TETRA TECHNOLOGIES INC
Form 4
September 15, 2005

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
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(Print or Type Responses)

1. Name and Address of Reporting Person [*]
MATHEWS DENNIS
(Last) (First) (Middle)
25025 INTERSTATE 45 NORTH, SUITE 600
(Street)
THE WOODLANDS, TX 77380
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
TETRA TECHNOLOGIES INC [TTI]

3. Date of Earliest Transaction (Month/Day/Year)
09/13/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Senior Vice President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	09/13/2005		M		1,200	A	$ 11.1111	31,182 (1)	D	
Common Stock	09/13/2005		S		1,200	D	$ 29.5	29,982	D	
Common Stock								3,589	I	by 401(k) Plan

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

displays a currently valid OMB control number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Employee Stock Option (right to buy)	$ 11.1111	09/13/2005		M			1,200	03/09/2004	03/09/2007	Common Stock	1,200

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
MATHEWS DENNIS 25025 INTERSTATE 45 NORTH SUITE 600 THE WOODLANDS, TX 77380			Senior Vice President	

Signatures

Eileen M. Price, AIF for Dennis R. Mathews	09/15/2005
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) On August 19, 2005, the Common Stock of TETRA Technologies, Inc. split 3-for-2, resulting in the reporting person's acquisition of 9,994 additional shares of Common Stock.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. > 2,712,882 2,726,258 2,707,944 Basic and dilutive net income per share $0.24 $0.29 $0.75 $0.83

Diluted earnings per share calculations were not required for the three and nine months ended September 30, 2012 and 2011, since there were no options outstanding.

NOTE 3 – RECENT ACCOUNTING PRONOUNCEMENTS

The FASB has issued several exposure drafts which, if adopted, would significantly alter the Company's (and all other financial institutions') method of accounting for, and reporting, its financial assets and some liabilities from a historical cost method to a fair value method of accounting as well as the reported amount of net interest income. Also, the FASB has issued an exposure draft regarding a change in the accounting for leases. Under this exposure draft, the total amount of "lease rights" and total amount of future payments required under all leases would be reflected on the balance sheets of all entities as assets and debt. If the changes under discussion in either of these exposure drafts are adopted, the financial statements of the Company could be materially impacted as to the amounts of recorded assets, liabilities, capital, net interest income, interest expense, depreciation expense, rent expense and net income. The Company has not determined the extent of the possible changes at this time. The exposure drafts are in different stages of review, approval and possible adoption.

In April 2011, the FASB issued ASU No. 2011-02, Receivable (Topic 310), *A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*. The main objective of the ASU is to clarify a creditor's evaluation of whether in modifying a loan, it has granted a concession in circumstances that qualify the loan as a Troubled Debt Restructured (TDR) loan. These loans are subject to various accounting and disclosure requirements. The ASU was effective for the first interim or annual period beginning on or after June 15, 2011, and was applied retrospectively to the beginning of the annual period of adoption. Certain disclosures are required for loans considered as TDR loans resulting from the application of the ASU that were not considered TDR under prior guidance. The Company's compliance with ASU No. 2011-02 did not have a material impact on the Company's consolidated financial statements.

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ASU No. 2011-03, "Transfers and Servicing (Topic 860) – Reconsideration of Effective Control for Repurchase Agreements." ASU 2011-03 is intended to improve financial reporting of repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASU 2011-03 removes from the assessment of effective control (i) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance guidance related to that criterion. ASU 2011-03 became effective for the Company on January 1, 2012 and did not have a significant impact on the Corporation's financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The main objective of the ASU is to conform the requirements for measuring fair value and the disclosure information under U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). The amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for the disclosure about fair value measurements. Other amendments clarify existing requirements and change particular principles or requirements for measuring fair value or disclosing information about fair value measurements. The ASU was effective for the first interim or annual period beginning on or after December 15, 2011, early application for public entities is not permitted. The Company's compliance with ASU No. 2011-04 did not have a material impact on the Company's consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income.* The amendments in this Update improve the comparability, clarity, consistency, and transparency of financial reporting and increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and IFRS, the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive.

