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 June 30, 2011.

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 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 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 August 2, 2011 there were 3,836,245 shares of the Registrant s common stock outstanding.

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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)		June 30, 2011		December 31, 2010
ASSETS:				
Noninterest-bearing balances	$	9,765	$	9,467
Interest-bearing deposits in other financial institutions		20,904		26
Total cash and cash equivalents		30,669		9,493
Investment securities, available for sale, at fair value		245,863		215,565
Investment securities, held to maturity, (fair value of $54 and $83)		54		83
Loans held for sale		6,393		6,658
Loans		419,161		415,557
Less: Allowance for loan losses		5,764		6,035
Loans, net		413,397		409,522
Premises and equipment, net		7,520		7,658
Accrued interest receivable		3,803		3,765
Bank-owned life insurance		15,776		15,436
Investment in limited partnerships		3,875		4,205
Goodwill		3,032		3,032
Deferred tax asset		9,638		11,897
Other assets		4,966		4,374
TOTAL ASSETS	$	744,986	$	691,688
LIABILITIES:				
Interest-bearing deposits	$	469,729	$	428,161
Noninterest-bearing deposits		100,104		89,347
Total deposits		569,833		517,508
Short-term borrowings		17,007		27,299
Long-term borrowings, Federal Home Loan Bank (FHLB)		71,778		71,778
Accrued interest payable		676		750
Other liabilities		11,786		7,733
TOTAL LIABILITIES		671,080		625,068
SHAREHOLDERS EQUITY				
Common stock, par value $8.33, 10,000,000 shares authorized; 4,016,686 and 4,015,753 shares issued		33,472		33,464
Additional paid-in capital		18,090		18,064
Retained earnings		33,379		31,091

Accumulated other comprehensive loss:				
Net unrealized loss on available for sale securities		(2,312)		(7,276)
Defined benefit plan		(2,413)		(2,413)
Less: Treasury stock at cost, 180,596 shares		(6,310)		(6,310)
TOTAL SHAREHOLDERS EQUITY		73,906		66,620
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	744,986	$	691,688

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC.

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

(In Thousands, Except Per Share Data)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
INTEREST AND DIVIDEND INCOME:				
Loans, including fees	$ 6,144	$ 6,398	$ 12,432	$ 12,728
Investment securities:				
Taxable	1,411	1,405	2,786	2,754
Tax-exempt	1,272	1,270	2,539	2,528
Dividend and other interest income	57	51	109	103
TOTAL INTEREST AND DIVIDEND INCOME	8,884	9,124	17,866	18,113
INTEREST EXPENSE:				
Deposits	1,182	1,551	2,376	3,261
Short-term borrowings	42	56	99	120
Long-term borrowings, FHLB	742	927	1,476	1,844
TOTAL INTEREST EXPENSE	1,966	2,534	3,951	5,225
NET INTEREST INCOME	6,918	6,590	13,915	12,888
PROVISION FOR LOAN LOSSES	600	400	1,200	700
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,318	6,190	12,715	12,188
NON-INTEREST INCOME:				
Service charges	527	537	1,030	1,047
Securities gains, net	9	56	134	53
Earnings on bank-owned life insurance	139	128	313	299
Gain on sale of loans	242	330	491	512
Insurance commissions	180	273	389	537
Other	776	684	1,461	1,256
TOTAL NON-INTEREST INCOME	1,873	2,008	3,818	3,704
NON-INTEREST EXPENSE:				
Salaries and employee benefits	2,475	2,615	5,107	5,352
Occupancy, net	301	313	649	644
Furniture and equipment	349	322	657	626
Pennsylvania shares tax	172	169	344	338
Amortization of investment in limited partnerships	165	141	331	283
Other	1,394	1,430	2,756	2,733
TOTAL NON-INTEREST EXPENSE	4,856	4,990	9,844	9,976
INCOME BEFORE INCOME TAX PROVISION	3,335	3,208	6,689	5,916
INCOME TAX PROVISION	371	436	872	696
NET INCOME	$ 2,964	$ 2,772	$ 5,817	$ 5,220

NET INCOME PER SHARE - BASIC	$ 0.78	$ 0.72	$ 1.52	$ 1.36
NET INCOME PER SHARE - DILUTED	$ 0.78	$ 0.72	$ 1.52	$ 1.36
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	3,835,785	3,834,164	3,835,542	3,834,230
WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED	3,835,785	3,834,291	3,835,542	3,834,370
DIVIDENDS PER SHARE	$ 0.46	$ 0.46	$ 0.92	$ 0.92

See accompanying notes to the unaudited consolidated financial statements.

