

PEOPLES BANCORP INC  
Form DEF 14A  
December 12, 2008

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT  
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant  x  
Filed by a Party other than the Registrant  o

Check the appropriate box:

- o Preliminary Proxy Statement
- o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material under § 240.14a-12

Peoples Bancorp Inc.

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(Name of Registrant as Specified In Its Charter)

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- x No fee required.
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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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Peoples Bancorp Inc. • 138 Putnam Street • P.O. Box 738

Marietta, OH 45750-0738  
Telephone: (740) 374-6136  
www.peoplesbancorp.com

December 17, 2008

Dear Fellow Shareholders:

This letter is to inform you of an opportunity for Peoples Bancorp Inc. (“Peoples”) that requires us to conduct a Special Meeting of Shareholders.

On October 31, 2008, the Board of Directors of Peoples took action to access a much-publicized source of capital being offered by the U.S. Department of the Treasury (“U.S. Treasury”), authorizing the submission of an application to participate in the voluntary Capital Purchase Program. The Capital Purchase Program targets “healthy institutions” and was created by the U.S. Treasury as part of the Troubled Asset Relief Program instituted under the Emergency Economic Stabilization Act of 2008, in order to restore stability to the U.S. financial system. The Board of Directors authorized management to apply for participation in the Capital Purchase Program at a level of approximately \$39 million, which represents 3% of Peoples’ total risk-weighted assets.

On November 12, 2008, Peoples received preliminary approval from the U.S. Treasury of its application to access \$39 million of capital. Under the Capital Purchase Program, Peoples would issue to the U.S. Treasury:

- \$39 million of non-voting cumulative perpetual preferred shares (“Senior Preferred Shares”) that carry a 5% coupon for each of the first five years and 9% per year thereafter.
- A warrant to purchase Peoples common shares amounting to 15% of the Senior Preferred Share amount, with the exercise price based on the 20-day average closing price for the period ended on the last trading day prior to Peoples receiving preliminary approval from the U.S. Treasury. Based on an average closing price of \$18.66, the U.S. Treasury would be issued a warrant to purchase 313,505 common shares, or approximately 3% of Peoples’ outstanding common shares on November 11, 2008.

Participation in the Capital Purchase Program is voluntary and should be considered as an investment by the U.S. Treasury in the future of the financial services industry.

While Peoples is a well-capitalized institution, we believe that participation in the Capital Purchase Program will benefit our clients, the company and our shareholders by giving us the ability to enhance our already strong capital levels in this challenging environment. Raising capital under the U.S. Treasury’s program will provide Peoples with additional strength to lend and serve our clients in our communities and enhance shareholder value through business expansion opportunities.

Peoples’ Board of Directors solicits your proxy for the Special Meeting of Shareholders to vote to amend Article FOURTH of Peoples’ Amended Articles of Incorporation to authorize Peoples to issue preferred shares. Peoples is not currently authorized to issue preferred shares under its Amended Articles of Incorporation, which is a prerequisite to

participation in the Capital Purchase Program.

The Board of Directors of Peoples urges you to vote “FOR” the amendment to our Amended Articles of Incorporation. Peoples is joining a long list of other healthy financial institutions across the country accessing this capital. Your approval of this proposed amendment will give us the added strength to be successful in the long-term.

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Enclosed you will find the following items pertaining to the Special Meeting of Shareholders to be held at 11:00 a.m., Eastern Standard Time, on Thursday, January 22, 2009 in the Delta Queen Room at the Lafayette Hotel in Marietta, Ohio:

- Notice of Special Meeting of Shareholders
  - Proxy Statement
  - Proxy Card
- Postage-Paid Return Envelope

It is important that you review the enclosed information and your proxy card be signed, dated and returned promptly in the enclosed envelope as soon as possible. A failure to vote will have the effect of a vote “AGAINST” the proposed amendment to our Amended Articles of Incorporation.

