SEARCHHOUND COM INC
Form 8-K
June 07, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) June 6, 2002 (May 31, 2002)

SearchHound.com, Inc.
(Exact name of registrant as specified in its charter)

Nevada	0-19471	91-1942841
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

200 Main Street, Suite 305, Kansas City, Missouri 64105
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (816) 960-3777

Not applicable
(Former name or former address, if changed since last report)

Item 5. OTHER EVENTS

On May 31, 2002 the Company entered into an asset sale agreement which sold certain assets related directly with two of the Company's subsidiary operations (Mesia.com and SpeakGlobally.com) to Bradley N. Cohen. Mr. Cohen is an officer and director of SearchHound.com, Inc. The net book value of the net assets sold to Mr. Cohen approximated $52,750 as of the date of sale. Pursuant to the asset sale agreement the Company agreed to transfer such assets to Mr. Cohen in settlement of the following:

1)an employment agreement with Mr. Cohen dated September 1, 2000, 2) all accrued but unpaid compensation owed to Mr. Cohen which approximated $100,000 as of the date of sale, and 3) a promissory note payable to Cohen Capital Technologies, LLC. in the amount of $285,000 as of the date of sale.

In addition, SearchHound.com, Inc., agreed to pay Mr. Cohen $7,500 in cash, in exchange for, and in sole consideration and settlement of any other liabilities of SearcHound.com, Inc. to Mr. Cohen that may exist as of May 31, 2002, including, but not exclusively, the liabilities that accrue pursuant to a Promissory Note to Mr. Cohen with a principle amount of $147,030.41, dated March 20, 2002, and any liability that may exist pursuant to the Employment Agreement between SearchHound.com, Inc. and Mr. Cohen dated September 1, 2000.

Concurrent with the asset sale agreement with Mr. Cohen, Mr. Cohen tendered his resignation from SearchHound.com, Inc. and as a member of the Board of Directors.

SIGNATURE

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

SearchHound.com, Inc.

Date: June 6, 2002 By:/s/ David Mullikin

David Mullikin, President & CEO

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
99.1	Asset Purchase Agreement by and between SearchHound.com, Inc. and Bradley N. Cohen.
99.2	Payment and Release Agreement by and between SearchHound.com, Inc. and Bradley N. Cohen.
99.3	Employment Agreement (previously provided to the Commission)

Exhibit 99.1

ASSET PURCHASE AGREEMENT

between

SearchHound.com, Inc.

and

Cohen Capital Technologies, LLC.

May 29, 2002

This Agreement is entered into on May 29, 2002 by and between SearchHound.com, Inc., a Nevada corporation (the "Target") and, Cohen Capital Technologies, LLC, a Missouri limited liability company (the "Buyer"). The Buyer and the Target are referred to collectively herein as the "Parties."

The Buyer desires to purchase from Target the Acquired Assets, as defined herein.

Now, therefore, in consideration of the premises and the mutual promises herein made, and in consideration of the representations, warranties, and covenants herein contained, the Parties agree as follows.

1. Basic Transaction.

(a) Purchase and Sale of Assets. On and subject to the terms and conditions of this Agreement, the Buyer hereby sells, transfers, conveys, and delivers to the Buyer, all of the Acquired Assets for the consideration specified below in Paragraph 1(c). For purposes of this Agreement, the term Acquired Assets shall be the assets described and listed in Exhibit A.

(b) Assumption of Liabilities. No liabilities shall be assumed by Buyer.

(c) Purchase Price. The Purchase Price shall equal the outstanding balance owed by Target to Buyer pursuant to a certain Promissory Note dated July 11, 2000 with a principle balance of Two Hundred Eighty-Five Thousand Dollars ($285,000.00), a copy of which is attached hereto as Exhibit C, that was assigned to Buyer by Cohen Capital Technologies, LLC (the "Note").

The Parties hereto acknowledge that, per an independent valuation, the value of the Acquired Assets is equal to Twenty Thousand Dollars ($20,000.00). As a result, the difference in the value of the Acquired Assets and the amounts owed pursuant to the Note shall be deemed forgiven. Buyer hereby releases Target from any and all liability that Target may have to it related to the Note.

(d) Allocation. The Parties agree to allocate the Purchase Price among the Acquired Assets for all purposes (including financial accounting and tax purposes) in accordance with the allocation schedule attached hereto as Exhibit A.

2. Representations and Warranties of the Target. The Target represents and warrants to the Buyer that the statements contained in this Paragraph 2 are correct and complete as of the date of this Agreement.

(a) Organization of the Target. The Target is a corporation, duly organized, validly existing, and in good standing under the laws of the jurisdiction of its incorporation.

(b) Authorization of Transaction. The Target has full power and authority to execute and deliver this Agreement and to perform its obligations hereunder.

(c) Noncontravention. Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which the Target is subject or any provision of its charter or Bylaws. The Target does not need to give any notice to, make any filing with, or obtain any authorization, consent, or approval of any government or governmental agency in order for the Parties to consummate the transactions described in this Agreement.

(d) Brokers' Fees. The Target has no liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement for which the Buyer could become liable or obligated.

