MID PENN BANCORP INC
Form 10-Q
August 03, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2006

Commission file number 001-13677

Mid Penn Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Pennsylvania	25-1666413
(State or other jurisdiction of Incorporation or Organization)	(IRS Employer ID No)
349 Union Street, Millersburg, PA	17061
(Address of principal executive offices)	(Zip Code)

(717) 692-2133
(Registrant's telephone number, including area code)

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.

[X] Yes [ ] No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act)

[ ] Large accelerated [X] Accelerated [ ] Non-accelerated

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

[ ] Yes [X] No

Indicate the number of shares outstanding of each of the classes of common stock, as of the latest practical date.

3,348,063 shares of Common Stock, $1.00 par value per share, were outstanding as of August 3, 2006.

PART I
MID PENN BANCORP, INC.
ITEM I: FINANCIAL INFORMATION

MID PENN BANCORP, INC.
CONSOLIDATED BALANCE SHEET
(Dollars in thousands)

	Jun 2 --- (Unau
ASSETS:	
Cash and due from banks	$8
Interest-bearing balances	40
Available-for-sale securities	59
Federal funds sold	5
Loans and Leases	328
Less,	
Allowance for loan and lease losses	3

Net loans and leases	324

Bank premises and equip't, net	6
Foreclosed assets held for sale	
Accrued interest receivable	2
Cash surrender value of life insurance	6
Deferred income taxes	1
Other assets	1

Total Assets	456
	===
LIABILITIES & STOCKHOLDERS' EQUITY:	
Deposits:	
Demand	45
NOW	31
Money Market	65
Savings	24
Time	173

Total deposits	341

Short-term borrowings	8
Accrued interest payable	1
Other liabilities	2
Long-term debt	64

Total Liabilities	419

STOCKHOLDERS' EQUITY:	
Common stock, par value $1 per share; authorized 10,000,000 shares; issued 3,367,119 and 3,207,912 shares at June 30, 2006 and December 31, 2005, resp.	3
Additional paid-in capital	27

Retained earnings	7
Accumulated other comprehensive inc(loss)	
Treasury Stock at cost (19,056 shs.)	

Total Stockholders' Equity	37

Total Liabilities & Equity	456
	===

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

MID PENN BANCORP, INC.
CONSOLIDATED STATEMENT OF INCOME
(Unaudited; dollars in thousands)

	ThreeMonths Ended June 30, 2006	200
INTEREST INCOME:	-----	----
Interest & fees on loans and leases	$5,834	$4,65
Int.-bearing balances	506	50
Treas. & Agency securities	232	18
Municipal securities	332	26
Other securities	46	2
Fed funds sold and repos	12	2
	-----	----
Total Int. Income	6,962	5,66
	-----	----
INTEREST EXPENSE:		
Deposits	2,094	1,53
Short-term borrowings	160	3
Long-term borrowings	817	71
	-----	----
Total Int. Expense	3,071	2,28
	-----	----
Net Int. Income	3,891	3,37
PROVISION FOR LOAN AND LEASE LOSSES	225	11
	-----	----
Net Int. Inc. after Prov.	3,666	3,26
	-----	----
NON-INTEREST INCOME:		
Trust dept	65	9
Service chgs. on deposits	349	33
Investment securities Gains(losses), net	0	
Income on life insurance	52	5
Income on sale of other real estate	0	0
Other	275	20
	-----	----
Total Non-Interest Income	741	68
	-----	----
NON-INTEREST EXPENSE:		
Salaries and benefits	1,562	1,34

Occupancy, net	152	16
Equipment	210	20
PA Bank Shares tax	71	6
ATM/Debit card expenses	31	6
Professional fees	94	7
Director fees and benefits	67	7
Advertising Expense	42	10
Computer software licensing	52	4
Stationery and supplies	45	7
Early withdrawal fee on int-bearing bals.	99	
Other	470	40
Tot. Non-int. Exp.	2,895	2,62
Income before income tax provision	1,512	1,33
INCOME TAX PROVISION	395	33
NET INCOME	$1,117	$1,00
NET INCOME PER SHARE	$0.33	$0.3
DIVIDENDS PER SHARE	$0.20	$0.2
Weighted Average No. of Shares Outstanding	3,348,063	3,348,06

Earnings per share has been adjusted to reflect

the 5% stock dividend paid in February of 2006.