In December 2011, the FASB issued ASU 2011-10, *Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate-a Scope Clarification.* The amendments in this Update affect entities that cease to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt. Under the amendments in this Update, when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt, the reporting entity should apply the guidance in Subtopic 360-20 to determine whether it should derecognize the in substance real estate. Generally, a reporting entity would not satisfy the requirements to derecognize the in substance real estate before the legal transfer of the real estate to the lender and the extinguishment of the related nonrecourse indebtedness. That is, even if the reporting entity ceases to have a controlling financial interest under Subtopic 810-10, the reporting entity would continue to include the real estate, debt, and the results of the subsidiary's operations in its consolidated financial statements until legal title to the real estate is transferred to legally satisfy the debt. The amendments in this Update should be applied on a prospective basis to deconsolidation events occurring after the effective date. Prior periods should not be adjusted even if the reporting entity has continuing involvement with previously derecognized in substance real estate entities. For public entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. Early

adoption is permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

ASU 2011-11, "Balance Sheet (Topic 210) – "Disclosures about Offsetting Assets and Liabilities." ASU 2011-11 amends Topic 210, "Balance Sheet," to require an entity to disclose both gross and net information about financial instruments, such as sales and repurchase agreements and reverse sale and repurchase agreements and securities borrowing/lending arrangements, and derivative instruments that are eligible for offset in the statement of financial position and/or subject to a master netting arrangement or similar agreement. ASU 2011-11 is effective for annual and interim periods beginning on January 1, 2013, and is not expected to have a significant impact on the Company's financial statements.

In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.* In order to defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in this Update supersede certain pending paragraphs in Update 2011-05. Entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before Update 2011-05. All other requirements in Update 2011-05 are not affected by this Update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company has provided the necessary disclosure in the Consolidated Statement of Comprehensive Income.

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ASU 2012-02 "Intangibles – Goodwill and Other (Topic 350) – Testing Indefinite-Lived Intangible Assets for Impairment." ASU 2012-02 give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that an indefinite-lived intangible asset is impaired, then the entity must perform the quantitative impairment test. If, under the quantitative impairment test, the carrying amount of the intangible asset exceeds its fair value, an entity should recognize an impairment loss in the amount of that excess. Permitting an entity to assess qualitative factors when testing indefinite-lived intangible assets for impairment results in guidance that is similar to the goodwill impairment testing guidance in ASU 2011-08. ASU 2012-02 is effective for the Corporation beginning January 1, 2013 (early adoption permitted) and is not expected to have a significant impact on the Corporation's financial statements.

NOTE 4 – FAIR VALUE

ASC 820-10, formerly SFAS No. 157, defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements.

Fair Value Hierarchy

ASC 820-10 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. In accordance with ASC 820-10, these inputs are summarized in the three broad levels listed below:

¨Level 1 – Quoted prices in active markets for identical securities

¨Level 2 – Other significant observable inputs (including quoted prices in active markets for similar securities)

..Level 3 – Significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments)

In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are subject to ASC 820-10.

The Company's bond holdings in the investment securities portfolio are the only asset or liability subject to fair value measurements on a recurring basis. No assets are valued under Level 1 inputs at September 30, 2012 or December 31, 2011. The Company has assets measured by fair value measurements on a non-recurring basis during 2012. At September 30, 2012, these assets include 25 loans classified as impaired, which include nonaccrual, past due 90 days or more and still accruing, or troubled debt restructuring, and a homogeneous pool of indirect loans all considered to be impaired loans, which are valued under Level 3 inputs and three properties classified as OREO valued under Level 2 inputs.

