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, 2009.

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	**23-2226454**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

300 Market Street, P.O. Box 967 Williamsport, Pennsylvania	**17703-0967**
(Address of principal executive offices)	(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES o 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 filer o	Small reporting company o

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, 2009 there were 3,832,572 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, 2009**	**December 31, 2008**
ASSETS		
Noninterest-bearing balances	$ 12,886	$ 16,563
Interest-bearing deposits in other financial institutions	23	18
Total cash and cash equivalents	12,909	16,581
Investment securities, available for sale, at fair value	201,651	208,251
Investment securities held to maturity (fair value of $111 and $136)	110	135
Loans held for sale	2,514	3,622
Loans	387,192	381,478
Less: Allowance for loan losses	4,441	4,356
Loans, net	382,751	377,122
Premises and equipment, net	7,733	7,865
Accrued interest receivable	3,370	3,614
Bank-owned life insurance	14,750	14,546
Investment in limited partnerships	5,286	4,727
Goodwill	3,032	3,032
Deferred tax asset	12,614	10,879
Other assets	2,892	2,429
TOTAL ASSETS	$ 649,612	$ 652,803
LIABILITIES		
Interest-bearing deposits	$ 376,844	$ 345,333
Noninterest-bearing deposits	71,963	76,035
Total deposits	448,807	421,368
Short-term borrowings	45,268	73,946
Long-term borrowings, Federal Home Loan Bank (FHLB)	86,778	86,778
Accrued interest payable	1,193	1,317
Other liabilities	8,982	8,367
TOTAL LIABILITIES	591,028	591,776
SHAREHOLDERS EQUITY		
Common stock, par value $8.33, 10,000,000 shares authorized; 4,011,251 and 4,010,528 shares issued	33,427	33,421
Additional paid-in capital	17,970	17,959
Retained earnings	27,254	28,177
Accumulated other comprehensive loss:		
Net unrealized loss on available for sale securities	(10,023)	(8,486)
Defined benefit plan	(3,780)	(3,780)
Less: Treasury stock at cost, 179,028 and 179,028 shares	(6,264)	(6,264)

TOTAL SHAREHOLDERS EQUITY		58,584		61,027
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	649,612	$	652,803

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, 2009**	**2008**
INTEREST AND DIVIDEND INCOME		
Loans including fees	$ 6,219	$ 6,380
Investment Securities:		
Taxable	1,363	1,190
Tax-exempt	1,246	1,226
Dividend and other interest income	89	252
TOTAL INTEREST AND DIVIDEND INCOME	8,917	9,048
INTEREST EXPENSE		
Deposits	2,005	2,541
Short-term borrowings	158	429
Long-term borrowings, FHLB	917	1,197
TOTAL INTEREST EXPENSE	3,080	4,167
NET INTEREST INCOME	5,837	4,881
PROVISION FOR LOAN LOSSES	126	60
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,711	4,821
NON-INTEREST INCOME		
Service charges	525	570
Securities (losses) gains, net	(2,369)	38
Bank-owned life insurance	162	155
Gain on sale of loans	118	152
Insurance commissions	354	580
Other	434	419
TOTAL NON-INTEREST INCOME	(776)	1,914
NON-INTEREST EXPENSE		
Salaries and employee benefits	2,482	2,451
Occupancy, net	339	338
Furniture and equipment	307	285
Pennsylvania shares tax	171	105
Amortization of investment in limited partnerships	142	178
Other	1,204	1,088
TOTAL NON-INTEREST EXPENSE	4,645	4,445
INCOME BEFORE INCOME TAX (BENEFIT) PROVISION	290	2,290
INCOME TAX (BENEFIT) PROVISION	(549)	159
NET INCOME	$ 839	$ 2,131
EARNINGS PER SHARE - BASIC	$ 0.22	$ 0.55
EARNINGS PER SHARE - DILUTED	$ 0.22	$ 0.55

WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC		3,831,747		3,874,741
WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED		3,831,747		3,874,931
DIVIDENDS PER SHARE	$	0.46	$	0.46