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

MID PENN BANCORP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited; Dollars in thousands)

Operating Activities:
Net Income
Adjustments to reconcile net income to net cash provided by operating activities:
Provision for loan and lease losses
Depreciation
Incr. in cash-surr. value of life insurance
Investment securities gains, net

Amortization
(Gain) loss on sale/disposal of bank premises and equipment
(Gain) loss on the sale of foreclosed assets
Deferred income taxes
Change in accrued interest receivable
Change in other assets
Change in accrued interest payable
Change in other liabilities

Net cash provided by operating activities

Investing Activities:
Net decr in int-bearing balances
Incr. in federal funds sold
Proceeds from sale of securities
Proceeds from the maturity of secs.
Purchases of investment securities
Net increase in loans and leases
Purchases of bank premises & equip't
Proceeds from sale of foreclosed assets
Proceeds from Sale of Bank Premises & Equip't
Capitalized additions - ORE

Net cash provided by(used in) investing activities

Financing Activities:
Net incr. in demand and savings
Net (decr)incr. in time deposits
Net decrease in federal funds sold
Net decrease in short-term borrowings
Long-term debt repayments
Increase in long-term borrowings
Cash dividend paid
Purchase of treasury stock

Net cash provided by(used in) financing activities

Net incr(decr) in cash & due from banks
Cash & due from banks, beg of period

Cash & due from banks, end of period

Supplemental Disclosures of Cash Flow Information:
Interest paid
Income taxes paid
Supplemental Noncash Disclosures:
Loan charge-offs
Transfers to other real estate

Mid Penn Bancorp, Inc.
Notes to Consolidated Financial Statements

1. The consolidated interim financial statements with the exception of the consolidated balance sheet dated December 31, 2005, are unaudited and have been prepared according to the rules and regulations of the Securities and Exchange Commission with respect to Form 10-Q. The financial information reflects all adjustments (consisting only of normal recurring adjustments) which are, in our opinion, necessary for a fair statement of results for the periods covered. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted according to these rules and regulations. We believe, however, that the disclosures are adequate so that the information is not misleading. You should read these interim financial statements along with the financial statements including the notes included in the Corporation's most recent Form 10-K.

2. Interim statements are subject to possible adjustments in connection with the annual audit of the Corporation's accounts for the full fiscal year. In our opinion, all necessary adjustments have been included so that the interim financial statements are not misleading.

3. The results of operations for the interim periods presented are not necessarily an indicator of the results expected for the full year.

4. Management considers the allowance for loan and lease losses to be adequate at this time.

5. Short-term borrowings as of June 30, 2006, and December 31, 2005, consisted of:

(Dollars in thousands)

	6/30/06	12/31/05
Federal funds purchased	$ 0	$ 5,000
Repurchase agreements	7,967	6,899
Treasury, tax and loan note	37	443
Due to broker	0	0
	$ 8,004	$12,342

Federal funds purchased represent overnight funds. Securities sold under repurchase agreements generally mature between one day and one year. Treasury, tax and loan notes are open-ended interest bearing notes payable to the U.S. Treasury upon call. All tax deposits accepted by Mid Penn Bank ("MPB") are placed in the Treasury note option account. The due to broker balance represents previous day balances transferred from deposit accounts under a sweep account agreement.

6. During the first quarter of 2006, MPB entered into a $5 million, five-year, long-term borrowing with the FHLB at a fixed rate of 5.13% and a $5 million, three-year, long-term borrowing with the FHLB at a fixed rate of 5.18%. There were no additional borrowings made during the second quarter.

7. MPB has an unfunded noncontributory defined benefit pension plan for directors. The plan provides defined benefits based on years of service. MPB also has other postretirement benefit plans covering full-time employees. These health care and life insurance plans are noncontributory. MPB uses a December 31 measurement date for its plans.

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

Six months ended June 30:
(Dollars in thousands)

	Pension Benefits 2006	Pension Benefits 2005	Other Benefits 2006	Other Benefits 2005
Service cost	$20	$14	$10	$22
Interest cost	$14	$20	$18	$18
Expected return on plan assets	$ -	$ -	$ -	$ -
Amortization of transition obligation	$ 8	$ -	$ -	$ -
Amortization of prior service cost	$ -	$14	$ -	$ -
Amortization of net (gain) loss	$(2)	$ -	$ -	$ -
Net periodic benefit cost	$40	$48	$28	$48

8. Earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during each of the periods presented, giving retroactive effect to stock dividends. The Corporation's basic and diluted earnings per share are the same since there are no dilutive shares of securities outstanding.

