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VOLT INC
Form 10KSB
January 15, 2004

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

FORM 10-KSB
ANNUAL REPORT
PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE YEAR ENDED SEPTEMBER 30, 2003

0-28555
(Commission file number)

VOLT INC.
(Name of small business issuer in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	86-0960464 (I.R.S. Employer Identification Number)
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41667 Yosemite Pines Drive, Oakhurst, CA 93644 (Address of principal executive offices)	93644 (Zip Code)
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Issuer's telephone number is: (559) 692-2474

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

\$.001 Par Value Common Stock
(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this from, and no disclosure will be contained to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10KSB or any amendment to this Form 10KSB.

Indicate by check mark whether the issuer is an accelerated filer (as defined in Exchange Act Rule 12b-2).
Yes No

The issuer's revenues for the most recent fiscal year were \$2,041,991.

The aggregate value of the voting stock held by non-affiliates as of January 13, 2004, was \$7,257,710.

The number of shares outstanding of the issuer's common equity as of January 13, 2004 was 4,919,422, \$.001 Par Value.

Portions of the following documents are incorporated by reference into Part II, Item 5 and Part III, Item 10 respectively of this Form 10KSB: Applicable portions of the Company's Form 10SB12G filed with the Securities and Exchange

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Commission on December 17, 1999 and applicable portions of the Company's Form 10KSB filed with the Securities and Exchange Commission on January 16, 2002.

Transitional Small Business Disclosure Format (Check one): Yes [] No [X]

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

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History

The Company was incorporated in the state of Colorado on March 31, 1997, under the name Biovid Corporation for the purpose of entering into the printing and publishing business. The Company did not commence active business operations in the publishing industry until August 1998, when began acquiring existing printing and publishing businesses as subsidiaries. From August, 1998, until December 31, 1999, the Company derived its revenue primarily from providing printing and publishing services to artists and publishers. The Company discontinued its printing and publishing operations effective December 31, 1999, to concentrate its efforts on Internet-based publishing initiatives. In December 1999, the company effected a merger whereby it became a Nevada corporation and changed its name to Deerbrook Publishing Group, Inc and continued as a holding company looking for other business to acquire.

On April 1, 2001, the Company disposed of its printing and publishing subsidiaries and ceased active business operations. On April 6, 2001, control of the Company changed and the Company determined to explore new business opportunities including but not limited to the acquisition of alternative energy sources in the State of California and other states for resale to the public. Also on April 6, 2001, the Company changed its name to Volt Inc.

On May 15, 2001, the Company acquired all of the stock of Arcadian Renewable Power, Inc., a Delaware corporation ("Arcadian") and thereby acquired control of all of the assets of Arcadian. Arcadian is in the business of alternative energy production.

In May, 2001, the Company established Sun Volt, Inc., a Nevada corporation ("Sun Volt"). Sun Volt is engaged in the business of construction and sale of energy products and energy projects.

In May, 2001, the Company established Sun Electronics, Inc., a Nevada corporation ("Sun Electronics"). Sun Electronics is engaged in the research and development of alternative energy products.

On May 17, 2002, the Company acquired all of the stock of First Washington Financial Corporation, a Nevada corporation ("First Washington"). First Washington is a mortgage loan originator in the home mortgage loan industry that, until August, 2003, concentrated its business in Washington, D.C., Maryland and Virginia. In August, 2003, First Washington moved its operations to the Central Valley of California.

On May 17, 2002, the Company acquired Opportunity Knocks, LLC, a Maryland limited liability company ("Opportunity Knocks"). Opportunity Knocks is in the business of acquiring, refurbishing and selling real estate. Opportunity Knocks specializes in HUD properties.

In October 2002, and April 3, 2003, the Company acquired Mortgage-Matic Brokers, LLC and Heritage Mortgage Bankers, LLC respectively. Both Mortgage-Matic and Heritage are mortgage loan originators in the home mortgage loan industry in Washington, D.C., Maryland and Virginia. In July, 2003, the Company disposed of both Mortgage-Matic and Heritage.

In July, 2003, the Company acquired Yosemite Brokerage, Inc., a California corporation ("Yosemite"). Yosemite is a loan originator in the home mortgage loan industry in California's Central Valley.

The Company

The Company is a holding company formed in the Sate of Nevada whose subsidiaries include Arcadian, Sun Volt, Sun Electronics, First Washington, Opportunity

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Knocks and Yosemite.

The Company is listed on the NASD-OTC Bulletin Board and its common stock trades under the stock symbol "VOLT".

The Alternative Energy Business

Arcadian's major asset is the Altamont Wind Generation Facility, which is an existing electricity generation facility located on approximately 4000 acres in the Altamonte Pass, east of San Francisco, CA (the "Wind Farm"). The Wind Farm has about 1300 wind turbines at present which were installed in the 1980's, approximately 600 of which are still operable. The Wind Farm will be re-powered with new 950 KW state-of-the-art turbines. The Wind Farm is zoned and permitted for up to 114 megawatts, and the infrastructure includes the wind turbines, 300 miles of transmission lines, a 150 MW substation and an interconnection to the PG&E grid. The ground leases extend to 2036 with options to renew. The Wind Farm will be re-powered with a \$150 million credit facility. Financing for the initial 60 MW re-power is \$68 million, with 20% equity supplied by the \$14 million value of the existing plant. The cost to produce electricity is approximately 4.5 cents per KWH, and is eligible for up to 3.5 cents of tax credits. Sale price of the electricity should be in the range of 6.9 cents per KWH with annual revenue in the \$5 Million range without calculating green tickets or tax credits and other incentives.

The Company is in the planning stages to re-power and activate its Wind Farm. However, due to the uncertainty surrounding the Chapter 11 Reorganization Proceeding of Pacific Gas and Electric Company pending in the United States Bankruptcy Court in the Northern District of California, the Company is unsure of when it will be able to activate the Wind farm.

Sun Electronics is conducting Photovoltaics research and development of a patented paint on cellprocess licensed to the company and other solar and energy related technologies.

Sun Volt is currently engaged in the sale and construction of alternative energy products and power from generators and other sources of co-generation.

The Mortgage Business

First Washington and Yosemite earn fees on the origination of real estate mortgage loans in the California's Central Valley. Yosemite leases office space in Oakhurst, California. First Washington and Yosemite specialize in residential mortgage loans. First Washington and Yosemite have 13 full time employees. First Washington and Yosemite obtain customers through direct contact by telephone, the internet and referrals from existing customers.

The Real Estate Business

Opportunity Knocks is in the business of acquiring, refurbishing and selling real estate in the Washington D.C. area. Initially, Opportunity Knocks will utilize the expertise and some of the employees of First Washington and Yosemite to operate its business. Opportunity Knocks specializes in acquiring, refurbishing and selling of HUD properties. Opportunity Knocks will utilize the HUD gifting program to attract first time home buyers who might not otherwise be able to qualify for a home mortgage. Opportunity Knocks shares office space with First Washington and Yosemite. During the year ended September, 30, 2003, Opportunity Knocks moved its business from the Washington D.C. metropolitan area to the California's Central Valley.

ITEM 2. DESCRIPTION OF PROPERTY

Corporate Offices

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The Company leases its corporate and executive offices at 41667 Yosemite Pines Drive, Oakhurst, CA 93644. The Company considers its offices to be adequate. Yosemite leases its corporate offices at 400500 Highway 41, Oakhurst, CA 93644. The Company considers Yosemite's offices to be adequate.

Energy Properties

The Company's Wind Farms are all located on leased property in the Altamonte Pass east of San Francisco, California.

ITEM 3. LEGAL PROCEEDINGS

There are no pending or threatened legal proceedings against the Company or any of its subsidiaries.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fiscal year ended September 30, 2002.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

The company's Common Stock trades under the stock symbol VOLT on the NASDAQ'S OTC Bulletin Board. The following table sets forth the quarterly high and low closing bid prices for the Company's common stock for the periods indicated:

For the year ended September 30, 2001:

		High	Low
Deerbrook:			
Quarter ended	December 31, 2000	\$ 0.07	\$ 0.005
Quarter ended	March 31, 2001	0.08	0.01
VOLT:			
Quarter ended	June 30, 2001	10.25	0.015
Quarter ended	September 30, 2001	9.00	2.50

For the year ended September 30, 2002:

		High	Low
Quarter ended	December 31, 2001	\$ 4.30	2.25
Quarter ended	March 31, 2002	4.20	1.50
Quarter ended	June 30, 2002	2.00	1.55
Quarter ended	September 30, 2002	2.05	1.43

For the year ended September 30, 2003:

		High	Low
Quarter ended	December 31, 2002	\$ 3.30	3.30
Quarter ended	March 31, 2003	3.05	3.00
Quarter ended	June 30, 2003	2.05	1.70
Quarter ended	September 30, 2003	1.75	1.75

The quotations reflect inter-dealer price, without mark-up, mark-down or commission and may not represent actual transactions.

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Capital Stock and Holders of Capital Stock

As of September 30, 2003, the Company had two classes of capital stock outstanding; Common Stock, \$.001 par value, and Series A Voting Convertible Preferred Stock. As of September 30, 2003, there were approximately 650 holders of record of the Company's Common Stock and one holder of record of the Company's Series A Voting Convertible Preferred Stock. The Company's Series A Voting Convertible Preferred Stock is convertible into the Company's common stock at the ratio of five shares of the Company's Common Stock for each share of the Company's Series A Voting Convertible Preferred Stock.

As of September 30, 2003, the Company's subsidiary, First Washington, has two classes of capital stock outstanding; Common Stock, no par value and Series A 10 % Non-Cumulative Convertible Preferred Stock. The Company owns 10,000,000 shares of First Washington's Common Stock, no par value. First Washington has issued 500,000 shares of Series A 10% Non-Cumulative Convertible Preferred Stock which is convertible into First Washington's Common Stock at the ratio of four shares of First Washington's Common Stock for each share of First Washington's Series A 10% Non-Cumulative Convertible Preferred Stock. There is one owner of First Washington's Series A 10% Non-Cumulative Convertible Preferred Stock.

Dividends

The Company has not declared or paid any cash dividends on its common stock and does not intend to declare or pay any cash dividends in the foreseeable future. The payment of dividends, if any is within the discretion of the Board of Directors and will depend on the Company's earnings, if any, its capital requirements, and financial condition and other such factors as the Board of Directors may consider.

First Washington has not declared or paid any cash dividends on its Series A 10% Non-Cumulative Convertible Preferred Stock to date.

Securities Authorized for Issuance Under Equity Compensation Plans.

None.

Recent Sales of Unregistered Securities

Sales of securities by the Company and its subsidiaries within the past three years without registration under the Securities Act were as follows:

With respect to such sales within the fiscal years ended September 30, 2003, 2002 and 2001, see Note 7 to the Company's Consolidated Financial Statements contained herein. Each share of the Company's Series A Voting Convertible Preferred Stock referred to in Note 7 is convertible into five shares of the Company's common stock at the option of the holder(s) thereof. Each share of First Washington's Series A 10% Non-Cumulative Convertible Preferred Stock referred to in Note 7 is convertible into four shares of First Washington's common stock at the option of the holder(s) thereof.

With respect to such sales within the fiscal year ended September 30, 2000, refer to the applicable portions of the Company's Form 10SB12G filed with the Securities and Exchange Commission December 17, 1999, which by this reference are incorporated herein by reference for this specific purpose.

The Company claims exemption from registration for these securities under Section 4(2) of the Securities Act in as much as all of the purchasers were "accredited investors" as that term is defined in Regulation D as promulgated by the Securities and Exchange Commission and all of the purchasers either alone or with their purchaser representative(s) had such knowledge and experience in

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financial and business matters that they were capable of evaluating the merits and risks of the purchase of the Company's securities.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

THE FOLLOWING DISCUSSION OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE COMPANY SHOULD BE READ IN CONJUNCTION WITH THE FINANCIAL STATEMENTS AND NOTES THERETO INCLUDED ELSEWHERE IN THIS REPORT.

THIS DISCUSSION CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES, AND THE COMPANY'S ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN FACTORS, INCLUDING, BUT NOT LIMITED TO COMPETITION AND OVERALL MARKET AND ECONOMIC CONDITIONS.

Results of Continuing Operations

The following table of selected financial information summarizes certain selected consolidated financial data and is qualified in its entirety by the more detailed Consolidated Financial Statements and Notes thereto appearing elsewhere in this Report.

VOLT INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

	2003	2002
	-----	-----
Revenue	\$ 2,041,991	\$ 926,128
Cost of Revenue	1,122,381	302,878
	-----	-----
Gross Profit	919,610	623,250
Operating Expenses		
General and administrative costs	911,439	362,230
	-----	-----
Total operating expenses	911,439	362,230
	-----	-----
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	8,171	261,020
Gain from discontinued operations	97,723	-
Loss on disposal	(36,360)	-
	-----	-----
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	69,534	261,020
Income taxes	-	-
	-----	-----
NET INCOME	\$ 69,534	\$261,020
	=====	=====

BASIS AND DILUTED EARNINGS PER SHARE:
Earnings per share on continuing

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operations	\$ 0.00	\$ 0.10
	=====	=====
Earnings per share on gain from discontinued operations	\$ 0.02	\$ -
	=====	=====
Loss per share on disposal	\$ (0.01)	\$ -
	=====	=====
Earnings per share on all operations	\$ 0.02	\$ 0.10
	=====	=====

Revenue for the year ended September 30, 2003, increased \$1,115,863 from the year ended September 30, 2002. The Cost of Revenue for the year ended September 30, 2003, increased \$819,503 from the year ended September 30, 2002. Gross Profit for the year ended September 30, 2003, increased 296,360 from the year ended September 30, 2002. Operating Expenses for the year ended September 30, 2003 increased \$549,209 from the year ended September 20, 2002. In the year ended September 30, 2003, the Company experienced a net gain of \$97,723 from discontinued operations and a one time loss on the disposal of subsidiaries in the amount of \$(36,360). Net Income for the year ended September 30, 2003, decreased \$(191,486) from the year ended September 30, 2002. Earnings per share on all operations for the year ended September 30, 2003 decreased \$(0.08) from the year ended September 30, 2002.

Management's Discussion

Because of delays in the redevelopment of the Company's Wind Farm business caused by the Chapter 11 Reorganization proceedings of Pacific Gas and Electric Company, the Company's energy business produced minimal revenue for the year ended September 30, 2003. The Company is proceeding with redevelopment planning for its Altamonte Pass Wind Farm. However, the redevelopment is not expected to be completed in the near term due to the uncertainty of both the state of California's energy problems and legislative solutions and the Chapter 11 Reorganization Proceeding of Pacific Gas and Electric Company pending in the United States Bankruptcy Court in the Northern District of California. Since the Company's Wind Farm business is primarily dependent on the purchase of power from the Company by Pacific Gas and Electric and Pacific Gas and Electric is in Chapter 11 Reorganization proceedings the Company cannot currently predict when its Wind Farm business will begin to produce revenue. The Company is aggressively pursuing acquisitions for its energy division in the hydroelectric, distributed power and solar power segments of the energy market as it has strong expertise in these fields.

During the year ended September 30, 2003, the Company closed in escrow on the purchase of Wolverine Power Corporation, a Michigan hydroelectric facility. However, the escrow conditions have not as yet been satisfied by Wolverine and therefore the purchase of the facility is not as yet completed. When the conditions to closing the escrow have been met, the purchase will be finalized. There can be no assurance that the escrow conditions will be satisfied and that the purchase will be finalized.