(e) Title to Tangible Assets. The Target has good and marketable title to the Acquired Assets.

(f) Legal Compliance. To the Knowledge of the Target, the Target has complied with all applicable laws (including rules, regulations, codes, plans, injunctions, judgments, orders, decrees, rulings, and charges thereunder) of federal, state, local, and foreign governments (and all agencies thereof), except where the failure to comply would not have a material adverse effect upon the financial condition of the Target.

3. Representations and Warranties of the Buyer. The Buyer represents and warrants to the Target that the statements contained in this Paragraph 3 are correct and complete as of the date of this Agreement and will be correct and complete.

(a) Organization of the Buyer. The Buyer is a limited liability company, duly organized, validly existing, and in good standing under the laws of the jurisdiction of its organization.

(b) Authorization of Transaction. The Buyer has full power and authority to execute and deliver this Agreement and to perform its obligations hereunder.

(c) Noncontravention. Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which the Buyer is subject or any provision of its charter or Operating Agreement. The Buyer does not need to give any notice to, make any filing with, or obtain any authorization, consent, or approval of any government or governmental agency in order for the Parties to consummate the transactions described by this Agreement.

(d) Brokers' Fees. The Buyer has no liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement for which the Target could become liable or obligated.

4. Miscellaneous.

(a) No Third-Party Beneficiaries. This Agreement shall not confer any rights or remedies upon any Person other than the Parties and their respective successors.

(b) Entire Agreement. This Agreement (including the documents referred to herein) constitutes the entire agreement between the Parties and supersedes any prior understandings, agreements, or representations by or between the Parties, written or oral, to the extent they related in any way to the subject matter hereof.

(c) Succession and Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors.

(d) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument.

(e) Headings. The section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

(f) Governing Law. This Agreement shall be governed by and construed in accordance with the domestic laws of the State of Missouri without giving effect to any choice or conflict of law provision or rule (whether of the State of Missouri or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Missouri.

(g) Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction.

(h) Expenses. The Buyer and the Target will bear its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby.

(l) Incorporation of Exhibits. The Exhibits identified in this Agreement are incorporated herein by reference and made a part hereof.

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IN WITNESS WHEREOF, the Parties hereto have executed this Agreement on the date first above written.

"BUYER"
Cohen Capital Technologies, LLC

By: _______________________
Roger L. Cohen, Member

"TARGET"
SearchHound.com, Inc.

By: ___________________________

Dave L. Mullikin, President and CEO

EXHIBIT A

Acquired Assets and Price Allocation

The term "Acquired Assets", as used in the foregoing Agreement, shall include the following:

a. Media Data Division
b. Mesia Division
c. SpeakGlobally Division
d. Equipment
a. Servers
i. Generic Mail Servers 1 U 11 units
ii. IBM Tower and Mail Servers 3 units
iii. Dell Tower 3 units
iv. Load Balancers 2 units
v. Switch and Router 2 Units
vi. UPS Power Supply 1 Unit
vii. Office Computers 2 Units
viii. Desks 4 units
ix. Chairs 2 units

The Acquired Assets shall include all of the assets in the Divisions named above, whether tangible or intangible, including all employees, websites, software, contracts with customers, contracts with independent contractors, all other contracts, data lists, accounts receivable, customer deposits, and customer lists.

EXHIBIT B

(insert Promissory Note)

Exhibit 99.2

Payment and Release

SEARCHHOUND.COM, INC. , a Nevada corporation ("Debtor"), hereby transfers and conveys $7,500, to BRAD COHEN ("Creditor"), a Missouri resident, in exchange for, and in sole consideration and settlement of any liabilities of Debtor to Creditor that exist as of the date hereof, specifically, but not exclusively, the liabilities that accrue pursuant to a certain Promissory Note with a principle amount of $147,030.41, dated March 20, 2002, and any liability that may exist pursuant to the Employment Agreement between Debtor and Creditor dated September 1, 2000.

"CREDITOR"
Brad Cohen

By: ________________________
Brad Cohen

"DEBTOR"
SearchHound.com, Inc.

By: ________________________
Dave L. Mullikin, President and CEO

div>

$
1,215,238

Liabilities and shareholders' equity:

Savings

$
142,537

29

0.04
%

$
140,803

51

0.07
%
Super Now deposits

189,125

253

0.27
%

183,174

307

0.34

%
Money market deposits

207,446

279

0.27
%

209,314

272

0.26
%
Time deposits

218,824

967

0.89
%

228,846

869

0.77
%
Total interest-bearing deposits

757,932

1,528

0.41
%

762,137

1,499

0.40
%

Short-term borrowings

33,728

47

0.28
%

17,749

27

0.31
%
Long-term borrowings

82,961

1,018

2.44
%

71,202

942

2.63
%
Total borrowings

116,689

1,065

1.82
%

88,951

969

2.17
%

Total interest-bearing liabilities

874,621

2,593

0.59
%

851,088

2,468

0.58
%

Demand deposits

242,488

216,588

Other liabilities

17,687

14,642

Shareholders’ equity

137,103

132,920

Total liabilities and shareholders’ equity

$
1,271,899

$
1,215,238

Interest rate spread

3.52
%

3.74
%
Net interest income/margin

$
21,373

3.66
%

$
21,358

3.88
%

The following table presents the adjustment to convert net interest income to net interest income on a fully taxable equivalent basis for the three and six months ended June 30, 2015 and 2014.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2015	2014	2015	2014
Total interest income	$11,529	$11,357	$22,926	$22,686
Total interest expense	1,307	1,226	2,593	2,468
Net interest income	10,222	10,131	20,333	20,218
Tax equivalent adjustment	515	557	1,040	1,140
Net interest income (fully taxable equivalent)	$10,737	$10,688	$21,373	$21,358

