PENNS WOODS BANCORP INC
Form 10-Q
May 09, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **Quarterly Report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended March 31, 2008.**

o **Transition report pursuant to Section 13 or 15 (d) of the Exchange Act for the Transition Period from to .**

No. 0-17077

(Commission File Number)

PENNS WOODS BANCORP, INC.

(Exact name of Registrant as specified in its charter)

PENNSYLVANIA (State or other jurisdiction of incorporation or organization)	**23-2226454** (I.R.S. Employer Identification No.)
300 Market Street, Williamsport, Pennsylvania (Address of principal executive offices)	**17701-0967** (Zip Code)

(570) 322-1111

Registrant s telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES x NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer x
Non-accelerated filero Do not check if a smaller reporting company	Small reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o NO x

On May 1, 2008 there were 3,867,722 shares of the Registrant s common stock outstanding.

PENNS WOODS BANCORP, INC.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

PENNS WOODS BANCORP, INC.

CONSOLIDATED BALANCE SHEET

(UNAUDITED)

(In Thousands, Except Share Data)	**March 31, 2008**	**December 31, 2007**
ASSETS		
Noninterest-bearing balances	$ 16,440	$ 15,417
Interest-bearing deposits in other financial institutions	12	16
Total cash and cash equivalents	16,452	15,433
Investment securities, available for sale, at fair value	207,777	214,455
Investment securities held to maturity (fair value of $281 and $279)	279	277
Loans held for sale	3,254	4,214
Loans	357,609	360,478
Less: Allowance for loan losses	4,154	4,130
Loans, net	353,455	356,348
Premises and equipment, net	7,381	6,774
Accrued interest receivable	3,122	3,343
Bank-owned life insurance	13,209	12,375
Investment in limited partnerships	5,261	5,439
Goodwill	3,032	3,032
Other assets	17,794	6,448
TOTAL ASSETS	$ 631,016	$ 628,138
LIABILITIES		
Interest-bearing deposits	$ 324,463	$ 314,351
Noninterest-bearing deposits	71,662	74,671
Total deposits	396,125	389,022
Short-term borrowings	61,766	55,315
Long-term borrowings, Federal Home Loan Bank (FHLB)	96,778	106,378
Accrued interest payable	1,626	1,744
Other liabilities	5,567	5,120
TOTAL LIABILITIES	561,862	557,579
SHAREHOLDERS EQUITY		
Common stock, par value $8.33, 10,000,000 shares authorized; 4,007,652 and 4,006,934 shares issued	33,397	33,391
Additional paid-in capital	17,904	17,888
Retained earnings	27,620	27,707
Accumulated other comprehensive loss:		
Net unrealized loss on available for sale securities	(3,366)	(2,159)
Defined benefit plan	(1,375)	(1,375)

Less: Treasury stock at cost, 135,599 and 131,302 shares		(5,026)		(4,893)
TOTAL SHAREHOLDERS EQUITY		69,154		70,559
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	631,016	$	628,138

See accompanying notes to the unaudited consolidated financial statements.

PENNS WOODS BANCORP, INC.

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

(In Thousands, Except Per Share Data)	**Three Months Ended March 31, 2008**	**2007**
INTEREST AND DIVIDEND INCOME		
Loans including fees	$ 6,380	$ 6,423
Investment Securities:		
Taxable	1,190	823
Tax-exempt	1,226	1,111
Dividend and other interest income	252	322
TOTAL INTEREST AND DIVIDEND INCOME	9,048	8,679
INTEREST EXPENSE		
Deposits	2,541	2,512
Short-term borrowings	429	505
Long-term borrowings, FHLB	1,197	922
TOTAL INTEREST EXPENSE	4,167	3,939
NET INTEREST INCOME	4,881	4,740
PROVISION FOR LOAN LOSSES	60	40
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,821	4,700
NON-INTEREST INCOME		
Deposit service charges	570	541
Securities gains, net	38	326
Bank-owned life insurance	155	115
Gain on sale of loans	152	138
Insurance commissions	580	438
Other	419	416
TOTAL NON-INTEREST INCOME	1,914	1,974
NON-INTEREST EXPENSE		
Salaries and employee benefits	2,451	2,281
Occupancy, net	338	331
Furniture and equipment	285	286
Pennsylvania shares tax	105	161
Other	1,266	1,069
TOTAL NON-INTEREST EXPENSE	4,445	4,128
INCOME BEFORE INCOME TAX PROVISION	2,290	2,546
INCOME TAX PROVISION	159	265
NET INCOME	$ 2,131	$ 2,281
EARNINGS PER SHARE - BASIC	$ 0.55	$ 0.59
EARNINGS PER SHARE - DILUTED	$ 0.55	$ 0.59
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	3,874,741	3,897,480

WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED	3,874,931	3,897,818
DIVIDENDS PER SHARE	$ 0.46	$ 0.44

See accompanying notes to the unaudited consolidated financial statements.

PENNS WOODS BANCORP, INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(UNAUDITED)

(In Thousands Except Per Share Data)	**COMMON STOCK SHARES**	**COMMON STOCK AMOUNT**	**ADDITIONAL PAID-IN CAPITAL**	**RETAINED EARNINGS**	**ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**	**TREASURY STOCK**	**TOTAL SHAREHOLDERS' EQUITY**
Balance, December 31, 2007	4,006,934	$ 33,391	$ 17,888	$ 27,707	$ (3,534)	$ (4,893)	$ 70,559
Comprehensive Income:							
Net income				2,131			2,131
Unrealized loss on investments available for sale, net of reclassification adjustment, net of income tax benefit of $622					(1,207)		(1,207)
Total comprehensive income							924
Dividends declared, ($0.46 per share)				(1,781)			(1,781)
Purchase of treasury stock (4,297 shares)						(133)	(133)
Cumulative effect of change in accounting for postretirement benefits				(437)			(437)
Common shares issued for employee stock purchase plan	718	6	16				22
Balance, March 31, 2008	4,007,652	$ 33,397	$ 17,904	$ 27,620	$ (4,741)	$ (5,026)	$ 69,154

(In Thousands Except Per Share Data)	**COMMON STOCK SHARES**	**COMMON STOCK AMOUNT**	**ADDITIONAL PAID-IN CAPITAL**	**RETAINED EARNINGS**	**ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**	**TREASURY STOCK**	**TOTAL SHAREHOLDERS' EQUITY**
Balance, December 31, 2006	4,003,514	$ 33,362	$ 17,810	$ 25,783	$ 1,560	$ (3,921)	$ 74,594
Comprehensive Income:							
Net income				2,281			2,281
Unrealized loss on investments available for sale, net of reclassification adjustment, net of income tax benefit of $337					(653)		(653)
Total comprehensive income							1,628
Dividends declared, ($0.44 per share)				(1,714)			(1,714)
Purchase of treasury stock (10,030 shares)						(357)	(357)
Stock options exercised	330	3	5				8
Common shares issued for employee stock purchase plan	672	6	17				23
Balance, March 31, 2007	4,004,516	$ 33,371	$ 17,832	$ 26,350	$ 907	$ (4,278)	$ 74,182

See accompanying notes to the unaudited consolidated financial statements.

