

# SCHEDULE 14A

(Rule 14a-101)

## INFORMATION REQUIRED IN PROXY STATEMENT

### SCHEDULE 14A INFORMATION

#### Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

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
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

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#### ALARION FINANCIAL SERVICES, INC.

(Name of Registrant as Specified in its Charter)

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#### NOT APPLICABLE

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

Payment of Filing Fee (Check the appropriate box):

- No fee required
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- Fee paid previously with preliminary materials
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11 (a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by Registration Statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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

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(3) Filing Party:

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(4) Date Filed:

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ALARION FINANCIAL SERVICES, INC.

April 23, 2008

To Our Shareholders:

The 2008 will be held at the Gainesville Country Club, 7300 SW 35<sup>th</sup> Way, Gainesville, Florida on May 21, 2008, at 4:00 p.m., Eastern Time. The Notice of the Annual Meeting of Shareholders and Proxy Statement attached to this letter describe the formal business that will be transacted at the Annual Meeting and provide material information concerning that business. Our Directors and officers, as well as a representative of the accounting firm, Hacker, Johnson & Smith, P.A., will be present at the Annual Meeting to answer any questions you might have about the Company.

It is important that your shares be represented and voted at the Annual Meeting. You can vote your shares by completing and signing the enclosed proxy card. Should you attend the Annual Meeting and prefer to vote in person, you will be given that opportunity.

On behalf of the Board of Directors and all the employees of Alarion Financial Services, Inc., we look forward to seeing you at the Annual Meeting.

Sincerely,

/s/ Jon M. Kurtz

Jon M. Kurtz

President and Chief Executive Officer

ALARION FINANCIAL SERVICES, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD ON MAY 21, 2008

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders ("Annual Meeting") of Alarion Financial Services, Inc. ("AFSI") will be held at the Gainesville Country Club, 7300 SW 35<sup>th</sup> Way, Gainesville, Florida on May 21, 2008, at 4:00 p.m., Eastern Time, to consider the following proposals:

- **Proposal 1** Election of nine members of AFSI's Board of Directors;
- **Proposal 2** Ratification of the selection of Hacker, Johnson & Smith, P.A. as AFSI's independent auditors for the year ending December 31, 2007; and
- **Proposal 3** Adjournment of the Annual Meeting to solicit additional proxies in the event there are insufficient votes to approve Proposal 1 or Proposal 2.

The Board of Directors has fixed the close of business on March 28, 2008, as the record date for the determination of shareholders entitled to notice of, and to vote at, the Annual Meeting. Only holders of common stock of record at that time will be entitled to vote at the Annual Meeting, or any adjournment thereof. In the event there are insufficient votes to approve Proposal 1 or Proposal 2 at the Annual Meeting, it may be adjourned upon approval of Proposal 3, to permit further solicitation of proxies.

By Order of the Board of Directors,

/s/ Jon M. Kurtz  
Jon M. Kurtz  
President and Chief Executive Officer

Ocala, Florida  
April 23, 2008

**ALARION FINANCIAL SERVICES, INC.**

**PROXY STATEMENT**

**DATE, TIME AND LOCATION OF THE ANNUAL MEETING**

- Ø **Wednesday, May 21, 2008**
- Ø **4:00 p.m. local time**
- Ø **Gainesville Country Club  
7300 SW 35<sup>th</sup> Way, Gainesville, Florida**

**VOTING PROCEDURES**

**General Information**

These proxy materials are being provided in connection with the solicitation of proxies by the Board of Directors of Alarion Financial Services, Inc. (“AFSI”) to be voted at the 2008 Annual Meeting of Shareholders, and any adjournment thereof (“Annual Meeting”). AFSI’s Annual Report, which includes the financial statements for the fiscal year ended December 31, 2007, accompanies this Proxy Statement, which is first being mailed to shareholders on or about April 23, 2008.

Regardless of the number of shares of common stock that you own, it is important that your shares be represented by proxy or that you be present at the Annual Meeting. To vote by proxy, please indicate your vote in the appropriate spaces provided on the enclosed Proxy Card, and return it signed and dated, in the enclosed postage-paid envelope. Proxies obtained by the Board of Directors will be voted in accordance with the directions given therein. **If you do not indicate how you wish your shares to be voted on a matter, the shares represented by your properly executed Proxy Card will be voted in accordance with the Board of Directors’ recommendations as stated in this Proxy Statement.**

In order for us to have a quorum present to be able to convene the Annual Meeting, it is important that your Proxy Card be returned promptly, whether or not you presently plan to attend the Annual Meeting in person. Therefore, please complete, sign, and date the enclosed Proxy Card and return it in the postage-paid envelope provided prior to the Annual Meeting date, so that your proxy can be counted for purposes of establishing a quorum in order for the Annual Meeting to proceed as scheduled.

**Voting Procedures**

In accordance with Florida law and our Bylaws, directors will be elected at the Annual Meeting by a plurality of the votes cast. Any other matter on which shareholders vote at the Annual Meeting will be determined by the affirmative vote of a majority of the votes cast.

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A shareholder may abstain or withhold a vote with respect to any item submitted for shareholder approval. Abstentions and withheld votes will be counted as being present for purposes of determining the existence of a quorum, but will not be counted as voting in favor of any proposal brought before the Annual Meeting.

The manner in which your shares may be voted depends on how your shares are held. If you own shares of record, meaning that your shares of common stock are represented by certificates or book entries in your name so that you appear as a stockholder on the records of our stock transfer agent, a Proxy Card for voting those shares will be included with this Proxy Statement. You may vote those shares by completing, signing and returning the Proxy Card in the enclosed postage-paid, pre-addressed envelope.

