

MID PENN BANCORP INC
Form 10-Q
May 15, 2012
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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 March 31, 2012

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)

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Pennsylvania
(State or Other Jurisdiction of

25-1666413
(I.R.S. Employer

Incorporation or Organization)

Identification Number)

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

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 May 15, 2012, the registrant had 3,485,839 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>	

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PART I FINANCIAL INFORMATION****Consolidated Balance Sheets (Unaudited)****ITEM 1 Financial Statements**

(Dollars in thousands, except share data)

	March 31, 2012	December 31, 2011
ASSETS		
Cash and due from banks	\$ 9,102	\$ 9,847
Interest-bearing balances with other financial institutions	1,048	1,555
Federal funds sold	9,689	6,439
Total cash and cash equivalents	19,839	17,841
Interest-bearing time deposits with other financial institutions	25,892	27,477
Available for sale investment securities	155,282	159,043
Loans and leases, net of unearned interest	488,670	482,717
Less: Allowance for loan and lease losses	(6,577)	(6,772)
Net loans and leases	482,093	475,945
Bank premises and equipment, net	13,473	13,324
Restricted investment in bank stocks	2,965	3,120
Foreclosed assets held for sale	889	931
Accrued interest receivable	3,011	3,067
Deferred income taxes	1,909	2,439
Goodwill	1,016	1,016
Core deposit and other intangibles, net	264	274
Cash surrender value of life insurance	7,958	7,896
Other assets	3,034	3,010
Total Assets	\$ 717,625	\$ 715,383
LIABILITIES & SHAREHOLDERS EQUITY		
Deposits:		
Noninterest bearing demand	\$ 54,301	\$ 73,261
Interest bearing demand	94,502	59,403
Money Market	271,146	271,521
Savings	28,591	27,978
Time	188,031	201,892
Total Deposits	636,571	634,055
Long-term debt	22,654	22,701
Accrued interest payable	1,002	1,064
Other liabilities	3,041	4,111
Total Liabilities	663,268	661,931
Shareholders Equity:		
Preferred stock, par value \$1,000; authorized 10,000,000 shares; 5% cumulative dividend; 10,000 shares issued and outstanding at March 31, 2012 and December 31, 2011	10,000	10,000
Common stock, par value \$1 per share; 10,000,000 shares authorized; 3,485,839 shares issued and outstanding at March 31, 2012 and 3,484,509 shares issued and outstanding at December 31, 2011	3,486	3,484
Additional paid-in capital	29,839	29,830
Retained earnings	9,057	8,222

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Accumulated other comprehensive income	1,975	1,916
Total Shareholders' Equity	54,357	53,452
Total Liabilities and Shareholders' Equity	\$ 717,625	\$ 715,383

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 Ended March 31,	
	2012	2011
INTEREST INCOME		
Interest & fees on loans and leases	\$ 6,791	\$ 6,735
Interest on interest-bearing time deposits with financial institutions	65	162
Interest and dividends on investment securities:		
U.S. Treasury and government agencies	436	222
State and political subdivision obligations, tax-exempt	409	323
Other securities	5	3
Interest on federal funds sold and securities purchased under agreements to resell	4	8
Total Interest Income	7,710	7,453
INTEREST EXPENSE		
Interest on deposits	1,789	2,195
Interest on short-term borrowings		2
Interest on long-term debt	244	273
Total Interest Expense	2,033	2,470
Net Interest Income	5,677	4,983
PROVISION FOR LOAN AND LEASE LOSSES	300	200
Net Interest Income After Provision for Loan and Lease Losses	5,377	4,783
NONINTEREST INCOME		
Income from fiduciary activities	112	95
Service charges on deposits	129	183
Net gain on sales of investment securities	16	
Earnings from cash surrender value of life insurance	62	65
Mortgage banking income	122	123
Other income	297	292
Total Noninterest Income	738	758
NONINTEREST EXPENSE		
Salaries and employee benefits	2,596	2,201
Occupancy expense, net	278	308
Equipment expense	294	344
Pennsylvania Bank Shares tax expense	131	121
FDIC Assessment	301	314
Legal and professional fees	107	87
Director fees and benefits expense	47	73
Marketing and advertising expense	69	63
Computer expense	162	166
Telephone expense	107	94
Loss (gain) on sale/write-down of foreclosed assets	8	(28)
Intangible amortization	16	16
Loan collection costs	109	41
Other expenses	513	500
Total Noninterest Expense	4,738	4,300

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INCOME BEFORE PROVISION FOR INCOME TAXES	1,377	1,241
Provision for income taxes	243	241
NET INCOME	1,134	1,000
Preferred stock dividends and discount accretion	128	128
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 1,006	\$ 872
PER COMMON SHARE DATA:		
Basic Earnings Per Common Share	\$ 0.29	\$ 0.25
Diluted Earnings Per Common Share	\$ 0.29	\$ 0.25
Cash Dividends	\$ 0.05	\$ 0.05

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

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

(Dollars in thousands)	Three Months Ended March 31,	
	2012	2011
Net income	\$ 1,134	\$ 1,000
Other comprehensive income:		
Unrealized gains arising during the period on available for sale securities, net of income taxes of \$47 and \$102, respectively	92	197
Reclassification adjustment for net gain on sales of available for sale securities included in net income, net of income taxes of (\$5) and \$0, respectively	(11)	
Change in defined benefit plans, net of income taxes of (\$11) and \$1, respectively	(22)	1
Total other comprehensive income	59	198
Total comprehensive income	\$ 1,193	\$ 1,198

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

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MID PENN BANCORP, INC.