PENNS WOODS BANCORP, INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(UNAUDITED)

(In Thousands)	Three Months Ended March 31, 2008	2007
Net Income	$ 2,131	$ 2,281
Other comprehensive loss:		
Change in net unrealized losses on available for sale securities	(1,791)	(664)
Less: Reclassification adjustment for net gains included in net income	38	326
Other comprehensive loss before tax	(1,829)	(990)
Income tax benefit related to other comprehensive loss	(622)	(337)
Other comprehensive loss, net of tax	(1,207)	(653)
Comprehensive income	$ 924	$ 1,628

See accompanying notes to the unaudited consolidated financial statements.

PENNS WOODS BANCORP, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

(In Thousands)	Three Months Ended March 31, 2008	2007
OPERATING ACTIVITIES		
Net Income	$ 2,131	$ 2,281
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	157	179
Provision for loan losses	60	40
Accretion and amortization of investment security discounts and premiums	(284)	(232)
Securities gains, net	(38)	(326)
Originations of loans held for sale	(6,400)	(5,289)
Proceeds of loans held for sale	7,512	6,147
Gain on sale of loans	(152)	(138)
Increases in bank-owned life insurance	(155)	(440)
Other, net	(702)	(64)
Net cash provided by operating activities	2,129	2,158
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from sales	17,737	13,110
Proceeds from calls and maturities	1,887	1,769
Purchases	(23,912)	(13,277)
Net decrease in loans	2,833	2,786
Acquisition of bank premises and equipment	(764)	(184)
Proceeds from the sale of foreclosed assets	11	
Purchase of bank-owned life insurance	(679)	(325)
Proceeds from redemption of regulatory stock	1,161	132
Purchases of regulatory stock	(1,446)	(881)
Net cash (used for) provided by investing activities	(3,172)	3,130
FINANCING ACTIVITIES		
Net increase (decrease) in interest-bearing deposits	10,112	(8,110)
Net decrease in noninterest-bearing deposits	(3,009)	(2,232)
Proceeds of long-term borrowings, FHLB		10,000
Repayment of long-term borrowings, FHLB	(9,600)	(11,500)
Net increase in short-term borrowings	6,451	6,476
Dividends paid	(1,781)	(1,714)
Issuance of common stock	22	23
Stock options exercised		8
Purchase of treasury stock	(133)	(357)
Net cash provided by (used for) financing activities	2,062	(7,406)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,019	(2,118)
CASH AND CASH EQUIVALENTS, BEGINNING	15,433	15,373
CASH AND CASH EQUIVALENTS, ENDING	$ 16,452	$ 13,255
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$ 4,285	$ 4,099
Income taxes paid	150	200
Transfer of loans to foreclosed real estate		

See accompanying notes to the unaudited consolidated financial statements.

PENNS WOODS BANCORP, INC. AND SUBSIDIARIES

NOTES TO

CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

The consolidated financial statements include the accounts of Penns Woods Bancorp, Inc. (the Company) and its wholly-owned subsidiaries: Woods Investment Company, Inc., Woods Real Estate Development Company, Inc., and Jersey Shore State Bank (the Bank) and its wholly-owned subsidiary, The M Group, Inc. D/B/A The Comprehensive Financial Group (The M Group). All significant inter-company balances and transactions have been eliminated in the consolidation.

The interim financial statements are unaudited but, in the opinion of management, reflect all adjustments necessary for the fair presentation of results for such periods. The results of operations for any interim period are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with financial statements and notes thereto contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

The accounting policies followed in the presentation of interim financial results are the same as those followed on an annual basis. These policies are presented on pages 41 through 47 of the Annual Report on Form 10-K for the year ended December 31, 2007.

In reference to the attached financial statements, all adjustments are of a normal recurring nature pursuant to Rule 10-01 (b) (8) of Regulation S-X.

Note 2. Recent Accounting Pronouncements

In December 2007, the FASB issued FAS No. 141 (revised 2007), Business Combinations (FAS 141(R)), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. FAS 141(R) is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The adoption of this standard is not expected to have a material effect on the Company s results of operations or financial position.

In September 2006, the FASB issued FAS No. 157, Fair Value Measurements (FAS 157), which provides enhanced guidance for using fair value to measure assets and liabilities. The standard applies whenever other standards require or permit assets or liabilities to be measured at fair value. The Standard does not expand the use of fair value in any new circumstances. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In February 2008, the FASB issued Staff Position

No. 157-1, Application of FASB Statement 157 to FASB Statement No. 13

and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13, which removed leasing transactions accounted for under FAS No. 13 and related guidance from the scope of FAS 157. Also in February 2008, the FASB issued Staff Position No.157-2, Partial Deferral of the Effective Date of Statement 157, which deferred the effective date of FAS No. 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. On January 1, 2008, the Company adopted FAS 157 which did not have a material effect on the Company s results of operations or financial position, see Note 8.

In February 2007, the FASB issued FAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115(FAS 159), which provides all entities with an option to report selected financial assets and liabilities at fair value. The objective of the FAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in earnings caused by measuring related assets and liabilities differently without having to apply the complex provisions of hedge accounting. FAS 159 is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007 provided the entity also elects to apply the provisions of FAS 157. On January 1, 2008, the Company adopted FAS 159 which did not have a material effect on the Company s results of operations or financial position.

In December 2007, the FASB issued FAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51(FAS 160). FAS 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. FAS 160 is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The adoption of this standard is not expected to have a material effect on the Company s results of operations or financial position.

