

FIRST KEYSTONE CORP
Form DEF 14A
March 18, 2014

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. __)

Filed by the Registrant

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Check the appropriate box:

<input type="checkbox"/>	<input type="checkbox"/>	Preliminary Proxy Statement
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FIRST KEYSTONE CORPORATION
(Exact name of registrant as specified in its Charter)

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

Payment of Filing Fee (check the appropriate box):

.. x No fee required.
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Date Filed:

First Keystone Corporation

111 West Front Street
Berwick, Pennsylvania 18603

March 25, 2014

Dear Fellow Shareholders of First Keystone Corporation:

It is my pleasure to invite you to attend the 2014 Annual Meeting of Shareholders of First Keystone Corporation (the "Corporation") to be held on Tuesday, May 6, 2014, at 10:00 a.m., Eastern Daylight Time. The Annual Meeting this year will be held at the McBride Memorial Library, Community Room, 500 Market Street, Berwick, Pennsylvania 18603.

The Notice of the Annual Meeting and the Proxy Statement on the following pages address the formal business of the meeting. The formal business schedule includes:

- The election of 3 Class C Directors;
- The ratification of the selection of BDO USA, LLP, as the independent registered public accounting firm for the Corporation for the fiscal year ending December 31, 2014;
- Advisory vote on executive compensation; and
- Other business which might come before the meeting.

At the meeting, members of the Corporation's management will review the Corporation's operations during the past year and will be available to respond to questions.

We strongly encourage you to vote your shares, whether or not you plan to attend the meeting. It is very important that you sign, date and return your proxy card as soon as possible. The execution and delivery of your proxy does not affect your right to vote in person if you attend the meeting. You may revoke your proxy any time prior to its exercise, and you may attend the meeting and vote in person, even if you have previously returned your proxy.

Thank you for your continued support. I look forward to seeing you at the Annual Meeting if you are able to attend.

Sincerely,

Matthew P. Prosseda
President and Chief Executive Officer

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FIRST KEYSTONE CORPORATION

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON MAY 6, 2014

TO THE SHAREHOLDERS OF FIRST KEYSTONE CORPORATION:

Notice is hereby given that the Annual Meeting of Shareholders (the “Annual Meeting”) of First Keystone Corporation (the “Corporation”) will be held at 10:00 a.m., Eastern Daylight Time, on Tuesday, May 6, 2014, at the McBride Memorial Library, Community Room, 500 Market Street, Berwick, Pennsylvania 18603, for the following purposes:

1. To elect 3 Class C Directors to serve for a three-year term and until their successors are properly elected and qualified;
2. To ratify the selection of BDO USA, LLP as the independent registered public accounting firm for the Corporation for the fiscal year ending December 31, 2014;
3. To conduct a non-binding vote on executive compensation; and
4. To transact any other business as may properly come before the Annual Meeting and any adjournment or postponement of the meeting.

In accordance with the bylaws of the Corporation and action of the Board of Directors, the Corporation is giving notice of the Annual Meeting only to those shareholders on the Corporation’s records as of the close of business on March 11, 2014, and only those shareholders may vote at the Annual Meeting and any adjournment or postponement of the Annual Meeting.

A copy of the Corporation’s Annual Report on Form 10-K for the fiscal year ended December 31, 2013 may be obtained, at no cost, by contacting Cheryl Wynings, Investor Relations, First Keystone Corporation, 111 West Front Street, Berwick, PA 18603, telephone: (570) 752-3671, extension 1175.

Important Notice Regarding the Availability of Proxy Materials

for the Annual Meeting of Shareholders to be Held on May 6, 2014:

The 2014 Proxy Statement, the proxy card, the Notice of Annual Meeting of Shareholders and the 2013 Annual Report on Form 10-K are also available at: www.fkyscorp.com.

Whether or not you expect to attend the Annual Meeting in person, we ask you to complete, sign, date and promptly return your proxy card. By so doing, you will ensure your proper representation at the meeting. The prompt return of your signed proxy card will also save the Corporation the expense of additional proxy solicitation. The execution and delivery of your proxy card does not affect your right to vote in person if you attend the meeting.

