

MID PENN BANCORP INC  
Form 10-Q  
November 14, 2011  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2011

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-13677

**MID PENN BANCORP, INC.**

(Exact Name of Registrant as Specified in its Charter)

**Pennsylvania**  
(State or Other Jurisdiction of

**25-1666413**  
(I.R.S. Employer Identification Number)

Incorporation or Organization)

**349 Union Street**

**Millersburg, Pennsylvania**  
(Address of Principal Executive Offices)

**17061**  
(Zip Code)

**Registrant's telephone number, including area code 717.692.2133**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One).

Large accelerated filer  Accelerated Filer  Non-accelerated Filer  Smaller Reporting Company

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No

As of November 15, 2011, the registrant had 3,483,121 shares of common stock outstanding.

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| <i>Unless the context otherwise requires, the terms "Mid Penn", "we", "us", and "our" refer to Mid Penn Bancorp, Inc. and its consolidated subsidiaries.</i> |           |

**Table of Contents****MID PENN BANCORP, INC.  
PART I FINANCIAL INFORMATION****Consolidated Balance Sheets (Unaudited)****ITEM 1 Financial Statements**

| (Dollars in thousands, except share data)                                                                                                                                  | September 30,<br>2011 | December 31,<br>2010 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                                              |                       |                      |
| Cash and due from banks                                                                                                                                                    | \$ 8,485              | \$ 6,779             |
| Interest-bearing balances with other financial institutions                                                                                                                | 918                   | 884                  |
| Federal funds sold                                                                                                                                                         | 7,932                 | 5,238                |
| <b>Total cash and cash equivalents</b>                                                                                                                                     | <b>17,335</b>         | <b>12,901</b>        |
| Interest-bearing time deposits with other financial institutions                                                                                                           | 39,371                | 55,041               |
| Available for sale investment securities                                                                                                                                   | 151,619               | 70,702               |
| Loans and leases, net of unearned interest                                                                                                                                 | 484,366               | 467,735              |
| Less: Allowance for loan and lease losses                                                                                                                                  | (6,809)               | (7,061)              |
| <b>Net loans and leases</b>                                                                                                                                                | <b>477,557</b>        | <b>460,674</b>       |
| Bank premises and equipment, net                                                                                                                                           | 13,266                | 13,185               |
| Restricted investment in bank stocks                                                                                                                                       | 3,284                 | 3,828                |
| Foreclosed assets held for sale                                                                                                                                            | 852                   | 596                  |
| Accrued interest receivable                                                                                                                                                | 2,859                 | 2,632                |
| Deferred income taxes                                                                                                                                                      | 1,878                 | 2,875                |
| Goodwill                                                                                                                                                                   | 1,016                 | 1,016                |
| Core deposit and other intangibles, net                                                                                                                                    | 300                   | 351                  |
| Cash surrender value of life insurance                                                                                                                                     | 7,832                 | 7,638                |
| Other assets                                                                                                                                                               | 3,648                 | 6,018                |
| <b>Total Assets</b>                                                                                                                                                        | <b>\$ 720,817</b>     | <b>\$ 637,457</b>    |
| <b>LIABILITIES &amp; SHAREHOLDERS EQUITY</b>                                                                                                                               |                       |                      |
| Deposits:                                                                                                                                                                  |                       |                      |
| Noninterest bearing demand                                                                                                                                                 | \$ 66,928             | \$ 60,228            |
| Interest bearing demand                                                                                                                                                    | 67,394                | 44,578               |
| Money Market                                                                                                                                                               | 263,104               | 209,936              |
| Savings                                                                                                                                                                    | 28,796                | 26,466               |
| Time                                                                                                                                                                       | 209,558               | 213,774              |
| <b>Total Deposits</b>                                                                                                                                                      | <b>635,780</b>        | <b>554,982</b>       |
| Short-term borrowings                                                                                                                                                      | 636                   | 1,561                |
| Long-term debt                                                                                                                                                             | 22,747                | 27,883               |
| Accrued interest payable                                                                                                                                                   | 1,792                 | 1,111                |
| Other liabilities                                                                                                                                                          | 7,332                 | 3,719                |
| <b>Total Liabilities</b>                                                                                                                                                   | <b>668,287</b>        | <b>589,256</b>       |
| Shareholders Equity:                                                                                                                                                       |                       |                      |
| Preferred stock, par value \$1,000; authorized 10,000,000 shares; 5% cumulative dividend; 10,000 shares issued and outstanding at September 30, 2011 and December 31, 2010 | 10,000                | 10,000               |
| Common stock, par value \$1 per share; 10,000,000 shares authorized; 3,483,121 shares issued and outstanding at September 30, 2011 and 3,479,780 at December 31, 2010      | 3,483                 | 3,480                |
| Additional paid-in capital                                                                                                                                                 | 29,824                | 29,810               |

