MID PENN BANCORP INC
Form 10-Q
August 09, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2010

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 001-13677

MID PENN BANCORP, INC.

(Exact Name of Registrant as Specified in its Charter)

Pennsylvania **(State or Other Jurisdiction of** **Incorporation or Organization)**	**25-1666413** **(I.R.S. Employer Identification Number)**
349 Union Street	
Millersburg, Pennsylvania **(Address of Principal Executive Offices)**	**17061** **(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.

Yes x 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 accelerated filer , large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

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

Yes ¨ No x

As of August 9, 2010, there were 3,479,780 shares of the registrant s common stock outstanding, par value $1.00 per share.

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Unless the context otherwise requires, the terms Mid Penn , we , us , and our refer to Mid Penn Bancorp, Inc. and its consolidated subsidiaries.

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MID PENN BANCORP, INC. **Consolidated Balance Sheets (Unaudited)**

PART I FINANCIAL INFORMATION

ITEM 1 Financial Statements

(Dollars in thousands, except share data)	**June 30, 2010**	**December 31, 2009**
ASSETS		
Cash and due from banks	$ 7,075	$ 7,526
Interest-bearing balances with other financial institutions	1,007	1,434
Federal funds sold	6,464	
Total cash and cash equivalents	14,546	8,960
Interest-bearing time deposits with other financial institutions	40,627	38,604
Available for sale investment securities	57,229	47,345
Loans and leases, net of unearned interest	472,702	480,385
Less: Allowance for loan and lease losses	(8,031)	(7,686)
Net loans and leases	464,671	472,699
Bank premises and equipment, net	13,548	12,904
Restricted investment in bank stocks	4,029	4,029
Foreclosed assets held for sale	656	663
Accrued interest receivable	2,682	2,781
Deferred income taxes	2,908	2,257
Goodwill	1,016	1,016
Core deposit and other intangibles, net	354	369
Cash surrender value of life insurance	7,504	7,368
Other assets	5,725	7,015
Total Assets	$ 615,495	$ 606,010
LIABILITIES & SHAREHOLDERS EQUITY		
Deposits:		
Noninterest bearing demand	$ 58,311	$ 55,943
Interest bearing demand	56,060	42,148
Money Market	155,676	107,295
Savings	26,678	26,169
Time	235,395	268,460
Total Deposits	532,120	500,015
Short-term borrowings	2,111	16,044
Long-term debt	27,971	38,057
Accrued interest payable	2,005	1,750
Other liabilities	3,326	3,440
Total Liabilities	567,533	559,306
Shareholders Equity:		
Preferred stock, par value $1,000; authorized 10,000,000 shares; 5% cumulative dividend; 10,000 shares issued and outstanding at June 30, 2010 and December 31, 2009	10,000	10,000
Common stock, par value $1 per share; 10,000,000 shares authorized; 3,479,780 shares issued and outstanding at June 30, 2010 and December 31, 2009	3,480	3,480
Additional paid-in capital	29,817	29,824

Retained earnings	3,903	2,627
Accumulated other comprehensive income	762	773
Total Shareholders Equity	47,962	46,704
Total Liabilities and Shareholders Equity	$ 615,495	$ 606,010

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

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

(Dollars in thousands, except per share data)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
INTEREST INCOME				
Interest & fees on loans and leases	$ 6,996	$ 7,161	$ 13,708	$ 13,804
Interest on interest-bearing balances with financial institutions	208	384	424	840
Interest and dividends on investment securities:				
U.S. Treasury and government agencies	189	158	352	334
State and political subdivision obligations, tax-exempt	281	287	538	572
Other securities	3	3	6	7
Interest on federal funds sold and securities purchased under agreements to resell	8		11	1
Total Interest Income	7,685	7,993	15,039	15,558
INTEREST EXPENSE				
Interest on deposits	2,348	2,609	4,820	5,511
Interest on short-term borrowings	2	40	13	59
Interest on long-term debt	310	613	680	1,301
Total Interest Expense	2,660	3,262	5,513	6,871
Net Interest Income	5,025	4,731	9,526	8,687
PROVISION FOR LOAN AND LEASE LOSSES	925	479	1,085	1,412
Net Interest Income After Provision for Loan and Lease Losses	4,100	4,252	8,441	7,275
NONINTEREST INCOME				
Trust department income	50	62	104	123
Service charges on deposits	324	386	656	737
Earnings from cash surrender value of life insurance	68	68	136	141
Gain on life insurance proceeds				158
Mortgage banking income	72	33	142	75
Other income	387	312	679	568
Total Noninterest Income	901	861	1,717	1,802
NONINTEREST EXPENSE				
Salaries and employee benefits	2,156	2,021	4,262	4,121
Occupancy expense, net	194	231	449	436
Equipment expense	335	306	693	544
Pennsylvania Bank Shares tax expense	117	100	219	201
FDIC Assessment	203	395	404	523
Legal and professional fees	143	215	281	354
Director fees and benefits expense	78	66	154	143
Marketing and advertising expense	75	266	143	460
Computer expense	124	120	260	223
Telephone expense	92	82	179	158
(Gain) Loss on sale/write-down of foreclosed assets	(12)	4	120	36
Intangible amortization	16	16	32	32
Other expenses	531	519	1,125	978
Total Noninterest Expense	4,052	4,341	8,321	8,209