If you own shares through a bank or brokerage firm, you may instead receive a voting instruction form with this Proxy Statement that you may use to instruct how your shares are to be voted. As with a Proxy Card, you may vote your shares by completing, signing and returning the voting instruction form in the envelope provided. Many brokerage firms have arranged for internet or telephonic voting of shares and provide instructions for using those services on the voting instruction form. If you do not provide instructions to your bank or brokerage firm, under certain circumstances the firm may vote your shares. Such entities have authority to vote their customers' share on certain routine matters, including the election of directors. When a firm votes its customers' shares on routine matters, those shares are also counted for purposes of establishing a quorum to conduct business at the meeting. A firm cannot vote its customers' shares on non-routine matters. Accordingly, those shares are not counted as votes against a non-routine matter, but rather not counted at all for these matters. *There are no non-routine matters on this year's ballot.*

### **Attendance and Voting at the Annual Meeting**

If you own common stock of record, you may attend the Annual Meeting and vote in person, regardless of whether you have previously voted by Proxy Card. If you own common stock through a brokerage account, you may attend the Annual Meeting, but in order to vote your shares at the Annual Meeting, you must obtain a "legal proxy" from the brokerage firm that holds your shares. You should contact your brokerage account representative to learn how to obtain a legal proxy. We encourage you to vote your shares in advance of the Annual Meeting by one of the methods described above, even if you plan on attending the Annual Meeting. You may change or revoke your proxy at the Annual Meeting in the manner described below even if you have already voted.

### **Revocation of Proxy**

Any shareholder holding common stock of record may revoke a previously granted proxy at any time before it is voted by delivering to our Corporate Secretary a written notice of revocation or a duly executed Proxy Card bearing a later date, or by attending the Annual Meeting and voting in person. Any stockholder holding common stock through a brokerage firm may change or revoke previously given voting instructions by contacting the brokerage firm, or by obtaining a legal proxy from the brokerage firm and voting in person at the Annual Meeting.

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## BOARD OF DIRECTORS MEETINGS

During 2007, our Board of Directors held 12 regular meetings and two special meetings. In 2007, each of our directors attended at least 75% of the meetings of the Board and any committees on which he or she served. AFSI also requires its directors to attend AFSI's Annual Meeting of Shareholders. In 2007, each director attended the meeting.

## COMMITTEES OF THE BOARD OF DIRECTORS

### Audit Committee

In accordance with its Charter, the Audit Committee reviews AFSI's and the Bank's auditing, accounting, financial reporting, and internal control functions. This Committee recommends the independent auditor and reviews its services. Each member of the Committee is considered independent under Nasdaq Marketplace Rule 4200(a)(15). The Committee met 12 times in 2007. All Committee members attended at least 75% of the Committee meetings. A copy of the Audit Committee Charter was attached to the 2007 Proxy Statement as *Exhibit A*.

### Report of the Audit Committee

The Board of Directors believes that all of the members of the Audit Committee are "independent directors" as defined under Rule 4200(a)(15) of the Nasdaq Marketplace Rules, in that none of the members have any relationships that would impair their abilities to objectively and impartially execute their duties. The Audit Committee reviews AFSI's and the Bank's auditing, accounting, financial reporting, and internal control functions. The audit functions of the Audit Committee are primarily focused on three areas:

- The adequacy of AFSI's and the Bank's internal controls and financial reporting process and the reliability of AFSI's and the Bank's financial statements;
- The performance of AFSI's and the Bank's internal auditors and the independence and performance of AFSI's and the Bank's independent auditors; and
- Ensuring AFSI's and the Bank's compliance with legal and regulatory requirements.

The Audit Committee also recommends to the Board the appointment of the independent auditors and reviews their performance, fees, and independence from management.

Members of the Audit Committee met with management periodically to consider the adequacy of AFSI's and the Bank's internal controls and the objectivity of their financial reporting. These matters were discussed with AFSI's and the Bank's independent auditors and with management. The independent auditors have unrestricted access to the Audit Committee.

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The Board of Directors has determined that none of the members of the Audit Committee has a relationship to AFSI or the Bank that may interfere with each member's independence from AFSI and the Bank and its management.

The Board of Directors has determined that Director Job E. White, a Certified Public Accountant, has the requisite financial expertise to qualify as an "audit committee financial expert" as defined by rules and regulations of the Securities and Exchange Commission. Mr. White is independent from management, and the Board has designated Mr. White to hold that position on the Audit Committee. The Board also believes that all of the Audit Committee members have a level of financial literacy and familiarity with banking operations sufficient to provide strong financial guidance.

Management has primary responsibility for AFSI's and the Bank's financial statements and the overall reporting process, including the system of internal controls. The independent auditors audit the annual financial statements prepared by management, express an opinion as to whether those financial statements fairly present the financial position, results of operations, and cash flows of AFSI and the Bank in conformity with accounting principles generally accepted in the United States of America. The independent auditors are given the opportunity to discuss any issues they believe should be brought to the Audit Committee's attention. The Audit Committee monitors these processes, relying without independent verification, on the information provided and on the representations made by management and the independent auditors.

This year, the Audit Committee reviewed AFSI's unaudited Form 10-QSBs and audited financial statements as of, and for, the fiscal year ended December 31, 2007. The Audit Committee met with both management and AFSI's and the Bank's independent auditors to discuss those filings and financial statements. Management has represented to the Audit Committee that the quarter ended filings and financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

The Audit Committee has received from and discussed with Hacker, Johnson & Smith, P.A. the written disclosure and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). These items relate to the auditing firm's independence from AFSI and the Bank. The Audit Committee also discussed with Hacker, Johnson & Smith, P.A. any matters required to be discussed by the Statement on Auditing Standards No. 61. (Communication with Audit Committees).