In September 2006, the FASB reached consensus on the guidance provided by Emerging Issues Task Force Issue 06-4 (EITF 06-4), Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. The guidance is applicable to endorsement split-dollar life insurance arrangements, whereby the employer owns and controls the insurance policy, that are associated with a postretirement benefit. EITF 06-4 requires that, for a split-dollar life insurance arrangement within the scope of the Issue, an employer should recognize a liability for future benefits in accordance with FAS No. 106 (if, in substance, a postretirement benefit plan exists) or Accounting Principles Board Opinion No. 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. On January 1, 2008, the Company adopted

EITF 06-04 which resulted in an adjustment to retained earnings and an associated liability in the amount of $437,000.

In March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10 (EITF 06-10), Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements. EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. On January 1, 2008, the Company adopted EITF 06-10 which did not have a material effect on the Company s results of operations or financial position.

In June 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-11 (EITF 06-11), Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards. EITF 06-11 applies to share-based payment arrangements with dividend protection features that entitle employees to receive (a) dividends on equity-classified nonvested shares, (b) dividend equivalents on equity-classified nonvested share units, or (c) payments equal to the dividends paid on the underlying shares while an equity-classified share option is outstanding, when those dividends or dividend equivalents are charged to retained earnings under FAS No. 123R, Share-Based Payment, and result in an income tax deduction for the employer. A consensus was reached that a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity-classified nonvested equity shares, nonvested equity share units, and outstanding equity share options should be recognized as an increase in additional paid-in capital. EITF 06-11 is effective for fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. On January 1, 2008, the Company adopted EITF 06-11 which did not have a material effect on the Company s results of operations or financial position.

In March 2008, the FASB issued FAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (FAS 161), to require enhanced disclosures about derivative instruments and hedging activities. The new standard has revised financial reporting for derivative instruments and hedging activities by requiring more transparency about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under FAS No. 133, Accounting for Derivative Instruments and Hedging Activities; and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. FAS 161 requires disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. It also requires entities to provide more information about their liquidity by requiring disclosure of derivative features that are credit risk-related. Further, it requires cross-referencing within footnotes to enable financial statement users to locate important information about derivative instruments. FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of this standard is not expected to have a material effect on the Company s results of operations or financial position.

Note 3. Per Share Data

The following table sets forth the composition of the weighted average common shares (denominator) used in the basic and dilutive per share computation. There are no convertible securities which would affect the numerator in calculating basic and diluted earnings per share; therefore, net income as presented on the consolidated statement of income will be used as the numerator.

	Three Months Ended March 31, 2008	2007
Weighted average common shares outstanding	4,007,176	4,003,936
Average treasury stock shares	(132,435)	(106,456)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	3,874,741	3,897,480
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	190	338
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	3,874,931	3,897,818

Options to purchase 8,273 shares of common stock at the price of $40.29 were outstanding during the three months ended March 31, 2008 and 2007, respectively, but were not included in the computation of diluted earnings per share as they were anti-dilutive due to the strike price being greater than the market price as of March 31, 2008 and 2007, respectively.

Note 4. Net Periodic Benefit Cost-Defined Benefit Plans

For a detailed disclosure on the Company s pension and employee benefits plans, please refer to Note 11 of the Company s Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2007.

The following sets forth the components of the net periodic benefit cost of the domestic non-contributory defined benefit plan for the three months ended March 31, 2008 and 2007, respectively:

(In Thousands)	Three Months Ended March 31, 2008	2007
Service cost	$ 137	$ 117
Interest cost	152	121
Expected return on plan assets	(157)	(140)
Amortization of transition	(1)	(1)
Amortization of prior service cost	6	6
Amortization of net loss	14	
Net periodic cost	$ 151	$ 103

Employer Contributions

The Company previously disclosed in its consolidated financial statements, included in the Annual Report on Form 10-K for the year ended December 31, 2007, that it expected to contribute $450,000 to its defined benefit plan in 2008. As of March 31, 2008, there were no contributions made to the plan.

Note 5. Off Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are primarily comprised of commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit, interest rate, or liquidity risk in excess of the amount recognized in the consolidated balance sheet. The contract amounts of these instruments express the extent of involvement the Company has in particular classes of financial instruments.

The Company s exposure to credit loss from nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company may require collateral or other security to support financial instruments with off-balance sheet credit risk.

Outstanding financial instruments with off balance sheet risk are as follows:

(In Thousands)	March 31, 2008	December 31, 2007
Commitments to extend credit	$ 69,402	$ 74,349
Standby letters of credit	975	974

Note 6. Reclassification of Comparative Amounts

Certain comparative amounts for the prior period have been reclassified to conform to current period presentations. Such reclassifications had no effect on net income or shareholders equity.

Note 7. Employee Stock Purchase Plan

The Company issues shares under the Penns Woods Bancorp, Inc. 2006 Employee Stock Purchase Plan (Plan) which is intended to encourage employee participation in the ownership and economic progress of the Company. The Plan allows for up to 1,000,000 shares to be purchased by employees. The purchase price of the shares is 95% of market value with an employee eligible to purchase up to the lesser of 15% of base compensation or $12,000 in market value annually. During the three months ended March 31, 2008 and 2007, there were 718 and 672 shares issued under the plan, respectively.

Note 8. Fair Value Measurements

Effective January 1, 2008, the Company adopted FAS 157, which, among other things, requires enhanced disclosures about assets and liabilities carried at fair value. FAS 157 establishes a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The three broad levels defined by FAS 157 hierarchy are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities include items for which quoted prices are available but traded less frequently, and items that are fair valued using other financial instruments, the parameters of which can be directly observed.

Level III: Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management s best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

The following table presents the assets and liabilities reported on the consolidated statements of financial condition at their fair value as of March 31, 2008 by level within the fair value hierarchy. As required by FAS 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	March 31, 2008			
(In Thousands)	**Level I**	**Level II**	**Level III**	**Total**
Assets:				
Investment Securities, available-for-sale	$	$ 207,777	$	$ 207,777

Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of

CAUTIONARY STATEMENT FOR PURPOSES OF THE PRIVATE

SECURITIES LITIGATION REFORM ACT OF 1995

This Report contains certain forward-looking statements including statements concerning plans, objectives, future events or performance and assumptions and other statements which are other than statements of historical fact. The Company wishes to caution readers that the following important factors, among others, may have affected and could in the future affect the Company s actual results and could cause the Company s actual results for subsequent periods to differ materially from those expressed in any forward-looking statement made by or on behalf of the Company herein: (i) the effect of changes in laws and regulations, including federal and state banking laws and regulations, with which the Company must comply, and the associated costs of compliance with such laws and regulations either currently or in the future as applicable; (ii) the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies as well as by the Financial Accounting Standards Board, or of changes in the Company s organization, compensation and benefit plans; (iii) the effect on the Company s competitive position within its market area of the increasing consolidation within the banking and financial services industries, including the increased competition from larger regional and out-of-state banking organizations as well as non-bank providers of various financial services; (iv) the effect of changes in interest rates; and (v) the effect of changes in the business cycle and downturns in the local, regional or national economies.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operation