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 and six months ended June 30, 2015 and 2014:

35

Table of Contents

(In Thousands)	Three Months Ended June 30, 2015 vs. 2014 Increase (Decrease) Due to			Six Months Ended June 30, 2015 vs. 2014 Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
Interest income:						
Tax-exempt loans	$138	$(36)	$102	$237	$(58)	$179
All other loans	1,202	(429)	773	2,260	(1,028)	1,232
Federal funds sold	—	—	—	—	—	—
Taxable investment securities	(363)	(147)	(510)	(665)	(118)	(783)
Tax-exempt investment securities	(146)	(79)	(225)	(277)	(196)	(473)
Interest bearing deposits	(10)	—	(10)	(11)	(4)	(15)
Total interest-earning assets	821	(691)	130	1,544	(1,404)	140
Interest expense:						
Savings deposits	—	(6)	(6)	1	(23)	(22)
Super Now deposits	(1)	(25)	(26)	10	(64)	(54)
Money market deposits	(1)	6	5	(17)	24	7
Time deposits	(10)	81	71	(38)	136	98
Short-term borrowings	17	—	17	23	(3)	20
Long-term borrowings	55	(35)	20	146	(70)	76
Total interest-bearing liabilities	60	21	81	125	—	125
Change in net interest income	$761	$(712)	$49	$1,419	$(1,404)	$15

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 Banks. 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 June 30, 2015, 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 Banks' 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.

When 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 $10,579,000 at December 31, 2014 to $11,265,000 at June 30, 2015. The increase in the allowance for loan losses was driven by the loan growth and net charge-offs during the six months ended June 30, 2015 of $614,000. The majority of the loans charged-off had a specific allowance within the allowance for losses. At June 30, 2015 and December 31, 2014, the allowance for loan losses to total loans was 1.15% and 1.16%, respectively.

The provision for loan losses totaled $600,000 and $300,000 for the three months ended June 30, 2015 and 2014. The amount of the provision for loan losses was the result of several factors, including but not limited to, a ratio of nonperforming loans to total loans of 0.99% and 1.40% at June 30, 2015 and 2014, respectively, and a ratio of the allowance for loan losses to nonperforming loans of 116.27% and 73.55% at June 30, 2015 and 2014, respectively.

Table of Contents

Nonperforming loans decreased to $9,689,000 at June 30, 2015 from $11,979,000 at June 30, 2014 is primarily the result of a large commercial real estate loan that was removed from non-accrual status due to improved company performance and a solid payment history. Internal loan review and analysis coupled with the ratios and loan growth noted previously dictated a provision for loan losses of $1,300,000 for the six months ended June 30, 2015.

The following is a table showing total nonperforming loans as of:

	Total Nonperforming Loans		
(In Thousands)	90 Days Past Due	Non-accrual	Total
June 30, 2015	$890	$8,799	$9,689
March 31, 2015	391	10,766	11,157
December 31, 2014	387	11,861	12,248
September 30, 2014	202	12,092	12,294
June 30, 2014	397	11,582	11,979

Non-interest Income

Total non-interest income for the three months ended June 30, 2015 compared to the same period in 2014 increased $128,000 to $3,057,000. Excluding net securities gains, non-interest income for the three months ended June 30, 2015 increased $93,000 compared to the same period in 2014. The decrease in service charges was driven by a decline in overdraft income. Insurance commissions decreased due primarily to a shift in product mix. The increase in other non-interest income is the result of increased card usage related to both debit and credit cards.

Total non-interest income for the six months ended June 30, 2015 compared to the same period in 2014 increased $177,000. Excluding net securities gains, non-interest income decreased $126,000 compared to the 2014 period. The decrease in bank-owned life insurance is primarily due to a gain on death benefit recorded during the first quarter of 2014. The reasons noted for the three month period comparison also apply to the six month period.

