FARMERS NATIONAL BANC CORP /OH/
Form DEFR14A
March 17, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No. 1)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

Farmers National Banc Corp.

(Name of Registrant as Specified In Its Charter)

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(1) Amount Previously Paid:

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

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AMENDMENT NO. 1 TO
PROXY STATEMENT
FARMERS NATIONAL BANC CORP.
20 SOUTH BROAD STREET
CANFIELD, OHIO 44406
PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS
APRIL 13, 2010

Explanatory Note: This Amendment Number 1 to the Proxy Statement of Farmers National Banc Corp. (the Corporation), amends only those Items of the Proxy Statement originally filed on March 16, 2010 which are contained herein. All other Items of the Proxy Statement originally filed on March 16, 2010 are incorporated herein by reference without changes. This Amendment is filed solely to correct the indicated date of proxy and approximate date on which the Proxy Statement and form of proxy were first sent to shareholders from March 19, 2010 to March 16, 2010.

FARMERS NATIONAL BANC CORP.
20 SOUTH BROAD STREET
CANFIELD, OHIO 44406
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON TUESDAY, APRIL 13, 2010

TO THE HOLDERS OF SHARES OF COMMON STOCK:

NOTICE IS HEREBY GIVEN that pursuant to a call of its Board of Directors, the Annual Meeting of the Shareholders of **FARMERS NATIONAL BANC CORP.,** Canfield, Ohio will be held at **St. Michaels Family Life Center at 340 North Broad Street Canfield, Ohio 44406 on Tuesday, April 13, 2010** at **three-thirty o clock (3:30) P.M.**, Eastern Standard Time, for the purpose of considering and voting upon the following matters:

1. ELECTION OF DIRECTORS. The election of three (3) individual directors listed in the accompanying Proxy Statement for terms expiring in 2013.
2. INDEMNIFICATION AGREEMENT. To approve the form and use of the Corporation s indemnification agreement for directors.

3. OMNIBUS STOCK OPTION PLAN. To approve and adopt the Omnibus Stock Option Plan.

TO TRANSACT SUCH OTHER BUSINESS as may properly come before the Meeting or any adjournment thereof.

Shareholders of record at the close of business on February 22, 2010 are the only shareholders entitled to notice of and to vote at the Annual Shareholders Meeting.

The Corporation is pleased to announce that pursuant to recent Securities and Exchange Commission (the SEC) rules pertaining to e-proxies the enclosed proxy materials will also be available to our shareholders on the Internet at http://www.fnbcanfield.com/privacy/Proxy.html.

By Order of the Board of Directors,

Frank L. Paden, President & Secretary

Canfield, Ohio
March 16, 2010

IT IS IMPORTANT THAT PROXIES BE RETURNED PROMPTLY. THEREFORE, WHETHER OR NOT YOU PLAN TO BE PRESENT IN PERSON AT THE ANNUAL MEETING, PLEASE SIGN, DATE AND COMPLETE THE ENCLOSED PROXY AND RETURN IT IN THE ENCLOSED ENVELOPE WHICH REQUIRES NO POSTAGE.

FARMERS NATIONAL BANC CORP.
20 SOUTH BROAD STREET
CANFIELD, OHIO 44406
PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS
APRIL 13, 2010

Farmers National Banc Corp., herein referred to as Farmers or the Corporation is furnishing this Proxy Statement to its shareholders in connection with the solicitation, by order of the Board of Directors of Farmers, of proxies to be used at the Annual Meeting of Shareholders to be held on Tuesday April 13, 2010 at 3:30 P.M., Eastern Standard Time, at St. Michaels Family Life Center at 340 North Broad Street, Canfield, Ohio 44406, and at any adjournments thereof.

The Corporation is a multi-bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Corporation has three subsidiaries, Farmers National Bank of Canfield (the Bank), an independent community bank with 16 offices; Farmers Trust Company, a non-depository trust bank; and Farmers National Insurance, LLC. The Corporation and its subsidiaries operate in one industry, domestic banking.

The cost for solicitation of proxies will be borne by Farmers. Brokerage firms and other custodians, nominees and fiduciaries may be requested to forward soliciting material to their principals and to obtain authorization for the execution of proxies. Farmers will, upon request, reimburse brokerage firms, and other custodians, nominees and fiduciaries for the execution of proxies and for their expenses in forwarding proxy material to their principals.

Compliant with rules adopted by the SEC, Farmers has elected to provide its shareholders with a hard copy of all of its proxy materials as it has previously provided in the past and also provide its shareholders with access to its proxy materials over the Internet. Accordingly, a Notice of Internet Availability of Proxy Materials (the Notice), the proxy statement and the form of proxy are being mailed on March 16, 2010 or as soon as thereafter practicable to all shareholders entitled to vote at the meeting. All shareholders will have the ability to access the proxy materials on the website referred to in the Notice. Instructions on how to access the proxy materials over the Internet may be found in the Notice. In addition to use of mails, proxies may be solicited by officers, directors, and employees of Farmers by personal interview, telephone or other forms of direct communication. Morrow and Co., LLC has been engaged to solicit proxies on behalf of Farmers for a fee, excluding expenses, of approximately $4,000.

The 2009 Annual Report, including the required audited financial statements of the Corporation and related financial information, is enclosed with this proxy statement and form of proxy and is also available on the Internet.

VOTING RIGHTS

Only shareholders of record at the close of business on February 22, 2010 will be entitled to vote at the Annual Meeting. As of February 22, 2010, Farmers had issued and outstanding 13,519,605 shares of common stock with no par value held by approximately 3,760 shareholders of record eligible to vote. Each outstanding share entitles the record holder to one vote. The number of shares present at the Annual Meeting in person or by proxy will constitute a quorum for the transaction of business.

It is important that your stock be represented at the Annual Meeting, regardless of the number of shares you may own. We would appreciate your signing and returning the enclosed proxy. The shares represented by each proxy, which is properly executed and returned to Farmers, will be voted in accordance with the instructions indicated in such proxy. If no instructions are indicated, shares represented by your proxy will be voted FOR the election of each of the directors as described herein under Proposal No. 1, FOR the form and use of the Indemnification Agreement as described herein under Proposal No. 2 and FOR the approval and adoption of the Omnibus Stock Option Plan as described herein under Proposal No. 3.

The proxy may be revoked at any time prior to its exercise, by delivering notice of revocation or a duly executed proxy bearing a later date to the Treasurer of the Corporation at any time before the proxy is voted. Shareholders who attend the Annual Meeting in person may vote their stock even though they may have sent in a proxy. No officer or employee of Farmers may be named as a proxy. If you received two or more proxy forms because of a difference in addresses or registration of shareholdings, each should be executed and returned in order to assure a complete tabulation of shares.

The Corporation will appoint two employees to act as inspectors for the purpose of tabulating the votes cast by proxy. Broker non-votes and abstentions are not treated as votes cast for purposes of any of the matters to be voted on at the meeting.

The directors standing for re-election under Proposal No. 1 shall be elected by a plurality of the votes cast. The form of Indemnification Agreement under Proposal No. 2 shall pass upon the affirmative vote of a majority of the shares issued and outstanding, excluding shares held by interested directors. The Omnibus Stock Option Plan under Proposal No. 3 shall pass upon the affirmative vote of the majority of the shares issued and outstanding.

The Board of Directors knows of no other business that will be presented for consideration at the 2009 Annual Meeting other than the matters described in this Proxy Statement. If any other matters should come before the meeting, the proxy holders will vote upon them in accordance with their best judgment.

OVERVIEW OF PROPOSALS

This proxy statement contains three proposals requiring shareholder action. Proposal No. 1 requests the election of three directors to the Board. Proposal No. 2 requests the approval of the Form and Use of Indemnification Agreements for its directors. Proposal No. 3 requests the approval and adoption of the Corporation s Omnibus Stock Option Plan. Each of the proposals is discussed in more detail in the pages that follow.

PROPOSAL NO. 1: ELECTION OF DIRECTORS

The Board of Directors of the Corporation currently consists of eight (8) directors and is divided into three (3) Classes. Three (3) directors are in Class III; their terms expire April 2010 and each are up for election this year, three (3) directors are in Class II; their terms expire April 2012, and two (2) directors are in Class I; their terms expire April 2011. Pursuant to the Code of Regulations, the authorized number of directors has been set at eight (8). The Board of Directors has nominated the three (3) persons named below to serve as directors in accordance with the proposal. The class in which each director is designated is identified below. Each of the nominees is presently a member of the Board of Directors and has consented to serve another term as director if re-elected. If any of the nominees should be unavailable to serve for any reason (which is not anticipated), the Board of Directors may designate a substitute nominee or nominees (in which case the persons named on the enclosed proxy card will vote all valid proxy cards for the election of such substitute nominee or nominees), allow the vacancy or vacancies to remain open until a suitable candidate or candidates are located, or approve a resolution that provides for a lesser number of directors. It is presently anticipated that each person elected as a director of the Corporation at the annual meeting will also be elected as a director of Farmers National Bank of Canfield pursuant to a designation and vote of the Corporation.

The three (3) Class III nominees proposed for election at this Annual Meeting are Ralph D. Macali, Frank L. Paden and Earl R. Scott.

Mr. Ralph A. Macali. Mr. Macali was elected to the Board of Directors in 2001. Mr. Macali is a resident of, and part owner of various businesses within Trumbull County. Mr. Macali is the Vice President of Palmer J. Macali, Inc., which owns and operates a Giant Eagle retail grocery supermarket, a partner in P.M.R.P. Partnership which owns commercial and residential real estate and a partner in Macali Family Limited Partnership which owns various retail stores. Mr. Macali s professional background and experience in business administration, accounting, real estate management, retail operational management, marketing and risk management lends much support to the needed oversight of the Bank s presence in Trumbull County as well and the products and services offered by the Bank to deal with those markets versus the competition. In addition, Mr. Macali s guidance on wealth management and investments as part of the Board s oversight roll is valuable to the Bank s various business functions. As a current Director, Mr. Macali serves on the Board s Loan Committee, Audit Committee and Risk Management Committee.

Mr. Frank L. Paden. Mr. Paden was elected to the Board of Directors in 1992. He has been employed with the Bank since 1974 following graduation from college with a degree in Economics. During his career with the Bank, Mr. Paden has served a variety of roles within the Bank with a concentration in lending and executive administration. In 1995, Mr. Paden was appointed President and Secretary of the Corporation and currently serves in that function. Since the Corporation does not have an official Board chairperson, Mr. Paden also serves the function of Chairman of the Board of Directors providing administrative guidance to the Board. He also serves as President and Chief-Executive Officer of the Bank. Mr. Paden has over 35 years of experience with the Corporation and his vast experience in the banking industry lends much support to his leadership and the Bank s role in the community and industry. As a result of his extensive experience within the banking industry, Mr. Paden brings sound administration guidance; effective communication of the Board s strategic plans to the Bank s officers and employees; extensive knowledge of the regulatory and compliance issues surrounding the Bank; and has effectively managed and implemented the Bank s strategic plans.

Mr. Earl R. Scott. Mr. Scott was elected to the Board of Directors in 2003. Mr. Scott is a CPA and President of Reali, Giampetro & Scott, a local accounting firm with offices in Mahoning County, Ohio and Mercer County, Pennsylvania. Mr. Scott brings over thirty years of accounting experience to the Board of Directors and the committees on which he serves. Mr. Scott has extensive experience in budgeting, audit, tax, corporate governance, compensation related issues and operational management that is critical in the role of a director of the Corporation. Mr. Scott currently serves as the Chairman of the Audit Committee and is qualified as a financial expert under Sarbanes Oxley. Mr. Scott also serves on the Board s Loan Committee, Audit Committee, and Risk Management Committee. In addition, Mr. Scott serves as a director on the Corporation s wholly owned subsidiary, Farmers Trust Company.

In nominating the three candidates for re-election, the Nominating Committee and the Board of Directors believes that their past contributions to the Corporation as well as their varied corporate experiences, diversity of persons, qualifications and attributes bring value to both the Board of Directors and the Corporation. The Board of Directors has further discussed and reviewed each of their intentions to continue to serve the Corporation and has reviewed their board and committee attendance, performance and independence. A detailed background on the three nominees for election and the current members to the Board of Directors can be found under the heading Information with Respect to Directors and Nominees below.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR ELECTION OF THE THREE NOMINEES NAMED IN THIS PROXY STATEMENT.