The Company's real estate business produced no revenue for the year ended September 30, 2003. The Company has determined to move its real estate business from the metropolitan Washington, D.C. area to the Central Valley area of California for two reasons; the Company's executive offices are located in central California, and California's Central Valley is the fastest growing housing market in California. The Company has an existing loan commitment for \$750,000 to acquire and refurbish residential real estate. The Company anticipates realizing revenue from its real estate business in its 2004 fiscal year.

The Company's primary source of revenue is its mortgage business. In late summer

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of 2003, the Company determined to discontinue its mortgage business operations in the Washington D.C. metropolitan area due to increasing cost of revenue, increasing operating expenses and decreasing revenues. The Company determined that the increased costs and decreasing revenues were a direct consequence of lack of senior management oversight. The Company determined to move its mortgage business to California's Central Valley for two reasons; the California Central Valley is the fastest growing housing market in California, and senior management is located in central California. To facilitate the move to Central California, the Company has acquired Yosemite Mortgage Brokers, Inc. The Company expects substantial increases in revenue from its mortgage business in the year ending September 30, 2004.

ITEM 7. FINANCIAL STATEMENTS

The financial statements of the Company are attached hereto.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS

There have been no changes in or disagreements with the Company's accountants on any matter.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information regarding the Company's directors, executive officers, and certain key employees:

Name	Age	Position With the Company
Denis C. Tseklenis	54	Chairman, President, Chief Executive Officer and Secretary
Robert F. Rood....	36	Director, Treasurer
James A. Sharon...	52	Director
Bruce Persson.....	62	Director

Denis C. Tseklenis Mr. Tseklenis has served as the chairman of the board of directors, president, chief executive office and secretary of the Company since April 6, 2001. Mr. Tseklenis has a Masters of Science Degree from Boston University and an extensive background in marketing, finance and public corporate development. Mr. Tseklenis has previously served as president and chairman of other public companies in which revenues exceeded One Hundred Million Dollars (\$100,000,000) per year and which had rapid growth in multiple locations. In the 1980's Mr. Tseklenis' companies sold and leased over 60,000 solar systems to home owners at a cost of approximately \$4,000 per unit. Mr. Tseklenis has extensive experience in real estate management and construction having managed over 2, 500 apartment and condominium units.

Robert F. Rood....Mr. Rood has been a director and the treasurer of the Company since March 17, 2002. Mr. Rood has been in the finance industry since 1991. Mr. Rood has managed and consulted and has served as a financial consultant for unions and REITS. In conjunction with Donaldson, Lufkin and Jeanerette, Mr. Rood participated in the designing of secondary market products. In 1997, Mr. Rood entered the mortgage lending industry at Wall Street Mortgage Corporation as head of the sales force and was responsible for promoting custom-made mortgage products and FHA lending. In 2000, Mr. Rood went to F&M Bank in Bethesda Maryland to start and supervise the newly formed wholesale mortgage division. When F&M Bank was acquired, Mr. Rood left to become manager of the Bethesda

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office of Fidelity & Trust Mortgage, Inc. In 2000, Mr. Rood helped found First Washington, now a wholly owned subsidiary of the Company.

James A. Sharon...Mr. Sharon has been a director of the Company since September 15, 2002. Mr. Sharon was an exchange student a City University in London in 1972 and holds a Bachelor of Science Degree in Civil Engineering with Honors from Worcester Polytechnic Institute. Mr. Sharon is licensed by the State of Florida as a Certified Building Contractor and a Certified Solar Energy Contractor. Mr. Sharon has public company experience as a former president of a public company and has experience in lease negotiations with major tenants such as Mobil Oil, Cellular-One and Marriott Corp. Mr. Sharon has extensive experience in the installation of large commercial renewable energy projects.

Bruce Persson...Mr. Persson has been a director of the Company since February 13, 2002. Mr. Persson has owned and operated California Paving, Inc., a licensed paving contractor since 1993. Mr. Persson was a founder of the Bank of Madera, Oakhurst, California, and was a director of the bank until 1999. Mr. Persson has extensive experience in business and real estate development.

There are no family relationships among directors, or executive officers.

ITEM 10. EXECUTIVE COMPENSATION

With respect to executive compensation for the fiscal years ended September 30, 2001 and 2000, refer to the applicable portions of the Company's Form 10KSB filed with the Securities and Exchange Commission January 16, 2002 which by this reference are incorporated herein by reference for this specific purpose.

The Company paid no executive compensation for the fiscal year ended September 30, 2002.

In the fiscal year ended September 30, 2003, the Company paid Robert F. Rood, the Company's Treasurer annual compensation of \$140,401. The Company paid no other executive compensation of any nature in the fiscal year ended September 30, 2003.

The Company has no employment contracts. The company does not have a bonus or stock option plan at this time.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following is a listing of security ownership of management and certain beneficial owners of the Issuer's securities as of January 13, 2003. On that date there were 4,919,422 shares of the Company's common stock issued and outstanding and 1,000,000 shares of the Company's Series One Voting Convertible Preferred Stock outstanding.

Title Of Class	Name and Position of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of Class
Common	Denis C. Tseklenis, Chairman, President, CEO and Secretary	1,627,995	33%
Common ..	Robert F. Rood, Director and Treasurer	500,000	10%

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Total Officers and Directors as a Group	2,127,995 =====	43% ===
Series A		
Preferred Denis C. Tseklenis, Chairman, ... President CEO and Secretary	1,000,000 -----	100% ----
Total Officers and Directors as a Group	1,000,000 =====	100% ====

(1) Subject to community property laws when applicable, the persons named in the above table have sole voting and investing power with respect to all shares of stock beneficially owned by them.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On May 15, 2001, the Company acquired all of the issued and outstanding shares of stock of Arcadian Renewable Power Corporation, a Delaware corporation from Denis C. Tseklenis, an officer and director, for 1,000,000 shares of the Company's restricted common stock and 1,000,000 shares of the Company's restricted Series One Voting Preferred Convertible Stock.

On May 17, 2002, the Company acquired 500,000 shares of the stock of First Washington Financial Corporation, a Nevada corporation from Denis C. Tseklenis, an officer and director, for 500,000 shares of the Company's restricted common stock.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

Index to Exhibits

Exhibit No.	Description of Document
2.1(1)	Articles of Merger merging Artup.com Network, Inc., a Colorado corporation, with and into the Registrant
3.1(1)	Articles of Incorporation of the Registrant
3.2(1)	Bylaws of the Registrant
4.1(1)	Specimen of Common Stock Certificate
4.2(1)	Specimen of Certificate for Common Stock Purchase Warrants
4.3(1)	Common Stock Purchase Warrant dated January 3, 2000, issued to Gene Bowlds
4.4(1)	Non-Statutory Stock Option Certificate dated February 16, 2000, issued to Michael Paloma
10.1(1)	Master Consulting Services Agreement dated as of July 28, 1999 between the Registrant and Integrated Information Systems, Inc.
10.2(1)	Equipment Lease dated September 15, 1999 between the Registrant and Copelco Capital, Inc.
10.3(1)	Employment Agreement between the Registrant and Mark L. Eaker
10.4(1)	Employment Agreement between the Registrant and Keith M. Chesser
10.5(1)	1999 Incentive Stock Plan
16.1(1)	Letter on change in certifying accountant from Alvin H. Bender, C.P.A.
16.2(1)	Letter on change in certifying accountant from Mark Shelley, CPA
16.3(1)	Letter on change in certifying accountants from Semple and Cooper, LLP
21.1(1)	Subsidiaries of registrant
21.2(1)	Subsidiaries of registrant
21.3(2)	Subsidiaries of registrant

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- (1) Previously filed with the Securities and Exchange Commission.
- (2) Attached hereto as Exhibit 21.2.

Reports on Form 8-K:

None

ITEM 14. EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. The Company's principal executive officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-14(c) and 15-d-14(c)) as of a date (the "Evaluation Date") within 90 days before the filing date of this annual report, has concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were adequate and designed to ensure that material information relating to the Company and the Company's consolidated subsidiaries would be made known to him by others within those entities.

Changes in internal controls. There were no significant changes in the Company's internal controls or to the Company's knowledge, in other factors that could significantly affect the Company's disclosure controls and procedures subsequent to the Evaluation Date.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VOLT INC.
(Registrant)

/s/ Denis C. Tseklenis Chief Executive Officer January 15, 2004
 Director

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated

/s/ Denis C. Tseklenis Director January 15, 2004

/s/ Robert F. Rood Director January 15, 2004

/s/ James A. Sharon Director January 15, 2004

/s/ Bruce Persson Director January 15, 2004

CERTIFICATION PURSUANT TO RULE 13A-14 OR 15D-14 OF THE SECURITIES EXCHANGE ACT OF 1934

I, Denis C. Tseklenis, Chief Executive Officer certify that:

1. I have reviewed this annual report on Form 10KSB of Volt Inc.

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly

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report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The Registrant's other certifying officers and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and I have:

(a).....designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this annual report is being prepared;

(b).....evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c).....presented in this annual report my conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a).....all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The Registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: January 15, 2004

/s/Denis C. Tseklenis
Denis C. Tseklenis
Chief Executive Officer

CERTIFICATION PURSUANT TO RULE 13A-14 OR 15D-14
OF THE SECURITIES EXCHANGE ACT OF 1934

I, Robert F. Rood, Treasurer and Chief Financial Officer certify that:

1. I have reviewed this annual report on Form 10KSB of Volt Inc.

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make

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the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The Registrant's other certifying officers and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and I have:

(a).....designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this annual report is being prepared;

(b).....evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c).....presented in this annual report my conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a).....all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The Registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: January 15, 2004

/s/ Robert F. Rood
Robert F. Rood
Treasurer
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Volt Inc. (the "Company") on Form 10KSB

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for the year ending September 30,2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Denis C. Tseklenis, Chairman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

1.....The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2.....The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: January 15, 2004

/s/Denis C. Tseklenis
Denis C. Tseklenis
Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Volt Inc. (the "Company") on Form 10KSB for the year ending September 30,2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert F. Rood, Treasurer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

1.....The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2.....The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: January 15, 2004

/s/ Robert F. Rood
Robert F. Rood
Treasurer
Chief Financial Officer

VOLT INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

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CONSOLIDATED FINANCIAL STATEMENTS:

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INDEPENDENT AUDITORS' REPORT

To the Stockholders of
Volt Inc. and Subsidiaries
Oakhurst, California

We have audited the accompanying consolidated balance sheets of Volt Inc. and Subsidiaries (the "Company") as of September 30, 2003 and 2002 and the related consolidated statements of income, changes in stockholders' equity (deficit), and cash flows for the years then ended. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted

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in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Volt Inc. and Subsidiaries as of September 30, 2003 and 2002, and the consolidated results of its statements of operations, changes in stockholders' equity (deficit), and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BAGELL, JOSEPHS & COMPANY, L.L.C.
s/s BAGELL, JOSEPHS & COMPANY, L.L.C.
Gibbsboro, New Jersey

December 17, 2003

VOLT INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2003 AND 2002

ASSETS

	2003	2002
	-----	-----
Current Assets:		
Cash and cash equivalents	\$ 249,993	\$172,521
Commissions receivable	30,022	-
Deposits	2,000	-
	-----	-----
Total Current Assets	282,015	172,521
Property and equipment, net	5,806,927	5,756,339
Other Assets:		
Goodwill	3,031,840	3,000,000
Deferred financing fees, net	-	5,000
Advances receivable	347,326	204,000
	-----	-----
Total Other Assets	3,379,166	3,209,000
	-----	-----
Total Assets	\$9,468,108	\$9,138,460
	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

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VOLT INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (CONTINUED) SEPTEMBER 30, 2003 AND 2002

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	2003	2002
	-----	-----
Current Liabilities:		
Accounts payable	\$ 51,663	\$ 36,949
	-----	-----
Total Current Liabilities	41,448	36,949
Commitments and Contingencies		
Stockholders' Equity (Deficit):		
Class A Preferred Stock, \$.001 par value, 10,000,000 shares authorized at September 30 2003 and 2002, respectively, and 1,000,000 issued and outstanding at September 30, 2003 and September 30, 2002, respectively	1,000	1,000
Class B Preferred Stock, no par value, 125,000 and 0 shares authorized at September 30, 2003 and 2002, respectively, and 0 and 0 issued and outstanding at September 30, 2003 and 2002, respectively	-	-
First Washington Class A Preferred Stock, no par value, 500,000 and 0 authorized at September 30, 2003 and 2002, respectively, and 500,000 and 0 issued and outstanding at September 30, 2003 and 2002, respectively	-	-
Common Stock, \$.001 par value, 25,000,000 shares authorized at September 30, 2003 and 2002, respectively, and 3,919,422 issued and outstanding at September 30, 2003 and 2002, respectively	3,919	3,919
Additional paid-in capital	13,024,019	12,778,619
Accumulated deficit	(3,612,493)	(3,682,027)
	-----	-----
Total stockholders' equity	9,416,445	9,101,511
	-----	-----
Total Liabilities and Stockholders' Equity (Deficit)	\$9,468,108	\$9,138,460
	=====	=====

The accompanying notes are an integral part of the consolidated
financial statements.

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VOLT INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

	2003	2002
	-----	-----
Revenue	\$ 2,041,991	\$ 926,128
Cost of Revenue	1,122,381	302,878
	-----	-----
Gross Profit	919,610	623,250
Operating Expenses		
General and administrative costs	911,439	362,230
	-----	-----
Total operating expenses	911,439	362,230
	-----	-----
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	8,171	261,020
Gain from discontinued operations	97,723	-
Loss on disposal	(36,360)	-
	-----	-----
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	69,534	261,020
Income taxes	-	-
	-----	-----
NET INCOME	\$ 69,534	\$ 261,020
	=====	=====
BASIS AND DILUTED EARNINGS PER SHARE:		
Earnings per share on continuing operations	\$ 0.00	\$ 0.10
	=====	=====
Earnings per share on gain from discontinued operations	\$ 0.02	\$ -
	=====	=====
Loss per share on disposal	\$ (0.01)	\$ -
	=====	=====
Earnings per share on all operations	\$ 0.02	\$ 0.10
	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING	3,919,422	2,644,422
	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

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VOLT INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIR)
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

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	Preferred Stock		Preferred Stock Class B		First Washington Preferred Stock Class A	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance, September 30, 2001	1,000,000	\$ 1,000	-	\$ -	-	\$ -
Common shares reissued from canceled shares in 2001 put in wrong names originally	-	-	-	-	-	-
Acquisition of First Washington	-	-	-	-	-	-
Net income for the year	-	-	-	-	-	-
Balance, September 30, 2002	1,000,000	1,000	-	-	-	-
Acquisition/disposal of financial service companies	-	-	-	-	500,000	-
Contributed capital by officer	-	-	-	-	-	-
Net income for the year	-	-	-	-	-	-
Balance, September 30, 2003	1,000,000	\$ 1,000	-	\$ -	500,000	\$ -

The accompanying notes are an integral part of the consolidated financial statements.

