Vote Required

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

Votes Required for Proposals. In voting for the election of directors, you may vote in favor of all nominees, withhold votes as to all nominees or withhold votes as to specific nominees. There is no cumulative voting for the election of directors. Directors must be elected by a plurality of the votes cast at the Annual Meeting. The term “plurality” means that the four nominees for Class 3 director receiving the largest number of votes cast will be elected as Class 3 directors.

In voting for the ratification of the appointment of S.R. Snodgrass, A.C., Certified Public Accountants (“S.R. Snodgrass, A.C.”), as our independent registered public accounting firm, you may vote in favor of the proposal, against the proposal or abstain from voting. This proposal will be decided by the affirmative vote of a majority of the votes

cast at the Annual Meeting by all shareholders entitled to vote, assuming a quorum is present.

**Routine and Non-Routine Proposals.** The rules of the New York Stock Exchange determine whether proposals presented at shareholder meetings are routine or non-routine. If a proposal is routine, a broker, bank or other entity holding shares for an owner in street name may vote for the proposal without receiving voting instructions from the owner. If a proposal is non-routine, the broker, bank or other entity may vote on the proposal only if the owner has provided voting instructions. A broker non-vote occurs when a broker, bank or other entity holding shares for an owner in street name is unable to vote on a particular proposal and has not received voting instructions from the owner. The election of directors and the ratification of S.R. Snodgrass, A.C. as our independent registered public accounting firm for 2009 are currently considered routine matters.

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

In the election of directors, votes that are withheld will have no effect on the outcome of the election. In counting votes on the proposal to ratify the selection of the independent registered public accountants, abstentions will have no effect on the proposal.

#### Voting By Proxy

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

#### THE BOARD OF DIRECTORS RECOMMENDS A VOTE:

- “FOR” THE ELECTION OF FOUR CLASS 3 DIRECTORS TO SERVE FOR THREE-YEAR TERMS OR UNTIL THEIR SUCCESSORS ARE DULY ELECTED AND QUALIFIED;
- “FOR” RATIFICATION OF S.R. SNODGRASS, A.C. AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

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

You may revoke your proxy at any time before the vote is taken at the meeting. To revoke your proxy you must either advise the Secretary of the Company in writing before your common stock has been voted at the Annual Meeting, deliver a signed later dated proxy, vote on a later date via the Internet, or attend the meeting and vote your shares in person. Please note all votes cast via the Internet must be cast prior to 3:00 a.m., local time, April 21, 2009. Attendance at the Annual Meeting will not in itself constitute revocation of your proxy.

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

IF YOU HAVE ANY QUESTIONS ABOUT VOTING, PLEASE CONTACT OUR JUDGE OF ELECTION,  
MATTHEW M. LUNDGREN, AT 800-326-9486.

## CORPORATE GOVERNANCE

## Director Independence

The Company's Board of Directors currently consists of ten members, all of whom are independent under the listing standards of the Nasdaq Stock Market, as well as the director independence standards adopted by the Board of Directors, except for Mr. Black, who is Chief Executive Officer and President of the Company and First Citizens National Bank (the "Bank"). In determining the independence of its directors, the Board considered transactions, relationships and arrangements between the Company and its directors that are not required to be disclosed in this Proxy Statement under the heading "Transactions with Related Persons," including loans or lines of credit that the Bank has directly or indirectly made to Directors Coolidge, Tama, van der Hiel, Dalton, Graham, Kosa, Landy, Chappell, Black and DePaola. The director independence standards adopted by the Board of Directors are included in the Company's Corporate Governance Guidelines, which are available in the Corporate Governance section of our website ([www.firstcitizensbank.com](http://www.firstcitizensbank.com)).

## Code of Ethics

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

## Committees of the Board of Directors

The following table identifies the members of our Audit and Examination, Compensation/Human Resource and Governance and Nominating Committees as of March 2, 2009. All members of each committee are independent in accordance with the listing standards of the Nasdaq Stock Market, Inc., except for Mr. Black, the Company's Chief Executive Officer and President, who serves on the Governance and Nominating Committee. Based on the number of independent directors currently serving on the Governance and Nominating Committee, the Company believes that the functions of this committee are sufficiently performed by the current members. The Board's Audit and Examination, Compensation/Human Resource and Governance and Nominating Committees each operate under a written charter that is approved by the Board of Directors. Each committee reviews and reassesses the adequacy of its charter at least annually. The charters of all three committees are available in the Corporate Governance section of our website ([www.firstcitizensbank.com](http://www.firstcitizensbank.com)).

| Director              | Compensation/Governance               |                                |                                |
|-----------------------|---------------------------------------|--------------------------------|--------------------------------|
|                       | Audit and<br>Examination<br>Committee | Human<br>Resource<br>Committee | and<br>Nominating<br>Committee |
| Randall E.<br>Black   |                                       |                                | X                              |
| Robert W.<br>Chappell |                                       | X                              |                                |
| R. Lowell<br>Coolidge |                                       |                                | X                              |

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|                            |    |    |    |
|----------------------------|----|----|----|
| Mark L.<br>Dalton          |    | X  | X* |
| Rinaldo A.<br>DePaola      |    | X  | X  |
| Roger C. Graham,<br>Jr.    | X  |    |    |
| E. Gene<br>Kosa            | X* |    |    |
| R. Joseph<br>Landy         |    | X* |    |
| Carol J.<br>Tama           | X  |    | X  |
| Number of Meetings in 2008 | 5  | 5  | 3  |