PROPOSAL NO. 2: APPROVAL OF THE FORM AND USE OF INDEMNIFICATION AGREEMENTS FOR DIRECTORS

At the Annual Meeting, shareholders will be asked to approve the entry into Indemnification Agreements with the Corporation s directors and officers in the form of agreement attached to this proxy statement as Appendix A. Section 1701.60(A)(1)(b) of the Ohio General Corporation Law provides that a conflict of interest transaction between a corporation and one or more of its directors, including entry into an indemnification contract between a corporation and a director, is not voidable by the corporation simply because of the director s interest in the transaction if the material facts of the transaction and the director s interest in the transaction are disclosed to shareholders and if the shareholders nevertheless approve the transaction. The minimum shareholder vote that is necessary for this purpose is the affirmative vote of a majority of the shares issued and outstanding, excluding shares held by interested directors. Shareholder approval is not necessary if the transaction or contract is fair to the corporation. The Board of Directors believes the form of indemnification agreement is fair to the Corporation and that shareholder approval is therefore not absolutely necessary under Ohio law, the Board of Directors nevertheless believes it is appropriate that shareholders be given the opportunity to vote on this matter. If the indemnification agreement is ever challenged, shareholder approval would make it unnecessary for a director to prove that the agreement is fair to the Corporation, and for that reason the Board of Directors is submitting this proposal for shareholders consideration and vote at the Annual Meeting.

Why Provide Indemnification?

Like every other company, the Corporation must attract and retain qualified people to serve as directors and officers. It is in the Corporation s and its shareholders best interests that these people be able to exercise judgment on the company s behalf without exposure to unreasonable personal risk. Increases in directors and officers litigation risks impair a company s ability to recruit and retain qualified people. Therefore, the Corporation believes it is necessary and desirable to provide directors and officers with the assurance that the burden of liability and litigation expenses arising out of their services will be indemnified to the full extent permitted by the Ohio General Corporation Law.

The proposed form of indemnification agreement included in Appendix A does not alter the standard of care directors owe the Corporation and its shareholders under the Ohio General Corporation Law. Indemnification also cannot affect a director s potential liability under the federal securities laws. Insofar as indemnification for liabilities under the Securities Act of 1933 may be permitted under the articles of incorporation, the regulations and the proposed form of indemnification agreement, it is the opinion of the Securities and Exchange Commission that such indemnification is against public policy and is therefore unenforceable.

Under Ohio law, a corporation may indemnify its directors and officers against liabilities arising out of their service to the corporation. A corporation may also advance a director s or officer s litigation expenses before the litigation is concluded. In addition, Ohio law also provides that a corporation may provide broader indemnification rights to directors and officers through indemnification provisions in its governing documents as well as through private indemnification contracts. The Corporation proposes to enter into indemnification agreements with directors and officers in substantially the form attached to this proxy statement as Appendix A.

The following discussion of the indemnification and other provisions of the Ohio General Corporation Law and the Corporation s governing documents is merely a summary. The discussion is qualified in its entirety by reference to the Ohio General Corporation Law and the Corporation s governing documents, including the provisions cited in the discussion. The Corporation is not aware of any pending or threatened litigation that would lead to claims under the articles of incorporation, the regulations, or the form of indemnification agreements.

The Ohio General Corporation Law Provides Limited Statutory Indemnification Rights

Permitted Indemnification in General. Section 1701.13(E) of the Ohio General Corporation Law grants to Ohio corporations the power to indemnify directors within prescribed limits, requiring indemnification in some circumstances. The scope of authorized indemnification is more limited in the context of a shareholder s lawsuit brought on behalf of the corporation a so-called derivative suit than it is in other litigation contexts.

Indemnification Is Required If the Director s Defense Is Successful. Under Ohio General Corporation Law section 1701.13(E)(3), an Ohio corporation must indemnify a director who is wholly successful in a derivative suit or in a nonderivative suit, whether the director is successful on the merits or on another basis.

Indemnification Is Allowed If the Director or Officer Satisfied the Ohio General Corporation Law Standard of Conduct, Even If the Director s Defense Is Not Successful. If a director is not successful in the defense of litigation but nevertheless satisfied the standard of conduct established under the Ohio General Corporation Law, indemnification is discretionary. Indemnification also may be ordered by a court even if the director did not satisfy the required standard of conduct. The general standard of conduct required of directors stated is section 1701.59(B) of the Ohio General Corporation Law.

(A) A director shall perform the director s duties as a director, including the duties as a member of any committee of the directors upon which the director may serve, in good faith, in a manner the director reasonably believes to be in or not opposed to the best interests of the corporation, and with the care that an ordinarily prudent person in a like position would use under similar circumstances.

No Indemnification If the Director Acted Negligently or Improperly Obtained a Personal Benefit. Ohio law does not authorize indemnification in a derivative suit if the director is held liable to the corporation. Indemnification in those cases may be ordered by a court, however.

Advancement of Directors Expenses. If a director of an Ohio corporation is named as a defendant in litigation, the corporation may advance the director s expenses if the director agrees to repay the amount advanced if it is ultimately determined that the director did not satisfy the applicable standard of conduct. Expenses includes attorneys fees.

Farmers National Banc Corp s Governing Documents Provide Limited Indemnification Rights

Articles of Incorporation. Many corporations provide for indemnification in their governing documents, clarifying and in some cases expanding upon the indemnification provided by statute. Article X.B of the Corporation s Articles of Incorporation provides for discretionary indemnification of directors in the very limited context of litigation involving a contract or transaction between the Corporation and a subsidiary of the Corporation.

Indemnification Rights under a Company s Governing Instruments or and under Ohio Law Are Not Exclusive of Indemnification Rights under Private Agreements. Section 1701.13(E)(6) of the Ohio General Corporation Law allows an Ohio corporation to purchase and maintain insurance and enter into private indemnification agreements to protect directors, officers, employees, and agents from liability, regardless of whether the power to indemnify those individuals exists under Ohio law.

We Propose That Shareholders Approve the Form and Use of Director Indemnification Agreements

Indemnification Rights under a Corporation s Governing Documents Can Be Taken Away Without Directors Consent. The indemnification protection of the Corporation s governing documents could become ineffective. For example, if the Corporation merges into another company, the Corporation s Articles of Incorporation would be cancelled. Additionally, the Articles of Incorporation could be amended after a change in control of the Corporation to delete or limit indemnification rights.

Indemnification Agreements Are Private Contracts; Directors Contract Rights Cannot Be Taken Away Unless They Consent. In contrast, if the Corporation enters into indemnification agreements with directors, the indemnification rights under those agreements would not be eliminated automatically by a merger and they would not be affected by amendment of the articles of incorporation or regulations. Indemnification agreements are private contracts, granting indemnification rights that can be modified or taken away solely with the approval of the parties to the contract, regardless of whether the articles of incorporation and regulations are cancelled or amended.

What Rights Do the Indemnification Agreements Provide? Shareholders should read the form of indemnification agreement included in Appendix A. The agreement requires the Corporation to indemnify directors, allowing directors to select the most favorable indemnification rights provided under:

- Corporation s articles of incorporation and regulations in effect on the date of the indemnification agreement or on the date expenses are incurred,
- state law in effect on the date of the indemnification agreement or on the date expenses are incurred,
- any liability insurance policy in effect when a claim is made against the director or on the date expenses are incurred, and
- any other indemnification arrangement otherwise available.

The director would have the right to be reimbursed for expenses as they are incurred, but only if the director files with the Corporation an undertaking to repay that amount if it is later determined that the director must repay the advance reimbursement for expenses. No indemnification will be required under the indemnification agreements for actions, fines, or penalties that are specifically excluded from indemnification coverage under applicable law, for claims arising under the short-swing trading prohibition of Section 16(b) of the Securities Exchange Act of 1934, or for any proceeding initiated by the director without the consent of the Board, except in limited cases.

What If Shareholders Do Not Approve the Form and Use of Director Indemnification Agreements? The Board of Directors has not determined what action, if any, it will take if shareholders do not approve the form and use of director indemnification agreements. Even if shareholders do not approve the agreements, the Board of Directors could nevertheless enter into the proposed agreements with directors based on its opinion that the agreements are fair to the Corporation. The Corporation may also enter into indemnification agreements in the form attached to this proxy statement as Appendix A with officers. Shareholder approval is not necessary for an Ohio corporation to enter into indemnification agreement with officers.

Approval of the Form and Use of Director Indemnification Agreements Requires the Affirmative Vote of a Majority Vote of the Shares Outstanding

Approval of the form and use of indemnification agreements for directors requires the affirmative vote of a majority of the voting power, meaning a majority of all shares issued and outstanding. Under section 1701.60(A)(1)(b) of the Ohio General Corporation Law, shares held by directors are excluded from the calculation of the number and percentage of shares voting for approval of a conflict of interest transaction. As a group, the Corporation s Board of Directors owns or controls 656,952 shares and the power to vote approximately 4.96% of the voting power of the Corporation s outstanding shares. Abstentions and broker non-votes will have the same effect as votes against the form and use of indemnification agreements with directors, because the proposal requires the affirmative vote of a specified percentage of all shares outstanding, excluding shares held by directors. The preceding discussion of the indemnification agreement is merely a summary. The discussion is qualified in its entirety by reference to the form of indemnification agreement attached to this proxy statement as Appendix A.

THE BOARD RECOMMENDS THAT SHAREHOLDERS VOTE *FOR* APPROVAL OF THE FORM AND USE OF DIRECTOR INDEMNIFICATION AGREEMENTS

PROPOSAL NO. 3: ADOPTION OF THE OMNIBUS EQUITY PLAN

General

At the Annual Meeting, shareholders will be asked to approve the Omnibus Equity Plan. At its February 9, 2010 meeting and with the recommendation of the Executive Compensation and Employees Salary Committee, the Board of Directors adopted the Omnibus Equity Plan, subject to shareholder approval. We are submitting the proposal to approve the Omnibus Equity Plan for your consideration and vote at the Annual Meeting because doing so is consistent not only with our historical practices but also with principles of good corporate governance. Additionally, the tax-advantaged treatment of incentive stock options provided by Internal Revenue Code section 422 is conditional upon approval of the plan by shareholders. The exemption for performance-based compensation from the $1,000,000 compensation deduction limitation of Internal Revenue Code section 162(m) likewise is conditioned upon shareholder approval. Additional information about the tax treatment of incentive stock options under section 422 and performance-based compensation under section 162(m) is contained in this discussion under the subheading Federal Income Tax Consequences. Finally, approval of the Omnibus Equity Plan by our shareholders is necessary to ensure that shares awarded under the Omnibus Equity Plan are released from shareholders preemptive rights that exist under Article XIII of our Articles of Incorporation.

The goal of the Omnibus Equity Plan is to promote our long-term financial success and to increase shareholder value. In contrast to our 1999 Stock Option Plan, which expired in March 2009 and which provided solely for stock option awards and stock appreciation rights, the Omnibus Equity Plan gives us authority to make awards of stock options and stock appreciation rights as well as restricted stock and performance share awards. Awards may be made to our employees and employees of our subsidiaries. Awards of stock options and restricted stock may also be made to directors who are not employees of the Corporation or any of our subsidiaries. The Omnibus Equity Plan will enhance our ability to attract and retain the services of employees and directors upon whose judgment, skill, and efforts the successful conduct of our business depends. The variety of awards that may be made gives us flexibility to respond to changes in equity compensation practices in the market for banking talent in which we compete.

The Omnibus Equity Plan contains provisions that we believe are consistent with the interests of shareholders and principles of good corporate governance. For example, stock options and stock appreciation rights must have an exercise price equal to or greater than the fair market value of the Corporation s common stock on the date the award is made. Similarly, the plan prohibits repricing of stock options and stock appreciation rights without shareholder approval. In other words, if the fair market value of the Corporation s stock experiences a sustained decline to a price less than the exercise price of a stock option, for example, we cannot freely adjust the exercise price of the option to compensate for loss of the option s value. The principal features of the Omnibus Equity Plan are summarized below, but a copy of the plan is included as Appendix 2. We encourage you to read the plan in its entirety. References in this summary to the Code mean the Internal Revenue Code of 1986, as amended.

Authorized Shares

The Omnibus Equity Plan authorizes the issuance of 1,200,000 shares of our common stock. That number amounts to approximately 9% of our total outstanding shares. Shares of our common stock issued under the plan may consist in whole or in part of treasury shares or authorized and unissued shares not reserved for any other purpose. If an award made under the plan is later forfeited, terminated, exchanged, or otherwise settled without the issuance of shares or payment of cash, the shares associated with that award may again become available for future grants.

Awards

Awards to Employees. Awards to employees under the Omnibus Equity Plan may take the form of:

- incentive stock options that qualify for favored tax treatment under Code section 422,
- stock options that do not qualify under Code section 422,
- stock appreciation rights,
- restricted stock, including restricted stock units, and
- performance shares.

Each of those awards is described in more detail below.

Awards to Non-Employee Directors. In contrast to the kinds of awards that may be made to employees, non-employee directors are eligible for awards of non-qualified stock options and restricted stock only.

Award Agreements. The terms of each award will be described in an award agreement between the Corporation and the person to whom the award is granted. By accepting an award, the person to whom the award is granted agrees to be bound by the terms of the plan and the award agreement. If there is a conflict between the terms of the Omnibus Equity Plan and the terms of the associated award agreement, the terms of the plan will govern.

Plan Administration

A committee of our Board of Directors will administer the plan. Known as the Plan Committee, the committee must consist of at least three individuals, each of whom must be:

- an outside director within the meaning of Code section 162(m), receiving no compensation from us or from a related entity in any capacity other than as a director, except as permitted by the Code,
- a non-employee director within the meaning of the Securities and Exchange Commission s Rule 16b-3, and
- an independent director within the meaning of Nasdaq s Marketplace Rules, specifically Rule 5605(a)(2).