INCOME BEFORE PROVISION FOR (BENEFIT FROM) INCOME TAXES	949	772	1,837	868
Provision for (benefit from) income taxes	158	59	311	(58)
NET INCOME	791	713	1,526	926
Preferred stock dividends and discount accretion	129	129	257	257
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 662	$ 584	$ 1,269	$ 669
PER COMMON SHARE DATA:				
Basic Earnings Per Common Share	$ 0.19	$ 0.17	$ 0.36	$ 0.19
Diluted Earnings Per Common Share	$ 0.19	$ 0.17	$ 0.36	$ 0.19
Cash Dividends	$	$ 0.16	$	$ 0.36

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 Shareholder s Equity (Unaudited)**

FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009

(Dollars in thousands, except share data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders Equity
Balance, December 31, 2009	$ 10,000	$ 3,480	$ 29,824	$ 2,627	$ 773	$ 46,704
Comprehensive income:						
Net income				1,526		1,526
Change in net unrealized loss on securities available for sale, net of tax effects					(18)	(18)
Defined benefit plans, net of tax effects					7	7
Total comprehensive income						1,515
Preferred dividends				(250)		(250)
Amortization of warrant cost			(7)			(7)
Balance, June 30, 2010	$ 10,000	$ 3,480	$ 29,817	$ 3,903	$ 762	$ 47,962
Balance, December 31, 2008	$ 10,000	$ 3,480	$ 29,838	$ 7,168	$ 404	$ 50,890
Comprehensive income:						
Net income				926		926
Change in net unrealized loss on securities available for sale, net of tax effects					(334)	(334)
Defined benefit plans, net of tax effects					113	113
Total comprehensive income						705
Cash dividends ($0.20 per share)				(1,253)		(1,253)
Preferred dividends				(186)		(186)
Amortization of warrant cost			(7)			(7)
Balance, June 30, 2009	$ 10,000	$ 3,480	$ 29,831	$ 6,655	$ 183	$ 50,149

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

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

(Dollars in thousands)	Six Months Ended June 30, 2010	2009
Operating Activities:		
Net Income	$ 1,526	$ 926
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	1,085	1,412
Depreciation	643	455
Amortization of core deposit intangible	15	21
Net amortization of securities premiums	124	36
Earnings on cash surrender value of life insurance	(136)	(141)
Gain from life insurance proceeds		(158)
Loss on sale / write-down of foreclosed assets	120	36
Deferred income tax benefit	(621)	(194)
Decrease in accrued interest receivable	99	
Decrease in other assets	1,283	127
Increase in accrued interest payable	255	330
(Decrease) increase in other liabilities	(114)	248
Net Cash Provided by Operating Activities	4,279	3,098
Investing Activities:		
Net (increase) decrease in interest-bearing time deposits	(2,023)	10,331
Proceeds from the maturity of investment securities	4,378	12,849
Purchases of investment securities	(14,413)	
Purchase of restricted investment in bank stock		(411)
Net decrease (increase) in loans and leases	6,619	(33,091)
Purchases of bank premises and equipment	(1,287)	(1,293)
Proceeds from sale of foreclosed assets	197	768
Proceeds from cash surrender value of life insurance		507
Net Cash Used in Investing Activities	(6,529)	(10,340)
Financing Activities:		
Net increase in demand deposits and savings accounts	65,170	7,121
Net decrease in time deposits	(33,065)	(1,371)
Net (decrease) increase in short-term borrowings	(13,933)	11,627
Preferred stock dividend paid	(250)	(203)
Common stock dividend paid		(1,253)
Long-term debt repayment	(10,086)	(10,082)
Net Cash Provided by Financing Activities	7,836	5,839
Net increase (decrease) in cash and cash equivalents	5,586	(1,403)
Cash and cash equivalents, beginning of period	8,960	8,448
Cash and cash equivalents, end of period	$ 14,546	$ 7,045
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 5,258	$ 6,541
Income taxes paid		
Supplemental Noncash Disclosures:		

Transfers to foreclosed assets held for sale	$ 324	$ 138

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

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

1. Basis of Presentation

The consolidated financial statements for 2010 and 2009 include the accounts of Mid Penn Bancorp, Inc. (Mid Penn), and its subsidiaries Mid Penn Bank (the Bank), Mid Penn Insurance Services, LLC, 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 June 30, 2009 balances have been reclassified to conform to the 2010 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, 2009.

Mid Penn has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2010, 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.

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

At June 30, 2010 and December 31, 2009, 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
June 30, 2010				
Available-for-sale securities:				
U.S. Treasury and U.S. government agencies	$ 18,274	$ 665	$ 2	$ 18,937
Mortgage-backed U.S. government agencies	12,097	161	25	12,233
State and political subdivision obligations	25,397	601	188	25,810
Equity securities	250		1	249
	$ 56,018	$ 1,427	$ 216	$ 57,229

(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2009				
Available-for-sale securities:				
U.S. Treasury and U.S. government agencies	$ 15,291	$ 409	$	$ 15,700
Mortgage-backed U.S. government agencies	4,522	97		4,619
State and political subdivision obligations	26,044	828	91	26,781
Equity securities	250		5	245
	$ 46,107	$ 1,334	$ 96	$ 47,345

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.

Included in equity securities 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 to help fulfill the Bank s regulatory requirement of the Community Reinvestment Act and at June 30, 2010 and December 31, 2009, is reported at fair value.

Investment securities having a fair value of $56,980,000 at June 30, 2010, and $37,434,000 at December 31, 2009, were pledged to secure public deposits and other borrowings.

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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 June 30, 2010 and December 31, 2009.