EARNINGS SUMMARY

Comparison of the Three Months Ended March 31, 2008 and 2007

Summary Results

Net income for the three months ended March 31, 2008 was $2,131,000 compared to $2,281,000 for the same period of 2007. Basic and diluted earnings per share for the three months ended March 31, 2008 were $0.55 as compared to $0.59 for the three months ended March 31, 2007. Return on average assets and return on average equity were 1.36% and 12.01% for the three months ended March 31, 2008 as compared to 1.56% and 12.13% for the corresponding period of 2007. Net income from core operations (operating earnings), which excludes after-tax securities gains of $25,000 and $215,000 for the three months ended March 31, 2008 and 2007, increased $40,000 to $2,106,000 for the three months ended March 31, 2008 as compared to $2,066,000 for the same period of 2007. Operating earnings per share for the three months ended March 31, 2008 increased to $0.54 basic and dilutive as compared to $0.53 for the three months ended March 31, 2007.

(Management uses the non-GAAP measure of net income from core operations in its analysis of the Company s performance. This measure, as used by the Company, adjusts net income by significant gains or losses that are unusual in nature. Because certain of these items and their impact on the Company s performance are difficult to predict, management believes the presentation of financial measures excluding the impact of such items provides useful supplemental information in evaluating the operating results of the Company s core businesses. For purposes of this Quarterly Report on Form 10-Q, net income from core operations means net income adjusted to exclude after-tax net securities gains. These disclosures should not be viewed as a substitute for net income determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies.)

Interest And Dividend Income

Interest and dividend income for the three months ended March 31, 2008 increased $369,000 to $9,048,000 as compared to $8,679,000 for the same period of 2007. The increase in interest income was primarily the result of growth in average taxable investment securities of $18,158,000 coupled with a 19 basis point (bp) increase in the related security yields for the three months ended March 31, 2008 over the same period of 2007. The combination of taxable investment security growth and yield increases resulted in a $367,000 increase in taxable interest income. Over the same time frame, the average balance of tax-exempt investment securities increased $11,804,000 with the portfolio yield decreasing 7 bp resulting in a $115,000 increase in tax-exempt interest income. On a taxable equivalent basis, the interest income from the investment portfolio increased $472,000 due to the investment portfolio being strategically shifted toward tax-exempt instruments. The decrease in dividends received is the result of a decrease in equity investments.

Interest and dividend income composition for the three months ended March 31, 2008 and 2007 was as follows:

(In Thousands)	For The Three Months Ended March 31, 2008 Amount	% Total	March 31, 2007 Amount	% Total	Change Amount	%
Loans including fees	$ 6,380	70.5%	$ 6,423	74.0%	$ (43)	(0.7)%
Investment securities:						
Taxable	1,190	13.2	823	9.5	367	44.6
Tax-exempt	1,226	13.5	1,111	12.8	115	10.4
Dividend and other interest income	252	2.8	322	3.7	(70)	(21.7)
Total interest and dividend income	$ 9,048	100.0%	$ 8,679	100.0%	$ 369	4.3%

Interest Expense

Interest expense for the three months ended March 31, 2008 increased $228,000 to $4,167,000 as compared to $3,939,000 for the same period of 2007. The increased expense associated with deposits is primarily the result of growth in the average time deposit portfolio of $5,166,000 for the three month period ended March 31, 2008 as compared to 2007, offset by a reduction in rate paid of 14 basis points over the same time period. Factors that led to the rate decreases include, but are not limited to, Federal Open Market Committee (FOMC) actions over the past year, campaigns conducted to attract 8 to 12 month maturity CDs that have resulted in an increased repricing frequency, and decreased average utilization of $9,305,000 in brokered CDs. Short-term borrowings interest expense decreased $76,000 as the rate paid decreased 150 bp due to the FOMC rate actions over the past year. Long-term borrowings interest expense increased $275,000 as the average balance of such borrowings increased $24,812,000 for the three months ended March 31, 2008 as compared to the same period of 2007, while the average rate decreased 14 bp to 4.49% for the 2008 period.

Interest expense composition for the three months ended March 31, 2008 and 2007 was as follows:

(In Thousands)	For The Three Months Ended March 31, 2008 Amount	% Total	March 31, 2007 Amount	% Total	Change Amount	%
Deposits	$ 2,541	61.0%	$ 2,512	63.8%	$ 29	1.2%
Short-term borrowings	429	10.3	505	12.8	(76)	(15.0)
Long-term borrowings, FHLB	1,197	28.7	922	23.4	275	29.8
Total interest expense	$ 4,167	100.0%	$ 3,939	100.0%	$ 228	5.8%

Net Interest Margin

The net interest margin (NIM) for the three months ended March 31, 2008 was 3.87% as compared to 3.95% for the corresponding period of 2007. The minimal decrease in the NIM was due to the investment portfolio growth that occurred during the second half of 2007. Despite this growth being accretive to earnings, return on average assets, and return on average equity, it lowered the net interest margin due to the spread between the yield on assets purchased and the associated funding cost being less than historical levels resulting in a 12 bp decrease in the yield on earning assets. The yield on total loans decreased to 7.12% from 7.27% due to the impact of the FOMC rate decreases over the past year. The average investment securities portfolio increased by $29,962,000, as the tax-exempt segment increased to $114,590,000 at March 31, 2008 as compared to $102,786,000 at March 31, 2007. The growth in the investment portfolio was driven by a strategic initiative in the second half of 2007 to increase tax equivalent net interest income by purchasing fixed rate instruments in anticipation of the decreasing rate environment that is continuing into 2008. The decrease in the cost of interest bearing liabilities to 3.50% from 3.66% was driven primarily by the FOMC rate actions over the past year that resulted in lower borrowing costs and rates paid on time deposits. In addition, the shortening of the time deposit portfolio initiated in the early stages of 2007 has resulted in an increasing repricing frequency during this period of decreasing rates.