The Board of Directors designated its Compensation Committee to serve as the Plan Committee. The Board of Directors believes that each of the individual members of that committee satisfies the independence requirements of Code section 162(m), SEC Rule 16b-3, and Nasdaq rules.

The Plan Committee has final authority to make awards to employees and establish award terms. The amount and terms of equity awards to non-employee directors, however, must be established by the entire Board of Directors. Accordingly, when the term Plan Committee is used in reference to grants to non-employee directors, the term means the entire Board of Directors. The Plan Committee s authority includes the power to:

- construe and interpret the plan,
- adopt, amend, and rescind rules and regulations relating to administration of the plan,
- determine the types of awards to be made to employees,
- designate the employees to whom the awards will be made,
- specify the terms and conditions of each award, including the procedures for exercising an award, and
- administer any performance-based awards, including certifying that applicable performance objectives are satisfied.

Under section 14.5 of the Omnibus Equity Plan, our directors are entitled to indemnification by us for liabilities arising under the plan.

Award Eligibility

The Plan Committee may make awards to any employee of our company or any of our subsidiaries. There are approximately two hundred eighty-seven (287) full-time employees of the Corporation, Bank, Trust Company and Insurance Agency who will be eligible for an award, including their officers. The Corporation currently has seven (7) non-employee directors who likewise will be eligible for awards. The selection of participants and the nature and size of awards are within the discretion of the Plan Committee in the case of awards to employees, and they are within the discretion of the Board of Directors in the case of awards to non-employee directors. No awards have been made under the Plan. No discretionary awards to employees or directors are currently determinable.

Award Limits

Of the shares authorized for issuance under the Omnibus Equity Plan, up to 600,000 may be reserved for issuance under incentive stock options. The aggregate number of shares underlying awards granted to an individual participant in a single year may not exceed 5% (60,000 shares) of the aggregate amount authorized to be issued under the plan.

Adjustments

If a corporate transaction such as a stock dividend, stock split, recapitalization, merger, or other similar corporate change affects our outstanding shares of common stock, the Plan Committee will make adjustments to prevent dilution or enlargement of benefits provided under the Omnibus Equity Plan, including adjustment of the number of shares authorized under the plan, adjustment of award limits, and adjustments of the terms of outstanding awards.

Description of Awards

Options. An option is the right to acquire shares of our common stock during a stated period at a specified exercise price. An option may be an incentive stock option or *ISO* qualifying for favored tax treatment under Code section 422. ISOs may be granted to employees only. Any option that is not an ISO is known as a non-qualified stock option or *NQSO*. An NQSO may be granted to employees or non-employee directors.

The exercise price of an option is determined by the Plan Committee. However, an option s exercise price may not be less than the fair market value of a share of our common stock on the date the option is granted. Fair market value in this context is determined according to the following rules:

- if our common stock is traded on an exchange or on an automated quotation system giving closing prices, fair market value means the reported closing price on the relevant date if the date is a trading day and otherwise on the next trading day, or
- if our common stock is traded over-the-counter with no reported closing price, fair market value is the mean between the highest bid and the lowest asked prices on that quotation system on the relevant date if the date is a trading day and otherwise on the next trading day, or
- if neither of the above circumstances exists, fair market value is determined by the Plan Committee in good faith and, for ISOs, consistent with Code section 422 and, for NQSOs, consistent with Code section 409A and other applicable tax authority.

Our common stock is currently traded over-the-counter on the OTC Bulletin Board. The closing price of the stock on, March 2, 2010 was $4.35 per share. The Plan Committee will establish the term of each option, but the term of an ISO may not exceed ten years. Likewise, the term of an option granted to a non-employee director may not exceed ten years. However, an NQSO granted to an employee may have any term specified in the award agreement. The exercise price of an option must be paid in a form allowed by the Plan Committee, which may allow payment in cash or a cash equivalent, actual or constructive surrender of unrestricted shares of our common stock, or a combination of these payment methods. The Plan Committee may also allow a cashless stock option exercise. A cashless stock option exercise can take a variety of forms, but in essence it means the participant would pay no cash and surrender no other assets when he or she exercises the stock option and, rather than issuing to the participant the full number of shares for which the option is exercised, we would withhold and not issue to the participant a number of shares having a value equal to the exercise price. We would issue to the participant a net number of shares equal to the difference between the value of the entire option and the exercise price.

The aggregate fair market value of our common stock for which a participant s ISOs are exercisable for the first time in any calendar year under all of our stock option plans may not exceed $100,000. Fair market value for purposes of the ISO annual exercisability limit is determined as of the date the option is granted. The exercise price of an ISO granted to an employee who owns stock possessing more than 10% of the voting power of our outstanding stock may not be less than 110% of the fair market value of a share of common stock on the date of grant. The term of an ISO may not exceed five years if the employee owns stock possessing more than 10% of the voting power of our outstanding stock.

Stock Appreciation Rights. A stock appreciation right or *SAR* is the right to receive cash equal to the difference between the fair market value of a share of the Corporation s common stock on the date the SAR is exercised, on one hand, and the SAR s exercise price on the other. The exercise price of an SAR may not be less than the fair market value of our common stock on the date the SAR is granted. In other words, an SAR ordinarily is intended to yield the same value on the date of exercise as a stock option, although SARs ordinarily are more likely to be settled in cash rather than stock and the exercise of an SAR does not require delivery of consideration by the award recipient. As an alternative to cash settlement of an SAR, the award agreement may permit or require a participant to receive common stock having an aggregate fair market value on the exercise date equal to the amount of cash the participant would have received had the SAR been exercised for cash instead of stock, with any fractional share settled in cash. In contrast to the typical stock option, the expense of SARs is accounted for using liability accounting if the SAR can be settled in cash. The accounting expense of a typical stock option is fixed at the date of grant by an estimate of the option s value on that date. The expense associated with an SAR that may be settled in cash will vary with time as the value of the SAR varies, depending on changes in the stock s value during the life of the SAR.

Restricted Stock. A restricted stock award is an award of common stock that is subject to transfer restrictions and subject to the risk of forfeiture if conditions specified in the award agreement are not satisfied by the end of a specified period. During the restriction period established by the Plan Committee, restricted stock is considered to be held in escrow and may not be sold, transferred, or hypothecated. Restricted stock vests when the conditions to vesting stated in the award agreement are satisfied, and at that time the transfer restrictions and risk of forfeiture lapse and the shares are released to the participant.

Restricted stock is forfeited if the vesting conditions are not satisfied, and if that occurs the shares again become available under the plan for future awards. Unless an award agreement for restricted stock specifies otherwise, a participant who holds restricted stock has the right to receive dividends or other distributions on the shares and the right to vote the shares during the restriction period. But dividends or other distributions payable in the form of stock would themselves be considered shares of restricted stock and would be subject to the same restrictions and conditions as the original restricted stock award. Restricted stock unit awards are essentially the same as restricted stock awards, except that the holder of a restricted stock unit has no associated voting rights or the right to receive dividends. Dividends paid on shares may be credited to a restricted stock unit award, however, in the form of dividend equivalent units. Unvested awards generally are not transferable except as specified in the Plan.

Awards of restricted stock and restricted stock units are most likely to be made at no cost to the participant. However, the Plan Committee could make an award conditional upon the participant paying a purchase price for shares, in addition to other conditions that could be imposed. Although the Plan places no limitations on the conditions that may be imposed on awards, we expect that the principal condition imposed would consist of a time-vesting feature, meaning the award recipient would become fully vested in and the owner of unencumbered shares of common stock if the participant remains employed with us or the Bank for a specified period.

Performance Shares. Performance shares bear some similarities to restricted stock awards but also are distinct from restricted stock awards in some significant ways. Like the recipient of a restricted stock award, a performance share award recipient becomes fully vested in and acquires unencumbered ownership of shares if conditions imposed in the award agreement are satisfied by the end of the period specified in the award agreement. But as the name suggests, performance awards ordinarily become vested if and only if corporate goals or individual performance goals, or both, stated in the award agreement are satisfied by the end of the performance period, also specified in the award agreement. In contrast, and although this is not necessarily always the case, restricted stock awards ordinarily become vested with the mere passage of time, so long as the award recipient remains employed with the company. In contrast to stock option awards and to a lesser degree restricted stock awards, which ordinarily have terms that are more or less uniform from one grant to the next and from one award recipient to the next, the terms of performance share awards can vary quite widely. Terms having to do with such things as performance criteria and the duration of the period in which performance is measured need not be uniform and are likely to be influenced by the particular award recipient s responsibilities, our or the Bank s corporate goals and operating results, and other factors. Virtually every term of performance share awards can be customized for individual award recipients, with the only common denominator being the right to become the owner of unencumbered shares of our common stock if the performance criteria are satisfied. The performance criteria are likely to include a combination of some or all of these factors:

Net earnings or net income (before or after taxes)	Productivity ratios
Earnings per share	Share price (including, but not limited to growth measures and total shareholder return)
Deposit or asset growth	Expense targets
Net operating income	Credit quality
Return on assets and return on equity	Efficiency ratio
Earnings before or after taxes, interest, depreciation and/or amortization	Market share
Interest spread	Customer satisfaction
	Net income after cost of capital

The Board of Directors may award restricted stock to non-employee directors but performance shares may be awarded solely to employees. If the Plan Committee makes performance share awards, it will establish the performance criteria, select the participants or class of participants to whom the performance criteria apply, and designate the period over which performance will be measured. Unless the associated award agreement specifies otherwise, a participant may not exercise voting rights over shares subject to a performance award. But shares subject to a performance award may be credited with an allocable portion of dividends and other distributions paid on common stock. Dividends and other distributions allocable to unvested performance shares will be held by us as escrow agent during the period in which satisfaction of the performance criteria is determined, without interest crediting or other accruals while held in escrow. If dividends or other distributions are paid in the form of shares of common stock, those shares would themselves be considered performance shares and would be subject to the same conditions and restrictions as the original performance share award.

The Plan Committee will make appropriate adjustments to performance criteria to account for the impact of a stock dividend or stock split affecting the common stock or a recapitalization, merger, consolidation, combination, spin-off, distribution of assets to shareholders, exchange of shares, or similar corporate change. Unless otherwise provided in the plan or an employee participant s award agreement, at the end of the period in which satisfaction of the performance criteria is determined, the Plan Committee will certify that the employee has or has not satisfied the performance criteria. The shares will then be forfeited if the performance criteria are not satisfied. If the performance criteria are satisfied, the shares of our common stock will be issued to the employee participant.

Effect of Termination of Service on Awards

Unless the participant s award agreement provides otherwise, when a participant employee s service terminates or when a non-employee director participant s service terminates, the portion of any award held by the participant that is not exercisable is forfeited. All NQSOs, SARs, and ISOs held by the participant that are exercisable will be forfeited if not exercised before the earlier of the expiration date specified in the award agreement or 90 days after termination occurs. However, all of a participant s outstanding awards are forfeited if the participant s employment or director service terminates for cause or if in our judgment a basis for termination for cause exists, regardless of whether the awards are exercisable and regardless of whether the participant s employment or director service actually terminates. Defined in section 10.1(b) of the Omnibus Equity Plan, the term cause includes a violation of our or the Bank s code of ethics. However, shares of restricted stock or performance shares that have been released from escrow and distributed to the participant are not affected by a termination for cause.

Effect of a Change in Control

If a change in control of the Corporation occurs, the Plan Committee has broad authority and sole discretion to take actions it deems appropriate to preserve the value of participants awards. If a change in control occurs, the Plan Committee may for example:

- accelerate the exercisability or vesting of any or all awards, despite any limitations stated in the plan or in an award agreement, or
- cancel any or all outstanding options, SARs, restricted stock, and performance share awards in exchange for the kind and amount of consideration that the holder of the award would have received had the award been converted into our stock before the change in control (less the exercise price of the award), or
- convert any or all option, SAR, restricted stock, or performance share awards into the right to receive at exercise or vesting the kind and amount of consideration that the holder of the award would have received had the award been converted into our stock before the change in control (less the exercise price of the award).

The Plan Committee may provide for these results in advance in an award agreement or may provide for these results when a change in control actually occurs, or both. Alternatively, the Plan Committee also has the right to require the acquiring company in a change in control to take any of these actions. Events that would constitute a change in control are defined in section 11.1 of the Plan, but the Plan defers to any competing definition contained in another agreement to which a participant may be a party, such as an employment agreement, or the competing definition contained in Code section 409A if that provision of the Federal tax code is deemed to apply to the participant s award. In general, a change in control means one or more of the following events:

- a change in the composition of our Board of Directors, after which the incumbent members of the Board on the effective date of the Plan including their successors whose election or nomination was approved by those incumbent directors and their successors no longer represent a majority of the Board, or

a person (other than persons such as subsidiaries or benefit plans) becomes a beneficial owner of our securities representing 25% or more of the combined voting power of all securities eligible to vote for the election of directors, excepting business combinations after which our shareholders own more than 50% of the resulting
company and excepting stock issuances approved by incumbent directors and their successors, or
a merger, consolidation, share exchange, or similar form of business combination transaction requiring approval of our shareholders, excepting business combinations after which our shareholders own more than 50% of the resulting company, or
our shareholders approve a plan of complete liquidation or dissolution or sale of all or substantially all of our assets.