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 LOSS**	**TREASURY STOCK**	**TOTAL SHAREHOLDERS EQUITY**
Balance, December 31, 2008	4,010,528	$ 33,421	$ 17,959	$ 28,177	$ (12,266)	$ (6,264)	$ 61,027
Comprehensive loss:							
Net income				839			839
Other comprehensive loss					(1,537)		(1,537)
Dividends declared ($0.46 per share)				(1,762)			(1,762)
Common shares issued for employee stock purchase plan	723	6	11				17
Balance, March 31, 2009	4,011,251	$ 33,427	$ 17,970	$ 27,254	$ (13,803)	$ (6,264)	$ 58,584

(In Thousands, Except Per Share Data)	**COMMON STOCK SHARES**	**COMMON STOCK AMOUNT**	**ADDITIONAL PAID-IN CAPITAL**	**RETAINED EARNINGS**	**ACCUMULATED OTHER COMPREHENSIVE 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
Cumulative effect of change in accounting for postretirement benefits				(437)			(437)
Comprehensive income:							
Net income				2,131			2,131
Other comprehensive loss					(1,207)		(1,207)
Dividends declared, ($0.46 per share)				(1,781)			(1,781)
Common shares issued for employee stock purchase plan	718	6	16				22
Purchase of treasury stock (4,297 shares)						(133)	(133)
Balance, March 31, 2008	4,007,652	$ 33,397	$ 17,904	$ 27,620	$ (4,741)	$ (5,026)	$ 69,154

PENNS WOODS BANCORP, INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(UNAUDITED)

(In Thousands)	**Three Months Ended March 31, 2009**		**2008**	
Net Income		$ 839		$ 2,131
Other comprehensive loss:				
Change in net unrealized losses on available for sale securities	(4,697)		(1,791)	
Less: Reclassification adjustment for net (losses) gains included in net income	(2,369)		38	
Other comprehensive loss before tax benefit		(2,328)		(1,829)
Income tax benefit related to other comprehensive loss		(791)		(622)
Other comprehensive loss, net of tax		(1,537)		(1,207)

Comprehensive (loss) income	$	(698)	$	924

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, **2009**	**2008**
OPERATING ACTIVITIES		
Net Income	$ 839	$ 2,131
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	181	157
Provision for loan losses	126	60
Accretion and amortization of investment security discounts and premiums	(23)	(284)
Securities losses (gains), net	2,369	(38)
Originations of loans held for sale	(3,797)	(6,400)
Proceeds of loans held for sale	5,023	7,512
Gain on sale of loans	(118)	(152)
Increases in bank-owned life insurance	(162)	(155)
Other, net	(398)	(702)
Net cash provided by operating activities	4,040	2,129
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from sales	17	17,737
Proceeds from calls and maturities	2,178	1,887
Purchases	(100)	(23,912)
Investment securities held to maturity:		
Proceeds from calls and maturities	25	
Net (increase) decrease in loans	(5,886)	2,833
Acquisition of bank premises and equipment	(49)	(764)
Proceeds from the sale of foreclosed assets		11
Purchase of bank-owned life insurance	(42)	(679)
Investment in limited partnership	(701)	
Proceeds from redemption of regulatory stock		1,161
Purchases of regulatory stock	(170)	(1,446)
Net cash used for investing activities	(4,728)	(3,172)
FINANCING ACTIVITIES		
Net increase in interest-bearing deposits	31,511	10,112
Net decrease in noninterest-bearing deposits	(4,072)	(3,009)
Repayment of long-term borrowings, FHLB		(9,600)
Net (decrease) increase in short-term borrowings	(28,678)	6,451
Dividends paid	(1,762)	(1,781)
Issuance of common stock	17	22
Purchase of treasury stock		(133)
Net cash (used for) provided by financing activities	(2,984)	2,062
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,672)	1,019
CASH AND CASH EQUIVALENTS, BEGINNING	16,581	15,433
CASH AND CASH EQUIVALENTS, ENDING	$ 12,909	$ 16,452
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$ 3,204	$ 4,285
Income taxes paid	150	150

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, 2008.

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 38 through 44 of the Annual Report on Form 10-K for the year ended December 31, 2008.

