

CORTLAND BANCORP INC  
Form DEF 14A  
April 06, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**SCHEDULE 14A**

(RULE 14a-101)

**SCHEDULE 14A INFORMATION**

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

**Securities Exchange Act of 1934**

(Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

**CORTLAND BANCORP**

(Name of Registrant as Specified In Its Charter)

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Cortland Bancorp  
194 West Main Street  
Cortland, Ohio 44410

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**PROXY STATEMENT**

**Annual Meeting:** May 22, 2012  
Squaw Creek Country Club  
10:00 a.m., EDT  
761 Youngstown-Kingsville Road  
Vienna, Ohio 44473

**Record Date and Voting:** 5:00 p.m., EDT, April 4, 2012. If you were a shareholder of Cortland Bancorp (Cortland) at that time, you may vote at the 2012 Annual Meeting of Shareholders (the Annual Meeting). Each common share entitles the holder to one vote on each matter to be voted on by shareholders at the Annual Meeting. On the record date, Cortland had 4,525,528 common shares outstanding.

**Agenda:**

1. To elect four directors to serve on Cortland's Board of Directors (the Board) for terms of three years each until the 2015 Annual Meeting of Shareholders and thereafter until their successors are elected and qualified.

2. To ratify the appointment of S.R. Snodgrass, A.C. as Cortland's independent auditor for the fiscal year ending December 31, 2012.

3. To transact any other business that may properly come before the Annual Meeting.

**Proxies:** Unless you specify on the proxy card to vote differently, the management proxies will vote all signed and returned proxies FOR election of the Board's nominees for director and FOR ratification of Cortland's independent auditor. The management proxies will use their discretion on any other matters that may arise. If a named nominee cannot or will not serve as a director, the management proxies will vote for a substitute person nominated by the Board to serve as a director.

**Proxies Solicited By:** Proxies are being solicited by the Board. The cost of the solicitation is being borne by Cortland. Proxies will be solicited by mail and may be further solicited, for no additional compensation, by officers, directors, or employees of Cortland and its subsidiaries by mail, telephone, or personal contact. Cortland will also pay the standard charges and expenses of brokerage houses, voting trustees, banks, associations, and other custodians, nominees, and fiduciaries who are record holders of common shares not beneficially owned by them, for forwarding proxy materials to, and obtaining proxies from, the beneficial owners of such common shares.

**Mailing Date:** We anticipate mailing this proxy statement on or about April 6, 2012.

**Revoking Your Proxy:** You may revoke your proxy before it is voted at the Annual Meeting. You may revoke your proxy by:

sending written notice revoking your proxy to Timothy Carney, Cortland's Secretary, at 194 West Main Street, Cortland, Ohio 44410, which must be received prior to the Annual Meeting;

sending in another signed proxy card with a later date, which must be received by Cortland prior to the Annual Meeting; or

attending the Annual Meeting and revoking your proxy in person if your common shares are held in your name. If your common shares are held in the name of your broker, financial institution, or other holder of record, you must bring an account statement or letter from the broker, financial institution, or other holder of record indicating that you were the beneficial owner of the common shares on the record date.

**Attendance at the Annual Meeting will not, in and of itself, constitute revocation of a proxy.**

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON MAY 22, 2012: THE PROXY STATEMENT, INCLUDING NOTICE OF THE ANNUAL MEETING OF SHAREHOLDERS, AND FORM 10-K ARE AVAILABLE AT [www.cortland-banks.com/invest](http://www.cortland-banks.com/invest).**

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**PROXY STATEMENT**

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Cortland Bancorp, an Ohio corporation (Cortland), is registered as a bank holding company with the Board of Governors of the Federal Reserve System and owns all of the issued and outstanding common shares of The Cortland Savings and Banking Company (the Bank). Cortland's principal executive offices are located at 194 West Main Street, Cortland, Ohio 44410. Cortland's common shares are traded on the Over the Counter Bulletin Board under the symbol CLDB. As used in this proxy statement, the terms we, us, and our refer to Cortland and/or its subsidiaries, depending on the context.

This proxy statement is furnished in connection with the solicitation by Cortland's Board of Directors (the Board) of proxies to be voted at the 2012 Annual Meeting of Shareholders, including any adjustment or postponement of such meeting (the Annual Meeting). The Annual Meeting will be held on Tuesday, May 22, 2012, at 10:00 a.m., EDT, at Squaw Creek Country Club, 761 Youngstown-Kingsville Road, Vienna, Ohio 44473. The accompanying Notice of Meeting and this proxy statement are first being mailed to shareholders on or about April 6, 2012.

**SHARE OWNERSHIP BY DIRECTORS AND EXECUTIVE OFFICERS**

The following table furnishes information regarding the beneficial ownership of common shares, as of March 22, 2012, for each of the current directors, each of the nominees for re-election as a director, each of the individuals named in the Summary Compensation Table, and all current directors and executive officers as a group. To the knowledge of Cortland, no person beneficially owns more than 5% of the outstanding common shares of Cortland. The mailing address of each of the current executive officers and directors of Cortland is 194 West Main Street, Cortland, Ohio 44410.

Name of Beneficial Owner	Sole Voting or Sole Investment Power	Shared Voting or Shared Investment Power	Total Shares	Percent of Common Shares Outstanding <sup>(1)</sup>
Jerry A. Carleton		9,093 <sup>(4)</sup>	9,093	(2)
Timothy Carney <sup>(3)</sup>	13,558 <sup>(5)</sup>	5 <sup>(6)</sup>	13,563	(2)
David C. Cole	1,880	2,160 <sup>(7)</sup>	4,040	(2)
Stanley P. Feret <sup>(3)</sup>	1,000		1,000	(2)
James M. Gasior <sup>(3)</sup>	9,996 <sup>(8)</sup>		9,996	(2)
George E. Gessner	29,221		29,221	(2)
James E. Hoffman, III	5,159		5,159	(2)
Neil J. Kaback	191		191	(2)
Joseph E. Koch	8,457		8,457	(2)
Richard B. Thompson	134,345		134,345	2.97%
Timothy K. Woofter	2,723	77,554 <sup>(9)</sup>	80,277	1.77%
All directors and executive officers as a group (17 persons)			313,456	6.93%

- (1) The Percent of Class computation is based upon the sum of 4,525,528 common shares of Cortland outstanding as of March 22, 2012.
- (2) Represents beneficial ownership of less than 1% of the outstanding common shares of Cortland.
- (3) Individual named in the Summary Compensation Table under Executive Compensation.
- (4) These common shares are held in a trust of which Mr. Carleton is a co-trustee.
- (5) Includes 13,547 common shares held in Mr. Carney's 401(k) plan account.
- (6) These common shares are owned by Mr. Carney's spouse.

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- (7) Includes (a) 570 common shares owned by Mr. Cole's spouse and (b) 1,590 common shares owned by Mr. Cole's children.
- (8) Includes 9,724 common shares held in Mr. Gasior's 401(k) plan account.
- (9) Includes (a) 4,001 common shares owned by Mr. Woofter's spouse, (b) 56,657 common shares held in a trust of which Mr. Woofter is the trustee and (c) 16,896 common shares held in a private foundation established by Mr. Woofter.

**RECORD DATE AND OUTSTANDING SHARES; QUORUM**

If you were a shareholder of Cortland at the close of business on April 4, 2012, you are entitled to vote at the Annual Meeting. As of April 4, 2012, there were 4,525,528 common shares of Cortland issued and outstanding. When present in person or by proxy at the Annual Meeting, the holders of a majority of the common shares of Cortland issued and outstanding and entitled to vote will constitute a quorum for the conduct of business at the Annual Meeting.