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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, 2009	4,013,142	$ 33,443	$ 18,008	$ 27,218	$ (5,489)	$ (6,264)	$ 66,916
Comprehensive income:							
Net income				5,220			5,220
Other comprehensive income					2,008		2,008
Dividends declared, ($0.92 per share)				(3,528)			(3,528)
Common shares issued for employee stock purchase plan	1,130	9	24				33
Purchase of treasury stock (1,568 shares)						(46)	(46)
Balance, June 30, 2010	4,014,272	$ 33,452	$ 18,032	$ 28,910	$ (3,481)	$ (6,310)	$ 70,603

(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, 2010	4,015,753	$ 33,464	$ 18,064	$ 31,091	$ (9,689)	$ (6,310)	$ 66,620
Comprehensive income:							
Net income				5,817			5,817
Other comprehensive income					4,964		4,964
Dividends declared, ($0.92 per share)				(3,529)			(3,529)
Common shares issued for employee stock purchase plan	933	8	26				34
Balance, June 30, 2011	4,016,686	$ 33,472	$ 18,090	$ 33,379	$ (4,725)	$ (6,310)	$ 73,906

See accompanying notes to the unaudited consolidated financial statements.

PENNS WOODS BANCORP, INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(UNAUDITED)

(In Thousands)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net Income	$ 2,964	$ 2,772	$ 5,817	$ 5,220
Other comprehensive income:				
5,604	2,557	7,655	3,095	

Change in unrealized gain on available for sale securities								
Net realized gain included in net income	9		56		134		53	
Other comprehensive income before tax expense	5,595		2,501		7,521		3,042	
Income tax expense related to other comprehensive income	1,902		850		2,557		1,034	
Other comprehensive income, net of tax		3,693		1,651		4,964		2,008
Comprehensive income		$ 6,657		$ 4,423		$ 10,781		$ 7,228

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

(In Thousands)	Six Months Ended June 30, 2011	2010
OPERATING ACTIVITIES:		
Net Income	$ 5,817	$ 5,220
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	353	385
Provision for loan losses	1,200	700
Accretion and amortization of investment security discounts and premiums	(908)	(1,088)
Securities gains, net	(134)	(53)
Originations of loans held for sale	(20,432)	(22,939)
Proceeds of loans held for sale	21,188	21,930
Gain on sale of loans	(491)	(512)
Earnings on bank-owned life insurance	(313)	(299)
Decrease in prepaid federal deposit insurance	337	346
Other, net	(803)	319
Net cash provided by operating activities	5,814	4,009
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from sales	2,877	430
Proceeds from calls and maturities	4,339	10,573
Purchases	(25,573)	(22,486)
Investment securities held to maturity:		
Proceeds from sales	4	
Proceeds from calls and maturities	25	26
Net increase in loans	(5,663)	(6,773)
Acquisition of bank premises and equipment	(215)	(363)
Proceeds from the sale of foreclosed assets	388	79
Purchase of bank-owned life insurance	(32)	(32)
Proceeds from bank-owned life insurance death benefit		82
Proceeds from redemption of regulatory stock	674	
Net cash used for investing activities	(23,176)	(18,464)
FINANCING ACTIVITIES		
Net increase in interest-bearing deposits	41,568	24,614
Net increase in noninterest-bearing deposits	10,757	8,080
Net decrease in short-term borrowings	(10,292)	(4,145)
Dividends paid	(3,529)	(3,528)
Issuance of common stock	34	33
Purchase of treasury stock		(46)
Net cash provided by financing activities	38,538	25,008
NET INCREASE IN CASH AND CASH EQUIVALENTS	21,176	10,553
CASH AND CASH EQUIVALENTS, BEGINNING	9,493	13,788
CASH AND CASH EQUIVALENTS, ENDING	$ 30,669	$ 24,341
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$ 4,025	$ 5,398

Income taxes paid	1,790	1,600
Transfer of loans to foreclosed real estate	588	32

See accompanying notes to the unaudited consolidated financial statements.