	Less Than 12 Months		12 Months or More		Total	
(Dollars in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
June 30, 2010						
Available-for-sale securities:						
U.S. Treasury and U.S. government agencies	$ 5,532	$ 2	$	$	$ 5,532	$ 2
Mortgage-backed U.S. government agencies	4,602	25			4,602	25
State and political subdivision obligations	6,401	188			6,401	188
Equity securities			249	1	249	1
Total temporarily impaired available for sale securities	$ 16,535	$ 215	$ 249	$ 1	$ 16,784	$ 216

	Less Than 12 Months		12 Months or More		Total	
(Dollars in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
December 31, 2009						
Available-for-sale securities:						
State and political subdivision obligations	$ 4,321	$ 91	$	$	$ 4,321	$ 91
Equity securities			245	5	245	5
Total temporarily impaired available for sale securities	$ 4,321	$ 91	$ 245	$ 5	$ 4,566	$ 96

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis; and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, and the financial condition and near term prospects of the issuer. In addition, for debt securities, Mid Penn considers (a) whether management has the intent to sell the security, (b) it is more likely than not that management will be required to sell the security prior to its anticipated recovery, and (c) whether management expects to recover the entire amortized cost basis. For equity securities, management considers the intent and ability to hold securities until recovery of unrealized losses.

At June 30, 2010, Mid Penn had 16 debt securities with unrealized losses. These securities have depreciated 1.31% from their amortized cost basis. At December 31, 2009, 8 debt securities with unrealized losses had depreciated 2.07% from the amortized cost basis. These securities are issued by either the U.S. Government or other governmental agencies. These unrealized losses were determined principally by reference to current interest rates for similar types of securities. In analyzing an issuer s financial condition, management considers whether the U.S. Government or its agencies issued the securities, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer s financial condition. Based on the above conditions management has determined that no declines are deemed to be other-than-temporary.

The table below is the maturity distribution of investment securities at amortized cost and fair value at June 30, 2010 and December 31, 2009:

	June 30, 2010		December 31, 2009	
(Dollars in thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in 1 year or less	$ 3,131	$ 3,173	$ 1,022	$ 1,026
Due after 1 year but within 5 years	11,579	11,799	11,878	12,121
Due after 5 years but within 10 years	17,092	17,911	17,662	18,417
Due after 10 years	11,869	11,864	10,773	10,917

	43,671	44,747	41,335	42,481
Mortgage-backed securities	12,097	12,233	4,522	4,619
Equity securities	250	249	250	245
	$ 56,018	$ 57,229	$ 46,107	$ 47,345

Mortgage-backed securities at June 30, 2010, had an average life of 2.8 years compared to an average life of 2.6 years at December 31, 2009. New investment purchases in this category have longer average lives than the portfolio at December 31, 2009.

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

3. Fair Value Measurements

Mid Penn adopted ASC Topic 820, *Fair Value Measurements and Disclosures* effective January 1, 2008 for financial assets and financial liabilities and on January 1, 2009, for non-financial assets and non-financial liabilities. This guidance defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements.

Fair value measurement and disclosure guidance defines fair value as the price that would be received to sell the asset or transfer the liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. This guidance provides additional information on determining when the volume and level of activity for the asset or liability has significantly decreased. The guidance also includes information on identifying circumstances when a transaction may not be considered orderly.

Fair value measurement and disclosure guidance provides a list of factors that a reporting entity should evaluate to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. When the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability, further analysis of the information from that market is needed and significant adjustments to the related prices may be necessary to estimate fair value in accordance with the fair value measurement and disclosure guidance.

This guidance clarifies that when there has been a significant decrease in the volume and level of activity for the asset or liability, some transactions may not be orderly. In those situations, the entity must evaluate the weight of the evidence to determine whether the transaction is orderly. The guidance provides a list of circumstances that may indicate that a transaction is not orderly. A transaction price that is not associated with an orderly transaction is given little, if any, weight when estimating fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity s own belief about the assumptions market participants would use in pricing the asset or liability based upon the best information available in the circumstances. Fair value measurement and disclosure guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Inputs Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 Inputs Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of Mid Penn s financial assets and financial liabilities carried at fair value effective January 1, 2008.

There were no transfers of assets between fair value Level 1 and Level 2 for the six months ended June 30, 2010. The following table illustrates the financial instruments measured at fair value on a recurring basis segregated by hierarchy fair value levels:

		Fair value measurements at June 30, 2010 using:		
(Dollars in thousands)	**Total carrying value at June 30, 2010**	**Quoted prices in active markets**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs**

		(Level 1)		(Level 3)
Assets:				
Securities available for sale	$ 57,229	$ 249	$ 56,980	$

(Dollars in thousands)		**Fair value measurements at December 31, 2009 using:**		
Assets:	**Total carrying value at December 31, 2009**	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Securities available for sale	$ 47,345	$ 245	$ 47,100	$

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

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

The following table illustrates the financial instruments measured at fair value on a nonrecurring basis segregated by hierarchy fair value levels:

(Dollars in thousands)		Fair value measurements at June 30, 2010 using:		
Assets:	**Total carrying value at June 30, 2010**	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Impaired Loans	$ 4,764	$	$	$ 4,764
Foreclosed Assets	656			656

(Dollars in thousands)		Fair value measurements at December 31, 2009 using:		
Assets:	**Total carrying value at December 31, 2009**	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Impaired Loans	$ 2,036	$	$	$ 2,036
Foreclosed Assets	663			663

Certain non-financial assets and non-financial liabilities measured at fair value on a recurring basis include reporting units measured at fair value in the first step of a goodwill impairment test. Certain non-financial assets and non-financial liabilities measured at fair value on a non-recurring basis include non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, as well as intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment. As stated above, this guidance was applicable to these fair value measurements beginning January 1, 2009 and the effect was not significant at June 30, 2010.