By Order of the Board of Directors,

Matthew P. Prosseda
President and Chief Executive Officer

Berwick, Pennsylvania

March 25, 2014

PROXY STATEMENT FOR THE ANNUAL MEETING OF SHAREHOLDERS
OF FIRST KEYSTONE CORPORATION TO BE HELD ON MAY 6, 2014

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**PROXY STATEMENT FOR THE ANNUAL MEETING OF SHAREHOLDERS
OF FIRST KEYSTONE CORPORATION TO BE HELD ON MAY 6, 2014**

GENERAL INFORMATION

Introduction, Date, Time and Place of Annual Meeting

First Keystone Corporation (the “Corporation”), a Pennsylvania business corporation and registered bank holding company, furnishes this Proxy Statement in connection with the solicitation, by its Board of Directors, of proxies to be voted at the Annual Meeting of Shareholders (the “Annual Meeting”) and at any adjournment or postponement of the Annual Meeting. The Corporation will hold the meeting on Tuesday, May 6, 2014, at 10:00 a.m., Eastern Daylight Time, at the McBride Memorial Library, Community Room, 500 Market Street, Berwick, Pennsylvania 18603.

The principal executive office of the Corporation is located at First Keystone Community Bank (the “Bank”), 111 West Front Street, Berwick, P.O. Box 289, Pennsylvania 18603. The Bank is the sole, wholly-owned subsidiary of the Corporation. The telephone number for the Corporation and the Bank is (570) 752-3671. All inquiries should be directed to Matthew P. Prosseda, President and Chief Executive Officer of the Corporation and the Bank.

When we say “we”, “us”, “our” or the “Company”, we mean the Corporation on a consolidated basis with the Bank.

Solicitation and Voting of Proxies

By properly completing and returning your proxy card, a shareholder is appointing the proxy holders to vote his or her shares as the shareholder specifies on the proxy. If a shareholder signs the proxy but does not make any selection, the proxy holders will vote the proxy:

- **FOR** the election of the nominees for Class C Directors named in this Proxy Statement;
- **FOR** the ratification of the selection of BDO USA, LLP as the independent registered public accounting firm for the Corporation for the year ending December 31, 2014; and
- **FOR** the compensation of the named executive officers.

Although the Board of Directors (the “Board”) knows of no other business to be presented at the Annual Meeting, in the event that any other matters are properly brought before the meeting, any proxy given pursuant to this solicitation will be voted in accordance with the recommendations of the Board.

The execution and return of your proxy card will not affect your right to attend the Annual Meeting and vote in person.

The Corporation will pay the cost of preparing, assembling, printing, mailing and soliciting proxies and any additional material that the Corporation may furnish shareholders in connection with the Annual Meeting. In addition to the use of the mail, directors, officers and employees of the Corporation and the Bank may solicit proxies personally, by telephone, or other electronic means. The Corporation will not pay any additional compensation for the solicitation. The Corporation will make arrangements with brokerage houses and other custodians, nominees and fiduciaries to forward proxy solicitation material to the beneficial owners and will reimburse them for their reasonable forwarding expenses.

Revocability of Proxy

A shareholder who returns a proxy may revoke the proxy at any time before it is voted only:

- By executing a later-dated proxy; or
- By attending the Annual Meeting and voting in person.

Voting Securities, Record Date and Quorum

At the close of business on March 11, 2014, the Corporation had 5,521,325 shares of common stock outstanding, par value \$2.00 per share. Our common stock is the Corporation's only issued and outstanding class of stock. The Corporation also had 235,149 shares held in treasury, as issued but not outstanding shares on that date. The Corporation's Articles of Incorporation authorize the issuance of up to 20,000,000 shares of common stock and 1,000,000 shares of preferred stock. No shares of preferred stock are issued or outstanding.

Only shareholders of record as of the close of business on March 11, 2014, may vote at the Annual Meeting. Cumulative voting rights do not exist with respect to the election of directors. On all matters to come before the Annual Meeting, each shareholder is entitled to one vote for each share of common stock held on the record date.