Amendment, Modification and Termination of the Plan

The Omnibus Equity Plan was adopted by the Corporation s Board of Directors but will not become effective unless it is also approved by our shareholders at the Annual Meeting. If approved, the plan will remain in effect until the tenth anniversary of the date the plan was approved by the Board. The Board approved the plan on February 9, 2010.
We may terminate, suspend, or amend the plan at any time without shareholder approval, unless shareholder approval is necessary to satisfy applicable requirements of SEC Rule 16b-3, the Code, or any securities exchange, market, or other quotation system on which our securities are listed or traded. But no amendment of the plan may (*x*) result in the loss of a Plan Committee member s status as a non-employee director as defined in SEC Rule 16b-3, (*y*) cause the plan to fail to satisfy the requirements of Rule 16b-3, or (*z*) adversely affect outstanding awards. However, we may amend the plan as necessary to comply with Code section 409A even if the amendment does adversely affect participants rights.

Transfers

Awards generally are not transferable except as specified in the Omnibus Equity Plan. During a participant s lifetime, awards are exercisable solely by the participant or the participant s guardian or legal representative. Plan awards may be transferred by will and by the laws of descent and distribution.

Accounting for Share-Based Payments

In December 2004, the Financial Accounting Standards Board (FASB) published FASB Statement No. 123 (revised): Share Based Payment (SFAS 123 (R)). SFAS 123 (R) requires that the compensation cost relating to share-based payment transactions, including grants of stock options, be recognized as an expense in financial statements. Cost is measured based on the fair value of the equity instrument issued, according to any option-pricing model satisfying the fair value objective of SFAS 123(R).

Release from Shareholder Preemptive Rights

With some exceptions, our shareholders generally have the preemptive right to purchase shares of common stock offered by the Corporation for cash. In other words, shares offered for sale generally must first be offered to existing shareholders before the shares can be sold to others. Preemptive rights give existing shareholders the ability to prevent dilution of their percentage ownership when additional shares are proposed for issuance and sale, granting each shareholder the right during a reasonable time and on reasonable terms fixed by the directors to purchase shares in proportion to the shareholder s holdings. Provided under Article XIII of our Articles of Incorporation, there are limited exceptions to shareholders preemptive right to purchase shares offered for sale. One exception, in subparagraph (h) of Article XIII, provides that shares offered for sale to employees, including shares issuable by exercise of stock options, are not subject to preemptive rights if the holders of a majority of the shares entitled to preemptive rights vote in favor of releasing the shares from preemptive rights. Approval of the Omnibus Equity Plan will constitute approval of the release of shares subject to the plan from preemptive rights. This exception only allows for sales and issuances of shares to employees, however, not issuances and sales to directors. Another exception, in subparagraph (a) of Article XIII, provides that treasury shares are not subject to shareholders preemptive rights and may therefore be issued and sold without first being offered for sale to shareholders. Accordingly, the Omnibus Equity Plan provides in section 5.1 that in the case of an award issued to any person who is not an employee, the shares of the Corporation s common stock to be delivered under the plan may consist solely of treasury stock and may not consist of authorized but unissued shares.

U.S. Federal Income Tax Consequences

The following discussion briefly summarizes the U.S. federal income and employment tax consequences relating to the plan. This summary is based on existing provisions of the Code, final, temporary, and proposed Treasury Regulations promulgated under the Code, existing judicial decisions, and current administrative rulings and practice, all of which are subject to change, possibly retroactively. Included for general informational purposes only, this summary is not a complete description of the applicable U.S. federal income or employment tax laws and this summary does not address state or local tax consequences and other tax consequences.

Generally, we will withhold from distributions under the plan the amount of cash or shares we determine is necessary to satisfy applicable tax withholding obligations. Alternatively, we may require participants to pay to us the amount necessary to satisfy applicable tax withholding obligations.

***Tax Consequences of ISOs*.**

ISOs qualify for special treatment under Code section 422. A participant recognizes no income when an ISO is granted or exercised and we are entitled to no compensation deduction at either of those times. Also, ISOs are not subject to employment taxes. If a participant acquires our common stock by exercising an ISO and continues to hold that stock for one year or, if longer, until the second anniversary of the grant date, the amount the participant receives when he or she finally disposes of the stock minus the exercise price is taxed at long-term capital gain or loss rates. This is referred to as a qualifying disposition. We are entitled to no deduction for a qualifying disposition. If a participant disposes of the common stock within one year after exercising the ISO or within two years after the grant date, this is referred to as a disqualifying disposition. When a disqualifying disposition occurs, the participant recognizes ordinary income equal to the excess of (*x*) the fair market value of the stock on the date the ISO is exercised, or the amount received on the disposition if less, over (*y*) the exercise price. We are entitled to a deduction equal to the income that the participant recognizes on the disqualifying disposition. The participant s additional gain is taxed at long-term or short-term capital gain rates, depending on whether the participant held the common stock for more than one year. The rules that generally apply to ISOs do not apply when calculating any alternative minimum tax liability. When an ISO is exercised, a participant must treat the excess, if any, of the fair market value of the stock on the date of exercise over the exercise price as a tax preference item for purposes of the alternative minimum tax. The rules affecting the application of the alternative minimum tax are complex and their effect depends on individual circumstances, including whether a participant has tax preference items other than those derived from ISOs.

Tax Consequences of NQSOs. NQSOs are not entitled to the special tax treatment granted to ISOs. Nevertheless, a participant recognizes no income when an NQSO is granted and we are entitled to no compensation deduction at that time. Unlike an ISO, when an NQSO is exercised, the participant recognizes ordinary income equal to the excess of the stock s fair market value on the date of exercise over the exercise price. Also unlike an ISO, this same amount is subject to employment taxes, including social security and Medicare taxes. If a participant uses common stock or a combination of common stock and cash to pay the exercise price of an NQSO, he or she will have ordinary income equal to the value of the excess of the number of shares of common stock that the participant purchases over the number he or she surrenders, less any cash the participant uses to pay the exercise price. This same amount is subject to employment taxes, including social security and Medicare taxes. When an NQSO is exercised, we are entitled to a deduction equal to the ordinary income that the participant recognizes.

A participant s cost, also known as basis, for shares acquired by exercising an NQSO generally is the fair market value of the stock on the date the NQSO is exercised, recognizing that the participant is taxed at ordinary income rates at that time. And when the participant finally disposes of stock acquired by exercising an NQSO, the participant will have a long-term capital gain or loss or a short-term capital gain or loss, depending on whether the participant held the stock after option exercise for more than one year and whether the sale price exceeds the participant s cost basis.

Tax Consequences of SARs. A participant recognizes no income when a SAR is granted. Likewise, we are entitled to no compensation deduction at that time. But when a SAR is exercised, the participant recognizes ordinary income equal to the cash received upon exercise, or the fair market value of the stock received at exercise if the SAR is settled with stock. We are entitled to a compensation deduction equal to the ordinary income that the participant recognizes. Also, the same amount is subject to employment taxes, including social security and Medicare taxes. If the SAR is settled with stock, the participant will have a long-term or short-term capital gain or loss when he or she finally disposes of the stock, depending on whether the participant held the stock for more than one year after the SAR was exercised and depending on the price at which the stock is sold.

Tax Consequences of Restricted Stock. Unless a participant makes an election under Code section 83(b) to recognize taxable income, a participant generally does not have taxable income when restricted stock is granted. Likewise, we are not entitled to a compensation deduction at that time. Instead, a participant recognizes ordinary income when the shares of restricted stock vest, meaning when the shares are no longer subject to a substantial risk of forfeiture. The income recognized at that time is equal to the fair market value of the stock the participant receives when the restrictions lapse, less any consideration paid for the restricted stock. We generally are entitled to a deduction equal to the income that the participant recognizes. Also, the same amount is subject to employment taxes, including social security and Medicare taxes. When a participant finally disposes of restricted stock that has become vested, the participant will have a long-term or short-term capital gain or loss, depending on the amount of time the participant held the stock after the stock vested and depending on the sale price.

If a participant makes an election under Code section 83(b), the participant recognizes ordinary income on the grant date equal to the fair market value of the shares of restricted stock on the grant date. We are entitled to a deduction equal to the income that the participant recognizes at that time. Also, the same amount is subject to employment taxes, including social security and Medicare taxes. However, the participant recognizes no income when the restrictions finally lapse. If a participant becomes vested in the shares, any appreciation between the grant date and the date the participant disposes of the shares is treated as a long-term or short-term capital gain or loss, depending on whether he or she held the shares for more than one year after the grant date and depending on the sale price. If a participant forfeits restricted stock, the participant cannot take a tax deduction for that forfeiture.

Tax Consequences of Performance Shares. A participant recognizes no taxable income when he or she receives a performance share award and we are entitled to no compensation deduction at that time. However, when a participant satisfies the conditions imposed on the award he or she must recognize ordinary income equal to the cash or the fair market value of the common stock he or she receives. Also, the same amount is subject to employment taxes, including social security and Medicare taxes. We generally are entitled to a compensation deduction equal to the income that the participant recognizes. The participant will thereafter have a long-term or short- term capital gain or loss when he or she finally disposes of the common stock acquired in settlement of the performance share award, depending on the amount of time the participant held the shares after they were issued and depending on the price at which the shares are sold.

Code Section 162(m). Code section 162(m) imposes an annual $1,000,000 limit on the tax deduction allowable for compensation paid to the chief executive officer and to the three other highest-paid executives other than the Chief Financial Officer of a company whose equity securities are required to be registered under section 12 of the Securities Exchange Act of 1934 with an exception for compensation that constitutes so-called performance-based compensation. To qualify as performance-based compensation, grants must be made by a committee consisting solely of two or more outside directors, the material terms of the performance-based compensation must be disclosed to and approved in advance by the company s shareholders and the committee must certify that the performance standards are satisfied. For grants other than options and SARs to qualify as performance-based compensation, the granting, issuance, vesting, or retention of the grant must be contingent upon satisfying one or more performance criteria. Stock options and SARs may be treated as performance-based compensation if the exercise price is at least equal to the fair market value of the stock on the grant date and if the plan states the maximum number of shares acquirable under options or SARs granted to any one individual in any single year. We expect that stock options as well as awards with a performance component generally will satisfy the requirements for performance-based compensation under section 162(m), but the Plan Committee will have authority to grant non-performance-based awards, including restricted stock awards.

Performance share awards may be made in a manner that qualifies as performance-based compensation under Code section 162(m) in the case of awards to our Chief Executive Officer and to the three most highly compensated executives other than the Chief Financial Officer. To ensure compliance with section 162(m), (*x*) the applicable performance criteria for performance-based compensation such as performance share awards must be established in the associated award agreement as soon as administratively practicable, but no later than the earlier of 90 days after the beginning of the applicable performance period and the expiration of 25% of the applicable performance period and (*y*) vesting will be contingent on satisfaction of the performance criteria outlined in this proxy statement s discussion of performance share awards. The Plan Committee may make appropriate adjustments to performance criteria to reflect a substantive change in an employee s job description or assigned duties and responsibilities. Vesting of performance share awards made to other employees need not comply with the requirements of Code section 162(m), but nevertheless we expect that performance share awards to those other employees will be based on similar performance criteria.

Code Sections 280G and 4999. Code sections 280G and 4999 impose penalties on persons who pay and persons who receive so-called excess parachute payments. A parachute payment is the value of any amount that is paid to company officers on account of a change in control. If total parachute payments from all sources including but not limited to stock-based compensation plans equal or exceed three times an officer s base amount, meaning his or her five-year average taxable compensation, a portion of the parachute payments will constitute an excess parachute payment. Specifically, the amount of the parachute payments exceeding one times the base amount constitutes an excess parachute payment. Because of Code section 4999, the officer must pay an excise tax equal to 20% of the total excess parachute payments. This tax is in addition to other federal, state, and local income, wage, and employment taxes imposed on the individual s change-in-control payments. Moreover, because of section 280G, the company paying the compensation is unable to deduct the excess parachute payment, and the $1,000,000 limit on deductible compensation under Code section 162(m) is reduced by the amount of the excess parachute payment.

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Benefits to which participants are entitled under the Plan and associated award agreements could constitute parachute payments under sections 280G and 4999 if a change in control occurs. If this happens, the value of each participant s parachute payment arising under the Plan must be combined with other parachute payments the same participant may be entitled to receive under other agreements or plans with us or a subsidiary, such as an employment agreement or a severance agreement.