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The changes in the assets subject to fair value measurements are summarized below by Level:

	(Dollars in Thousands)			Fair
December 31, 2011	Level 1	Level 2	Level 3	Value
Recurring:				
Investment securities available for sale (AFS)	$-	$102,867	$-	$102,867
Non-recurring:				
Maryland Financial Bank stock	-	30	-	30
Impaired loans	-	-	8,309	8,309
OREO	-	1,111	-	1,111
	-	104,008	8,309	112,317
Activity:				
Investment securities AFS				
Purchases of investment securities	-	22,479	-	22,479
Sales, calls and maturities of investment securities	-	(29,987)	-	(29,987)
Amortization/accretion of premium/discount	-	(1,234)	-	(1,234)
Increase in market value	-	1,336	-	1,336
Loans				
New impaired loans	-	-	763	763
Payments and other loan reductions	-	-	(3,134)	(3,134)
Change in total provision	-	-	450	450
OREO				
OREO converted from loans	-	254	-	254
Sales of OREO	-	(500)	-	(500)
September 30, 2012				
Recurring:				
Investment securities AFS	-	95,461	-	95,461
Non-recurring:				
Maryland Financial Bank stock	-	30	-	30
Impaired loans	-	-	6,388	6,388
OREO	-	865	-	865
	$-	$96,356	$6,388	$102,744

The estimated fair values of the Company’s financial instruments at September 30, 2012 and December 31, 2011 are summarized below. The fair values of a significant portion of these financial instruments are estimates derived using present value techniques and may not be indicative of the net realizable or liquidation values. Also, the calculation of estimated fair values is based on market conditions at a specific point in time and may not reflect current or future fair values.

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Explanation of Responses:

(In Thousands)	September 30, 2012 Carrying Amount	Fair Value	December 31, 2011 Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	$8,242	$8,242	$6,877	$6,877
Interest-bearing deposits	4,578	4,578	2,423	2,423
Federal funds sold	306	306	654	654
Investment securities	95,461	95,461	102,867	102,867
Investments in restricted stock	1,448	1,448	1,520	1,520
Ground rents	175	175	175	175
Loans, net	251,628	253,324	232,734	231,912
Accrued interest receivable	1,431	1,431	1,542	1,542
Financial liabilities:				
Deposits	324,181	306,479	311,945	293,713
Short-term borrowings	-	-	255	255
Long-term borrowings	20,000	21,965	20,000	21,425
Dividends payable	273	273	272	272
Accrued interest payable	66	66	48	48
Off-balance sheet commitments	22,232	22,232	22,736	22,736

Fair values are based on quoted market prices for similar instruments or estimated using discounted cash flows. The discounts used are estimated using comparable market rates for similar types of instruments adjusted to be commensurate with the credit risk, overhead costs and optionality of such instruments.

The fair value of cash and due from banks, federal funds sold, investments in restricted stocks and accrued interest receivable are equal to the carrying amounts. The fair values of investment securities are determined using market quotations. The fair value of loans receivable is estimated using discounted cash flow analysis.

The fair value of non-interest bearing deposits, interest-bearing checking, savings, and money market deposit accounts, securities sold under agreements to repurchase, and accrued interest payable are equal to the carrying amounts. The fair value of fixed-maturity time deposits is estimated using discounted cash flow analysis.

The gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2012 are as follows:

Securities available for sale:	Less than 12 months		12 months or more		Total	
(Dollars in Thousands)	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized

	Value	Loss	Value	Loss	Value	Loss
Obligations of U.S. Govt Agencies	$ 22	$ 6	$ -	$ -	$22	$ 6
State and Municipal	-	-	285	15	285	15
Corporate Trust Preferred	-	-	182	164	182	164
Mortgage Backed	1,983	19	-	-	1,983	19
	$ 2,005	$ 25	$ 467	$ 179	$2,472	$ 204

At September 30, 2012, the company owned one pooled trust preferred security issued by Regional Diversified Funding, Senior Notes with a Fitch rating of C. The market for these securities at September 30, 2012 was not active and markets for similar securities were also not active. As a result, the Company had cash flow testing performed as of September 30, 2012 by an unrelated third party in order to measure the possible extent of other-than-temporary-impairment (“OTTI”). This testing assumed future defaults on the currently performing financial institutions of 150 basis points applied annually with a 0% recovery on both current and future defaulting financial institutions. As a result of this testing, no write-down was required in the third quarter of 2012. A write-down of $22,000 was taken on this security in the first quarter of 2011.