Based on these reviews and discussions, the members of the 2007 Audit Committee recommended to the Board that AFSI's and the Bank's audited financial statements be included in AFSI's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2007. Respectfully submitted,

*Job E. White, Chairman – Gloria W. Fletcher – Thomas W. Williams, Jr.*

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## **Director Nominations**

AFSI does not have standing Nominating Committee. The Board of Directors as a whole (excluding Jon M. Kurtz) performs the functions of a Nominating Committee for purposes of the annual selection of nominees for the election of directors. The Board does not believe a Nominating Committee is necessary because the Board as a whole, considers its nominees, is very familiar with the community, and is knowledgeable regarding the selection of directors from within the Ocala and Gainesville communities. In addition, eight of its nine members are considered “independent directors” under NASDAQ Marketplace Rule 4200(a)(15). The Board does not have a Charter or other written guidelines for its nominating process. While the Board of Directors will consider nominees recommended by shareholders, it has not actively solicited such recommendations, nor has it to date established any director nominee criteria or shareholder nominee procedures.

## **Compensation Committee**

The Compensation Committee for AFSI and the Bank is composed of Carol R. Bosshardt, Michael P. Hill, Ignacio L. Leon, and Job E. White. In accordance with its charter, the Compensation Committee serves with regard to compensation and personnel policies, programs and plans, including management development and succession, and to approve employee compensation and benefit programs. AFSI currently does not compensate, other than stock option grants and compensation received from the Bank, any of its officers and has no other employees. All of the Compensation Committee’s members are considered independent under Nasdaq Marketplace Rule 4200(a)(15).

## **PROPOSAL 1 – ELECTION OF DIRECTORS**

The Board of Directors is presently comprised of nine members, each of whom has been nominated for re-election to a one-year term at this year’s Annual Meeting. To the best of our knowledge, no director nominee is being proposed for election pursuant to any agreement between that person and any other person.

The nine nominees are: **Spencer Barrett; Carol R. Bosshardt; Gloria W. Fletcher; Michael P. Hill; Jon M. Kurtz; Ignacio L. Leon; Lorelee W. Miller; Job E. White; and Thomas W. Williams, Jr.** All of these director nominees have indicated their willingness to stand for election and to serve if elected. Each AFSI director also serves as a director of the Bank and, with the exception of Dr. Leon and Mr. Barrett, has served since AFSI’s incorporation. Should any of the director nominees become unable or unwilling to serve, proxies will be voted for the election of such other person(s) as the Board of Directors may choose to nominate.

As previously discussed in this Proxy Statement, the affirmative vote of a plurality of the votes cast at the Annual Meeting is needed to elect each director. Abstentions and withheld votes will have the same effect as votes against a director nominee.

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The following sets forth the names of the director nominees and a brief description of their principal occupations and business experience, and certain other information. Also included is information related to AFSI's non-director executive officer.

### **Director Nominees**

**Spencer Barrett**, age 56, has been the President of S. Barrett & Sons, Inc., an insurance brokerage firm, located in Ocala, Florida since 1984. Mr. Barrett is also the President of Penguin Commercial, Inc., which specializes in real estate investments. He is licensed as a stock broker, and also has a license to sell insurance. He also received a Certified Life Underwriter designation from the American College, Bryn Mawr, Pennsylvania in 1979.

**Carol R. Bosshardt**, age 61, has been the Chief Executive Officer of Bosshardt Realty Services in Gainesville, Florida since 1987. She was a director of Millennium Bank in Gainesville, from 1998 to 2004. Ms. Bosshardt earned a Bachelor of Arts degree in social work from the University of Wisconsin in 1969 and her MBA from the University of Florida in July 2005. She is a long-standing member of the Gainesville community.

**Gloria W. Fletcher**, age 59, has been a practicing attorney since 1986. She currently practices criminal defense and children's rights law with the firm of Gloria W. Fletcher, P.A. in Gainesville, Florida. Ms. Fletcher graduated with her Juris Doctorate from the University of Florida, College of Law in 1985. She has also been the Secretary and Treasurer for Legacy Realty & Property, LLC and Legacy Property Development, both in Gainesville since 2003.

**Michael P. Hill**, age 60, for the past 16 years, has been Administrative Director of the Robert Boissoneault Oncology Institute, a five office medical practice located in three counties in Central Florida. Mr. Hill served as a senior officer and Secretary to the Board of Directors at Mid State Federal Savings and Loan (now Regions Bank) in Ocala, Florida for 14 years. He is a past President of the Economic Development Council, as well as a past President of the Public Education Foundation of Marion County. He graduated from the University of Florida in 1969 with a degree in Business Administration. Mr. Hill is a Vietnam-era veteran and has lived in Ocala, Florida for over 30 years.

**Jon M. Kurtz**, age 58, is the Chief Executive Officer and President of AFSI and the Bank. He was formerly an Executive Vice President of SunTrust Bank, North Central Florida, in Ocala, Florida. Mr. Kurtz worked for SunTrust from 1992 until March of 2004, when he began to organize the Bank. Prior to 1992, he was Chief Credit Officer at California Federal Bank in Ft. Lauderdale, Florida from 1990 to 1992. His other prior banking experience includes holding senior management positions with Florida National Banks, Guaranty National Bank of Tallahassee, and SunTrust Bank. Mr. Kurtz earned a Bachelor of Science degree from Babson College in 1970, and a Masters in Business Administration from the University of South Florida in 1975.

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**Ignacio L. Leon**, age 55, has been the Manager of Haras Santa Maria de Araras, S.A., a thoroughbred breeding and training facility in Ocala, Florida since 1986. Dr. Leon holds a veterinary medicine degree from Facultad de Ciencias Veterinarias, Universidad de Buenos Aires in Argentina. Mr. Leon has been a director of AFSI and the Bank since 2005.