Non-interest income composition for the three and six months ended June 30, 2015 and 2014 was as follows:

	Three Months Ended					
	June 30, 2015		June 30, 2014		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Service charges	$598	19.56 %	$607	20.72 %	$(9)	(1.48)%
Securities gains, available for sale	526	17.21	487	16.63	39	8.01
Securities losses, trading	(4)	(0.13)	—	—	(4)	(100.00)
Bank-owned life insurance	171	5.59	181	6.18	(10)	(5.52)
Gain on sale of loans	482	15.77	421	14.37	61	14.49
Insurance commissions	204	6.67	283	9.66	(79)	(27.92)
Brokerage commissions	294	9.62	251	8.57	43	17.13
Other	786	25.71	699	23.87	87	12.45
Total non-interest income	$3,057	100.00 %	$2,929	100.00 %	$128	4.37 %

Table of Contents

	Six Months Ended					
	June 30, 2015		June 30, 2014		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Service charges	$1,151	18.22 %	$1,202	19.58 %	$(51)	(4.24)%
Securities gains, available for sale	1,187	18.79	880	14.33	307	34.89
Securities losses, trading	(4)	(0.06)	—	—	(4)	(100.00)
Bank-owned life insurance	359	5.68	551	8.97	(192)	(34.85)
Gain on sale of loans	781	12.36	711	11.58	70	9.85
Insurance commissions	438	6.93	703	11.45	(265)	(37.70)
Brokerage commissions	539	8.53	522	8.50	17	3.26
Other	1,866	29.55	1,571	25.59	295	18.78
Total non-interest income	$6,317	100.00 %	$6,140	100.00 %	$177	2.88 %

Non-interest Expense

Total non-interest expense decreased $1,000 for the three months ended June 30, 2015 compared to the same period of 2014. The increase in salaries and employee benefits is primarily attributable to increases in health insurance. Furniture and equipment expenses decreased due to a significant amount of maintenance that was performed during 2014. Other expenses decreased primarily due to decreased expenses related to the integration of Luzerne Bank.

Total non-interest expense for the six months ended June 30, 2015 compared to the same period in 2014 decreased $176,000. The reasons noted for the three month period comparison also apply to the six month period.

Non-interest expense composition for the three and six months ended June 30, 2015 and 2014 was as follows:

	Three Months Ended					
	June 30, 2015		June 30, 2014		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Salaries and employee benefits	$4,301	51.07 %	$4,167	49.48 %	$134	3.22 %
Occupancy	564	6.70	552	6.55	12	2.17
Furniture and equipment	643	7.64	648	7.69	(5)	(0.77)
Pennsylvania shares tax	243	2.89	262	3.11	(19)	(7.25)
Amortization of investment in limited partnerships	166	1.97	166	1.97	—	—
Federal Deposit Insurance Corporation deposit insurance	230	2.73	201	2.39	29	14.43
Marketing	145	1.72	126	1.50	19	15.08
Intangible amortization	80	0.95	88	1.04	(8)	(9.09)
Other	2,049	24.33	2,212	26.27	(163)	(7.37)
Total non-interest expense	$8,421	100.00 %	$8,422	100.00 %	$(1)	(0.01)%

Table of Contents

	Six Months Ended					
	June 30, 2015		June 30, 2014		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Salaries and employee benefits	$8,771	51.93 %	$8,670	50.81 %	$101	1.16 %
Occupancy	1,192	7.06	1,182	6.93	10	0.85
Furniture and equipment	1,238	7.33	1,319	7.73	(81)	(6.14)
Pennsylvania shares tax	467	2.77	506	2.97	(39)	(7.71)
Amortization of investment in limited partnerships	331	1.96	331	1.94	—	—
Federal Deposit Insurance Corporation deposit insurance	445	2.63	379	2.22	66	17.41
Marketing	274	1.62	236	1.38	38	16.10
Intangible amortization	162	0.96	180	1.05	(18)	(10)
Other	4,009	23.74	4,262	24.97	(253)	(5.94)
Total non-interest expense	$16,889	100.00 %	$17,065	100.00 %	$(176)	(1.03)%

Provision for Income Taxes

Income taxes decreased $50,000 for the three months ended June 30, 2015 and increased $97,000 for the six months ended June 30, 2015 compared to the same periods of 2014. The primary cause of the decrease in tax expense for the three months ended June 30, 2015 compared to 2014 is the impact of the decreased pre-tax income. The primary cause of the increase in tax expense for the six months ended June 30, 2015 compared to 2014 is the impact of an increased level of security gains and a decrease in the amount of tax-free interest generated from the investment portfolio. Excluding the impact of the net securities gains, the effective tax rate for the three and six months ended June 30, 2015 was 17.34% and 17.46% compared to 18.41% and 16.74% for the same period of 2014. The Company currently is in a deferred tax asset position due to the low income housing tax credits earned both currently and previously. Management has reviewed the deferred tax asset and has determined that the asset will be utilized within the appropriate carry forward period and therefore does not require a valuation allowance.

ASSET/LIABILITY MANAGEMENT

Cash and Cash Equivalents

Cash and cash equivalents increased $1,961,000 from $19,908,000 at December 31, 2014 to $21,869,000 at June 30, 2015 primarily as a result of the following activities during the six months ended June 30, 2015:

Loans Held for Sale

Activity regarding loans held for sale resulted in sales proceeds trailing loan originations, less $781,000 in realized gains, by $1,557,000 for the six months ended June 30, 2015.

Loans

Gross loans increased $62,299,000 since December 31, 2014 due to an increase in commercial, financial, and agricultural loans coupled with an increase in home equity products and auto loans.