Code Section 409A. Code section 409A was added to the Internal Revenue Code by the American Jobs Creation Act of 2004. Section 409A creates new rules for amounts deferred under so-called nonqualified deferred compensation plans. Section 409A includes a broad definition of nonqualified deferred compensation plans, which may extend to various types of awards granted under the Plan. The proceeds of any grant that is governed by section 409A are subject to a 20% excise tax if those proceeds are distributed before the recipient separates from service or before the occurrence of other specified events such as death, disability, or a change of control, all as defined in section 409A. The Plan Committee intends to administer the plan to avoid or minimize the impact of section 409A, which is borne principally by the employee, not the employer. If necessary, the Plan Committee will amend the plan to comply with section 409A. By accepting an award, a participant agrees that the Plan Committee (or our Board of Directors, as appropriate) may amend the plan and the award agreement without any additional consideration if necessary to avoid penalties arising under section 409A, even if the amendment reduces, restricts, or eliminates rights that were granted under the plan, the award agreement, or both before the amendment.

ANY U.S. FEDERAL TAX ADVICE CONTAINED IN THE PRECEDING SUMMARY IS NOT INTENDED OR WRITTEN BY THE PREPARER OF SUCH ADVICE TO BE USED, AND IT CANNOT BE USED BY THE RECIPIENT, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THE RECIPIENT. THIS DISCLOSURE IS INTENDED TO SATISFY U.S. TREASURY DEPARTMENT REGULATIONS.

Shares Currently Authorized for Issuance Under Our Existing Stock Option Plans. The following table summarizes all compensation plans and individual compensation arrangements in effect on December 31, 2009 under which shares of common stock have been authorized for issuance.

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants, and rights	(b) Weighted-average exercise price of outstanding options, warrants, and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders (1)	5,000	$ 6.55	
Equity compensation plans not approved by security holders			

Total	5,000	$	6.55

(1) The 1999 Stock Option Plan expired in March 2009. No further awards may be made under the 1999 Stock Option Plan, but awards made under the Plan remain outstanding until those awards expire by their terms. See Outstanding Equity at Fiscal Year End below.

The discussion is qualified in its entirety by reference to the Omnibus Equity Plan attached to this proxy statement as Appendix B.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE PROPOSAL TO ADOPT THE OMNIBUS EQUITY PLAN. THE PROPOSAL WILL BE APPROVED IF IT RECEIVES THE AFFIRMATIVE VOTE OF THE HOLDERS OF A MAJORITY OF THE SHARES OUTSTANDING.

INFORMATION WITH RESPECT TO DIRECTORS AND NOMINEES

The following table sets forth, as of the Record Date, the names of the nominees and the continuing directors, as well as their ages, their position with the Corporation, the year in which each director became a director of the Corporation and the year in which their terms (or in the case of the nominees, proposed terms) as directors of the Corporation expire. Provided below is a brief description of their qualifications to serve on the Board of Directors.

Name	Position with the Corporation	Age	Director Since
Nominees			
Ralph D. Macali Class III Director Three Year Term Expires 2013	Director	53	2001
Frank L. Paden Class III Director Three Year Term Expires 2013	Director and Chief Executive Officer	58	1992
Earl R. Scott Class III Director Three Year Term Expires 2013	Director	64	2003
Continuing Directors			
Benjamin R. Brown Class II Director Three Year Term Expires 2012	Director	64	1991
Anne Frederick Crawford Class II Director Three Year Term Expires 2012	Director	46	2004
James R. Fisher Class II Director Three Year Term Expires 2012	Director	71	2004
Joseph D. Lane Class I Director Three Year Term Expires 2011	Director	57	1999
Ronald V. Wertz Class I Director Three Year Term Expires 2011	Director	63	1989

The following is a brief description of the nominees and the current members of the Board of Directors including their business experience, occupations and employment, and the qualifications and characteristics that qualify them as a candidate for nomination to the Board of Directors.

A detailed background on the three nominees for election and the current members to the Board of Directors can be found under the heading Proposal No. 1: Election of Directors above.

Mr. Benjamin R. Brown. Mr. Brown was elected to the Board of Directors in 1991. Mr. Brown is the President and owner of Castruction Company, a manufacturing company, which he founded in 1965. Mr. Brown s business expertise in sales, organizational skills and strategic planning brings diverse skills to the Board of Directors. As a business owner for nearly 45 years, he is experienced in budgeting, succession planning, and vendor management. As a current Director, Mr. Brown serves on the Board s Loan Committee, Risk Management Committee and Information & Technology Committee.

Ms. Anne Frederick Crawford. Ms. Crawford was elected to the Board of Directors in 2004. She is a self-employed/sole proprietor attorney-at-law. She was previously a partner at the law firm of Brennan, Frederick, Vouros & Yarwood. Ms. Crawford s concentration in her law practice provides a vast knowledge of real estate, probate and estate planning to the Board. Additionally, and she is very active in community initiatives. In addition to her legal background, Ms. Crawford is very versed in communication skills and marketing strategies that lend support to the required general oversight as a director. As a current Director, Ms. Crawford serves on the Board s Loan Committee, Corporate Governance and Nominating Committee and Compensation Committee.

Mr. James R. Fisher. Mr. Fisher was elected to the Board of Directors in 2004. Mr. Fisher, a CPA, was previously employed for over thirty years by a regional accounting firm and retired in 1995 as a principal in that firm. He currently is an owner and director in the Akron Auto Auction, a position he has held since 2000. Mr. Fisher brings experience in accounting, budgeting, auditing, along with expertise in consulting, financial services, administration, wealth management, as well as strategic and visionary planning initiatives. As Chairman of the Compensation Committee, Mr. Fisher brings many years of experience dealing with compensation, tax and incentive driven plans. Mr. Fisher provides oversight for the investment and liquidity functions of the Corporation as well as insight for credit risk in the lending processes. As a current Director, Mr. Fisher sits on the Board s Loan Committee, Audit Committee, and Compensation Committee. In addition, Mr. Fisher serves as a director on the Corporation s wholly owned entity, Farmers Trust Company.

Mr. Joseph D. Lane. Mr. Lane was elected to the Board of Directors in 1999. Mr. Lane is an attorney-at-law and the owner/operator of a number of related locally-owned businesses. Mr. Lane serves as the President of Lane Funeral Home, Inc, Lane Life Paramedics Ambulatory Services, and is a partner in the law firm of Lane & Rusu Co. L.P.A. Mr. Lane provides a wide range of diverse skill sets to his role as a Director for the Corporation. His business experience encompasses many fields, such as the health industry, law, probate and estate planning, retail services, and general business and strategic planning. His experience as owner of various business ventures provides him with expertise in negotiating business acquisitions, human resources management, and corporate restructuring. As a current Director, Mr. Lane serves on the Board s Loan Committee, Audit Committee, Corporate Governance and Nominating Committee and Information & Technology Committee.

Mr. Ronald V. Wertz. Mr. Wertz was elected to the Board of Directors in 1989. Mr. Wertz owned and operated a local insurance company for nearly 20 years. Following the sale of his insurance company, Mr. Wertz served as a consultant providing risk management services for the new owner. Mr. Wertz was a recognized leader in the insurance field and brings experience to the Board of Directors in the retail services industry, risk management initiatives, insurance audits and budgeting. Mr. Wertz provides leadership in the areas of visionary and strategic planning and in his role as Chairman of the Corporate Governance and Nominating Committee. As a current Director, Mr. Wertz serves on the Board s Loan Committee, Corporate Governance and Nominating Committee and Compensation Committee.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding beneficial ownership as of December 31, 2009 of the Corporation s common shares by (i) each person the Corporation believes beneficially holds more than 5% of the Corporation s outstanding shares of the Corporation s common stock (none); (ii) each Director; (iii) each named executive officer listed in the Summary Compensation Table under the section entitled Executive Compensation ; and (iv) all executive officers and all Directors as a group. In addition, unless otherwise indicated, all persons named below can be reached at Farmers National Banc Corp., 20 South Broad Street, Canfield, Ohio 44406.

Name	Aggregate Number of Shares Beneficially Owned (A)	Percent of Outstanding Shares
Benjamin R. Brown	65,232	*
Joseph D. Lane	267,072	1.98%
Ralph D. Macali	101,690	*
James R. Fisher	10,725	*
Frank L. Paden, President and CEO	48,655	*
Earl R. Scott	9,913	*
Anne Frederick Crawford	46,708	*
Ronald V. Wertz	106,957	*
Carl D. Culp, EVP & CFO	3,143	*
John S. Gulas, COO	3,500(B)	*
Mark L. Graham, Senior Vice President	4,881	*
Kevin J. Helmick, Vice President	2,300	*
All Directors and Executive Officers as a Group	670,776(C)	4.96%

(A) Information relating to beneficial ownership is based upon information available to Farmers and uses Beneficial Ownership concepts set forth in the rules of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Under such rules, Beneficial Ownership

includes those shares over which an individual has sole or shared voting, and/or investment powers such as beneficial interest of a spouse, minor children, or other relatives living in the home of the named individual, trusts, estates and certain affiliated companies.

(B) Includes 1,000 shares subject to options exercisable within 60 days of the Record Date.

(C) Includes 48,655 shares held by Frank L. Paden; 3,143 shares held by Carl D. Culp; 3,500 shares held by John S. Gulas; 4,881 shares held by Mark L. Graham and 2,300 shares held by Kevin J. Helmick.

(*) Represents less than 1% of the issued and outstanding shares of the Corporation s

common stock
as of
December 31,
2009.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 (the Exchange Act) requires the Corporation s directors and executive officers, and persons who own more than 10% of a registered class of the Corporation s equity securities, to file with the Securities and Exchange Commission (the SEC) initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Corporation. Officers, directors and greater than 10% shareholders are required by SEC regulation to furnish the Corporation with copies of all Section 16(a) forms they file.

To the Corporation s knowledge, based solely on a review of the copies of such reports furnished to the Corporation and written representations that no other reports were required during 2009 all Section 16(a) filing requirements applicable to its officers, directors and greater than 10% beneficial owners were complied with.

ROLE OF THE BOARD: CORPORATE GOVERNANCE MATTERS

The shareholders elect the members of the Board of Directors. Together, the Board is responsible for the oversight of management of the Corporation s activities. Directors serve the shareholders and must exercise reasonable care when guiding the Corporation s affairs and must consider the Corporation s interest before their own. Except to those matters reserved to the shareholders as delineated in the Corporation s Articles of Incorporation and Code of Regulations, Directors are responsible for the oversight of the conduct of the Corporation s business. The Board of Directors appoints the executive management team which is responsible to carry out the overall tone and direction of the business plan set forth by the Board of Directors. The Board of Directors does not have a lead independent director or a Board chairperson. The Code of Regulations of the Corporation provides that the Board of Directors of the Corporation may elect a Chairperson. In absence of such appointment, Mr. Paden, as President and Chief-Executive Officer acts as the Chairperson for the Board. The Board of Director s policy with respect to the separation of Chairman of the Board and the Chief Executive Officer is that this separation would not currently serve the function of the Board of Directors or shareholders as Mr. Paden effectively serves both functions now; however separation of these functions may assist in the management succession planning process for the Bank in the future. The Board of Directors will make this determination from time to time when selecting new executive officers.

The Board of Directors and executive management team are both committed to enhance the long-term value of the Corporation for the benefit of its shareholders. In doing so, the Board of Directors recognizes that the interest of shareholders will also be advanced by responsibly taking into account the concerns of the Corporation s other constituencies, including customers, employees, the communities in which we do business, governmental entities that regulate our businesses, vendors and the public at large.

The members of the Board of Directors are expected to take a proactive and focused approach to their board and committees positions in which they serve and to set the necessary standards to insure that the Corporation and its management team is committed to the Corporation s corporate mission and that it pursues such mission in a highly responsible and ethical manner. To manage the material risks, both internal and external, that the Corporation faces, the Board of Directors has established various committees to establish and maintain adequate internal control over the Corporation s executive officers and establish, review and maintain policies and guidelines to oversee and mitigate the various challenges and risks that the Board of Directors and the Corporation encounters on a daily basis. After each committee meeting, the committee reports back to the full Board of Directors. Currently there are six committees: Audit Committee, Board Loan Committee, Compensation Committee, Corporate Governance and Nominating Committee, Information and Technology Committee and the Risk Management Committee. A description of those committees and the functions they served are described in detail below.

COMMITTEES OF THE BOARD OF DIRECTORS

During 2009, the Board of Directors of the Corporation held twelve regular monthly meetings and two special meetings. All directors attended at least 75% of the aggregate number of meetings of the Board of Directors and the respective committees on which they serve. Members of the Board of Directors received a monthly retainer of $1,000 for serving on the Board of Directors of the Corporation. In addition, each Director received a $500 fee for each of the committee meetings he or she attended with the exception of Mr. Paden who does not receive any compensation for committee meetings. The Board consists of eight members, all of whom except Mr. Paden qualify as independent directors under the standard of the NASDAQ Stock Market, Inc. The Board of Directors annually reviews the appropriate size and composition of the Board in light of its strategic objectives.

The Board encourages all Directors to attend the Annual Meeting of Shareholders, although no formal policy has been adopted by the Board regarding such attendance. All members of the Board of Directors attended last year s Annual Meeting of Shareholders held in April 2009.

