

MID PENN BANCORP INC
Form DEF 14A
November 20, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

Information Required in Proxy Statement

Schedule 14A Information

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Mid Penn Bancorp, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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Dear Shareholder:

A special meeting of shareholders of Mid Penn Bancorp, Inc. (Mid Penn) will be held at Mid Penn Bank, 349 Union Street, Millersburg, Pennsylvania 17061 on Wednesday, December 10, 2008, at 10:00 a.m. local time.

The attached Notice of Special Meeting of Shareholders and Proxy Statement describe the formal business to be transacted at the special meeting. We are asking shareholders to (1) approve and adopt an amendment to Mid Penn s Articles of Incorporation to authorize the issuance of up to 10,000,000 shares of preferred stock and (2) authorize the adjournment or postponement of the special meeting if more time is needed to solicit additional votes in favor of the amendment proposal.

We are asking shareholders to approve and adopt an amendment to Mid Penn s Articles of Incorporation in order to permit Mid Penn to authorize the issuance of preferred stock so that Mid Penn may become eligible to participate in the U.S. Department of Treasury s Capital Purchase Program. This program is designed to provide certain U.S. financial institutions with low-cost access to Tier I capital thereby encouraging them to provide credit to households and to support economic growth by bolstering public confidence in the U.S. financial system. We believe that taking action to make Mid Penn eligible to participate in the program, which would provide low cost Tier I funding, is in the best interests of our shareholders. Directors and officers of Mid Penn will be present at the special meeting to respond to any questions you might have.

Your vote is important regardless of the number of shares you own or whether you attend the special meeting; therefore, it is urgent that you vote your shares as soon as possible so that we comply with the U.S. Treasury s timeline with respect to the U.S. Treasury s Capital Purchase Program. If you attend the special meeting, you may withdraw your proxy and vote in person, even if you have previously voted.

Sincerely,

Edwin D. Schlegel

Chairman of the Board, Interim President, and CEO

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Mid Penn Bancorp, Inc.

Notice of Special Meeting of Shareholders

And

Proxy Statement

For the 2008 Special Meeting of Shareholders

To Be Held On December 10, 2008

Mid Penn Bancorp, Inc. is mailing this Notice and Proxy Statement to shareholders
on or about November 20, 2008.

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349 Union Street

Millersburg, Pennsylvania 17061

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD ON DECEMBER 10, 2008

TO THE SHAREHOLDERS OF MID PENN BANCORP, INC.:

NOTICE IS HEREBY GIVEN that a special meeting of the shareholders of Mid Penn Bancorp, Inc. (Mid Penn) will be held at Mid Penn Bank, 349 Union Street, Millersburg, Pennsylvania 17061, on Wednesday, December 10, 2008, at 10:00 a.m., local time, for the purpose of considering and voting upon proposals regarding the following matters:

1. To approve and adopt an amendment to Mid Penn s Articles of Incorporation authorizing the issuance of up to 10,000,000 shares of preferred stock.
2. To adjourn or postpone the special meeting of shareholders, if more time is needed, to allow Mid Penn time to solicit additional votes in favor of the proposal to amend its Articles of Incorporation; and

3. To transact such other business as may properly come before the special meeting or any adjournment or postponement thereof. Only those shareholders of record, at the close of business on November 10, 2008, are entitled to notice of and to vote at the special meeting.

The board of directors recommends that the shareholders vote FOR the proposal to amend Mid Penn s Articles of Incorporation authorizing the issuance of preferred stock and FOR the proposal to adjourn or postpone the special meeting.

Please promptly sign the enclosed proxy and return it in the enclosed postage-paid envelope. Your proxy is revocable, and you may withdraw it at any time prior to voting at the special meeting. You may deliver a notice of revocation or deliver a later dated proxy to the Secretary of Mid Penn before the vote at the special meeting.

BY ORDER OF THE BOARD OF DIRECTORS

Edwin D. Schlegel
Chairman of the Board, Interim President, and CEO

November 20, 2008

Your vote is important.

Please complete, sign, date, and return your proxy card.

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Introduction

We are sending this proxy statement to you as a shareholder of Mid Penn Bancorp, Inc. (Mid Penn) in connection with the solicitation of proxies for the special meeting of shareholders to be held at Mid Penn Bank, 349 Union Street, Millersburg, Pennsylvania 17061, on Wednesday, December 10, 2008, at 10:00 a.m. local time. Mid Penn 's board of directors is soliciting proxies for use at the special meeting and at any adjournments or postponements thereof. Only shareholders of record as of the close of business on November 10, 2008, which we refer to as the record date, will be entitled to vote at the special meeting. The proxy solicitation materials for the special meeting will be distributed to shareholders of record on or about November 20, 2008.