Also, please be advised that last month some shareholders were inadvertently mailed preliminary copies of the Letter to Shareholders, Notice of Special Meeting of Shareholders, Proxy Statement and proxy card. Please be advised that these materials, dated November 24, 2008, should not have been mailed. I apologize for the error. If you voted your common shares as a result of the inadvertent mailing, please understand that you must vote your common shares again based on the definitive proxy materials enclosed with this letter. Again, I apologize for any confusion that might have been caused.

We remain focused on executing our strategic plan. Despite the dramatic changes in the financial services industry this year, we are focused on serving our clients and taking care of their needs. On behalf of our directors and staff, thank you for your continued support.

Sincerely,

Mark F. Bradley  
President and Chief Executive Officer

Peoples Bancorp Inc. • 138 Putnam Street • P.O. Box 738

Marietta, OH 45750-0738  
Telephone: (740) 374-6136  
www.peoplesbancorp.com

## NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

Dear Fellow Shareholders:

A Special Meeting of Shareholders (the “Special Meeting”) of Peoples Bancorp Inc. (“Peoples”) will be held in the Delta Queen Room of the Lafayette Hotel, 101 Front Street, Marietta, Ohio 45750, on Thursday, January 22, 2009, at 11:00 a.m., Eastern Standard Time, for the following purposes:

1. To consider and vote upon a proposal to adopt an amendment to Article FOURTH of Peoples’ Amended Articles of Incorporation to authorize Peoples to issue up to 50,000 preferred shares.
2. To consider and vote upon a proposal to approve the adjournment of the Special Meeting, if necessary, to solicit additional proxies, in the event there are not sufficient votes at the time of the Special Meeting to adopt the proposed amendment to Article FOURTH of Peoples’ Amended Articles of Incorporation.
3. To consider and act upon any other business which properly comes before the Special Meeting or any adjournment thereof. Peoples’ Board of Directors is not aware of any other business to come before the Special Meeting.

Your Board of Directors recommends that you vote “FOR” the adoption of the proposed amendment to Article FOURTH of Peoples’ Amended Articles of Incorporation to authorize Peoples to issue up to 50,000 preferred shares. Your Board of Directors also recommends that you vote “FOR” the approval of the adjournment of the Special Meeting, if necessary, to solicit additional proxies, in the event there are not sufficient votes at the time of the Special Meeting to adopt the proposed amendment to Article FOURTH to Peoples’ Amended Articles of Incorporation.

Action may be taken on the foregoing proposals at the Special Meeting on the date specified, or on any date to which, by original or later adjournment, the Special Meeting may be adjourned. If you were a shareholder of record at the close of business on December 10, 2008, you will be entitled to vote in person or by proxy at the Special Meeting and any adjournment thereof.

You are cordially invited to attend the Special Meeting. Your vote is important, regardless of the number of common shares you own. Whether or not you plan to attend the Special Meeting in person, it is important that your common shares be represented. As soon as possible, please sign, date and return your proxy card. A return envelope, which requires no postage if mailed in the United States, has been provided for your use. If you are a holder of record, you also may cast your vote in person at the Special Meeting.

Please vote as soon as possible.

By Order of the Board of Directors,  
December 17, 2008

RHONDA L. MEARS

Corporate Secretary

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PEOPLES BANCORP INC.  
138 Putnam Street  
P.O. Box 738  
Marietta, Ohio 45750-0738  
(740) 374-6136  
www.peoplesbancorp.com

PROXY STATEMENT FOR SPECIAL MEETING OF SHAREHOLDERS

To Be Held January 22, 2009

INTRODUCTION

We are sending this Proxy Statement and the accompanying proxy card to you as a shareholder of Peoples Bancorp Inc., an Ohio corporation (“Peoples”), in connection with the solicitation of proxies for the Special Meeting of Shareholders (the “Special Meeting”) to be held in the Delta Queen Room of the Lafayette Hotel, 101 Front Street, Marietta, Ohio 45750, on Thursday, January 22, 2009, at 11:00 a.m., Eastern Standard Time. Peoples’ Board of Directors is soliciting proxies for use at the Special Meeting, or any adjournment thereof. Only shareholders of record as of the close of business on December 10, 2008, which we refer to as the record date, will be entitled to vote at the Special Meeting. The proxy solicitation materials for the Special Meeting will be distributed to shareholders of record on or about December 17, 2008.