Maryland Financial Bank stock was written down $70,000 in the second quarter of 2011 due to a prospectus that offered stock at a discount from par.

Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary-impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain it's investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

As of September 30, 2012, management had the ability and intent to hold the securities classified as available for sale for a period of time sufficient for a recovery of cost. On September 30, 2012 the Bank held 3 investment securities having continuous unrealized loss positions for more than 12 months. Management has determined that all unrealized losses are either due to increases in market interest rates over the yields available at the time the underlying securities were purchased, current call features that are nearing, and the effect the sub-prime market has had on all mortgage-backed securities. The Bank has no mortgage-backed securities collateralized by sub-prime mortgages. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Except as noted above, as of September 30, 2012, management believes the impairments detailed in the table above are temporary and no impairment loss has been realized in the Company's consolidated income statement.

A rollforward of the cumulative other-than-temporary credit losses recognized in earnings for all debt securities for which a portion of an other-than-temporary loss is recognized in accumulated other comprehensive loss is as follows:

	At September 30, 2012	At December 31, 2011
	(Dollars in Thousands)	
Estimated credit losses, beginning of year	$ 3,247	$ 3,155
Credit losses - no previous OTTI recognized	-	70
Credit losses - previous OTTI recognized	-	22
Estimated credit losses, end of period	$ 3,247	$ 3,247

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

Forward-Looking Statements

When used in this discussion and elsewhere in this Form 10-Q, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project” or similar expressions are intended to identify “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. The Company cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and readers are advised that various factors could affect the Company’s financial performance and could cause the Company’s actual results for future periods to differ materially from those anticipated or projected. While it is impossible to identify all such factors, such factors include, but are not limited to, those risks identified in the Company’s periodic reports filed with the Securities and Exchange Commission, including its most recent Annual Report on Form 10-K.

The Company does not undertake and specifically disclaims any obligation to update any forward-looking statements to reflect occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Overview

Glen Burnie Bancorp, a Maryland corporation (the “Company”), through its subsidiary, The Bank of Glen Burnie, a Maryland banking corporation (the “Bank”), operates a commercial bank with eight offices in Anne Arundel County Maryland. The Company had consolidated net income of $670,000 ($0.24 basic and diluted earnings per share) for the third quarter of 2012, compared to the third quarter of 2011 consolidated net income of $770,000 ($0.29 basic and diluted income per share), a 12.99% decrease. Year-to-date net income was $2,056,000 ($0.75 basic and diluted earnings per share), compared to the 2011 consolidated net income of $2,237,000 ($0.83 basic and diluted income per share), an 8.09% decrease. The decreases in net income for the third quarter and year-to-date were primarily due to decreases in income on loans, U.S. Government agency securities, service charges and gains on investment securities. These decreases were partially offset by decreases in other expenses, decreases in interest expense on deposits and decreases in provision for loan losses for the respective periods. During the nine months ended September 30, 2012, the Bank increased deposits by $12.2 million and increased net loans by $18.9 million.

Results Of Operations

Net Interest Income. The Company's consolidated net interest income prior to provision for credit losses for the three and nine months ended September 30, 2012 was $3,195,000 and $9,501,000 respectively, compared to $3,434,000 and $10,177,000 for the same period in 2011, a decrease of $239,000 (6.96%) for the three months and a decrease of $676,000 (6.65%) for the nine months.