9. The purpose of reporting comprehensive income (loss) is to report a measure of all changes in the Corporation's equity resulting from economic events other than transactions with stockholders in their capacity as stockholders. For the Corporation, "comprehensive income (loss)" includes traditional income statement amounts as well as unrealized gains and losses on certain investments in debt and equity securities (i.e. available for sale securities). Because unrealized gains and losses are part of comprehensive income (loss), comprehensive income (loss) may vary substantially between reporting periods due to fluctuations in the market prices of securities held.

(Dollars in thousands)	Three Months Ended June 30: 2006	2005
Net Income	$1,117	$1,002
Other comprehensive income(loss):		
Unrealized holding gains (losses) on securities arising during the period	-546	283
Less: reclassification		

adjs for losses(gains) included in net income	0	-1	
Other comprehensive income(loss) before income tax (provision) benefit	-546	282	
Income tax (provision) benefit related to other comp.income (loss)	186	-96	
Other comprehensive inc(loss)	-360	186	
Comprehensive Income (Loss)	757	1,188	

Mid Penn Bancorp, Inc.
Millersburg, Pennsylvania

ITEM 2: Management's Discussion of Consolidated Financial Condition

Management's Discussion of Consolidated Financial Condition as of June 30, 2006, compared to year-end 2005 and the Results of Operations for the second quarter and the first six months of 2006 compared to the same periods in 2005.

CONSOLIDATED FINANCIAL CONDITION

Total assets as of June 30, 2006, were $456,685,000, compared to $438,110,000 as of December 31, 2005. During the first half of 2006, net loans and leases increased by $16,072,000 from year end, an annualized increase of 10.4%. The increase in loans reflects the strong loan demand in our market during the first two quarters of 2006, as well as the addition of two seasoned lending officers to our staff.

Total deposits increased by $16,640,000 during the first six months of 2006. Ten million dollars of this growth came from the issuance of brokered certificates of deposit with a weighted-average maturity of 4.3 years.

Maturing interest-bearing balances were invested in both higher yielding loans and available-for-sale securities, as rising rates offered opportunities in the investment arena.

As of June 30, 2006, the Bank's capital ratios are well in excess of the minimum and well-capitalized guidelines, and the Corporation's capital ratios are in excess of the Bank's capital ratios. The changes in MPB's additional paid in capital account resulted from the 5% stock dividend paid to shareholders in February of 2006. In September of 2005, Mid Penn Bancorp's Board of Directors approved a Stock Repurchase Program under which the Corporation could buy back up to 250,000 shares of Mid Penn Bancorp common stock. No shares have been repurchased to date.

RESULTS OF OPERATIONS

Net income for the first six months of 2006 was $2,273,000, compared with $2,019,000 earned in the same period of 2005, an increase of 12.6%. Net income per share for the same period of 2006 and 2005 was $.68 and $.60, respectively. Net income as a percentage of average stockholders' equity, also known as return on equity, (ROE), was 12.3% on an annualized basis for the first half of 2006 and 11.6% for the same period of 2005.

Net income for the second quarter of 2006 was $1,117,000, compared with $1,002,000 earned in the same quarter of 2005, an increase of 11.5%. Net income per share for the second quarters of 2006 and 2005 was $.33 and $.30, respectively. The increase in net income was due largely to the growth in the loan portfolio during the past twelve months.

Net interest income of $3,891,000 for the quarter ended June 30, 2006, increased by more than 15% over the $3,379,000 earned in the same quarter of 2005, reflecting both the growth in earning assets over the past twelve months as well as an improved interest margin due to increasing short-term interest rates.

During the second quarter of 2006, MPB analyzed interest rate risk using the Profitstar Asset-Liability Management Model. Using the computerized model, Management reviews interest rate risk on a periodic basis. This analysis includes an earnings scenario whereby interest rates are increased by 200 basis points (2 percentage points) and another whereby they are decreased by 200 basis points. At June 30, 2006, these scenarios were within the policy limits of +/- 15% in net interest income for the next twelve months; however, actual results could vary significantly from the calculations prepared by management.