Pennsylvania law and the bylaws of the Corporation require the presence of a quorum for each matter that shareholders will vote on at the Annual Meeting. The presence, in person or by proxy, of shareholders entitled to cast at least a majority of the votes that all shareholders are entitled to cast constitutes a quorum for the transaction of business at the Annual Meeting. The Corporation will count votes withheld and abstentions in determining the presence of a quorum for a particular matter. The Corporation will not count broker non-votes in determining the presence of a quorum for a particular matter. A broker non-vote occurs when a broker nominee, holding shares for a beneficial owner, does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item, and has not received instructions from the beneficial owner. Those shareholders present, in person or by proxy, may adjourn the meeting to another time and place if a quorum is lacking.

Vote Required for Approval of Proposals

Assuming the presence of a quorum, the 3 nominees for director receiving the highest number of votes cast by shareholders will be elected. Votes withheld from a nominee and broker non-votes will not be cast for the nominee.

Assuming the presence of a quorum, ratification of the selection of BDO USA, LLP requires the affirmative vote of a majority of all votes cast by shareholders, in person or by proxy, on the matter. Abstentions and broker non-votes are not votes cast and do not count either for or against ratification. Abstentions and broker non-votes have the practical effect of reducing the number of affirmative votes required to obtain a majority vote for each matter by reducing the total number of shares voted from which the majority is calculated.

Advisory Vote on Executive Compensation

At the Corporation's 2011 Annual Meeting, the shareholders approved, on an advisory basis, the compensation of the named executive officers, as disclosed in the Corporation's Proxy Statement for the 2011 Annual Meeting pursuant to the compensation disclosure rules of the Securities and Exchange Commission (the "SEC"), including the 2010 Summary Compensation Table and the other related tables and disclosures. The shareholders also voted to conduct an advisory vote on the Corporation's executive compensation for named executive officers every three years.

Accordingly, the Board has determined that the next shareholder advisory vote on executive compensation will take place at the Corporation's 2014 Annual Meeting, and the next shareholder advisory vote on the frequency by which shareholders will vote on executive compensation will take place at the 2017 Annual Meeting.

GOVERNANCE OF THE COMPANY

Our Board of Directors believes that the purpose of corporate governance is to ensure that we maximize shareholder value in a manner consistent with legal requirements and the highest standards of integrity. The Board has adopted and adheres to corporate governance practices which the Board and senior management believe promote this purpose are sound and represent best practices.

Board Leadership Structure

The Corporation separates the roles of Chief Executive Officer ("CEO") and Chairman of the Board (the "Chairman") in recognition of the differences between the two roles. The CEO is responsible for setting the strategic direction for the Corporation and the day to day operation and performance of the Corporation, while the Chairman provides guidance to the CEO, sets the agenda for Board meetings and presides over meetings of the Board. Mr. Robert E. Bull, our Chairman, has been a director for over 52 years, including serving as Chairman for the past 32 years. The Board believes the separated roles of CEO and Chairman are in the best interest of shareholders because it promotes both strategic development and facilitates information flow between management and the Board, both essential for effective governance.

The Corporation's Board oversees all business, property and affairs of the Corporation. The Chairman and the Corporation's officers keep the members of the Board informed of the Corporation's business through discussions at Board meetings and by providing them with reports and other materials. The directors of the Corporation also serve as the directors of the Corporation's wholly-owned bank subsidiary, First Keystone Community Bank, upon election by the Corporation.

Currently, our Board has ten members. Based on the qualifications for independence established under the SEC and NASDAQ standards for independence, John E. Arndt, J. Gerald Bazewicz, Don E. Bower, Joseph B. Conahan, Jr., Jerome F. Fabian, and David R. Saracino meet the standards for independence. Only independent directors serve on our Audit Committee. As of October 1, 2013, J. Gerald Bazewicz meets the standards for independence and serves as an independent director on the Audit Committee.