Interest income for the third quarter decreased from $4,349,000 in 2011 to $4,005,000 in 2012, a 7.91% decrease. Interest income for the nine months decreased from $12,958,000 in 2011 to $11,989,000 in 2012, a 7.48% decrease. While the Bank's net loans increased during these periods, interest income decreased for the three and nine month periods due to a decline in the interest rates on loans and U.S. Government agency securities, partially offset by an increase in income on state and municipal securities.

Interest expense for the third quarter decreased from $915,000 in 2011 to $810,000 in 2012, a 11.48% decrease. Interest expense for the nine months decreased from $2,781,000 in 2011 to $2,488,000 in 2012, a 10.54% decrease. While total deposits increased during the nine months ended September 30, 2012, interest paid on deposit balances for the three and nine month periods ended September 30, 2012 decreased due to lower interest rates paid on deposit balances.

Net interest margins on a tax equivalent basis for the three and nine months ended September 30, 2012 was 3.84% and 3.91%, compared to 4.41% and 4.41% for the three and nine months ended September 30, 2011. The decrease of the net interest margin from the 2011 to 2012 period was primarily due to the continuing decline in the interest rates on loans and U.S. Government Agency securities partially offset by the reduction in interest expense, as noted above.

Provision for Credit Losses. The Company made a provision for credit losses of $150,000 during the three and nine month periods ended September 30, 2012 and $150,000 and $375,000 for credit losses during the three and nine month periods ended September 30, 2011. As of September 30, 2012, the allowance for credit losses equaled 111.10% of non-accrual and past due loans compared to 77.38% at December 31, 2011 and 72.43% at September 30, 2011. During the three and nine month periods ended September 30, 2012, the Company recorded net (recoveries) charge-offs of ($12,000) and $137,000, compared to net (recoveries) charge-offs of ($80,000) and $110,000 during the corresponding period of the prior year. On an annualized basis, net charge-offs for the 2012 period represent 0.08% of the average loan portfolio.

Other Income. Other income decreased from $501,000 for the three month period ended September 30, 2011, to $496,000 for the corresponding 2012 period, a $5,000 (1.00%) decrease. For the nine month period, other income decreased from $1,601,000 at September 30, 2011, to $1,336,000 for the corresponding 2012 period, a $265,000 (16.55%) decrease. The decrease for the three and nine month period was due mainly to a decrease in gains on investment securities.

Other Expenses. Other expenses decreased from $2,776,000 for the three month period ended September 30, 2011, to $2,708,000 for the corresponding 2012 period, a $68,000 (2.45%) decrease. Other expenses decreased from $8,474,000 for the nine month period ended September 30, 2011, to $8,109,000 for the corresponding 2012 period, a $365,000 (4.31%) decrease. The decrease for the three month period was primarily due to the decrease in occupancy and FDIC expenses. The decrease for the nine month period was due mainly to a decrease in FDIC expenses, partially offset by an increase in salaries and employee benefits.

Income Taxes. During the three and nine months ended September 30, 2012, the Company recorded income tax expense of $163,000 and $522,000, compared to income tax expense of $239,000 and $692,000 for the same respective periods in 2011. The Company’s effective tax rate for the three and nine month period in 2012 was 19.57% and 20.25%, respectively, compared to 23.69% and 23.63% for the prior year period. The decrease in the effective tax rate for the three and nine month period was due to an increase in the proportion of tax exempt income included in net interest income.

Comprehensive Income. In accordance with regulatory requirements, the Company reports comprehensive income in its financial statements. Comprehensive income consists of the Company’s net income, adjusted for unrealized gains and losses on the Bank’s investment portfolio of investment securities. For the third quarter of 2012, comprehensive income, net of tax, totaled $1,212,000, compared to the September 30, 2011 comprehensive income of $1,559,000. Year-to-date, comprehensive income, net of tax, totaled $2,789,000, as of September 30, 2012, compared to the September 30, 2011 comprehensive income of $4,765,000. The decrease was due to a decrease in net income and a decrease in the net unrealized gains on securities arising during the three and nine month periods.