**VOTE REQUIRED**

Shareholders are entitled to one vote for each share held. Shareholders are not entitled to cumulate their votes in the election or removal of directors or otherwise. The director nominees receiving the greatest numbers of votes will be elected. The affirmative vote of a majority of the issued and outstanding common shares is needed to ratify the appointment of S.R. Snodgrass, A.C. as Cortland's independent auditor for 2012.

**ABSTENTIONS AND BROKER NON-VOTES**

Abstention may be specified on all proposals except the election of directors. Broker non-votes generally occur when shares held by a broker nominee for a beneficial owner are not voted with respect to a proposal because the nominee has not received voting instructions from the beneficial owner and lacks discretionary authority to vote the shares. Brokers normally have discretion to vote on routine matters, such as the ratification of independent registered public accounting firms, but not on non-routine matters, such as amendments to charter documents, executive compensation proposals, and the election of directors. Although they are counted for purposes of establishing that a quorum is present, abstentions and broker non-votes are not counted as votes cast. Accordingly, abstentions and broker non-votes have no effect on the election of directors and are not expected on the ratification of the appointment of Cortland's independent auditor.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), requires Cortland's executive officers and directors to file reports with the Securities and Exchange Commission (SEC) disclosing their initial beneficial ownership of common shares and any subsequent changes in their beneficial ownership. Specific due dates have been established by the SEC, and Cortland is required to disclose in this proxy statement any late reports. To Cortland's knowledge, based solely on a review of reports furnished to Cortland and written representations that no other reports were required, Cortland's executive officers and directors complied with all Section 16(a) filing requirements during the 2011 fiscal year.

**ELECTION OF DIRECTORS**

**(Proposal One)**

As of the date of this proxy statement, the Board currently has 10 members. Directors are divided into three classes, and directors of each class serve for three-year terms. Four directors serve in the class whose terms will expire at the Annual Meeting, three directors serve in the class whose terms expire in 2013 and three directors serve in the class whose term expires in 2014. Proxies may not be voted for more than the four nominees.

**BOARD NOMINEES**

Directors are individuals with knowledge and experience who serve and represent Cortland's geographic footprint throughout the counties and communities served. Current Board representation by outside directors demonstrates a background in automotive, law, manufacturing, and the accounting industries, with the expertise of these individuals covering a broad array of skills including corporate management, human resource management, strategic planning, business acquisitions, and small business operations.

The Board proposes that the four nominees identified on the following page be elected for a new term of three years. Each nominee was recommended by the Board's Nominating Committee. Each individual elected as a director at the Annual Meeting will hold office until his term expires and thereafter until his successor is duly elected and qualified, or until his earlier resignation, removal from office, or death. While it is contemplated that all nominees will stand for re-election, if a nominee who would otherwise receive the required number of votes becomes



unavailable or unable to serve as a candidate for re-

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election as a director, the individuals designated as proxies on the proxy card will have full discretion to vote the common shares represented by the proxies they hold for the election of the remaining nominees and for the election of any substitute nominee or nominees designated by the Board following recommendation by the Nominating Committee. The Board knows of no reason why any of the nominees named below will be unavailable or unable to serve if elected to the Board.

The biographies of each of the nominees and continuing directors below contains information regarding the person's service as a director, business experience, director positions held currently or at any time during the last five years, information regarding involvement in certain legal or administrative proceedings, if applicable, and the experiences, qualifications, attributes, or skills that caused the Nominating Committee and the Board to determine that the person should serve as a Cortland director. Director James E. Hoffman, III is a first cousin to Craig M. Phythyon, an officer of the Bank.

<b>Nominee</b>	<b>Age</b>	<b>Biography</b>	<b>Director of Cortland Since</b>	<b>Nominee for Term Expiring In</b>
George E. Gessner	67	Attorney, Partner, Director, and Corporate Secretary in the law firm of Gessner & Platt Co., L.P.A. Mr. Gessner has been a general practitioner of law for over 40 years and is a partner in a local law firm. He received his undergraduate (B.A.) degree at Hiram College and his Juris Doctorate (J.D.) degree from the University of Akron Law School. He became a member of the Ohio Bar in 1969. The Nominating Committee and the Board believes that Mr. Gessner's experiences, qualifications, attributes and skills allow him to provide legal expertise to the Board.	1987	2015
James E. Hoffman, III	60	Attorney. President of Hoffman & Walker Co., L.P.A. Mr. Hoffman has been a general practitioner of law for over 33 years and is a partner in a local law firm. He received his undergraduate (B.A.) degree at The Ohio State University in 1973 and his Juris Doctorate (J.D.) degree from the University of Akron Law School in 1976. The Nominating Committee and the Board believes that Mr. Hoffman's experiences, qualifications, attributes and skills allow him to provide legal expertise to the Board.	1984	2015
Joseph E. Koch	55	President, Joe Koch Construction, Inc., a homebuilding, developing and remodeling company since 1988. President, Joe Koch Realty, Inc., a real estate brokerage firm. Owner of Better Living of the Mahoning Valley, a dealer for sunrooms and installations. Member of Eagle Ridge Properties, LLC since 2002. President of Koch Family Charitable Foundation, a 501(c)3 organization. The Nominating Committee and the Board believes that Mr. Koch's experiences, qualifications, attributes and skills allow him to provide local business expertise to the Board.	2010	2015

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Nominee	Age	Biography	Director of Cortland Since	Nominee for Term Expiring In
Timothy K. Woofter	61	President, CEO, and Director of Stanwade Metal Products, a manufacturer of tanks and distributor of oil equipment, and Lucky Oil Equipment, a distributor of oil equipment. Partner in the Woofter Family Limited Partnership. Owner, Jester Investments, a residential and commercial property rental company. Part owner and Vice President of Northern Ventures, a real estate rental company. Manager of Hartford Land LLC, a Real Estate Holding Company. Director of the Trade Association, Steel Tank Institute. Mr. Woofter has managed and owned a business that manufactures steel storage tanks and distributes oil-handling equipment for 40 years. He currently is the president of the Steel Tank Institute, a national trade association. He has owned and managed real estate, both residential and commercial, for over 30 years and is familiar with properties of these types and their values. The Nominating Committee and the Board believes that the experiences, qualifications, attributes and skills that Mr. Woofter has developed through his business and leadership experiences allow him to provide business and leadership insight to the Board.	1985	2015

**Recommendation and Vote**

Under Ohio law and Cortland's Code of Regulations, the nominees receiving the greatest number of votes **FOR** election will be elected to the Board. Shareholders are not entitled to cumulate votes in the election of directors. Common shares represented by properly executed and returned proxy cards will be voted **FOR** the election of the Board's nominees named above unless authority to vote for one or more nominees is withheld. Common shares as to which the authority to vote is withheld and broker non-votes will be counted for quorum purposes, but will not be counted toward the election of directors or toward the election of the individual nominees specified on the proxy card.