Following is a schedule of average balances and associated yields for the three month periods ended March 31, 2008 and 2007:

AVERAGE BALANCES AND INTEREST RATES

(In Thousands)	Three Months Ended March 31, 2008 Average Balance	Interest	Average Rate	Three Months Ended March 31, 2007 Average Balance	Interest	Average Rate
Assets:						
Tax-exempt loans	$ 8,013	$ 126	6.32%	$ 8,266	$ 127	6.23%
All other loans	354,715	6,297	7.14%	352,599	6,339	7.29%
Total loans	362,728	6,423	7.12%	360,865	6,466	7.27%
Taxable investment securities	100,730	1,442	5.73%	82,572	1,144	5.54%
Tax-exempt investment securities	114,590	1,857	6.48%	102,786	1,683	6.55%
Total securities	215,320	3,299	6.13%	185,358	2,827	6.10%
Interest bearing deposits	38		0.00%	21	1	19.31%
Total interest-earning assets	578,086	9,722	6.75%	546,244	9,294	6.87%
Other assets	48,692			39,842		
Total assets	$ 626,778			$ 586,086		
Liabilities:						
Savings	$ 58,561	109	0.75%	$ 58,997	105	0.72%
Super Now deposits	46,367	155	1.34%	44,847	149	1.35%
Money market deposits	23,324	127	2.18%	23,562	125	2.15%
Time deposits	190,927	2,150	4.52%	185,761	2,133	4.66%
Total deposits	319,179	2,541	3.20%	313,167	2,512	3.25%
Short-term borrowings	51,113	429	3.34%	42,283	505	4.84%
Long-term borrowings, FHLB	105,534	1,197	4.49%	80,722	922	4.63%
Total borrowings	156,647	1,626	4.11%	123,005	1,427	4.70%
Total interest-bearing liabilities	475,826	4,167	3.50%	436,172	3,939	3.66%
Demand deposits	70,243			68,222		
Other liabilities	9,726			6,459		
Shareholders equity	70,983			75,233		

Total liabilities and shareholders' equity	$	626,778				$	586,086			
Interest rate spread					3.25%					3.21%
Net interest income/margin			$	5,555	3.87%			$	5,355	3.95%

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1. Information on this table has been calculated using average daily balance sheets to obtain average balances.

2. Nonaccrual loans have been included with loans for the purpose of analyzing net interest earnings.

3. Income and rates on a fully taxable equivalent basis include an adjustment for the difference between annual income from tax-exempt obligations and the taxable equivalent of such income at the standard 34% tax rate.

The following table presents the adjustment to convert net interest income to net interest income on a fully taxable equivalent basis for the three month periods ended March 31, 2008 and 2007.

(In Thousands)	For the Three Months Ended March 31, 2008		2007	
Total interest income	$	9,048	$	8,679
Total interest expense		4,167		3,939
Net interest income		4,881		4,740
Tax equivalent adjustment		674		615
Net interest income (fully taxable equivalent)	$	5,555	$	5,355

The following table sets forth the respective impact that both volume and rate changes have had on net interest income on a fully taxable equivalent basis for the three month periods ended March 31, 2008 and 2007:

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(In Thousands)	Three Months Ended March 31, 2008 vs 2007 Increase (Decrease) Due to Volume	Rate	Net
Interest income:			
Loans, tax-exempt	$ (4)	$ 3	$ (1)
Loans	17	(59)	(42)
Taxable investment securities	259	39	298
Tax-exempt investment securities	191	(17)	174
Interest bearing deposits	1	(2)	(1)
Total interest-earning assets	464	(36)	428
Interest expense:			
Savings deposits	(1)	5	4
Super Now deposits	7	(1)	6
Money market deposits	(2)	4	2
Time deposits	138	(121)	17
Short-term borrowings	141	(217)	(76)
Long-term borrowings, FHLB	306	(31)	275
Total interest-bearing liabilities	589	(361)	228
Change in net interest income	$ (125)	$ 325	$ 200

Provision for Loan Losses

The provision for loan losses is based upon management s quarterly review of the loan portfolio. The purpose of the review is to assess loan quality, identify impaired loans, analyze delinquencies, ascertain loan growth, evaluate potential charge-offs and recoveries, and assess general economic conditions in the markets served. An external independent loan review is also performed annually for the Bank. Management remains committed to an aggressive program of problem loan identification and resolution.

The allowance for loan losses is determined by applying loss factors to outstanding loans by type, excluding loans for which a specific allowance has been determined. Loss factors are based on management s consideration of the nature of the portfolio segments, changes in mix and volume of the loan portfolio, and historical loan loss experience. In addition, management considers industry standards and trends with respect to non-performing loans and its knowledge and experience with specific lending segments.

Although management believes it uses the best information available to make such determinations and that the allowance for loan losses is adequate at March 31, 2008, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions used in making the initial determinations. A downturn in the local economy, employment, and delays in receiving financial information from borrowers could result in increased levels of nonperforming assets, charge-offs, loan loss provisions, and reductions in income. Additionally, as an integral part of the examination process, bank regulatory agencies periodically review the Bank s loan loss allowance. The banking agencies could require the recognition of additions to the loan loss allowance based on their judgment of information available to them at the time of their examination.

While determining the appropriate allowance level, management has attributed the allowance for loan losses to various portfolio segments; however, the allowance is available for the entire portfolio as needed.

The allowance for loan losses increased from $4,130,000 at December 31, 2007 to $4,154,000 at March 31, 2008. At March 31, 2008, the allowance for loan losses was 1.16% of total loans compared to 1.15% of total loans at December 31, 2007. Management s conclusion is that the allowance for loan losses is adequate to provide for possible losses inherent in the loan portfolio as of the balance sheet date.

The provision for loan losses totaled $60,000 for the three months ended March 31, 2008, as compared to $40,000 for the same period in 2007. The stability of the provision was the result of several continuing positive factors, including but not limited to, a ratio of annualized net charge offs to average loans of 0.04%, a ratio of nonperforming loans to total loans of 0.40%, and a ratio of the allowance for loan losses to nonperforming loans of 291.10% at March 31, 2008. In addition, gross loans have declined $2,869,000 since December 31, 2007 due to a softening of the loan market and the payoff of several commercial loans.

Based upon this analysis, as well as the others noted above, management has concluded that the allowance for loan losses remains at a level adequate to provide for probable losses inherent in its loan portfolio.