Financial Condition

General. The Company’s assets increased to $379,292,000 at September 30, 2012 from $365,260,000 at December 31, 2011, primarily due to an increase in loans and cash and cash equivalents, partially offset by a decrease in securities. The Bank’s net loans totaled $251,628,000 at September 30, 2012, compared to $232,734,000 at December 31, 2011, an increase of $18,894,000 (8.12%), primarily attributable to an increase in indirect lending with a lesser increase in commercial mortgages and a reduction in participations purchased.

The Company's total investment securities portfolio (investment securities available for sale) totaled $95,461,000 at September 30, 2012, a $7,406,000 (7.20%) decrease from $102,867,000 at December 31, 2011. The Bank's cash and due from banks (cash due from banks, interest-bearing deposits in other financial institutions, and federal funds sold), as of September 30, 2012, totaled $13,126,000, an increase of $3,172,000 (31.87%) from the December 31, 2011 total of $9,954,000. The decrease in securities was used to pay-off short-term borrowings and put into cash.

Deposits as of September 30, 2012, totaled $324,181,000, which is an increase of $12,236,000 (3.77%) from $311,945,000 at December 31, 2011. Demand deposits as of September 30, 2012, totaled $82,747,000, which is an increase of $9,408,000 (12.83%) from $73,339,000 at December 31, 2011. NOW accounts as of September 30, 2012, totaled $23,539,000, which is a decrease of $500,000 (2.08%) from $24,039,000 at December 31, 2011. Money market accounts as of September 30, 2012, totaled $21,008,000, which is an increase of $2,924,000 (16.17%), from $18,084,000 at December 31, 2011. Savings deposits as of September 30, 2012, totaled $67,366,000, which is an increase of $7,302,000 (12.16%) from $60,064,000 at December 31, 2011. Certificates of deposit over $100,000 totaled $28,010,000 on September 30, 2012, which is a decrease of $3,405,000 (10.84%) from $31,415,000 at December 31, 2011. Other time deposits (made up of certificates of deposit less than $100,000 and individual retirement accounts) totaled $101,511,000 on September 30, 2012, which is a $3,493,000 (3.33%) decrease from the $105,004,000 total at December 31, 2011.

Asset Quality. The following tables set forth the amount of the Bank's current, past due, and non-accrual loans by categories of loans and restructured loans, at the dates indicated.

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The following table analyzes the age of past due loans, including both accruing and non-accruing loans, segregated by class of loans as of the three months ended September 30, 2012 and the year ended December 31, 2011.

At September 30, 2012 (Dollars in Thousands)	Current	30-89 Days Past Due	90 Days or More and Still Accruing	Nonaccrual	Total
Commercial and industrial	$4,582	$ 979	$ -	$ 1,290	$6,851
Commercial real estate	72,471	-	-	1,370	73,841
Consumer and indirect	65,613	1,221	2	78	66,914
Residential real estate	106,023	2,231	257	553	109,064
	$248,689	$ 4,431	$ 259	$ 3,291	$256,670

At December 31, 2011 (Dollars in Thousands)	Current	30-89 Days Past Due	90 Days or More and Still Accruing	Nonaccrual	Total
Commercial and industrial	$7,135	$ 38	$ -	$ 20	$7,193
Commercial real estate	66,590	-	-	4,484	71,074
Consumer and indirect	48,745	1,298	-	75	50,118
Residential real estate	108,703	135	18	482	109,338
	$231,173	$ 1,471	$ 18	$ 5,061	$237,723

The balances in the above charts have not been reduced by the allowance for loan loss and the unearned income on loans. For the period ending September 30, 2012, the allowance for loan loss is $3,944,000 and the unearned income is $1,098,000. For the period ending December 31, 2011, the allowance for loan loss is $3,931,000 and the unearned income is $1,058,000.