\* Denotes Chairperson

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

Compensation/Human Resource Committee. The Compensation/Human Resource Committee is responsible for all matters regarding the Company's and Bank's employee compensation and benefit programs. As a basis for determining compensation, the Committee examines information from a peer group of banks relative to performance and compensation. The peer group for overall bank performance analysis consists primarily of community banks and thrifts in Pennsylvania and New York with total assets between \$500 million and \$1.5 billion. The peer group for analysis of compensation paid to other bank holding company and banking institution executives is obtained primarily from L. R. Webber Associates, Inc. (such data is compiled on both a regional and asset size basis), and the same peer group, as stated above, is utilized for financial performance comparison. The Chief Executive Officer and President also provides input to the Board of Directors regarding the performance of the executive officers who directly report to him.

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

#### Governance and Nominating Committee Procedures

Minimum Qualifications. The Governance and Nominating Committee has adopted a set of criteria that it considers when it selects individuals to be nominated for election to the Board of Directors. A candidate must meet the eligibility requirements set forth in the Company's Articles of Incorporation and Bylaws (including an age restriction), and must meet any qualification requirements set forth in any Board or committee governing documents. In particular, to encourage directors to demonstrate confidence and support of the Company, the Board of Directors has adopted a stock ownership requirement whereby each outside director, within 12 months of appointment, own Company common stock having a value equal to the lesser of three times the annual cash retainer or 1,000 shares.

The Governance and Nominating Committee will consider the following criteria in selecting nominees for initial election or appointment to the Board: financial, regulatory and business experience; familiarity with and participation in the local community; integrity, honesty and reputation; dedication to the Company and its shareholders; independence; and any other factors the Governance and Nominating Committee deems relevant, including age, diversity, geographies, size of the Board of Directors and regulatory disclosure obligations.



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

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

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

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

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

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

1. The name and address of the person recommended as a director candidate;
2. All information relating to such person that is required to be disclosed in solicitations of proxies for election of directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended;
3. The written consent of the person being recommended as a director candidate to be named in the Proxy Statement as a nominee and to serve as a director if elected;
4. As to the person making the recommendation, the name and address, as they appear on the Company's books, of such person, and number of shares of common stock of the Company owned by such person; provided, however, that if the person is not a registered holder of the Company's common stock, the person should submit his or her name and address along with a current written statement from the record holder of the shares that reflects the recommending person's beneficial ownership of the Company's common stock; and

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



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

#### Meetings of the Board of Directors

The Board of Directors oversees all of the Company's business, property and affairs. The Chairman of the Board and the executive officers keep the members of the Board informed of the Company's business through discussions at Board meetings and by providing them reports and other materials. During 2008, the Company's Board of Directors held twelve regular meetings. Each of the directors attended at least 75% of aggregate of the total number of meetings of the Board and the total number of meetings held by all committees of the Board on which he or she served.

#### Meetings of the Advisory Board

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

#### Attendance at the Annual Meeting

The Company expects its directors to attend annual meetings of shareholders. All directors attended the 2008 Annual Meeting of Shareholders.

### STOCK OWNERSHIP

The following table sets forth, as of March 2, 2009, the name and address of each person who owns of record or who is known by the Board of Directors to be the beneficial owner of more than 5% of the Company's outstanding common stock, the number of shares beneficially owned by such person and the percentage of the Company's outstanding common stock so owned. A person or entity may be considered to beneficially own any shares of common stock over which the person or entity has, directly or indirectly, sole or shared voting or investing power.

| Name and Address   | Number of Shares<br>Beneficially Owned | Percent of<br>Outstanding<br>Common Stock<br>Beneficially Owned |
|--|--|---|
| R. Lowell Coolidge<br>Post Office Box 41<br>Wellsboro, Pennsylvania<br>16901 | 172,808(1)                             | 6.1%  |

(1) Includes 34,821 shares held by Mr. Coolidge's spouse.

The following table sets forth the information concerning the number of shares of Company common stock beneficially owned, as of March 2, 2009, by each present director, nominee for director, named executive officer in the compensation table set forth elsewhere herein and by all directors and executive officers as a group. A person may

be considered to beneficially own any shares of common stock over which he or she has, directly or indirectly, sole or shared voting or investment power. Unless otherwise indicated, none of the shares listed are pledged as security, and each of the named individuals has sole voting power and sole investment power with respect to the number of shares shown.

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| Name of Beneficial Owner                                 | Amount and Nature of Beneficial Ownership | Percent of Class |
|--|---|------------------|
| Randall E. Black   | 7,191(1)                                  | *                |
| Robert W. Chappell                                       | 3,181(2)                                  | *                |
| R. Lowell Coolidge                                       | 172,808(3)                                | 6.1%             |
| Mark L. Dalton   | 1,295                                     | *                |
| Rinaldo A. DePaola                                       | 2,225(4)                                  | *                |
| Roger C. Graham, Jr.                                     | 24,411                                    | *                |
| Mickey L. Jones  | 1,844(5)                                  | *                |
| E. Gene Kosa   | 1,451(6)                                  | *                |
| R. Joseph Landy  | 9,817(7)                                  | *                |
| Terry B. Osborne   | 3,246(8)                                  | *                |
| Carol J. Tama  | 78,424(9)                                 | 2.8%             |
| Rudolph J. van der Hiel                                  | 15,694(10)                                | *                |
| Executive Officers and Directors as a Group (16 persons) | 328,144(11)                               | 11.6%            |

\* Less than 1%.