INFORMATION ABOUT THE SPECIAL MEETING

Why is Peoples holding a Special Meeting of Shareholders?

The recent challenges experienced as a result of turbulence in the financial markets make it necessary for financial institutions to not only preserve existing capital, but also supplement such capital as a protection against further economic difficulties. Recently, certain capital-raising opportunities have been presented by the United States Department of the Treasury (the “U.S. Treasury”) that provide Peoples with options to raise capital in a low-cost manner. While Peoples’ capital position is already strong and well above the minimums to be considered “well-capitalized” under applicable regulatory guidelines, management would like to access this capital to ensure that during these uncertain economic times, Peoples is well-positioned to support its existing operations as well as anticipated future growth.

When is the Special Meeting?

Thursday, January 22, 2009, at 11:00 a.m., Eastern Standard Time.

Where will the Special Meeting be held?

In the Delta Queen Room of the Lafayette Hotel, 101 Front Street, Marietta, Ohio 45750.

What matters will be voted upon at the Special Meeting?

At the Special Meeting, shareholders will consider and vote upon the following matters:

1. A proposal to adopt an amendment to Article FOURTH of Peoples’ Amended Articles of Incorporation to authorize Peoples to issue up to 50,000 preferred shares -- Item 1 on the accompanying proxy card.



2. A proposal to approve the adjournment of the Special Meeting, if necessary, to solicit additional proxies, in the event there are not sufficient votes at the time of the Special Meeting to adopt the proposed amendment to Article FOURTH of Peoples' Amended Articles of Incorporation -- Item 2 on the accompanying proxy card.
3. Any other business which properly comes before the Special Meeting or any adjournment thereof. Peoples' Board of Directors is not aware of any other business to come before the Special Meeting.

Why is the amendment to Article FOURTH of Peoples' Amended Articles of Incorporation necessary?

The Board of Directors believes that the proposed amendment to Article FOURTH of Peoples' Amended Articles of Incorporation to authorize Peoples to issue up to 50,000 preferred shares is advisable and in the best interests of Peoples and its shareholders for several reasons. The primary objective of the proposed amendment to Article FOURTH of Peoples' Amended Articles of Incorporation to authorize the issuance of preferred shares is to enable Peoples to participate in the U.S. Treasury's recently announced Capital Purchase Program (the "Capital Purchase Program"), instituted under the Emergency Economic Stabilization Act of 2008. The Capital Purchase Program was announced by the U.S. Treasury on October 14, 2008, as part of the Troubled Asset Relief Program ("TARP"). The purpose of the Capital Purchase Program is to encourage U.S. financial institutions to build capital to increase the flow of credit to U.S. businesses and consumers on competitive terms to promote the sustained growth and vitality of the U.S. economy.

On November 3, 2008, Peoples applied to participate in the Capital Purchase Program. Peoples received preliminary approval of its application on November 12, 2008. Peoples proposes to sell \$39,000,000 of Senior Preferred Shares, as defined on page 7 under "Terms of the Capital Purchase Program", to the U.S. Treasury, representing the maximum 3% of Peoples' total risk-weighted assets which may be sold under the Capital Purchase Program. Although Peoples is currently well-capitalized under applicable regulatory guidelines, the Board of Directors believes it is advisable to take advantage of the Capital Purchase Program to raise additional capital to ensure that during these uncertain economic times, Peoples is well-positioned to support its existing operations as well as anticipated future growth. Because Peoples is not currently authorized to issue preferred shares under its Amended Articles of Incorporation, it is necessary for Peoples to amend its Amended Articles of Incorporation to authorize preferred shares in order to participate in the Capital Purchase Program. However, even if the proposed amendment to Peoples' Amended Articles of Incorporation is adopted, there can be no assurance that Peoples will issue any Senior Preferred Shares to the U.S. Treasury thereunder.