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VOLT INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIR) (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

	Common Shares	Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Total
Balance, September 30, 2001	1,694,422	\$ 1,694	\$ 9,780,844	\$ (3,943,047)	\$ 5,840,491
Common shares reissued from canceled shares in 2001 put in wrong names originally	225,000	225	(225)	-	-
Acquisition of First Washington	2,000,000	2,000	2,998,000	-	3,000,000

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Net income for the year	-	-	-	261,020	261,020
	-----	-----	-----	-----	-----
Balance, September 30, 2002	3,919,422	3,919	12,778,619	(3,682,027)	9,101,511
Acquisition/disposal of financial service companies	-	-	200,000	-	200,000
Contributed capital by officer	-	-	45,400	-	45,400
Net income for the year	-	-	-	69,534	69,534
	-----	-----	-----	-----	-----
Balance, September 30, 2003	3,919,422	\$ 3,919	\$13,024,019	\$(3,612,493)	\$9,416,445
	=====	=====	=====	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

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VOLT INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

	2003	2002
	-----	-----
CASH FLOWS FROM OPERAITNG ACTIVITIES		
Net income	\$ 69,534	\$ 261,020
	-----	-----
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,773	15,401
Net cash received in acquisition of Yosemite Brokerage, Inc.	54,820	-
Changes in assets and liabilities		
Prepaid expenses and other	(2,000)	2,800
Commissions receivable	51,189	-
Accounts payable	(8,418)	(6,551)
	-----	-----
Total adjustments	121,364	11,650
	-----	-----
Net cash provided by operating activities	190,898	272,670
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in advances receivable	(143,326)	(133,000)
Purchases of property and equipment	(15,500)	(42,941)
	-----	-----
Net cash used in investing activities	(158,826)	(175,941)

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The accompanying notes are an integral part of the consolidated financial statements.

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VOLT INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

	2003	2002

CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributed capital	\$ 45,400	-
Deferred financing fees	-	(10,000)

Net cash provided by (used in) financing activities	45,400	(10,000)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	77,472	86,729
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	172,521	85,792

CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 249,993	\$ 172,521
	=====	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ -	\$ -
	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

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VOLT INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2003 AND 2002

NOTE 1- ORGANIZATION AND BASIS OF PRESENTATION

Volt Inc. and Subsidiaries is a power provider and marketer of alternative energy and financial services. The Company is in the initial stages of implementing its business plan.

Deerbrook Publishing Group, Inc. was a distributor of fine arts. Effective March 31, 2001, Deerbrook Publishing Group, Inc. entered into an agreement to spin off its subsidiaries; Inter Arts, Inc. and Cimmaron Studios, Inc. As of March 31,

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2001, the Company ceased its printing and publishing business and the shares of stock of its former operating subsidiaries were distributed to certain shareholders. The Company did not spin off Deerbrook Publishing, Deerbrook Publishing changed its name to Volt, Inc. when on April 6, 2001, Denis C. Tseklenis acquired 127,995 shares of the company's common stock, \$.001 par value per share, which constituted approximately 53% of the company's issued and outstanding common stock for \$255,000 and there was a change in control. At this time, the Company effected a 1 for 100 reverse stock split for its \$.001 par value common stock.

In May, 2001, Mr. Tseklenis sold shares of stock of Arcadian Renewable Power which owns the wind farm to the Company in exchange for 1,000,000 shares of Preferred Convertible Stock. The wind farm had a historical value of \$5,700,000.

On May 17, 2002, the Company acquired First Washington Financial Corporation, a company which provides financial services in Bethesda, Maryland ("First Washington"). First Washington, is a mortgage company whose emphasis lies in residential mortgages in the greater Washington D.C. service area. The combination was treated as a purchase with First Washington becoming a wholly owned subsidiary of Volt, Inc. Volt, Inc. recognized an intangible asset (goodwill) which represented the amount of value received over the net assets acquired. The operations of First Washington are included in the consolidated statements of income for the year ended September 30, 2002 from the date of inception May 17, 2002 to September 30, 2002. There was no predecessor entity of First Washington. The fair value of the transaction was recorded based on the number of shares issued to First Washington (2,000,000) at the fair value of the stock of Volt on the date of acquisition net of a discount since the stock issued in the acquisition was restricted stock (\$1.50). The cost of the net assets purchased and liabilities assumed approximated zero, however, the value of \$3,000,000 is based on the mortgage company's future earnings.

The Company has acquired Opportunity Knocks, LLC. during the third fiscal quarter of 2002 to rehab HUD homes and other properties in Washington, D.C., Maryland and Virginia under the HUD Gift Program. This acquisition was done simultaneously with the acquisition of First Washington, and Opportunity Knocks is a wholly owned subsidiary of the Company.

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VOLT INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2003 AND 2002

NOTE 1- ORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

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In fiscal 2003, the Company expanded its financial services business, and brought in two businesses, that operationally failed to meet the Company's business model. Subsequent to these agreements being in force, the Company spun them out. Additionally, the Washington Metropolitan Area market had not met Company expectations, so the Company's subsidiary First Washington acquired Yosemite Brokerage, Inc. in Oakhurst, California, a few miles from the Company's headquarters. The Company has reflected the operations from the financial service companies as discontinued operations in the consolidated statements of income for the year ended September 30, 2003. The Company had issued Preferred Stock Class B, which has been cancelled by the Company.

In July 2003 (effective August 1, 2003), First Washington acquired Yosemite Brokerage, Inc. ("Yosemite"), a California corporation for 500,000 shares of First Washington Class A Preferred Stock. The acquisition was recorded for accounting purposes as a purchase acquisition. The Company valued this transaction at \$200,000 (\$.40 per share), which included the recognition of \$31,840 in goodwill.

The Company has three other power related wholly-owned subsidiaries, Sun Volt, Inc., Sun Electronics, Inc. and Arcadian Renewable Power, Inc. Arcadian Renewable Power, Inc. is the corporation that holds the Altamont Wind Farm in the Altamont Pass in Livermore, California.

NOTE 2-

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation

The consolidated balance sheets for September 30, 2003 and 2002 and consolidated statements of income and cash flows for the years then ended includes Volt Inc. and its wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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NOTE 2-

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments and other short-term investments with an initial maturity of three months or less to be cash or cash equivalents.

The Company maintains cash and cash equivalent balances at several financial institutions which are insured by the Federal Deposit Insurance Corporation up to \$100,000.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed primarily using the straight-line method over the estimated useful life of the assets.

Furniture and fixtures	5-7 years
Office and computer equipment	3-5 years
Wind Farm	40 years

Revenue Recognition

For the Company's power division, sold merchandise and revenue was recorded under the accrual method of accounting.

For the Company's financial services division, they record commission income upon the closing of their respective transactions.

Advertising

Advertising costs are typically expensed as incurred. Advertising expense was approximately \$169,821 and \$0 for the years ending September 30, 2003 and 2002, respectively.

Income Taxes

The income tax benefit is computed on the pretax loss based on the current tax law. Deferred income taxes are recognized for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates.

Fair Value of Financial Instruments

The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, advances receivable, commissions receivable, accounts payable and accrued expenses approximate fair value because of the immediate or short-term maturity of these financial instruments.

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VOLT INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2003 AND 2002

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings Per Share of Common Stock

Historical net income per common share is computed using the weighted average number of common shares outstanding. Diluted earnings per share (EPS) includes additional dilution from common stock equivalents, such as stock issuable pursuant to the exercise of stock options and warrants.

The following is a reconciliation of the computation for basic and diluted EPS:

	2003 ----	2002 ----
Net income	\$69,534 -----	\$261,020 -----
Weighted- average common shares Outstanding (Basic)	3,919,422	2,644,422
Weighted-average common stock Equivalents:		
Stock options	-	-
Warrants	-	-
	-----	-----
Weighted-average common shares Outstanding (Diluted)	3,919,422 =====	2,644,422 =====

Deferred Financing Fees

The Company paid a \$10,000 financing fee in connection with a line of credit in April 2002. This fee was written off over a one-year period of time. The unamortized balance at September 30, 2003 and 2002 is \$ -0- and \$5,000, respectively.

Goodwill

In June 2001, the FASB issued Statement No. 142 "Goodwill and Other Intangible Assets". This Statement addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, Intangible Assets. It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. This statement has been considered when determining impairment of goodwill in certain transactions. As of September 30, 2003, the Company recognized \$31,840 of goodwill acquired in the Yosemite transaction. There was no recognition of impairment of goodwill during the years ended September 30, 2003 and 2002.

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VOLT INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2003 AND 2002

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncement

On October 3, 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), that is applicable to financial statements issued for fiscal years beginning after December 15, 2001. The FASB's new rules on asset impairment supersede SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and portions of Accounting Principles Board Opinion 30, "Reporting the Results of Operations." This Standard provides a single accounting model for long-lived assets to be disposed of and significantly changes the criteria that would have to be met to classify an asset as held-for-sale. Classification as held-for-sale is an important distinction since such assets are not depreciated and are stated at the lower of fair value and carrying amount. This Standard also requires expected future operating losses from discontinued operations to be displayed in the period (s) in which the losses are incurred, rather than as of the measurement date as presently required.

Reclassifications

Certain amounts for the year ended September 30, 2002 have been reclassified to conform with the presentation of the September 30, 2003 amounts. The reclassifications have no effect on net income for the year ended September 30, 2002.

NOTE 3- PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30, 2003 and 2002:

	2003	2002
	----	----
Wind Farm	\$5,700,000	\$ 5,700,000
Furniture and fixtures	16,000	3,000
Leasehold improvements	8,885	-
Computer and office equipment	116,293	67,417
	-----	-----
	5,841,178	5,770,417
Less: accumulated depreciation	34,251	13,478
	-----	-----
Net book value	\$ 5,806,927	\$ 5,756,939
	=====	=====

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Depreciation expense for the years ended September 30, 2003 and 2002 was \$20,773 and \$10,401, respectively. There is no depreciation recognized on the Wind Farm in 2003 or 2002 as it is non operational until placed in service. In the Company's acquisition of Yosemite, they acquired \$55,261 office and computer equipment.

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VOLT INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) SEPTEMBER 30, 2003 AND 2002

NOTE 4- ADVANCES RECEIVABLE

As of September 30, 2003 and 2002, advances receivable were \$342,826 and \$204,000, respectively . There was no interest due the Company on these loans, and the amounts due at September 30, 2003 and 2002, are deemed by management to have no specific repayment terms.

NOTE 5- DEPOSITS

During the quarter ended March 31, 2003, the Company's subsidiary, Opportunity Knocks placed deposits down on four homes in Virginia Beach, Virginia. Opportunity Knocks placed \$500 down per home for a total of \$2,000. Opportunity Knocks anticipates closing on these homes by the beginning of fiscal 2004.

NOTE 6- COMMITMENTS AND CONTINGENCIES

The Company entered into a lease agreement in April 2001 in Pleasanton, California. The Company paid \$2,800 per month for rent. This lease was terminated by the Company in October 2001, and all operations now run through the Oakhurst, California location. The security deposit was expensed as part of a rent payment in 2002.

NOTE 7- STOCKHOLDERS' EQUITY

Common and Preferred Stock

Effective April 23, 2001, the Registrant effected a 1 for 100 reverse stock split for its common stock, \$.001 par value per share.

The Company issued 1,000,000 shares of Class A Preferred Stock to Denis C. Tseklenis in consideration for the Wind Farm.

On April 6, 2001, Denis C. Tseklenis acquired 127,995 original issue shares of the Company's common stock, \$.001 par value per share, which constituted approximately 53% of the Company's issued and outstanding common stock. Mr. Tseklenis paid the Company \$255,000 for the common stock.

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During the year ended September 30, 2001, in addition to the initial acquisition by Denis C. Tseklenis, the Company had issued 1,678,000 shares and cancelled 225,000 of common stock for \$366,711.

Prior to the initial acquisition by Denis C. Tseklenis, the Company had issued 1,850,000 shares of common stock for accrued payroll, accounts payable and services.

During the quarter ended December 31, 2001, 225,000 shares were reissued that were cancelled from the prior year ended September 30, 2001.

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VOLT INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) SEPTEMBER 30, 2003 AND 2002

NOTE 7- STOCKHOLDERS' EQUITY (CONTINUED)

Common and Preferred Stock (Continued)

On May 17, 2002, the Company issued 2,000,000 shares of common stock to acquire First Washington and thus it became a wholly-owned subsidiary. The shares were valued at a fair value at the time of the transaction (\$1.50 per share) or \$3,000,000.

On January 1, 2003, the Company issued a board resolution for the authorization of a new class of preferred stock, Class B Preferred Stock, no par value. The Company authorized the issuance of 125,000 shares of Class B Preferred Stock.

On July 1, 2003, First Washington issued a board resolution for the authorization of a new class of preferred stock, Class A Preferred Stock, no par value. First Washington authorized the issuance of 500,000 shares of Class A Preferred Stock.

During fiscal 2003, the Company had issued shares of Class B Preferred Stock, only to cancel them later in that fiscal year. As of September 30, 2003, there were no shares of Class B Preferred Stock issued and outstanding.

In July 2003 (effective August 1, 2003), First Washington issued 500,000 shares of the Class A Preferred Stock, to acquire Yosemite Brokerage, Inc. ("Yosemite"). The acquisition was recorded for accounting purposes as a purchase acquisition. The transaction was valued at \$200,000 (\$.40 per share), which included goodwill of \$31,840.

NOTE 8- RELATED PARTY TRANSACTIONS

On January 1, 2003, the Company entered into a lease agreement for the rental of office space for its home office. An officer of the Company is a partner in the partnership that rents this

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space to the Company. The lease is a five-year lease with a five-year option, with rent of \$2,750 per month. Rent expense for the year ended September 30, 2003 of \$24,750 was forgiven by the company at September 30, 2003.

Yosemite Brokerage, rents space from its officer. The lease commenced February 1, 2000 and runs through January 31, 2005. The monthly rents commenced at \$5,600 per month and calls for increase annually up to 3%. Rent expense for 2003 was \$12,239.

The President of the Company owns a controlling percentage of the common stock outstanding.

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VOLT INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2003 AND 2002

NOTE 9- PROVISION FOR INCOME TAXES

Deferred income taxes will be determined using the liability method for the temporary differences between the financial reporting basis and income tax basis of the Company's assets and liabilities. Deferred income taxes will be measured based on the tax rates expected to be in effect when the temporary differences are included in the Company's consolidated tax return. Deferred tax assets and liabilities are recognized based on anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases.

At September 30, 2003 and 2002, deferred tax assets consist of the following:

	2003 ----	2002 -----
Net operating loss carryforwards	\$141,008	\$ 168,923
Less: valuation allowance	(141,008)	(168,923)
	-----	-----
	\$ -0-	\$ -0-
	=====	=====

At September 30, 2003 and 2002, the Company had federal net operating loss carryforwards in the approximate amounts of \$427,298 and \$496,833, respectively, available to offset future taxable income. The Company established valuation allowances equal to the full amount of the deferred tax assets due to the uncertainty of the utilization of the operating

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losses in future periods.

NOTE 10-

SUPPLEMENTAL DSCLOSURE OF NONCASH INFORMATION

First Washington during the year ended September 30, 2003 acquired Yosemite Brokerage, Inc. for 500,000 shares of Preferred Stock Class A with a value of \$200,000 (\$.40 per share).

The following is a summary of the acquisition:

	2003	2002
	-----	-----
Cash	\$ 54,820	\$ -
Commissions receivable	81,211	-
Fixed assets	55,261	-
Goodwill	31,840	-
Liabilities	(23,132)	-
Additional paid-in capital	(200,000)	-
	-----	-----
	\$ -	\$ -
	=====	=====

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VOLT INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) SEPTEMBER 30, 2003 AND 2002

NOTE 10-

SUPPLEMENTAL DSCLOSURE OF NONCASH INFORMATION (CONTINUED)

The Company's in fiscal 2002, acquired First Washington for 2,000,000 shares of common stock at a value of \$3,000,000 (\$1.50 per share).

NOTE 11-

SUBSEQUENT EVENT

The Company issued 1,000,000 shares of its common stock to a company for the right of first refusal on certain power contracts and operating projects for California Pacific Gas and Electric territories and Hawaii. The stock was issued by the Company in November 2003.