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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 the financial statements and notes thereto contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

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 39 through 46 of the Annual Report on Form 10-K for the year ended December 31, 2010.

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 October, 2010, the FASB issued ASU 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*. This ASU addresses the diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. The amendments are effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2011 and are not expected to have a significant impact on the Company s financial statements.

In December, 2010, the FASB issued ASU 2010-28, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*. This ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments in this update are effective for fiscal year, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities may early adopt the amendments using the effective date for public entities. This ASU did not have a significant impact on the Company s financial statements.

In January 2011, the FASB issued ASU 2011-01, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20*. The amendments in this update temporarily delay the effective date of the disclosures about troubled debt restructurings in update

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2010-20, enabling public-entity creditors to provide those disclosures after the FASB clarifies the guidance for determining what constitutes a troubled debt restructuring. The deferral in this update will result in more consistent disclosures about troubled debt restructurings. This amendment does not defer the effective date of the other disclosure requirements in Update 2010-20. In the proposed update for determining what constitutes a troubled debt restructuring, the FASB proposed that the clarifications would be effective for interim and annual periods ending after June 15, 2011. For the new disclosures about troubled debt restructurings in Update 2010-20, those clarifications would be applied retrospectively to the beginning of the fiscal year in which the proposal is adopted. This ASU is not expected to have a significant impact on the Company s financial statements.

In April 2011, the FASB issued ASU 2011-02, *Receivables (Topic 310): A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. The amendments in this update provide additional guidance or clarification to help creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. The amendments in this update are effective for the first interim or annual reporting period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning annual period of adoption. As a result of applying these amendments, an entity may identify receivables that are newly considered impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. This ASU is not expected to have a significant impact on the Company s financial statements.

In April 2011, the FASB issued ASU 2011-03, *Reconsideration of Effective Control for Repurchase Agreements*. The main objective in developing this update is to improve the accounting for repurchase agreements (repos) and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments in this update remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. The amendments in this update apply to all entities, both public and nonpublic. The amendments affect all entities that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity. The guidance in this update is effective for the first interim or annual period beginning on or after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. This ASU is not expected to have a significant impact on the Company s financial statements.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in this update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments in this update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The Company is currently evaluating the impact the adoption of the standard will have on the Company s financial statements.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*. The amendments in this update improve the comparability, clarity, consistency, and transparency of financial reporting and increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and IFRS, the

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option to present components of other comprehensive income as part of the statement of changes in stockholders equity was eliminated. The amendments require that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. All entities that report items of comprehensive income, in any period presented, will be affected by the changes in this update. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The amendments in this update should be applied retrospectively, and early adoption is permitted. The Company is currently evaluating the impact the adoption of the standard will have on the Company s financial statements.

Note 3. Per Share Data

There are no convertible securities which would affect the denominator in calculating basic and dilutive earnings per share. 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 earnings per share computation.

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2011	**2010**	**2011**	**2010**
Weighted average common shares issued	4,016,381	4,013,892	4,016,138	4,013,610
Average treasury stock shares	(180,596)	(179,728)	(180,596)	(179,380)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	3,835,785	3,834,164	3,835,542	3,834,230
Additional common stock equivalents (stock options) used to calculate diluted earnings per share		127		140
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	3,835,785	3,834,291	3,835,542	3,834,370

Options to purchase 990 shares of common stock at a strike price of $24.72 were outstanding during the six months ended June 30, 2010 and were included in the computation of diluted earnings per share. The average market price of the Company s stock was $31.46 for the six months ended June 30, 2010. There were no options outstanding during the six months ended June 30, 2011.