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 April 2009, the FASB issued FASB Staff Position (FSP) No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (FAS 141(R)-1). This FSP requires companies acquiring contingent assets or assuming contingent liabilities in business combination to either (a) if the assets or liabilities fair value can be determined, recognize them at fair value, at the acquisition date, or (b) if the assets or liabilities fair value cannot be determined, but (i) it is probable that an asset existed or that a liability had been incurred at the acquisition date and (ii) the amount of the asset or liability can be reasonably estimated, recognize them at their estimated amount, at the acquisition date. If the fair value of these contingencies cannot be determined and they are not probable or cannot be reasonably estimated, then companies should not recognize these contingencies as of the acquisition date and instead should account for them in subsequent periods by following other applicable GAAP. This FSP also eliminates the FAS 141(R)-1 requirement of disclosing in the footnotes to the financial statements the range of expected outcomes for a recognized contingency. This FSP shall be effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of this FSP has

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not and is not expected to have a material effect on the Company s results of operations or financial position.

In April 2009, the FASB issued FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FAS 157-4). This FSP relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. FAS 157-4 is effective for interim and annual periods ending after June 15, 2009, but entities may early adopt this FSP for the interim and annual periods ending after March 15, 2009. The adoption of this FSP is not expected to have a material effect on the Company s results of operations or financial position.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FAS 107-1 and APB 28-1), which relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. Prior to issuing this FSP, fair values for these assets and liabilities were only disclosed once a year. The FSP now requires these disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. FAS 107-1 and APB 28-1 is effective for interim and annual periods ending after June 15, 2009, but entities may early adopt this FSP for the interim and annual periods ending after March 15, 2009. The adoption of this FSP is not expected to have a material effect on the Company s results of operations or financial position.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FAS 115-2 and FAS 124-2), which provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. FAS 115-2 and FAS 124-2 is effective for interim and annual periods ending after June 15, 2009, but entities may early adopt this FSP for the interim and annual periods ending after March 15, 2009. The adoption of this FSP is not expected to have a material effect on the Company s results of operations or financial position.

Note 3. Per Share Data

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

	Three Months Ended March 31, 2009	2008
Weighted average common shares issued	4,010,775	4,007,176
Average treasury stock shares	(179,028)	(132,435)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	3,831,747	3,874,741
Additional common stock equivalents (stock options) used to calculate diluted earnings per share		190
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	3,831,747	3,874,931

Options to purchase 1,980 shares of common stock were outstanding during the three months ended March 31, 2009 but were not included in the computation of diluted earnings per share as they were anti-dilutive due to the strike prices range of $24.72 to $31.82 being greater than the average market price of $24.62 for the three months ended March 31, 2009. Options to purchase 8,273 shares of common stock were outstanding during the three months ended March 31, 2008 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 average market price for the three months ended March 31, 2008.

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, 2008.

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, 2009 and 2008, respectively:

(In Thousands)	Three Months Ended March 31, 2009	2008
Service cost	$ 136	$ 137
Interest cost	170	152
Expected return on plan assets	(127)	(157)
Amortization of transition obligation	(1)	(1)
Amortization of prior service cost	6	6
Amortization of net loss	85	14
Net periodic cost	$ 269	$ 151

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, 2008, that it expected to contribute a minimum of $325,000 to its defined benefit plan in 2009. As of March 31, 2009, 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.

Financial instruments whose contract amounts represent credit risk are as follows at March 31, 2009 and December 31, 2008:

(In Thousands)	March 31, 2009	December 31, 2008
Commitments to extend credit	$ 84,833	$ 85,871
Standby letters of credit	883	841

Commitments to extend credit are legally binding agreements to lend to customers. Commitments generally have fixed expiration dates or other termination clauses and may require payment of fees. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future liquidity requirements. The Company evaluates each customer s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, on an extension of credit is based on management s credit assessment of the counterparty.

Standby letters of credit represent conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These instruments are issued primarily to support bid or performance related contracts. The coverage period for these instruments is typically a one year period with an annual renewal option subject to prior approval by management. Fees earned from the issuance of these letters are recognized upon expiration of the coverage period. For secured letters of credit, the collateral is typically Bank deposit instruments or customer business assets.

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

Effective April 26, 2006, the Company implemented the Penns Woods Bancorp, Inc. 2006 Employee Stock Purchase Plan (Plan). The Plan 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, 2009 and 2008, there were 723 and 718 shares issued under the plan, respectively.

Note 8. Fair Value Measurements

Effective January 1, 2008, the Company adopted the provisions of FAS No. 157, *Fair Value Measurements* (FAS 157), for financial assets and financial liabilities. FAS 157 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. The FASB issued Staff Position No. 157-1, *Application of FASB Statement No. 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 13 and related guidance from the scope of FAS No. 157. The FASB also issued Staff Position No. 157-2, *Partial Deferral of the Effective Date of Statement 157*, which deferred the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008.