The authorization of the preferred shares would permit the Board of Directors to issue such preferred shares without further shareholder approval or delay and, thereby, provide Peoples with maximum flexibility in growing our business through new loan opportunities as well as structuring acquisitions, joint ventures, strategic alliances, capital-raising transactions and for other corporate purposes. The preferred shares would enable Peoples to respond promptly to and take advantage of market conditions and other favorable opportunities without incurring the delay and expense associated with calling a special meeting of shareholders to approve a contemplated issuance of preferred shares. The Board of Directors believes that this will also help to reduce costs because it will not have to seek additional shareholder approval to issue the preferred shares unless it is required to obtain shareholder approval for the transaction under the rules of The NASDAQ Stock Market ("NASDAQ"), the stock exchange on which Peoples' common shares are listed.

Who can vote?

You are entitled to vote your common shares if Peoples' shareholder records show that you held Peoples common shares as of the close of business on December 10, 2008, the record date for the Special Meeting.

Each shareholder is entitled to one vote for each common share held on December 10, 2008. At the close of business on December 10, 2008, there were 10,426,132 common shares outstanding and entitled to vote. The common shares are the only class of stock of Peoples presently outstanding.

How do I vote?

If you were the record holder of common shares of Peoples as of December 10, 2008, you may vote your common shares in person by attending the Special Meeting or, to ensure that your common shares are represented at the Special Meeting, you may vote your common shares by signing and returning the accompanying proxy card in the postage-paid envelope provided.

How do I vote if my common shares are held in "street name"?

If you hold your common shares in "street name" through a broker, a financial institution or another nominee, then that nominee is considered the shareholder of record for voting purposes and should give you instructions for voting your common shares. As a beneficial owner, you have the right to direct that nominee how to vote the common shares held in your account. Your nominee may only vote the common shares of Peoples that it holds for you in accordance with your instructions. If you hold your common shares in "street name," you may be eligible to appoint your proxy electronically via the Internet or telephonically and may incur costs associated with the electronic access or telephone usage.

If you hold your common shares in "street name" and wish to attend the Special Meeting and vote in person, you must bring an account statement or letter from your broker, financial institution or other nominee authorizing you to vote on behalf of such nominee. The account statement or letter must show that you were the direct or indirect beneficial owner of the common shares on December 10, 2008, the record date for voting at the Special Meeting.

How will my common shares be voted?

Those common shares represented by properly executed proxy cards that are received prior to the Special Meeting, and not subsequently revoked, will be voted in accordance with your instructions by your proxy. If you submit a valid proxy card prior to the Special Meeting, but do not provide voting instructions, your proxy will vote your common shares as recommended by the Board of Directors, except in the case of broker non-votes where applicable, as follows:

- "FOR" the adoption of the amendment to Article FOURTH of Peoples' Amended Articles of Incorporation to authorize Peoples to issue up to 50,000 preferred shares; and
- "FOR" the approval of the adjournment of the Special Meeting, if necessary, to solicit additional proxies, in the event there are not sufficient votes at the time of the Special Meeting to adopt the proposed amendment to Article FOURTH of Peoples' Amended Articles of Incorporation.

No appraisal or dissenters' rights exist for any action proposed to be taken at the Special Meeting. If any other matters are properly presented for voting at the Special Meeting, the persons appointed as proxies will vote on those matters, to the extent permitted by applicable law, in accordance with their best judgment.



How do I change or revoke my proxy?

Shareholders who submit proxies retain the right to revoke them at any time before they are exercised. Unless revoked, the common shares represented by such proxies will be voted at the Special Meeting and any adjournment thereof. You may revoke your proxy at any time before it is actually exercised at the Special Meeting by:

- filing a written notice of revocation with the Corporate Secretary of Peoples, at 138 Putnam Street, P.O. Box 738, Marietta, Ohio 45750-0738;
- executing and returning a later-dated proxy card; or
- attending the Special Meeting and giving notice of revocation in person.

Attendance at the Special Meeting will not, by itself, revoke your proxy.