Note 4. Investment Securities

The amortized cost and fair values of investment securities at June 30, 2011 and December 31, 2010 are as follows:

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	June 30, 2011							
(In Thousands)		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
Available for sale (AFS)								
U.S. Government and agency securities	$	28,889	$	1,994	$	(8)	$	30,875
State and political securities		177,132		1,813		(9,018)		169,927
Other debt securities		30,914		404		(156)		31,162
Total debt securities		236,935		4,211		(9,182)		231,964
Financial institution securities		10,886		1,674		(174)		12,386
Other equity securities		1,545		17		(49)		1,513
Total equity securities		12,431		1,691		(223)		13,899
Total investment securities AFS	$	249,366	$	5,902	$	(9,405)	$	245,863
Held to maturity (HTM)								
U.S. Government and agency securities	$		$		$		$	
Other debt securities		54						54
Total investment securities HTM	$	54	$		$		$	54

	December 31, 2010							
(In Thousands)		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
Available for sale (AFS)								
U.S. Government and agency securities	$	24,759	$	1,854	$		$	26,613
State and political securities		169,844		282		(15,339)		154,787
Other debt securities		20,141		503		(36)		20,608
Total debt securities		214,744		2,639		(15,375)		202,008
Financial institution securities		11,549		1,686		(44)		13,191
Other equity securities		296		70				366
Total equity securities		11,845		1,756		(44)		13,557
Total investment securities AFS	$	226,589	$	4,395	$	(15,419)	$	215,565
Held to maturity (HTM)								
U.S. Government and agency securities	$	5	$		$		$	5
Other debt securities		78						78
Total investment securities HTM	$	83	$		$		$	83

The following tables show the Company s gross unrealized losses and fair value, aggregated by investment category and length of time, that the individual securities have been in a continuous unrealized loss position, at June 30, 2011 and December 31, 2010.

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	June 30, 2011					
	Less than Twelve Months		Twelve Months or Greater		Total	
(In Thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government and agency securities	$ 992	$ 8	$	$	$ 992	$ 8
State and political securities	43,845	1,460	35,893	7,558	79,738	9,018
Other debt securities	10,487	155	49	1	10,536	156
Total debt securities	55,324	1,623	35,942	7,559	91,266	9,182
Financial institution securities	1,335	110	167	64	1,502	174
Other equity securities	346	49			346	49
Total equity securities	1,681	159	167	64	1,848	223
Total	$ 57,005	$ 1,782	$ 36,109	$ 7,623	$ 93,114	$ 9,405

	December 31, 2010					
	Less than Twelve Months		Twelve Months or Greater		Total	
(In Thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government and agency securities	$	$	$	$	$	$
State and political securities	105,826	5,883	32,847	9,456	138,673	15,339
Other debt securities	2,501	19	282	17	2,783	36
Total debt securities	108,327	5,902	33,129	9,473	141,456	15,375
Financial institution securities	859	41	59	3	918	44
Other equity securities						
Total equity securities	859	41	59	3	918	44
Total	$ 109,186	$ 5,943	$ 33,188	$ 9,476	$ 142,374	$ 15,419

At June 30, 2011 there were a total of 92 and 77 individual securities that were in a continuous unrealized loss position for less than twelve months and greater than twelve months, respectively.

The Company reviews its position quarterly and has determined that, at June 30, 2011, the declines outlined in the above table represent temporary declines and the Company does not intend to sell and does not believe it will be required to sell these securities before recovery of their cost basis, which may be at maturity. There were 169 positions that were temporarily impaired at June 30, 2011. The Company has concluded that the unrealized losses disclosed above are not other than temporary but are the result of interest rate changes, sector credit ratings changes, or company-specific ratings changes that are not expected to result in the non-collection of principal and interest during the period.

The amortized cost and fair value of debt securities at June 30, 2011, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities since borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
(In Thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 9,014	$ 9,298	$ 54	$ 54

Due after one year to five years	22,695	22,750		
Due after five years to ten years	10,228	9,955		
Due after ten years	194,998	189,961		
Total	$ 236,935	$ 231,964	$ 54	$ 54

Total gross proceeds from sales of securities available for sale were $2,877,000 and $430,000, for the six months ended June 30, 2011 and 2010, respectively. The following table represents gross realized gains and losses on those transactions:

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(In Thousands)	Six Months Ended June 30, 2011		2010	
Gross realized gains:				
U.S. Government and agency securities	$	4	$	
State and political securities		5		
Other debt securities		8		6
Financial institutions securities				56
Other equity securities		131		
Total gross realized gains	$	148	$	62
Gross realized losses:				
U.S. Government and agency securities	$		$	
State and political securities				
Other debt securities		14		9
Financial institutions securities				
Other equity securities				
Total gross realized losses	$	14	$	9

There were no impairment charges included in gross realized losses for the six months ended June 30, 2011 and 2010, respectively.

