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

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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:

	For The Three Months Ended					
	March 31, 2008		March 31, 2007		Change	
(In Thousands)	Amount	% Total	Amount	% Total	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:

	For The Three Months Ended					
	March 31, 2008		March 31, 2007		Change	
(In Thousands)	Amount	% Total	Amount	% Total	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					
	Three Months Ended March 31, 2008			**Three Months Ended March 31, 2007**		
(In Thousands)	**Average Balance**	**Interest**	**Average Rate**	**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						