The last-dated proxy you submit (by any means) will supersede any previously submitted proxy. If you hold your common shares in “street name” and instructed your broker, financial institution or other nominee to vote your common shares and you would like to revoke or change your vote, then you must follow the instructions received from your nominee to change your vote.

If I vote in advance, can I still attend the Special Meeting?

Yes. You are encouraged to vote promptly, by returning your signed proxy card by mail, so that your common shares will be represented at the Special Meeting. However, appointing a proxy does not affect your right to attend the Special Meeting and vote your common shares in person.

What constitutes a quorum and how many votes are required for adoption of the proposals?

Under Peoples’ Code of Regulations, a majority of the outstanding common shares present in person or represented by proxy will constitute a quorum at the Special Meeting. Both abstentions and broker non-votes are counted as being present for purposes of determining the presence of a quorum. There were 10,426,132 Peoples common shares outstanding and entitled to vote on December 10, 2008, the record date. A majority of the outstanding common shares, or 5,213,067 common shares, present in person or represented by proxy, will constitute a quorum. A quorum must exist to conduct business at the Special Meeting.

Under Ohio law and Peoples’ Amended Articles of Incorporation, the adoption of the proposed amendment to Article FOURTH of Peoples’ Amended Articles of Incorporation requires the affirmative vote of the holders of at least a majority of Peoples’ common shares outstanding and entitled to vote at the Special Meeting. Approval of an adjournment of the Special Meeting requires the affirmative vote of the holders of a majority of the common shares of Peoples, present in person or represented by proxy, at the Special Meeting.

Both the proposal to adopt the amendment to Article FOURTH of Peoples’ Amended Articles of Incorporation to authorize Peoples to issue up to 50,000 preferred shares and the proposal to approve the adjournment of the Special Meeting, if necessary, to solicit additional proxies, in the event there are not sufficient votes at the time of the Special Meeting to adopt the proposal amendment to Article FOURTH of Peoples’ Amended Articles of Incorporation, are “non-routine” items. Therefore, a broker holding common shares for a beneficial owner in “street name” may vote on these proposals only if the beneficial owner has provided voting instructions. A “broker non-vote” occurs when a broker holding common shares for a beneficial owner is unable to vote on a proposal because the proposal is non-routine and the beneficial owner does not provide any voting instructions.



The following sets forth the votes required, and the impact of abstentions and broker non-votes, if any, on the two proposals:

Item	Vote Required	Impact of Abstentions and Broker Non-Votes, if any
Amendment to Article FOURTH of Peoples' Amended Articles of Incorporation	Approval of at least a majority of the outstanding common shares	<ul style="list-style-type: none"> <li>· Abstention will not count as a vote cast on the proposal but has the same effect as a vote "AGAINST" the proposal</li> <li>· Broker non-vote will have same effect as a vote "AGAINST" the proposal</li> </ul>
Adjournment of the Special Meeting	Approval of a majority of the common shares present in person or represented by proxy and entitled to vote at the Special Meeting	<ul style="list-style-type: none"> <li>· Abstention will not count as a vote cast on the proposal but has the same effect as a vote "AGAINST" the proposal</li> <li>· Broker non-vote will not count as a vote on the proposal and will not affect the outcome of the vote</li> </ul>

Peoples' policy is to keep confidential proxy cards, ballots and voting tabulations that identify individual shareholders. However, exceptions to this policy may be necessary in some instances to comply with legal requirements and, in the case of any contested proxy solicitation, to verify the validity of proxies presented by any person and the results of the voting. Inspectors of election and any employees associated with processing proxy cards or ballots and tabulating the vote must acknowledge their responsibility to comply with this policy of confidentiality.

What is the recommendation of Peoples' Board of Directors?

Peoples' Board of Directors recommends that each shareholder vote "FOR" the adoption of the amendment to Article FOURTH of Peoples' Amended Articles of Incorporation to authorize Peoples to issue up to 50,000 preferred shares and "FOR" the proposal to adjourn the Special Meeting, if necessary, to solicit additional proxies, in the event there are not sufficient votes at the time of the Special Meeting to adopt the proposed amendment to Article FOURTH of Peoples' Amended Articles of Incorporation.