Non-interest Income

Total non-interest income for the three months ended March 31, 2008 compared to the same period in 2007 decreased $60,000 to $1,914,000 due to a $288,000 decrease in net securities gains realized when comparing the three month periods ended March 31, 2008 and 2007. Excluding net securities gains, non-interest income for the first quarter of 2008 would have increased $228,000 as compared to the 2007 period. Deposit service charges increased $29,000 as the Company implemented a new fee schedule effective for the first quarter of 2008. Earnings on bank owned life insurance increased $40,000 as a result of increased holdings as of March 31, 2008 as compared to the 2007 period.

Insurance commissions for the three months ended March 31, 2008 increased $142,000 as compared to the same period in 2007 due to a shift in product mix. Management of The M Group continues to pursue new and build upon current relationships. The sales call program continues to expand to other financial institutions, which results in additional revenue for The M Group. However, the addition of another sales outlet for The M-Group can take up to a year or more to be completed.

Non-interest income composition for the three months ended March 31, 2008 and 2007 were as follows:

	For The Three Months Ended					
	March 31, 2008		March 31, 2007		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Deposit service charges	$ 570	29.8 %	$ 541	27.4%	$ 29	5.4%
Securities gains, net	38	2.0	326	16.5	(288)	(88.3)
Bank owned life insurance	155	8.1	115	5.8	40	34.8
Gain on sale of loans	152	7.9	138	7.0	14	10.1
Insurance commissions	580	30.3	438	22.2	142	32.4
Other	419	21.9	416	21.1	3	0.6
Total non-interest income	$ 1,914	100.0%	$ 1,974	100.0%	$ (60)	(3.0)%

Non-interest Expense

Total non-interest expense increased $317,000 for the three months ended March 31, 2008 compared to the same period of 2007. The increase in salaries and employee benefits was attributable to several items including standard cost of living wage adjustments for employees, increased pension expense, and other benefit costs. Occupancy expense increased due to increased cost of utilities, maintenance and property taxes. Pennsylvania shares tax decreased $56,000 due to the use of Pennsylvania Enterprise Zone tax credits from a low income housing partnership committed to during 2007. Other expenses increased primarily due to normal anticipated inflationary adjustments to ongoing business operating costs and the amortization related to the before mentioned low income housing.

Non-interest expense composition for the three months ended March 31, 2008 and 2007 were as follows:

	For The Three Months Ended					
	March 31, 2008		March 31, 2007		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Salaries and employee benefits	$ 2,451	55.1 %	$ 2,281	55.3%	$ 170	7.5%
Occupancy, net	338	7.6	331	8.0	7	2.1
Furniture and equipment	285	6.4	286	6.9	(1)	(0.3)
Pennsylvania shares tax	105	2.4	161	3.9	(56)	(34.8)
Other	1,226	28.5	1,069	25.9	197	18.4
Total non-interest expense	$ 4,445	100.0%	$ 4,128	100.0%	$ 317	7.7%

Provision for Income Taxes

Income taxes decreased $106,000 for the three month period ended March 31, 2008 compared to the same period of 2007. The effective tax rate for the three months ended March 31, 2008 was

6.94% as compared to 10.41% for the same period of 2007. The decline in the effective tax rate is consistent with management s repositioning of the investment portfolio from taxable investment securities to tax-exempt investment securities, and the elimination of the allowance for loan loss recapture. The current effective tax rate has resulted in a deferred tax asset due to the low income housing tax credits. Management has reviewed the deferred tax asset and has determined that the asset will be utilized within the appropriate carry forward period and therefore does not require a valuation allowance.

ASSET/LIABILITY MANAGEMENT

Cash and Cash Equivalents

Cash and cash equivalents increased $1,019,000 from $15,433,000 at December 31, 2007 to $16,452,000 at March 31, 2008 primarily as a result of the following activities during the three months ended March 31, 2008.

Loans Held for Sale

Activity regarding loans held for sale resulted in sale proceeds exceeding loan originations, less $152,000 in realized gains, by $960,000 for the three months ended March 31, 2008.

Loans

Gross loans decreased $2,869,000 since December 31, 2007 due to the early payoff of several large commercial loans coupled with increased competition for commercial loans and a softening of the market.

The allocation of the loan portfolio, by category, as of March 31, 2008 and December 31, 2007 is presented below:

(In Thousands)	March 31, 2008	December 31, 2007	Change Amount	Change %
Commercial, financial and agricultural	$ 35,557	$ 35,739	$ (182)	(0.5)%
Real estate mortgage:				
Residential	167,103	163,268	3,835	2.3
Commercial	126,154	132,943	(6,789)	(5.1)
Construction	16,770	16,152	618	3.8
Installment loans to individuals	12,959	13,317	(358)	(2.7)
Less: Net deferred loan fees	934	941	(7)	(0.7)
Gross loans	$ 357,609	$ 360,478	$ (2,869)	(0.8)%

The recorded investment in loans for which impairment has been recognized in accordance with Statement of Financial Accounting Standards No. 114, *Accounting by Creditors for Impairment of a Loan*, amounted to $1,671,000 at March 31, 2008, as compared to $1,477,000 at December

31, 2007. The valuation allowance related to impaired loans amounted to $76,000 at March 31, 2008 and $102,000 at December 31, 2007. The increase in impaired loans is from a few commercial relationships, while the decrease in valuation allowance is the result of the charge off of a commercial relationship that had a specific collateral weakness.

A loan is considered impaired, based on current information and events, if it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The measurement of impaired loans is generally based on the present value of expected future cash flows discounted at the historical effective interest rate, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral.

Investments

The estimated fair value of the investment securities portfolio in total has decreased $6,676,000 since December 31, 2007, while the amortized cost decreased $4,839,000. The majority of the changes in value occurred within the agency securities and state and municipal segments of the portfolio. The amortized cost position in state and political securities increased $10,307,000 as the Bank continued its strategy to build call protection, maintain taxable equivalent yields, reduce the effective federal income tax rate, and invest in communities across the Commonwealth of Pennsylvania and the country. Over the same time period, the above strategy resulted in the amortized cost position of U.S. Government and agency securities to decrease by $16,437,000. The increased level of unrealized losses, which offset the increase in amortized cost, was the result of changes in the yield curve, not credit quality, as the credit quality of the portfolio remains sound.