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|                                            |            |            |
|--------------------------------------------|------------|------------|
| Retained earnings                          | 7,169      | 4,875      |
| Accumulated other comprehensive income     | 2,054      | 36         |
| Total Shareholders' Equity                 | 52,530     | 48,201     |
| Total Liabilities and Shareholders' Equity | \$ 720,817 | \$ 637,457 |

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

**Table of Contents****MID PENN BANCORP, INC.****Consolidated Statements of Operations (Unaudited)**

| (Dollars in thousands, except per share data)                                      | Three Months                   |              | Nine Months Ended     |               |
|------------------------------------------------------------------------------------|--------------------------------|--------------|-----------------------|---------------|
|                                                                                    | Ended<br>September 30,<br>2011 | 2010         | September 30,<br>2011 | 2010          |
| <b>INTEREST INCOME</b>                                                             |                                |              |                       |               |
| Interest & fees on loans and leases                                                | \$ 7,031                       | \$ 6,856     | \$ 21,050             | \$ 20,564     |
| Interest on interest-bearing time deposits with financial institutions             | 125                            | 198          | 442                   | 622           |
| Interest and dividends on investment securities:                                   |                                |              |                       |               |
| U.S. Treasury and government agencies                                              | 522                            | 215          | 1,069                 | 567           |
| State and political subdivision obligations, tax-exempt                            | 307                            | 273          | 932                   | 811           |
| Other securities                                                                   | 3                              | 3            | 9                     | 9             |
| Interest on federal funds sold and securities purchased under agreements to resell | 6                              | 9            | 20                    | 20            |
| <b>Total Interest Income</b>                                                       | <b>7,994</b>                   | <b>7,554</b> | <b>23,522</b>         | <b>22,593</b> |
| <b>INTEREST EXPENSE</b>                                                            |                                |              |                       |               |
| Interest on deposits                                                               | 2,128                          | 2,251        | 6,564                 | 7,071         |
| Interest on short-term borrowings                                                  | 1                              | 3            | 4                     | 16            |
| Interest on long-term debt                                                         | 246                            | 313          | 762                   | 993           |
| <b>Total Interest Expense</b>                                                      | <b>2,375</b>                   | <b>2,567</b> | <b>7,330</b>          | <b>8,080</b>  |
| <b>Net Interest Income</b>                                                         | <b>5,619</b>                   | <b>4,987</b> | <b>16,192</b>         | <b>14,513</b> |
| <b>PROVISION FOR LOAN AND LEASE LOSSES</b>                                         | <b>405</b>                     | <b>975</b>   | <b>1,155</b>          | <b>2,060</b>  |
| <b>Net Interest Income After Provision for Loan and Lease Losses</b>               | <b>5,214</b>                   | <b>4,012</b> | <b>15,037</b>         | <b>12,453</b> |
| <b>NONINTEREST INCOME</b>                                                          |                                |              |                       |               |
| Income from fiduciary activities                                                   | 157                            | 104          | 367                   | 335           |
| Service charges on deposits                                                        | 167                            | 262          | 539                   | 918           |
| Earnings from cash surrender value of life insurance                               | 64                             | 67           | 194                   | 203           |
| Mortgage banking income                                                            | 102                            | 98           | 305                   | 241           |
| Other income                                                                       | 274                            | 293          | 822                   | 843           |
| <b>Total Noninterest Income</b>                                                    | <b>764</b>                     | <b>824</b>   | <b>2,227</b>          | <b>2,540</b>  |
| <b>NONINTEREST EXPENSE</b>                                                         |                                |              |                       |               |
| Salaries and employee benefits                                                     | 2,390                          | 2,202        | 6,992                 | 6,464         |
| Occupancy expense, net                                                             | 274                            | 243          | 826                   | 693           |
| Equipment expense                                                                  | 318                            | 334          | 980                   | 1,027         |
| Pennsylvania Bank Shares tax expense                                               | 121                            | 106          | 363                   | 326           |
| FDIC Assessment                                                                    | 225                            | 205          | 756                   | 610           |
| Legal and professional fees                                                        | 87                             | 96           | 315                   | 377           |
| Director fees and benefits expense                                                 | 90                             | 78           | 235                   | 234           |
| Marketing and advertising expense                                                  | 86                             | 86           | 244                   | 230           |
| Computer expense                                                                   | 171                            | 164          | 500                   | 425           |
| Telephone expense                                                                  | 92                             | 91           | 278                   | 271           |
| (Gain) Loss on sale/write-down of foreclosed assets                                | 27                             | 128          | (32)                  | 248           |
| Core deposit intangible amortization                                               | 16                             | 16           | 49                    | 49            |
| Other expenses                                                                     | 637                            | 603          | 1,736                 | 1,719         |
| <b>Total Noninterest Expense</b>                                                   | <b>4,534</b>                   | <b>4,352</b> | <b>13,242</b>         | <b>12,673</b> |