**Loralee W. Miller**, age 59, has been a resident of the Gainesville area since 1982. She received a Baccalaureate degree in education from Georgia State University in 1971 and a Masters Degree in education from the University of Central Florida in 1979. She earned her Masters while serving on the professional staff of the First Baptist Church of Winter Park, Florida, and as Director and Headmaster of its Learning Tree Preschool, also in Winter Park. From April 1998 through February 2004, Ms. Miller was an organizer and former director of Millennium Bank in Gainesville, Florida. During that period, she also served on the Executive Committee, Loan Committee, and as Chairperson of the Marketing Committee. Other experience includes the management of family-owned commercial, residential, and agricultural real estate businesses, and serving as President of Lake Area Development Company, a privately held local company. She is also a Realtor and an independent contractor with Bosshardt Realty Services, Inc. in Gainesville. Her community activities include memberships in the Women's Council of Realtors, and Council for Economic Outreach. She has also previously served several terms as a member of the Board of Directors of Oak Hall School.

**Job E. White**, age 52, is a graduate from the University of Florida and is a lifelong resident of Gainesville, Florida. He is a partner in the firm of Reddish and White, CPA in Gainesville, Florida, and is a partner in Suite USA, Inc., a company that manages Campus Lodge Apartments throughout the United States. He is a past President of the Chamber of Commerce and the Kiwanis Club in Bradford County. Mr. White is also a past President of the Economic Growth and Development in Bradford County.

**Thomas W. Williams, Jr.**, age 57, is a real estate developer and builder in the Alachua County, Florida area. Mr. Williams is also real estate broker, licensed in both Florida and Georgia. He is also involved in tree farming. Mr. Williams graduated from the University of Georgia in 1972 with a degree in Agriculture.

#### **Non-Director Executive Officer**

**Matthew Ivers**, age 43, was appointed AFSI's and the Bank's Chief Financial Officer on April 2, 2007. Prior to joining AFSI, Mr. Ivers served as Controller of North Georgia National Bank, in Calhoun, Georgia from August 2006 to March 2007. He was the Controller of Vision Bank in Panama City, Florida from October 2003 to August 2006. Mr. Ivers' financial institutional experience also includes being the Finance Manager of Peoples First Community Bank in Panama City, Florida from October 1997 to October 2003. He received a Bachelors of Science and Arts from the University of West Florida in 1996.

**The Board of Directors Recommends that the Shareholders  
Vote "For" the Election of the Nine Director Nominees.**

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**BENEFICIAL STOCK OWNERSHIP OF  
DIRECTORS AND EXECUTIVE OFFICERS**

The following table contains information regarding the current beneficial ownership of AFSI common stock of each director and executive officer as of the record date. To the best of our knowledge there are no shareholders who are beneficial owners of more than 5% of our common stock.

<u>Name</u>	<u>Number of Shares<sup>(1)</sup></u>	<u>Right to Acquire<sup>(2)</sup></u>	<u>Percent of Ownership<sup>(3)</sup></u>
Spencer Barrett	22,445	5,000	1.22%
Carol R. Bosshardt	49,173	39,133	3.88
Gloria W. Fletcher	51,500	34,941	3.80
Michael P. Hill	15,000	18,907	1.50
Matthew Ivers	1,000	1,666	0.12
Jon M. Kurtz	33,802	51,000	3.70
Ignacio L. Leon	16,195	7,500	1.05
Loralee W. Miller	52,500	34,986	3.85
Job E. White	41,079	28,646	3.08
Thomas W. Williams, Jr.	45,000	31,593	3.37
<b>Total (10 people)</b>	<b><u>327,694</u></b>	<b><u>253,372</u></b>	<b><u>23.32%</u></b>

(1) Includes shares for which the named person:

- Has sole voting and investment power;
- Has shared voting and investment power; or
- Holds in an IRA or other retirement plan.

(2) Includes warrants issued in the initial stock offering and options that are vested or will vest within 60 days.

(3) Based on 2,238,610 shares outstanding and only the listed beneficial owner exercising his or her warrants and/or options.

**EXECUTIVE COMPENSATION**

Our executive compensation program is designed to:

- Ø attract and retain qualified management;
- Ø meet short-term financial goals; and
- Ø enhance long-term shareholder value.

AFSI has no salaried employees. Alarion Bank strives to pay each executive officer of the Bank a base salary that would be comparable with that which would typically be paid to a fully qualified officer holding a similar position in our market area. Our Board of Directors determines the level of base salary and any incentive bonus for the Chief Executive Officer and President and the other executive officers of the Bank based upon competitive norms, derived from surveys published by several independent banking institutes and private companies specializing in analysis of financial institutions. Such surveys provide information regarding compensation of financial institution officers and employees based on the size and geographic location of the financial institution and serve as a benchmark for determining executive salaries.

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Actual salary changes and discretionary bonus awards are based upon our Board of Directors' evaluation of the Bank's performance, the officer's responsibilities, and individual performance standards.

### Board Committee Interlocks and Insider Participation in Compensation Decisions

Our Chief Executive Officer and President Jon M. Kurtz, who is also the Chief Executive Officer and President of the Bank, serves as a member of both Boards of Directors. Mr. Kurtz participated in the Board's deliberations regarding executive compensation, but did not participate in any deliberations regarding his own compensation.

### Summary Compensation Table

The Summary Compensation Table below shows compensation information regarding our Chief Executive Officer and President, our Chief Financial Officer, the Bank's Alachua County President, and the Bank's Executive Vice President and Senior Lender. No other executive officer received compensation at a level required to be reported herein by Securities and Exchange Commission regulations.