In determining the Directors' independence, the Board considered loan transactions between the Bank and the directors, their family members and businesses with whom they are associated, as well as any contributions made to non-profit organizations with whom they are associated.

Risk Management

The Board's role in the Corporation's risk oversight process includes receiving regular reports from members of senior management on areas of material risk to the Corporation, including operational, financial, legal and regulatory, and strategic and reputational risks. The Board receives reports from the various committees of the Board. When a committee presents a report to the full Board, the Chairman of the relevant committee leads the discussion. This enables the Board and its committees to coordinate the risk oversight role, particularly with respect to risk interrelationships. As part of its charter, the Audit Committee discusses the policies with respect to risk assessment and management.

Diversity

In considering whether to recommend any candidate for inclusion in the Board's slate of recommended director nominees, including candidates recommended by shareholders, the Board has determined that they must have the right diversity. This includes the candidate's integrity, business acumen, age, experience, commitment, diligence, conflicts of interest and the ability to act in the interests of all shareholders. The Board seeks nominees with a broad diversity of experience, professions, skills, geographic representation and backgrounds. Nominees are not discriminated against on the basis of race, religion, national origin, sexual orientation, disability or any other basis proscribed by law.

CODE OF ETHICS

As required by law and regulation, in 2003 the Corporation adopted the Directors and Senior Management Code of Ethics (the "Code of Ethics") to be applicable to our directors and senior management. The Code of Ethics is posted on our website at www.firstkeystonecorporation.com, which we filed with the SEC as exhibit 14 on Form 8-K on August 27, 2013.

COMMITTEES OF THE BOARD OF DIRECTORS

The Corporation's Board of Directors has, at present, an Audit Committee.

Audit Committee. Members of the Audit Committee, during 2013, were David R. Saracino, Chairman, J. Gerald Bazewicz, Don E. Bower, and Jerome F. Fabian, each of whom the Board has determined satisfies the SEC and NASDAQ independence and audit committee qualification standards. As of October 1, 2013, J. Gerald Bazewicz satisfies the SEC and NASDAQ independence and audit committee qualification standards. The Audit Committee met four times during 2013.

The principal duties of the Audit Committee are set forth in its charter which is available on our website at www.firstkeystonecorporation.com under the governance documents menu. The duties include reviewing significant audit and accounting principles, policies and practices, reviewing performance of internal auditing procedures, reviewing reports of examination received from regulatory authorities and recommending annually, to the Board, the engagement of an independent registered public accounting firm.

The Board has determined that David R. Saracino is an “audit committee financial expert” and “independent” as defined under applicable SEC and NASDAQ rules in 2013. The Board deemed Mr. Saracino a “financial expert” as he possesses the following attributes:

- An understanding of financial statements;
- Proficiency in assessing the general utilization of such principles in connection with accounting for estimates, accruals and reserves;
- Lengthy experience preparing, auditing, analyzing and evaluating financial statements;
- Understanding of internal controls and procedures for financial reporting; and
- Understanding of audit committee functions.

Oversight of Executive Compensation and Director Nominations

During 2013, the Corporation did not have formal nominating or compensation committees. The Board determined that it is appropriate for the Corporation not to have a nominating or compensation committee in view of the Corporation’s relative size, stability of the Corporation’s Board, and the historic involvement of the entire Board in the director selection process and in the compensation process. Because there is no formal nominating or compensation committee, the Corporation does not have a formal charter for such committees.

COMMITTEES OF THE BANK

The Bank's Board maintains standing committees: trust, asset/liability management, marketing, loan administration, human resources, executive and building. The composition of these committees is described below:

Name	Trust	ALCO	Marketing	Loan Administration	Human Resources	Executive	Building
John E. Arndt	X		X	X	X*	X	X
J. Gerald Bazewicz		X		X	X	X	X
Don E. Bower			X	X*	X		X
Robert A. Bull	X	X	X	X	X		X*
Robert E. Bull	X	X	X	X	X	X*	X
Joseph B. Conahan, Jr.	X*	X	X		X		X
Jerome F. Fabian			X*	X	X		X
John G. Gerlach	X	X*	X		X	X	X
Matthew P. Prosseda	X	X	X	X	X	X	X
David R. Saracino		X		X	X	X	X
Number of Meetings Held in 2013	12	5	4	4	2	0	0

**Denotes Chairman of the Respective Committee.*

Trust Committee - This committee ensures that all trust activities of the Bank are performed in a manner that is consistent with the legal instrument governing the account, prudent trust administration practices and approved trust policy.