The allocation of the loan portfolio, by category, as of June 30, 2015 and December 31, 2014 is presented below:

39

Table of Contents

	June 30, 2015		December 31, 2014		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Commercial, financial, and agricultural	$140,049	14.32 %	$124,156	13.56 %	$15,893	12.80 %
Real estate mortgage:						
Residential	494,120	50.52	457,760	50.00	36,360	7.94 %
Commercial	293,512	30.02	291,348	31.82	2,164	0.74 %
Construction	25,216	2.58	21,996	2.40	3,220	14.64 %
Installment loans to individuals	26,173	2.68	21,509	2.35	4,664	21.68 %
Net deferred loan fees and discounts	(1,192)	(0.12)	(1,190)	(0.13)	(2)	0.17 %
Gross loans	$977,878	100.00 %	$915,579	100.00 %	$62,299	6.80 %

The following table shows the amount of accrual and non-accrual TDRs at June 30, 2015 and December 31, 2014:

	June 30, 2015			December 31, 2014		
(In Thousands)	Accrual	Non-accrual	Total	Accrual	Non-accrual	Total
Commercial, financial, and agricultural	$388	$446	$834	$551	$440	$991
Real estate mortgage:						
Residential	846	267	1,113	697	181	878
Commercial	4,210	3,102	7,312	3,267	6,160	9,427
Construction	9	398	407	514	—	514
	$5,453	$4,213	$9,666	$5,029	$6,781	$11,810

Investments

The fair value of the investment securities portfolio at June 30, 2015 decreased $17,744,000 since December 31, 2014 while the amortized cost of the portfolio decreased $15,543,000. The decrease in value is the result of the investment portfolio being actively managed in order to reduce interest rate and market risk. This is being undertaken primarily through the sale of long-term municipal bonds that have a maturity date of 2025 or later and securities with a call date within the next five years. The proceeds of the bond sales are being deployed into loans and intermediate term corporate bonds and short and intermediate term municipal bonds. The strategy to sell a portion of the long-term bond portfolio does negatively impact current earnings, but this action plays a key role in our long-term asset liability management strategy as the balance sheet is shortened to better prepare for a rising rate environment. The unrealized losses within the debt securities portfolio are the result of market activity, not credit issues/ratings, as approximately 90% of the debt securities portfolio on an amortized cost basis is currently rated A or higher by either S&P or Moody’s.

The Company considers various factors, which include examples from applicable accounting guidance, when analyzing the available for sale portfolio for possible other than temporary impairment. The Company primarily considers the following factors in its analysis: length of time and severity of the market value being less than carrying value; reduction of dividend paid (equities); continued payment of dividend/interest, credit rating, and financial condition of an issuer; intent and ability to hold until anticipated recovery (which may be maturity); and general outlook for the economy, specific industry, and entity in question.

The bond portion of the portfolio review is conducted with emphases on several factors. Continued payment of principal and interest is given primary importance with credit rating and financial condition of the issuer following as the next most important. Credit ratings were reviewed with the ratings of the bonds being satisfactory. Bonds that were not currently rated were discussed with a third party and/or underwent an internal financial review. The Company also monitors whether each of the investments incurred a decline in market value from carrying value of at least 20% for twelve consecutive months or a similar decline of at least 50% for three consecutive months. Each bond is reviewed to determine whether it is a general obligation bond, which is backed by the credit and taxing power of the issuing jurisdiction, or revenue bond, which is only payable from specified revenues. Based on the review undertaken by the Company, the Company determined that the decline in value of the various bond holdings were temporary and were the result of the general market downturns and interest rate/yield curve changes, not credit issues. The fact that almost all of such bonds are general obligation bonds further solidified the Company’s determination that the decline in the value of these bond holdings is temporary.

Table of Contents

The fair value of the equity portfolio continues to fluctuate as the economic turbulence continues to impact stock pricing. The amortized cost of the available for sale equity securities portfolio has increased $108,000 to $14,489,000 at June 30, 2015 from $14,381,000 at December 31, 2014 while the fair value increased $6,000 over the same time period.

The equity portion of the portfolio is reviewed for possible other than temporary impairment in a similar manner to the bond portfolio with greater emphasis placed on the length of time the fair market value has been less than the carrying value and financial sector outlook. The Company also reviews dividend payment activities. The starting point for the equity analysis is the length and severity of a market price decline. The Company monitors two primary measures: 20% decline in fair market value from carrying value for twelve consecutive months and 50% decline for three consecutive months.

The distribution of credit ratings by amortized cost and fair values for the debt security portfolio at June 30, 2015 follows:

(In Thousands)	A- to AAA Amortized Cost	Fair Value	B- to BBB+ Amortized Cost	Fair Value	Not Rated Amortized Cost	Fair Value	Total Amortized Cost	Fair Value
Available for sale (AFS)								
U.S. Government and agency securities	$—	$—	$—	$—	$3,706	$3,655	$3,706	$3,655
Mortgage-backed securities	10,843	11,199	—	—	—	—	10,843	11,199
Asset-backed securities	2,209	2,232	—	—	—	—	2,209	2,232
State and political securities	97,746	99,077	—	—	2,710	2,694	100,456	101,771
Other debt securities	68,555	68,383	11,972	11,642	—	—	80,527	80,025
Total debt securities AFS	$179,353	$180,891	$11,972	$11,642	$6,416	$6,349	$197,741	$198,882

Financing Activities

Deposits

Total deposits increased $26,049,000 from December 31, 2014 to June 30, 2015. The growth was led by an increase in NOW deposit accounts from December 31, 2014 to June 30, 2015 of 5.69%. The increase in core deposits (deposits less time deposits) has provided relationship driven funding for the loan and investment portfolios. The increase in deposits is the result of our focus on building relationships, not by offering market leading rates.