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 reported on the balance sheet at their fair value on a recurring basis as of March 31, 2009 and December 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, 2009			
(In Thousands)	**Level I**	**Level II**	**Level III**	**Total**
Assets Measured on a Recurring Basis:				
Investment Securities, available-for-sale	$ 11,339	$ 190,312	$	$ 201,651

	December 31, 2008			
(In Thousands)	**Level I**	**Level II**	**Level III**	**Total**
Assets Measured on a Recurring Basis:				
Investment Securities, available-for-sale	$ 13,269	$ 194,982	$	$ 208,251

The following table presents the assets reported on the balance sheet at their fair value on a non-recurring basis as of March 31, 2009 and December 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, 2009			
(In Thousands)	**Level I**	**Level II**	**Level III**	**Total**
Assets Measured on a Non-recurring Basis:				
Impaired Loans	$	$ 6,001	$	$ 6,001

	December 31, 2008			
(In Thousands)	**Level I**	**Level II**	**Level III**	**Total**
Assets Measured on a Non-recurring Basis:				
Impaired Loans	$	$ 4,876	$	$ 4,876

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.

You should not put undue reliance on any forward-looking statements. These statements speak only as of the date of this Quarterly Report on Form 10-Q, even if subsequently made available by the Company on its website or otherwise. The Company undertakes no obligation to update or revise these statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q.

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

EARNINGS SUMMARY

Comparison of the Three Months Ended March 31, 2009 and 2008

Summary Results

Net income for the three months ended March 31, 2009 was $839,000 compared to $2,131,000 for the same period of 2008 as after-tax securities losses increased $1,589,000 (from a gain of $25,000 to a loss of $1,564,000). Included within the change in after-tax securities losses was an other than temporary impairment charge relating to certain equity securities held in the investment portfolio of $2,333,000. Basic and diluted earnings per share for the three months ended March 31, 2009 were $0.22 compared to $0.55 for the three months ended March 31, 2008. Return on average assets and return on average equity were 0.52% and 5.64% for the three months ended March 31, 2009 compared to 1.36% and 12.01% for the corresponding period of 2008. Net income from core operations (operating earnings) increased 14.1% to $2,403,000 for the three months ended March 31, 2009 compared to $2,106,000 for the same period of 2008. Operating earnings per share for the three months ended March 31, 2009 increased 16.7% to $0.63 basic and dilutive compared to $0.54 basic and dilutive for the three months ended March 31, 2008.

(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 excluding 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 or losses. 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, 2009 decreased $131,000 to $8,917,000 compared to $9,048,000 for the same period of 2008. The decrease in interest income was the result of a decline in loan interest of $161,000 offset by an increase in investment securities income of $30,000. The decline in loan interest is the result of the low interest rate environment that has existed over the past year. This has caused the interest rate of new loans to be at a lower rate, resulting in a 56 basis point (bp) decline in loan portfolio yield. Dividend income decreased as a direct result of the current status of the economy that has caused many of the equity holdings in our portfolio to decrease their dividend. In addition, the Federal

Home Loan Bank of Pittsburgh (FHLB) has suspended payment of dividends on shares of its common stock, which has resulted in a decrease of approximately $75,000 in dividend income. Offsetting the decreased dividend income was an increase in taxable investment securities income of $173,000. On a taxable equivalent basis, the decline in total interest income was limited to $73,000. Average loan portfolio growth of $27,202,000 limited the impact of the decline in loan portfolio yield. In addition, the investment portfolio yield increased 43 bp resulting in increased taxable equivalent income of $41,000.

Interest and dividend income composition for the three months ended March 31, 2009 and 2008 was as follows:

	For The Three Months Ended								
	March 31, 2009			March 31, 2008			Change		
(In Thousands)		**Amount**	**% Total**		**Amount**	**% Total**		**Amount**	**%**
Loans including fees	$	6,219	69.7%	$	6,380	70.5%	$	(161)	(2.5)%
Investment securities:									
Taxable		1,363	15.3		1,190	13.2		173	14.5
Tax-exempt		1,246	14.0		1,226	13.5		20	1.6
Dividend and other interest income		89	1.0		252	2.8		(163)	(64.7)
Total interest and dividend income	$	8,917	100.0%	$	9,048	100.0%	$	(131)	(1.4)%