Information About the Mid Penn Special Meeting of Shareholders

Why is Mid Penn holding a special shareholders meeting?

The global and U.S. economies are experiencing significantly reduced business activity as a result of, among other factors, disruptions in the financial system this past year. In response to these economic conditions, Congress passed the Emergency Economic Stabilization Act of 2008 under which it allocated up to \$700 billion to protect the U.S. economy, to strengthen public confidence in financial institutions, and to foster the robust functioning of credit markets. Pursuant to the authority of the Emergency Economic Stabilization Act of 2008, the federal government announced several initiatives under the Troubled Assets Relief Program to accomplish the goals of the Emergency Economic Stabilization Act of 2008. One of these initiatives is the U.S. Treasury 's Capital Purchase Program whereby the U.S. Department of Treasury will purchase preferred stock from U.S. financial institutions. Proceeds from the sale of the preferred stock will constitute Tier I capital for bank regulatory purposes. The goal of the U.S. Treasury 's Capital Purchase Program is to encourage U.S. financial institutions to build capital in order to increase the flow of financing to U.S. businesses and consumers and to restore liquidity and stability to the U.S. financial system.

We believe that it is in the best interests of Mid Penn to participate in this program. However, Mid Penn 's Articles of Incorporation do not authorize the issuance of preferred stock. Therefore, Mid Penn must amend its Articles of Incorporation to authorize preferred stock so that it may become eligible to participate in the U.S. Treasury 's Capital Purchase Program.

When is the special meeting?

Wednesday, December 10, 2008, at 10:00 a.m. local time.

Where will the special meeting be held?

At Mid Penn Bank, 349 Union Street, Millersburg, Pennsylvania 17061.

What matters will be voted on at the special meeting?

Shareholders will be considering and voting on proposals regarding the following matters:

1. To approve and adopt an amendment to Mid Penn 's Articles of Incorporation authorizing the issuance of up to 10,000,000 shares of preferred stock.
2. To adjourn or postpone the special meeting of shareholders, if more time is needed, to allow Mid Penn time to solicit additional votes in favor of the proposal to amend its Articles of Incorporation; and
3. To transact such other business as may properly come before the special meeting or any adjournment or postponement thereof.

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Who can vote?

You are entitled to vote if Mid Penn's records show that you held shares of Mid Penn's common stock as of the close of business on November 10, 2008, the record date for the special meeting.

Each shareholder is entitled to one vote for each share of common stock held on November 10, 2008. On November 10, 2008, there were 3,479,780 shares of common stock issued and outstanding. Common stock is Mid Penn's only class of voting securities.

How do I vote?

Voting by Proxy. The Mid Penn board of directors is soliciting proxies from the Mid Penn shareholders. This will give Mid Penn shareholders an opportunity to vote at the Mid Penn special meeting of shareholders. When you execute and deliver a valid proxy, a named proxy holder will vote the shares represented by your proxy in accordance with your instructions. To properly submit a validly executed proxy:

1. Mark your selections;
2. Date and sign your name exactly as it appears on the proxy card; and

3. Mail to:
Registrar and Transfer Company

Attn: Proxy Department

P.O. Box 1160

Cranford, NJ 07016-9749

Unless your executed proxy instructs otherwise, the named proxy holder will vote your shares **FOR** the proposal to approve and adopt the amendment to the Articles of Incorporation to authorize the issuance of preferred stock, **FOR** the proposal to adjourn or postpone the special meeting, if more time is needed, to allow Mid Penn time to solicit additional votes in favor of the amendment proposal, and in accordance with the board of director's discretion on any other proposal considered at the special meeting.

Voting in Person. If you attend the special meeting, you may deliver your completed proxy card in person or may vote by completing a ballot which will be available at the meeting.

How do I vote if my shares are held in street name ?

If your shares are held in an account at a brokerage firm, a bank, or other nominee, then that party is considered the shareholder of record for voting purposes and should give you instructions for voting your shares. As the beneficial owner, you have the right to direct how shares held in your account are voted. Your broker, bank, or other nominee will not vote your shares unless you provide instructions to your broker, bank, or other nominee on how to vote. You should fill out the voter instruction form sent to you by your broker, bank, or other nominee with this document.

How do I change or revoke my proxy?