At the Director s organizational meeting, held on May 12, 2009, following the last Annual Shareholders Meeting of Farmers, the following described committees were appointed by the President and Secretary:

The Board of Directors has an *Audit Committee* established in accordance with section 3(a)(58)(A) of the Exchange Act. The Audit Committee consists of Directors Lane, Fisher, Macali and Scott. Each of the members is independent from the Corporation, in accordance with the requirements of the National Association of Securities Dealers. The Board of Directors has determined that Messrs. Scott and Fisher qualify as Audit Committee financial experts. Included in the functions performed by the Audit Committee are (i) review the internal auditing procedures and controls of the Corporation and its subsidiary; (ii) review reports prepared by the internal and external auditor; (iii) formally report to the full Board of Directors its evaluations, conclusions and recommendations with respect to the Corporation s implementation of its policies, practices and controls; (iv) hold discussions with external auditors regarding the quality of the Corporation s financial reporting; (v) recommend to the Board of Directors that the Corporation s financial statements be included in the annual report on Form 10-K; and (vi) review and discuss audited financial statements with the external auditor and management. The Audit Committee operates under a written charter adopted by the Board of Directors. A copy of the Audit Committee Charter can be found on the Corporation s web site at www.fnbcanfield.com. The Audit Committee met four times in 2009.

Audit Committee Report: The Corporation s Audit Committee has reviewed and discussed with management the audited financial statements of the Corporation for the year ended December 31, 2009. In addition, the Committee has discussed with Crowe Horwath LLP, the independent auditing firm for the Corporation, the matters required by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended, and Rule 2-07, Communication with Audit Committees, of Regulation S-X.

The Audit Committee also has received the written disclosures and letter from Crowe Horwath LLP required by applicable requirements of the Public Company Accounting Oversight Board regarding Crowe Horwath LLP s communication with the Audit Committee concerning independence, and has discussed with Crowe Horwath LLP its independence.

Based on the foregoing discussion and reviews, the Audit Committee has recommended to the Corporation s Board of Directors that the audited financial statements be included in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2009 for filing with the Securities and Exchange Commission. The members of the Audit Committee are James R. Fisher, Ralph D. Macali, Joseph D. Lane and Earl R. Scott.

The Board of Directors has a *Board Loan Committee* consisting of all the directors. The function of this committee is to review all loans made during the previous periods and to approve any new loan applications or loan commitments, which are greater than the lending limits of specific loan officers or the Executive Loan Committee. This committee meets on a regular biweekly basis with three members of the Bank s Executive Loan Committee.

The Board of Directors has a *Risk Management Committee* consisting of Directors Brown, Macali and Scott. The function of this committee is to oversee management s implementation and enforcement of the Corporation s policies, procedures and practices relating to the management of enterprise-wide risks throughout the Corporation. The Risk Management Committee operates under a written charter adopted by the Board of Directors. A copy of the Risk Management Committee Charter can be found on the Corporation s web site at www.fnbcanfield.com. This committee met once in 2009.

The Board of Directors has an *Information and Technology Committee* consisting of Directors Lane and Brown. The function of this committee is to provide oversight responsibilities and guidance to the Corporation s technology investment initiatives. The Information Technology Committee operates under a written charter adopted by the Board of Directors. A copy of the Information Technology Committee Charter can be found on the Corporation s web site at www.fnbcanfield.com. This committee met twice in 2009.

The Board of Directors has a *Compensation Committee* consisting of Directors Fisher, Crawford, and Wertz. Each of the members is independent from the Corporation, in accordance with the requirements of the National Association of Securities Dealers. Duties of this committee include reviewing the performance of and establishing compensation for the officers of the Corporation s subsidiary, Farmers National Bank of Canfield. A detailed analysis of the process and procedure for considering and determining the Corporation s compensation program is set forth below under the heading Compensation Discussion and Analysis and Report of Compensation Committee . The Compensation Committee also administers the Executive Incentive Compensation Plan. The Compensation Committee operates under a written charter adopted by the Board of Directors. A copy of the Compensation Committee Charter can be found on the Corporation s web site at www.fnbcanfield.com. This committee met four times in 2009.

The Board of Directors has a *Corporate Governance and Nominating Committee* consisting of Directors Wertz, Lane, and Crawford. Each of the members is independent from the Corporation, in accordance with the requirements of the National Association of Securities Dealers. This committee is responsible for selecting and recommending to the Board of Directors with respect to: (a) nominees for election as Directors at the Annual Meeting of shareholders; (b) nominees to fill Board vacancies; and (c) the composition of membership of the various other standing Board committees; (d) develop and recommend to the Board of Directors a comprehensive set of Corporate Governance Principles and Guidelines and to oversee the processes necessary to be in compliance with all the duties and responsibilities of an independent director of the Corporation. The Corporate Governance and Nominating Committee will consider director nominees recommended by shareholders, provided these shareholder nominations are in accordance with the procedures set forth in the Corporation s Code of Regulations. The Code of Regulations requires that nominations made by a shareholder be made in writing to the Secretary of the Corporation and must include the name, age, address, principal occupation and employment history for at least five years, the number of shares of the Corporation owned by the nominee and the identity and ownership of shares of the shareholder making such nomination.

The Corporation may also require other information reasonably required allowing the Corporate Governance and Nominating Committee to make an informed decision regarding the qualifications and characteristics of the nominee. In its deliberations for all candidates, the Corporate Governance and Nominating Committee considers, among other things, a candidate s personal and professional integrity, their knowledge of the banking business, involvement in community, business and civic affairs, their individual business experience and skills, particularly in fields related to current or future business directions of the Corporation, independence, judgment, integrity and ability to commit sufficient time and attention to the activities of the board, as well as the absence of any potential conflicts with the Corporation s interests. The Corporate Governance and Nominating Committee consider in part these criteria in the context of an assessment of the perceived needs of the Board as a whole while seeking to achieve diversity of occupational and personal backgrounds. The Corporate Governance and Nominating Committee does have a policy for considering diversity in its Corporate Governance and Nominating Committee Charter and it believes that it has been able to, and will continue to evaluate the makeup of the board each year to nominate a diverse and qualified group of candidates for election to the Board of Directors.

In searching for qualified director candidates to fill vacancies to the Board, the Corporate Governance and Nominating Committee solicits potential candidates from members of the Board. If no acceptable candidates are found from such solicitation, each member of the Board is asked to seek suggested candidates from their respective trusted personal and business advisors. In this process, nominations from shareholders will also be considered. With respect to nominating an existing director for re-election, the Corporate Governance and Nominating Committee will consider the intentions of the Director to continue to serve the Corporation, and will consider and review such director s Board and committee attendance, performance and independence. The Corporate Governance and Nominating Committee operate under a written charter adopted by the Board of Directors. A copy of the Corporate Governance and Nominating Committee Charter can be found on the Corporation s web site at www.fnbcanfield.com. This committee met twice in 2009.

NOTE: SOME OF THE ABOVE COMMITTEES ARE COMMITTEES OF THE FARMERS NATIONAL BANK OF CANFIELD (THE BANK), A WHOLLY OWNED SUBSIDIARY OF FARMERS NATIONAL BANC CORP. CURRENTLY, THE MEMBERS OF FARMERS BOARD OF DIRECTORS ALSO SERVE AS THE DIRECTORS OF THE BANK AND ATTEND BOARD MEETINGS FOR BOTH FARMERS AND THE BANK. ALTHOUGH THESE MEETINGS ARE CONDUCTED SEPARATELY ON THE SAME DAY, A MEMBER RECEIVES COMPENSATION (WHICH IS PAID BY FARMERS) FOR ONLY ONE MEETING; CONSEQUENTLY, MEMBERS ATTENDING A MEETING OF THE BOARDS OF BOTH FARMERS AND THE BANK ON A SINGLE DAY ARE CREDITED WITH ONE BOARD MEETING FOR ATTENDANCE AND COMPENSATION PURPOSES.

SHAREHOLDER COMMENTS

The Corporation s Board of Directors provides a process for security holders to send communications to the Board of Directors, which is as follows: any shareholder wishing to communicate with the Board of Directors or an individual member of the Board may do so in writing by sending such communication to Mr. Frank L. Paden, President at the main office of the Corporation, 20 South Broad Street, PO Box 555, Canfield, Ohio 44406. All communications that are within the scope of the responsibilities of the Board and its Committees are to be presented to the Board or the individual director not later than the next regularly scheduled Board meeting, unless in good faith, such communication can not be transmitted timely to the members of the Board, then such communication shall be presented at the next subsequent regularly scheduled Board meeting.

Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee whose names appear under *Executive Compensation and Employees Salary Committee* each served during fiscal year 2009. The Board has determined that each of the members of the Compensation Committee is independent as defined by the NASDAQ listing standards. None of these individuals are officers or former officers of the Corporation or the Bank. No corporate or committee interlocks exist which require disclosure under SEC regulations.

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the disclosures contained in the section entitled Compensation Discussion and Analysis and Report of Compensation Committee (see below) and, based on such discussion, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis and Report of Compensation Committee be included in this Proxy Statement for the Corporation s 2010 Annual Meeting of Shareholders. No member has registered a disagreement with this report. Members of the Compensation Committee are: James R. Fisher, Chairman, Anne Frederick Crawford and Ronald V. Wertz.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis and Report of Compensation Committee

This section explains the material elements of the Corporation s executive compensation program as it relates to its executive officers. Specific compensation information for the named executive officers is presented in the tables following this discussion in accordance with SEC rules.

Responsibility. The policy and decision-making relating to goals and objectives relevant to the compensation of the Corporation s executives, evaluating such executive officers in light of those goals and objectives and determining their compensation rest with the Compensation Committee of the Board of Directors, which is made up of all of the independent directors. The Compensation Committee may not delegate its authority. No officers of the Corporation sit on the Compensation Committee, nor do any officers have a role in determining executive compensation. The Compensation Committee reports to the full Board, but its decisions are not subject to full Board approval. The Compensation Committee sets the limits for compensation increases in the aggregate for all staff, reviews performance of executive officers and sets their salaries for the coming year. The Compensation Committee also negotiated the terms of the executive contracts referred to as Employment Contracts of Executives, discussed below. In addition, the Compensation Committee recommends any incentive or bonus program to the Board.

Objectives. The Compensation Committee oversees an integrated compensation program designed to attract and retain a talented and capable executive team. With respect to each element of executive compensation, the Compensation Committee has the objectives of providing the Bank, its staff and the communities it serves with consistent long-term leadership of the highest quality possible while protecting the interests of the shareholders.

What the Compensation Programs are Designed to Reward. The executive compensation programs are designed to reward: (1) specific job performance by the individual in question; (2) contribution to target levels of growth, profitability, stability and capital; and, (3) two additional specific items of corporate performance in the banking industry: return on equity (ROE) and return on assets (ROA). Also considered is the executive s contribution to the general success of the Bank and its business plan. Successful bank operations depend upon accomplishment in all areas and integration with the business community s direction and success in the Bank s market areas. Executive performance is therefore evaluated using these factors as well. Specific results of each executive s area of responsibility are evaluated and considered. The Compensation Committee evaluates the President (Principal Executive Officer) on the same basis as other executive officers with weight being given to the achievement of target levels of growth, capital and return on equity, and, in addition, specific target goals of the overall strategic plan of the Bank.

Elements of Compensation. The following elements of compensation currently used by the Compensation Committee are: (1) base salary, (2) participation in the Stock Option Plan, (3) Deferred Compensation Agreements, (4) annual performance-based cash incentives under an Executive Incentive Compensation Plan and (5) the Corporation s non-discriminatory 401(k) Plan.

a. The Role of Cash Compensation.

Base Salaries.

The Compensation Committee believes that a fair and equitable base salary component of the compensation plan for the Corporation s executive officers provides a predictable and reliable compensation sufficient to attract and retain a highly skilled executive team and to recognize and reward such for their individual performances.

Performance-Based Cash Incentives.

The Compensation Committee believes that performance-based cash incentives are an effective way to compensate executives for working together as a team to achieve short-term specific financial goals. The 2009 Executive Incentive Compensation Plan was adopted by the Bank s Board of Directors on August 11, 2009 and approved by the Compensation Committee (the Plan). This Plan is in effect for the calendar year 2009 and authorizes the committee to pay plan-based cash incentive awards to the Chief Executive Officer, the Chief Operating Officer and Chief Financial Officer if the Bank achieves specific financial and operative goals or if the individual participant under the Plan performs in certain categories to a level deemed by the Compensation Committee to be acceptable. A participant s right to payment under the Plan is contingent upon the achievement of pre-established performance goals relating to four objective performance criteria established by the Compensation Committee for the performance period of the award. Each participant under the Plan is eligible to receive a cash incentive bonus of up to 35% of his yearly base salary. For detailed information on awards earned in fiscal 2009 see Grant of Plan Based Awards Fiscal 2009.