Asset/Liability Committee ("ALCO") - This committee reviews asset/liability committee reports and provides support and discretion in managing the Bank's net interest income, liquidity and interest rate sensitivity positions.

Marketing Committee - This committee provides guidance to management in formulating marketing/sales plans and programs to assist in evaluating the performance of the Bank relative to these plans.

Loan Administration Committee - This committee monitors loan review and compliance activities. Also, the committee ensures that loans are made and administered in accordance with the loan policy.

Human Resources Committee - This committee helps ensure that a sound human resources management system is developed and maintained. This committee determines compensation for non-executive officers and employees. The entire Board acts as the Compensation Committee for the Corporation and determines compensation for the executive officers.

Executive Committee - This committee exercises the authority of the Board of Directors in the management of the business of the Bank between the dates of regular Board meetings if necessary.

Building Committee - This committee makes recommendations to the Board relating to the Bank's physical assets, including both current and proposed physical assets.

Board Meetings and Attendance

The members of the Board of the Corporation also serve as members of the Board of Directors of the Bank. During 2013, the Corporation's Board held 10 meetings. Each of the directors attended at least 75% of the combined total number of meetings of the Corporation's Board and the committees of which he is a member. Although there is no formal policy, all directors are expected to attend the Annual Meeting. All Directors attended the 2013 Annual Meeting.

SHAREHOLDER OR INTERESTED PARTY COMMUNICATIONS

The Board does not have a formal process for shareholders or interested parties to send communications to the Board. Due to the infrequency of shareholder or interested party communications to the Board, the Board does not believe that a formal process is necessary. Any shareholders or interested party may communicate with the Board by sending a letter to: First Keystone Corporation Board of Directors, c/o Corporate Secretary, 111 West Front Street, P.O. Box 289, Berwick, PA 18603. All communications so received from shareholders or other interested parties will be forwarded to the members of the Board or to the applicable director or directors if so designated by such person.

Shareholders or interested parties who have concerns regarding accounting, improper use of Corporation assets, or ethical improprieties may report these concerns to the Audit Committee by sending an email to David R. Saracino, Audit Committee Chairman, at auditcommitteechairman@fkcbank.com.

SHAREHOLDER PROPOSALS AND NOMINATIONS

If a shareholder wants us to include a proposal in the Proxy Statement for presentation at our 2015 Annual Meeting, the proposal must be received at our principal executive office at 111 West Front Street, P.O. Box 289, Berwick, Pennsylvania 18603, no later than November 25, 2014. Any proposal must comply with SEC regulations regarding the inclusion of shareholder proposals in Corporation-sponsored proxy materials. If a shareholder proposal is submitted to the Corporation after November 25, 2014, it is considered untimely; and, although the proposal may be considered at the Annual Meeting, the Corporation is not obligated to include it in the 2015 Proxy Statement.

The Corporation's Board nominates individuals for the position of director. Neither the Corporation nor the Bank has a nominating committee. A shareholder who desires to propose an individual for consideration by the Board as a nominee for director, should submit a proposal in writing to the Secretary of the Corporation in accordance with Section 10.1 of the Corporation's bylaws. Any shareholder who intends to recommend nomination of any candidate for election to the Board must notify the Secretary of the Corporation in writing not less than 45 days prior to the date of any meeting of shareholders called for the election of directors and must provide the specific information listed in Section 10.1 of the bylaws. You may obtain a copy of the Corporation's bylaws by writing to John E. Arndt, Secretary, First Keystone Corporation, 111 West Front Street, P.O. Box 289, Berwick, Pennsylvania 18603. Specifically, a shareholder who recommends a director candidate for consideration to the Board must provide the candidate's name, biographical data, and qualifications. A written statement from the candidate, consenting to be named as a candidate, and if nominated and elected to serve as a director, should accompany any such recommendation.