ASC Topic 825, *Financial Instruments*, requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements.

The following methodologies and assumptions were used to estimate the fair value of Mid Penn s financial instruments:

Cash and Cash Equivalents:

The carrying value of cash and cash equivalents is considered to be a reasonable estimate of fair value.

Interest-bearing Balances with other Financial Institutions:

The estimate of fair value was determined by comparing the present value of quoted interest rates on like deposits with the weighted average yield and weighted average maturity of the balances.

Securities Available for Sale:

The fair value of securities classified as available for sale is determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather relying on the securities relationship to other benchmark quoted prices.

Impaired Loans:

Mid Penn s rating system assumes any loans classified as sub-standard non-accrual to be impaired, and all of these loans are considered collateral dependent; therefore, all of Mid Penn s impaired loans, whether reporting a specific allocation or not, are considered collateral dependent.

It is Mid Penn s policy to obtain updated third party valuations on all impaired loans collateralized by real estate within 30 days of the credit being classified as sub-standard non-accrual. Prior to receipt of the updated real estate valuation Mid Penn will use any existing real estate valuation to determine any potential allowance issues; however no allowance recommendation will be made until which time Mid Penn is in receipt of the updated valuation.

In some instances Mid Penn is not holding real estate as collateral and is relying on business assets (personal property) for repayment. In these circumstances a collateral inspection is performed by Mid Penn personnel to determine an estimated value. The value is based on net book value, as provided by the financial statements, and discounted accordingly based on determinations made by management. Occasionally, Mid Penn will employ an outside service to provide a fair estimate of value based on auction sales or private sales. Management reviews the estimates of these third parties and discounts them accordingly based on management s judgment, if deemed necessary. Mid Penn considers the estimates used in its impairment analysis to be Level 3 inputs.

Mid Penn actively monitors the values of collateral on impaired loans. This monitoring may require the modification of collateral values over time or changing circumstances by some factor, either positive or negative, from the original values. All collateral values will be assessed by management at least every 18 months for possible revaluation by an independent third party.

Mid Penn does not currently, or plan to in the future, use automated valuation methodologies as a method of valuing real estate collateral.

Loans:

For variable-rate loans that reprice frequently and which entail no significant changes in credit risk, carrying values approximated fair value. The fair value of other loans are estimated by calculating the present value of the cash flow difference between the current rate and the market rate, for the average maturity, discounted quarterly at the market rate.

Foreclosed Assets:

Assets included in foreclosed assets held for sale are carried at the lower of carrying value or fair value and accordingly are presented as measured on a non-recurring basis. Values are estimated using Level 3 inputs, based on appraisals that consider the sales prices of property in the proximate vicinity.

Accrued Interest Receivable and Payable:

The carrying amounts of accrued interest receivable and payable approximate their fair values.

Restricted Investment in Bank Stocks:

The carrying amount of required and restricted investment in correspondent bank stock approximates fair value, and considers the limited marketability of such securities.

Deposits:

The fair value for demand deposits (e.g., interest and noninterest checking, savings and money market deposit accounts) are by definition, equal to the amount payable on demand at the reporting date (i.e. their carrying amounts). Fair value for fixed-rate certificates of deposit was estimated using a discounted cash flow calculation by combining all fixed-rate certificates into a pool with a weighted average yield and a weighted average maturity for the pool and comparing the pool with interest rates currently being offered on a similar maturity.

Short-term Borrowings:

Because of time to maturity, the estimated fair value of short-term borrowings approximates the book value.

Long-term Debt:

The estimated fair values of long-term debt were determined using discounted cash flow analysis, based on currently available borrowing rates for similar types of borrowing arrangements.

Commitments to Extend Credit and Letters of Credit:

The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account market interest rates, the remaining terms and present credit worthiness of the counterparties. The fair value of guarantees and letters of credit is based on fees currently charged for similar agreements.

The following table summarizes the carrying value and fair value of financial instruments at June 30, 2010 and December 31, 2009.

	June 30, 2010		December 31, 2009	
(Dollars in thousands)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Financial assets:				
Cash and cash equivalents	$ 14,546	$ 14,546	$ 8,960	$ 8,960
Interest-bearing balances with other financial institutions	40,627	40,627	38,604	38,604
Investment securities	57,229	57,229	47,345	47,345
Net loans and leases	464,671	478,744	472,699	487,476
Restricted investment in bank stocks	4,029	4,029	4,029	4,029
Accrued interest receivable	2,682	2,682	2,781	2,781
Financial liabilities:				
Deposits	$ 532,120	$ 538,718	$ 500,015	$ 506,616
Short-term borrowings	2,111	2,111	16,044	16,044
Long-term debt	27,971	28,766	38,057	39,578
Accrued interest payable	2,005	2,005	1,750	1,750
Off-balance sheet financial instruments:				
Commitments to extend credit	$	$	$	$
Financial standby letters of credit				

4. Guarantees

In the normal course of business, Mid Penn makes various commitments and incurs certain contingent liabilities, which are not reflected in the accompanying consolidated financial statements. The commitments include various guarantees and commitments to extend credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Mid Penn evaluates each customer s credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management s credit evaluation of the customer. Standby letters of credit and financial guarantees written are conditional commitments to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Mid Penn had $11,789,000 and $10,697,000 of standby letters of credit outstanding as of June 30, 2010 and December 31, 2009, respectively. Mid Penn does not anticipate any losses because of these transactions. The current amount of the liability as of June 30, 2010 for payment under standby letters of credit issued was not material.