The first benchmark of the Plan is based on the Bank achieving its target net income for the fiscal year. Net income is defined as net income before the payment of taxes and gains or losses recognized from the sale or impairment of securities. For 2009, the target net income for the Bank was set at $7.654 million. This amount is based upon internal budget goals as set forth in the Corporation s internal business plan. This factor has a weight of 30% of the overall incentive payment for each of the Plan s participants. If the minimum target is not attained, no allocation of this benchmark is paid.

The second benchmark of the Plan for the Chief Executive Officer and the Chief Financial Officer is based on the Bank achieving its targeted earnings per share of $0.58. This amount is based upon internal budget goals as set forth in the Corporation s internal business plan. This factor has a weight of 30% of the overall incentive payment for each of the Plan s participants. The second benchmark for the Chief Operating Officer is based on the Bank achieving year over year loan growth of 5%, deposit growth of 3%, and gross income of $830,000 generated from Farmers National Investments, a retail wealth management and brokerage department of the Bank and net income of $474,000 (excluding amortization expenses) of Farmers Trust Company. Each of these three components for the Chief Operating Officer has a weight of 10%. If the minimum target is not attained, no allocation of this benchmark is paid.

The third benchmark of the Plan is based on the participant s leadership and communication skills, both internally within the Bank and externally within the community. Each participant will be evaluated by the Compensation Committee on a subjective basis and given an overall score. This factor has a weight of 20% of the overall Plan. Each participant under the Plan will receive his proportionate amount of the 20% allocation based on the score given to him by the Compensation Committee.

The fourth benchmark of the Plan is based on the participant s development and implementation of strategic initiatives set forth by the Bank throughout the year. Each participant will be evaluated by the Compensation Committee on a subjective basis and given an overall score. This factor has a weight of 20% of the overall Plan. Each participant under the Plan will receive his proportionate amount of the 20% based on the score given to him by the Compensation Committee.

Based on the participant s current base salaries, the maximum compensation available under the Plan that would be available to participants if 100% of the benchmarks were reached is $211,540. The maximum compensation available under the Plan to the Chief Executive Officer is $83,510, the Chief Operating Officer is $78,750 and the Chief Financial Officer is $49,280. In no event shall a participant s actual bonus payment under the Plan exceed 35% of such participant s base salary.

The Compensation Committee may increase, reduce, or eliminate individual performance targets or other factors in the Plan as it deems appropriate based on the economic climate or any other factors it deems appropriate. The Compensation Committee must certify each payment under the Plan before it is paid. Any such changes and the factors involved therein will be described in future filings with the SEC.

The Compensation Committee has delegated non-equity performance compensation of the Bank s remaining senior officers to a committee made up of the Bank s Chief Executive Officer, Chief Operating Officer and Chief Financial Officer (Executive Committee). The Compensation Committee reviews these incentive compensation plans but does not authorize each one on an individual basis. Discretion of the non-equity performance compensation is delegated to the Executive Committee. These incentive plans are in effect for the calendar year 2009 and authorize the payment of plan-based cash incentive awards if the Bank achieves specific financial and operative goals or if the individual participant under such plan performs in certain categories to a level deemed by the committee to be acceptable. Each of the participant s right to payment under their respective plan is contingent upon the achievement of pre-established performance goals for the performance period of the award. For detailed information on all awards earned by executive officers in fiscal 2009 see Grant of Plan Based Awards Fiscal 2009.

The Executive Committee has authorized the following incentive-compensation plan for the Bank s Senior Vice President, Mark Graham for 2009. The maximum compensation available under the plan that would be available to the Senior Vice President if 100% of the plan s benchmarks were reached is 40% of his base salary of $117,000 for 2009 or $46,800.

The first benchmark of the Senior Vice President s plan (SVP Plan) is based on the Bank achieving its target net loan growth for the fiscal year. For 2009, the target net loan amount for the Bank was set at $574,213,367. This amount is based upon internal budget goals as set forth in the Corporation s internal business plan. This factor has a weight of 30% of the overall incentive payment. If the minimum target is not attained, no allocation of this benchmark is paid.

The second benchmark of the SVP Plan is based on the Bank achieving its targeted bank net operating income for the fiscal year. Bank net operating income is defined as net income before the payment federal income taxes and gains or losses on the sale of securities. For 2009, the target bank net operating income for the Bank was set at $10,025,000. This amount is based upon internal budget goals as set forth in the Corporation s internal business plan. This factor has a weight of 20% of the overall incentive payment. If the minimum target is not attained, no allocation of this benchmark is paid.
The third benchmark of the SVP Plan is based on the Bank achieving its targeted net loans for the fiscal year. The Bank s net loans are defined as the current loan portfolio balance less the amount set aside in the loan loss provisions. For 2009, the net loan balance for the Bank was set at $546,451,995. This amount is based upon internal budget goals as set forth in the Corporation s internal business plan. This factor has a weight of 15% of the overall incentive payment. If the minimum target is not attained, no allocation of this benchmark is paid.
The fourth benchmark of the SVP Plan is based on the Bank achieving its targeted asset quality ratio for non-accrual loans for the fiscal year. The Bank s asset quality ratio is based on the Bank s non-accrual loans as a percentage of total loans. For 2009, the target for non-accrual loans as a percentage of total loans was 0.85%. This amount is based upon internal budget goals as set forth in the Corporation s internal business plan. This factor has a weight of 15% of the overall incentive payment. If the minimum target is not attained, no allocation of this benchmark is paid.
The fifth benchmark of the SVP Plan is based on the participant s leadership and communication skills, both internally within the Bank and externally within the community. The participant will be evaluated by the Executive Committee on a subjective basis and given an overall score. This factor has a weight of 20% of the overall SVP Plan. The participant will receive his proportionate amount of the 20% based on the score given to him by the committee. If the minimum target is not attained, no allocation of this benchmark is paid.
b. The Role of Equity Awards
The Compensation Committee believes that long-term equity awards are also an effective way to attract, retain and motivate the Corporation s executive team. The Corporation s 1999 Stock Option Plan expired in 2009. No new awards may be granted from this plan. The Compensation Committee and the Board of Directors have approved the adoption of the proposed Omnibus Equity Plan set forth in Proposal No. 3. If approved by our shareholders at the Annual Meeting, the Compensation Committee will review for 2010 the current compensation plans of our employees and Executive Officers to determine if an equity award as part of their compensation package is in the Corporation s long-term business objectives.
The Corporation relies on a mix of each of these elements because it believes each element contributes to an integrated, balanced, fair, and competitive compensation program. Such a program is necessary for the Bank to attract and retain the consistent, long-term leadership that is required for the Bank to succeed. The Compensation Committee recommends and determines the amounts for each element based upon its straightforward judgments about the performance of individuals and the long-term interests of the Corporation s shareholders. The Compensation Committee s policy for allocating between long-term and currently paid out compensation is to emphasize a competitive salary structure. Each element of compensation is presented in the Summary Compensation Table provided below.
There are no additional Deferred Compensation Agreements or amendments to the Employment Contracts of Executives presently contemplated by the Compensation Committee.
Determination of Amounts of Compensation and the Role of Surveys and Benchmarking. The Compensation Committee does not engage in any benchmarking of the Corporation s compensation against any other institution; however, it is aware of the levels of compensation for banking executives in the Corporation s geographic market. The Corporation s compensation program for the cash and equity compensation must be competitive in the relevant market. The competitive market is a primary consideration in setting levels of salaries and grants under our former 1999 Stock Option Plan and under the proposed Omnibus Stock Equity Plan.

The Compensation Committee selected and retained the services of J.L. Nick & Associates, Inc. (J.L. Nick), an independent consulting firm in 2008 to help ensure that the Corporation s executive compensation was within a reasonably competitive range. The Compensation Committee sought input from J.L. Nick on a range of external market factors, including evolving compensation trends, appropriate comparable banks, and analyzing various market survey data. J.L. Nick provided the Corporation with general observations on its compensation programs.

In 2009, the Compensation Committee reviewed the current compensation practices of the Corporation and the reports submitted by J.L. Nick for 2008. Since there were no material increases to the compensation packages for the employees and executive officers of the Corporation, the Compensation Committee did not retain the services of an independent consulting firm for 2009. In setting compensation packages for 2009, the Compensation Committee took into account the 2008 reports submitted by J.L. Nick as well as its own internal review and analysis as set forth herein to ensure that its compensation packages are within a reasonable competitive range.

Although the Compensation Committee reviews the compensation practices at the peer companies (gathered from SEC filings) and the various compensation surveys and analysis described above it does not adhere to a strict formula to determine the executive officer s compensation package. Instead, as described above, it relies on a variety of factors including experience, responsibility, individual performance and the overall financial performance of the Corporation.

Risk Management of the Compensation Programs

The Compensation Committee oversees the implementation and enforcement of the Corporation s policies, procedures and practices related to its various compensation programs as part of its duties. This is designed to monitor the Corporation s compensation policies to ensure that the compensation packages offered to its employees and executive officers do not present such individuals with the potential to engage in excessive or inappropriate risk taking activities that would reasonably lead to a material adverse effect on the Corporation.

The Compensation Committee believes that the Corporation s current compensation structure for its employees and its executive officers does not encourage unnecessary or excessive risk taking to the extent that it would reasonably likely lead to a material adverse effect on the Corporation. The current compensation programs appropriately balance risk and the desire to focus on the short-term and the long-term goals of the Corporation and does not encourage unnecessary or excessive risk taking.

Fiscal 2009 Compensation Decisions

1. Equity Grants. As a result of the 1999 Stock Option Plan expiring, in 2009, the Compensation Committee did not authorize any equity grant to its named executive officers.

2. Performance-Based Cash Incentives Plan

In 2009, the Compensation Committee implemented the 2009 Executive Incentive Compensation Plan as described under the Section Performance-Based Cash Incentives above. In addition, the Compensation Committee authorized the Executive Committee to implement incentive compensation packages for the Bank s senior officers not covered under the 2009 Executive Incentive Compensation Plan. The Executive Committee implemented the SVP Plan as described above under the Section Performance-Based Cash Incentives above. The Compensation Committee believes that the plans will allow for more flexibility in providing compensation to executive officers as members of a team, which will allow the Corporation to continue to achieve its business objectives. This will allow the Corporation to retain current executive officers and provide an additional compensation arrangement to attract new executives. The specific payment amounts for fiscal 2009 are shown in the table entitled Summary Compensation Table Fiscal 2009 and Fiscal 2008 below.

Summary Compensation Table Fiscal 2009 and Fiscal 2008

Summary Compensation Table. Listed below for fiscal years 2009 and 2008 is the total compensation paid by the Corporation s subsidiary Bank to the named person(s) for their respective services in all capacities, specifically setting forth the direct compensation to the President & CEO (who is also the Corporation s Principal Executive Officer), the Principal Financial Officer and three other executive officers who received cash and cash equivalent compensation in excess of $100,000 or who was employed in 2009 and is intended to serve thereafter as an executive officer. The table entitled Summary Compensation Table Fiscal 2009 and Fiscal 2008 should be read in conjunction with the tables and narrative descriptions that follow. The Compensation Committee has recommended and approved the compensation set forth below.

Name and Principal Position	Year	Annual Salary and Director Fees (a)	Bonus (b)	401(k) Corporation Contribution (c)	Stock Option Awards (d)	Non-Equity Incentive Plan Compensation (e)	All Other Compensation (f)	Total
Frank L. Paden	2009	250,600		6,640		18,200	7,499	282,939
President & CEO Principal Executive Officer	2008	233,088		6,188		39,043	9,631	287,950
Carl D. Culp	2009	140,800		4,941		13,375	558	159,674
Executive VP & CFO Principal Financial Officer	2008	136,196		4,086		23,439	652	164,373
John S. Gulas (g)	2009	204,167		4,830	1,633	38,973	1,546	251,149
Executive VP & COO	2008	84,849			2,300	15,231		102,470
Mark L. Graham	2009	117,861		3,659		46,800	904	169,244
Senior Vice President	2008	110,423		3,763		18,752	859	133,797
Kevin J. Helmick (b)	2009	94,923	37,883	3,303		0	420	136,529
Senior Vice President	2008	55,860	50,339	3,426		13,543	341	123,509

(a) The amount of Director Fees included in this annual amount is for Mr. Paden ($12,000 for 2009 and 2008).

(b) Pursuant to the terms of his

employment contract, Mr. Helmick s annual salary is comprised of a base salary and a monthly commission which is based on the amount of production generated from the PrimeVest Financial Services Department (PrimeVest). Mr. Helmick is paid a commission of 5% on all PrimeVest gross monthly revenue up to $48,000, and a commission of 7.5% on all PrimeVest gross monthly revenue which exceeds $48,000. For 2009, Mr. Helmick was paid a base salary of $94,923 a commission of $37,883 for an annual salary of $132,806. For 2008, Mr. Helmick s base salary was $55,860 and his commission was $50,339 for an annual salary of $106,199.