The process that the Board uses for identifying and evaluating nominees for director is as follows. When there is a vacancy on the Board, either through the retirement of a director or the Board's determination that the size of the Board should be increased, nominations to fill that vacancy are made by current directors on the Board. The name of any individual recommended by the directors is provided to Chairman Robert E. Bull, who contacts the prospective director nominee and generally meets with him or her. The members of the Board then may meet with the prospective director nominee. If a nominee is qualified and will make a positive addition to the Board, the Board then nominates the candidate.

PROPOSAL NO. 1: ELECTION OF CLASS C DIRECTORS

The Corporation's bylaws provide that its Board will manage the Corporation's business. Sections 10.2 and 10.3 of the bylaws provide that the number of directors on the Board will not be less than 7 nor more than 25 and that the Board will be classified into 3 classes, each class to be elected for a term of 3 years. Within the foregoing limits, the Board may, from time to time, fix the number of directors and their classifications. No person 75 years or older may serve as director, with the exception of Mr. Robert E. Bull. Section 11.1 of the bylaws require that a majority of the remaining members of the Board, even if less than a quorum, will select and appoint directors to fill vacancies on the Board, and each person so appointed will serve as director until the expiration of the term of office of the class of directors to which he or she was appointed.

Section 10.3 of the bylaws provides for a classified Board with staggered three-year terms of office. Accordingly, at the 2014 Annual Meeting, three Class C Directors will be elected to serve for a three-year term and until their successors are properly elected and qualified. The Board of the Corporation has nominated the current Class C Directors to serve as Class C Directors for the next three-year term of office. The nominees for reelection this year are as follows:

- Don E. Bower, director since 2001;
- Robert A. Bull, director since 2006; and
- Matthew P. Prosseda, director since 2012.

Each nominee has consented to serve a three-year term of office and until his successor is elected and qualified.

Unless otherwise instructed, the proxy holders will vote the proxies for the election of these 3 director nominees. If any nominee should become unavailable for any reason, proxies will be voted in favor of a substitute nominee named by the Board of the Corporation. A majority of the directors of the Corporation, in office, may appoint a new director to fill any vacancy occurring on the Board for any reason, and the new director will serve until the expiration of the term of the class of directors to which he or she was appointed.

The Corporation's Articles of Incorporation provide that cumulative voting rights do not exist with respect to the election of directors. Accordingly, each share of common stock entitles its owner to cast one vote for each nominee. For example, if a shareholder owns 10 shares of common stock, he or she may cast up to 10 votes for each director to be elected.

The Board of Directors recommends that shareholders vote **FOR** the election of the above-named director nominees.

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INFORMATION AS TO DIRECTORS AND NOMINEES

The following selected biographical information about the directors and nominees for director is accurate as of March 3, 2014, and includes each person's business experience for at least the past 5 years and the experience, qualifications and attributes or skills that led the Board to conclude that the person should serve as a director.

CURRENT CLASS C DIRECTORS WHOSE TERM EXPIRES IN 2014

AND NOMINEES FOR CLASS C DIRECTOR WHOSE TERM WILL EXPIRE IN 2017

Don E. Bower Mr. Bower (age 65), is the President and owner of Don E. Bower, Inc., an excavation contracting corporation located in Berwick, Pennsylvania. He has been a director of the Corporation and the Bank since 2001. Mr. Bower has successfully developed his business over 39 years and has strong executive leadership and management experience.

Robert A. Bull⁽¹⁾ Mr. Bull (age 61), is an attorney and partner at the law firm Bull, Bull, & McDonald, LLP. Mr. Bull has been a director of the Corporation and the Bank since 2006. He has been an attorney for 34 years and has become knowledgeable in banking since his law firm functions as the Corporation's solicitor.