**The Board recommends a vote FOR the election of the nominees.**

**CONTINUING DIRECTORS**

Nominee	Age	Biography	Director of Cortland Since	Term Expires In
Jerry A. Carleton	69	Owner of Jerry Carleton Enterprises, Inc., a general contracting and development company, since 1972. Limited Partner in Eagle Ridge Properties LLC in Brown's Farm, a development company. Professor Emeritus at Kent State University Trumbull Campus. In addition to his experience with the building and construction trades, Mr. Carleton is involved in growth, development, and planning. The Nominating Committee and the Board believes that Mr. Carleton's experiences, qualifications, attributes and skills allow him to provide continued expertise in reviewing customer business plans and facilities development, as well as the Bank's business plans.	2004	2013
James M. Gasior	52	President and Chief Executive Officer of the Bank and Cortland since November 2, 2009, Senior Vice President, Chief Financial Officer, and Secretary of Cortland and Cortland Bank since 2005. Certified Public Accountant and member of the American Institute of CPAs and the Ohio Society of CPAs. His professional affiliation includes a background in all financial activities and financial reporting, audit preparation, budgeting, compensation reviews, and	2005	2013

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<b>Nominee</b>	<b>Age</b>	<b>Biography</b>	<b>Director of Cortland Since</b>	<b>Term Expires In</b>
Richard B. Thompson	63	<p>knowledge of government regulatory requirements. The Nominating Committee and the Board believes that the experiences, qualifications, attributes and skills that Mr. Gasior has developed allow him to provide valuable accounting, strategic planning and corporate governance expertise to the Board.</p> <p>Owner and executive of Therm-O-Link, Inc., Vulkor, Inc., and Therm-O-Link of Texas, Inc., all manufacturers of electrical wire and cable. Owner and executive of Geneva Partners, a condominium development company which is no longer active. Executive of Kinsman IGA, a grocery store. Partner in Dana Partners, a real estate holding company, and Dana Gas, a gas well operation. Owner of the Heritage Hill Grain Company and Heritage Hill Enterprises, agricultural businesses, since 2003. Partner in Stratton Creek Woodworks, a maker of wood products, and Smearcase, a real estate holding company, each since 2005. Partner in Goodview, a Brazilian agricultural business. Partner in Kinsman Hardware LLC, a home improvement store. Mr. Thompson is a private investor with an extensive background in manufacturing. The Nominating Committee and the Board believes that Mr. Thompson's experiences, qualifications, attributes and skills allow him to provide assistance in understanding and evaluating manufacturing business relationships. He has owned and managed numerous small businesses in several industries in the Bank's current market area, as well as outside the immediate area.</p>	2001	2013
David C. Cole	53	<p>Partner and President of Cole Valley Motor Company, an automobile dealership. President of JDT, Inc., Cole Valley Chevrolet, CJB Properties, and David Tom LTD, automobile sales, since 2001. As President of a family-owned automobile dealership located in Warren, Ohio, Mr. Cole is responsible for the management and day-to-day operations of the business. He has a Bachelor of Science degree in business administration. Mr. Cole serves on the board of Forum Health. The Nominating Committee and the Board believes that Mr. Cole's experiences, qualifications, attributes and skills allow him to provide an extensive understanding of small business and retail needs.</p>	1989	2014
Timothy Carney	46	<p>Executive Vice President and Chief Operating Officer of Cortland and the Bank and Secretary of Cortland and the Bank since November 2, 2009. Senior Vice President and Chief Operations Officer of the Bank and Cortland since April 2008. Senior Vice President and Chief Operations Officer of the Bank since April 2005. Prior to joining the bank, Mr. Carney was employed by a major accounting firm and had experience in all financial activities and financial reporting, audit preparation, budgeting, and knowledge of government regulatory requirements. The Nominating Committee and the Board believes that the experiences, qualifications, attributes and skills that Mr. Carney has developed allow him to provide valuable accounting, strategic planning and corporate governance expertise to the Board.</p>	2009	2014

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<b>Nominee</b>	<b>Age</b>	<b>Biography</b>	<b>Director of Cortland Since</b>	<b>Term Expires In</b>
Neil J. Kaback	51	Mr. Kaback is Vice President of Cohen & Company, Inc., a firm that provides marketing for Cohen & Company LTD (an accounting firm where Mr. Kaback is also a Vice President). Mr. Kaback is a partner in Cohen & Company Investment Partnership, a financial planning firm and Vice President of Cohen Fund Audit Services, a mutual fund auditing firm. A member of the American Institute of CPAs and the Ohio Society of CPAs. Mr. Kaback has varied responsibilities. He focuses on high level business succession, tax, estate, and family business planning, as well as the supervision and planning of financial statement and tax return engagements. He heads the firm's Automotive Dealers Group and provides managerial, operational, financing, and tax consulting advice. He serves as Finance Chairman for the Trumbull Memorial Hospital Foundation and was the Campaign Chairman of Operation: Save our Airbase Reservists. He was a member of the Leadership Youngstown Class of 92-93, and is actively involved with the Mahoning County United Way, Trumbull 100, Youngstown Area Jewish Federation, and American Red Cross. The Nominating Committee and the Board believes that the experiences, qualifications, attributes and skills that Mr. Kaback has developed allow him to provide continued accounting and financial expertise to the Board.	2004	2014

**THE BOARD OF DIRECTORS AND COMMITTEES OF THE BOARD****Independence of Directors**

The Board has reviewed, considered, and discussed each director's relationships, both direct or indirect, with Cortland and its subsidiaries and the compensation and other payments, if any, each director has, both directly or indirectly, received from or made to Cortland and its subsidiaries in order to determine whether such director qualifies as independent under Rule 5605(a)(2) of Nasdaq's Marketplace Rules. The Board has determined that it has at least a majority of independent directors, and that each of the following directors has no financial or personal ties, either directly or indirectly, with Cortland or its subsidiaries (other than compensation as a director of Cortland and its subsidiaries, banking relationships in the ordinary course of business with the Bank, and ownership of Cortland's common shares as described in this proxy statement) and thus qualifies as independent under Nasdaq Corporate Governance Rule 5605(a)(2): Jerry A. Carleton, David C. Cole, George E. Gessner, James E. Hoffman, III, Neil J. Kaback, Joseph E. Koch, K. Ray Mahan, Richard B. Thompson, and Timothy K. Woofter.

James M. Gasior and Timothy Carney do not qualify as independent directors because they currently serve as executive officers of Cortland and the Bank.

**Meetings of the Board and Attendance at the Annual Meeting of Shareholders**

In 2011, the Board held a total of thirteen (13) meetings. Each incumbent director attended at least 75% of the aggregate of the total number of meetings held by the Board and the total number of meetings held by the board committees on which he served, in each case during the period of his service.

Cortland encourages all incumbent directors and director nominees to attend each annual meeting of shareholders. All of the incumbent directors and director nominees, except Neil J. Kaback and Richard B. Thompson, attended Cortland's last annual meeting of shareholders held on May 17, 2011.

**Communications with the Board**

Although Cortland does not currently have formal procedures by which shareholders may communicate directly with directors, Cortland believes that its current process has adequately served the needs of the Board and its shareholders. Communications sent to the Board, either generally or in care of the Chief Executive Officer, Secretary, the Investor Relations

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Officer, or another corporate officer, are forwarded to all directors. There is no screening process, and all communications that are received by officers for the Board's attention are forwarded to the Board.

Until other procedures are developed and posted on Cortland's website at [www.cortland-banks.com](http://www.cortland-banks.com), any communication to the Board may be mailed to the Board, in care of the Investor Relations Officer, at Cortland's headquarters in Cortland, Ohio. The mailing envelope must contain a clear notation indicating that the enclosed letter is a Shareholder-Board Communication or a Shareholder-Director Communication. In addition, communication via Cortland's website may be used. Correspondence through the investor relations page of the website should also be directed to the Investor Relations Officer and indicate that the communication is a Shareholder-Board Communication or a Shareholder-Director Communication. All such communications, whether via mail or website, must identify the author as a shareholder and clearly state whether the intended recipients are all directors on the Board or just certain specified individual directors or committee members. The Investor Relations Officer will make copies of all such communications and circulate them to the appropriate director or directors.

## **Board Committees**

### *Audit Committee*

The Board has an Audit Committee comprised of Messrs. Cole, Kaback (Chair), and Thompson. The Board has determined that each member of the Audit Committee qualifies as independent under the Nasdaq Marketplace Rules, as well as under Rule 10A-3 promulgated under the Exchange Act.