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

(In Thousands)	June 30, 2015 Amount	% Total		December 31, 2014 Amount	% Total		Change Amount	%	
Demand deposits	$244,502	24.27	%	$243,378	24.80	%	$1,124	0.46	%
NOW accounts	188,092	18.67		177,970	18.13		10,122	5.69	
Money market deposits	211,412	20.98		204,535	20.84		6,877	3.36	
Savings deposits	143,415	14.24		139,278	14.19		4,137	2.97	
Time deposits	220,047	21.84		216,258	22.04		3,789	1.75	
	$1,007,468	100.00	%	$981,419	100.00	%	$26,049	2.65	%

Borrowed Funds

Total borrowed funds increased 20.05% or $22,458,000 to $134,452,000 at June 30, 2015 compared to $111,994,000 at December 31, 2014. Short-term borrowings primarily increased due to an increase in the funding necessary for the growth in the loan portfolio.

Table of Contents

	June 30, 2015			December 31, 2014			Change		
(In Thousands)	Amount	% Total		Amount	% Total		Amount	%	
Short-term borrowings:									
FHLB repurchase agreements	$42,760	31.80	%	$26,831	23.96	%	$15,929	59.37	%
Securities sold under agreement to repurchase	16,266	12.10		13,987	12.49		2,279	16.29	
Total short-term borrowings	59,026	43.90		40,818	36.45		18,208	44.61	
Long-term borrowings:									
Long-term FHLB borrowings	75,000	55.78		70,750	63.17		4,250	6.01	
Long-term capital lease	426	0.32		426	0.38		—	—	
Total long-term borrowings	75,426	56.10		71,176	63.55		4,250	5.97	%
Total borrowed funds	$134,452	100.00	%	$111,994	100.00	%	$22,458	20.05	%

Capital

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

Bank holding companies are required to comply with the Federal Reserve Board's risk-based capital guidelines. The risk-based capital rules are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies and to minimize disincentives for holding liquid assets. Specifically, each is required to maintain certain minimum dollar amounts and ratios of common equity tier I risk-based, tier I risk-based, total risk-based, and tier I leverage capital. In addition to the capital requirements, the Federal Deposit Insurance Corporation Improvements Act (FDICIA) established five capital categories ranging from "well capitalized" to "critically undercapitalized." To be classified as "well capitalized", common equity tier I risk-based, tier I risked-based, total risk-based, and tier I leverage capital ratios must be at least 6.5%, 8%, 10%, and 5%, respectively.

The Company's capital ratios as of June 30, 2015 and December 31, 2014 were as follows:

	June 30, 2015			December 31, 2014		
(In Thousands)	Amount	Ratio		Amount	Ratio	
Common Equity Tier I Capital (to Risk-weighted Assets)						
Actual	$119,334	11.21	%	$—	—	%
For Capital Adequacy Purposes	47,885	4.50		—	—	
To Be Well Capitalized	69,168	6.50		—	—	
Tier I Capital (to Risk-weighted Assets)						
Actual	$119,334	11.21	%	$112,290	11.51	%
For Capital Adequacy Purposes	63,847	6.00		39,010	4.00	
To Be Well Capitalized	85,129	8.00		58,514	6.00	
Total Capital (to Risk-weighted Assets)						
Actual	$131,055	12.32	%	$123,371	12.65	%
For Capital Adequacy Purposes	85,129	8.00		78,019	8.00	
To Be Well Capitalized	106,412	10.00		97,524	10.00	
Tier I Capital (to Average Assets)						
Actual	$119,334	9.47	%	$112,290	9.27	%

For Capital Adequacy Purposes	50,415	4.00	48,476	4.00
To Be Well Capitalized	63,019	5.00	60,595	5.00

Jersey Shore State Bank's capital ratios as of June 30, 2015 and December 31, 2014 were as follows:

42

Table of Contents

	June 30, 2015			December 31, 2014		
(In Thousands)	Amount	Ratio		Amount	Ratio	
Common Equity Tier I Capital (to Risk-weighted Assets)						
Actual	$79,595	10.71	%	$—	—	%
For Capital Adequacy Purposes	33,438	4.50		—	—	
To Be Well Capitalized	48,300	6.50		—	—	
Tier I Capital (to Risk-weighted Assets)						
Actual	$79,595	10.71	%	$74,730	11.05	%
For Capital Adequacy Purposes	44,585	6.00		27,043	4.00	
To Be Well Capitalized	59,446	8.00		40,565	6.00	
Total Capital (to Risk-weighted Assets)						
Actual	$88,522	11.91	%	$83,183	12.30	%
For Capital Adequacy Purposes	59,446	8.00		54,086	8.00	
To Be Well Capitalized	74,308	10.00		67,608	10.00	
Tier I Capital (to Average Assets)						
Actual	$79,595	8.62	%	$74,730	8.50	%
For Capital Adequacy Purposes	36,944	4.00		35,175	4.00	
To Be Well Capitalized	46,181	5.00		43,968	5.00	