Matthew P. Prosseda Mr. Prosseda (age 52), serves as the President and Chief Executive Officer of the Corporation and the Bank, a position he has held since 2012. He has served as a director of the Corporation and the Bank since 2012. Previously, Mr. Prosseda was the Chief Executive Officer of the Corporation and the Bank from 2010 to 2012. Prior to that date, Mr. Prosseda served as Executive Vice President and Assistant Secretary from 2005 until 2010.

CLASS A DIRECTORS WHOSE TERM EXPIRES IN 2015

Jerome F. Fabian Mr. Fabian (age 71), is the President and owner of Tile Distributors of America, Inc., located in Wilkes-Barre, Pennsylvania. He has served as a director of the Corporation and the Bank since 1998. Mr. Fabian has been a successful entrepreneur with extensive sales and marketing experience.

John G. Gerlach Mr. Gerlach (age 72), is the retired President of the Pocono division of First Keystone Community Bank and the former President of Pocono Community Bank. He has been a director of the Corporation and the Bank since 2007. Previously, he was a director of Pocono Community Bank since 1997. Mr. Gerlach has over 41 years of banking experience. He possesses strong banking knowledge and served on the Board of Directors of the Federal Reserve Bank of Philadelphia.

David R. Saracino Mr. Saracino (age 69), is the former Vice President, Cashier, and Chief Financial Officer of First Keystone Community Bank. Mr. Saracino has served as a director of the Corporation and the Bank since 2006. He has excellent accounting skills and has been deemed our "financial expert" on the Audit Committee of the Corporation.

CLASS B DIRECTORS WHOSE TERM EXPIRES IN 2016

- John E. Arndt* Mr. Arndt (age 52), is an insurance broker and the owner of Arndt Insurance Agency in Berwick, Pennsylvania. He has served as a director of the Corporation and the Bank since 1995. Mr. Arndt has 28 years experience in the insurance field, including 19 years overseeing the management of his own insurance agency.
- J. Gerald Bazewicz* Mr. Bazewicz (age 65), is the former President and Chief Executive Officer of the Corporation and the Bank. He has been the Vice Chairman of the Board of the Corporation and the Bank since 2012. He has served as a director of the Corporation and the Bank since 1986. Mr. Bazewicz has 41 years of banking experience and a strong financial background which includes a B.S. in Finance and an MBA in Finance.
- Robert E. Bull*⁽¹⁾ Mr. Bull (age 91), now retired, practiced as an attorney at the law firm Bull, Bull & McDonald, LLP, of which he remains a partner. He has been the Chairman of the Board of the Corporation since 1983 and of the Bank since 1981. He has served as a director of the Corporation since 1983 and of the Bank since 1956. Mr. Bull has a strong understanding of our customer base and products which he acquired over five decades of service on our Board.
- Joseph B. Conahan, Jr.* Dr. Conahan (age 70), is an Ophthalmologist and Managing Partner of Pocono Ambulatory Surgery Center. Dr. Conahan has been a director of the Corporation and the Bank since 2007. Previously, he was a director at Pocono Community Bank since 1998. Dr. Conahan has strong management skills and has served on the Board of Directors of a regional medical center.

⁽¹⁾Robert E. Bull is the father of Robert A. Bull.

SHARE OWNERSHIP**Principal Owners**

As of March 3, 2014, the Board knows of no person or entity who owns of record or who is known to be the beneficial owner of more than 5% of the Corporation's outstanding common stock.

Beneficial Ownership by Officers, Directors and Nominees

The following table sets forth, as of March 3, 2014, the amount and percentage of the outstanding common stock beneficially owned by each director, nominee for director, and other named executive officers of the Corporation. The table also indicates the total number of shares owned by all directors, nominees for director, and named executive officers of the Corporation and the Bank as a group. A person owns his or her shares directly as an individual unless otherwise indicated.