The Board has determined that the audit committee does not have an audit committee financial expert as that term is defined by the SEC. The Board has determined that each Audit Committee member has sufficient knowledge in financial and accounting matters to serve effectively on the Committee.

The Audit Committee conducts its business pursuant to a written charter adopted by the Board. A current copy of the charter of the Audit Committee is posted on Cortland's website at [www.cortland-banks.com](http://www.cortland-banks.com) on the investor relations page under Governance Documents, Audit Committee Charter. At least annually, the Audit Committee reviews and reassesses the adequacy of its charter and recommends any proposed changes to the full Board for approval as necessary.

The Audit Committee is responsible for appointing, compensating, and overseeing the independent registered public accounting firm employed by Cortland for the purpose of preparing and issuing an audit report or other audit, review, or attestation services. The Audit Committee evaluates the independence of the independent registered public accounting firm on an ongoing basis. The Audit Committee also approves audit reports and plans, accounting policies, and audit outsource arrangements, including audit scope, internal audit reports, audit fees, and certain other expenses. The Audit Committee is responsible for developing procedures for the receipt, retention, and treatment of complaints regarding accounting, internal auditing controls, or auditing matters, including procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

The Audit Committee held ten (10) meetings during 2011. The Audit Committee's report relating to the 2011 fiscal year appears on page 16 of this proxy statement.

### *Executive Compensation Committee*

The Bank's Board of Directors has an Executive Compensation Committee which also serves as the Compensation Committee of Cortland. The Executive Compensation Committee is comprised of Messrs. Carleton, Gessner, and Woofert (Chair). Mr. Cole was a member of the Executive Compensation Committee until May 17, 2011. The Board has determined that each member of the Executive Compensation Committee qualifies as independent under Nasdaq Marketplace Rules. In addition, each member of the Compensation Committee qualifies as an outside director for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the IRC), and as a non-employee director for purposes of Section 16b-3 under the Exchange Act.

The Executive Compensation Committee oversees director and executive officer compensation as well as compensation under the Profit Sharing Program and the Employee Benefit Plan 401(k). The Executive Compensation Committee reviews and recommends officer compensation levels and benefit plans. In evaluating executive officer performance, the Executive Compensation Committee takes into account

job knowledge, initiative, and originality;

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quality and accuracy of work performed and priority setting;

customer relations;

subordinate feedback and ability to provide instruction to staff; and

the relationship of these factors to Cortland and the Bank's achievement of strategic objectives and profitability.

The Executive Compensation Committee occasionally requests the Chief Executive Officer (CEO) to be present at Executive Compensation Committee meetings to discuss executive compensation and evaluate individual performance. The Executive Compensation Committee discusses the CEO's compensation with him, but final deliberations and all votes regarding his compensation are made in executive session, without the CEO present. The Executive Compensation Committee also approves the compensation for other executive officers based on the CEO's recommendations with input from outside advisors and counsel and then makes its recommendation to the Board.

The Executive Compensation Committee reviews publicly available peer data to assist with evaluating the overall compensation for the Board. From time to time, the Executive Compensation Committee will recommend changes in compensation to further the goals of the director compensation program, which strives to provide appropriate compensation to directors for their time, efforts and contributions to the Bank.

The Executive Compensation Committee uses compensation data from similar-sized financial institutions for comparative purposes from time to time to provide input on both Board and executive compensation issues, but it did not engage a consultant in setting 2011 compensation. The Executive Compensation Committee does not have a formal charter. The Executive Compensation Committee held one (1) meeting in 2011.

### *Nominating Committee*

The Board has a Nominating Committee comprised of Messrs. Cole, Thompson, and Woofter (Chair). The Board has determined that each member of the Nominating Committee qualifies as independent under Nasdaq Marketplace Rules. The purpose of the Nominating Committee is to:

identify qualified candidates for election, nomination, or appointment to the Board and recommend to the full Board a slate of director nominees for each annual meeting or as vacancies occur;

make recommendations to the full Board and the Chairman of the Board regarding assignment and rotation of members and chairs of committees of the Board;

recommend the number of directors to serve on the Board; and

undertake such other responsibilities as may be referred to the Nominating Committee by the full Board or the Chairman of the Board.

The Nominating Committee held two (2) meetings during 2011. The charter of the Nominating Committee is reviewed annually and is available on Cortland's website at [www.cortland-banks.com](http://www.cortland-banks.com) on the investor relations page under Governance Documents, Nominating and Corporate Governance Committee Charter.

### **Nominating Procedures**

As described previously, Cortland has a standing Nominating Committee that has the responsibility to identify and recommend individuals qualified to become directors. Each candidate must satisfy the eligibility requirements set forth in Cortland's Code of Regulations, Article Two, Section 2.01 Authority and Qualifications. No person who has attained the age of 70 shall be eligible for election as a director, and each director



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must hold shares of stock of Cortland with an aggregate par value or stated value of \$500, an aggregate shareholder equity of at least \$500, or an aggregate fair market value of at least \$500.

When considering potential candidates for the Board, the Nominating Committee strives to assure that the composition of the Board, as well as its practices and operation, contributes to an effective representation and advocacy of shareholders' interest. The Nominating Committee may consider those factors it deems appropriate in evaluating director candidates, including judgment, skill, strength of character, experience with business and organizations comparable in size and scope to Cortland, experience and skills relative to other Board members, and specialized knowledge or experience. Depending upon the current needs of the Board, certain factors may be weighed more heavily than others by the Nominating Committee. The Nominating Committee does not have a policy for the consideration of diversity in the nomination process, but takes into account in its deliberations all facets of a potential nominee's background, including the potential nominee's educational background, gender, business and professional experience, and his or her particular skills and other qualities. The

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Nominating Committee's goal is to identify individuals who will enhance and add valuable perspective to the Board's deliberations and who will assist Cortland in its effort to capitalize on business opportunities in a challenging and highly competitive market.

In considering candidates for the Board, the Nominating Committee evaluates the entirety of each candidate's credentials and, other than the eligibility requirements set forth in Cortland's Code of Regulations, there are no specific minimum qualifications that must be met by a Nominating Committee recommended nominee. However, the Nominating Committee does believe that each director on the Board should be of the highest character and integrity; possess a reputation for working constructively with others; have sufficient time to devote to Board matters; and be without any conflict of interest that would impede the individual's performance as a director.

The Nominating Committee will consider candidates for the Board from any reasonable source, including shareholder recommendations. The Nominating Committee will not evaluate candidates differently based on who has made the recommendation. The Nominating Committee has the authority to hire and pay a fee to consultants or search firms for the purpose of identifying and evaluating candidates. No such consultants or search firms have been used to date and, accordingly, no fees have been paid to consultants, search firms, or any other individuals.

According to Section 2.03(B) of Cortland's Code of Regulations, any shareholder who desires to nominate an individual to the Board must provide timely written notice. To be timely, the notice must be mailed to the President of Cortland at least 14 days but no more than 50 days before the meeting at which directors will be elected, or 7 days after notice of the meeting is mailed to shareholders if the meeting is held within 21 days of Cortland mailing notice of the meeting.

The shareholder's notice of nomination must give:

the name and address of the nominee;

the principal occupation of the nominee;

the approximate number of shares the shareholder making the nomination reasonably anticipates will be voted in favor of the proposed nominee;

the name and address of the shareholder making the nomination; and

the number of shares beneficially owned by the shareholder making the nomination.

The Nominating Committee will disregard a shareholder's nomination if it is not made in compliance with these rules and standards.