The Company in January 2004 reached an agreement to purchase all of the outstanding shares of the Whittlesey hydro-electric project on the Salmon River in Malone, New York from Franklin Hydro for cash. The purchase will include the real estate, turbines and power purchase agreement which runs approximately seven more years at 8.25 cents per KWH produced.

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=>14,068

Total noncash liabilities assumed and equity issued

\$138,618 \$

The accompanying notes are an integral part of these consolidated financial statements.

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Table of Contents**CITIZENS & NORTHERN CORPORATION FORM 10-Q****Notes to Consolidated Financial Statements****1. BASIS OF INTERIM PRESENTATION**

The consolidated financial statements include the accounts of Citizens & Northern Corporation and its subsidiaries, Citizens & Northern Bank (C&N Bank), Canisteo Valley Corporation, Bucktail Life Insurance Company and Citizens & Northern Investment Corporation (collectively, the Corporation). The consolidated financial statements also include the accounts of Canisteo Valley Corporation s wholly-owned subsidiary, First State Bank, and C&N Bank s wholly-owned subsidiary, C&N Financial Services Corporation. All material intercompany balances and transactions have been eliminated in consolidation.

The financial information included herein, with the exception of the consolidated balance sheet dated December 31, 2006, is unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods.

Results reported for the three-month and nine-month periods ended September 30, 2007 might not be indicative of the results for the year ending December 31, 2007.

This document has not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation or any other regulatory agency.

2. PER SHARE DATA

Net income per share is based on the weighted-average number of shares of common stock outstanding. The number of shares used in calculating net income and cash dividends per share reflect the retroactive effect of stock dividends for all periods presented. The following data show the amounts used in computing net income per share and the weighted average number of shares of dilutive stock options. As shown in the table that follows, diluted earnings per share is computed using weighted average common shares outstanding, plus weighted-average common shares available from the exercise of all dilutive stock options, less the number of shares that could be repurchased with the proceeds of stock option exercises based on the average share price of the Corporation s common stock during the period.

	Net Income	Weighted- Average Common Shares	Earnings Per Share
Nine Months Ended September 30, 2007			
Earnings per share basic	\$7,242,000	8,656,921	\$0.84
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		109,329	
Hypothetical share repurchase at \$20.50		(96,806)	
Earnings per share diluted	\$7,242,000	8,669,444	\$0.84
Nine Months Ended September 30, 2006			
Earnings per share basic	\$9,292,000	8,355,173	\$1.11
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		139,968	
Hypothetical share repurchase at \$23.80		(112,531)	
Earnings per share diluted	\$9,292,000	8,382,610	\$1.11

Table of Contents**CITIZENS & NORTHERN CORPORATION FORM 10-Q****2. PER SHARE DATA, Continued**

	Net Income	Weighted- Average Common Shares	Earnings Per Share
Quarter Ended September 30, 2007			
Earnings per share basic	\$2,848,000	8,897,844	\$0.32
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		108,115	
Hypothetical share repurchase at \$18.93		(100,132)	
Earnings per share diluted	\$2,848,000	8,905,827	\$0.32
Quarter Ended September 30, 2006			
Earnings per share basic	\$3,273,000	8,322,436	\$0.39
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		120,591	
Hypothetical share repurchase at \$22.53		(98,687)	
Earnings per share diluted	\$3,273,000	8,344,340	\$0.39

3. COMPREHENSIVE INCOME

U.S. generally accepted accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although unrealized gains and losses on available-for-sale securities are reported as a separate component of the equity section of the balance sheet, changes in unrealized gains and losses on available-for-sale securities, along with net income, are components of comprehensive income. Also, effective December 31, 2006, the Corporation applied Statement of Financial Accounting Standards (SFAS) No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans. SFAS No. 158 requires the Corporation to recognize the underfunded or overfunded status of defined benefit postretirement plans as a liability or asset in the balance sheet. Beginning in 2007, changes in accumulated other comprehensive income attributable to the impact of SFAS No. 158 on defined benefit plans are included in other comprehensive income.

Table of Contents**CITIZENS & NORTHERN CORPORATION FORM 10-Q**

The components of comprehensive income, and the related tax effects, are as follows:

(In Thousands)	3 Months Ended		9 Months Ended	
	Sept. 30, 2007	Sept. 30, 2006	Sept. 30, 2007	Sept. 30, 2006
Net income	\$ 2,848	\$ 3,273	\$ 7,242	\$ 9,292
Unrealized gains (losses) on available-for-sale securities:				
Unrealized holding (losses) gains on available-for-sale securities	(2,333)	3,709	(6,026)	(898)
Reclassification adjustment for losses (gains) realized in income	68	(1,602)	79	(4,250)
Other comprehensive (loss) income before income tax	(2,265)	2,107	(5,947)	(5,148)
Income tax related to unrealized loss (gain) on securities	770	(718)	2,022	1,750
Other comprehensive (loss) gain on securities	(1,495)	1,389	(3,925)	(3,398)
Unfunded pension and postretirement obligations:				
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	11		33	
Income tax related to other comprehensive gain	(3)		(12)	
Other comprehensive gain on unfunded retirement obligations	8		21	
Total comprehensive income	\$ 1,361	\$ 4,662	\$ 3,338	\$ 5,894

4. SECURITIES

The Corporation's trading assets at September 30, 2007 were municipal bonds with an estimated fair value of \$2,515,000. The consolidated income statement includes net losses from trading assets in the nine months ended September 30, 2007 of \$24,000. This includes realized gains on the sale of trading securities of \$52,000 and a net unrealized holding loss of \$76,000. In the third quarter 2007, net gains from trading assets of \$47,000 included realized gains on the sale of trading securities of \$46,000, and a net unrealized holding gain of \$1,000. There was no trading activity in 2006.

Amortized cost and fair value of available-for-sale and held-to-maturity securities at September 30, 2007 are summarized as follows:

September 30, 2007	
Gross	Gross
Unrealized	Unrealized

(In Thousands)	Amortized Cost	Holding Gains	Holding Losses	Fair Value
AVAILABLE-FOR-SALE SECURITIES:				
Obligations of other U.S. Government agencies	\$ 44,396	\$ 207	\$ (144)	\$ 44,459
Obligations of states and political subdivisions	62,198	217	(2,363)	60,052
Mortgage-backed securities	77,216	222	(858)	76,580
Collateralized mortgage obligations	49,357	8	(988)	48,377
Other securities	92,042	800	(2,619)	90,223
Total debt securities	325,209	1,454	(6,972)	319,691
Marketable equity securities	22,330	3,494	(1,205)	24,619
Total	\$347,539	\$4,948	\$(8,177)	\$344,310

Table of Contents**CITIZENS & NORTHERN CORPORATION FORM 10-Q**

(In Thousands)	Amortized Cost	September 30, 2007		Fair Value
		Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	
HELD-TO-MATURITY SECURITIES:				
Obligations of the U.S. Treasury	\$308	\$ 9	\$	\$317
Obligations of other U.S. Government agencies	99	5		104
Mortgage-backed securities	3			3
Total	\$410	\$ 14	\$	\$424

The following table presents gross unrealized losses and fair value of investments aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2007.

September 30, 2007 (In Thousands)	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AVAILABLE-FOR-SALE SECURITIES:						
Obligations of other U.S. Government agencies	\$ 1,497	\$ (3)	\$ 24,859	\$ (141)	\$ 26,356	\$ (144)
Obligations of states and political subdivisions	30,162	(1,875)	14,221	(488)	44,383	(2,363)
Mortgage-backed securities	14,218	(84)	37,700	(774)	51,918	(858)
Collateralized mortgage obligations	14,039	(40)	28,825	(948)	42,864	(988)
Other securities	27,520	(1,942)	28,799	(677)	56,319	(2,619)
Total debt securities	87,436	(3,944)	134,404	(3,028)	221,840	(6,972)
Marketable equity securities	7,971	(790)	1,899	(415)	9,870	(1,205)
Total temporarily impaired available-for-sale Securities	\$95,407	\$ (4,734)	\$136,303	\$ (3,443)	\$231,710	\$ (8,177)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The unrealized losses on debt securities as of September 30, 2007 are primarily the result of volatility in interest rates. Based on the Corporation's ability and intent to hold the securities for the foreseeable future, and management's assessment of the credit worthiness of the issuers, management believes the Corporation's debt securities at September 30, 2007 were not other-than-temporarily impaired.

Unrealized losses on marketable equity securities are mainly from investments in common stocks of banking corporations. Management believes that recent declines in market prices of many bank stocks have been caused by media reports regarding sub-prime mortgage losses and similar events that have mainly affected mortgage banking operations and very large financial institutions. Accordingly, as of September 30, 2007, management believes the impairment of the Corporation's marketable equity securities to be temporary.

Table of Contents**CITIZENS & NORTHERN CORPORATION FORM 10-Q****5. DEFINED BENEFIT PLANS**

The Corporation has a noncontributory defined benefit pension plan for employees meeting certain age and length of service requirements. Benefits are based primarily on years of service and the average annual compensation during the highest five consecutive years.

On October 18, 2007, the Corporation's Board of Directors adopted amendments to the defined benefit pension plan to freeze and terminate the Plan, effective December 31, 2007. The Corporation expects that it would fund and settle its obligations under the Plan sometime in 2008. In connection with freezing and terminating the Plan, the Corporation has also amended the Plan to make lump sum distributions available to all active participants and vested former employees. The Corporation expects to record a gain or loss on curtailment of the Plan in the fourth quarter 2007, and a settlement gain or loss in 2008. The amount of curtailment gain or loss in 2007 and settlement gain or loss in 2008 has not yet been determined.

In addition, the Corporation sponsors a defined benefit health care plan that provides postretirement medical benefits and life insurance to employees who meet certain age and length of service requirements. This plan contains a cost-sharing feature, which causes participants to pay for all future increases in costs related to benefit coverage.

Accordingly, actuarial assumptions related to health care cost trend rates do not affect the liability balance at September 30, 2007 and December 31, 2006, and will not affect the Corporation's future expenses.

The Corporation uses a December 31 measurement date for its plans.

The components of net periodic benefit costs from these defined benefit plans are as follows:

(In Thousands)	Pension Benefits		Postretirement Benefits	
	Nine Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Service cost	\$ 512	\$ 457	\$ 55	\$ 48
Interest cost	525	472	52	46
Expected return on plan assets	(689)	(623)		
Amortization of transition (asset) obligation	(17)	(17)	27	27
Amortization of prior service cost	6	6		
Recognized net actuarial loss	34	53	2	2
Net periodic benefit cost	\$ 371	\$ 348	\$ 136	\$ 123

(In Thousands)	Pension		Postretirement	
	Three Months Ended		Three Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Service cost	\$ 170	\$ 152	\$ 18	\$ 16
Interest cost	175	157	17	15
Expected return on plan assets	(230)	(207)		
Amortization of transition (asset) obligation	(5)	(5)	9	9
Amortization of prior service cost	2	2		
Recognized net actuarial loss	11	18	1	1
Net periodic benefit cost	\$ 123	\$ 117	\$ 45	\$ 41

Due to freezing the defined benefit pension plan, management expects there will be no minimum required employer contribution to the defined benefit pension plan for 2007. Through the third quarter of 2007, the Corporation has

funded postretirement contributions totaling \$44,000, with estimated annual postretirement contributions, net of anticipated reimbursements from the Medicare (Part D) program, of \$33,000 expected in 2007 for the full year.

Table of Contents**CITIZENS & NORTHERN CORPORATION FORM 10-Q**

As a result of the acquisition of Citizens Bancorp, Inc. (see Note 8), the Corporation assumed the Citizens Trust Company Retirement Plan, a defined benefit pension plan for which benefit accruals and participation were frozen in 2002. The Corporation used a September 30 measurement date for this plan in 2007, and will change to a December 31 measurement date in 2008. The Corporation's net periodic pension benefit recognized in the nine months ended September 30, 2007 was \$1,000.

6. STOCK-BASED COMPENSATION PLANS

In January 2007, the Corporation granted options to purchase a total of 43,385 shares of common stock through its Stock Incentive and Independent Directors Stock Incentive Plans. The exercise price for these options is \$22.325 per share, which was the market price as of the date of grant. The Corporation neither modified, nor issued, any new options in 2006.

SFAS No. 123R requires the Corporation to record stock option expense based on estimated fair value calculated using an option valuation model. The fair value of each option granted in 2007 was estimated to be \$4.46 per share as of the grant date. In calculating the fair value, the Corporation utilized the Black-Scholes option-pricing model with the following assumptions:

Volatility 23%

Expected option lives 8 years

Risk-free interest rate 4.69%

Dividend yield 3.61%

In calculating the estimated fair value of the 2007 stock option awards, the Corporation utilized its historical volatility and dividend yield over the immediately prior 8-year period to estimate future levels of volatility and dividend yield. The risk-free interest rate was based on the published yield of zero-coupon U.S. Treasury strips with an 8-year maturity as of the grant dates. The 8-year term was based on management's estimate of the average term for all options issued under both plans.

In calculating stock option expense for the 2007 stock option awards, management assumed a 23% forfeiture rate for options granted under the Stock Incentive Plan, and a 0% forfeiture rate for the Directors Stock Incentive Plan. These estimated forfeiture rates were determined based on the Corporation's historical experience.

Also, effective in January 2007, the Corporation awarded a total of 5,835 shares of restricted stock under the Stock Incentive and Independent Directors Stock Incentive Plans. Compensation cost related to restricted stock is recognized based on the market price of the stock at the grant date over the vesting period.

Total stock-based compensation expense is as follows:

(In Thousands)	3 Months Ended		Fiscal Year To Date	
	Sept. 30, 2007	Sept. 30, 2006	9 Months Ended Sept. 30, 2007	2006
	(Current)	(Prior Year)	(Current)	(Prior Year)
Stock options	\$	\$	\$ 156	\$
Restricted stock	25	9	75	29
Total	\$25	\$ 9	\$ 231	\$ 29

Stock option expense has been recognized over the six-month vesting period for the 2007 awards.

7. CONTINGENCIES

In the normal course of business, the Corporation may be subject to pending and threatened lawsuits in which claims for monetary damages could be asserted. In management's opinion, the Corporation's financial position and results of operations would not be materially affected by the outcome of such pending legal proceedings.

Table of Contents**CITIZENS & NORTHERN CORPORATION FORM 10-Q****8. MERGER**

On May 1, 2007, the Corporation completed its acquisition of 100% of the outstanding voting stock of Citizens Bancorp, Inc. (Citizens.) Accordingly, the results of operations for the former Citizens have been included in the accompanying consolidated financial statements from that date forward. In connection with the transaction, Citizens Trust Company, the banking subsidiary of Citizens, has merged with and into Citizens & Northern Bank (C&N Bank), a subsidiary of the Corporation. The Corporation's management believes the acquisition of Citizens provides two significant benefits: (1) extension of its geographic market for banking services, which should provide growth opportunities, and (2) addition of management personnel with background and skills complementary to the Corporation's management personnel.

The aggregate acquisition price was \$28,391,000, which included cash of \$14,323,000 and 636,967 shares of the Corporation's common stock valued at \$14,068,000. The value of the stock issued was determined based on the average market price of the shares over the seven days before and after the date the terms of the acquisition agreement were negotiated and publicly announced, adjusted for the values of Citizens shares held prior to the merger announcement and Corporation shares that were held by Citizens.