Name	Number of Shares Owned ^{1, 2}		Percentage ³	
Nominees for Class C Directors (to serve until 2017) And Class C Directors				
Don E. Bower	90,752	4	1.64	%
Robert A. Bull	92,857	5	1.68	%
Matthew P. Prosseda	9,083	6		%
Class A Directors (to serve until 2015)				
Jerome F. Fabian	49,715	7		%
John G. Gerlach	9,477	8		%
David R. Saracino	8,825	9		%
Class B Directors (to				

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serve until 2016)				
John E. Arndt	18,036	10		%
J. Gerald Bazewicz	33,304	11		%
Robert E. Bull	170,256	12	3.08	%
Joseph B. Conahan, Jr.	61,641	13	1.11	%
Named Executive Officers				
Kevin L. Miller	2,614	14		%
Diane C. A. Rosler	2,841	15		%
Elaine A. Woodland	2,523	16		%
James S. Szewc	4,058	17		%
All Directors and Named Executive Officers as a Group (14 Persons in Total)	555,982		10.07	%

¹The securities “beneficially owned” by an individual are determined in accordance with the definitions of “beneficial ownership” set forth in the General Rules and Regulations of the SEC and may include securities owned by or for the individual’s spouse and minor children and any other relative who has the same home, as well as securities to which the individual has or shares voting or investment power or has the right to acquire beneficial ownership within 60 days after March 3, 2014. Beneficial ownership may be disclaimed as to certain of the securities.

²Information furnished by the directors and the Corporation.

³Less than 1% unless otherwise indicated. Based on 5,521,325 shares outstanding as of March 3, 2014.

⁴Includes 89,022 shares held individually by Mr. Bower, 820 shares held jointly with his spouse, and 910 shares held as custodian for his grandchildren. Includes 21,139 pledged shares.

⁵Includes 34,558 shares held individually by Mr. R.A. Bull, 5,687 shares held by Bull, Bull & McDonald, LLP, a law firm of which Mr. Bull is a partner, 43,179 shares held jointly with his spouse, and 9,433 shares held individually by his spouse.

⁶Includes 6,613 shares held individually by Mr. Prosseda and 2,470 shares held in his Bank 401(k) plan.

⁷Includes 9,551 shares held individually by Mr. Fabian, 18,358 shares by the Jerome F. Fabian Trust Under Agreement for which Mr. Fabian exercises dispositive power, and 21,806 shares held jointly with his spouse.

⁸Includes 1,250 shares held individually by Mr. Gerlach and 8,227 shares held jointly with his spouse.

⁹Includes 8,825 shares held individually by Mr. Saracino.

¹⁰Includes 15,126 shares held individually by Mr. Arndt, 2,026 shares held individually by his spouse, and 884 shares held as custodian for his children.

¹¹Includes 26,745 shares held individually by Mr. Bazewicz and 6,559 shares held jointly with his spouse.

¹²Includes 64,795 shares held individually by Mr. R.E. Bull, 5,687 shares held by Bull, Bull & McDonald, LLP, a law firm of which Mr. Bull is a partner, 83,670 shares held by the Sara E. Bull Decedent Estate Trust of which Mr. Bull is the trustee, and 16,104 shares held by the Starrling Bull Estate of which Mr. Bull is Executor.

¹³Includes 41,449 shares held individually by Dr. Conahan and 20,192 shares held jointly with his spouse.

¹⁴Includes 1,097 shares held individually by Mr. Miller, 1,017 shares held in his Bank 401(k) plan and 500 shares which may be purchased upon the exercise of stock options.

¹⁵Includes 1,986 shares held individually by Ms. Rosler and 855 shares held in her Bank 401(k) plan.

¹⁶Includes 658 shares held individually by Ms. Woodland, 105 shares held jointly with her spouse, 1,260 shares held in her Bank 401(k) plan and 500 shares which may be purchased upon the exercise of stock options.

¹⁷Includes 724 shares held individually by Mr. Szewc, 1,890 shares held jointly with his spouse, 169 shares held in his Bank 401(k) plan and 1,275 shares which may be purchased upon the exercise of stock options.

DIRECTORS' COMPENSATION TABLE

Name	Fees Earned or Paid in Cash (\$)	Stock Awards	Option Awards	Non-Equity Incentive Plan Compen- sation
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