Interest Expense

Interest expense for the three months ended March 31, 2009 decreased $1,087,000 to $3,080,000 compared to $4,167,000 for the same period of 2008. The decreased expense of $536,000 associated with deposits is primarily the result of a reduction of 138 bp in rate paid on time deposits. Factors that led to the rate decreases include, but are not limited to, Federal Open Market Committee (FOMC) interest rate actions and campaigns conducted by the Company during the past two years to attract 12 month or shorter maturity CDs resulting in an increased repricing frequency. Short-term borrowings interest expense decreased $271,000 as the increase in average balance of $10,374,000 was countered by a decrease in the rate paid of 231 bp due to the FOMC rate actions and overall decline in the treasury security market. Long-term borrowing interest expense decreased $280,000 as the average balance of such borrowings decreased $18,756,000, while the average rate decreased 26 bp to 4.23%. The change in average balance and rate is reflective of $29,600,000 in long-term borrowing maturities during the first half of 2008 at an average rate of 4.77% offset by the acquisition of $10,000,000 in long-term borrowings at a rate of 3.18% during the third quarter of 2008.

Interest expense composition for the three months ended March 31, 2009 and 2008 was as follows:

	For The Three Months Ended					
	March 31, 2009		March 31, 2008		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Deposits	$ 2,005	65.1%	$ 2,541	61.0%	$ (536)	(21.1)%
Short-term borrowings	158	5.1	429	10.3	(271)	(63.2)
Long-term borrowings, FHLB	917	29.8	1,197	28.7	(280)	(23.4)
Total interest expense	$ 3,080	100.0%	$ 4,167	100.0%	$ (1,087)	(26.1)%

Net Interest Margin

The net interest margin (NIM) for the three months ended March 31, 2009 was 4.47% compared to 3.87% for the corresponding period of 2008. The increase in the NIM was driven by a 105 bp decline in the rate paid on interest bearing liabilities that more than compensated for a 19 bp decline in the yield on earning assets. The decrease in earning asset yield is due to the impact on the loan portfolio of the current low rate environment offset in part by an increase in yield for the investment portfolio. The increase in the investment portfolio yield was driven by a strategic initiative to increase tax equivalent net interest income by purchasing tax-exempt and taxable municipal bonds in anticipation of the decreasing rate environment that has continued to date. The decrease in the cost of interest bearing liabilities to 2.45% from 3.50% was driven primarily by a reduction in the rate paid on time deposits of 138 bp and total borrowings of 121 bp. The reduction in the rate paid on time deposits was the result of a shortening of the time deposit portfolio that has resulted in an increasing repricing frequency during this period of decreasing rates.

The following is a schedule of average balances and associated yields for the three months ended March 31, 2009 and 2008:

AVERAGE BALANCES AND INTEREST RATES

(In Thousands)	Three Months Ended March 31, 2009 Average Balance	Interest	Average Rate	Three Months Ended March 31, 2008 Average Balance	Interest	Average Rate
Assets:						
Tax-exempt loans	$ 16,052	$ 265	6.70%	$ 8,013	$ 126	6.32%
All other loans	373,878	6,044	6.56%	354,715	6,297	7.14%
Total loans	389,930	6,309	6.56%	362,728	6,423	7.12%
Taxable investment securities	101,890	1,452	5.70%	100,730	1,442	5.73%
Tax-exempt investment securities	101,654	1,888	7.43%	114,590	1,857	6.48%
Total securities	203,544	3,340	6.56%	215,320	3,299	6.13%
Interest bearing deposits	23		0.00%	38		0.00%
Total interest-earning assets	593,497	9,649	6.56%	578,086	9,722	6.75%
Other assets	55,256			48,692		
Total assets	$ 648,753			$ 626,778		
Liabilities:						
Savings	$ 59,642	78	0.53%	$ 58,561	109	0.75%
Super Now deposits	53,890	129	0.97%	46,367	155	1.34%
Money market deposits	41,276	212	2.08%	23,324	127	2.18%
Time deposits	205,110	1,586	3.14%	190,927	2,150	4.52%
Total deposits	359,918	2,005	2.26%	319,179	2,541	3.20%
Short-term borrowings	61,487	158	1.03%	51,113	429	3.34%
Long-term borrowings, FHLB	86,778	917	4.23%	105,534	1,197	4.49%
Total borrowings	148,265	1,075	2.90%	156,647	1,626	4.11%
Total interest-bearing liabilities	508,183	3,080	2.45%	475,826	4,167	3.50%
Demand deposits	71,321			70,243		
Other liabilities	9,760			9,726		
Shareholders equity	59,489			70,983		
Total liabilities and shareholders equity	$ 648,753			$ 626,778		
Interest rate spread			4.12%			3.25%
Net interest income/margin		$ 6,569	4.47%		$ 5,555	3.87%

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.