Note 5. Federal Home Loan Bank Stock

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (the FHLB), which is one of 12 regional Federal Home Loan Banks. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from funds deposited by member institutions and proceeds from the sale of consolidated obligations of the Federal Home Loan Bank System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of directors of the Federal Home Loan Bank. As a member, the Bank is required to purchase and maintain stock in the FHLB in an amount equal to the sum of 0.35% of the membership asset value at December 31, 2010, 4.60% of advances, and 1.60% of letters of credit. At June 30, 2011, the Bank held $6,234,100 in stock of the FHLB, which was in compliance with this requirement.

The Company evaluated its holding of FHLB stock for impairment and deemed the stock to not be impaired due to the expected recoverability of the par value, which equals the value reflected within the Company s financial statements. The decision was based on several items ranging from the estimated true economic losses embedded within the FHLB s mortgage portfolio to the FHLB s liquidity position and credit rating.

The following factors were evaluated to determine the ultimate recoverability of the par value of the Company s FHLB stock holding; (i) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted; (ii) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB; (iii) the impact of legislative and regulatory changes on the institutions and, accordingly, on the customer base of the FHLB; (iv) the liquidity position of the FHLB; and (v) whether a decline is temporary or whether it affects the ultimate recoverability of the FHLB stock based on (a) the materiality of the carrying amount to the member institution and (b) whether an assessment of the institution s operational needs for the foreseeable future allow management to dispose of the stock.

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Note 6. Credit Quality and Related Allowance for Loan Losses

Management segments the Bank s loan portfolio to a level that enables risk and performance monitoring according to similar risk characteristics. Loans are segmented based on the underlying collateral characteristics. Categories include commercial and agricultural, real estate, and installment loans to individuals. Real estate loans are further segmented into three categories: residential, commercial and construction.

The following table presents the related aging categories of loans, by segment, as of June 30, 2011 and December 31, 2010:

		June 30, 2011			
(In Thousands)	Current	Past Due 30 To 89 Days	Past Due 90 Days Or More & Still Accruing	Non-Accrual	Total
Commercial and agricultural	$ 51,436	$ 122	$	$	$ 51,558
Real estate mortgage:					
Residential	171,280	355		608	172,243
Commercial	158,313	2,556		1,167	162,036
Construction	16,927	4		9,136	26,067
Installment loans to individuals	8,860	74			8,934
	406,816	$ 3,111	$	$ 10,911	420,838
Less: Net deferred loan fees and discounts	1,677				1,677
Allowance for loan losses	5,764				5,764
Loans, net	$ 399,375				$ 413,397

		December 31, 2010			
(In Thousands)	Current	Past Due 30 To 90 Days	Past Due 90 Days Or More & Still Accruing	Non-Accrual	Total
Commercial and agricultural	$ 50,208	$ 426	$ 215	$ 4	$ 50,853
Real estate mortgage:					
Residential	166,354	6,356	259	609	173,578
Commercial	157,764	438	60	1,927	160,189
Construction	13,836	5,592		3,117	22,545
Installment loans to individuals	9,199	209	23	1	9,432
	397,361	$ 13,021	$ 557	$ 5,658	416,597
Less: Net deferred loan fees	1,040				1,040
Allowance for loan losses	6,035				6,035
Loans, net	$ 390,286				$ 409,522

If interest had been recorded based on the original loan agreement terms and rate of interest for non-accrual loans, interest income on non-accrual loans would have approximated $115,000 and $325,000, and $155,000 and $240,000 for the three and six months ended June 30, 2011 and 2010, respectively. Interest income on such loans amounted to approximately $15,000 and $21,000 and $41,000 and $87,000, for the three and six months ended June 30, 2011 and 2010, respectively.

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Impaired Loans

Impaired loans are loans for which it is probable the Bank will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Bank evaluates such loans for impairment individually and does not aggregate loans by major risk classifications. The definition of impaired loans is not the same as the definition of non-accrual loans, although the two categories overlap. The Bank may choose to place a loan on non-accrual status due to payment delinquency or uncertain collectability, while not classifying the loan as impaired. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value, or as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loan. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

Management evaluates individual loans in all of the commercial segments for possible impairment if the loan is greater than $100,000 and if the loan is either on non-accrual status or has a risk rating of substandard. Management may also elect to measure an individual loan for impairment if less than $100,000 on a case by case basis.