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|                                                  |          |         |          |          |
|--------------------------------------------------|----------|---------|----------|----------|
| INCOME BEFORE PROVISION FOR INCOME TAXES         | 1,444    | 484     | 4,022    | 2,320    |
| Provision for income taxes                       | 312      | 4       | 831      | 314      |
| NET INCOME                                       | 1,132    | 480     | 3,191    | 2,006    |
| Preferred stock dividends and discount accretion | 128      | 128     | 385      | 385      |
| NET INCOME AVAILABLE TO COMMON SHAREHOLDERS      | \$ 1,004 | \$ 352  | \$ 2,806 | \$ 1,621 |
| PER COMMON SHARE DATA:                           |          |         |          |          |
| Basic Earnings Per Common Share                  | \$ 0.29  | \$ 0.11 | \$ 0.81  | \$ 0.47  |
| Diluted Earnings Per Common Share                | \$ 0.29  | \$ 0.11 | \$ 0.81  | \$ 0.47  |
| Cash Dividends                                   | \$ 0.05  | \$      | \$ 0.15  | \$       |

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

**Table of Contents****MID PENN BANCORP, INC.****Consolidated Statements of Changes in Shareholders' Equity (Unaudited)**

| (Dollars in thousands)                                                             | Preferred<br>Stock | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total<br>Shareholders'<br>Equity |
|------------------------------------------------------------------------------------|--------------------|-----------------|----------------------------------|----------------------|-------------------------------------------------|----------------------------------|
| <b>Balance, December 31, 2010</b>                                                  | \$ 10,000          | \$ 3,480        | \$ 29,810                        | \$ 4,875             | \$ 36                                           | \$ 48,201                        |
| Comprehensive income:                                                              |                    |                 |                                  |                      |                                                 |                                  |
| Net income                                                                         |                    |                 |                                  | 3,191                |                                                 | 3,191                            |
| Change in net unrealized gain on securities available for sale, net of tax effects |                    |                 |                                  |                      | 2,009                                           | 2,009                            |
| Defined benefit plans, net of tax effects                                          |                    |                 |                                  |                      | 9                                               | 9                                |
| Total comprehensive income                                                         |                    |                 |                                  |                      |                                                 | 5,209                            |
| Cash dividends                                                                     |                    |                 |                                  | (522)                |                                                 | (522)                            |
| Employee Stock Purchase Plan                                                       |                    | 3               | 24                               |                      |                                                 | 27                               |
| Preferred dividends                                                                |                    |                 |                                  | (375)                |                                                 | (375)                            |
| Amortization of warrant cost                                                       |                    |                 | (10)                             |                      |                                                 | (10)                             |
| <b>Balance, September 30, 2011</b>                                                 | \$ 10,000          | \$ 3,483        | \$ 29,824                        | \$ 7,169             | \$ 2,054                                        | \$ 52,530                        |
| <b>Balance, December 31, 2009</b>                                                  | \$ 10,000          | \$ 3,480        | \$ 29,824                        | \$ 2,627             | \$ 773                                          | \$ 46,704                        |
| Comprehensive income:                                                              |                    |                 |                                  |                      |                                                 |                                  |
| Net income                                                                         |                    |                 |                                  | 2,006                |                                                 | 2,006                            |
| Change in net unrealized gain on securities available for sale, net of tax effects |                    |                 |                                  |                      | 490                                             | 490                              |
| Defined benefit plans, net of tax effects                                          |                    |                 |                                  |                      | 10                                              | 10                               |
| Total comprehensive income                                                         |                    |                 |                                  |                      |                                                 | 2,506                            |
| Preferred dividends                                                                |                    |                 |                                  | (375)                |                                                 | (375)                            |
