FIRST KEYSTONE CORP
Form DEF 14A
March 13, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A

PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE
SECURITIES EXCHANGE ACT OF 1934

[X] 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))
[X] Definitive Proxy Statement
[ ] Definitive Additional Materials
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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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(1) Title of each class of securities to which transaction applies:

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

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

FIRST KEYSTONE CORPORATION

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111 West Front Street
Berwick, Pennsylvania 18603

March 28, 2006

Dear Fellow Shareholders of First Keystone Corporation:

It is my pleasure to invite you to attend the 2006 Annual Meeting of Shareholders of First Keystone Corporation to be held on Tuesday, April 18, 2006, at 10:00 a.m., Eastern Daylight Time. The Annual Meeting this year will be held at the main office of The First National Bank of Berwick, 111 West Front 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 4 Class A Directors; and
* The ratification of the selection of J. H. Williams & Co., LLP, as the independent auditors for the corporation for the fiscal year ending December 31, 2006.

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 the accompanying proxy form as soon as possible, in the postage-prepaid envelope. If you do attend the meeting and wish to vote in person, you must give written notice of your intentions to the Secretary of the corporation so that any ballot you submit at the meeting will supersede your prior proxy.

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

Sincerely,

/s/ J. Gerald Bazewicz
J. Gerald Bazewicz
President

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FIRST KEYSTONE CORPORATION

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON April 18, 2006

TO THE SHAREHOLDERS OF FIRST KEYSTONE CORPORATION:

Notice is hereby given that the Annual Meeting of Shareholders of First Keystone Corporation will be held at 10:00 a.m., Eastern Daylight Time, on Tuesday, April 18, 2006, at the main office of The First National Bank of Berwick, 111 West Front Street, Berwick, Pennsylvania 18603, for the following purposes:

1. To elect 4 Class A Directors to serve for a three year term and until their successors are properly elected and qualified;

2. To ratify the selection of J. H. Williams & Co., LLP as the independent auditors for the corporation for the fiscal year ending December 31, 2006; and

3. 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 by-laws 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 7, 2006, 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 for the fiscal year ended December 31, 2005, is mailed with this Notice. Additional copies of the corporation's Annual Report for the 2005 fiscal year may be obtained, at no cost, by contacting J. Gerald Bazewicz, President, First Keystone Corporation, 111 West Front Street, Berwick, Pennsylvania 18603, telephone: (570) 752-3671.

Whether or not you expect to attend the Annual Meeting in person, we ask you to complete, sign, date, and promptly return the enclosed proxy form in the accompanying postage prepaid envelope. By so doing, you will ensure your proper representation at the meeting. The prompt return of your signed proxy will also save the corporation the expense of additional proxy solicitation. The execution and delivery of the enclosed proxy does not affect your right to vote in person if you attend the meeting and give written notice to the Secretary of the corporation.

By Order of the Board of Directors,

/s/ J. Gerald Bazewicz
J. Gerald Bazewicz, President

Berwick, Pennsylvania
March 28, 2006

PROXY STATEMENT FOR THE ANNUAL MEETING OF SHAREHOLDERS
OF FIRST KEYSTONE CORPORATION TO BE HELD ON APRIL 18, 2006

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PROXY STATEMENT FOR THE ANNUAL MEETING OF SHAREHOLDERS OF FIRST KEYSTONE CORPORATION TO BE HELD ON APRIL 18, 2006

GENERAL

INTRODUCTION, DATE, TIME AND PLACE OF ANNUAL MEETING

First Keystone 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 and at any adjournment or postponement of the Annual Meeting. The corporation will hold the meeting on Tuesday, April 18, 2006, at 10:00 a.m., Eastern Daylight Time, at the main office of The First National Bank of Berwick, 111 West Front Street, Berwick, Pennsylvania 18603.

The principal executive office of the corporation is located at The First National Bank of Berwick, 111 West Front Street, Berwick, Pennsylvania 18603. The bank is the sole, wholly owned subsidiary of the corporation. The telephone number for the corporation is (570) 752-3671. All inquiries should be directed to J. Gerald Bazewicz, President of the corporation and the bank.

SOLICITATION AND VOTING OF PROXIES

This Proxy Statement and the enclosed proxy form are first being sent to shareholders of the corporation on or about March 28, 2006.

By properly completing and returning the accompanying proxy, 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 A Director named below, and
* FOR the ratification of the selection of J. H. Williams & Co. as the independent auditors for the corporation for the year ending December 31, 2006.

The execution and return of the enclosed proxy will not affect your right to attend the Annual Meeting and vote in person, after giving written notice to the Secretary of the corporation.