The amortized cost of investment securities and their estimated fair values are as follows:

	March 31, 2008							
(In Thousands)		**Amortized Cost**		**Gross Unrealized Gains**		**Gross Unrealized Losses**		**Estimated Fair Value**
Available for sale (AFS)								
U.S. Government and agency securities	$	45,945	$	848	$	(1)	$	46,792
State and political securities		129,958		554		(4,025)		126,487
Other debt securities		16,286		130		(444)		15,972
Total debt securities		192,189		1,532		(4,470)		189,251
Equity securities		20,689		486		(2,649)		18,526
Total investment securities AFS	$	212,878	$	2,018	$	(7,119)	$	207,777
Held to maturity (HTM)								
U.S. Government and agency securities	$	14	$	1	$		$	15
Other debt securities		265		1				266
Total investment securities HTM	$	279	$	2	$		$	281

	December 31, 2007							
(In Thousands)		**Amortized Cost**		**Gross Unrealized Gains**		**Gross Unrealized Losses**		**Estimated Fair Value**
Available for sale (AFS)								
U.S. Government and agency securities	$	62,382	$	522	$		$	62,904
State and political securities		119,651		581		(2,417)		117,815
Other debt securities		15,917		290		(440)		15,767
Total debt securities		197,950		1,393		(2,857)		196,486
Equity securities		19,776		496		(2,303)		17,969
Total investment securities AFS	$	217,726	$	1,889	$	(5,160)	$	214,455
Held to maturity (HTM)								
U.S. Government and agency securities	$	14	$	1	$		$	15
Other debt securities		263		1				264
Total investment securities HTM	$	277	$	2	$		$	279

Financing Activities

Deposits

Total deposits increased 1.8% or $7,103,000 from December 31, 2007 to March 31, 2008. The growth was led by a 19.4% or $4,081,000 increase in money market accounts coupled with growth in savings deposits of 5.7% or $3,228,000 from December 31, 2007 to March 31, 2008. In addition, time deposit growth of $6,205,000 offset a reduction of $2,712,000 in brokered time deposits. The utilization of brokered deposits has been lessened due to the ability to attract market area deposits at more favorable terms through the first three months of 2008.

Deposit balances and their changes for the periods being discussed follow:

	March 31, 2008		December 31, 2007		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Demand deposits	$ 71,662	18.1%	$ 74,671	19.2%	$ (3,009)	(4.0)%
NOW accounts	50,193	12.7	50,883	13.1	(690)	(1.4)
Money market deposits	25,110	6.3	21,029	5.4	4,081	19.4
Savings deposits	59,985	15.1	56,757	14.6	3,228	5.7
Time deposits	183,056	46.3	176,851	45.4	6,205	3.5
Time deposits - brokered	6,119	1.5	8,831	2.3	(2,712)	(30.7)
Total deposits	$ 396,125	100.0%	$ 389,022	100.0%	$ 7,103	1.8%

Borrowed Funds

Total borrowed funds decreased 1.9% to $158,544,000 at March 31, 2008 as compared to $161,693,000 at December 31, 2007. The decrease in borrowed funds is primarily the result of the previously discussed time deposit gathering campaigns that were utilized to provide funds to reduce the level of higher cost short-term borrowings and to assist in replacing long-term borrowing maturities. Short-term borrowings increased and long-term borrowings decreased due to the maturity of a borrowing totaling $9,600,000 that carried an average rate of 3.14% offset by a new $10,000,000 FHLB borrowing that matures in April 2008 and carries a rate of 2.05%.

	March 31, 2008		December 31, 2007		Change	
(In Thousands)	**Amount**	**% Total**	**Amount**	**% Total**	**Amount**	**%**
Short-term borrowings:						
FHLB repurchase agreements	$ 37,980	24.0%	$ 38,160	23.6%	$ (180)	(0.5)%
Short-term borrowings, FHLB	10,000	6.3			10,000	
Securities sold under agreement to repurchase	13,786	8.7	17,155	10.6	(3,369)	(19.6)
Total short-term borrowings	61,766	39.0%	55,315	34.2%	6,451	11.7
Long-term borrowings, FHLB	96,778	61.0	106,378	65.8	(9,600)	(9.0)
Total borrowed funds	$ 158,544	100.0%	$ 161,693	100.0%	$ (3,149)	(1.9)%

Capital

The adequacy of the Company s capital is reviewed on an ongoing basis with reference to the size, composition, and quality of the Company s resources and regulatory guidelines. Management seeks to maintain a level of capital sufficient to support existing assets and anticipated asset growth, maintain favorable access to capital markets, and preserve high quality credit ratings.

Bank holding companies are required to comply with the Federal Reserve Board s risk-based capital guidelines. The risk-based capital rules are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies and to minimize disincentives for holding liquid assets. Specifically, each is required to maintain certain minimum dollar amounts and ratios of Total risk-based, Tier I risk-based, and Tier I leverage capital requirements. In addition to the capital requirements, the Federal Deposit Insurance Corporation Improvements Act (FDICIA) established five capital categories ranging from well capitalized to critically undercapitalized. To be classified as well capitalized , Total risk-based, Tier I risked-based, and Tier I leverage capital ratios must be at least 10%, 6%, and 5%, respectively.

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Capital ratios as of March 31, 2008 and December 31, 2007 were as follows:

	2008		2007	
(In Thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Capital (to Risk-weighted Assets)				
Actual	$ 70,290	17.7%	$ 70,381	18.0%
For Capital Adequacy Purposes	31,738	8.0	31,280	8.0
To Be Well Capitalized	39,673	10.0	39,100	10.0
Tier I Capital (to Risk-weighted Assets)				
Actual	$ 66,136	16.7%	$ 66,251	16.9%
For Capital Adequacy Purposes	15,869	4.0	15,640	4.0
To Be Well Capitalized	23,804	6.0	23,460	6.0
Tier I Capital (to Average Assets)				
Actual	$ 66,136	10.6%	$ 66,251	10.8%
For Capital Adequacy Purposes	24,902	4.0	24,664	4.0
To Be Well Capitalized	31,127	5.0	30,830	5.0

Liquidity and Interest Rate Sensitivity

The asset/liability committee addresses the liquidity needs of the Company to ensure that sufficient funds are available to meet credit demands and deposit withdrawals as well as to the placement of available funds in the investment portfolio. In assessing liquidity requirements, equal consideration is given to the current position as well as the future outlook.

The following liquidity measures are monitored for compliance within the limits cited:

1. Net Loans to Total Assets, 85% maximum

2. Net Loans to Total Deposits, 100% maximum

3. Cumulative 90 day Maturity GAP %, +/- 20% maximum

4. Cumulative 1 Year Maturity GAP %, +/- 25 maximum

Fundamental objectives of the Company s asset/liability management process are to maintain adequate liquidity while minimizing interest rate risk. The maintenance of adequate liquidity provides the Company with the ability to meet its financial obligations to depositors, loan customers, and shareholders. Additionally, it provides funds for normal operating expenditures and business opportunities as they arise. The objective of interest rate sensitivity management is to increase net interest income by managing interest sensitive assets and liabilities in such a way that they can be repriced in response to changes in market interest rates.