The Corporation is in the process of obtaining final valuations on loans, intangible assets, premises and equipment, deposits and other liabilities; accordingly, allocation of the purchase price is subject to modification in the future. Information regarding the purchase price and estimated fair values of assets acquired and liabilities assumed as of the acquisition date is provided as supplemental information in the consolidated statement of cash flows. Following are pro forma income statement amounts, without adjustment for the material nonrecurring items described below, assuming the acquisition was made on January 1, 2006:

(In Thousands)	3 Months Ended		Fiscal Year To Date	
	Sept. 30, 2007 (Current)	Sept. 30, 2006 (Prior Year)	9 Months Ended 2007 (Current)	Sept. 30, 2006 (Prior Year)
Net interest income	\$9,507	\$9,337	\$28,124	\$28,280
Net income	\$2,848	\$3,632	\$6,790	\$10,238
Net income per share basic	\$0.32	\$0.41	\$0.76	\$1.14
Net income per share diluted	\$0.32	\$0.40	\$0.76	\$1.14

Citizens recorded material, nonrecurring expenses and losses which reduced pro forma net income (included in the table immediately above) by \$698,000 for the nine months ended September 30, 2007. These nonrecurring items included merger-related professional expense and realized losses from sales of securities. Excluding the effect of these nonrecurring items, pro forma income statement amounts (assuming the acquisition was made on January 1, 2006) are as follows:

(In Thousands)	3 Months Ended		Fiscal Year To Date	
	Sept. 30, 2007 (Current)	Sept. 30, 2006 (Prior Year)	9 Months Ended 2007 (Current)	Sept. 30, 2006 (Prior Year)
Net income	\$2,848	\$3,632	\$7,488	\$10,238
Net income per share basic	\$0.32	\$0.41	\$0.84	\$1.14

Net income per share	diluted	\$ 0.32	\$ 0.40	\$ 0.84	\$ 1.14
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CITIZENS & NORTHERN CORPORATION FORM 10-Q

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements in this section and elsewhere in this quarterly report on Form 10-Q are forward-looking statements. Citizens & Northern Corporation and its wholly-owned subsidiaries intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995. Forward-looking statements, which are not historical facts, are based on certain assumptions and describe future plans, business objectives and expectations, and are generally identifiable by the use of words such as, "should", "likely", "expect", "plan", "anticipate", "target", "forecast", and "goal". These forward-looking statements are subject to uncertainties that are difficult to predict, may be beyond management's control and could cause results to differ materially from those expressed or implied by such forward-looking statements. Factors which could have a material, adverse impact on the operations and future prospects of the Corporation include, but are not limited to, the following:

- changes in monetary and fiscal policies of the Federal Reserve Board and the U. S. Government, particularly related to changes in interest rates

- changes in general economic conditions

- legislative or regulatory changes

- downturn in demand for loan, deposit and other financial services in the Corporation's market area

- increased competition from other banks and non-bank providers of financial services

- technological changes and increased technology-related costs

- changes in accounting principles, or the application of generally accepted accounting principles.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

REFERENCES TO 2007 AND 2006

Unless otherwise noted, all references to "2007" in the following discussion of operating results are intended to mean the nine months ended September 30, 2007, and similarly, references to "2006" relate to the nine months ended September 30, 2006.

EARNINGS OVERVIEW

Net Income was \$7,242,000 in the first nine months of 2007, down 22.1% from the first nine months of 2006. Net Income Per Share was \$0.84 (basic and diluted) in the first nine months of 2007, down 24.3% from Net Income Per Share of \$1.11 (basic and diluted) in the first nine months of 2006. Return on average assets was 0.83% in the first nine months of 2007 and 1.09% in the first nine months of 2006. Return on average equity was 7.02% in the nine months ended September 30, 2007 and 9.45% in the nine months ended September 30, 2006. Cash dividends declared were \$0.72 per share in both 2007 and 2006.

Earnings for the first nine months of 2007 were impacted by a loss (net of tax) on mortgage-backed securities of \$1,352,000. These securities were classified as other-than-temporarily impaired in the second quarter 2007, and written down through earnings by \$1,175,000, net of tax. The securities were sold in July 2007, with a further loss of \$177,000 (net of tax) realized in the third quarter. The impact per share of the loss from these securities, excluding the positive effect of investing the sale proceeds at higher yields, was \$0.16 (basic and diluted) for the first nine months of 2007.

On May 1, 2007, the acquisition of Citizens Bancorp, Inc. became effective. Citizens Bancorp, Inc. was the parent company of Citizens Trust Company, with offices in Coudersport, Port Allegany and Emporium, PA. The Citizens

Trust Company operations, which are now part of Citizens & Northern Bank, contributed significantly to growth in total assets, including loans, as well as the growth in deposits and trust assets under management, and increases in revenues and expenses in 2007.

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CITIZENS & NORTHERN CORPORATION FORM 10-Q

Significant income statement changes between 2007 and 2006 were as follows:

Net interest margin increased \$1,441,000, or 5.7%, in 2007 as compared to 2006. Most of the increase in the net interest margin between years occurred in the third quarter, since the net interest margin for the third quarter 2007 was \$1,188,000 higher than for the third quarter 2006. Factors contributing to recent improvements in the net interest margin include: (1) the acquisition of Citizens Trust Company, which resulted in increased interest and fees on loans, and provided funding to help pay off borrowings, (2) a change in the shape of the yield curve, which has become slightly positive after remaining flat or inverted throughout 2006 and the first half of 2007, allowing the Corporation a few opportunities to earn a positive spread from borrowing and investing activities, and (3) the increase in yield on the investment portfolio resulting from the restructuring described above.

Noninterest revenue increased \$1,684,000 (28.4%) in 2007 over 2006. Trust and Financial Management revenue increased \$722,000 (40.5%). Other significant increases in noninterest revenue included: service charges on deposits, which increased \$301,000, increases of \$197,000 for service charges and fees, including letter of credit and ATM-related fees, as well as increases of \$415,000 in other operating income, which includes debit card fees, credit card (as a third party agent), a gain from sale of a restricted stock, and certain training grant revenues.

Net realized losses (pre-tax) from sales of securities amounted to \$79,000 in 2007, as compared to pre-tax securities gains of \$4,250,000 in 2006. Excluding the \$2,048,000 pre-tax loss on impaired securities described above, securities gains for 2007, totaled \$1,969,000, down \$2,281,000 from 2006. Most of the gains realized in both periods were from sales of bank stocks.

Noninterest expense increased \$1,668,000 (7.1%) in 2007 as compared to 2006. The increase in expenses reflects the addition of Citizens Trust Company. Also, professional fees of \$221,000 have been incurred in 2007 related to the computer core system conversions of the First State Bank (New York) and Citizens Trust Company operations.

The income tax provision decreased \$560,000, to \$1,695,000 in 2007 from \$2,255,000 in 2006, as a result of lower pre-tax earnings.

Third Quarter 2007

Net Income in the third quarter 2007 was \$2,848,000, down \$425,000 (13.0%) from the third quarter 2006, and \$912,000 (47.1%) higher than second quarter 2007. Net Income Per Share (basic and diluted) was \$0.32 in the third quarter 2007, as compared to \$0.39 (basic and diluted) in the third quarter 2006, and \$0.22 (basic and diluted) in the second quarter 2007. Net realized losses (pre-tax) from sales of securities amounted to \$68,000 in the third quarter 2007, as compared to pre-tax securities gains of \$1,602,000 in the third quarter 2006. Third quarter 2007 earnings were positively affected by improvements in the net interest margin and increases in noninterest revenue, as referred to in the discussion of year-to-date results above. In addition to securities losses, third quarter earnings were negatively affected by one time costs totaling \$427,000, including professional fees associated with computer core system conversions and a loss on the disposition of telephone equipment.

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CITIZENS & NORTHERN CORPORATION FORM 10-Q
TABLE I QUARTERLY FINANCIAL DATA
(In Thousands)

	Sept. 30, 2007	June 30, 2007	Mar. 31, 2007	Dec. 31, 2006	Sept. 30, 2006	June 30, 2006	Mar. 31, 2006
Interest income	\$ 18,058	\$ 17,692	\$ 16,243	\$ 16,463	\$ 16,152	\$ 15,984	\$ 15,863
Interest expense	8,551	8,679	8,000	8,097	7,833	7,566	7,278
Interest margin	9,507	9,013	8,243	8,366	8,319	8,418	8,585
Provision for loan losses			229	181	191	(300)	600
Interest margin after provision for loan losses	9,507	9,013	8,014	8,185	8,128	8,718	7,985
Other income	2,877	2,644	2,088	2,045	2,199	1,937	1,789
Net (losses) gains on available-for-sale securities	(68)	(1,172)	1,161	796	1,602	1,333	1,315
Gain from sale of credit card loans				340			
Other expenses	8,691	8,189	8,247	8,155	7,640	7,976	7,843
Income before income tax provision	3,625	2,296	3,016	3,211	4,289	4,012	3,246
Income tax provision	777	360	558	517	1,016	813	426
Net income	\$ 2,848	\$ 1,936	\$ 2,458	\$ 2,694	\$ 3,273	\$ 3,199	\$ 2,820
Net income per share basic	\$ 0.32	\$ 0.22	\$ 0.30	\$ 0.32	\$ 0.39	\$ 0.38	\$ 0.34
Net income per share diluted	\$ 0.32	\$ 0.22	\$ 0.30	\$ 0.32	\$ 0.39	\$ 0.38	\$ 0.33

The number of shares used in calculating net income per share for each quarter presented in Table I reflects the retroactive effect of stock dividends.

Prospects for the Fourth Quarter 2007

Management has begun several initiatives designed to increase revenues and reduce expenses over the remainder of 2007 and in 2008. Management expects some of the initiatives to immediately increase revenues or decrease expenses, while other changes may result in an up front cost or expense, followed by future improvements. As part of these initiatives, full-time equivalent staffing is being reduced approximately 10% during the last half of 2007. Looking beyond the end of 2007, management expects that expansion of the Corporation's footprint including in 2005 through 2007 the construction or acquisition of banking facilities in Lycoming County, PA, New York State (First State Bank) and most recently, the Citizens Trust Company locations will produce opportunities to increase profitability by increasing loans, deposits and Trust and Financial Management volume.

As referred to in Note 5 to the financial statements, in October 2007 the Corporation's Board of Directors adopted amendments to the defined benefit pension plan to freeze and terminate the Plan, effective December 31, 2007. The purpose of freezing and terminating the Plan is to control and reduce future employee benefit expenses. Management expects to present an amendment to the Corporation's Employee Savings & Retirement Plan (a 401(k) plan), for Board

approval, which would increase employer matching contributions under that plan in 2008. Based on the current number and composition of employees and 401(k) plan participation, the increase in expense in 2008 associated with the 401(k) Plan will be approximately \$150,000, which is less than the ongoing expense (\$495,000 for the year ending December 31, 2007) that would be expected from maintaining the defined benefit pension plan. The Corporation expects to record a gain or loss on curtailment of the Plan in the fourth quarter 2007, and a settlement gain or loss in 2008. The amount of curtailment gain or loss in 2007 and settlement gain or loss in 2008 has not yet been determined. A major variable that affects the Corporation's earnings is securities gains and losses, particularly from bank stocks and other equity securities. Management's decisions regarding sales of securities are based on a variety of factors, with the overall goal of maximizing portfolio return over a long-term horizon. It is difficult to predict, with much precision, the amount of net securities gains and losses that will be realized in the fourth quarter 2007.

Table of Contents**CITIZENS & NORTHERN CORPORATION FORM 10-Q
CRITICAL ACCOUNTING POLICIES**

The presentation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect many of the reported amounts and disclosures. Actual results could differ from these estimates.

A material estimate that is particularly susceptible to significant change is the determination of the allowance for loan losses. Management believes that the allowance for loan losses is adequate and reasonable. The Corporation's methodology for determining the allowance for loan losses is described in a separate section later in Management's Discussion and Analysis. Given the very subjective nature of identifying and valuing loan losses, it is likely that well-informed individuals could make materially different assumptions, and could, therefore, calculate a materially different allowance value. While management uses available information to recognize losses on loans, changes in economic conditions may necessitate revisions in future years. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses. Such agencies may require the Corporation to recognize adjustments to the allowance based on their judgments of information available to them at the time of their examination.

Another material estimate is the calculation of fair values of the Corporation's debt securities. The Corporation receives estimated fair values of debt securities from an independent valuation service, or from brokers. In developing these fair values, the valuation service and the brokers use estimates of cash flows, based on historical performance of similar instruments in similar interest rate environments. Based on experience, management is aware that estimated fair values of debt securities tend to vary among brokers and other valuation services. Accordingly, when selling debt securities, management typically obtains price quotes from more than one source. The large majority of the Corporation's securities are classified as available-for-sale. Accordingly, these securities are carried at fair value on the consolidated balance sheet, with unrealized gains and losses excluded from earnings and reported separately through accumulated other comprehensive income (included in stockholders' equity).

NET INTEREST MARGIN

The Corporation's primary source of operating income is represented by the net interest margin. The net interest margin is equal to the difference between the amounts of interest income and interest expense. Tables II, III and IV include information regarding the Corporation's net interest margin for 2007 and 2006. In each of these tables, the amounts of interest income earned on tax-exempt securities and loans have been adjusted to a fully taxable-equivalent basis. Accordingly, the net interest margin amounts reflected in these tables exceed the amounts presented in the consolidated financial statements. The discussion that follows is based on amounts in the related Tables.

The fully taxable equivalent net interest margin was \$28,193,000 in 2007, \$995,000 (3.7%) higher than in 2006. As shown in Table IV, net increases in volume had the effect of increasing net interest income \$1,152,000 in 2007 over 2006 while interest rate changes had the effect of decreasing net interest income \$157,000. Increases in volume of earning assets and interest-bearing liabilities were significantly affected by the acquisition of Citizens Trust Company on May 1, 2007. The most significant components of the volume changes in 2007 were an increase of \$3,475,000 attributable to loan growth and a decrease in interest expense on short-term and long-term borrowings of \$991,000, partially offset by lower interest income of \$2,031,000 from available-for-sale securities and an increase in interest expense of \$880,000 on certificates of deposit. As presented in Table III, the Interest Rate Spread (excess of average rate of return on interest-bearing assets over average cost of funds on interest-bearing liabilities) was 2.89% in the first nine months of 2007, as compared to 2.90% for the year ended December 31, 2006 and 2.93% in the first nine months of 2006.

Table of Contents**CITIZENS & NORTHERN CORPORATION FORM 10-Q****INTEREST INCOME AND EARNING ASSETS**

Interest income totaled \$53,423,000 in 2007, an increase of 7.1% over 2006. Interest and fees from loans increased \$5,131,000, or 15.4%, while income from available-for-sale securities decreased \$1,623,000, or 10.0%. As indicated in Table III, total average available-for-sale securities in 2007 fell to \$347,617,000, a decrease of \$44,125,000 or 11.3% from 2006. Throughout the calendar year 2006 and the first nine months of 2007, proceeds from sales and maturities of securities were used, in part, to help fund loans and pay off borrowings. Within the available-for-sale securities portfolio, the average balance of municipal bonds shrunk by \$32,566,000 in 2007 as compared to 2006. Management decided in mid-2006 to reduce the Corporation's investment in municipal bonds in order to reduce the alternative minimum tax liability. The average rate of return on available-for-sale securities was 5.62% for 2007, in line with the 5.55% return for the year ended December 31, 2006 and 5.55% in the first nine months of 2006. The average balance of gross loans increased 10.1% to \$723,794,000 in 2007 from \$657,447,000 in the first nine months of 2006. Excluding Citizens Trust Company, average loans increased 1.0% despite the payoff of \$22,475,000 associated with one significant commercial relationship. The Corporation has experienced an increase in average balances of both residential mortgage and commercial loans in 2007. The average rate of return on loans was 7.10% in 2007, up from 6.81% for the year ended December 31, 2006 and 6.77% in the first nine months of 2006.