## **Board Leadership Structure and Role in Risk Oversight**

The office of Chairman of the Board and the office of Chief Executive Officer have been separate at Cortland since 2005. Since November 2, 2009, James M. Gasior has held the office of Chief Executive Officer and effective April 27, 2010, Timothy K. Woofter became Chairman of the Board. Cortland believes that separation of these two offices is consistent with the Board's responsibility for oversight of management and of Cortland's affairs generally. The Board and its committees have a significant role in oversight of the risks to which Cortland is subject. Like other community banking organizations, Cortland and the Board exercise oversight of common banking risks through a loan committee that considers loan applications and credit risk, an asset and liability committee whose routine responsibilities require consideration of interest rate and liquidity risk, an audit committee that takes into account audit and regulatory compliance risks, a loan review committee that monitors non-performing assets and their ultimate outcome, and an investment management committee that sets investment strategy and monitors compliance therewith. The full Board, of course, takes these and other risks into account in its deliberations as well.

## **Code of Ethics**

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Cortland has adopted a Code of Ethics (the Code) as part of its corporate governance program. The Code applies to all of Cortland's officers and employees, including its Chief Executive Officer and Chief Financial Officer. The Code is posted on the investor relations page of Cortland's website at [www.cortland-banks.com](http://www.cortland-banks.com) under Governance Documents, Code of Business Conduct and Ethics. Any amendments to, or waivers from, this Code will be posted on this same website. In addition, a copy of the Code is available to shareholders upon request. Shareholders desiring a copy of the Code should address written requests to Mr. Timothy Carney, Executive Vice President, Chief Operating Officer and Secretary of Cortland Bancorp, 194 West Main Street, Cortland, Ohio 44410, and are asked to mark Code of Business Conduct and Ethics on the outside of the envelope containing the request.

**Table of Contents****DIRECTOR COMPENSATION IN 2011**

The following table shows the compensation of Cortland directors for their service on the Board in 2011, other than Directors Gasior and Carney. The director compensation information to follow represents compensation for the full year, through December 31, 2011. The majority of the director compensation is paid by the Bank for directors' service on the Bank's board and its committees, but compensation shown in the table is aggregate compensation paid for directors' service both to Cortland and the Bank. Information about compensation paid to and earned by Directors Gasior and Carney is included elsewhere in this proxy statement.

Name	Fees Earned or Paid in Cash <sup>(1)</sup> (\$)	All Other Compensation <sup>(2)</sup> (\$)	Total (\$)
Jerry A. Carleton	18,850	12,716	31,566
David C. Cole	22,550	4,906	27,456
George E. Gessner	19,450	6,232	25,682
James E. Hoffman, III	19,500	9,248	28,748
Neil J. Kaback	23,100	2,642	25,742
Joseph E. Koch	19,950	2,543	22,493
K. Ray Mahan (retired May 17, 2011)	7,500	263	7,763
Richard B. Thompson	23,000	5,412	28,412
Timothy K. Woofter	21,000	9,396	30,396

- (1) In 2011, non-employee directors of the Bank received an \$18,000 annual retainer, except Director Woofter, Chairman of the Board, who received a \$19,500 annual retainer. Director Mahan retired as a director in May 2011 and received a retainer of \$7,500. Beginning in 2011, non-employee directors of the Bank were paid a fee for attending committee meetings. Employee directors of the Bank received a \$7,200 annual retainer.
- (2) Perquisites and other personal benefits provided to each of the directors described in the table were less than \$10,000 in 2011, with the exception of Director Carleton. The figures in the all other compensation column consist of the imputed monetary value of life insurance policies for the directors and the addition in 2011 to the liability accrual balance established by Cortland to account for Cortland's obligation to pay retirement benefits under director retirement agreements entered into with all non-employee directors. The imputed value of life insurance policies for income tax purposes in 2011 was \$452 for Director Carleton, \$127 for Director Cole, \$405 for Director Gessner, \$231 for Director Hoffman, \$76 for Director Kaback, \$63 for Director Koch, \$263 for Director Mahan, \$319 for Director Thompson, and \$260 for Director Woofter. The addition to the liability accrual balance to account for the director retirement agreements in 2011 was \$12,264 for Director Carleton, \$4,779 for Director Cole, \$5,827 for Director Gessner, \$9,017 for Director Hoffman, \$2,566 for Director Kaback, \$2,480 for Director Koch, \$5,093 for Director Thompson, and \$9,136 for Director Woofter.

*Retirement Agreements and Insurance for Non-Employee Directors.* Directors Carleton, Cole, Gessner, Hoffman, Kaback, Mahan, Thompson, and Woofter are parties to director retirement agreements with Cortland. In December 2007, Cortland entered into amended director retirement agreements with these directors (excluding Director Mahan) for purposes of IRC Section 409A compliance. Cortland did not enter into an amended director retirement agreement with Mr. Mahan because his director retirement agreement was fully accrued and vested before the enactment of IRC Section 409A. The amended director retirement agreements promise a post-retirement benefit of \$10,000 payable annually for 10 years if the director retires after reaching his normal retirement age, which is a function of years of service on the Board and attained age. Normal retirement ages for these directors are age 61 (Mr. Cole), age 62 (Mr. Hoffman), age 63 (Messrs. Mahan and Woofter), age 66 (Mr. Gessner), age 67 (Mr. Kaback), and age 70 (Messrs. Carleton and Thompson). A reduced annual retirement benefit is payable if the director terminates service or becomes disabled before reaching the normal retirement age, but the benefit is not paid until the director reaches the normal retirement age. Mr. Mahan has reached his normal retirement age. If termination of the director's service occurs within one year after a change in control of Cortland, the director will receive cash in a single lump sum equal to the retirement benefit expense accrued by Cortland. The amended director retirement agreement benefits to which a director is entitled are payable to his beneficiary after the director's death, but if the director dies in active service to



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Cortland before reaching his normal retirement age, his beneficiary will be entitled to cash in a single lump sum equal to the retirement benefit expense accrued by Cortland.

Cortland purchased insurance on the lives of directors who are parties to the amended director retirement agreements and entered into split dollar agreements with them, promising to share a portion of the life insurance death benefits with the directors' designated beneficiaries. Each director's portion of the policy's death benefit is \$100,000, payable to the director's beneficiary whether the director's death occurs while in active service to Cortland or after retirement. Cortland will receive any death benefits remaining after payment to the director's beneficiary. In December 2007, Cortland entered into an amended split dollar agreement and endorsement with Mr. Carleton to add a Section 2.4 pursuant to which Cortland promises to maintain the split dollar policy in full force and effect similar to the other directors' split dollar agreements.

*Director Indemnification.* At the 2005 Annual Meeting, the shareholders of Cortland approved the form and use of indemnification agreements with directors. On May 24, 2005, Cortland entered into indemnification agreements with each of the current directors, other than Director Koch. Director Koch entered into an indemnification agreement with Cortland in May 2010. The indemnification agreements allow a director to select the most favorable indemnification rights provided under:

Cortland's Articles of Incorporation or Code of 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 indemnification agreements cover all fees, expenses, judgments, fines, penalties, and settlement amounts paid in any matter relating to the director's role as director, officer, employee, agent, or when serving as Cortland's representative with another entity. Each indemnification agreement provides for the prompt advancement of all expenses incurred in a proceeding, subject to the director's obligation to repay those advances if it is determined later that the director is not entitled to indemnification.

*Retainer and Fees.* Currently, the Board and the Board of Directors of the Bank consist of the same individuals. Non-employee directors of Cortland serve without retainer or fee for services on the Board. Instead, the directors are paid by the Bank for services rendered in their capacities as directors of Cortland and the Bank.

In 2011, non-employee directors of the Bank received an \$18,000 annual retainer, except Director Woofter, Chairman of the Board, who received a \$19,500 annual retainer. Non-employee directors of the Bank also received a fee of either \$150 or \$450 for each committee meeting attended, depending on the committee each non-employee director of the Bank served on in 2011. Employee directors of the Bank received a \$7,200 annual retainer. Directors of the Bank (both employee and non-employee directors) may also elect to participate in the Bank's health care plans at substantially the same rates as all employees.