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, telecopier 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 giving written notice of revocation to John L. Coates, Secretary of First Keystone Corporation, at 111 West Front Street, Berwick, Pennsylvania, 18603;
* By executing a later-dated proxy and giving written notice of this fact to the Secretary of the corporation; or
* By attending the Annual Meeting and voting in

person, after giving written notice to the Secretary of the corporation, in person or at the above address.

VOTING SECURITIES, RECORD DATE AND QUORUM

At the close of business on March 7, 2006, the corporation had 4,386,999 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 152,574 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 10,000,000 shares of common stock and up to 500,000 shares of preferred stock. As of March 7, 2006, no shares of preferred stock were issued or outstanding.

Only shareholders of record as of the close of business on March 7, 2006, 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 4 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 independent auditors 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, therefore, do not count either for or against ratification. Abstentions and broker non votes, however, have the practical effect of reducing the number of affirmative votes required to achieve a majority for each matter by reducing the total number of shares voted from which the majority is calculated.

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, and are sound and represent best practices.

The corporation's Board of Directors 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, The First National Bank of Berwick, upon election by the corporation.

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 2005, were Dudley P. Cooley, Chairman, Don E. Bower, John L. Coates, and Jerome F. Fabian, each of whom the Board of Directors has determined satisfies the independence and audit committee qualification standards as defined by the Securities and Exchange Commission (the "SEC") and NASDAQ. The Audit Committee met 4 times during 2005. The principal duties of the Audit Committee, as set forth in its charter, is available on our website at www.firstkeystonecorporation.com, 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 of Directors the engagement of an independent certified public accountant.

The Board of Directors has determined that Dudley P. Cooley is an "audit committee financial expert" and "independent" as defined under applicable SEC and NASDAQ rules. The Board deems Mr. Cooley a "financial expert" as he possess 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.

COMMITTEES OF THE BANK

During 2005, the bank's board of directors maintained standing committees: trust, asset liability management, marketing, loan administration, human resources, building and executive. The composition of these committees is described below:

Name	Trust	Asset/ Liability Management	Marketing
John E. Arndt	X		X
J. Gerald Bazewicz	X	X	X
Budd L. Beyer	X	X	
Don E. Bower			X
Robert E. Bull		X	X
John L. Coates		X	
Dudley P. Cooley		X	
Frederick E. Crispin, Jr.	X	X*	
Jerome F. Fabian			X*
Robert J. Wise	X*		X
Number of Meetings Held in 2005	12	4	4

Name	Loan Administration	Human Resources
John E. Arndt		X*
J. Gerald Bazewicz	X	X
Budd L. Beyer		X
Don E. Bower	X	X
Robert E. Bull		X
John L. Coates	X*	
Dudley P. Cooley	X	
Frederick E. Crispin, Jr.		
Jerome F. Fabian	X	X
Robert J. Wise	X	X
Number of Meetings Held in 2005	4	1

Name	Executive	Planning	Building
John E. Arndt			
J. Gerald Bazewicz	X	X	X
Budd L. Beyer	X		
Don E. Bower		X	X
Robert E. Bull	X*		X
John L. Coates	X	X	X
Dudley P. Cooley		X*	
Frederick E. Crispin, Jr.	X		
Jerome F. Fabian		X	X
Robert J. Wise	X	X	X*
Number of Meetings Held in 2005	0	3	0

*Denotes Chairman of 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 - 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 acts as the Compensation Committee for the corporation and determines compensation for non executive officers and employees. The entire Board of Directors also 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 of Directors meetings.

PLANNING COMMITTEE - This committee makes recommendations to the Board relating to the future growth, capital development and corporate structure of the bank.

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 Directors of the corporation also serve as members of the Board of Directors of The First National Bank of Berwick. During 2005, the bank's Board of Directors held 25 meetings, and the corporation's Board of Directors held 9 meetings. There were a total of 32 meetings of the various committees of the Board of Directors in 2005. Each of the Directors attended at least 75% of the combined total number of meetings of the corporation's and the bank's Board of Directors and the committees of which he is a member.

SHAREHOLDER COMMUNICATIONS

The Board of Directors does not have a formal process for shareholders to send communications to the Board. Due to the infrequency of shareholder communications to the Board of Directors, the Board does not believe that a formal process is necessary.

SHAREHOLDER PROPOSALS AND NOMINATIONS

If a shareholder wants us to include a proposal in our proxy statement for presentation at our 2007 Annual Meeting of Shareholders, the proposal must be received by us at our principal executive offices at 111 West Front Street, Berwick, Pennsylvania 18603, no later than November 18, 2006. Any proposal must comply with Securities and Exchange Commission regulations regarding the inclusion of shareholder proposals in company sponsored proxy materials. If a shareholder proposal is submitted to the company after November 18, 2006, it is considered untimely; and, although the proposal may be considered at the annual meeting, the company is not obligated to include it in the 2007 Proxy Statement.