The Bank, like other financial institutions, must have sufficient funds available to meet its liquidity needs for deposit withdrawals, loan commitments and originations, and expenses. In order to control cash flow, the Bank estimates future flows of cash from deposits, loan payments, and investment security payments. The primary sources of funds are deposits, principal and interest payments on loans and investment securities, FHLB borrowings, and brokered deposits. Management believes the Bank has adequate resources to meet its normal funding requirements.

Management monitors the Company s liquidity on both a long and short-term basis, thereby providing management necessary information to react to current balance sheet trends. Cash flow needs are assessed and sources of funds are determined. Funding strategies consider both customer needs and economical cost. Both short and long-term funding needs are addressed by maturities and sales of available for sale investment securities, loan repayments and maturities, and liquidating money market investments such as federal funds sold. The use of these resources, in conjunction with access to credit provides core ingredients to satisfy depositor, borrower, and creditor needs.

Management monitors and determines the desirable level of liquidity. Consideration is given to loan demand, investment opportunities, deposit pricing and growth potential, as well as the current cost of borrowing funds. The Company has a current borrowing capacity at the FHLB of $217,690,000. In addition to this credit arrangement, the Company has additional lines of credit with correspondent banks of $29,327,000. Management believes it has sufficient liquidity to satisfy estimated short-term and long-term funding needs. FHLB borrowings totaled $144,758,000 as of March 31, 2008.

Interest rate sensitivity, which is closely related to liquidity management, is a function of the repricing characteristics of the Company s portfolio of assets and liabilities. Asset/liability management strives to match maturities and rates between loan and investment security assets with the deposit liabilities and borrowings that fund them. Successful asset/liability management results in a balance sheet structure which can cope effectively with market rate fluctuations. The matching process is affected by segmenting both assets and liabilities into future time periods (usually 12 months, or less) based upon when repricing can be effected. Repriceable assets are subtracted from repriceable liabilities, for a specific time period to determine the gap , or difference. Once known, the gap is managed based on predictions about future market interest rates. Intentional mismatching, or gapping, can enhance net interest income if market rates move as predicted. However, if market rates behave in a manner contrary to predictions, net interest income will suffer. Gaps, therefore, contain an element of risk and must be prudently managed. In addition to gap management, the Company has an asset/liability management policy which incorporates a market value at risk calculation which is used to determine the effects of interest rate movements on shareholders equity and a simulation analysis to monitor the effects of interest rate changes on the Company s balance sheet.

There have been no substantial changes in the Company s gap analyses or simulation analyses compared to the information provided in the Company s Form 10-K for the year ended December 31, 2007.

Generally, management believes the Company is well positioned to respond in a timely manner when the market interest rate outlook changes.

Inflation

The asset and liability structure of a financial institution is primarily monetary in nature. Therefore, interest rates rather than inflation have a more significant impact on the Company s performance. Interest rates are not always affected in the same direction or magnitude as prices of other goods and services, but are reflective of fiscal policy initiatives or economic factors which are not measured by a price index.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk for the Company is comprised primarily of interest rate risk exposure and liquidity risk. Interest rate risk and liquidity risk management is performed at the Bank level as well as the Company level. The Company s interest rate sensitivity is monitored by management through selected interest rate risk measures produced by an independent third party. There have been no substantial changes in the Company s gap analyses or simulation analyses compared to the information provided in the Annual Report on Form 10-K for the period ended December 31, 2007. Additional information and details are provided in the Liquidity and Interest Rate Sensitivity section of Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Generally, management believes the Company is well positioned to respond in a timely manner when the market interest rate outlook changes.

Item 4. Controls and Procedures

An analysis was performed under the supervision and with the participation of the Company s management, including the Chief Executive Officer and the Principal Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures. Based on that evaluation, the Company s Chief Executive Officer and Principal Financial Officer concluded that the Company s disclosure controls and procedures were effective as of March 31, 2008. There were no changes in the Company s internal control over financial reporting that occurred during the quarter ended March 31, 2008, that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There are no material changes to the risk factors set forth in Part I, Item 1A, Risk Factors, of the Company s Annual Report on Form 10-K for the year ended December 31, 2007. Please refer to that section for disclosures regarding the risks and uncertainties related to the Company s business.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Units) Purchased	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Month#1 (January 1- January 31, 2008)				
Month#2 (February 1- February 29, 2008)				
Month#3 (March 1- March 31, 2008)	4,297	$ 30.97	4,297	121,773

On April 22, 2008, the Board of Directors extended the authorization to repurchase up to 197,000 shares, or approximately 5%, of the outstanding shares of the Company for an additional year to April 30, 2009. The repurchase plan was originally for a one year period expiring on April 25, 2007. To date, there have been 75,227 shares repurchased under this plan.

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits

(3) (i)	Articles of Incorporation of the Registrant, as presently in effect (incorporated by reference to Exhibit 3(i) of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2007).
(3) (ii)	Bylaws of the Registrant s as presently in effect (incorporated by reference to Exhibit 3(ii) of the Registrant s Current Report on Form 8-K filed June 17, 2005).
(31) (i)	Rule 13a-14(a)/Rule 15d-14(a) Certification of Chief Executive Officer.
(31) (ii)	Rule 13a-14(a)/Rule 15d-14(a) Certification of Principal Financial Officer.
(32) (i)	Certification of Chief Executive Officer Section 1350.
(32) (ii)	Certification of Principal Financial Officer Section 1350.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	PENNS WOODS BANCORP, INC. (Registrant)
Date: May 9, 2008	/s/ Ronald A. Walko Ronald A. Walko, President and Chief Executive Officer
Date: May 9, 2008	/s/ Brian L. Knepp Brian L. Knepp, Vice President of Finance (Principal Financial Officer)

EXHIBIT INDEX

Exhibit 31(i)	Rule 13a-14(a)/Rule 15d-14(a) Certification of Chief Executive Officer
Exhibit 31(ii)	Rule 13a-14(a)/Rule 15d-14(a) Certification of Principal Financial Officer
Exhibit 32(i)	Section 1350 Certification of Chief Executive Officer
Exhibit 32(ii)	Section 1350 Certification of Principal Financial Officer