- (1) Mr. Black beneficially owns 1,007 shares individually, 3,995 shares jointly with his spouse and 256 shares are held by his spouse. Also includes 1,933 shares of restricted stock for which Mr. Black has voting but not investment power.
- (2) Mr. Chappell beneficially owns 1,485 shares individually, 923 shares jointly with his mother, and his remaining 773 shares are hold jointly with a friend.
  - (3) Includes 34,821 shares held by Mr. Coolidge's spouse.
- (4) Mr. DePaola beneficially owns 2,022 shares jointly with his spouse, and his remaining 203 shares are held by his spouse as custodian for their son.
- (5) Mr. Jones beneficially owns 417 shares and 500 shares are held by his spouse. Also includes 927 shares of restricted stock for which Mr. Jones has voting but not investment power.
- (6) Mr. Kosa beneficially owns 1,374 shares jointly with his spouse, 57 shares in an investor club, and his remaining 20 shares are held by his spouse.
- (7) Mr. Landy beneficially owns 6,241 shares individually, 3,187 jointly with his spouse, and his remaining 389 shares are held as custodian for a child.
- (8) Mr. Osborne beneficially owns 48 shares individually, 1,737 shares jointly with his spouse and 143 shares are held by his spouse. Also includes 1,318 shares of restricted stock for which Mr. Osborne has voting but not investment power.
  - (9) Includes 673 shares held in a partnership.
- (10) Mr. van der Hiel beneficially owns 14,070 shares individually, 22 shares jointly with his spouse, and his remaining 1,602 shares are held by his spouse.





(11) Includes 1,735 shares of restricted stock beneficially owned by executive officers not individually listed in the table for which the executive officer has voting but not investment power.

### PROPOSAL 1. ELECTION OF DIRECTORS

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

The Board of Directors fixed the number of directors in Class 3 at four and has nominated E. Gene Kosa, R. Joseph Landy, Roger C. Graham, Jr. and Robert W. Chappell for election as Class 3 directors to hold office for three-year terms to expire at the 2012 Annual Meeting of Shareholders or until their successors are duly elected and qualified. These nominees are currently directors of the Company.

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

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

Information regarding the Board of Directors' nominees and the directors continuing in office is provided below.

#### Nominees for Election as Class 3 Directors – Terms Expire in 2012

| Name            | Age as of March 2, 2009 | Principal Occupation for Past Five Years   | Director Since Company (Bank) |
|-----------------|-------------------------|--|-------------------------------|
| E. Gene Kosa    | 62                      | Partner in EDKO Farms, an agricultural production and service business, located in Ulysses, PA. Since November 2004 has been operating a restaurant, GENA Holdings Inc., located in Ulysses, PA. | 2001 (2001)                   |
| R. Joseph Landy | 54                      | Attorney-at-Law with the firm of Landy & Landy, located in   | 2001 (2001)                   |

Sayre, PA.

|                         |    |  |                |
|-------------------------|----|--|----------------|
| Roger C.<br>Graham, Jr. | 53 | Retired Owner of<br>Graham Excavating. | 2001<br>(2001) |
|-------------------------|----|--|----------------|

|                       |    |   |                |
|-----------------------|----|---|----------------|
| Robert W.<br>Chappell | 42 | Attorney-at-Law with<br>the firm of van der<br>Hiel, Chappell &<br>Loomis, located in<br>Mansfield, PA and<br>Rome, PA. | 2006<br>(2006) |
|-----------------------|----|---|----------------|

## Continuing Class 2 Directors – Terms Expire in 2010

| Name                    | Age as of March 2, 2009 | Principal Occupation for Past Five Years  | Director Since Company (Bank) |
|-------------------------|-------------------------|---|-------------------------------|
| Rudolph J. van der Hiel | 69                      | As of August 2005 is in an “of Counsel” capacity for the Law Offices of van der Hiel, Chappell & Loomis located in Mansfield, PA and Rome, PA. Part time Episcopal Priest for various churches in Ontario, Canada, and Pennsylvania. Retired Attorney-at-Law with the Law Offices of van der Hiel & Chappell, located in Mansfield, PA. and Rome, PA. | 1984<br>(1975)                |
| Mark L. Dalton          | 54                      | Since November 2008 is an independent Consultant/ Producer for Gannon Associates, an insurance company, located in Mansfield, PA and Towanda, PA. From November 2003 to October 2008 was an Agent/ Broker with Gannon Associates.   | 1998<br>(1997)                |

## Continuing Class 1 Directors – Terms Expire in 2011

| Name               | Age as of March 2, 2009 | Principal Occupation for Past Five Years               | Director Since Company (Bank) |
|--------------------|-------------------------|--|-------------------------------|
| Carol J. Tama      | 68                      | Retired President of Monaghan Transportation Company.  | 1986<br>(1984)                |
| R. Lowell Coolidge | 68                      | Attorney-at-Law with the firm of Walrath and Coolidge, | 1984<br>(1984)                |

located in Wellsboro, PA.