What will the consequences be if the proposed amendment to Article FOURTH of Peoples' Amended Articles of Incorporation is not adopted?

If the proposed amendment to Article FOURTH of Peoples' Amended Articles of Incorporation to authorize Peoples to issue up to 50,000 preferred shares is not adopted, Peoples will not be able to take advantage of the Capital Purchase Program. While Peoples' capital position is already sound and well above the minimums required to be considered well-capitalized under applicable regulatory guidelines, the Board of Directors believes that it is advisable to take advantage of the Capital Purchase Program to raise additional capital to ensure that, during these uncertain economic times, Peoples is well-positioned to support its existing operations as well as anticipated future growth.

Who pays the cost of proxy solicitation?

Peoples will pay the costs of preparing, assembling, printing and mailing this Proxy Statement, the accompanying proxy card and other related materials and all other costs incurred in connection with the solicitation of proxies on behalf of the Board of Directors, other than the Internet access and telephone usage charges mentioned above. Although we are soliciting proxies by mailing these proxy materials to our shareholders, the directors, officers and employees of Peoples and our subsidiaries also may solicit proxies by further mailing, personal contact, telephone, facsimile or electronic mail without receiving any additional compensation for such solicitations. Arrangements will also be made with brokerage firms, financial institutions and other nominees who are record holders of common shares of Peoples for the forwarding of solicitation materials to the beneficial owners of such common shares. Peoples will reimburse these brokers, financial institutions and nominees for their reasonable out-of-pocket costs in connection therewith.

ADOPTION OF AMENDMENT TO ARTICLE FOURTH OF THE  
AMENDED ARTICLES OF INCORPORATION TO AUTHORIZE  
PEOPLES TO ISSUE UP TO 50,000 PREFERRED SHARES  
(Item 1 on Proxy Card)

General

Under Peoples' existing Amended Articles of Incorporation, Peoples does not have the authority to issue preferred shares. If the shareholders adopt the proposed amendment to Article FOURTH of Peoples' Amended Articles of Incorporation, Peoples will be authorized to issue up to 50,000 preferred shares, without par value. The Board of Directors will be authorized to provide for the issuance of one or more series of preferred shares and, in connection with the creation of any such series, to adopt an amendment to Peoples' Amended Articles of Incorporation determining, in whole or in part, the express terms of any such series to the fullest extent permitted under Ohio law. As such, the preferred shares would be available for issuance without further action by Peoples' shareholders, except as may be required by applicable law or pursuant to the rules of NASDAQ.

Reasons for Adoption of the Proposed Amendment

The Board of Directors believes that the proposed amendment to Article FOURTH of Peoples' Amended Articles of Incorporation to authorize the issuance of the preferred shares is advisable and in the best interests of Peoples and its shareholders for several reasons. The primary objective of the proposed amendment to Article FOURTH of the Amended Articles of Incorporation to authorize the issuance of preferred shares is to enable Peoples to participate in the U.S. Treasury's Capital Purchase Program. The purpose of the Capital Purchase Program is to encourage U.S. financial institutions to build capital to increase the flow of credit to U.S. businesses and consumers on competitive terms to promote the sustained growth and vitality of the U.S. economy.

On November 3, 2008, Peoples applied to participate in the Capital Purchase Program. On November 12, 2008, Peoples received preliminary approval of its application. Peoples proposes to sell \$39,000,000 of Senior Preferred Shares to the U.S. Treasury, representing the maximum 3% of Peoples' total risk-weighted assets which may be sold under the Capital Purchase Program. Although Peoples is currently well-capitalized under applicable regulatory guidelines, the Board of Directors believes it is advisable to take advantage of the Capital Purchase Program to raise additional capital to ensure that, during these uncertain economic times, Peoples is well-positioned to support its existing operations as well as anticipated future growth. Because Peoples is not currently authorized to issue preferred shares under its Amended Articles of Incorporation, it is necessary for Peoples to amend its Amended Articles of

Incorporation to authorize preferred shares in order to participate in the Capital Purchase Program. However, even if the proposed amendment to Peoples' Amended Articles of Incorporation is adopted, there can be no assurance that Peoples will issue any senior preferred shares to the U.S. Treasury under the Capital Purchase Program.