5. Short-term Borrowings

Short-term borrowings as of June 30, 2010 and December 31, 2009 consisted of:

(Dollars in thousands)	**June 30, 2010**	**December 31, 2009**
Federal funds purchased	$	$ 12,886
Securities sold under repurchase agreements	1,756	2,839
Treasury, tax and loan notes	355	319
	$ 2,111	$ 16,044

Short-term borrowings are comprised primarily of federal funds purchased and securities sold under repurchase agreements. Investment securities are pledged in sufficient amounts to collateralize repurchase agreements. Treasury tax and loan notes are open-ended interest bearing notes payable to the U.S. Treasury upon call. All tax deposits accepted by the Bank are placed in the Treasury note option account.

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

6. Long-term Debt

During the three and six months ended June 30, 2010, the Bank entered into no additional long-term borrowings with the Federal Home Loan Bank of Pittsburgh. During the three months ended June 30, 2010, no long-term borrowings with the Federal Home Loan Bank of Pittsburgh matured. During the six months ended June 30, 2010, $10,000,000 in long-term borrowings with the Federal Home Loan Bank of Pittsburgh matured.

7. Defined Benefit Plans

Mid Penn has an unfunded noncontributory defined benefit retirement plan for directors. The plan provides defined benefits based on years of service. In addition, Mid Penn sponsors a defined benefit health care plan that provides post-retirement medical benefits and life insurance to qualifying full-time employees. These health care and life insurance plans are noncontributory. A December 31 measurement date for our plans is used.

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

	Three Months Ended June 30,			
	Pension Benefits		Other Benefits	
(Dollars in thousands)	**2010**	**2009**	**2010**	**2009**
Service cost	$ 6	$ 5	$ 5	$ 4
Interest cost	13	14	11	8
Amortization of prior service cost	5	5		
Amortization of net gain			(3)	(3)
Net periodic benefit cost	$ 24	$ 24	$ 13	$ 9

	Six Months Ended June 30,			
	Pension Benefits		Other Benefits	
(Dollars in thousands)	**2010**	**2009**	**2010**	**2009**
Service cost	$ 12	$ 10	$ 10	$ 8
Interest cost	26	28	22	16
Amortization of prior service cost	10	10		
Amortization of net gain			(6)	(6)
Net periodic benefit cost	$ 48	$ 48	$ 26	$ 18

8. Comprehensive Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains, and losses be included in net income. Changes in certain assets and liabilities such as unrealized gains (losses) on securities available for sale and the liability associated with defined benefit plans, are reported as a separate component of the shareholders equity section of the balance sheet. Such items, along with net income, are components of comprehensive income. The components of other comprehensive income (loss), and the related tax effects are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	**2010**	**2009**	**2010**	**2009**
Change in unrealized holding gains (losses) on available for sale securities	$ 235	$ (612)	$ (27)	$ (489)

Less reclassification adjustment for gains realized in income				
Net unrealized gains (losses)	235	(612)	(27)	(489)
Change in defined benefit plans	3	3	9	155
Other comprehensive income (loss)	238	(609)	(18)	(334)
Income tax effect	(80)	207	7	113
Net of tax amount	$ 158	$ (402)	$ (11)	$ (221)

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

The components of accumulated other comprehensive income, net of taxes, are as follows:

(Dollars in thousands)	Unrealized Gain on Securities	Defined Benefit Plan Liability	Accumulated Other Comprehensive Income
Balance June 30, 2010	$ 799	$ (37)	$ 762
Balance December 31, 2009	$ 817	$ (44)	$ 773
Balance June 30, 2009	$ 220	$ (37)	$ 183

9. Preferred Stock

On December 19, 2008, Mid Penn entered into and closed a Letter Agreement with the United States Department of the Treasury (the Treasury) pursuant to which the Treasury invested $10,000,000 in Mid Penn under the Treasury s Capital Purchase Program (the CPP).

Under the CPP, the Treasury received (1) 10,000 shares of Series A Fixed Rate Cumulative Perpetual Preferred Stock, $1,000 liquidation preference, and (2) Warrants to purchase up to 73,099 shares of Mid Penn s common stock at an exercise price of $20.52 per share. The $10,000,000 in new capital is treated as Tier 1 Capital.

The Series A Preferred Stock pays cumulative dividends at a rate of 5% per annum for the first five years and 9% per annum thereafter. Pursuant to the American Recovery and Reinvestment Act of 2009, the Secretary of the Treasury is required to permit, subject to consultation with the appropriate Federal banking agency, Mid Penn to redeem the Series A Preferred Stock. Mid Penn may do so without regard to the source of the funds to be used to redeem the Series A Preferred Stock or any minimum waiting period. If Mid Penn elects to redeem the Series A Preferred Stock prior to February 15, 2012, and receives approval from the Treasury and the Board of Governors of the Federal Reserve System, it must redeem at least $2,500,000 of the Series A Preferred Stock. Upon redemption of the Series A Preferred Stock, the Secretary of the Treasury must liquidate the warrants associated with Mid Penn s participation in the CPP at the current market price. Upon the appropriate approval, Mid Penn may redeem the Series A Preferred Stock at the original purchase price plus accrued but unpaid dividends, if any. The related Warrants expire in ten years and are immediately exercisable upon their issuance.

To participate in the program, Mid Penn is required to meet certain standards, including; (1) ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risk that threaten the value of Mid Penn; (2) requiring a clawback of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate; (3) prohibiting Mid Penn from making any golden parachute payment to a senior executive based on applicable Internal Revenue Code provisions; and (4) agreeing not to deduct for tax purposes executive compensation in excess of $500,000 for each senior executive.