*Director Emeritus Compensation.* For up to ten years after retirement as a director, an emeritus director of the Bank is paid \$600 for each meeting attended, for an annual compensation of \$7,200, provided the director emeritus attends at least 75% of Board meetings. Emeritus directors are also entitled to continue participation in the Bank's health care plan, although the former director is responsible for paying 100% of the Bank's cost to maintain health care coverage. After the emeritus director's death, his or her spouse may similarly maintain health care coverage, at the spouse's cost. Emeritus directors participate in Board meetings, but are not entitled to vote on any matters coming before the Board.

**Table of Contents****EXECUTIVE COMPENSATION**

Cortland does not provide any monetary compensation directly to its executive officers. Instead, the executive officers of Cortland are paid by the Bank for services rendered in their capacity as executive officers of Cortland and the Bank.

**Summary Compensation Table**

Name and Principal Position	Year	Salary <sup>(1)</sup> (\$)	All Other Compensation <sup>(2)</sup> (\$)	Total (\$)
James M. Gasior President and Chief Executive Officer	2011	205,200	74,523	279,723
of Cortland and the Bank	2010	205,200	62,027	267,227
Timothy Carney Executive Vice President and Chief Operating Officer	2011	193,200	59,747	252,947
of Cortland and the Bank	2010	193,200	43,466	236,666
Stanley P. Feret* Senior Vice President and Chief Lending Officer	2011	145,000	64,928	209,928
of the Bank	2010	117,870	33,453	151,323

\* Mr. Feret was appointed Senior Vice President and Chief Lending Officer of the Bank on March 10, 2010.

- (1) Includes salary deferred at the election of the executive under the Bank's 401(k) retirement plan. Also includes fees for service as a director of Cortland and the Bank. In 2011, directors' fees for Messrs. Gasior and Carney were \$7,200 each.
- (2) The figures in the all other compensation column consist of the Bank's contribution to the 401(k) plan accounts for the named executive officers, the imputed monetary value of life insurance policies, vehicle-related expenses, club memberships, and accrual expense for benefits payable under the executives' salary continuation agreements. For 2011, the Bank made contributions of \$10,343 to the 401(k) plan account of Mr. Gasior, \$9,651 to the account of Mr. Carney and \$7,533 to the account of Mr. Feret. The imputed value of life insurance policies for income tax purposes in 2011 was \$1,754 for Mr. Gasior, \$1,123 for Mr. Carney and \$2,455 for Mr. Feret. Vehicle-related expenses in 2011 were \$8,850 for Mr. Gasior, \$7,000 for Mr. Carney and \$4,400 for Mr. Feret. Club membership dues in 2011 were \$4,878 for Mr. Gasior, \$9,609 for Mr. Carney and \$7,080 for Mr. Feret. The addition to the liability accrual balance to account for the salary continuation agreements in 2011 was \$48,699 for Mr. Gasior, \$32,364 for Mr. Carney and \$43,461 for Mr. Feret.

*Severance Agreements.* Cortland entered into severance agreements in December 2008 with Messrs. Gasior and Carney and in June 2010 with Mr. Feret. The initial term of Messrs. Gasior and Carney's severance agreements is three years, renewing each year for an additional one-year term unless the Board gives advance written notice that the agreement will not automatically renew. Mr. Feret's severance agreement, on the other hand, provides a fixed, two-year term. However, Section 4(b) of Mr. Feret's severance agreement provides that he and Cortland will use best efforts to finalize a new severance agreement by the end of the fixed, two-year term. Messrs. Gasior and Carney's severance agreements terminate when the executive attains age 65.

The severance agreements provide that the executive is entitled to severance compensation if a change in control occurs during the term of the agreement, payable in a single lump sum. The change-in-control benefit under the severance agreements is a single-trigger benefit, in contrast to a double-trigger benefit payable solely after employment termination following a change in control. The severance compensation equals the executive's annual salary when the change in control occurs, plus the amount of any bonus earned for the last whole calendar year. For purposes of the severance agreements, the term change in control means (i) an occurrence of a change in ownership of Cortland, (ii) a change in effective control of Cortland, or (iii) a change in the ownership of a substantial portion of Cortland's assets as defined consistent with IRC Section 409A. If Messrs. Gasior or Carney's employment terminates within 24 months after a change in control, Cortland must also continue their life, health, and disability insurance coverage for up to three years, along with fringe benefits such as club memberships. Messrs. Gasior and Carney will also be entitled to out-placement services for one year, and tax and financial planning services for three years after termination. Mr. Feret's severance agreement does not provide insurance or other miscellaneous benefits for termination occurring after a change in control. However, unlike the other severance agreements, Mr. Feret's agreement alone provides for a cash severance benefit for termination outside of the context of a change

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in control. That is, if Mr. Feret's employment terminates involuntarily but without cause or voluntarily because of an adverse change in employment circumstances to which Mr. Feret has not agreed in advance, in either case before a change in control occurs, he will be entitled to a cash severance benefit in an amount equal to the sum of his salary plus his average cash bonus. Messrs. Gasior and Carney's severance agreements also include a promise on the part of Cortland to pay the executives' legal fees



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associated with the interpretation, enforcement, or defense of the executives' rights under the severance agreements, up to a maximum of \$500,000, as adjusted for inflation from time to time. Mr. Feret's severance agreement does not contain a provision for reimbursement of legal expenses.

If a change in control occurs and the total benefits or payments to which an executive is entitled constitute so-called excess parachute payments and are therefore subject to the 20% excise tax under Sections 280G and 4999 of the IRC (whether under the severance agreement or under any other compensation arrangement), Cortland must also make an adjusted gross-up payment to Messrs. Gasior and Carney compensating them for the excise tax as well as for income, payroll, and excise taxes imposed on that parachute payment excise tax reimbursement payment. A 20% excise tax is imposed under Section 4999 if the value of an executive's aggregate change-in-control benefits calculated according to procedures specified in Section 280G and accompanying IRS regulations equals or exceeds three times his or her five-year average taxable compensation. The five-year average is known as the so-called base amount. If the value of the aggregate change-in-control benefits equals or exceeds three times the base amount, a 20% excise tax is imposed on all benefits exceeding the base amount and the employer forfeits its compensation deduction for those same benefits. The total adjusted gross-up payment to Messrs. Gasior and Carney would consist of (i) a payment equal to the initial excise tax and (ii) a gross-up payment that is calculated by determining the difference between the full gross-up amount needed to provide the excise tax payment net of all income, payroll, and excise taxes and the excise tax payment multiplied by eighty percent (80%).

Mr. Feret's severance agreement does not contain a Section 280G gross-up benefit. However, Section 15 of Mr. Feret's severance agreement provides that benefits will not be reduced or cut back if total change-in-control benefits cause the 20% excess parachute payment excise tax to be imposed on him under IRC Section 4999, with associated loss of Cortland's compensation deduction under IRC Section 280G for payments on which the 20% excise tax is imposed.

*Salary Continuation Agreements.* In June 2010, the Bank entered into fourth amended salary continuation agreements with Messrs. Gasior and Carney (effective as of June 1, 2001) and a new salary continuation agreement with Mr. Feret. The salary continuation agreements provide Messrs. Gasior, Carney and Feret with annual normal retirement benefits at age 65 of \$109,700, \$112,500 and \$92,000, respectively. Upon reaching their specified normal retirement age of 65, the Bank will make these annual benefit payments to the executives for 15 years even if separation from service does not occur at age 65.