The authorization of the preferred shares would permit the Board of Directors to issue such preferred shares without shareholder approval or delay and, thereby, provide Peoples with maximum flexibility in growing our business through new loan opportunities as well as structuring acquisitions, joint ventures, strategic alliances, capital-raising transactions and for other corporate purposes. The preferred shares would enable Peoples to respond promptly to and take advantage of market conditions and other favorable opportunities without incurring the delay and expense associated with calling a special meeting of shareholders to approve a contemplated issuance of shares. The Board of Directors believes that this will also help to reduce costs because it will not have to seek additional shareholder approval to issue the preferred shares unless it is required to obtain shareholder approval for the transaction under the rules of NASDAQ.

#### Terms of the Capital Purchase Program

The Capital Purchase Program was announced by the U.S. Treasury on October 14, 2008, as part of the TARP. Pursuant to the Capital Purchase Program, the U.S. Treasury will purchase up to \$250 billion of senior preferred shares on standardized terms from qualifying financial institutions. Under the Capital Purchase Program, eligible financial institutions can generally apply to issue senior preferred shares to the U.S. Treasury in aggregate amounts between 1% and 3% of the institution's risk-weighted assets.

On November 3, 2008, Peoples applied for an investment by the U.S. Treasury of \$39,000,000 (representing the maximum 3% of Peoples' risk-weighted assets). On November 12, 2008, Peoples received preliminary approval to participate in the Capital Purchase Program. Under the conditions announced by the U.S. Treasury for participation in the Capital Purchase Program, a participating financial institution is given a limited period of time following preliminary approval of its application to satisfy all requirements for participation and to complete the issuance of the senior preferred shares to the U. S. Treasury.

If Peoples participates in the U.S. Treasury's Capital Purchase Program, the U.S. Treasury would purchase from Peoples cumulative perpetual preferred shares, with a liquidation preference of at least \$1,000 per share (the "Senior Preferred Shares"). Based upon the investment of \$39,000,000 which the U.S. Treasury preliminarily approved on November 12, 2008, Peoples would issue 39,000 Senior Preferred Shares, each with a liquidation preference of \$1,000 per share. The Senior Preferred Shares would constitute Tier 1 capital and would rank senior to Peoples' common shares. The Senior Preferred Shares would pay cumulative dividends at a rate of 5% per annum for the first five years and would reset to a rate of 9% per annum after year five. Dividends would be payable quarterly in arrears.

The Senior Preferred Shares would be non-voting shares, but would have class voting rights on (i) any authorization or issuance of shares ranking senior to the Senior Preferred Shares; (ii) any amendment to the rights of the Senior Preferred Shares; or (iii) any merger, consolidation, share exchange, reclassification or similar transaction which would adversely affect the rights of the Senior Preferred Shares. In the event that the cumulative dividends described above were not paid in full for an aggregate of six dividend periods or more, whether or not consecutive, the authorized number of directors of Peoples would automatically be increased by two and the holders of the Senior Preferred Shares would have the right to elect two directors. The right to elect directors would end when dividends have been paid in full for four consecutive dividend periods.

The Senior Preferred Shares would be redeemable after three years at their issue price, plus any accrued and unpaid dividends. Prior to the end of three years after the U.S. Treasury's investment, the Senior Preferred Shares could only be redeemed using the proceeds of an offering of other Tier 1 qualifying perpetual preferred shares or common shares which yields at least 25% of the issue price of the Senior Preferred Shares. Any such redemption must be approved by Peoples' primary federal bank regulator – the Federal Reserve Board. The U.S. Treasury would be permitted to transfer the Senior Preferred Shares to a third party at any time.