Based on Management's analysis of the loan portfolio, the Bank recorded a $225,000 provision for possible loan and lease losses during the second quarter of 2006, compared to a provision of $110,000 made during the second quarter of 2005. On a quarterly basis, senior management reviews potentially unsound loans taking into consideration judgments regarding risk of loss, economic conditions, trends and other factors in determining a reasonable provision for the period. A portion of the allowance for loan and lease losses is based on applying historical loss ratios to the existing loan portfolio. As a result, the increase in the loan portfolio caused an increase in the provision.

Non-interest income amounted to $349,000 for the second quarter of 2006 compared to $332,000 earned during the same quarter of 2005. One significant contributor to non-interest income is insufficient fund (NSF) fee income. NSF fee income contributed approximately $277,000 of income during the second quarter of 2006.

Non-interest expense increased by 10.5% during the second quarter of 2006 compared to the same quarter of 2005. The increase in non-interest expense; particularly in the areas of salary and benefit expense and equipment expense; is attributable to the expenses associated with opening two new branch offices during the second quarter of 2005. We also paid approximately $99,000 in early withdrawal penalties on a block of five-year interest bearing balances redeemed during the second quarter. The proceeds from these jumbo certificates of deposit were reinvested at current rates to increase the Bank's interest income going forward. The increased cash flow will more than offset the penalties paid over the remaining lives of the balances. Professional fees increased by approximately $64,000 during the first two quarters of 2006, largely due to recruiting fees paid for three officer-level personnel hired during this period.

LIQUIDITY

The Bank's objective is to maintain adequate liquidity while minimizing interest rate risk. Adequate liquidity provides resources for credit needs of borrowers, for depositor withdrawals, and for funding Corporate operations. Sources of liquidity include interest-bearing balances maturing investment securities, borrowings, payments received on loans, and increases in deposit liabilities.

Funds generated from operations were a significant source of funds for the first half of 2006. Another significant source of funds came from the maturity and early redemption of interest bearing balances that were liquidated during the first half, which generated over $13.7 million in funds. During the second quarter, the Bank issued $10 million of brokered certificates of deposit with a weighted-average maturity of 4.3 years and a cost of funds of 5.05%. Another source of funds during the first six months was a $10 million long-term borrowing entered into with the FHLB, $5 million of which replaced a borrowing that matured during the quarter. These fixed-rate borrowings and brokered certificates were consummated in anticipation of higher borrowing costs later in the year.

A major use of funds during the first half was the net increase in loans of $16.1 million, particularly in the area of commercial loans secured by real estate. Another major use of cash during the period was the purchase of available for sale securities of $8.4 million due to rising rates offering more attractive investment opportunities.

CREDIT RISK AND ALLOWANCE FOR LOAN AND LEASE LOSSES

Total non-performing assets were $3,464,000, representing 0.76% of total assets at June 30, 2006, compared to $3,317,000, or 0.76% of total assets at December 31, 2005. Most non-performing assets are supported by collateral value that appears to be adequate at June 30, 2006.

The allowance for loan and lease losses at June 30, 2006, was $3,994,000 or 1.22% of loans, net of unearned interest, as compared to $3,704,000 or 1.19% of loans, net of unearned interest, at December 31, 2005.

Based upon the ongoing analysis of the Bank's loan portfolio by the loan review department, the latest quarterly analysis of potentially uncollectible loans and non-performing assets, we consider the Allowance for Loan And Lease Losses to be adequate to absorb any foreseeable loan or lease losses.

NEW ACCOUNTING PRONOUNCEMENT

The Financial Accounting Standards Board recently issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." This pronouncement will be effective for MPB in 2007. The effects of this pronouncement are not determinable at this time.

MID PENN BANCORP, INC.