#### 2007 Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Option Awards	All Other Compensation	Total
<b>Jon M. Kurtz</b> AFSI and Bank CEO/President	2007	\$170,000	\$20,000	\$12,489	\$ 23,356	\$225,845 <sup>(1)</sup>
	2006	\$140,000	\$20,000	—	\$ 32,893	\$192,893 <sup>(1)</sup>
<b>Matthew Ivers</b> <sup>(2)</sup> AFSI and Bank CFO	2007	\$ 69,375	\$ 5,000	\$ 4,540	\$ 7,616	\$ 86,531 <sup>(1)</sup>
<b>Robert L. Page</b> Alachua County Bank President	2007	\$130,000	\$14,787	\$ 4,540	\$ 17,964	\$167,291 <sup>(1)</sup>
	2006	\$105,000	\$12,500	—	\$ 13,719	\$131,219 <sup>(1)</sup>
<b>Walter Czuryla</b> Bank EVP and Senior Lender	2007	\$130,000	\$15,337	\$ 4,540	\$ 14,929	\$164,806 <sup>(1)</sup>
	2006	\$105,000	\$12,500	—	\$ 10,109	\$127,609 <sup>(1)</sup>

(1) Includes country club dues, health and dental insurance, and 401(k) Plan contributions.

(2) Mr. Ivers joined AFSI and the Bank on April 2, 2007, therefore the compensation reported is only for a portion of 2007.

### Outstanding Equity Awards at 2007 Fiscal Year-End

The following table provides information as of December 31, 2007, regarding the AFSI stock options that have been awarded to the named executive officer under AFSI's 2005 Stock Plan, which is further described herein. The information listed in the following table pertains to those stock options or portions thereof which have not yet been exercised and are currently outstanding.

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## 2007 Outstanding Equity Awards at Fiscal Year-End Table

Name	Option Awards			
	Number of Securities Underlying Unexercised Options	Number of Securities Underlying Unexercised Options	Value of Unexercised In the Money Options at December 31, 2007	Value of Unexercised In the Money Options at December 31, 2007
	Exercisable	Unexercisable	Exercisable	Unexercisable
<b>Jon M. Kurtz</b> AFSI & Bank President/CEO	31,250 13,750	0 0	0 0	N/A N/A
<b>Matthew Ivers</b> AFSI & Bank CFO	1,666	3,333	0	0
<b>Robert L. Page</b> Alachua County Branch President	1,666	3,333	0	0
<b>Walter Czuryla</b> Bank EVP and Senior Lender	1,666	3,333	0	0

### 2005 STOCK PLAN SUMMARY

#### Grants

The 2005 Stock Plan, which was approved by AFSI's shareholders, provides for grants of options to purchase common stock, restricted shares of common stock (which may be subject to both grant and forfeiture conditions) ("Restricted Stock"), Restricted Stock Units which are contractual rights to receive shares of Restricted Stock at a future date or upon the occurrence of a future event, and grants of stock appreciation rights (entitling the grantee to receive the difference in value between the underlying common stock on the date of exercise and the value of such stock on the date of grant) ("SARs"), which may be either freestanding or granted in tandem with an option. Options to purchase common stock may be either incentive stock options ("ISOs"), which are intended to satisfy the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or non-qualified stock options which are not intended to satisfy the requirements of Section 422 of the Code ("NQOs").

#### Securities to be Offered

Initially, 225,000 shares of common stock were reserved for use under the 2005 Stock Plan, representing 15% of AFSI's outstanding stock. When new shares of common stock are issued, an additional 15% of such shares will also be reserved, up to a maximum of 450,000

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shares. Therefore, as options are exercised or new stock is issued, additional shares can be reserved. At no time will the number of shares reserved exceed 15% of our outstanding stock. Any shares subject to an option that remain unissued after the cancellation, expiration or exchange of an option and any shares of Restricted Stock which are forfeited will again become available for use under the 2005 Stock Plan. Any shares that are surrendered for cash or common stock, or a combination thereof, and any shares of common stock used to satisfy a withholding obligation, shall not again become available for use under the 2005 Stock Plan.

### Stock Options Granted and Outstanding in 2007

The following table sets forth information about the number of shares reserved for issuance under our stock option plans.

<u>Plan Category</u>	<u>Number of Securities to Be Issued Upon Exercise of Outstanding Options</u>	<u>Weighted Average Exercise Price of Outstanding Options</u>	<u>Number of Securities Remaining Available for Future Issuance</u>
Stock option plans approved by security holders	253,808	\$ 10.13	57,685
Equity compensation plans not approved by security holders	0	N/A	0
<b>Total</b>	<b>253,808</b>	<b>\$ 10.13</b>	<b>57,685</b>

### Administration of Plan

The 2005 Stock Plan is administered by a Committee of the Board, which has the sole authority to grant options, SARs, Restricted Stock, and Restricted Stock Units. The Committee must consist of at least two directors, each of whom is a disinterested person under Rule 16b-3 under the Securities Exchange Act of 1934 and each of whom shall be or shall be treated as an “outside director” for purposes of Section 162(m) of the Code. The Board has authorized the Committee to interpret the 2005 Stock Plan and to determine the employees and directors to receive grants, the number of shares to be granted, the terms of option grants and restrictions on shares, the provisions of the respective option, Restricted Stock, and SAR agreements (which need not be identical), and to take such other action in the administration and operation of the 2005 Stock Plan as the Committee deems equitable under the circumstances. The Board of Directors, however, has reserved to itself the right to amend or terminate the 2005 Stock Plan. No amendment, however, may be effected without approval of the shareholders to the extent such approval is required under applicable law, Code Section 422, Rule 16b-3 or any applicable stock exchange rule. Furthermore, in no case can stock options be re-priced either by cancellation and re-grant or by lowering the exercise price of a previously granted award.

### Eligibility

The Compensation Committee selects employees and directors to participate in the 2005 Stock Plan. An employee includes any employee of the Bank or AFSI whose performance is, in

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the judgment of the Committee, directly or indirectly, material to the success of the Bank or AFSI, and who is not a 10% shareholder. Employees are eligible for the grant of ISOs, NQOs, Restricted Stock, and SARs. Non-employee directors are only eligible for the grant of NQOs, SARs, and Restricted Stock.