Mortgage loans on one-to-four family properties and all consumer loans are large groups of smaller-balance homogeneous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis taking into consideration all circumstances surrounding the loan and the borrower including the length of the delay, the borrower s prior payment record, and the amount of shortfall in relation to the principal and interest owed. Interest income for impaired loans is recorded consistent with the Bank s policy on nonaccrual loans.

The following table presents the recorded investment, unpaid principal balance, and related allowance of impaired loans by segment as of June 30, 2011 and December 31, 2010:

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	June 30, 2011		
(In Thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
With no related allowance recorded:			
Commercial and agricultural	$ 82	$ 82	$
Real estate mortgages - residential	866	866	
Real estate mortgages - commercial	1,889	1,889	
Real estate mortgages - construction	6,036	6,036	
Installment loans to individuals			
	8,873	8,873	
With an allowance recorded:			
Commercial and agricultural			
Real estate mortgages - residential	469	469	52
Real estate mortgages - commercial	1,737	1,737	143
Real estate mortgages - construction	5,113	6,881	2,148
Installment loans to individuals			
	7,319	9,087	2,343
Total:			
Commercial and agricultural	82	82	
Real estate mortgages - residential	1,335	1,335	52
Real estate mortgages - commercial	3,626	3,626	143
Real estate mortgages - construction	11,149	12,917	2,148
Installment loans to individuals			
	$ 16,192	$ 17,960	$ 2,343

	December 31, 2010		
(In Thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
With no related allowance recorded:			
Commercial and agricultural	$ 90	$ 90	$
Real estate mortgages - residential	888	888	
Real estate mortgages - commercial	2,498	2,498	
Real estate mortgages - construction	260	260	
Installment loans to individuals			
	3,736	3,736	
With an allowance recorded:			
Commercial and agricultural			
Real estate mortgages - residential	572	572	80
Real estate mortgages - commercial	1,889	1,889	158
Real estate mortgages - construction	9,860	10,128	2,518
Installment loans to individuals			
	12,321	12,589	2,756
Total:			
Commercial and agricultural	90	90	
Real estate mortgages - residential	1,460	1,460	80
Real estate mortgages - commercial	4,387	4,387	158
Real estate mortgages - construction	10,120	10,388	2,518
Installment loans to individuals			
	$ 16,057	$ 16,325	$ 2,756

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Impaired loans which are troubled debt restructurings amounted to approximately $5,098,000 and $4,799,000 as of June 30, 2011 and December 31, 2010.

The following table presents the average recorded investment in impaired loans and related interest income recognized for the three and six months ended for June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	**2011**	**2010**	**2011**	**2010**
Average investment in impaired loans	$ 18,179	$ 8,746	$ 14,767	$ 8,460
Interest income recognized on an accrual basis on impaired loans	75	76	154	166
Interest income recognized on a cash basis on impaired loans	12	41	18	87

There is approximately $405,000 committed to be advanced in connection with impaired loans.

Internal Risk Ratings

Management uses a ten point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized, and are aggregated as Pass rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard. Loans in the Doubtful category exhibit the same weaknesses found in the Substandard loans, however, the weaknesses are more pronounced. Such loans are static and collection in full is improbable. However, these loans are not yet rated as loss because certain events may occur which would salvage the debt. Loans classified Loss are considered uncollectible and charge-off is imminent.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the pass category unless a specific action, such as bankruptcy, repossession, or death occurs to raise awareness of a possible credit event. An external annual loan review of all commercial relationships $800,000 or greater is performed, as well as a sample of smaller transactions. Confirmation of the appropriate risk category is included in the review. Detailed reviews, including plans for resolution, are performed on loans classified as Substandard, Doubtful, or Loss on a quarterly basis.