You retain the right to revoke proxies at any time before they are exercised. Unless revoked, the shares represented by your proxy will be voted according to your instructions at the special meeting and all adjournments or postponements thereof. There are three ways for you to revoke your proxy and change your vote:

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1. You may send a later-dated, signed proxy card to be received before Mid Penn's special meeting.
2. You may revoke your proxy by written notice delivered at any time prior to the vote on the proposals including delivery at the special meeting. Shareholders should deliver this notice to Cindy L. Wetzel, Corporate Secretary.
3. You may attend Mid Penn's special meeting and vote in person.

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If you have instructed a broker to vote your shares, you must follow directions received from your broker to change your vote.

May I still attend the special meeting if I vote in advance?

Yes. We strongly encourage you to vote by promptly returning an executed proxy card by mail so that your shares will be represented at the special meeting. However, voting your shares by proxy does not affect your right to attend the special meeting.

What constitutes a quorum?

A quorum must exist to conduct business at the special meeting. Mid Penn will have a quorum and will be able to conduct the business of the special meeting if the holders of a majority of the votes that shareholders are entitled to cast are present at the special meeting, either in person or by proxy. There were 3,479,780 shares of Mid Penn's common stock issued and outstanding on November 10, 2008, the record date. A majority of the issued and outstanding shares, or 1,739,891 shares, present or represented by proxy, will constitute a quorum.

If you vote by proxy, your shares will be included for determining the presence of a quorum. Both abstentions and broker non-votes also are included for purposes of determining the presence of a quorum. Generally, broker non-votes occur when shares held by a broker for a beneficial owner are not voted with respect to a particular proposal because the broker has not received voting instructions from the beneficial owner and the broker lacks discretionary voting power to vote those shares.

Assuming a quorum, what is the vote required to approve the proposals to be considered at the special meeting?

The affirmative vote of a majority of all votes cast, in person and by proxy, at the special meeting is required to approve both the proposal to approve and adopt the amendment to Mid Penn's Articles of Incorporation authorizing the issuance of preferred stock and the proposal to adjourn or postpone the special meeting, if more time is needed, to allow Mid Penn time to solicit additional votes in favor of the amendment proposal. Under Pennsylvania law, abstentions and broker non-votes are not considered votes cast and, accordingly, will not affect the outcome of any of the matters being voted on at the special meeting.

Do shareholders have dissenters' rights in regards to the proposals?

Under applicable Pennsylvania law, Mid Penn's shareholders are not entitled to dissenters' rights with respect to the proposal to approve and adopt the amendment to Mid Penn's Articles of Incorporation authorizing the issuance of preferred stock or the proposal to adjourn or postpone the special meeting, if more time is needed, to allow Mid Penn time to solicit additional votes in favor of the amendment proposal.

What is the recommendation of Mid Penn's board of directors?

Mid Penn's board of directors unanimously recommends that each shareholder vote FOR the proposal to approve and adopt the amendment to the Articles of Incorporation authorizing the issuance of preferred shares and FOR the proposal to adjourn or postpone the special meeting, if more time is needed, to allow Mid Penn time to solicit additional votes in favor of the amendment proposal.

What will the consequences be if the amendment proposal is not approved and adopted?

If shareholders do not approve and adopt the proposal to amend Mid Penn's Articles of Incorporation authorizing the issuance of preferred stock, Mid Penn likely will be unable to participate in the U.S. Treasury's Capital Purchase Program.

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Who pays for the solicitation of proxies?

The accompanying proxy is being solicited by Mid Penn's board of directors. Mid Penn will bear the cost of soliciting the proxies. Officers and other management employees of Mid Penn will receive no additional compensation for the solicitation of proxies and may use mail, e-mail, personal interviews and/or telephone to solicit proxies.

Proposal No. 1: Amendment to Articles of Incorporation

Our Articles of Incorporation provide that we are authorized to issue up to 10,000,000 shares of common stock, par value \$1.00 per share. At November 10, 2008, we had 3,479,780 shares of common stock issued and outstanding.

Mid Penn's Articles of Incorporation do not presently authorize the issuance of securities other than common stock. On November 12, 2008, our board of directors unanimously approved a resolution to submit a proposal to shareholders to amend Mid Penn's Articles of Incorporation authorizing the issuance of up to 10,000,000 shares of preferred stock which confers on the board of directors discretion to designate one or more series of the preferred stock with the rights, privileges, and preferences of each series that the board of directors from time to time may fix. Furthermore, the board of directors unanimously approved a resolution recommending that Mid Penn's shareholders approve and adopt the proposal to amend the Articles of Incorporation accordingly.