|                    |    |   |                |
|--------------------|----|---|----------------|
| Randall E. Black   | 42 | Since April 2004 has been Chief Executive Officer and President of the Company and the Bank. Prior to April 2004, was the Chief Financial Officer for the Bank. | 2004<br>(2004) |
| Rinaldo A. DePaola | 53 | Attorney-at-Law with the firm of Griffin, Dawsey, DePaola & Jones, located in Towanda, PA.  | 2006<br>(2006) |

## Executive Officers Who Are Not Directors

| Name                 | Age as of March 2, 2009 | Principal Occupation for Past Five Years  |
|----------------------|-------------------------|---|
| Gregory J. Anna      | 47                      | Vice President, Technology & Operations since 2008. Prior to 2008 was Assistant Vice President, Data Operations Manager for the Bank since 2002. Mr. Anna is the husband of Kathleen M. Campbell.   |
| Kathleen M. Campbell | 48                      | Senior Vice President, Marketing and Training Manager for the Bank since 2002. Ms. Campbell is the wife of Gregory J. Anna.   |
| Mickey L. Jones      | 48                      | Since June 2004 has been Senior Vice President, Chief Financial Officer and Treasurer of the Company and Bank. In 2007 was named Executive Vice President, Chief Financial Officer for the Company and Bank. Previously was Director of Finance and Claims for Keystone Health Plan Central, Inc. |
| Robert B. Mosso      | 38                      | Vice President, Wealth Management Division Manager since 2004. Prior to 2004 was a Trust Officer for the Bank. President of First Citizens Insurance Agency, Inc.   |
| Terry B. Osborne     | 55                      | Executive Vice President and Secretary of the Company and Bank since December 1991 and September 1983, respectively.  |
| Cynthia T. Pazzaglia | 50                      | Vice President, Human Resources Manager for the Bank since 1999.  |

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

**PROPOSAL 2. RATIFICATION OF INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM**

The Audit and Examination Committee of the Board of Directors has appointed S.R. Snodgrass, A.C. to be the Company's independent registered public accounting firm for the 2009 fiscal year, subject to ratification by shareholders. A representative of S.R. Snodgrass, A.C. will be present at the Annual Meeting to respond to appropriate questions from shareholders and will have the opportunity to make a statement should he or she desire to do so.

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

Examination Committee of the Board of Directors.

The Board of Directors recommends that you vote "FOR" ratification of the appointment of S.R. Snodgrass, A.C. as the Company's independent registered public accounting firm for fiscal year 2009.

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## Audit Fees

The following table sets forth the fees billed to the Company for the fiscal years ending December 31, 2008 and 2007, respectively, by S.R. Snodgrass, A.C., Certified Public Accountants:

|                    | Year Ended       |                  |
|--------------------|------------------|------------------|
|                    | December 31,     |                  |
|                    | 2008             | 2007             |
| Audit Fees (1)     | \$77,575         | \$81,933         |
| Audit-Related Fees | \$0              | \$0              |
| Tax Fees (2)       | \$10,000         | \$10,500         |
| All Other Fees (3) | \$45,651         | \$48,741         |
| <b>TOTAL</b>       | <b>\$133,225</b> | <b>\$141,174</b> |

(1) Audit fees consist of fees for professional services rendered for the audit of the Company's financial statements and review of financial statements included in the Company's quarterly reports and services normally provided by the independent registered public accounting firm in connection with statutory and regulatory filings or engagements.

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

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

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

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

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

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

During the year ended December 31, 2008, all audit and non-audit services were approved, in advance, by the Audit and Examination Committee in compliance with these procedures.





## Report of Audit and Examination Committee

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

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

The Audit and Examination Committee appointed S.R. Snodgrass, A.C. as the independent registered public accounting firm for the Company after reviewing the firm's performance and independence.

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

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

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

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

In reliance on these reviews and discussions referred to above, the Audit and Examination Committee recommended to the Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, for filing with the Securities and Exchange Commission. The Audit and Examination Committee and the Board have also recommended the selection of S.R. Snodgrass, A.C., Certified Public Accountants, as the Company's independent registered public accounting firm for the year ending December 31, 2009.

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

E. Gene Kosa (Chairman)  
Carol J. Tama  
Roger C. Graham, Jr.

## EXECUTIVE AND DIRECTOR COMPENSATION

## Summary Compensation Table

The following table sets forth information for the year ended December 31, 2008, concerning the compensation of the Company's principal executive officer and its two other most highly compensated executive officers (or executive officers of its subsidiaries) whose compensation was \$100,000 or more who served in such capacities at December 31, 2008 (the "Named Executive Officers").

| Name and Principal Position  | Year | Salary (\$)  | Bonus (\$) | Stock Awards (\$)(1) | Non-Equity Incentive Plan Compensation (\$)(2) | All Other Compensation (\$) | Total (\$) |
|--|------|--------------|------------|----------------------|--|-----------------------------|------------|
| Randall E. Black<br>CEO & President of<br>the Company and<br>Bank                                | 2008 | \$181,731    | -          | \$13,614             | \$33,245                                       | \$13,508                    | \$242,098  |
|  | 2007 | \$163,000    | \$12,000   | \$3,710              | \$17,978                                       | \$11,129                    | \$207,817  |
| Terry B. Osborne<br>Executive Vice<br>President &<br>Secretary of the<br>Company and the<br>Bank | 2008 | \$155,475    | -          | \$10,171             | \$18,916                                       | \$8,091                     | \$192,653  |
|  | 2007 | \$146,155(3) | \$1,553    | \$3,171              | \$13,913                                       | \$6,158                     | \$170,950  |
| Mickey L. Jones<br>Executive Vice<br>President, CFO &<br>Treasurer of the<br>Company and Bank    | 2008 | \$124,615    | -          | \$6,926              | \$14,607                                       | \$5,980                     | \$152,128  |
|  | 2007 | \$112,000    | \$5,000    | \$2,289              | \$10,364                                       | \$4,391                     | \$134,044  |

(1) Reflects the compensation expense recognized for financial statement reporting purposes in accordance with FAS 123(R) for shares of restricted stock. For information on the assumptions used in the valuation of the stock awards, see Note 10 to the Notes to the Financial Statements contained in the Company's Annual Report on Form 10-K.