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

(Dollars in thousands)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2011	\$ 10,000	\$ 3,484	\$ 29,830	\$ 8,222	\$ 1,916	\$ 53,452
Net income				1,134		1,134
Total other comprehensive income, net of taxes					59	59
Cash dividends				(174)		(174)
Employee Stock Purchase Plan		2	12			14
Preferred dividends				(125)		(125)
Amortization of warrant cost			(3)			(3)
Balance, March 31, 2012	\$ 10,000	\$ 3,486	\$ 29,839	\$ 9,057	\$ 1,975	\$ 54,357
Balance, December 31, 2010	\$ 10,000	\$ 3,480	\$ 29,810	\$ 4,875	\$ 36	\$ 48,201
Net income				1,000		1,000
Total other comprehensive income, net of taxes					198	198
Cash dividends				(174)		(174)
Employee Stock Purchase Plan		1	7			8
Preferred dividends				(125)		(125)
Amortization of warrant cost			(3)			(3)
Balance, March 31, 2011	\$ 10,000	\$ 3,481	\$ 29,814	\$ 5,576	\$ 234	\$ 49,105

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)	Three Months Ended March 31,	
	2012	2011
Operating Activities:		
Net Income	\$ 1,134	\$ 1,000
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan and lease losses	300	200
Depreciation	268	324
Amortization of intangibles	10	18
Net (accretion) amortization of securities (discounts) premiums	(2,633)	1,140
Gain on sales of investment securities	(16)	
Earnings on cash surrender value of life insurance	(62)	(65)
Loss (gain) on sale / write-down of foreclosed assets	8	(28)
Deferred income tax expense (benefit)	466	(90)
Decrease in accrued interest receivable	56	61
(Increase) decrease in other assets	(27)	1,476
(Decrease) increase in accrued interest payable	(62)	229
(Decrease) increase in other liabilities	(1,070)	2,695
Net Cash (Used in) Provided by Operating Activities	(1,628)	6,960
Investing Activities:		
Net decrease (increase) in interest-bearing balances	1,585	(6,185)
Proceeds from the maturity of investment securities	6,742	4,844
Proceeds from the sale of investment securities	8,604	
Purchases of investment securities	(8,813)	(30,672)
Redemptions of restricted investment in bank stock	155	190
Net increase in loans and leases	(6,594)	(5,513)
Purchases of bank premises and equipment	(417)	(315)
Proceeds from sale of foreclosed assets	180	230
Net Cash Provided by (Used in) Investing Activities	1,442	(37,421)
Financing Activities:		
Net increase in demand deposits and savings accounts	16,377	45,045
Net decrease in time deposits	(13,861)	(130)
Net decrease in short-term borrowings		(863)
Preferred stock dividend paid	(125)	(125)
Common stock dividend paid	(174)	(174)
Employee Stock Purchase Plan	14	8
Long-term debt repayment	(47)	(5,045)
Net Cash Provided by Financing Activities	2,184	38,716
Net increase in cash and cash equivalents	1,998	8,255
Cash and cash equivalents, beginning of period	17,841	12,901
Cash and cash equivalents, end of period	\$ 19,839	\$ 21,156
Supplemental Disclosures of Cash Flow Information:		
Interest paid	\$ 2,095	\$ 2,241
Income taxes paid	600	
Supplemental Noncash Disclosures:		

Loan transfers to foreclosed assets held for sale	\$	146	\$	249
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The accompanying notes are an integral part of these consolidated financial statements.

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

The consolidated financial statements for 2012 and 2011 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 March 31, 2011 and December 31, 2011 balances have been reclassified to conform to the 2012 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 consolidated financial statements and notes thereto included in Mid Penn s Annual Report on Form 10-K for the year ended December 31, 2011.

Mid Penn has evaluated events and transactions occurring subsequent to the balance sheet date of March 31, 2012, 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 March 31, 2012 and December 31, 2011, amortized cost, fair value, and unrealized gains and losses on investment securities are as follows:

(Dollars in thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2012				
Available-for-sale securities:				
U.S. Treasury and U.S. government agencies	\$ 26,083	\$ 1,466	\$	\$ 27,549
Mortgage-backed U.S. government agencies	75,917	568	361	76,124
State and political subdivision obligations	49,663	1,770	216	51,217
Equity securities	400		8	392
	\$ 152,063	\$ 3,804	\$ 585	\$ 155,282

(Dollars in thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2011				
Available for sale securities:				
U.S. Treasury and U.S. government agencies	\$ 26,116	\$ 1,501	\$	\$ 27,617
Mortgage-backed U.S. government agencies	82,777	491	600	82,668
State and political subdivision obligations	46,654	1,836	124	48,366
Equity securities	400		8	392
	\$ 155,947	\$ 3,828	\$ 732	\$ 159,043

Estimated fair values of debt securities are based on quoted market prices, where applicable. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments, adjusted for differences between the quoted instruments and the instruments being valued.

Mid Penn's sole equity security is an investment in Access Capital Strategies, an equity fund that invests in low to moderate income financing projects. This investment was purchased in 2004 and additional shares were purchased in 2011 to help fulfill the Bank's regulatory requirement of the Community Reinvestment Act and at March 31, 2012 and December 31, 2011, is reported at fair value.

Investment securities having a fair value of \$78,191,000 at March 31, 2012, and \$85,591,000 at December 31, 2011, were pledged to secure public deposits and other borrowings.

Mid Penn realized gross gains of \$16,000 and \$0 in gross losses on sales of securities available for sale during the first quarter of 2012. Mid Penn did not realize any gross gains or losses on sales of securities available for sale during the first quarter of 2011.

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MID PENN BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

The following table presents gross unrealized losses and fair value of investments aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2012 and December 31, 2011.

(Dollars in thousands) March 31, 2012	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale securities:						