Purpose and Background

The board's primary objective in authorizing preferred stock is to provide Mid Penn with the ability to participate in the U.S. Treasury's Capital Purchase Program. The board of directors believes that it is in the best interests of Mid Penn and its shareholders to afford Mid Penn the opportunity to obtain additional capital through the Capital Purchase Program to be utilized in accordance with the program and specifically to strengthen its capital position and provide loans to its market area. Under this program, the U.S. Treasury will purchase preferred stock that will qualify as Tier I capital for bank regulatory purposes. We submitted our application to the U.S. Treasury's Capital Purchase Program on November 4, 2008, and received preliminary approval to participate in the program on November 19, 2008. We can give no assurances that we will be able to participate in the Capital Purchase Program, nor can we give assurances regarding the amount of shares of preferred stock we may issue under the Capital Purchase Program or the approximate amount of capital infusion we may receive from the U.S. Treasury for any shares of preferred stock that we issue under the Capital Purchase Program.

We have approximately 30 days from the date of this proxy statement to amend our Articles of Incorporation authorizing the issuance of preferred stock. If the Articles of Incorporation are amended to authorize the issuance of preferred stock, the board of directors would have discretion to establish different series of preferred stock and the rights, privileges, and preferences affixed to each series without further shareholder approval. Therefore, shareholders would have no input or right to approve the terms of any series of preferred stock, including the issuance of preferred stock to the U.S. Treasury if we participate in the U.S. Treasury's Capital Purchase Program.

Mid Penn has no present agreement or intention to issue any other series of preferred stock other than the preferred stock contemplated under the U.S. Treasury's Capital Purchase Program.

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Liquidity and Financial Impact of the Capital Purchase Program

Overview

Mid Penn has always placed great emphasis on maintaining a strong capital base and continues to exceed regulatory capital requirements for well capitalized financial institutions. Management is committed to maintaining a capital level sufficient to assure shareholders, customers, and regulators that Mid Penn is financially sound, and to enable Mid Penn to provide a desirable level of profitability. Accordingly, the board of directors believes that Mid Penn should take all necessary steps to exceed regulatory capital levels that will position Mid Penn to remain strong through this crisis, including participating in the U.S. Treasury's Capital Purchase Program.

Mid Penn's capital ratios remain strong and we believe that we have sufficient liquidity to meet our anticipated funding needs. However, to the extent that shareholders do not approve the proposed amendments to our Articles of Incorporation described in this proxy statement, Mid Penn could be precluded from participating in the Capital Purchase Program, which is one of the most cost effective methods for any financial institution to further strengthen its capital base.

In managing our consolidated balance sheet, we depend on access to a variety of sources of funding to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, and to accommodate the transaction and cash management needs of our customers. Sources of funding available to us, and upon which we rely as regular components of our liquidity and funding management strategy, include inter-bank borrowings and brokered deposits. We have also historically been able to raise funds from either short or long-term borrowings or equity issuances. Recently, the volatility and disruption in the capital and credit markets has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If current levels of market disruption and volatility continue or worsen, our ability to access certain of our sources of funding on satisfactory terms may be disrupted, which may adversely affect our capital costs and, in turn, our liquidity. To the extent that our shareholders do not approve the proposed amendments to our Articles of Incorporation described in this proxy statement, Mid Penn could be precluded from participating in the Capital Purchase Program, which is one of the most cost effective methods for any financial institution to further strengthen its capital base.

In the short-term, we will use the proceeds from the Capital Purchase Program to pay down or reduce short-term borrowings that are expected to have yields between 1.0% and 0.5%. Over the long-term, however, we hope that short-term losses will be offset by the gains from the extension of loans in the future; we cannot be certain of this result since the market for future loans and the rates for those loans are uncertain.

Pro Forma Financial Information

The unaudited pro forma condensed consolidated financial data set forth below has been derived by the application of pro forma adjustments to our historical financial statements for the year ended December 31, 2007 and the nine months ended September 30, 2008. The unaudited pro forma consolidated financial data gives effect to the events discussed below as if they had occurred on January 1, 2007 in the case of the statement of income data and September 30, 2008 in the case of the balance sheet data.

The issuance of a minimum of \$4.5 million and a maximum of \$10 million of preferred stock to U.S. Treasury under the Capital Purchase Program.