(2) Represents payments made to each executive under the Bank's performance based annual incentive plan.

(3) Includes \$4,500 for services as Corporate Secretary at Company and Bank board meetings.

## Employment Agreement

On December 16, 2005, the Company and the Bank entered into an employment agreement with Randall E. Black, Chief Executive Officer and President of the Company and the Bank. The employment agreement was amended and restated on September 19, 2006. The employment agreement provides for a three-year term, which automatically

renews on June 1st of each year to maintain a three-year term, unless either party notifies in writing the other party at least 90 days prior to June 1st of such party's intent not to renew the agreement beyond the existing term, or the agreement is terminated by the Company or the Bank for cause, death or disability or if the agreement is terminated by Mr. Black. Under the employment agreement, Mr. Black's current base salary is \$210,000, which may be increased in the future. The base salary is reviewed annually, but may not be reduced below the base salary in effect at the time of such review. In addition to base salary, the employment agreement provides for, among other things, participation in various employee benefit plans as well as furnishing certain fringe benefits available to similarly-situated executive personnel.

The employment agreement provides for termination by the Company or the Bank for cause (as described in the agreement) at any time, death or disability. If Mr. Black is terminated for cause, the Company shall pay Mr. Black his full annual base salary through the date of termination at the rate in effect at the time of termination and the Company and Bank shall have no further obligation to Mr. Black under the agreement. If Mr. Black is terminated due to a disability, Mr. Black shall be entitled to the same benefit as provided by the Company's long term disability plan. Upon Mr. Black's death, the employment agreement terminates automatically. In the event that the Company or the Bank chooses to terminate Mr. Black's employment for reasons other than for cause or, in the event of Mr. Black's resignation from the Company or the Bank for good reason, the Company shall pay Mr. Black a lump sum amount equal to and no greater than two times Mr. Black's base salary minus applicable taxes and withholdings. If such termination had occurred on December 31, 2008, Mr. Black would have been entitled to receive \$350,000 (minus taxes and withholdings). In addition, for a period of one year from the date of termination, Mr. Black shall receive a continuation of health care, life and disability insurance in effect during the one year prior to his termination.

Under the agreement, if Mr. Black delivers a notice of termination following a change in control (as defined in the agreement), Mr. Black shall be entitled to receive a lump sum amount equal to 2.99 times Mr. Black's base salary. If such termination had occurred on December 31, 2008, Mr. Black would have been entitled to receive \$523,250 (minus taxes and withholdings). In addition, for a period of one year from the date of termination or until Mr. Black secures substantially similar benefits through other employment, whichever shall occur first, Mr. Black shall receive a continuation of health care, life and disability insurance in effect during the one year prior to his termination.

The employment agreement provides for non-competition and non-solicitation (as described in the agreement) during the term of Mr. Black's employment or for one year following the date of termination, as well as a restrictive covenant period (as described in the agreement), with the exception being Mr. Black may engage in the practice of public accounting.

#### Retirement Benefits

Supplemental Executive Retirement Agreement. On October 21, 2008, the Bank entered into a supplemental executive retirement agreement (the "SERP") with its Chief Executive Officer and President, Randall E. Black, its Executive Vice President, Chief Financial Officer and Treasurer, Mickey L. Jones, and its Executive Vice President and Secretary, Terry B. Osborne (collectively the "executives"). The SERP is effective as of January 1, 2008.

The SERP provides the executives with an annual retirement benefit, for 15 years, following separation from service (other than for cause) on or after attaining age 62. This retirement benefit equals a benefit percentage (16.4% for Mr. Black, 14.7% for Mr. Osborne and 13.6% for Mr. Jones) multiplied by the average annual cash compensation during the three completed calendar years preceding the termination of employment. Subject to the terms of the SERP, the executive may elect to receive the retirement benefit in an actuarially equivalent lump sum payment.

If the executive separates from service prior to age 62 for reasons other than death, disability, termination for cause or following a change in control, he would receive the vested early retirement benefit based on the extent to which the annual retirement benefit described above should be accrued by the Bank under generally accepted accounting principles as of the date of termination. If the executive terminates employment due to disability, this benefit will be fully vested. If the executive separates from service due to death or following a change-in-control of the Company but before the executive attains age 62, he or his beneficiary will receive the normal retirement benefit, regardless of his age at the time of separation from service or death.