The salary continuation agreements are intended to reinforce the executives' long-term commitment to the Bank. The full normal retirement benefit is payable if and only if the executive remains employed with the Bank to the normal retirement age. Messrs. Gasior and Carney's fourth amended salary continuation agreements provide for reduced benefits in the case of early termination on or after reaching the early retirement age (age 62), or in the case of termination due to disability occurring at any age, but early termination benefits are not payable before age 62 unless early termination is because of involuntary termination without cause or voluntary termination with good reason. Mr. Feret's salary continuation agreements also provide a reduced benefit for termination before normal retirement age. However, Mr. Feret's early termination benefit is subject to 10% annual vesting, with elimination of the vesting if a change in control occurs. No benefit is payable and an executive's severance agreement terminates if his employment terminates for cause. Under generally accepted accounting principles, the Bank must accrue a liability on its books for the obligation under the current agreements. By the time the executive attains the normal retirement age, the total liability amount accrued by the Bank must equal the present value of the Bank's obligation to the executive. Each executive's accrual balance is calculated using a level principal amount, with interest computed at a reasonable discount rate under generally accepted accounting principles.

If Mr. Feret's service with the Bank terminates involuntarily without cause or voluntarily for good reason within 24 months after a change in control occurs, the Bank will pay him a change-in-control benefit calculated as described in his salary continuation agreement. Because Mr. Feret's benefit is payable immediately after his separation from service, it is a double-trigger change-in-control benefit and is subject to the six-month payment delay imposed by IRC Section 409A. Conversely, Messrs. Gasior and Carney's fourth amended salary continuation agreements provide a single trigger change-in-control benefit, which is a benefit payable upon the mere occurrence of a change in control, regardless of whether employment termination also occurs. Messrs. Gasior and Carney's change-in-control design allows them to avoid the six-month delay imposed by IRC Section 409A for benefits payable on account of a separation from service. IRC Section 409A imposes a six-month payment delay on termination benefits payable to a so-called specified employee, meaning an executive of a publicly traded company whose annual compensation is \$165,000 or more (the \$165,000 figure is annually adjusted for inflation by the Internal Revenue Service). The term change in control is defined in the agreements in a manner identical to the way a change of control is defined under the executives' severance agreements (*i.e.*, consistent with IRC Section 409A). The payment for Messrs. Gasior and Carney is the accrual balance projected to exist at these executives' normal retirement age discounted to present value. The payment for Mr. Feret is the accrual balance existing when separation from service occurs. The salary continuation agreements also provide that the Bank must reimburse up to \$500,000 in legal expenses incurred by each of the executives if the agreements are challenged after a change in control occurs.

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If either of Messrs. Gasior or Carney dies before age 65 in active service to the Bank, instead of salary continuation agreement benefits, these individuals' beneficiaries will receive a life insurance death benefit in a fixed amount. As informal financing for the salary continuation agreement payment obligation arising out of an executive's death before retirement, the Bank has purchased life insurance policies on certain officers' lives, including Messrs. Gasior and Carney. The life insurance policies are owned by the Bank, but the Bank entered into endorsement split dollar arrangements allowing the executives to designate the beneficiary of a portion of the policy death benefits. The Bank will receive the remainder of the death benefits. Messrs. Gasior or Carney's split dollar agreements provide that the split dollar life insurance benefit expires when the nonqualified deferred compensation obligation is fully accrued at age 65, even if the executive is still working for the Bank. Although the Bank expects the split dollar life insurance policy benefits to finance the expense for the payment obligations under the fourth amended salary continuation agreements, the executives' contractual entitlements under the agreements are not funded and remain contractual liabilities of the Bank.

Under the split dollar agreements and endorsements entered into with each of Messrs. Gasior and Carney, at the executive's death before retirement at age 65, a portion of the total death benefits under the insurance policies will be paid to the executive's designated beneficiary. The death benefit that would have been payable as of December 31, 2011, to the beneficiaries of Messrs. Gasior and Carney would be \$678,977 and \$632,833, respectively. The split dollar agreements and endorsements terminate upon the first to occur of any of the following: (i) surrender, lapse, or other termination of the policy by the Bank, (ii) distribution of the death benefit proceeds, (iii) termination of the salary continuation agreement due to cause, misstatement, removal, bank default, or FDIC open-bank assistance, (iv) upon the executive's 65<sup>th</sup> birthday, (v) upon the executive's separation from service or (vi) the occurrence of a change in control for which benefits are paid to the executives under their salary continuation agreements.

Neither the premium amounts attributable to the policies on the executives' lives nor the potential split dollar death benefits payable to their beneficiaries are reflected in the Summary Compensation Table. The imputed dollar values of the benefit to the executives for 2011, 2010 and 2009 of the portions of the life insurance premium paid by the Bank are included in the Summary Compensation Table.

*Group Term Carve Out Plan.* In December 2000, the Bank purchased with a single premium payment approximately \$2.8 million in life insurance on the lives of 22 officers for the Group Term Carve Out Plan. The 22 officers covered by the plan include Messrs. Gasior and Carney. Under group term split dollar endorsements, the Bank and the executives share the rights to death benefits payable under the life insurance policies. An executive's beneficiaries are entitled to one of the following death benefit amounts:

**Pre-Retirement Death Benefit.** If the executive dies before retirement, the death benefit is the lesser of (a) \$500,000 or (b) twice the executive's current annual salary at the time of death, less \$50,000; or

**Post-Retirement Death Benefit.** If the executive was no longer employed by the Bank at the time of death, but had terminated employment (i) within one year after a change in control, (ii) due to disability, or (iii) on or after the early retirement age of 62, the death benefit is the lesser of (a) \$500,000 or (b) the Executive's most recent salary at the time of death.

The Bank receives the remainder of the life insurance policy death benefits, which should be sufficient to recover in full the Bank's life insurance investment. No benefits are payable under the plan to any executive whose employment terminates before the age of 62, unless termination is due to disability or unless termination occurs within one year after a change in control. Benefits are payable to the executives' beneficiaries in a lump sum.

Employees also have life insurance benefits under the Bank's group term life insurance program, paying benefits up to twice the executive's current annual salary at the time of death to the executive's beneficiaries if the executive dies while employed by the Bank, but limited to \$50,000 for participants in the Group Term Carve Out Plan. Messrs. Gasior and Carney are limited to the \$50,000 cap, while Mr. Feret's benefit is twice his salary.

*Profit Sharing Program.* If the Bank achieves its profit goal for the fiscal year, the Board may (but is not required to) approve profit sharing. The Bank's profit goal for profit sharing purposes was not achieved in 2011. As a result, no profit-sharing distributions were made. Should the Bank achieve its profit goal in the future, the Board may (but is not required to) approve profit sharing. If the Board does approve profit sharing, all employees in good standing are eligible.

*Employee Benefit Plan 401(k).* The Bank maintains a traditional 401(k) retirement plan for employees. In general, the Bank matches participants' voluntary contributions up to 5% of gross pay. Employee contributions and matching contributions under the plan accumulate tax free until distributions begin at the employee's normal retirement age. The goal of the 401(k) plan is to enable employees to provide for their own retirement and, combined with Social Security benefits, to



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ensure that their aggregate post-retirement income is maintained at a percentage of pre-retirement income sufficient to sustain a long-term retirement.

*Perquisites and Other Compensation.* The Executive Compensation Committee annually reviews the perquisites that the management team receives. In the case of Messrs. Gasior, Carney and Feret, membership in a golf or social club is encouraged to provide an appropriate forum for entertaining existing customers, developing and promoting new business and generally interacting with influential members of the local community.