Based on the Program term sheet provided by the Treasury, the following are the effects on holders of common stock from the issuance of Senior Preferred stock to the Treasury under the Program:

Restrictions on Dividends

For as long as any Senior Preferred shares are outstanding, no dividends can be declared or paid on common shares, nor can Mid Penn repurchase or redeem any common shares, unless all accrued and unpaid dividends for all past dividend periods on the Senior Preferred shares have been fully paid. In addition, the consent of the Treasury is required for any increase in the per share dividends on common shares until the third anniversary of the date of the Senior Preferred investment unless prior to such third anniversary, the Senior Preferred shares have been redeemed in whole or the Treasury has transferred all of the Senior Preferred shares to third parties.

Repurchases

The Treasury s consent is required for any share repurchases (other than (1) repurchases of the Senior Preferred shares and (2) repurchases of common shares in connection with any benefit plan in the ordinary course of business consistent with past practice) until the third anniversary of the date of this investment unless prior to such third anniversary the Senior Preferred shares have been redeemed in whole or the Treasury has transferred all of the Senior Preferred shares to third parties. In addition, there can be no share repurchases of common shares if prohibited as described under Restrictions on Dividends above.

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

Voting Rights

The Senior Preferred shares are non-voting, other than class voting rights on (1) any authorization or issuance of shares ranking senior to the Senior Preferred shares, (2) any amendment to the rights of Senior Preferred, or (3) any merger, exchange or similar transaction which would adversely affect the rights of the Senior Preferred. If dividends on the Senior Preferred shares are not paid in full for six dividend periods, whether or not consecutive, the Senior Preferred shareholder(s) have the right to elect two directors. The right to elect directors would end when full dividends have been paid for four consecutive dividend periods.

10. Earnings per Common Share

Earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during each of the periods presented giving retroactive effect to stock dividends and stock splits. The following data show the amounts used in computing basic and diluted earnings per common share. As shown in the table that follows, diluted earnings per common share is computed using weighted average common shares outstanding, plus weighted average common shares available from the exercise of all dilutive stock warrants issued to the U.S. Treasury under the provisions of the Capital Purchase Program, based on the average share price of Mid Penn s common stock during the period.

The computations of basic earnings per common share follow:

(Dollars in thousands, except per share data)	**Three Months Ended June 30, 2010**	**2009**	**Six Months Ended June 30, 2010**	**2009**
Net Income	$ 791	$ 713	$ 1,526	$ 926
Less: Dividends on preferred stock	(125)	(125)	(250)	(250)
Accretion of preferred stock discount	(4)	(4)	(7)	(7)
Net income available to common shareholders	$ 662	$ 584	$ 1,269	$ 669
Weighted average common shares outstanding	3,479,780	3,479,780	3,479,780	3,479,780
Basic earnings per common share	$ 0.19	$ 0.17	$ 0.36	$ 0.19

The computations of diluted earnings per common share follow:

(Dollars in thousands, except per share data)	**Three Months Ended June 30, 2010**	**2009**	**Six Months Ended June 30, 2010**	**2009**
Net income available to common shareholders	$ 662	$ 584	$ 1,269	$ 669
Weighted average number of common shares outstanding	3,479,780	3,479,780	3,479,780	3,479,780
Dilutive effect of potential common stock arising from stock warrants:				
Exercise of outstanding stock warrants issued to U.S. Treasury under the Capital Repurchase Program				
Adjusted weighted-average common shares outstanding	3,479,780	3,479,780	3,479,780	3,479,780
Diluted earnings per common share	$ 0.19	$ 0.17	$ 0.36	$ 0.19

As of June 30, 2010, Mid Penn had 73,099 warrants that were anti-dilutive because the fair value of the common stock was below the $20.52 exercise price of these warrants.

11. Recent Accounting Pronouncements

ASU 2009-16:

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-16, *Transfers and Servicing (Topic 860) Accounting for Transfers of Financial Assets.* This Update amends the Codification for the issuance of FASB Statement No. 166, *Accounting for Transfers of Financial Assets-an amendment of FASB Statement No. 140*.

The amendments in this Update improve financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting.

This guidance became effective January 1, 2010, and did not have a significant impact on Mid Penn s financial condition or results of operations.

ASU 2010-06:

The FASB has issued ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements.* This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. The FASB s objective is to improve these disclosures and, thus, increase the transparency in financial reporting. Specifically, ASU 2010-06 amends Codification Subtopic 820-10 to now require:

- A reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and

- In the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements.

In addition, ASU 2010-06 clarifies the requirements of the following existing disclosures:

- For purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and

- A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements.

ASU 2010-06 is effective for interim and annual reporting periods beginning after January 1, 2010, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Mid Penn adopted the required provisions of ASU 2010-06, with no significant impact on its financial condition or results of operations.

ASU 2010-09:

The FASB has issued ASU 2010-09, *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements.* The amendments in the ASU remove the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP. The FASB also clarified that if the financial statements have been revised, then an entity that is not an SEC filer should disclose both the date that the financial statements were issued or available to be issued and the date the revised financial statements were issued or available to be issued. The FASB believes these amendments remove potential conflicts with the SEC s literature.

In addition, the amendments in the ASU require an entity that is a conduit bond obligor for conduit debt securities that are traded in a public market to evaluate subsequent events through the date of issuance of its financial statements and must disclose such date.

All of the amendments in the ASU were effective upon issuance (February 24, 2010) except for the use of the issued date for conduit debt obligors. That amendment was effective for interim or annual periods ending after June 15, 2010. Mid Penn adopted the required provisions of ASU 2010-09, with no significant impact on its financial condition or results of operations.