### **Terms of Options**

The 2005 Stock Plan authorizes the grant of ISOs or NQOs, both of which are exercisable for shares of common stock. All option grants to non-employee directors must be NQOs. Options may be granted for any reason the Committee deems appropriate under the circumstances. The price at which an option may be exercised for a share of common stock may not be less than the fair market value of a share of common stock on the date the option is granted. The "fair market value" means the closing price per share as reported in a financial periodical on the date the option is granted, or if no such closing price is available on such day, the closing price for the immediately preceding business day, or if no such prices are reported, a price determined by the Committee acting in good faith; provided, however, the fair market value can never be less than the book value of a share.

The period during which a stock option may be exercised shall be determined by the Committee at the time of option grant and may not extend more than 10 years from the date of grant. An option or portion thereof that is not exercised before expiration of the applicable option period shall terminate. An option agreement may provide for the exercise of an option within 90 days after the employment of an employee or the status of an individual as a director has terminated for any reason, except that the period may be extended to one year in the case of death or disability. The 2005 Stock Plan shall expire, and no further grants shall be made, 10 years after its approval by the shareholders.

The aggregate fair market value of ISOs granted to an employee under the 2005 Stock Plan which first becomes exercisable in any calendar year may not exceed \$100,000.

### **Stock Appreciation Rights**

Under the 2005 Stock Plan, stock appreciation rights may be granted as part of a stock option (a "Related Option") with respect to all or a portion of the shares of common stock subject to the Related Option (a "Tandem SAR") or may be granted separately (a "Freestanding SAR"). Tandem SARs and Freestanding SARs are collectively referred to as "SARs." The share value of a Freestanding SAR shall be set forth in the related SAR agreement, and may not be less than the fair market value of a share of common stock on the date of grant of the SAR. The share value of a Tandem SAR shall be determined by the exercise price of the Related Option, which also may not be less than the fair market value of a share of common stock on the date of grant. The grant of SARs may be subject to such other terms as the Committee deems appropriate.

When a Freestanding SAR is exercised, the employee receives a payment determined by calculating the difference between the share value at grant as set forth in the SAR agreement and the fair market value of a share of common stock on the date of exercise. On the exercise of a Tandem SAR for a number of shares, the Related Option is deemed to be surrendered to the

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extent of the same number of shares and the payment is based on the increase in fair market value of common stock on the exercise date over the value stated in the option agreement. Payment may be made in cash or stock, or a combination of cash and stock. The form and timing of payments shall be determined by the Committee. As of December 31, 2007, no SARs had been granted by AFSI.

### **Restricted Stock**

Shares of Restricted Stock may be granted to employees and directors and may be subject to one or more contractual restrictions as established by the Committee at the time of grant and as set forth in the related Restricted Stock agreement. The agreement will set forth the conditions, if any, which will need to be satisfied before the grant will be effective and the conditions, if any, under which the employee's or director's interest in the Restricted Stock will be forfeited. As soon as practicable after a grant has become effective, the shares will be registered to or for the benefit of the employee or director. The Restricted Stock agreement will state whether the employee or director has the right to receive any cash dividends paid with respect to the shares of Restricted Stock. If the employee or director has no right to receive cash dividends, the agreement may give the employee or director the right to receive a cash payment in the future in lieu of the dividend payments, provided certain conditions are met. Dividends declared on the shares of Restricted Stock after grant, but before the shares are forfeited or become non-forfeitable, are treated as part of the grant of the related Restricted Stock. An employee or director has the right to vote the shares of Restricted Stock after grant until they are forfeited.

Shares of Restricted Stock may vest in installments or in total upon satisfaction of the stipulated conditions. If the restrictions are not satisfied, the shares are forfeited and again become available under the 2005 Stock Plan. To enforce the restrictions, all shares of Restricted Stock will be held by AFSI until the restrictions are satisfied. The exercise or surrender of any option granted under the 2005 Stock Plan and the acceptance of a Restricted Stock grant shall constitute an employee's or director's full and complete consent to whatever actions the Committee deems necessary to satisfy the federal and state tax withholding requirements, if any, which the Committee in its discretion deems applicable to such exercise or surrender of such Restricted Stock. The Committee also can provide that an employee or director may elect to satisfy federal and state tax withholding requirements through a reduction in the number of shares of Bank common stock actually transferred to the employee or director under the 2005 Stock Plan. Any such election and any such reduction shall satisfy the conditions to the exemption under Rule 16b-3. Grants of Restricted Stock will be effective for periods as determined by the Committee; provided, however no Restricted Stock may be granted after the earlier of the tenth anniversary of the 2005 Stock Plan being approved by the shareholders or the date on which all shares of common stock reserved under the 2005 Stock Plan have been issued or are unavailable for use under the 2005 Stock Plan, in which event the 2005 Stock Plan also shall terminate on such date.

In the case of Restricted Stock grants, which vest only on the satisfaction of performance objectives, the Committee shall determine the performance objectives to be used in connection with Restricted Stock awards and shall determine the extent to which such objectives have been

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met. Performance objectives may vary from participant to participant and between groups of participants and shall be based upon such performance factors and criteria as the Committee in its sole discretion shall select among one or more of the following: stock price, earnings per share, return on equity, return on capital, net income, return on assets or total return to shareholders. As of December 31, 2007, no restricted stock had been granted by AFSI.