The following table presents the credit quality categories identified above as of June 30, 2011 and December 31, 2010:

June 30, 2011

(In Thousands)	Commercial and Agricultural	Real Estate Mortgages Residential	Commercial	Construction	Installment Loans to Individuals	Totals
Pass	$ 50,158	$ 171,032	$ 148,710	$ 14,879	$ 8,934	$ 393,713
Special Mention	1,076	143	4,264			5,483
Substandard	324	1,068	9,062	11,188		21,642
Doubtful						
Loss						
Total	$ 51,558	$ 172,243	$ 162,036	$ 26,067	$ 8,934	$ 420,838

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	December 31, 2010					
	Commercial and		Real Estate Mortgages		Installment Loans	
(In Thousands)	Agricultural	Residential	Commercial	Construction	to Individuals	Totals
Pass	$ 49,702	$ 171,588	$ 145,887	$ 11,840	$ 9,408	$ 388,425
Special Mention	565	526	9,195			10,286
Substandard	586	1,464	5,107	10,705	24	17,886
Doubtful						
Loss						
Total	$ 50,853	$ 173,578	$ 160,189	$ 22,545	$ 9,432	$ 416,597

Allowance for Loan Losses

An allowance for loan losses (ALL) is maintained to absorb losses from the loan portfolio. The ALL is based on management s continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated future loss experience, and the amount of non-performing loans.

The Bank s methodology for determining the ALL is based on the requirements of ASC Section 310-10-35 for loans individually evaluated for impairment (previously discussed) and ASC Subtopic 450-20 for loans collectively evaluated for impairment, as well as the Interagency Policy Statements on the Allowance for Loan and Lease Losses and other bank regulatory guidance. The total of the two components represents the Bank s ALL.

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. Allowances are segmented based on collateral characteristics previously disclosed, and consistent with credit quality monitoring. Loans that are collectively evaluated for impairment are grouped into two classes for evaluation. A general allowance is determined for Pass rated credits, while a separate pool allowance is provided for Criticized rated credits that are not individually evaluated for impairment.

For the general allowances, historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are modified by other qualitative factors. A historical charge-off factor is calculated utilizing a twelve quarter moving average. Management has identified a number of additional qualitative factors which it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The additional factors that are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources are: national and local economic trends and conditions; levels of and trends in delinquency rates and non-accrual loans; trends in volumes and terms of loans; effects of changes in lending policies; experience, ability, and depth of lending staff; value of underlying collateral; and concentrations of credit from a loan type, industry and/or geographic standpoint.

Loans in the criticized pools, which possess certain qualities or characteristics that may lead to collection and loss issues, are closely monitored by management and subject to additional qualitative factors. Management also monitors industry loss factors by loan segment for applicable adjustments to actual loss experience.

Management reviews the loan portfolio on a quarterly basis in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL.

Activity in the allowance is presented for the six months ended June 30, 2011 and 2010:

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June 30, 2011						
(In Thousands)	Commercial and Agricultural	Residential	Real Estate Mortgages Commercial	Construction	Installment Loans to Individuals	Totals
Beginning Balance	$ 466	$ 980	$ 1,508	$ 2,893	$ 188	$ 6,035
Charge-offs		(34)		(1,500)	(35)	(1,569)
Recoveries	8	34	20	5	31	98
Provision	(70)	(154)	177	1,270	(23)	1,200
Ending Balance	$ 404	$ 826	$ 1,705	$ 2,668	$ 161	$ 5,764

June 30, 2010						
(In Thousands)	Commercial and Agricultural	Residential	Real Estate Mortgages Commercial	Construction	Installment Loans to Individuals	Totals
Beginning Balance	$ 569	$ 972	$ 1,491	$ 1,403	$ 222	$ 4,657
Charge-offs	(261)	(53)			(70)	(384)
Recoveries	1	5		4	64	74
Provision	239	(60)	2	510	9	700
Ending Balance	$ 548	$ 864	$ 1,493	$ 1,917	$ 225	$ 5,047

The Company has a concentration of loans to both owners of commercial and residential rental properties at June 30, 2011 and 2010 of 16.69% and 14.31% and 15.60% and 14.59% of total loans, respectively.

The Company grants commercial, industrial, residential, and installment loans to customers throughout north-central Pennsylvania. Although the Company has a diversified loan portfolio at June 30, 2011, a substantial portion of its debtors ability to honor their contracts is dependent on the economic conditions within this region.

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of June 30, 2011 and December 31, 2010:

June 30, 2011						
(In Thousands)	Commercial and Agricultural	Residential	Real Estate Mortgages Commercial	Construction	Installment Loans to Individuals	Totals
Allowance for Loan Losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$	$ 52	$ 143	$ 2,148	$	$ 2,343
Collectively evaluated for impairment	404	774	1,562			