INTEREST EXPENSE AND INTEREST-BEARING LIABILITIES

Interest expense rose \$2,553,000, or 11.3%, to \$25,230,000 in 2007 from \$22,677,000 in 2006. Table III shows that the overall cost of funds on interest-bearing liabilities rose to 3.72% in 2007, from 3.44% for the year ended December 31, 2006 and 3.38% in the first nine months of 2006.

From Table III, you can calculate that total average deposits (interest-bearing and noninterest-bearing) increased 7.5%, to \$809,001,000 in 2007 from \$752,575,000 in the first nine months of 2006. In July 2007, the Citizens Trust Company operations were converted to the same operational platform as Citizens & Northern Bank, and \$13,343,000 of money market deposits was transferred to another financial institution. Management utilizes a third-party provider for Trust & Financial Management money market allocations primarily for interest rate risk management reasons. Excluding acquired Citizens Trust Company deposit accounts, net of the transfers above, total average deposits increased 0.7%. The average rate incurred on certificates of deposit has increased significantly in 2007 over the first half of 2006, to 4.46% from 3.87%. Also, the average rate on Individual Retirement Accounts increased significantly, to 4.54% in 2007 from 4.18% in the first nine months of 2006.

The combined average total short-term and long-term borrowed funds decreased \$34,534,000 to \$211,535,000 in 2007 from \$246,069,000 in the first nine months of 2006. With the yield curve being flat or inverted throughout 2006 and the first half of 2007, opportunities have been limited for earning a positive spread by purchasing or holding investment securities as compared to interest costs associated with maintaining borrowed funds. Accordingly, the Corporation paid off many borrowings as they matured. The average rate on long-term borrowings was 4.11% in 2007, up from 3.53% in the first nine months of 2006.

Table of Contents**CITIZENS & NORTHERN CORPORATION FORM 10-Q
TABLE II ANALYSIS OF INTEREST INCOME AND EXPENSE**

(In Thousands)	Nine Months Ended September 30,		Increase/ (Decrease)
	2007	2006	
INTEREST INCOME			
Available-for-sale securities:			
Taxable	\$11,618	\$11,633	\$ (15)
Tax-exempt	3,006	4,614	(1,608)
Total available-for-sale securities	14,624	16,247	(1,623)
Held-to-maturity securities, Taxable	18	18	
Trading securities	66		66
Interest-bearing due from banks	74	58	16
Federal funds sold	200	242	(42)
Loans:			
Taxable	36,889	31,907	4,982
Tax-exempt	1,552	1,403	149
Total loans	38,441	33,310	5,131
Total Interest Income	53,423	49,875	3,548
INTEREST EXPENSE			
Interest checking	1,485	1,378	107
Money market	4,535	4,340	195
Savings	256	257	(1)
Certificates of deposit	8,085	6,187	1,898
Individual Retirement Accounts	4,413	3,827	586
Other time deposits	6	6	
Short-term borrowings	1,397	1,611	(214)
Long-term borrowings	5,053	5,071	(18)
Total Interest Expense	25,230	22,677	2,553
Net Interest Income	\$28,193	\$27,198	\$ 995

Note: Interest income from tax-exempt securities and loans has been adjusted to a fully tax-equivalent basis, using the Corporation's marginal federal income tax rate of 34%.

Table of Contents**CITIZENS & NORTHERN CORPORATION FORM 10-Q****Table III Analysis of Average Daily Balances and Rates****(Dollars in Thousands)**

	9 Months Ended 9/30/2007 Average Balance	Rate of Return/ Cost of Funds %	Year Ended 12/31/2006 Average Balance	Rate of Return/ Cost of Funds %	9 Months Ended 9/30/2006 Average Balance	Rate of Return/ Cost of Funds %
EARNING ASSETS						
Available-for-sale securities, at amortized cost:						
Taxable	\$ 285,215	5.45%	\$ 295,138	5.25%	\$ 296,774	5.24%
Tax-exempt	62,402	6.44%	89,981	6.51%	94,968	6.50%
Total available-for-sale securities	347,617	5.62%	385,119	5.55%	391,742	5.55%
Held-to-maturity securities,						
Taxable	412	5.84%	418	5.74%	419	5.74%
Trading securities	1,541	5.73%		0.00%		0.00%
Interest-bearing due from banks	2,058	4.81%	2,272	4.01%	2,066	3.75%
Federal funds sold	5,091	5.25%	4,580	5.48%	5,763	5.61%
Loans:						
Taxable	691,194	7.14%	631,969	6.84%	627,102	6.80%
Tax-exempt	32,600	6.37%	30,745	6.19%	30,345	6.18%
Total loans	723,794	7.10%	662,714	6.81%	657,447	6.77%
Total Earning Assets	1,080,513	6.61%	1,055,103	6.34%	1,057,437	6.31%
Cash	19,488		19,027		19,309	
Unrealized gain/loss on securities	553		3,151		3,385	
Allowance for loan losses	(8,662)		(8,495)		(8,589)	
Bank premises and equipment	26,337		23,491		23,517	
Intangible Asset Core						
Deposit Intangible	1,239		389		402	
Intangible Asset Goodwill	7,810		2,912		2,919	
Other assets	40,462		39,111		39,165	
Total Assets	\$1,167,740		\$1,134,689		\$1,137,545	

**INTEREST-BEARING
LIABILITIES**

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Interest checking	\$ 75,576	2.63%	\$ 68,369	2.61%	\$ 70,275	2.62%
Money market	183,798	3.30%	179,288	3.24%	180,001	3.22%
Savings	62,702	0.55%	62,030	0.54%	63,072	0.54%
Certificates of deposit	242,189	4.46%	215,460	3.96%	213,792	3.87%
Individual Retirement						
Accounts	130,099	4.54%	122,459	4.28%	122,491	4.18%
Other time deposits	1,467	0.55%	1,116	0.63%	1,256	0.64%
Short-term borrowings	47,266	3.95%	56,606	4.09%	54,275	3.97%
Long-term borrowings	164,269	4.11%	188,077	3.59%	191,794	3.53%
Total Interest-bearing						
Liabilities	907,366	3.72%	893,405	3.44%	896,956	3.38%
Demand deposits	113,170		102,260		101,688	
Other liabilities	9,697		7,942		7,806	
Total Liabilities	1,030,233		1,003,607		1,006,450	
Stockholders equity,						
excluding other						
comprehensive income/loss	138,299		129,004		128,856	
Other comprehensive						
income/loss	(792)		2,078		2,239	
Total Stockholders Equity	137,507		131,082		131,095	
Total Liabilities and						
Stockholders Equity	\$ 1,167,740		\$ 1,134,689		\$ 1,137,545	
Interest Rate Spread		2.89%		2.90%		2.93%
Net Interest						
Income/Earning Assets		3.49%		3.42%		3.44%

(1) Rates of return on tax-exempt securities and loans are presented on a fully taxable-equivalent basis.

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

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CITIZENS & NORTHERN CORPORATION FORM 10-Q
TABLE IV ANALYSIS OF VOLUME AND RATE CHANGES
(In Thousands)

	YTD Ended 9/30/07 vs. 9/30/06		
	Change in Volume	Change in Rate	Total Change
EARNING ASSETS			
Available-for-sale securities:			
Taxable	\$ (462)	\$ 447	\$ (15)
Tax-exempt	(1,569)	(39)	(1,608)
Total available-for-sale securities	(2,031)	408	(1,623)
Held-to-maturity securities, Taxable			
Trading securities	66		66
Interest-bearing due from banks		16	16
Federal funds sold	(27)	(15)	(42)
Loans:			
Taxable	3,369	1,613	4,982
Tax-exempt	106	43	149
Total loans	3,475	1,656	5,131
Total Interest Income	1,483	2,065	3,548
INTEREST-BEARING LIABILITIES			
Interest checking	104	3	107
Money market	93	102	195
Savings	(2)	1	(1)
Certificates of deposit	880	1,018	1,898
Individual Retirement Accounts	246	340	586
Other time deposits	1	(1)	
Short-term borrowings	(207)	(7)	(214)
Long-term borrowings	(784)	766	(18)
Total Interest Expense	331	2,222	2,553
Net Interest Income	\$ 1,152	\$ (157)	\$ 995

(1) Changes in income on tax-exempt securities and loans are presented on a fully taxable-equivalent

basis, using the Corporation's marginal federal income tax rate of 34%.

- (2) The change in interest due to both volume and rates has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amount of the change in each.

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CITIZENS & NORTHERN CORPORATION FORM 10-Q
TABLE V COMPARISON OF NONINTEREST INCOME
(In Thousands)

	9 Months Ended	
	Sept. 30, 2007	Sept. 30, 2006
Trust and financial management revenue	\$2,506	\$ 1,784
Service charges on deposit accounts	1,824	1,523
Service charges and fees	501	304
Insurance commissions, fees and premiums	368	371
Increase in cash surrender value of life insurance	515	463
Other operating income	1,895	1,480
Total other operating income, before realized (losses) gains on securities, net	7,609	5,925
Realized (losses) gains on available-for-sale securities, net	(79)	4,250
Total Other Income	\$7,530	\$10,175

Securities gains and losses are discussed in the Earnings Overview section of Management's Discussion and Analysis. Excluding securities gains and losses, total noninterest income increased \$1,684,000 or 28.4%, in 2007 compared to 2006. Items of significance are as follows:

Trust and financial management revenue increased \$722,000 (40.5%), including an increase of 24.5% excluding Citizens Trust Company, and a contribution to revenue from Citizens Trust Company of \$285,000. Trust and financial management revenues are heavily affected by the amount of assets under management. Assets under management have increased 38.1% over the last 12 months, to \$682,428,000 at September 30, 2007. The increase in assets under management includes the impact of the addition of Citizens Trust Company, as well as significant appreciation in equity markets. Excluding Citizens Trust Company, assets under management increased 17.2% at September 30, 2007 compared to the same date in the previous year.

Service charges on deposit accounts increased \$301,000, or 19.7%, in 2007 as compared to 2006, including \$257,000 from Citizens Trust Company.

Service charges and fees increased \$197,000 in 2007 over 2006. Among the types of fees included in this category are letter of credit fees, which increased \$106,000 in 2007 because of a few large, commercial transactions, and ATM-related fees, which increased \$88,000 in 2007 over 2006.

Other operating income increased \$415,000, or 28.0%, in 2007 over 2006. Included in this category was an increase of \$60,000 in fees from credit card agent bank activities. In the first five months of 2006, the Corporation was in the final stages of processing transactions for the credit card portfolio that was sold in the fourth quarter 2005. Accordingly, costs associated with processing and exiting that activity, net of interchange and other fees, were charged against a liability that had been established in 2005 for the estimated remaining servicing cost. Since the Corporation no longer services credit card transactions, fees received in 2007 have been included in other operating income. Also included in this category were increases in interchange fees related to debit card transactions of \$92,000, increases in broker-dealer revenues of \$86,000, the gain on sale of a restricted equity security of \$80,000, as well as net losses on trading securities of \$24,000.

Table of Contents**CITIZENS & NORTHERN CORPORATION FORM 10-Q
TABLE VI COMPARISON OF NONINTEREST EXPENSE
(In Thousands)**

	9 Months Ended	
	Sept. 30, 2007	Sept. 30, 2006
Salaries and wages	\$10,769	\$10,111
Pensions and other employee benefits	3,190	3,151
Occupancy expense, net	1,954	1,680
Furniture and equipment expense	2,104	1,961
Pennsylvania shares tax	707	732
Other operating expense	6,403	5,824
Total Other Expense	\$25,127	\$23,459

Total noninterest expense increased \$1,668,000, or 7.1%, in 2007 over 2006. Significant items include:

Salaries and wages increased \$658,000, or 6.5%. Approximately \$524,000 of the increase is attributable to the addition of Citizens Trust Company. Also, this category includes an increase in stock-based compensation totaling \$164,000. As described in more detail in Note 6 to the consolidated financial statements, the Corporation made awards of stock options and restricted stock in 2007, but did not make any such awards in 2006. Stock option expense has been recognized over the six-month vesting period for the 2007 awards.

Total pensions and other employee benefits expense increased only \$39,000, or 1.2%. In 2007, the Corporation received a refund from its health insurance provider based on favorable claims experience from a prior year, and health insurance expense is \$225,000 lower in 2007 than 2006. Excluding health insurance, the cost of pensions and other employee benefits is 10.4% higher in 2007 than in 2006, including increases attributable to higher numbers of employees and other factors.

Occupancy expense increased \$274,000, or 16.3%. In March 2006, the administration building in Wellsboro and the Old Lycoming Township branch were opened. The increase in occupancy expense associated with operating those properties for 9 months in 2007, as opposed to 7 months in 2006, was \$146,000. Also, the acquisition of the Citizens Trust Company locations resulted in additional occupancy costs in 2007 of \$158,000.

Furniture and equipment expense increased \$143,000, or 7.3%, including \$156,000 attributed to Citizens Trust Company operations.

Other operating expense increased \$579,000, or 9.9%. This category includes many varieties of expenses, with significant increases and decreases in some of the individual expenses, as follows:

Increase of \$528,000 from the acquisition of Citizens Trust Company, including \$225,000 for amortization of the core deposit intangible, and excluding computer system conversion costs.

Increase of \$221,000 from professional and other fees associated with converting First State Bank and Citizens Trust Company locations to the same core computer system used by C&N Bank.

Increase of \$146,000 in cash-based Director fees, Director stock options and restricted stock.

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Incurring \$145,000 in 2007 associated with a loss on the disposition of telephone equipment that was disposed in conjunction with efforts to provide improved, compatible communications at all locations.

Increase in miscellaneous taxes of \$46,000. Results for 2006 included a reduction in expense related to a sales tax refund.

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Increase in computer-related services of \$65,000, including services related to a new internet banking platform, branch deposit capture software and an employee time and attendance system.

Decrease in certain expense categories for which management has some discretion over spending, including a total reduction of \$293,000 in education and training, public relations and donations, office supplies and advertising.

Decrease in comparative 2007 expense because results for 2006 included a \$169,000 impairment write-down related to a leased building which management decided to vacate.

Decrease in expenses associated with Bucktail Life Insurance Company of \$62,000.

Decrease in expenses associated with other real estate properties of \$70,000.

FINANCIAL CONDITION

Significant changes in the average balances of the Corporation's earning assets and interest-bearing liabilities are described in the Net Interest Margin section of Management's Discussion and Analysis. The allowance for loan losses and stockholders' equity are discussed in separate sections of Management's Discussion and Analysis.

The Corporation's merger with Citizens Bancorp, Inc. closed on May 1, 2007. On the purchase date, loans increased approximately \$60 million, deposits increased approximately \$100 million and stockholders' equity increased approximately \$14 million. Also, intangible assets increased approximately \$11 million, and the net impact to the Corporation's balance sheet was a minor reduction in tangible assets as a percentage of tangible equity (tangible assets as a percentage of tangible equity was 10.73% at September 30, 2007 and 11.27% at December 31, 2006). Total capital purchases for 2007, excluding capital assets included in the Citizens Bancorp, Inc. acquisition, are estimated at approximately \$2.5 - \$3 million. In light of the Corporation's strong capital position and ample sources of liquidity, management does not expect the Citizens Bancorp, Inc. acquisition and other capital expenditures to have a material, detrimental effect on the Corporation's financial condition in 2007. Management believes the overall impact of the acquisition and capital purchases on the Corporation's earnings in 2007 and thereafter will depend on the Corporation's ability to build market share and produce profitable results from its investments in new locations, technology and other capital assets, and how long that will take.