Each financial institution participating in the Capital Purchase Program must also issue a warrant (the "Warrant") to the U.S. Treasury to purchase a number of common shares having a market price equal to 15% of the aggregate amount of the Senior Preferred Shares purchased by the U.S. Treasury. The initial exercise price for the Warrant, and the market price for determining the number of common shares subject to the Warrant, will be calculated based on the average of the closing prices of Peoples' common shares on the 20 trading days ending on the last trading day prior to November 12, 2008, which is the date Peoples' application for participation in the Capital Purchase Program was preliminarily approved by the U.S. Treasury. Based on the investment of \$39,000,000 which the U.S. Treasury preliminarily approved and the average of the closing prices of Peoples' common shares on the 20 trading days ended November 11, 2008 (\$18.66), the number of Peoples common shares subject to the Warrant will be approximately 313,505, or 3.0%, of the common shares outstanding on November 11, 2008. The Warrant will have a term of 10 years. If Peoples completes one or more offerings of other Tier 1 qualifying perpetual preferred shares or common shares on or before December 31, 2009, that result in Peoples receiving aggregate gross proceeds of not less than 100% of the aggregate liquidation preference of the Senior Preferred Shares, the number of common shares underlying the Warrant held by the U.S. Treasury will be reduced by a number of common shares equal to the product of (i) the number of common shares originally underlying the Warrant (taking into account all anti-dilution adjustments) and (ii) 0.5.

If Peoples participates in the Capital Purchase Program, it will be required to prepare and file with the Securities and Exchange Commission (the "SEC") a registration statement under the Securities Act of 1933, as amended, to register for resale the Senior Preferred Shares and the Warrant and the underlying common shares purchasable upon exercise of the Warrant. The registration statement must be filed as soon as practicable, and in any event within 30 days, after the closing of the U.S. Treasury's investment.

As long as the Senior Preferred Shares remain outstanding, unless all accrued and unpaid dividends for all past dividend periods on the Senior Preferred Shares are fully paid, Peoples would not be permitted to declare or pay dividends on any common shares, any junior preferred shares or any preferred shares ranking pari passu with the Senior Preferred Shares (other than in the case of pari passu preferred shares, dividends on a pro rata basis with the Senior Preferred Shares), nor would Peoples be permitted to repurchase or redeem any common shares or preferred shares other than the Senior Preferred Shares. Unless the Senior Preferred Shares have been transferred or redeemed in whole, until the third anniversary of the U.S. Treasury's investment, any increase in common share dividends would be prohibited without the prior approval of the U.S. Treasury. In addition, unless the Senior Preferred Shares have been transferred or redeemed in whole, until the third anniversary of the U.S. Treasury's investment, the U.S. Treasury's consent would be required for any share repurchases other than repurchases of the Senior Preferred Shares and repurchases of junior preferred shares or common shares in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practice.

To participate in the Capital Purchase Program, Peoples will be required to adopt the U.S. Treasury's standards for executive compensation and corporate governance, for the period during which the U.S. Treasury holds equity issued under the Capital Purchase Program. These standards generally apply to the chief executive officer, chief financial officer, plus the next three most highly compensated executive officers. Peoples would be required to meet certain standards, including: (1) ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution; (2) requiring a clawback of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate; (3) prohibiting certain severance payments to a senior executive, generally referred to as "golden parachute" payments, above specified limits set forth in the U.S. Internal Revenue Code; and (4) agreeing not to deduct for tax purposes executive compensation in excess of \$500,000 for each senior executive – for this purpose, all compensation paid to the senior executive for the applicable tax year is taken into account, including certain qualified performance-based compensation normally deductible under Section 162(m) of the U.S. Internal Revenue Code. The Board of Directors does not anticipate that any material changes would need to be made to Peoples' existing compensation plans and arrangements to comply with the U.S. Treasury's standards for executive compensation and corporate governance.

The foregoing description of the Capital Purchase Program is based on the information currently available regarding the Capital Purchase Program and does not purport to be complete in all respects. The terms of the Capital Purchase Program, inclu