The issuance of warrants to purchase a minimum of 32,640 shares and a maximum of 72,533 shares of Mid Penn common stock assuming a purchase price of \$20.68 per share (trailing 20-day Mid Penn average share price as of November 17, 2008).

The reduction in short-term borrowings from the proceeds of the Capital Purchase Program.

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We present unaudited pro forma consolidated balance sheet data, including selected line items from our balance sheet and selected capital ratios, as of September 30, 2008. We also present unaudited pro forma condensed consolidated income statements for the year ended December 31, 2007 and the nine months ended September 30, 2008. The pro forma financial data may change materially based on the timing and utilization of the proceeds as well as certain other factors including the strike price of the warrants, any subsequent changes in Mid Penn's common stock price, and the discount rate used to determine the fair value of the preferred stock.

The information should be read in conjunction with our audited financial statements and the related notes as filed as part of our Annual Report on Form 10-K for the year ended December 31, 2007, and our unaudited consolidated financial statements and the related notes filed as part of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.

The following unaudited pro forma consolidated financial data is not necessarily indicative of our financial position or results of operations that actually would have been attained had proceeds from the Capital Purchase Program been received, or the issuance of the warrants pursuant to the Capital Purchase Program been made, at the dates indicated, and is not necessarily indicative of our financial position or results of operations that will be achieved in the future. In addition, as noted above, our participation in the Capital Purchase Program is subject to our shareholders approving the proposed amendments to our Articles of Incorporation described in this proxy statement.

We have included the following unaudited pro forma consolidated financial data solely for the purpose of providing shareholders with information that may be useful for purposes of considering and evaluating the proposals to amend our Articles of Incorporation. Our future results are subject to prevailing economic and industry specific conditions and financial, business and other known and unknown risks and uncertainties, certain of which are beyond our control. These factors include, without limitation, those described in this proxy statement and those described under Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2007, in Item 1A of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 and in our other reports filed with the SEC, which are specifically incorporated by reference in this proxy statement.

Mid Penn Bancorp**Pro Forma Consolidated Balance Sheet Data and Capital Ratios****(In Thousands)**

	Historical	September 30, 2008 As Adjusted(2) (unaudited)	As Adjusted(3)
Balance Sheet:			
Total liabilities(1)	\$ 511,716	\$ 507,216	\$ 501,716
Total shareholders' equity	\$ 40,696	\$ 45,250	\$ 50,817
Total shareholders' equity available to common shareholders	\$ 40,696	\$ 45,115	\$ 50,517
Capital Ratios:			
Total risk-based capital to risk-weighted assets ratio	10.33%	11.38%	12.65%
Tier 1 capital ratio	9.15%	10.20%	11.48%
Leverage ratio	7.30%	8.14%	9.16%
Equity to assets ratio	7.37%	8.18%	9.18%

(1) Assumes that proceeds are initially used to reduce short-term borrowings.

(2) Assumes the issuance of a minimum of \$4.5 million of preferred stock.

(3) Assumes the issuance of a minimum of \$10 million of preferred stock.

Adjusted figures reflect an historical yield on short-term borrowings of 2.44%.

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	Historical 12 Months Ended 12/31/2007	Minimum Proceeds Adjustments (unaudited)	Pro forma 12 Months Ended 12/31/2007
Net interest income	\$ 16,105	210(1)	16,315
Provision for losses on loans	925		925
Net interest income after provision for losses on loans	15,180	210	15,390
Non-interest income	3,481		3,481
Non-interest expense	12,596		12,596
Income before income tax	6,065	210	6,275
Income tax expense	1,394	71(2)	1,465
Net income	\$ 4,671	139	4,810
Less: Preferred dividends		180(3)	180
Net income available to common stockholders	\$ 4,671	(41)	4,630
Basic earnings per share available to common stockholders	\$ 1.34	(0.02)	1.32
Diluted earnings per share available to common stockholders	\$ 1.34	(0.02)	1.32
Weighted average shares outstanding:			
Basic	3,497,806		3,497,806
Diluted	3,497,806	5,112(4)	3,502,918

	Historical 12 Months Ended 12/31/2007	Maximum Proceeds Adjustments (unaudited)	Pro forma 12 Months Ended 12/31/2007
Net interest income	\$ 16,105	466(5)	16,571
Provision for losses on loans	925		925
Net interest income after provision for losses on loans	15,180	466	15,646
Non-interest income	3,481		3,481
Non-interest expense	12,596		12,596
Income before income tax	6,065	466	6,531
Income tax expense	1,394	158(2)	1,552