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The following table presents the adjustment to convert net interest income to net interest income on a fully taxable equivalent basis for the three months ended March 31, 2009 and 2008.

	For the Three Months Ended March 31,			
(In Thousands)	**2009**		**2008**	
Total interest income	$	8,917	$	9,048
Total interest expense		3,080		4,167
Net interest income		5,837		4,881
Tax equivalent adjustment		732		674
Net interest income (fully taxable equivalent)	$	6,569	$	5,555

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, 2009 and 2008:

	Three Months Ended March 31, 2009 vs 2008		
	Increase (Decrease)		
		Due to	
(In Thousands)	Volume	Rate	Net
Interest income:			
Loans, tax-exempt	$ 131	$ 8	$ 139
Loans	453	(706)	(253)
Taxable investment securities	17	(7)	10
Tax-exempt investment securities	(223)	254	31
Interest bearing deposits			
Total interest-earning assets	378	(451)	(73)
Interest expense:			
Savings deposits	2	(33)	(31)
Super Now deposits	33	(59)	(26)
Money market deposits	90	(5)	85
Time deposits	178	(742)	(564)
Short-term borrowings	106	(377)	(271)
Long-term borrowings, FHLB	(211)	(69)	(280)
Total interest-bearing liabilities	198	(1,285)	(1,087)
Change in net interest income	$ 180	$ 834	$ 1,014

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, 2009, 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, increased unemployment, 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 $4,356,000 at December 31, 2008 to $4,441,000 at March 31, 2009. At March 31, 2009 and December 31, 2008, the allowance for loan losses to total loans was 1.15% and 1.14%, respectively.

The provision for loan losses totaled $126,000 for the three months ended March 31, 2009, compared to $60,000 for the same period in 2008. The amount of the increase in the provision was the result of several factors, including but not limited to, an increase in gross loans of $5,714,000 since December 31, 2008, a ratio of annualized net charge offs to average loans of 0.04% for the three months ended March 31, 2009, a ratio of nonperforming loans to total loans of 0.59%, and a ratio of the allowance for loan losses to nonperforming loans of 195.72% at March 31, 2009.

Non-interest Income

Total non-interest income for the three months ended March 31, 2009 compared to the same period in 2008 decreased $2,690,000 to $(776,000) due to a $2,407,000 decrease in net securities gains and losses realized when comparing the three month periods ended March 31, 2009 and 2008. Excluding net securities gains and losses, non-interest income for the first quarter of 2009 would have decreased $283,000 as compared to the 2008 period. Deposit service charges decreased $45,000 as overdraft fee income declined $33,000 in addition to customers migrating to no service charge checking accounts that were introduced as part of a customer acquisition and retention program. Gain on sale of loans decreased $34,000 due primarily from a change in product mix which has resulted in a greater percentage of the fee collected being categorized as other income. Other income increased due to increased revenue from electronic card (debit/credit) usage and fees from the sale of loans into the secondary market, which countered losses realized from the sale of other real estate owned.

Insurance commissions for the three months ended March 31, 2009 decreased $226,000 compared to the same period in 2008 due to a softening market and 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 if another sales outlet is added. 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, 2009 and 2008 was as follows:

	For The Three Months Ended					
	March 31, 2009		March 31, 2008		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Deposit service charges	$ 525	(67.7)%	$ 570	29.8%	$ (45)	(7.9)%
Securities (losses) gains, net	(2,369)	305.3	38	2.0	(2,407)	(6,334.2)
Bank owned life insurance	162	(20.9)	155	8.1	7	4.5
Gain on sale of loans	118	(15.2)	152	7.9	(34)	(22.4)
Insurance commissions	354	(45.6)	580	30.3	(226)	(39.0)
Other	434	(55.9)	419	21.9	15	3.6
Total non-interest income	$ (776)	100.0%	$ 1,914	100.0%		