## Incentive Plan

During 2007, the Bank redesigned its performance-based annual incentive plan (the “Plan”) in order to align the incentive goals with the overall strategic plan. For all employees, the Plan has three components: corporate; departmental / branch; and individual. For 2008, corporate goals consisted of return on equity compared with a regionalized peer group (“Peer Group”), earnings per share growth compared to the Peer Group as well as internally developed targets, efficiency ratio targets and regulatory performance measurements. Departmental / branch objectives included various measures, most notably loan and deposit growth, and branch profitability targets. The individual component was based upon the individual employee’s performance appraisal. The Plan’s components have varying weights assigned based upon job function. Each job function is categorized into one of seven different tiers. Each tier has different award opportunities based upon job categorization.

On December 17, 2008, approximately fifty percent of the estimated incentive was paid to employees using data and compensation through October 31, 2008. The remaining incentive will be paid to employees in the first half of 2009 based upon actual results through December 31, 2008 for the Company as well as the Peer Group. Management’s incentive is based on the same criteria, except for different award opportunities and weighting of components as noted above. Additionally, a portion of Management’s incentive can be in the form of restricted stock at the discretion of the Board of Directors.

## Outstanding Equity Awards

The following table sets forth information concerning stock awards that have not vested at December 31, 2008 for each of the Named Executive Officers.

### Stock Awards

| Name             | Number of Shares<br>or Units of Stock<br>That Have Not<br>Vested (#) | Market Value of<br>Shares<br>or Units of Stock<br>That Have Not<br>Vested (\$) (1) |
|------------------|--|--|
| Randall E. Black | 1,933(2)   | \$37,694   |
| Mickey L. Jones  | 927(3)   | \$18,077   |
| Terry B. Osborne | 1,318(4)   | \$25,701   |

(1) Based upon the Company’s closing stock price of \$19.50 on December 31, 2008.

(2) Includes 1,445 shares that vest in three equal annual installments commencing on April 30, 2009 and 488 shares that vest in two equal annual installments on May 11, 2009 and May 11, 2010.

(3) Includes 627 shares that vest in three equal annual installments commencing on April 30, 2009 and 300 shares that vest in two equal annual installments on May 11, 2009 and May 11, 2010.

(4)

Includes 818 shares that vest in three equal annual installments commencing on April 30, 2009, 406 shares that vest in two equal annual installments on May 11, 2009 and May 11, 2010, and 94 shares that vest in two equal annual installments on December 18, 2009 and December 18, 2010.

#### 2006 Restricted Stock Plan

In 2006 we adopted, and our shareholders approved, the 2006 Restricted Stock Plan (the "Plan"). Pursuant to the Plan we may make awards of restricted stock to employees and non-employee directors. The purpose of these stock awards is to attract and retain competitively superior people, further align employees and non-employee directors with shareholder interests, closely link employee and non-employee compensation with our performance, and maintain high levels of executive and non-employee director stock ownership. It is our intent to use the grant of restricted stock under the Plan as the primary vehicle for providing long-term incentive compensation opportunities to the Named Executive Officers and for aligning their interests with those of our shareholders. In general, vesting of restricted stock awards under the Plan is tied to continued service and/or satisfaction of performance goals. The Compensation/Human Resource Committee develops its restricted stock award determinations based, in part, on its judgment about whether the complete compensation package provided to the Named Executive Officers is sufficient to retain, motivate and adequately reward them.

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In general restricted stock awarded under the Plan to a participant will become exercisable/fully vested upon the occurrence of a "change in control" or upon the participant's death, "disability" or "retirement" (as such terms are defined in the Plan). In addition, if it deems it equitable under the circumstances, the Compensation/Human Resource Committee may accelerate or waive any service requirement in the event that a participant terminates employment before such service requirement has been satisfied. In general, the committee may not accelerate or waive performance-based vesting requirements.

Compensation of Directors

The following table sets forth information concerning the compensation of non-employee directors during the year ended December 31, 2008.

| Name                    | Fees                     |                      | All Other Compensation | Total    |
|-------------------------|--------------------------|----------------------|------------------------|----------|
|                         | Earned Cash Paid in (\$) | Stock Awards (\$)(1) |                        |          |
| Robert W. Chappell      | \$23,110                 | \$2,250              | \$205                  | \$25,565 |
| R. Lowell Coolidge      | \$36,828                 | \$2,250              | \$205                  | \$39,283 |
| Mark L. Dalton          | \$23,310                 | \$2,250              | \$205                  | \$25,765 |
| Rinaldo A. DePaola      | \$20,935                 | \$2,250              | \$205                  | \$23,390 |
| Roger C. Graham, Jr.    | \$24,425                 | \$2,250              | \$2,236                | \$28,911 |
| E. Gene Kosa            | \$23,700                 | \$2,250              | \$1,602                | \$27,552 |
| R. Joseph Landy         | \$24,000                 | \$2,250              | \$1,478                | \$27,728 |
| Carol J. Tama           | \$26,858                 | \$2,250              | \$205                  | \$29,313 |
| Rudolph J. van der Hiel | \$22,765                 | \$2,250              | \$205                  | \$25,220 |

(1) These amounts represent the compensation expense recognized for financial reporting purposes in accordance with FAS 123(R) on stock awards for each director. The amounts were calculated based upon the Company's stock price of \$22.50 on the date of grant.