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Net income	\$	4,671	308	4,979
Less: Preferred dividends			400(3)	400
Net income available to common stockholders	\$	4,671	(92)	4,579
Basic earnings per share available to common stockholders	\$	1.34	(0.03)	1.31
Diluted earnings per share available to common stockholders	\$	1.34	(0.04)	1.30
Weighted average shares outstanding:				
Basic		3,497,806		3,497,806
Diluted		3,497,806	11,359(6)	3,509,165

- (1) Assumes that the \$4.5 million in Capital Purchase Program proceeds are used to reduce short-term borrowings with an historical yield of 4.66%. Actual net interest income would be different as Mid Penn

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- expects to utilize a portion of the proceeds to fund loan growth. However, such impact cannot be estimated at this time as the impact would vary based on the timing of when the loans are funded and the actual pricing of any such loans.
- (2) Additional income tax expense is attributable to additional net interest income as described in Note 1.
 - (3) Consists of dividends on preferred stock at a 5% annual rate as well as accretion on discount on preferred stock upon issuance. The discount is determined based on the value that is allocated to the warrants upon issuance. The discount is accreted back to par value on a constant effective yield method (approximately 6%) over a five year term, which is the expected life of the preferred stock upon issuance. The estimated accretion is based on a number of assumptions which are subject to change. Those assumptions include the discount (market rate at issuance) rate on the preferred stock, and assumptions underlying the value of the warrants. The proceeds are allocated based on the relative fair value of the warrants as compared to the fair value of the preferred stock. The fair value of the warrants is determined under a Black-Scholes model. The model includes assumptions regarding Mid Penn's common stock price, dividend yield, stock price volatility, as well as assumptions regarding the risk-free interest rate. The lower the value of the warrants, the less negative impact on net income and earnings per share available to common shareholders. The fair value of the preferred stock is determined based on assumptions regarding the discount rate (market rate) on the preferred stock (currently estimated at 12%). The lower the discount rate, the less negative impact on net income and earnings per share available to common shareholders.
 - (4) As described in the Section titled Description of Warrants Under U.S. Treasury's Capital Purchase Program, the U.S. Treasury would receive warrants to purchase a number of shares of our common stock having an aggregate market price equal to 15% of the proceeds on the date of issuance with a strike price equal to the trailing twenty day trading average leading up to the closing date. This pro forma assumes that the warrants would give the U.S. Treasury the option to purchase 32,640 shares of Mid Penn common stock. The pro forma adjustment shows the increase in diluted shares outstanding assuming that the warrants had been issued on January 1, 2007 at a strike price of \$20.68 (based on the trailing 20 day Mid Penn average share price as of November 17, 2008) and remained outstanding for the entire period presented. The treasury stock method was utilized to determine dilution of the warrants for the period presented.
 - (5) Assumes that the \$10 million in Capital Purchase Program proceeds are used to reduce short-term borrowings with an historical yield of 4.66%. Actual net interest income would be different as Mid Penn expects to utilize a portion of the proceeds to fund loan growth. However, such impact cannot be estimated at this time as the impact would vary based on the timing of when the loans are funded and the actual pricing of any such loans.
 - (6) As described in the Section titled Description of Warrants Under U.S. Treasury's Capital Purchase Program, the U.S. Treasury would receive warrants to purchase a number of shares of our common stock having an aggregate market price equal to 15% of the proceeds on the date of issuance with a strike price equal to the trailing twenty day trading average leading up to the closing date. This pro forma assumes that the warrants would give the U.S. Treasury the option to purchase 72,533 shares of Mid Penn common stock. The pro forma adjustment shows the increase in diluted shares outstanding assuming that the warrants had been issued on January 1, 2007 at a strike price of \$20.68 (based on the trailing 20 day Mid Penn average share price as of November 17, 2008) and remained outstanding for the entire period presented. The treasury stock method was utilized to determine dilution of the warrants for the period presented.

Table of Contents**Mid Penn Bancorp****Pro Forma Condensed Consolidated Statements of Income****(In thousands, except per share data)**

	Historical 9 Months Ended 9/30/2008	Minimum Proceeds Adjustments (unaudited)	Pro forma 9 Months Ended 9/30/2008
Net interest income	\$ 12,639	82(1)	12,721
Provision for losses on loans	530		530
Net interest income after provision for losses on loans	12,109	82	12,191
Non-interest income	2,800		2,800
Non-interest expense	10,448		10,448
Income before income tax			