| Amortization of warrant cost                                                       |                    |                 | (10)                             |                      |                                                 | (10)                             |
| <b>Balance, September 30, 2010</b>                                                 | \$ 10,000          | \$ 3,480        | \$ 29,814                        | \$ 4,258             | \$ 1,273                                        | \$ 48,825                        |

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



**Table of Contents****MID PENN BANCORP, INC.****Consolidated Statements of Cash Flows (Unaudited)**

| (Dollars in thousands)                                                            | Nine Months Ended<br>September 30, |                 |
|-----------------------------------------------------------------------------------|------------------------------------|-----------------|
|                                                                                   | 2011                               | 2010            |
| <b>Operating Activities:</b>                                                      |                                    |                 |
| Net Income                                                                        | \$ 3,191                           | \$ 2,006        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |                 |
| Provision for loan and lease losses                                               | 1,155                              | 2,060           |
| Depreciation                                                                      | 933                                | 969             |
| Amortization of intangibles                                                       | 51                                 | 18              |
| Net amortization (accretion) of securities premiums (discounts)                   | 1,895                              | (11)            |
| Earnings on cash surrender value of life insurance                                | (194)                              | (203)           |
| (Gain) loss on sale / write-down of foreclosed assets                             | (32)                               | 248             |
| Deferred income tax benefit                                                       | (28)                               | (300)           |
| (Increase) decrease in accrued interest receivable                                | (227)                              | 115             |
| Decrease in other assets                                                          | 2,360                              | 552             |
| Increase in accrued interest payable                                              | 681                                | 458             |
| Increase (decrease) in other liabilities                                          | 3,613                              | (60)            |
| <b>Net Cash Provided by Operating Activities</b>                                  | <b>13,398</b>                      | <b>5,852</b>    |
| <b>Investing Activities:</b>                                                      |                                    |                 |
| Net decrease (increase) in interest-bearing balances                              | 15,670                             | (10,175)        |
| Proceeds from the maturity of investment securities                               | 14,273                             | 5,578           |
| Purchases of investment securities                                                | (94,042)                           | (30,058)        |
| Redemptions of restricted investment in bank stock                                | 544                                |                 |
| Net (increase) decrease in loans and leases                                       | (19,092)                           | 8,791           |
| Purchases of bank premises and equipment                                          | (1,014)                            | (1,508)         |
| Proceeds from sale of foreclosed assets                                           | 830                                | 334             |
| <b>Net Cash Used in Investing Activities</b>                                      | <b>(82,831)</b>                    | <b>(27,038)</b> |
| <b>Financing Activities:</b>                                                      |                                    |                 |
| Net increase in demand deposits and savings accounts                              | 85,014                             | 88,843          |
| Net decrease in time deposits                                                     | (4,216)                            | (40,542)        |
| Net decrease in short-term borrowings                                             | (925)                              | (14,148)        |
| Preferred stock dividend paid                                                     | (375)                              | (375)           |
| Common stock dividend paid                                                        | (522)                              |                 |
| Employee Stock Purchase Plan                                                      | 27                                 |                 |
| Long-term debt repayment                                                          | (5,136)                            | (10,130)        |
| <b>Net Cash Provided by Financing Activities</b>                                  | <b>73,867</b>                      | <b>23,648</b>   |
| Net increase in cash and cash equivalents                                         | 4,434                              | 2,462           |
| Cash and cash equivalents, beginning of period                                    | 12,901                             | 8,960           |
| Cash and cash equivalents, end of period                                          | \$ 17,335                          | \$ 11,422       |
| <b>Supplemental Disclosures of Cash Flow Information:</b>                         |                                    |                 |
| Interest paid                                                                     | \$ 6,649                           | \$ 7,622        |
| Income taxes paid                                                                 | 565                                | 385             |
| <b>Supplemental Noncash Disclosures:</b>                                          |                                    |                 |
| Transfers to foreclosed assets held for sale                                      | \$ 1,054                           | \$ 506          |