*IRC Limits.* Cortland considers tax and accounting implications in the design of its compensation programs. Section 162(m) of the IRC places a limit on the tax deduction for compensation in excess of \$1 million paid to the chief executive officer and four most highly compensated executive officers of a corporation in a taxable year. All of the compensation Cortland paid in 2011 to the named executive officers is expected to be deductible under Section 162(m). The Executive Compensation Committee retains the flexibility, however, to pay non-deductible compensation if it believes doing so is in the best interests of Cortland.

**TRANSACTIONS WITH RELATED PERSONS**

During the 2011 fiscal year, executive officers and directors of Cortland, members of their immediate families, and corporations or organizations as to which directors of Cortland serve as executive officers or beneficially own more than 10% of the equity interest, were involved in banking transactions with the Bank in the ordinary course of their respective businesses and in compliance with applicable federal and state laws and regulations. It is expected that similar banking transactions will be entered into in the future. Transactions with such persons in connection with the deposit of funds or the Bank acting in an agency capacity have been made on substantially the same terms as those prevailing at the time for comparable transactions with persons not affiliated with Cortland or its subsidiaries. Loans to these persons have been made on substantially the same terms, including the interest rate charged and collateral required, as those prevailing at the time for comparable transactions with persons not affiliated with Cortland or its subsidiaries. These loans have been subject to and are presently subject to no more than a normal risk of collectability and present no other unfavorable features. As of the date of this proxy statement, all of the loans described in this paragraph were performing in accordance with their original terms.

**RATIFICATION OF INDEPENDENT AUDITORS****(Proposal Two)**

Cortland's independent auditor for the year ended December 31, 2011, was S.R. Snodgrass, A.C. The audit committee has selected, subject to shareholder ratification, S.R. Snodgrass, A.C. to be Cortland's independent auditor for the fiscal year ending December 31, 2012. We expect one or more representatives of S.R. Snodgrass, A.C. to be present at the Annual Meeting. The representative of S.R. Snodgrass, A.C. will have the opportunity to make a statement if desired, and will be available to respond to appropriate questions.

*Fees of Independent Registered Public Accounting Firm.* Fees contracted for services by S. R. Snodgrass, A.C. for each of the 2011 fiscal year and the 2010 fiscal year were as follows:

	2011	2010
Audit Fees (1)	\$ 106,250	\$ 102,153
Audit-Related Fees (2)	8,558	7,500
Tax Fees (3)	10,606	8,974
All Other Fees (4)	3,841	11,142

- (1) Audit fees consist of fees for professional services rendered for the audits of the consolidated financial statements of Cortland and quarterly reviews of the financial statements included in Cortland's Quarterly Reports on Form 10-Q.
- (2) Audit-related fees include the financial statement audit of an employee benefit plan.
- (3) Tax fees include U.S. federal, state and local tax planning and advice, and U.S. federal, state and local tax compliance.
- (4) All other fees relate to consulting services in relation to strategic planning.

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*Pre-Approval of Services Performed by Independent Registered Public Accounting Firm.* The Audit Committee pre-approves all audit and non-audit services provided by the independent auditors prior to the engagement of the independent auditors with respect to such services. The Chairman of the Audit Committee has been designated the authority by the Committee to pre-approve the engagement of the independent auditors when the entire Audit Committee is unable to do so. The Chairman must report all such pre-approvals to the entire Audit Committee at its next meeting. All of the services rendered by S.R. Snodgrass, A.C. to Cortland and its subsidiaries for the 2011 and the 2010 fiscal years were pre-approved by the Audit Committee.

*Auditor Independence.* The Audit Committee believes that the non-audit services provided by S.R. Snodgrass, A.C. are compatible with maintaining the auditor's independence. To the best of Cortland's knowledge, none of the time devoted by S.R. Snodgrass, A.C. on its engagement to audit Cortland's financial statements for the year ended December 31, 2011, is attributable to work performed by persons other than full-time, permanent employees of S.R. Snodgrass, A.C.

Cortland's Code of Regulations do not require the submission of the selection of independent auditors to shareholders for approval. However, the Board believes it is appropriate to give shareholders the opportunity to ratify the decision of the Audit Committee to appoint S.R. Snodgrass, A.C. as Cortland's principal accountant. Neither the Audit Committee nor the Board will be bound by the shareholders' vote at the Annual Meeting, but may take the shareholders' vote into account in future determinations regarding the retention of an independent auditor.

### **Recommendation and Vote**

**The Board recommends a vote FOR ratification of the appointment of S.R. Snodgrass, A.C. as Cortland's independent auditor for the fiscal year ending December 31, 2012.**

## **AUDIT COMMITTEE MATTERS**

### **Audit Committee Report for the Fiscal Year Ended December 31, 2011**

The Audit Committee has reviewed the audited financial statements for the year ended December 31, 2011, and has discussed the audited financial statements with management. The Audit Committee has also discussed with S.R. Snodgrass, A.C., Cortland's independent registered public accounting firm, the matters required to be discussed by Statement on Auditing Standards No. 61 (having to do with accounting methods used in the financial statements). The Audit Committee has received the written disclosures and the letter from S.R. Snodgrass, A.C. required by Independence Standards Board Standard No. 1 (having to do with matters that could affect the independent registered accounting firm's independence), and has discussed with S.R. Snodgrass, A.C. the independent registered accounting firm's independence. Based on this, the Audit Committee recommended to the Board that Cortland's audited consolidated financial statements be included in Cortland's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, for filing with the Securities and Exchange Commission.

*Submitted by the Audit Committee*

David C. Cole, Neil J. Kaback, and Richard B. Thompson

## **SUBMISSION OF SHAREHOLDER PROPOSALS**

If any Cortland shareholder wishes to submit a proposal to be included in next year's proxy statement and acted upon at Cortland's annual meeting to be held in 2013, the proposal must be received by Cortland's Secretary prior to the close of business on December 7, 2012. Upon receipt of a shareholder proposal, Cortland will determine whether or not to include the proposal in the proxy materials in accordance with applicable SEC Rules.

If a shareholder intends to present a proposal at the 2013 annual meeting, but has not sought the inclusion of such proposal in Cortland's proxy materials, such proposal must be received by the Secretary of Cortland prior to February 20, 2013, or the management proxies for the 2013 annual meeting will be entitled to use their discretionary voting authority, should such proposal then be raised, without any discussion of the matter in Cortland's proxy material.

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**DELIVERY OF PROXY MATERIALS TO SHAREHOLDERS SHARING AN ADDRESS**

SEC rules provide for householding, which permits Cortland to send a single annual report and a single proxy statement to any household at which two or more different shareholders reside if Cortland believes such shareholders are members of the same family or otherwise share the same address or in which one shareholder has multiple accounts, if in each case such shareholder(s) have not opted out of the householding process. Each shareholder would continue to receive a separate notice of any meeting of shareholders and a separate proxy card. The householding procedure reduces the volume of duplicate information that shareholders may receive and reduces Cortland's expense. Cortland may institute householding in the future, and will notify those registered shareholders who will be affected by householding at that time.

Many brokerage firms and other holders of record have instituted householding. If your family has one or more street name accounts under which you beneficially own common shares of Cortland, you may have received householding information from your broker, bank, or other nominee in the past. Please contact the holder of record directly if you have any questions, require additional copies of the proxy statement or our annual report to shareholders for the 2011 fiscal year, or to revoke your consent to household and, thereby, receive multiple copies once again. These options are available to you at any time.

**OTHER BUSINESS**

As of the date of this proxy statement, the Board knows of no other matters that will be presented for action at the annual meeting other than those discussed in this proxy statement. If any other business should properly arise, the persons acting under the proxies solicited by the Board have the discretionary authority to vote in accordance with their best judgement.

By Order of the Board of Directors,

Timothy Carney

Secretary

April 6, 2012

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