Interest-bearing deposits increased approximately \$50 million since December 31, 2006. In addition to the impact on interest-bearing deposits of the Citizens Bancorp, Inc. merger (discussed earlier under Net Interest Margin), the Corporation's interest-bearing deposits at September 30, 2007 reflect a decrease of \$12.7 million in interest-bearing deposits for one significant municipal relationship. Deposit balances held under this relationship, which can fluctuate significantly from month-to-month, are approximately \$7.5 million below the year-to-date average balance under the relationship. In addition, management believes deposits have declined during 2007 because of investors' desire to move funds into appreciating equity markets.

PROVISION AND ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is maintained at a level, which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectibility of the loan portfolio. In evaluating collectibility, management considers a number of factors, including the status of specific impaired loans, trends in historical loss experience, delinquency trends, credit concentrations, comparison of historical loan loss data to that of other financial institutions and economic conditions within the Corporation's market area. Allowances for impaired loans are determined based on collateral values or the present value of estimated cash flows. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries.

There are two major components of the allowance: (1) SFAS 114 allowances on larger loans, mainly commercial purpose, determined on a loan-by-loan basis; and (2) SFAS 5 allowances - estimates of losses incurred on the remainder of the portfolio, determined based on collective evaluation of impairment for various categories of loans.

SFAS 5 allowances include a portion based on historical net charge-off experience, and a portion based on evaluation of qualitative factors.

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Each quarter, management performs a detailed assessment of the allowance and provision for loan losses. A management committee called the Watch List Committee performs this assessment. Quarterly, the Watch List Committee and the applicable Lenders discuss each loan relationship under review, and reach a consensus on the appropriate SFAS 114 estimated loss amount for the quarter. The Watch List Committee's focus is on ensuring all pertinent facts are considered, and that the SFAS 114 loss amounts are reasonable. The assessment includes review of certain loans reported on the Watch List. All loans, which Lenders or the Credit Administration staff has assigned a risk rating of Special Mention, Substandard, Doubtful or Loss, are included in the Watch List. The scope of loans evaluated individually for impairment (SFAS 114 evaluation) include all relationships greater than \$200,000, for which there is at least one extension of credit graded Substandard, Doubtful or Loss. Also, relationships less than \$200,000 in the aggregate, but with an estimated loss of \$100,000 or more, are individually evaluated for impairment. The SFAS 5 component of the allowance includes estimates of losses incurred on loans that have not been individually evaluated for impairment. Management uses loan categories included in the Call Report (a quarterly report filed by FDIC-insured banks) to identify categories of loans with similar risk characteristics, and multiplies the loan balances for each category as of each quarter-end by two different factors to determine the SFAS 5 allowance amounts. These two factors are based on: (1) historical net charge-off experience, and (2) qualitative factors. The sum of the allowance amounts calculated for each risk category, including both the amount based on historical net charge-off experience and the amount based on evaluation of qualitative factors, is equal to the total SFAS 5 component of the allowance.

The historical net charge-off portion of the SFAS 5 allowance component is calculated by the Accounting Department as of the end of the applicable quarter. For each loan classification category used in the Call Report, the Accounting Department multiplies the outstanding balance as of the quarter-end (excluding loans individually evaluated for impairment) by the ratio of net charge-offs to average quarterly loan balances for the previous three calendar years. Prior to the fourth quarter 2005, C&N Bank had utilized the ratio of net charge-offs to average balances over a five-year period in calculating the historical loan loss experience portion of the allowance portfolio. Management made the change to the three-year assumption, which had very little effect on the allowance valuation as of December 31, 2005, mainly because management believes net charge-off experience over a 3-year period may be more representative of losses existing in the portfolio as of the balance sheet date.

Effective in the second quarter 2005, management began to calculate the effects of specific qualitative factors criteria to determine a percentage increase or decrease in the SFAS 5 allowance, in relation to the historical net charge-off percentage. The qualitative factors analysis involves assessment of changes in factors affecting the portfolio, to provide for estimated differences between losses currently inherent in the portfolio and the amounts determined based on recent historical loss rates and from identification of losses on specific individual loans. A management committee called the Qualitative Factors Committee meets quarterly, near the end of the final month of each quarter. The Qualitative Factors Committee discusses several qualitative factors, including economic conditions, lending policies, changes in the portfolio, risk profile of the portfolio, competition and regulatory requirements, and other factors, with consideration given to how the factors affect three distinct parts of the loan portfolio: Commercial, Mortgage and Consumer. During or soon after completion of the meeting, each member of the Committee prepares an update to his or her recommended percentage adjustment for each qualitative factor, and average qualitative factor adjustments are calculated for Commercial, Mortgage and Consumer loans. The Accounting Department multiplies the outstanding balance as of the quarter-end (excluding loans individually evaluated for impairment) by the applicable qualitative factor percentages, to determine the portion of the SFAS 5 allowance attributable to qualitative factors.

The allocation of the allowance for loan losses table (Table VIII) includes the SFAS 114 component of the allowance on the line item called Impaired Loans. SFAS 5 estimated losses, including both the portion determined based on historical net charge-off results, as well as the portion based on management's assessment of qualitative factors, are allocated in Table VIII to the applicable categories of commercial, consumer mortgage and consumer loans. In periods prior to 2005, the portion of the allowance determined by management's subjective assessment of economic conditions and other factors (which is now calculated using the qualitative factors criteria described above) was reflected completely in the unallocated component of the allowance. The unallocated portion of the allowance was \$189,000 at

September 30, 2007, up from \$24,000 at December 31, 2006, mainly because of reductions in the portion of the SFAS 5 allowances related to qualitative factors. In the first quarter 2007, the Qualitative Factors Committee decided to lower some of its estimated allowance percentages, mainly in categories related to monitoring the portfolio, based on perceived improvement in identifying and evaluating problem loan relationships on a timely basis. Only minor changes in qualitative factors impacted both the second and third quarters of 2007.

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The allowance for loan losses totaled \$8,709,000 at September 30, 2007, up from \$8,201,000 at December 31, 2006. As shown in Table VII, the allowance for loan losses recorded as a result of the Citizens Trust Company acquisition was \$587,000, which was based on Citizens Trust Company's SFAS 5 allowance at the time of acquisition. Table VII also shows that net charge-offs in 2007 were \$308,000, which is lower than historical levels over the past several years. Net charge-offs in the first six months of 2007 were substantially lower than net charge-offs in the comparable period of 2006. In the third quarter of 2007, net charge-offs increased to \$213,000 for the quarter, which is more comparable to recent historical levels. The provision for loan losses totaled \$229,000 in 2007, as compared to \$491,000 in the first nine months of 2006. In the second and third quarters of 2007, the Corporation had no provision for loan losses. The total amount of the provision for loan losses in each period is determined based on the amount required to maintain an appropriate allowance in light of all of the factors described above.

Table IX presents information related to past due and impaired loans. Total impaired loans amounted to \$5,345,000 at September 30, 2007, down from \$7,001,000 at June 30, 2007, \$7,943,000 at March 31, 2007 and \$8,011,000 at December 31, 2006. Nonaccrual loans totaled \$5,157,000 at September 30, 2007, down from \$6,807,000 at June 30, 2007, \$8,088,000 at March 31, 2007 and \$8,506,000 at December 31, 2006. The primary reduction in impaired and nonaccrual loans during 2007 resulted from the removal of loans for two unrelated commercial relationships from impaired and nonaccrual status during the second and third quarters. The SFAS 114 valuation allowance on impaired loans was \$1,796,000 at September 30, 2007, compared to \$1,734,000 at June 30, 2007, \$1,615,000 at March 31, 2007 and \$1,726,000 at December 31, 2006. For one commercial loan removed from nonaccrual status in the third quarter 2007, the Watch List Committee eliminated the valuation allowance that previously was \$300,000 at June 30, 2007. Also, the Watch List Committee decided to increase the valuation allowance on an impaired commercial loan to \$700,000 from \$400,000, based on an updated appraisal and the estimated costs required for sale of the related business, and established a valuation allowance of \$175,000 on another commercial loan that was determined to be impaired during the third quarter. Management believes it has been conservative in its decisions concerning identification of impaired loans, estimates of loss and nonaccrual status. However, the actual losses realized from these relationships could vary materially from the allowances calculated as of September 30, 2007. Management continues to closely monitor its commercial loan relationships for possible credit losses, and will adjust its estimates of loss and decisions concerning nonaccrual status, if appropriate.

Tables VII, VIII, IX and X present an analysis of the allowance for loan losses, the allocation of the allowance, information concerning impaired and past due loans and a five-year summary of loans by type.

TABLE VII ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES**(In Thousands)**

	9 Months Ended Sept. 30, 2007	9 Months Ended Sept. 30, 2006	2006	Years Ended December 31,			
				2005	2004	2003	2002
Balance, beginning of year	\$8,201	\$8,361	\$8,361	\$6,787	\$6,097	\$5,789	\$5,265
Charge-offs:							
Real estate loans	108	571	611	264	375	168	123
Installment loans	141	165	259	224	217	326	116
Credit cards and related plans	4	18	22	198	178	171	190
Commercial and other loans	123	183	200	298	16	303	123
Total charge-offs	376	937	1,092	984	786	968	552

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Recoveries:							
Real estate loans	6	6	27	14	3	75	30
Installment loans	27	44	65	61	32	52	30
Credit cards and related plans	8	21	25	30	23	17	18
Commercial and other loans	27	109	143	50	18	32	58
Total recoveries	68	180	260	155	76	176	136
Net charge-offs	308	757	832	829	710	792	416
Allowance for loan losses recorded in acquisition	587			377			
Provision for loan losses	229	491	672	2,026	1,400	1,100	940
Balance, end of year	\$8,709	\$8,095	\$8,201	\$8,361	\$6,787	\$6,097	\$5,789

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TABLE VIII ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES BY TYPE
(In Thousands)

	As of Sept. 30, 2007	2006	2005	As of December 31,			2002
				2004	2003		
Commercial	\$2,084	\$2,372	\$2,705	\$1,909	\$1,578		\$1,315
Consumer mortgage	3,989	3,556	2,806	513	456		460
Impaired loans	1,796	1,726	2,374	1,378	1,542		1,877
Consumer	651	523	476	409	404		378
Unallocated	189	24		2,578	2,117		1,759
Total Allowance	\$8,709	\$8,201	\$8,361	\$6,787	\$6,097		\$5,789

TABLE IX PAST DUE AND IMPAIRED LOANS
(In Thousands)

	As of Sept. 30, 2007	As of June 30, 2007	As of March 31, 2007	2006	As of December 31,			2002
					2005	2004	2003	
Impaired loans without a valuation allowance	\$1,567	\$1,690	\$2,578	\$2,674	\$ 910	\$3,552	\$ 114	\$ 675
Impaired loans with a valuation allowance	3,778	5,311	5,365	5,337	7,306	4,709	4,507	3,039
Total impaired loans	\$5,345	\$7,001	\$7,943	\$8,011	\$8,216	\$8,261	\$4,621	\$3,714
Valuation allowance related to impaired loans	\$1,796	\$1,734	\$1,615	\$1,726	\$2,374	\$1,378	\$1,542	\$1,877
Total nonaccrual loans	\$5,157	\$6,807	\$8,088	\$8,506	\$6,365	\$7,796	\$1,145	\$1,252
Total loans past due 90 days or more and still accruing	\$1,374	\$ 968	\$ 844	\$1,559	\$1,369	\$1,307	\$2,546	\$2,318

TABLE X SUMMARY OF LOANS BY TYPE
(In Thousands)

	Sept. 30, 2007	2006	2005	As of December 31,			2002
				2004	2003		

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Real estate construction	\$ 14,847	\$ 10,365	\$ 5,552	\$ 4,178	\$ 2,856	\$ 103
Real estate residential mortgage	442,959	387,410	361,857	347,705	330,807	292,136
Real estate commercial mortgage	142,484	178,260	153,661	128,073	100,240	78,317
Consumer	43,829	35,992	31,559	31,702	33,977	31,532
Agricultural	3,432	2,705	2,340	2,872	2,948	3,024
Commercial	48,905	39,135	69,396	43,566	34,967	30,874
Other	1,172	1,227	1,871	1,804	1,183	2,001
Political subdivisions	48,489	32,407	27,063	19,713	17,854	13,062
Lease receivables					65	96
Total	746,117	687,501	653,299	579,613	524,897	451,145
Less: allowance for loan losses	(8,709)	(8,201)	(8,361)	(6,787)	(6,097)	(5,789)
Loans, net	\$737,408	\$679,300	\$644,938	\$572,826	\$518,800	\$445,356

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DERIVATIVE FINANCIAL INSTRUMENTS**

The Corporation has utilized derivative financial instruments related to a certificate of deposit product called the Index Powered Certificate of Deposit (IPCD). IPCDs have a term of 5 years, with interest paid at maturity based on 90% of the appreciation (as defined) in the S&P 500 index. There is no guaranteed interest payable to a depositor of an IPCD however, assuming an IPCD is held to maturity, a depositor is guaranteed the return of his or her principal, at a minimum. In 2004, the Corporation stopped originating new IPCDs, but continues to maintain and account for IPCDs and the related derivative contracts entered into between 2001 and 2004.

Statement of Financial Accounting Standards No. 133 requires the Corporation to separate the amount received from each IPCD issued into 2 components: (1) an embedded derivative, and (2) the principal amount of each deposit.

Embedded derivatives are derived from the Corporation's obligation to pay each IPCD depositor a return based on appreciation in the S&P 500 index. Embedded derivatives are carried at fair value, and are included in other liabilities in the consolidated balance sheet. Changes in fair value of the embedded derivative are included in other expense in the consolidated income statement. The difference between the contractual amount of each IPCD issued, and the amount of the embedded derivative, is recorded as the initial deposit (included in interest-bearing deposits in the consolidated balance sheet). Interest expense is added to principal ratably over the term of each IPCD at an effective interest rate that will increase the principal balance to equal the contractual IPCD amount at maturity.

In connection with IPCD transactions, the Corporation has entered into Equity Indexed Call Option (Swap) contracts with the Federal Home Loan Bank of Pittsburgh (FHLB-Pittsburgh). Under the terms of the Swap contracts, the Corporation must pay FHLB-Pittsburgh quarterly amounts calculated based on the contractual amount of IPCDs issued times a negotiated rate. In return, FHLB-Pittsburgh is obligated to pay the Corporation, at the time of maturity of the IPCDs, an amount equal to 90% of the appreciation (as defined) in the S&P 500 index. If the S&P 500 index does not appreciate over the term of the related IPCDs, the FHLB-Pittsburgh would make no payment to the Corporation. The effect of the Swap contracts is to limit the Corporation's cost of IPCD funds to the market rate of interest paid to FHLB-Pittsburgh. (In addition, the Corporation paid a fee of 0.75% to a consulting firm at inception of each deposit. These fees are being amortized to interest expense over the term of the IPCDs.) Swap assets or liabilities are carried at fair value, and included in other assets or other liabilities in the consolidated balance sheet. Changes in fair value of swap liabilities are included in other expense in the consolidated income statement.