(c)

In May 1996, the Corporation adopted a 401(k) Profit Sharing Retirement Savings Plan. All employees of the Bank who have completed at least one year of service and meet certain other eligibility requirements are eligible to participate in the Plan. Under the terms of the Plan, employees may voluntarily defer a portion of their annual compensation, not to exceed 15%, pursuant to Section 401(k) of the Internal Revenue Code. The Bank matches a percentage of the participants voluntary contributions up to 6% of gross wages. In addition, at the discretion of the Board of Directors, the Bank may make an additional profit sharing contribution to the Plan. The Bank s contributions are subject to a vesting schedule

and the Plan meets the requirements of Section 401(a) of the Internal Revenue Code and Department of Labor Regulations under ERISA.

(d) Represents the aggregate fair market value amount as of the grant date that was recognized for the stock award.

(e) See section Executive Compensation Performance-Based Cash Incentives above for description of the Executive Incentive Compensation Plan. The named executive officers annual incentive bonuses are derived based on the performance of the Corporation relative to pre-established objectives set forth in the above section. All non-equity incentive compensation was earned in 2009 and paid out in 2010.

(f) Amounts represent cost of group term life insurance and other benefits, and for Mr. Paden, accrued amounts under his deferred compensation agreement.

(g) The increase for Mr. Gulas salary for 2009 is due to the fact that Mr. Gulas was hired July 7, 2008 and therefore only a pro-rata portion of his salary was paid in 2008.

The primary elements of each executive officer s total compensation reported in the above table are the executive officer s base salary, annual incentive bonus, and long-term equity awards of stock options. Each executive officer also received other benefits as listed in column (b) and (e) and described in the footnotes to the table. Each of the executive officers is under an Employment Contract with the Corporation as described in the section entitled EMPLOYMENT

CONTRACTS OF EXECUTIVES below.

Grants of Plan Based Awards Fiscal 2009

The following table sets forth information regarding incentive awards granted to the named executive officers for the fiscal year ending 2009 and should be read in conjunction with the Summary Compensation Table.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards (a)					
Name	Grant Date	Minimum Threshold ($) (b)	Maximum Threshold ($) (c)	Actual Maximum Received ($) (d)	All Other Options Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($)	Grant Date Fair Value of Stock and Option Awards ($)
Frank L. Paden		16,702	83,510	18,200			
Carl D. Culp		9,856	49,280	13,375			
John S. Gulas		7,875	78,750	38,973			
Mark Graham		11,834	46,800	46,800			

(a) For 2009, there were two different performance-based incentive compensation plans in place for the executive officers. Mr. Paden, Mr. Culp and Mr. Gulas participated in the Executive Incentive Compensation Plan and Mr. Graham participated in the SVP Plan.

Payments under the Corporation s Executive Incentive Plan for Mr. Paden, Mr. Culp and Mr. Gulas are based upon a pool of funds equal to 35% of the participants 2009 base salary. There is no minimum payout amount and the maximum

payment would be $211,540 assuming all Plan criteria are fully accomplished for 2009. Each one of the four components measured under this Plan carries a different weight.

Mr. Paden did not achieve the minimum targets in benchmark one or two. Mr. Paden achieved 55.8% of the third benchmark for a payment of $9,319 and 53.5% of the fourth benchmark for a payment of $8,943 all of which totaled $18,200.

Mr. Gulas did not achieve the minimum target in benchmark one. Mr. Gulas achieved the maximum target of two of the three components in benchmark two (loan growth and deposit growth) for a payment of $15,750; 80.45% of benchmark three for a payment of $12,671 and 67% of benchmark four for a payment of $10,553 all of which totaled $38,973.

Mr. Culp did not achieve the minimum targets in

benchmark one or two. Mr. Culp achieved 69%of benchmark three for a payment of $6,800 and 66.7% of benchmark four for a payment of $6,574 all of which totaled $13,375.

The payment under the SVP Plan to Mr. Graham is based upon a pool of funds equal to 40% of his 2009 base salary. There is no minimum payout amount and the maximum payment to Mr. Graham would be $46,800 assuming all plan criteria are fully accomplished for 2009. Each one of the five components measured under this Plan carries a different weight. During 2009, Mr. Graham achieved the maximum target under the first, third and fifth benchmarks all of which totaled $51,779. However, pay out under the plan is capped at 40% of his base salary of $117,000. This equated to a total payment of $46,800.

(b)

The minimum threshold payout available to each of the executive officers based on the total incentive compensation pool available in 2009 of $211,540 if each participant reached a minimum of one of the target goals for one of the four benchmarks available to him. The minimum payout would be the percentage allocated to that achieved benchmark based upon 35% of that participant s 2009 base salary.

(c) The maximum payout available to each of the executive officer s based on the total incentive compensation pool available in 2009 of $211,540 if the participants reach 100% of each of the four benchmarks under the plan up to a maximum of 35% of each participant s base salary for 2009.

(d) The actual amount paid to each executive officer under the 2009 Executive Incentive Compensation Plan in 2009 based on

the total incentive compensation pool available in 2009 of $211,540. Each participant s actual bonus payment under the Plan shall not exceed 35% of such participant s base salary for 2009. The salary for each of the above named participants is set forth in the table Summary Compensation Table Fiscal 2009 and Fiscal 2008 above.

Each of the non-equity incentive plan awards reported in the above table were granted under the Executive Incentive Compensation Plan. The material terms of these incentive awards are described under Executive Compensation above.

Deferred Compensation Agreements

In 1991, as a result of certain changes in the Internal Revenue Code, the Bank s former pension plan was amended to reduce significantly the benefits of several key employees, including those of Mr. Paden. As a result, the Bank has entered into Deferred Compensation Agreements with Mr. Paden. Under the terms of the Deferred Compensation Agreements, upon retirement, Mr. Paden will receive monthly payments of $930.00 each for a period of two hundred and four (204) consecutive months. In the event that any payments remain payable to the executive officer at the time of his death, the remaining payments will be discounted to present value (at the rate of 6% compounded annually) and paid to his surviving spouse in a lump sum. If there is no surviving spouse, the lump sum payment will be made to the estate of the deceased executive. Payments will be prorated in the event the employee retires before the age of 65, and will be increased if he retires after the age of 65. These agreements are funded by life insurance policies owned by the Bank, on which the Bank is the beneficiary and on which the Bank pays the premiums. These agreements also provide that these executive officers will be available to perform consulting services for the Bank during the period they are receiving these payments, and prohibit them from entering into competition with the Bank during that same period.

EMPLOYMENT CONTRACTS OF EXECUTIVES

The Corporation has entered into employment contracts with Frank L. Paden, Carl D. Culp, Mark L. Graham, and Kevin J. Helmick in December of 2008 and John S. Gulas in January of 2009. The Corporation desires to provide for the continued employment of these executives resulting in continuity of management for the future. Each employment contract for each respective executive provides the following terms and conditions of employment:

Each executive shall have a term of employment commencing on the date of the employment contract and continuing for a period of 36 months. The term of the contract shall automatically be renewed in 36-month increments, unless written notice of termination is provided by either party at least 90 days prior to the expiration of the then current term. The agreement shall continue until terminated pursuant to its terms.

The base salary of each executive will be reviewed by the Bank on an annual basis.

Each executive is eligible to participate in the Executive Incentive Compensation Plan, according to terms and conditions applicable to all other executives and the stock option plan of the Bank and any successor plan.

Each agreement also contains customary provisions regarding post-employment competition and anti-solicitation, vacations, insurance and expense reimbursements.

The executive may be terminated without cause provided that 30 days advance written notice is provided to the other party and for cause without advance notice as that term is described in the agreement.

If the executive s employment is terminated by the Bank without cause , or by executive for good cause or a change in control of the Corporation occurs and the executive is not offered a position that is substantially similar in terms of duties, responsibilities, pay and benefits, in addition to the above compensation, the executive shall receive (i) a lump sum payment payable within 30 days of termination equal to any unused vacation time, (ii) 72 bi-monthly severance installment payments equal to the greater of (A) the bi-monthly installment payment in executive s Employment Agreement in effect as of the date hereof (* see below for payment amounts), or (B) 1/24 of his highest annual salary in effect within 12 months of termination, less appropriate withholdings and (iii) participation in the Executive Incentive Compensation Plan or other similar programs then in effect on a pro-rata basis for a portion of the incentive period proceeding termination.

If the executive s employment is terminated for cause by the Bank or by the executive without cause the executive is not entitled to any severance payments. Upon termination for disability or death, the executive or the executive s estate is entitled to receive only a lump sum payment for unused vacation time and a pro-rata participation in the Executive Incentive Compensation Plan.

Potential Payments upon Termination or Change in Control

The Bank has entered into an employment agreement with each of the executive officers as described in the section above entitled EMPLOYMENT CONTRACTS OF EXECUTIVES . See also the section Deferred Compensation Agreements.

Under the employment agreement, for each executive other than Mr. Helmick, if the executive s employment is terminated by the Bank without cause , or by executive for good cause (as defined in the agreement) or if a change in control of the Corporation occurs and the executive is not offered a position that is substantially similar in terms of duties, responsibilities, pay and benefits, the executive shall receive (i) a lump sum payment payable within 30 days of termination equal to any unused vacation time, (ii) 72 bi-monthly severance installment payments equal to the greater of (A) the bi-monthly installment payment in executive s Employment Agreement in effect as of the date hereof (* see below for payment amounts), or (B) 1/24 of his highest annual salary in effect within 12 months of termination, less appropriate withholdings and (iii) that amount earned for participation in the Executive Incentive Compensation Plan or other similar programs then in effect on a pro-rata basis for a portion of the incentive period preceding termination.

Under Mr. Helmick s employment agreement, if he is terminated by the Bank without cause , or by executive for good cause (as defined in the agreement) or if a change in control of the Corporation occurs and the executive is not offered a position that is substantially similar in terms of duties, responsibilities, pay and benefits, the executive shall receive (i) a lump sum payment payable within 30 days of termination equal to any unused vacation time, (ii) 72 bi-monthly severance installment payments equal to 1/24 of his annualized W-2 income at the time of his termination and (iii) that amount earned for participation in the Executive Incentive Compensation Plan or other similar programs then in effect on a pro-rata basis for a portion of the incentive period preceding termination.

Upon termination due to disability or death, each executive s estate will be entitled to a lump sum payment equal to any unused vacation time and that amount earned for participation in the Executive Incentive Compensation Plan or any other similar program then in effect on a pro-rata basis for the portion of the inventive period preceding death or disability.

The following table lists the named executives and the estimated amounts they would have become entitled to receive upon termination or a change of control if such event had occurred on December 31, 2009.

Name	Total Compensation prior to termination or a change in control (1)	Bank terminates executive s employment for cause or executive terminates without good reason (2)	Executive s employment is terminated due to disability or death (3)	Bank terminates executive s employment without cause or by executive for good reason or upon change in control (4)
Frank L. Paden	$ 282,939			$ 734,024
John S. Gulas	$ 251,149			$ 651,477
Carl D. Culp	$ 159,674			$ 435,799
Mark L. Graham	$ 169,244			$ 400,392
Kevin J. Helmick	$ 136,529			$ 398,448

(1) See Summary Compensation Table Fiscal 2009 and Fiscal 2008 above.

(2) If the Bank terminates any of the named Executive Officers for cause or executive terminates his employment without good reason, the Bank shall have no obligations to pay severance to the executive after the date of termination.

(3) Unused vacation time at the time of disability or

death and a pro-rata portion of his portion of the 2009 Executive Incentive Compensation Plan.

(4) Total value is comprised of the following three sums:

Each of the executive officer s unused vacation time is equal to $0.

72 bi-monthly installment payments of the following: Mr. Paden s bi-monthly installment payment is equal to $9,942; Mr. Gulas bi-monthly installment payment is equal to $8,507; Mr. Culp s bi-monthly installment payment is equal to $5,867; Mr. Graham s bi-monthly installment payment is equal is $4,911; and Mr. Helmick s bi-monthly installment payment is equal to $5,534.

The Executive Incentive Compensation Plan is based on calendar year results and therefore allocation of such compensation for each executive officer s as of December 31, 2009 is the full year for such compensation plan. Mr. Paden s portion of the 2009 Executive Incentive Compensation Plan is equal to $18,200; Mr. Gulas portion of the 2009 Executive Incentive Compensation Plan is equal to $38,973; Mr. Culp s portion of the 2009 Executive Incentive Compensation Plan is equal to $13,375; and Mr. Graham s portion of the SVP Plan for 2009 is equal to $46,800.

(5) In addition to the compensation listed, upon retirement, Mr. Paden is entitled to receive additional compensation pursuant to his Deferred Compensation Agreement. See Deferred Compensation Agreements above.

Upon termination for any reason, each of the executive officers shall be subject to a one-year non-compete which shall prevent such individual from working for a competitor of the Corporation or the Bank unless such executive s term of employment was not renewed.

Upon termination for any reason, each of the executive officers shall be subject to a one-year non-solicitation of customers which shall prevent such individual from soliciting business from any customer or client of the Bank at the time of executive s termination.

Upon termination for any reason, each of the executive officers shall be subject to a two-year non-solicitation of employees which shall prevent such individual from employing, attempting to employ or soliciting for employment any individual who is employed by the Bank at the time of executive s termination.
The Compensation Committee of the Board of Directors has approved the terms of each of the executive s officers employment contracts.