### DIRECTOR COMPENSATION

In 2007, neither AFSI nor the Bank paid any cash compensation to their directors. Directors were awarded stock options, the value of which is reflected in the following table:

<u>Name</u>	<u>Value of Stock Award</u>
Spencer Barrett	\$ 10,900
Carol R. Bosshardt	—
Gloria W. Fletcher	—
Michael P. Hill	—
Jon M. Kurtz	—
Ignacio L. Leon	\$ 10,900
Loralee W. Miller	—
Job E. White	—
Thomas W. Williams, Jr.	—

### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

ASFI does not make loans to its directors, executive officers, or employees. The Bank, however, does promote lending relationships with our directors, officers, and employees. Loans made to directors, executive officers, and principal shareholders, defined as individuals owning 10% or more of AFSI's common stock (collectively, "Affiliates") are governed under the provisions of Section 22(h) of the Federal Reserve Act, which requires that any loans made to Affiliates, or to any related interest of an Affiliate, must: (i) be on substantially the same terms, including interest rates and collateral as those prevailing at the time for comparable transactions with non-affiliated parties; and (ii) not involve more than the normal risk of repayment or present other unfavorable features. There is, however, an exception for loans made to employees who are Affiliates that are made pursuant to a benefit or compensation package that is widely available to all Bank employees and does not give a preference to Affiliates. There is also an aggregate limit of \$25,000, or 5% of the amount of the Bank's unimpaired capital and unimpaired surplus on all loans to an individual Affiliate, unless the amount has been approved by the Board of Directors and the Affiliate has abstained from participating in the voting.

There is a further exception regarding loans to executive officers of the Bank. Executive officers are those people who participate, or who have authority to participate, in major policy making functions of the Bank, regardless of their title. The Bank may lend any otherwise permissible sum of money to an executive officer for: (i) financing the education of the officer's children; (ii) a first mortgage on the officer's residence approved by the Board of Directors; or (iii) a loan secured by certain low-risk collateral. The Bank may also lend up to the higher of \$25,000 or 2.5% of the Bank's unimpaired capital and unimpaired surplus (but never more than \$100,000) to an executive officer for any other purpose.

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As of December 31, 2007, the Bank had an aggregate total of \$6,885,165 outstanding in loans and other extensions of credit to Affiliates. All of the outstanding loans to directors and executive officers are performing pursuant to their terms.

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

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers, directors, and any person who beneficially owns more than 10% of our common stock to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Executive officers, directors, and more than 10% shareholders are required by regulation to furnish us with copies of all Section 16(a) forms filed. During 2007, the following persons were untimely in filing their reports: Gloria W. Fletcher, two Form 4s, Ignacio L. Leon three Form 4s, Spencer Barrett, two Form 4s, Carol R. Bosshardt, one Form 4, Michael P. Hill, one Form 4, Lorelee W. Miller, one Form 4, Jon M. Kurtz, three Form 4s, Thomas W. Williams, Jr., one Form 4, Job E. White, one Form 4, and Matthew Ivers, one Form 4. The majority of these late filings were due to the inadvertently late reporting of stock option grants.

### **PROPOSAL 2 – RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT AUDITOR FOR THE FISCAL YEAR ENDING DECEMBER 31, 2008**

After receiving the recommendation of the Audit Committee, the Board of Directors intends to retain the accounting firm of Hacker, Johnson & Smith, P.A. (“Hacker, Johnson”), as the independent auditors for AFSI and the Bank for the fiscal year ending December 31, 2008. A representative from the firm is expected to be present at the Annual Meeting to make a statement and to respond to any shareholder questions.

*Audit Fees:* The aggregate fees billed for professional services by Hacker, Johnson, in connection with the audit of the annual financial statements and the reviews of the financial statements included in AFSI’s filings with the Securities and Exchange Commission for the fiscal year December 31, 2006 and December 31, 2007, were \$32,000 and \$34,000, respectively.

*Audit-Related Fees:* In 2006 and 2007, Hacker, Johnson did not bill AFSI or the Bank for any other audit-related fees.

*Tax Fees:* In 2006 and 2007, Hacker, Johnson billed AFSI \$4,500 and \$5,000, respectively, for tax compliance or advice.

*All Other Fees:* Excluding the fees described above, Hacker, Johnson did not bill AFSI or the Bank in 2006 or 2007 for any other fees.

In all instances, Hacker, Johnson’s performance of these services was pre-approved by AFSI’s Audit Committee at a meeting thereof where all relevant facts were disclosed and discussed.

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In order to be adopted, this item must be approved by the holders of a majority of the outstanding shares of AFSI's common stock present or represented by proxy and entitled to vote at the Annual Meeting. If the shareholders do not vote in favor of the appointment of Hacker, Johnson, the Board of Directors will consider the selection of other auditors that are qualified to practice before the Securities and Exchange Commission.

**The Board of Directors Recommends that Shareholders Vote "For"  
the Ratification of Hacker, Johnson & Smith, P.A., as the  
Independent Auditors for the Fiscal Year Ending December 31, 2008.**

### **PROPOSAL 3 – ADJOURNMENT OF ANNUAL MEETING**

The Board of Directors seeks your approval to adjourn the Annual Meeting in the event that there are an insufficient number of votes to approve Proposal 1 or Proposal 2 at the Annual Meeting. In order to permit proxies that have been timely received by AFSI to be voted for an adjournment, we are submitting this item as a separate matter for your consideration.

If it is necessary to adjourn the Annual Meeting and the adjournment is for a period of less than 30 days, no notice of the time or place of the reconvened meeting will be given to shareholders, other than an announcement made at the Annual Meeting.

**The Board of Directors Recommends that Shareholders Vote "For"  
the Approval of the Adjournment of the Annual Meeting.**

### **SHAREHOLDER PROPOSALS**

In order to be eligible for inclusion in AFSI's proxy materials for the 2008 Annual Meeting, a shareholder's proposal to take action at such meeting must be received at AFSI's corporate headquarters at One Northeast First Avenue, Ocala, Florida 34470, on or before December 17, 2008. Proposals must comply with the Securities and Exchange Commission's proxy rules as provided in 17 C.F.R. Section 240.14a-8 in order to be included in AFSI's proxy materials.