ASU 2010-18:

Receivables (Topic 310): Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset, codifies the consensus reached in EITF Issue No. 09-I, Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset. The amendments to the Codification provide that modifications of loans that are accounted for within a pool under Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. ASU 2010-18 does not affect the accounting for loans under the scope of Subtopic 310-30 that are not accounted for within pools. Loans accounted for individually under Subtopic 310-30 continue to be subject to the troubled debt restructuring accounting provisions within Subtopic 310-40.

ASU 2010-18 is effective prospectively for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. Early application is permitted. Upon initial adoption of ASU 2010-18, an entity may make a one-time election to terminate accounting for loans as a pool under Subtopic 310-30. This election may be applied on a pool-by-pool basis and does not preclude an entity from applying pool accounting to subsequent acquisitions of loans with credit deterioration. The Corporation does not expect the adoption of this standard will have a significant impact on the Corporation s financial condition or results of operations.

ASU 2010-20:

Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, will help investors assess the credit risk of a company s receivables portfolio and the adequacy of its allowance for credit losses held against the portfolios by expanding credit risk disclosures.

This ASU requires more information about the credit quality of financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure.

The amendments in this Update apply to all public and nonpublic entities with financing receivables. Financing receivables include loans and trade accounts receivable. However, short-term trade accounts receivable, receivables measured at fair value or lower of cost or fair value, and debt securities are exempt from these disclosure amendments.

The effective date of ASU 2010-20 differs for public and nonpublic companies. For public companies, the amendments that require disclosures as of the end of a reporting period are effective for periods *ending* on or after December 15, 2010. The amendments that require disclosures about activity that occurs during a reporting period are effective for periods *beginning* on or after December 15, 2010. For nonpublic companies, the amendments are effective for annual reporting periods ending on or after December 15, 2011. The Corporation does not expect the adoption of this standard will have a significant impact on the Corporation s financial condition or results of operations.

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

The following is Management s Discussion of Consolidated Financial Condition as of June 30, 2010, compared to year-end 2009, and the Results of Operations for the three and six months ended June 30, 2010, compared to the same periods in 2009.

This discussion should be read in conjunction with the financial tables, statistics, and the audited financial statements and notes thereto included in Mid Penn s Annual Report on Form 10-K for the year ended December 31, 2009. The results of operations for interim periods are not necessarily indicative of operating results expected for the full year.

Certain of the matters discussed in this document and in documents incorporated by reference herein, including matters discussed under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations, may constitute forward-looking statements for purposes of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, and as such may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Mid Penn to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. The words expect , anticipates , intend , plan , believe , estimate , and similar expressions are intended to identify such forward-looking statements.

Mid Penn s actual results may differ materially from the results anticipated in these forward-looking statements due to a variety of factors, including, without limitation:

- The effects of future economic conditions on Mid Penn and its customers;
- Governmental monetary and fiscal policies, as well as legislative and regulatory changes, including the effects of the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act;
- The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Financial Accounting Standards Board and other accounting standard setters;
- The risks of changes in interest rates on the level and composition of deposits, loan demand, and the values of loan collateral, securities and interest rate protection agreements, as well as interest rate risks;
- The effects of economic deterioration on current customers, specifically the effect of the economy on loan customers ability to repay loans;
- The effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in Mid Penn s market area and elsewhere, including institutions operating locally, regionally, nationally and internationally, together with such competitors offering banking products and services by mail, telephone, computer and the internet;
- The costs and effects of litigation and of unexpected or adverse outcomes in such litigation;
- Technological changes;

Acquisitions and integration of acquired businesses;

The failure of assumptions underlying the establishment of reserves for loan and lease losses and estimations of values of collateral and various financial assets and liabilities;

Acts of war or terrorism;

Volatilities in the securities markets; and

Deteriorating economic conditions.

Mid Penn undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date of this report. Readers should carefully review the risk factors described in the documents that we periodically file with the SEC, including Mid Penn s Annual Report on Form 10-K for the year ended December 31, 2009.

Critical Accounting Estimates

Mid Penn s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and conform to general practices within the banking industry. Application of these principles involves significant judgments and estimates by management that have a material impact on the carrying value of certain assets and liabilities. The judgments and estimates that we used are based on historical experiences and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and estimates that we have made, actual results could differ from these judgments and estimates, which could have a material impact on the carrying values of assets and liabilities and the results of our operations.

Management of the Mid Penn considers the accounting judgments relating to the allowance for loan and lease losses and the evaluation of Mid Penn s investment securities for other-than-temporary impairment to be the accounting areas that require the most subjective and complex judgments.

The allowance for loan and lease losses represents management s estimate of probable incurred credit losses inherent in the loan and lease portfolio. Determining the amount of the allowance for loan and lease losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan and lease portfolio also represents the largest asset type on the consolidated balance sheet. Throughout the remainder of this report, the terms loan or loans refers to both loans and leases.

Valuations for the investment portfolio are determined using quoted market prices, where available. If quoted market prices are not available, investment valuation is based on pricing models, quotes for similar investment securities, and observable yield curves and spreads. In addition to valuation, management must assess whether there are any declines in value below the carrying value of the investments that should be considered other than temporary or otherwise require an adjustment in carrying value and recognition of the loss in the consolidated statement of operations.