Luzerne Bank's capital ratios as of June 30, 2015 and December 31, 2014 were as follows:

	June 30, 2015			December 31, 2014		
(In Thousands)	Amount	Ratio		Amount	Ratio	
Common Equity Tier I Capital (to Risk-weighted Assets)						
Actual	$30,362	9.59	%	$—	—	%
For Capital Adequacy Purposes	14,242	4.50		—	—	
To Be Well Capitalized	20,571	6.50		—	—	
Tier I Capital (to Risk-weighted Assets)						
Actual	$30,362	9.59	%	$112,290	11.51	%
For Capital Adequacy Purposes	18,989	6.00		39,010	4.00	
To Be Well Capitalized	25,318	8.00		58,514	6.00	
Total Capital (to Risk-weighted Assets)						
Actual	$32,735	10.34	%	$123,371	12.65	%
For Capital Adequacy Purposes	25,318	8.00		78,019	8.00	
To Be Well Capitalized	31,648	10.00		97,524	10.00	
Tier I Capital (to Average Assets)						
Actual	$30,362	9.17	%	$112,290	9.27	%
For Capital Adequacy Purposes	13,246	4.00		48,476	4.00	
To Be Well Capitalized	16,558	5.00		60,595	5.00	

In July 2013, the federal bank regulatory agencies adopted revisions to the agencies' capital adequacy guidelines and prompt corrective action rules, which were designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III. The July 2013 final rules generally implement higher minimum capital requirements, add a new common equity tier 1 capital requirement, and establish criteria that instruments must meet to be considered common equity tier 1 capital, additional tier 1 capital or tier 2 capital. The new minimum capital to risk-adjusted assets requirements are a common equity tier 1 capital ratio of 4.5% (6.5% to be considered "well capitalized") and a tier 1 capital ratio of 6.0%, increased from 4.0% (and increased from 6.0% to 8.0% to be considered "well capitalized"); the total capital ratio remains at 8.0% under the new rules (10.0% to be considered “well capitalized”). Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. The new minimum capital requirements were effective beginning on January 1, 2015. The capital contribution buffer requirements phase in over a three-year period beginning January 1, 2016. The Company and the Banks will continue to analyze these new rules and their effects on the business, operations and capital levels of the Company and the Banks.

Liquidity; Interest Rate Sensitivity and Market Risk

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

The following liquidity measures are monitored for compliance and were within the limits cited at June 30, 2015:

1. Net Loans to Total Assets, 85% maximum
2. Net Loans to Total Deposits, 100% maximum
3. Cumulative 90 day Maturity GAP %, +/- 20% maximum
4. Cumulative 1 Year Maturity GAP %, +/- 25% maximum

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

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

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

Management monitors and determines the desirable level of liquidity. Consideration is given to loan demand, investment opportunities, deposit pricing and growth potential, as well as the current cost of borrowing funds. The Company has a total current maximum borrowing capacity at the FHLB of $486,018,000. In addition to this credit arrangement, the Company has additional lines of credit with correspondent banks of $35,510,000. Management believes it has sufficient liquidity to satisfy estimated short-term and long-term funding needs. FHLB borrowings totaled $117,760,000 as of June 30, 2015.

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

The Company currently maintains a GAP position of being asset sensitive. The Company has strategically taken this position as it has decreased the duration of the earning asset portfolio by adding quality short and intermediate term loans such as home equity loans and the selling of long-term municipal bonds. Lengthening of the liability portfolio is being undertaken to build protection in a rising rate environment.

44

Table of Contents

A market value at risk calculation is utilized to monitor the effects of interest rate changes on the Company's balance sheet and more specifically shareholders' equity. The Company does not manage the balance sheet structure in order to maintain compliance with this calculation. The calculation serves as a guideline with greater emphases placed on interest rate sensitivity. Changes to calculation results from period to period are reviewed as changes in results could be a signal of future events. As of the most recent analysis, the results of the market value at risk calculation were within established guidelines due to the strategic direction being taken.

Interest Rate Sensitivity

In this analysis the Company examines the result of a 100, 200, 300, and 400 basis point change in market interest rates and the effect on net interest income. It is assumed that the change is instantaneous and that all rates move in a parallel manner. Assumptions are also made concerning prepayment speeds on mortgage loans and mortgage securities.

The following is a rate shock forecast for the twelve month period ending June 30, 2016 assuming a static balance sheet as of June 30, 2015.