### **COMMUNICATIONS WITH THE BOARD OF DIRECTORS**

AFSI has no formal procedures to follow for shareholders to communicate with the Board of Directors. Should you wish to submit a written communication to the Board or an individual director, you may mail or deliver such communication to *Jon M. Kurtz, Chief Executive Officer and President, Alarion Financial Services, Inc., One Northeast First Avenue, Ocala, Florida 34470*. All appropriate communications received from shareholders will be forwarded to the Board of Directors or any committee thereof, as appropriate. Should a

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shareholder wish to address the Board in person, the shareholder may submit such request to Mr. Kurtz. Depending on the matter the shareholder wishes to discuss with the Board and the Board's availability, the Board will consider such a request in determining whether to invite the shareholder to address a Board meeting.

### **SOLICITATION**

The cost of soliciting proxies on behalf of the Board of Directors for the Annual Meeting will be borne by AFSI. Proxies may be solicited by directors, officers, or our other employees, in person or by telephone, e-mail, or mail. We are requesting persons and entities holding shares in their names, or in the names of their nominees, to send proxy materials to, and obtain proxies from, such beneficial owners. Those persons and entities will be reimbursed for their reasonable out-of-pocket expenses.

### **OTHER MATTERS WHICH MAY PROPERLY COME BEFORE THE ANNUAL MEETING**

The Board of Directors knows of no other business that will be presented for consideration at the Annual Meeting, other than those matters described in this Proxy Statement. If any other matter should properly come before the Annual Meeting, however, it is intended that the proxies solicited hereby will be voted in accordance with the judgment of the person or persons voting the proxies.

### **AVAILABILITY OF ADDITIONAL INFORMATION**

Accompanying this Proxy Statement is AFSI's 2007 Annual Report, which includes our audited financial statements. Additional copies of AFSI's 2007 Annual Report or Form 10-KSB are available to shareholders at no charge. Any shareholder who would like an additional copy may contact *Jon M. Kurtz, Chief Executive Officer and President, Alarion Financial Services, Inc., One Northeast First Avenue, Ocala, Florida 34470*.

AFSI currently files periodic reports (including Form 10-KSBs, Form 10-QSBs, Proxy Statements, etc.) with the Securities and Exchange Commission. These periodic reports are filed electronically via EDGAR by AFSI and can be inspected and copied at the public reference facilities maintained by the Securities and Exchange Commission at its Public Reference Section, 450 Fifth Street, N.W., Washington, DC 20549. The Securities and Exchange Commission maintains a website that contains registration statements, reports, proxy and information statements, and other information regarding registrants that file electronically with the Securities and Exchange Commission, including that of AFSI. This information filed by AFSI may be reviewed on the Securities and Exchange Commission's website, which is [www.sec.gov](http://www.sec.gov).

**ALARION FINANCIAL SERVICES, INC.**

**April 23, 2008**

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**REVOCABLE PROXY  
ALARION FINANCIAL SERVICES, INC.  
ANNUAL MEETING OF SHAREHOLDERS**

The undersigned hereby appoints the members of the Board of Directors of Alarion Financial Services, Inc. ("AFSI"), with full powers of substitution, to act as proxy for, and attorney-in-fact, to vote all shares of the common stock of AFSI which the undersigned may be entitled to vote at the Annual Meeting of Shareholders to be held the Gainesville Country Club, 7300 SW 35<sup>th</sup> Way, Gainesville, Florida on May 21, 2008, at 4:00 p.m., and at any and all adjournments thereof.

The undersigned shareholder of AFSI may revoke this Proxy at any time before it is voted by either filing with the Corporate Secretary of AFSI, a written notice of revocation, by delivering to AFSI a duly executed Proxy bearing a later date, or by attending this Annual Meeting and voting in person.

**THE FOLLOWING PROPOSALS ARE BEING ACTED UPON:**

<b>PROPOSAL 1:</b> The election of nine members of AFSI's board of directors;	<u><b>FOR</b></u>	<u><b>WITHHOLD ALL</b></u>
<b>To withhold authority for any nominee, cross through his name:</b>	—	—
Spencer Barrett                      Carol R. Bosshardt                      Gloria W. Fletcher		
Michael P. Hill                              Jon M. Kurtz                              Ignacio L. Leon		
Loralee W. Miller                              Job E. White                              Thomas W. Williams, Jr.		

<b>PROPOSAL 2:</b> The ratification of the selection of Hacker, Johnson & Smith, P.A. as the independent auditors for AFSI for 2008; and	<u><b>FOR</b></u>	<u><b>AGAINST</b></u>	<u><b>ABSTAIN</b></u>
	—	—	—

<b>PROPOSAL 3:</b> The adjournment of the Annual Meeting to solicit additional proxies in the event there are not sufficient votes to approve Proposals 1 or 2.	<u><b>FOR</b></u>	<u><b>AGAINST</b></u>	<u><b>ABSTAIN</b></u>
	—	—	—

***IN THEIR DISCRETION THE PROXY COMMITTEE IS AUTHORIZED TO TRANSACT AND TO VOTE UPON SUCH OTHER BUSINESS*** as may properly come before this Annual Meeting or any adjournments thereof.

***NOTE:*** When properly executed, this Proxy will be voted in the manner directed by the undersigned shareholder. ***UNLESS CONTRARY DIRECTION IS GIVEN, THIS PROXY WILL BE VOTED FOR EACH OF THE PROPOSALS LISTED.***

***IMPORTANT:*** Please sign your name exactly as it appears on your stock certificate. When shares are held by joint tenants, both should sign, when signing as attorney, executor, administrator, agent, trustee or guardian, please give full title. If shareholder is a corporation, please sign in full corporate name by president or other authorized officer. If shareholder is a partnership, please sign in partnership name by authorized person.

The undersigned acknowledges receiving from AFSI, prior to the execution of the Proxy, a Notice of the Annual Meeting and a Proxy Statement dated April 23, 2008.

No. of Common Shares Voting: _____	Signature: _____
	Signature if held jointly: _____
ADDRESS LABEL	Date: _____

*Please mark, sign, date and return this Proxy Card promptly, using the enclosed envelope. If you receive more than one Proxy Card, please sign and return all cards in the accompanying envelope.*