The foregoing table reflects the following arrangements:

Fees. Directors, except for Directors Coolidge, Tama and Black, received the following fees for services to the Company and the Bank: \$300 for attended board meeting, strategic retreat or training session; \$12,750 annual



retainer; \$125 per attended committee meeting; \$100 for participation in a Board conference call; and \$185 for attended advisory board meeting. Additionally, committee chairpersons receive a \$500 retainer, except for Director Kosa who receives a \$1,200 retainer as Audit and Examination Committee chairman. Director Dalton receives a \$3,000 retainer for building/property guidance. Mr. Coolidge, who serves as the Company's and the Bank's Chairman, and Mrs. Tama, who serves as the Company's and Bank's Vice Chairman, received a fixed annual sum of \$35,348 and \$25,008, respectively, in lieu of all director's fees in 2008. Directors Coolidge and Tama also receive the advisory board fee of \$185 per attended meeting.

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

Life Insurance. In addition to these fees, each director is provided a \$100,000 life insurance benefit. Once a director retires, insurance coverage continues but the benefit declines as the age of the retired director increases. Total premiums paid in 2008 for life insurance on behalf of the current and retired directors was \$2,494.

Stock Grants/Awards. Pursuant to our 2006 Restricted Stock Plan, non-employee directors are eligible to receive an annual stock grant based on Company and Bank performance. In 2008, each non-employee director received 100 shares.

## OTHER INFORMATION RELATING TO DIRECTORS AND EXECUTIVE OFFICERS

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

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's officers and directors, and persons who own more than 10% of the Company's common stock, to file reports of ownership and changes of ownership with the Securities and Exchange Commission. Executive officers, directors and greater than 10% shareholders are required by regulation to furnish the Company with copies of all Section 16(a) reports they file.

Based solely on the Company's review of the copies of the reports it has received and written representations provided to it from the individuals required to file the reports, the Company believes that each of its executive officers and directors has complied with applicable reporting requirements for transactions in the Company's common stock during the year ended December 31, 2008, except that Rinaldo A. DePaola filed late one Form 4 for two transactions.

### Transactions with Management

Loans and Extensions of Credit. During 2008 certain directors, nominees, and executive officers or their associates received loans or commitments from the Bank. These transactions were made in the ordinary course of the Bank's business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and did not involve more than the normal risk of collectability or present other unfavorable features. Total loans outstanding from the Bank at December 31, 2008, to the Company's officers, directors and nominees as a group and members of their immediate families and companies in which they had an ownership interest of 5% or more was \$3,163,763, or approximately 5.8% of the total equity capital of the Bank. The aggregate amount of indebtedness outstanding as of the latest practicable date, March 2, 2009, to the above described group was \$2,856,581.

The Company's policies require that any loan to a director that would cause his/her aggregate loan relationship to exceed \$200,000 must be approved in advance by a majority of the disinterested members of the Board of Directors. Any loan to an executive officer in the aggregate greater than \$100,000 must be approved in advance by a majority vote of the Board of Directors.

## SUBMISSION OF SHAREHOLDER PROPOSALS

Shareholder Proposals for Inclusion in Proxy Statement. The Company must receive proposals that shareholders seek to include in the Proxy Statement for the Company's next Annual Meeting no later than November 12, 2009. If next

year's Annual Meeting is held on a date more than 30 calendar days from April 21, 2010, a shareholder proposal must be received by a reasonable time before the Company begins to print and mail its proxy solicitation for such Annual Meeting. Any shareholder proposals will be subject to the requirements of the proxy rules adopted by the Securities and Exchange Commission.

## SHAREHOLDER COMMUNICATIONS

The Company encourages shareholder communications to the Board of Directors and/or individual directors. Communications regarding financial or accounting policies may be made to the Chairman of the Audit and Examination Committee, E. Gene Kosa, at First Citizens National Bank, 15 South Main Street, Mansfield, Pennsylvania 16933. Other communications to the Board of Directors may be made to the Chairman of the Governance and Nomination Committee, Mark L. Dalton, at First Citizens National Bank, 15 South Main Street, Mansfield, Pennsylvania 16933. Communications to individual directors may be made to such director at the principal office at First Citizens National Bank, 15 South Main Street, Mansfield, Pennsylvania 16933.

## MISCELLANEOUS

The Company will pay the cost of this proxy solicitation. The Company will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of Company common stock. In addition to soliciting proxies by mail, directors, officers and regular employees of the Company may solicit proxies personally, by email or by telephone without receiving additional compensation.

A COPY OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K, WITHOUT EXHIBITS, FOR THE YEAR ENDED DECEMBER 31, 2008, AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, WILL BE FURNISHED WITHOUT CHARGE TO PERSONS WHO WERE SHAREHOLDERS AS OF THE CLOSE OF BUSINESS ON MARCH 2, 2009 UPON WRITTEN REQUEST TO MICKEY L. JONES, TREASURER, CITIZENS FINANCIAL SERVICES, INC., 15 SOUTH MAIN STREET, MANSFIELD, PENNSYLVANIA 16933-1590.

If you and others who share your address own shares in street name, your broker or other holder of record may be sending only one Annual Report on Form 10-K and Proxy Statement to your address. This practice, known as "householding," is designed to reduce our printing and postage costs. However, if a shareholder residing at such an address wishes to receive a separate Annual Report on Form 10-K or Proxy Statement in the future, he or she should contact the broker or other holder of record. If you own your shares in street name and are receiving multiple copies of our Annual Report on Form 10-K and Proxy Statement, you can request householding by contacting your broker or other holder of record.