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

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**Table of Contents****MID PENN BANCORP, INC.****Notes to Consolidated Financial Statements (Unaudited)*****1. Basis of Presentation***

The consolidated financial statements for 2011 and 2010 include the accounts of Mid Penn Bancorp, Inc. ( Mid Penn ), and its subsidiaries Mid Penn Bank (the Bank ) and Mid Penn Investment Corporation (collectively the Corporation ). All material intercompany accounts and transactions have been eliminated in consolidation.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). We believe the information presented is not misleading and the disclosures are adequate. For comparative purposes, the September 30, 2010 balances have been reclassified to conform to the 2011 presentation. Such reclassifications had no impact on net income. The results of operations for interim periods are not necessarily indicative of operating results expected for the full year. These interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in Mid Penn s Annual Report on Form 10-K for the year ended December 31, 2010.

Mid Penn has evaluated events and transactions occurring subsequent to the balance sheet date of September 30, 2011, for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

***2. Investment Securities***

Securities to be held for indefinite periods, but not intended to be held to maturity, are classified as available for sale and carried at fair value. Securities held for indefinite periods include securities that management intends to use as part of its asset and liability management strategy and that may be sold in response to liquidity needs, changes in interest rates, resultant prepayment risk, and other factors related to interest rate and resultant prepayment risk changes.

Realized gains and losses on dispositions are based on the net proceeds and the adjusted book value of the securities sold, using the specific identification method. Unrealized gains and losses on investment securities available for sale are based on the difference between book value and fair value of each security. These gains and losses are credited or charged to other comprehensive income, whereas realized gains and losses flow through Mid Penn s results of operations.

Accounting Standards Codification ( ASC ) Topic 320, *Investments – Debt and Equity Securities*, clarifies the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the entity will recover the cost basis of the investment. Previously, this assessment required management to assert it has both the intent and the ability to hold a security for a period of time sufficient to allow for an anticipated recovery in fair value to avoid recognizing other-than-temporary impairment. This change does not affect the need to forecast recovery of the value of the security through either cash flows or market price.

In instances when a determination is made that other-than-temporary impairment exists but the investor does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to its anticipated recovery, this guidance changes the presentation and amount of the other-than-temporary impairment recognized in the income statement. The other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

**Table of Contents****MID PENN BANCORP, INC.****Notes to Consolidated Financial Statements (Unaudited)**

At September 30, 2011 and December 31, 2010, amortized cost, fair value, and unrealized gains and losses on investment securities are as follows:

| <b>(Dollars in thousands)</b>              | <b>Amortized<br/>Cost</b> | <b>Unrealized<br/>Gains</b> | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
|--------------------------------------------|---------------------------|-----------------------------|------------------------------|-----------------------|
| September 30, 2011                         |                           |                             |                              |                       |
| Available-for-sale securities:             |                           |                             |                              |                       |
| U.S. Treasury and U.S. government agencies | \$ 27,150                 | \$ 1,583                    | \$                           | \$ 28,733             |
| Mortgage-backed U.S. government agencies   | 76,903                    | 631                         | 365                          |                       |