The corporation's Board of Directors nominates individuals for the position of director. Neither the corporation nor the bank has a nominating committee. In addition, a shareholder who desires to propose an individual for consideration by the Board of Directors 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 of Directors 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 L. Coates, Secretary, First Keystone Corporation, 111 West Front Street, Berwick, Pennsylvania 18603.

EMPLOYEE CODE OF ETHICS

Since 1983, we have had a code of conduct. In 2003, as required by law and regulation, we amended our code of conduct. Our employee code of ethics is applicable to our directors, officers and employees.

The code of conduct encourages individuals to report any conduct that they believe in good faith to be an actual or apparent violation of the code of ethics. The Board periodically receives reports on our compliance program. The Code of Ethics is posted on our website at www.firstkeystonecorporation.com, which was filed with the SEC as an exhibit to our December 31, 2003, Annual Report on Form 10K.

PROPOSAL NO. 1: ELECTION OF CLASS A DIRECTORS

The corporation's bylaws provide that its Board of Directors 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 of Directors will be classified into 3 classes, each class to be elected for a term of 3 years. Within the foregoing limits, the Board of Directors may, from time to time, fix the number of directors and their classifications. No person over 70 years old may serve as director with the exception of Messrs. Beyer, Bull, Crispin, and Wise. Section 11.1 of the bylaws require that a majority of the remaining members of the Board of Directors, 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 provide for a classified Board of Directors with staggered three year terms of office. Accordingly, at the 2006 Annual Meeting of Shareholders, 4 Class A Directors will be elected to serve for a three year term and until their successors are properly elected and qualified. The Board of Directors of the corporation has nominated the current Class A Directors to serve as Class A Directors for the next three year term of office. The nominees for reelection this year are as follows:

* Budd L. Beyer, director since 1983;
* Frederick E. Crispin, Jr., director since 1983;
* Jerome F. Fabian, director since 1998; and
* Robert J. Wise, director since 1983

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 4 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 Directors 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 will 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 nominees.

INFORMATION AS TO DIRECTORS AND NOMINEES

The following selected biographical information about the directors and nominees for director is accurate as of March 7, 2006, and includes each person's business experience for at least the past 5 years.

CURRENT CLASS A DIRECTORS WHOSE TERM EXPIRES IN 2006 AND NOMINEES FOR CLASS A DIRECTOR WHOSE TERM WILL EXPIRE IN 2009

Budd L. Beyer	Mr. Beyer (age 78), is the former President and a principal shareholder of Sunshine Textile Services, Inc., located in Bloomsburg, Pennsylvania. Mr. Beyer has served as a director of the corporation since 1983 and of the bank since 1976.
Frederick E. Crispin, Jr.	Mr. Crispin (age 74) is a retired business and financial consultant. He has served as a director of the corporation since 1983 and of the bank since 1964.
Jerome F. Fabian	Mr. Fabian (age 63) 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.
Robert J. Wise	Mr. Wise (age 76), now retired, has served as a director of the corporation since 1983 and of the bank since 1967. Mr. Wise is also the Vice Chairman of the Board of the corporation and the bank, a position he has held since 1996.

CLASS B DIRECTORS WHOSE TERM EXPIRES IN 2007

John E. Arndt	Mr. Arndt (age 44) 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.
J. Gerald Bazewicz	Mr. Bazewicz (age 57) serves as the President and Chief Executive Officer of the corporation and the bank, a position he has held since 1987. He has served as a director of the corporation and the bank since 1986.
Robert E. Bull	Mr. Bull (age 83), now retired, practiced as an attorney at the law firm Bull, Bull & Knecht, 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.

CLASS C DIRECTORS WHOSE TERM EXPIRES IN 2008

Don E. Bower	Mr. Bower (age 57) 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.
John L. Coates	Mr. Coates (age 69) is the President and owner of Tri County Hardware, Inc. He has served as the Secretary of the corporation and the bank since 1995, and as a director of the corporation and the bank since 1987.
Dudley P. Cooley	Mr. Cooley (age 67), is a financial consultant and the former controller for Wise Foods, a division of Borden, Inc. He has

been a director of the corporation
and the bank since 1987.

SHARE OWNERSHIP

PRINCIPAL OWNERS

The following table sets forth, as of March 7, 2006, the name and address of each person who owns of record or who is known by the Board of Directors to be the beneficial owner of more than 5% of the corporation's outstanding common stock, the number of shares beneficially owned by the person and the percentage of the corporation's outstanding common stock so owned.

Name and Address	Amount and Nature of Beneficial Ownership	Percent of Outstanding Common Stock