Recent Legislation Affecting the Financial Services Industry

On July 21, 2010, the President signed the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) into law. The Dodd-Frank Act significantly changes regulation of financial institutions and the financial services industry, including: creating a Financial Services Oversight Council to identify emerging systemic risks and improve interagency cooperation; centralizing responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, which will be responsible for implementing, examining and enforcing compliance with federal consumer financial laws; permanently raising the current standard maximum deposit insurance amount to $250.000; establishing strengthened capital standards for banks, and disallowing trust preferred securities from qualifying as Tier 1 capital (subject to certain grandfather provisions for existing trust preferred securities); establishing new minimum mortgage underwriting standards; granting the Federal Reserve Board the power to regulate debit card interchange fees; and implementing corporate governance changes. Many aspects of the Dodd-Frank are subject to rulemaking that will take effect over several years, thus making it difficult to assess the impact of the statute on the financial industry, including Mid Penn, at this time. Mid Penn is currently reviewing the provisions of the Dodd-Frank Act and assessing their probable impact on Mid Penn and its operations.

Results of Operations

Overview

Net income available to common shareholders was $662,000 or $0.19 per common share for the quarter ended June 30, 2010, as compared to net income available to common shareholders of $584,000 or $0.17 per common share for the quarter ended June 30, 2009. During the six months ended June 30, 2010, net income available to common shareholders was $1,269,000 or $0.36 per common share versus $669,000 or $0.19 per common share for the same period in 2009.

The net interest margin compression experienced throughout 2009 has begun to abate somewhat with net interest income increasing to $5,025,000 during the three months ended June 30, 2010 from $4,731,000 during the same period in 2009. The six months ended June 30, 2010 reflect an increasing level of net interest income as well, growing to $9,526,000 versus $8,687,000 during the same period in 2009. These increases have been spurred by a moderating cost of funds and increasing levels of average earning assets.

The provision for loan and lease losses in the second quarter of 2010 was $925,000, as compared to $479,000 in the second quarter of 2009. During the six months ended June 30, 2010, the provision for loan and lease losses was $1,085,000 compared to $1,412,000 for the six months ended June 30, 2009. Mid Penn continues to identify and responsibly provision for potential problem credits.

Net income as a percent of average assets (return on average assets or ROA) and shareholders equity (return on average equity or ROE) were as follows on an annualized basis:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Return on average assets	0.51%	0.50%	0.50%	0.33%
Return on average equity	6.65%	5.65%	6.48%	3.51%

Total assets increased to $615,495,000 at June 30, 2010, from $606,010,000 at December 31, 2009. This asset increase was driven by strong core deposit growth to this point of 2010 with total deposits of $532,120,000 at June 30, 2010 compared to $500,015,000 at December 31, 2009, an increase of approximately $32 million. This growth in core deposits led to an increase in federal funds sold and is being deployed to pay down long-term borrowings as they mature and into investments and loans to maximize the return on these new funds.

The funding side of Mid Penn has continued the transformation begun in 2009. Deposit growth was strong, as noted above, during the first six months of 2010. This increase in deposits was primarily caused by successfully securing two long-term deposit relationships with local school districts, an attractive money market rate, and the building of relationship-based core deposit accounts from the extensive portfolio of commercial real estate borrowers. In addition to the ongoing efforts to place these funds into loans and investments, during the first six months of 2010, $10,000,000 of long-term FHLB debt and $6,990,000 in brokered time deposits have matured and been replaced with core deposits at a more advantageous rate structure. These strategies have improved the cost of funds and energized the net interest margin despite high levels of nonaccrual loans.

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MID PENN BANCORP, INC. **Management s Discussion and Analysis**

Net Interest Income/Funding Sources

Net interest income, Mid Penn s primary source of revenue, is the amount by which interest income on loans and investments exceeds interest incurred on deposits and borrowings. The amount of net interest income is affected by changes in interest rates and changes in the volume and mix of interest-sensitive assets and liabilities. Net interest income and corresponding yields are presented in the analysis below on a taxable-equivalent basis. Income from tax-exempt assets, primarily loans to or securities issued by state and local governments, is adjusted by an amount equivalent to the federal income taxes which would have been paid if the income received on these assets was taxable at the statutory rate of 34%. The following table includes average balances, rates, interest income and expense, interest rate spread, and net interest margin:

Average Balances, Effective Interest Differential and Interest Yields

Interest rates and interest differential taxable equivalent basis

	For the Six Months Ended June 30, 2010			For the Six Months Ended June 30, 2009		
(Dollars in thousands)	**Average Balance**	**Interest**	**Rate (%)**	**Average Balance**	**Interest**	**Rate (%)**
ASSETS:						
Interest Earning Balances	$ 39,911	$ 424	2.14%	$ 43,393	$ 840	3.90%
Investment Securities:						
Taxable	24,026	358	3.00%	21,349	340	3.21%
Tax-Exempt	25,470	815	6.45%	25,108	866	6.96%
Total Investment Securities	49,496			46,457		
Federal Funds Sold	8,081	11	0.27%	517	1	
Loans and Leases, Net:						
Taxable	459,041	13,332	5.86%	436,908	13,494	6.23%
Tax-Exempt	16,976	570	6.77%	13,321	469	7.10%
Total Loans and Leases, Net	476,017			450,229		
Restricted Investment in Bank Stocks	4,029		0.00%	3,827	1	0.05%
Total Earning Assets	577,534	15,510	5.42%	544,423	16,011	5.93%
Cash and Due from Banks	7,888			6,410		
Other Assets	26,607			22,577		
Total Assets	$ 612,029			$ 573,410		
LIABILITIES & SHAREHOLDERS EQUITY:						
Interest Bearing Deposits:						
NOW	$ 48,703	30	0.12%	$ 36,514		