The impact to the income statement for 2007 and 2006 from IPCDs is not significant. Balance sheet amounts as of September 30, 2007 and December 31, 2006 related to IPCDs are as follows (in thousands):

	Sept. 30, 2007	Dec. 31, 2006
Contractual amount of IPCDs (equal to notional amount of Swap contracts)	\$1,098	\$2,516
Carrying value of IPCDs	1,069	2,444
Carrying value of embedded derivative liabilities	400	610
Carrying value of Swap contract (assets) liabilities	(366)	(528)

LIQUIDITY

Liquidity is the ability to quickly raise cash at a reasonable cost. An adequate liquidity position permits the Corporation to pay creditors, compensate for unforeseen deposit fluctuations and fund unexpected loan demand. The Corporation maintains overnight borrowing facilities with several correspondent banks that provide a source of day-to-day liquidity. Also, the Corporation maintains borrowing facilities with FHLB Pittsburgh, secured by mortgage loans and various investment securities. At September 30, 2007, the Corporation had unused borrowing availability with correspondent banks and the Federal Home Loan Bank of Pittsburgh totaling approximately \$236,000,000. Additionally, the Corporation uses repurchase agreements placed with brokers to borrow funds secured by investment assets, and uses RepoSweep arrangements to borrow funds from commercial banking customers on an overnight basis. Further, if required to raise cash in an emergency situation, the Corporation could sell non-pledged investment securities to meet its obligations. At September 30, 2007, the carrying value of non-pledged available-for-sale securities was \$107,971,000.

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Management believes the combination of its strong capital position (discussed in the next section), ample available borrowing facilities and substantial non-pledged securities portfolio have placed the Corporation in a position of minimal short-term and long-term liquidity risk.

STOCKHOLDERS EQUITY AND CAPITAL ADEQUACY

The Corporation and the subsidiary banks (Citizens & Northern Bank and First State Bank) are subject to various regulatory capital requirements administered by the federal banking agencies. The Corporation's estimated, consolidated capital ratios at September 30, 2007 are as follows:

Total capital to risk-weighted assets	16.87%
Tier 1 capital to risk-weighted assets	15.69%
Tier 1 capital to average total assets	11.00%

Management expects the Corporation and the subsidiary banks to maintain capital levels that exceed the regulatory standards for well-capitalized institutions for the next 12 months and for the foreseeable future. Planned capital expenditures are not expected to have a significantly detrimental effect on capital ratios.

The Corporation's total stockholders' equity is affected by fluctuations in the fair values of available-for-sale securities. The difference between amortized cost and fair value of available-for-sale securities, net of deferred income tax, is included in Accumulated Other Comprehensive Income within stockholders' equity. Changes in accumulated other comprehensive income are excluded from earnings and directly increase or decrease stockholders' equity.

The balance in accumulated other comprehensive income related to unrealized losses on available-for-sale securities, net of deferred income tax, amounted to a negative balance of \$2,130,000 at September 30, 2007, down from a positive balance resulting from net unrealized gains of \$1,794,000 at December 31, 2006. The decrease in accumulated other comprehensive income in 2007 resulted mainly from changes in interest rates, along with general pricing declines on trust preferred securities and bank stocks.

Effective December 31, 2006, the Corporation applied SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. SFAS No. 158 requires the Corporation to recognize the underfunded or overfunded status of defined benefit pension and postretirement plans as a liability or asset in the balance sheet. The Corporation has recognized a liability for the underfunded balance of its defined benefit pension and postretirement plans, and has recognized a reduction in stockholders' equity (included in accumulated other comprehensive income) for the amount of the liability, net of deferred income tax. Accumulated other comprehensive income included a negative balance of \$1,161,000 at September 30, 2007 and \$1,181,000 at December 31, 2006 related to SFAS 158.

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INFLATION**

The Corporation is significantly affected by the Federal Reserve Board's efforts to control inflation through changes in short-term interest rates. From mid-2004 through mid-2006, the Federal Reserve Board increased the Fed funds target rate in 25-50 basis point increments from a low of 1% to 5.25%. During the third quarter of 2007, the target rate decreased to 4.75% and was further decreased to 4.50% in late October 2007. In 2004-2006, long-term interest rates did not increase nearly as much as short-term rates, which has hurt the Corporation's profitability by squeezing the net interest margin. The Corporation is liability sensitive, which means its interest-bearing deposits and borrowings reprice, on average, more quickly than its interest-earning assets. Accordingly, the recent decreases in the Fed funds target rate may help the Corporation's net interest margin. However, some economists are concerned that lowering the Fed funds target rate may lead to increased levels of inflation, which could affect the Corporation's credit risk if the borrowers' ability to make loan payments were to become impaired. Although management cannot predict future changes in the rate of inflation, management monitors the impact of economic trends, including any indicators of inflationary pressure, in managing interest rate and other financial risks.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109 (Interpretation 48). Interpretation 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement 109, Accounting for Income Taxes. Interpretation 48 became effective for the Corporation's financial statements, effective January 1, 2007. The Corporation has evaluated Interpretation 48, and adopted Interpretation 48 with no impact on the financial statements. In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), to establish a consistent framework for measuring fair value and expand disclosures on fair value measurements. The provisions of SFAS 157 are effective beginning in 2008 and are currently not expected to have a material effect on the Corporation's financial statements.

In February 2007, FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments at fair value that are not currently required to be measured at fair value. It also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007 (the Corporation's 2008 fiscal year). The Corporation considered early adoption of SFAS 159, effective as of January 1, 2007, but decided not to make that early adoption. The Corporation does not expect this pronouncement to materially impact its 2008 consolidated financial statements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK

The Corporation's two major categories of market risk, interest rate risk and equity securities risk, are discussed in the following sections.

INTEREST RATE RISK

Business risk arising from changes in interest rates is a significant factor in operating a bank. The Corporation's assets are predominantly long-term, fixed rate loans and debt securities. Funding for these assets comes principally from short-term deposits and borrowed funds. Accordingly, there is an inherent risk of lower future earnings or decline in fair value of the Corporation's financial instruments when interest rates change.

Citizens & Northern Bank uses a simulation model to calculate the potential effects of interest rate fluctuations on net interest income and the market value of portfolio equity. Only assets and liabilities of Citizens & Northern Bank are included in management's monthly simulation model calculations. Since Citizens & Northern Bank makes up more than 90% of the Corporation's total assets and liabilities, and because Citizens & Northern Bank is the source of the most volatile interest rate risk, presently management does not consider it necessary to run the model for the remaining entities within the consolidated group. (Management intends to add data for First State Bank and other related entities to the model, beginning in the fourth quarter 2007.) For purposes of these calculations, the market value of portfolio equity includes the fair values of financial instruments, such as securities, loans, deposits and borrowed funds, and the book values of nonfinancial assets and liabilities, such as premises and equipment and accrued expenses. The model measures and projects potential changes in net interest income, and calculates the discounted present value of anticipated cash flows of financial instruments, assuming an immediate increase or decrease in interest rates. Management ordinarily runs a variety of scenarios within a range of plus or minus 50-300 basis points of current rates.

Citizens & Northern Bank's Board of Directors has established policy guidelines for acceptable levels of interest rate risk, based on an immediate increase or decrease in interest rates. Citizens & Northern Bank's policy provides limits at +/- 100, 200 and 300 basis points from current rates for fluctuations in net interest income from the baseline (flat rates) one-year scenario. The policy also limits acceptable market value variances from the baseline values based on current rates. As Table XI shows, as of September 30, 2007 and December 31, 2006, the decline in net interest income exceeds the policy threshold marks if interest rates were to immediately rise by 200 or 300 basis points, and the decline in market value exceeds the policy threshold marks if interest rates were to rise immediately by 200 or 300 basis points. The out of policy positions are a reflection of the Corporation's liability sensitive position (on average, deposits and borrowings reprice more quickly than loans and debt securities). Management has reviewed these positions with the Board of Directors at quarterly or monthly intervals throughout 2006 and as of September 30, 2007. In addition, management will continue to evaluate whether to make any changes to asset or liability holdings in an effort to reduce exposure to rising interest rates.

The table that follows was prepared using the simulation model described above. The model makes estimates, at each level of interest rate change, regarding cash flows from principal repayments on loans and mortgage-backed securities and call activity on other investment securities. Actual results could vary significantly from these estimates, which could result in significant differences in the calculations of projected changes in net interest margin and market value of portfolio equity. Also, the model does not make estimates related to changes in the composition of the deposit portfolio that could occur due to rate competition and the table does not necessarily reflect changes that management would make to realign the portfolio as a result of changes in interest rates.

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TABLE XI THE EFFECT OF HYPOTHETICAL CHANGES IN INTEREST RATES
September 30, 2007 Data
(In Thousands)

Basis Point Change in Rates	Period Ending September 30, 2008				
	Interest Income	Interest Expense	Net Interest Income (NII)	NII % Change	NII Risk Limit
+300	\$74,671	\$48,402	\$26,269	-25.0%	20.0%
+200	72,595	43,255	29,340	-16.2%	15.0%
+100	70,436	38,148	32,288	-7.8%	10.0%
0	68,162	33,143	35,019	0.0%	0.0%
-100	65,236	28,449	36,787	5.0%	10.0%
-200	61,575	24,511	37,064	5.8%	15.0%
-300	57,585	20,825	36,760	5.0%	20.0%

Market Value of Portfolio Equity
at September 30, 2007

Basis Point Change in Rates	Present Value Equity	Present Value % Change	Present Value Risk Limit
+300	\$ 54,382	-53.7%	45.0%
+200	75,541	-35.6%	35.0%
+100	96,966	-17.4%	25.0%
0	117,366	0.0%	0.0%
-100	131,556	12.1%	25.0%
-200	136,482	16.3%	35.0%
-300	140,426	19.6%	45.0%

December 31, 2006 Data
(In Thousands)

Basis Point Change in Rates	Period Ending December 31, 2007				
	Interest Income	Interest Expense	Net Interest Income (NII)	NII % Change	NII Risk Limit
+300	\$69,054	\$47,384	\$21,670	-27.6%	20.0%
+200	67,143	42,650	24,493	-18.1%	15.0%
+100	65,185	37,917	27,268	-8.9%	10.0%
0	63,105	33,184	29,921	0.0%	0.0%
-100	60,376	28,552	31,824	6.4%	10.0%
-200	57,077	24,438	32,639	9.1%	15.0%
-300	53,469	20,935	32,534	8.7%	20.0%

Market Value of Portfolio Equity
at December 31, 2006

Basis Point Change in Rates	Present Value Equity	Present Value % Change	Present Value Risk Limit
+300	\$ 49,927	-58.2%	45.0%
+200	72,979	-38.9%	35.0%
+100	96,660	-19.1%	25.0%
0	119,522	0.0%	0.0%
-100	136,579	14.3%	25.0%
-200	146,645	22.7%	35.0%
-300	156,384	30.8%	45.0%

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EQUITY SECURITIES RISK**

The Corporation's equity securities portfolio consists primarily of investments in stock of banks and bank holding companies located mainly in Pennsylvania. The Corporation also owns some other stocks and mutual funds. Investments in bank stocks are subject to the risk factors that affect the banking industry in general, including competition from non-bank entities, credit risk, interest rate risk and other factors, which could result in a decline in market prices. Also, losses could occur in individual stocks held by the Corporation because of specific circumstances related to each bank. Further, because of the concentration of bank and bank holding companies located in Pennsylvania, these investments could decline in market value if there is a downturn in the state's economy. Equity securities held as of September 30, 2007 and December 31, 2006 are presented in Table XII.

**TABLE XII EQUITY SECURITIES
(In Thousands)**

		Fair Value	Hypothetical 10% Decline In Market Value	Hypothetical 20% Decline In Market Value
At September 30, 2007	Cost			
Banks and bank holding companies	\$ 19,781	\$ 21,578	\$ (2,158)	\$ (4,316)
Other equity securities	2,549	3,041	(304)	(608)
Total	\$ 22,330	\$ 24,619	\$ (2,462)	\$ (4,924)

		Fair Value	Hypothetical 10% Decline In Market Value	Hypothetical 20% Decline In Market Value
At December 31, 2006	Cost			
Banks and bank holding companies	\$ 19,884	\$ 26,008	\$ (2,601)	\$ (5,202)
Other equity securities	4,146	4,704	(470)	(941)
Total	\$ 24,030	\$ 30,712	\$ (3,071)	\$ (6,143)

ITEM 4. CONTROLS AND PROCEDURES

The Corporation's management, under the supervision of and with the participation of the Corporation's Chief Executive Officer and Chief Financial Officer, has carried out an evaluation of the design and effectiveness of the Corporation's disclosure controls and procedures as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Corporation's disclosure controls and procedures are effective to ensure that all material information required to be disclosed in reports the Corporation files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

There were no significant changes in the Corporation's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or that is reasonably likely to affect, our internal control over financial reporting.

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PART II OTHER INFORMATION****Item 1. Legal Proceedings**

The Corporation and the subsidiary banks are involved in various legal proceedings incidental to their business. Management believes the aggregate liability, if any, resulting from such pending and threatened legal proceedings will not have a material, adverse effect on the Corporation's financial condition or results of operations.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in Item 1A of the Corporation's Form 10-K filed March 2, 2007.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**c. Issuer Purchases of Equity Securities**

On August 23, 2007, the Corporation announced the extension of a plan that permits the repurchase of shares of its outstanding common stock, up to an aggregate total of \$10 million, through August 31, 2008. The Board of Directors authorized repurchase from time to time at prevailing market prices in open market or in privately negotiated transactions as, in management's sole opinion, market conditions warrant and based on stock availability, price and the Company's financial performance. As of September 30, 2007, the maximum additional value available for purchases under this program is \$10,000,000.

The following table sets forth a summary of the purchases by the Corporation, on the open market, of its equity securities for the third quarter 2007:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
July 1 - 31, 2007		\$		\$ 10,073,917
August 1 - 23, 2007	18,500	\$ 19.29	18,500	\$ 9,717,017
August 24 - 31, 2007		\$		\$ 10,000,000
September 1 - 30, 2007		\$		\$ 10,000,000

Item 3. Defaults Upon Senior Securities

NONE

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

NONE

Item 5. Other Information

NONE

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Item 6. Exhibits

2. Plan of acquisition, reorganization, arrangement, liquidation or succession	Incorporated by reference to Annex A in Form S-4/A filed on March 6, 2007, and for which Notice of Effectiveness was received March 8, 2007
3. (i) Articles of Incorporation	Incorporated by reference to Exhibit 4.1 to the Corporation's Form S-8 registration statement filed November 3, 2006
3. (ii) By-laws	Incorporated by reference to Exhibit 3.1 of the Corporation's Form 8-K filed August 25, 2004
4. Instruments defining the rights of security holders, including indentures	Not applicable
10. Material contracts	Not applicable
11. Statement re: computation of per share earnings	Information concerning the computation of earnings per share is provided in Note 2 to the Consolidated Financial Statements, which is included in Part I, Item 1 of Form 10-Q.
15. Letter re: unaudited financial information	Not applicable
18. Letter re: change in accounting principles	Not applicable
19. Report furnished to security holders	Not applicable
20. Other documents or statements to security holders	Not applicable
22. Published report regarding matters submitted to vote of security holders	Not applicable
23. Consents of experts and counsel	Not applicable
24. Power of attorney	Not applicable
31. Rule 13a-14(a)/15d-14(a) certifications:	
31.1 Certification of Chief Executive Officer	Filed herewith
31.2 Certification of Chief Financial Officer	Filed herewith
32. Section 1350 certifications	Filed herewith
99. Additional exhibits	Not applicable
100. XBRL-related documents	Not applicable

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Signature Page

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.

CITIZENS & NORTHERN CORPORATION

November 6, 2007

By: /s/ Craig G. Litchfield
Chairman, President and Chief
Executive Officer

Date November 6, 2007

By: /s/ Mark A. Hughes
Treasurer and Chief Financial Officer