	Parallel Rate Shock in Basis Points						
(In Thousands)	-200	-100	Static	+100	+200	+300	+400
Net interest income	$36,366	$38,456	$40,534	$42,015	$43,450	$44,610	$45,487
Change from static	(4,168)	(2,078)	—	1,481	2,916	4,076	4,953
Percent change from static	-10.28 %	-5.13 %	—	3.65 %	7.19 %	10.06 %	12.22 %

The model utilized to create the report presented above makes various estimates at each level of interest rate change regarding cash flow from principal repayment on loans and mortgage-backed securities and/or call activity on investment securities. Actual results could differ significantly from these estimates which would result in significant differences in the calculated projected change. In addition, the limits stated above do not necessarily represent the level of change under which management would undertake specific measures to realign its portfolio in order to reduce the projected level of change. Generally, management believes the Company is well positioned to respond expeditiously when the market interest rate outlook changes.

Inflation

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk for the Company is comprised primarily of interest rate risk exposure and liquidity risk. Interest rate risk and liquidity risk management is performed at both the level of the Company and the Banks. The Company's interest rate sensitivity is monitored by management through selected interest rate risk measures produced by an independent third party. There have been no substantial changes in the Company's gap analysis or simulation analysis compared to the information provided in the Annual Report on Form 10-K for the period ended December 31, 2014. Additional information and details are provided in the "Liquidity, Interest Rate Sensitivity, and Market Risk" section of "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An analysis was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2015.

Table of Contents

Changes in Internal Control over Financial Reporting

There were no changes in the Company’s internal control over financial reporting that occurred during the quarter ended June 30, 2015, that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Table of Contents

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There are no material changes to the risk factors set forth in Part I, Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the year ended December 31, 2014. Please refer to that section for disclosures regarding the risks and uncertainties related to the Company's business.

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

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Units) Purchased	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Month #1 (April 1 - April 30, 2015)	9,836	$45.04	9,836	445,316
Month #2 (May 1 - May 31, 2015)	12,713	43.17	12,713	432,603
Month #3 (June 1 - June 30, 2015)	8,485	43.08	8,485	424,118

On April 16, 2015, the Board of Directors extended the previously approved authorization to repurchase up to 482,000 shares, or approximately 10%, of the outstanding shares of the Company for an additional year to April 30, 2016. As of June 30, 2015 there have been 57,882 shares repurchased under this plan.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

3(i)	Articles of Incorporation of the Registrant, as presently in effect (incorporated by reference to Exhibit 3(i) of the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2012).
3(ii)	Bylaws of the Registrant (incorporated by reference to Exhibit 3(ii) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).
31(i)	Rule 13a-14(a)/Rule 15d-14(a) Certification of Chief Executive Officer.
31(ii)	Rule 13a-14(a)/Rule 15d-14(a) Certification of Chief Financial Officer.
32(i)	Section 1350 Certification of Chief Executive Officer.

32(ii)	Section 1350 Certification of Chief Financial Officer.
101	Interactive data file containing the following financial statements formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheet at June 30, 2015 and December 31, 2014; (ii) the Consolidated Statement of Income for the three and six months ended June 30, 2015 and 2014; (iii) Consolidated Statement of Comprehensive Income for the three and six months ended June 30, 2015 and 2014; (iv) the Consolidated Statement of Shareholders' Equity for the six months ended June 30, 2015 and 2014; (v) the Consolidated Statement of Cash Flows for the six months ended June 30, 2015 and 2014; and (vi) the Notes to Consolidated Financial Statements. As provided in Rule 406T of Regulation S-T, this interactive data file shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, and shall not be deemed "filed" or part of any registration statement or prospectus for purposes of Section 11 or 12 under the Securities Act of 1933, or otherwise subject to liability under those sections.

47

Table of Contents

SIGNATURES

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

		PENNS WOODS BANCORP, INC. (Registrant)
Date:	August 10, 2015	/s/ Richard A. Grafmyre Richard A. Grafmyre, President and Chief Executive Officer (Principal Executive Officer)
Date:	August 10, 2015	/s/ Brian L. Knepp Brian L. Knepp, Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

48

Table of Contents

EXHIBIT INDEX

Exhibit 31(i)	Rule 13a-14(a)/Rule 15d-14(a) Certification of Chief Executive Officer
Exhibit 31(ii)	Rule 13a-14(a)/Rule 15d-14(a) Certification of Chief Financial Officer
Exhibit 32(i)	Section 1350 Certification of Chief Executive Officer
Exhibit 32(ii)	Section 1350 Certification of Chief Financial Officer
Exhibit 101	Interactive data file containing the following financial statements formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheet at June 30, 2015 and December 31, 2014; (ii) the Consolidated Statement of Income for the three and six months ended June 30, 2015 and 2014; (iii) Consolidated Statement of Comprehensive Income for the three and six months ended June 30, 2015 and 2014; (iv) the Consolidated Statement of Shareholders' Equity for the six months ended June 30, 2015 and 2014; (v) the Consolidated Statement of Cash Flows for the six months ended June 30, 2015 and 2014; and (vi) the Notes to Consolidated Financial Statements. As provided in Rule 406T of Regulation S-T, this interactive data file shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, and shall not be deemed "filed" or part of any registration statement or prospectus for purposes of Section 11 or 12 under the Securities Act of 1933, or otherwise subject to liability under those sections.