	At September 30, 2012	At December 31, 2011
	(Dollars in Thousands)	
Restructured loans	$ 2,650	$ 4,108
Non-accrual and 90 days or more and still accruing loans to gross loans	1.38 %	2.15 %
Allowance for credit losses to non-accrual and 90 days or more and still accruing loans	111.10 %	77.38 %

At September 30, 2012, there was $4,040,000 in loans outstanding, included in the current and 30-89 days past due columns in the above table, as to which known information about possible credit problems of borrowers caused management to have serious doubts as to the ability of such borrowers to comply with present loan repayment terms. Such loans consist of loans which were not 90 days or more past due but where the borrower is in bankruptcy or has a history of delinquency, or the loan to value ratio is considered excessive due to deterioration of the collateral or other factors.

Non-accrual loans with specific reserves at September 30, 2012 are comprised of:

Residential Real Estate – Four loans to one borrower in the amount of $514,000, secured by residential properties with a specific reserve of $227,000 established for the loans.

Commercial loans - Two loans to one borrower totaling $18,000 with $18,000 of specific reserves established.

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<u>Commercial Real Estate</u> – Two loans to two borrowers in the amount of $2,642,000, secured by commercial and/or residential properties with a specific reserve of $652,000 established for the loans.

Below is a summary of the recorded investment amount and related allowance for losses of the Bank's impaired loans at September 30, 2012 and December 31, 2011.

(Dollars in thousands)

September 30, 2012	Recorded Investment	Unpaid Principal Balance	Interest Income Recognized	Specific Reserve	Average Recorded Investment
Impaired loans with specific reserves:					
Real-estate - mortgage:					
Residential	$ 2,191	2,191	67	872	2,192
Commercial	4,997	5,597	87	1,105	6,409
Consumer	76	76	6	20	76
Installment	-	-	-	-	-
Home Equity	-	-	-	-	-
Commercial	702	702	28	448	721
Total impaired loans with specific reserves	$ 7,966	8,566	188	2,445	9,398
Impaired loans with no specific reserve:					
Real-estate - mortgage:					
Residential	$ 302	302	30	n/a	283
Commercial	175	175	8	n/a	182
Consumer	6	6	-	n/a	-
Installment	236	236	-	n/a	-
Home Equity	-	-	-	n/a	-
Commercial	167	167	12	n/a	201
Total impaired loans with no specific reserve	$ 886	886	50	-	666

(Dollars in thousands)

December 31, 2011	Recorded Investment	Unpaid Principal Balance	Interest Income Recognized	Specific Reserve	Average Recorded Investment
Impaired loans with specific reserves:					
Real-estate - mortgage:					
Residential	$ 1,703	1,703	62	411	1,708
Commercial	6,503	7,103	219	1,642	6,559
Consumer	100	100	10	44	104
Installment	-	-	-	-	-
Home Equity	-	-	-	-	-
Commercial	731	731	41	456	755
Total impaired loans with specific reserves	$ 9,037	9,637	332	2,553	9,126

Impaired loans with no specific reserve:					
Real-estate - mortgage:					
Residential	$ 260	260	7	n/a	245
Commercial	1,036	1,036	50	n/a	1,051
Consumer	25	25	-	n/a	-
Installment	265	265	-	n/a	-
Home Equity	-	-	-	n/a	-
Commercial	253	253	21	n/a	304
Total impaired loans with no specific reserve	$ 1,839	1,839	78	-	1,600

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Loans that were restructured by the Bank by categories of loans at September 30, 2012 are as follows:

At September 30, 2012 (Dollars in Thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Real Estate - Residential	1	$ 1,280	$ 1,280
Real Estate – Commercial	1	2,759	1,370
Commercial	-	-	-
Finance leases	-	-	-

Troubled Debt Restructurings That Subsequently Defaulted	Number of Contracts	Recorded Investment
Troubled Debt Restructurings:		
Real Estate - Residential	1	$ 1,280
Real Estate - Commercial	1	1,370
Commercial		