Six
Months

	Ended June 30, 2006
Non-Performing Assets:	
Non-accrual loans	1,986
Past due 90 days or more	910
Restructured loans	0
Total non-performing loans	2,896
Other real estate	568
Total	3,464
Percentage of total loans outstanding	1.06%
Percentage of total assets	0.76%
Analysis of the Allowance for Loan and Lease Losses:	
Balance beginning of period	3,704
Loans charged off:	
Commercial real estate, construction and land development	0
Commercial, industrial and agricultural	52
Real estate - residential mortgage	0
Consumer	67
Total loans charged off	119
Recoveries of loans previously charged off:	
Commercial real estate, construction and land development	0
Commercial, industrial and agricultural	2
Real estate - residential mortgage	0
Consumer	47
Total recoveries	49
Net (charge-offs) recoveries	-70
Current period provision for loan losses	360
Balance end of period	3,994

Item 3: Quantitative and Qualitative Disclosure about Market Risk

Item 4: Controls and Procedures:

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, Mid Penn Bancorp updated its evaluation, under the supervision and with the participation of the Mid Penn Bancorp's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the corporation's disclosure controls and procedures pursuant to the Securities Exchange Act of 1934 ("Exchange Act") Rule 13a-15e. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Mid Penn Bancorp's disclosure controls and procedures are effective in timely alerting them to material information relating to Mid Penn Bancorp (including its consolidated subsidiaries) required to be included in our periodic SEC filings.

Changes in Internal Controls Over Financial Reporting

There was no change in Mid Penn Bancorp's internal controls or, to its knowledge, in other factors that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Mid Penn Bancorp, Inc.

PART II - OTHER INFORMATION:

Item 1. Legal Proceedings - Management is not aware of any litigation that would have a material adverse effect on the consolidated financial position of Mid Penn Bancorp. There are no proceedings pending other than ordinary routine litigation incident to the business of Mid Penn Bancorp and of Mid Penn Bank. In addition, management does not know of any material proceedings contemplated by governmental authorities against Mid Penn Bancorp or Mid Penn Bank or any of its properties.

Item 1A. Risk Factors - There are no material changes from the risk factors as previously disclosed in the Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds - Nothing to report

Item 3. Defaults Upon Senior Securities - Nothing to report

Item 4. Submission of Matters to a Vote of Security Holders - At the Annual Meeting of Shareholders held on April 25, 2006, a vote was held for the election of Class B directors: Jere M. Coxon, Alan W. Dakey and Guy J. Snyder, Jr. to serve for a three-year term, and to ratify the selection of Parente Randolph, LLC as external auditors for Mid Penn Bancorp, Inc. for the year ending December 31, 2006. Jere M. Coxon received 2,806,550 votes for and 33,592 votes withheld. Alan W. Dakey received 2,798,386 votes for and 41,755 votes withheld. Guy J. Snyder, Jr. received 2,806,981 votes for and 33,160 withheld. The selection of external auditors received 2,839,513 votes for, 628 votes against, and 0 votes abstained.

Other directors include:

Name:	Term Expiration:
A James Durica	2007
Robert C. Grubic	2008
Gregory M. Kerwin	2008
Theodore W. Mowery	2007
Donald E. Sauve	2007

Edwin D. Schlegel	2008
William A. Specht,III	2008

Item 5. Other Information - Nothing to report

Item 6. Exhibits -

3(i)	The Registrant's Articles of Incorporation. (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the SEC on March 29, 2002.)
3(ii)	The Registrant's By-laws. (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the SEC on March 29, 2002.)
10.1	Mid Penn Bank's Profit Sharing Retirement Plan. (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the SEC on March 29, 2002.)
10.2	Mid Penn Bank's Employee Stock Ownership Plan. (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the SEC on March 29, 2002.)
10.3	The Registrant's Dividend Reinvestment Plan, as amended and restated. (Incorporated by reference to Registrant's Registration Statement on Form S-3, filed with the SEC on October 12, 2005.)
10.4	Salary Continuation Agreement between Mid Penn Bank and Alan W. Dakey. (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 28, 2003.)
10.5	Split Dollar Agreement between Mid Penn Bank and Eugene F. Shaffer (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2005)
10.6	Death Benefit Plan and Agreement between Mid Penn Bank and the Trustee of the Eugene F. Shaffer Irrevocable Trust (Incorporated by reference to Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2005)
11.0	Statement regarding the computation of Per Share Earnings (Included in body of 10-Q)
31.1	Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of

the Chief Financial Officer.

32.1	Chief Executive Officer's ss.1350 Certification.
32.2	Chief Financial Officer's ss.1350 Certification

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

Mid Penn Bancorp, Inc.
Registrant

/s/ Alan W. Dakey	/s/ Kevin W. Laudenslager
By: Alan W. Dakey	By: Kevin W. Laudenslager
President & CEO	Treasurer
Date: Aug. 3, 2006	Date: Aug. 3, 2006