Our proxy materials are available over the Internet. Go to the Website <https://www.shareholderaccountingsoftware.com/tspweb/fcnb/pxsignon.asp>, enter your 12 digit control number and click the Reports button to view our proxy materials. Alternatively, you may visit [www.firstcitizensbank.com](http://www.firstcitizensbank.com) and click on Investor Relations.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Randall E. Black  
Randall E. Black  
CHIEF EXECUTIVE OFFICER AND PRESIDENT

Mansfield, Pennsylvania  
March 12, 2009



REVOCABLE PROXY  
CITIZENS FINANCIAL SERVICES, INC.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS.

The shareholder signing this proxy card appoints Terry B. Osborne and Robert B. Mosso, or either of them acting in the absence of the other, as proxyholders, each with the power to appoint his substitute, and authorizes them to represent and to vote, as designated below, all of the shares of the common stock, \$1.00 par value per share, of Citizens Financial Services, Inc. that the shareholder holds of record on March 2, 2009, at the Annual Meeting of Shareholders of Citizens Financial Services, Inc. to be held on April 21, 2009, and at any adjournment thereof.

THIS PROXY, WHEN PROPERLY SIGNED AND DATED BY YOU, WILL BE VOTED IN THE MANNER YOU DIRECT ON THIS CARD. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE LISTED NOMINEES IN THE ELECTION OF DIRECTORS, FOR THE PROPOSAL TO RATIFY ACCOUNTANTS, AND IN THE DISCRETION OF THE PROXYHOLDERS NAMED IN THIS PROXY, UPON SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE ANNUAL MEETING OR ANY ADJOURNMENT. THIS PROXY ALSO CONFERS DISCRETIONARY AUTHORITY ON THE BOARD OF DIRECTORS TO VOTE WITH RESPECT TO THE ELECTION OF ANY PERSON AS DIRECTOR WHERE THE NOMINEES ARE UNABLE TO SERVE OR FOR GOOD CAUSE WILL NOT SERVE AND MATTERS INCIDENT TO THE CONDUCT OF THE MEETING.

THIS PROXY MAY BE REVOKED BY YOU AT ANY TIME BEFORE IT IS VOTED AT THE ANNUAL MEETING.

PLEASE COMPLETE, DATE, SIGN AND MAIL THIS PROXY PROMPTLY  
IN THE ENCLOSED ENVELOPE OR VOTE VIA THE INTERNET.

(Continued, and to be marked, dated and signed, on the other side)

YOUR VOTE IS IMPORTANT!

You can vote in one of two ways:

1. Via the internet at <https://www.shareholderaccountingsoftware.com/tspweb/fcnb/pxsignon.asp> and follow the instructions. Alternatively, you may visit [www.firstcitizensbank.com](http://www.firstcitizensbank.com) and click on the Vote Proxy button.

or

2. Mark, sign and date your proxy card and return it promptly in the enclosed envelope.

PLEASE SEE REVERSE SIDE FOR VOTING INSTRUCTIONS



THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR"  
ALL OF THE MATTERS BELOW.

1. Election of Class 1 Directors:

NOMINEES: 01 – E. Gene Kosa; 02 – R. Joseph Landy; 03 – Roger C. Graham, Jr.;  
04 – Robert W. Chappell

FOR all nominees listed (except as marked to the contrary below)

WITHHOLD authority to vote for all nominees listed

(INSTRUCTION: To withhold authority to vote for one or more individual nominees, write the nominees' names or numbers on the line below.)

2. Proposal to ratify the appointment of S.R. Snodgrass, A.C., Certified Public Accountants, as independent auditor for the Company for the fiscal year ending December 31, 2009.

For                       Against                       Abstain

DATE: \_\_\_\_\_, 2009  
Signature \_\_\_\_\_

\_\_\_\_\_  
Signature

Please sign exactly as your name appears on the other side of this proxy and print the date on which you sign the proxy in the spaces provided above. If signed on behalf of a corporation, please sign in corporate name by an authorized officer. If signing as a representative, please give full title as such. For joint accounts, only one owner is required to sign.

Luncheon Reservation

To make a reservation for you and a guest, please RSVP by April 1, 2009

I will attend the luncheon, please include my reservation for \_\_\_\_\_ person(s)

I will be unable to attend the luncheon

INSTRUCTIONS FOR VOTING YOUR PROXY

Shareholders of record have two alternative ways of voting their proxies: (1) by mail (traditional method); or (2) by Internet.

Your Internet vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed, dated and returned your proxy card. Please note all votes cast via the Internet must be cast prior to 3:00 a.m., local time, April 21, 2009.

VOTE BY INTERNET

It's fast, convenient, and your vote is immediately confirmed and posted.



Follow these easy steps:

1. Go to the Website <https://www.shareholderaccountingsoftware.com/tspweb/fcnb/pxsignon.asp>. Alternatively, you may visit [www.firstcitizensbank.com](http://www.firstcitizensbank.com) and click on the Vote Proxy button.
2. Enter your 12 digit control number located on your Proxy Card [below/reverse side].
3. Click the Reports button to view our proxy materials.
4. Click the Vote Proxy button to vote.

Your vote is important!

Go to <https://www.shareholderaccountingsoftware.com/tspweb/fcnb/pxsignon.asp>

IT IS NOT NECESSARY TO RETURN YOUR PROXY CARD IF YOU ARE VOTING BY INTERNET

PLEASE NOTE THAT THE LAST VOTE RECEIVED, WHETHER BY INTERNET OR BY MAIL, WILL BE THE VOTE COUNTED.