

Science Applications International Corp

Form S-8

January 14, 2019

As filed with the Securities and Exchange Commission on January 14, 2019

Registration No. 333-

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-8

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 46-1932921  
(State or other jurisdiction of (I.R.S. Employer  
Incorporation or organization) Identification No.)

12010 Sunset Hills Road  
Reston, Virginia 20190  
(Address of principal executive offices)

ENGILITY HOLDINGS, INC. SECOND AMENDED AND RESTATED 2012 LONG TERM PERFORMANCE PLAN

(Full title of the Plan(s))

Steven G. Mahon  
Executive Vice President, General Counsel and Secretary  
Science Applications International Corporation  
12010 Sunset Hills Road  
Reston, Virginia 20190  
(703) 676-4300  
(Name, address, telephone number, including area code, of agent for service)

Copies to:

Lawrence R. Bard, Esq.  
Morrison & Foerster LLP  
1650 Tysons Blvd., Suite 400  
McLean, Virginia 22102  
(703) 760-7700

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company) Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

## CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	Amount to be registered (1)	Proposed maximum offering price per share (2)	Proposed maximum aggregate offering price (2)	Amount of registration fee
Common Stock, par value \$0.0001 per share	1,573,683	\$63.87	\$100,511,133.21	\$12,181.95

Represents shares issuable pursuant to restricted stock units and performance units originally issued under the Engility Holdings Inc. Second Amended and Restated 2012 Long-Term Performance Plan and assumed by the Registrant pursuant to the Agreement and Plan of Merger dated as of September 9, 2018, by and among the Registrant, Engility Holdings, Inc., and Raptors Merger Sub, Inc., a Delaware corporation. Pursuant to Rule 416(a) (1) under the Securities Act, this Registration Statement shall also cover an indeterminate number of additional shares of Common Stock attributable to the registered shares which become issuable under the Engility Holdings, Inc. Second Amended and Restated 2012 Long Term Performance Plan by reason of any stock dividend, stock split, recapitalization or other similar transaction effected without the Registrant's receipt of consideration resulting in an increase in the number of the outstanding shares of Registrant's Common Stock.

(2) Estimated solely for the purpose of calculating the registration fee. Pursuant to Rule 457(c) and Rule 457(h) under the Securities Act, the proposed maximum offering price per share and the proposed maximum aggregate offering price have been determined on the basis of the average of the high and low prices of the Registrant's Common Stock as reported on the New York Stock Exchange on January 10, 2019.

EXPLANATORY NOTE

On September 9, 2018, Science Applications International Corporation, a Delaware corporation (the “Company” or the “Registrant”), Engility Holdings, Inc., a Delaware corporation (“Engility”) and Raptors Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of the Company (“Merger Subsidiary”), entered into an Agreement and Plan of Merger (the “Merger Agreement”), pursuant to which, among other things, Merger Subsidiary will be merged with and into Engility (the “Merger”), with Engility surviving the Merger as a wholly owned subsidiary of the Company.

In connection with the Merger, the Registrant assumed certain restricted stock units (the “Assumed RSUs”) and performance units (the “Assumed PUs”) and, collectively with the Assumed RSUs, the “Assumed Engility Awards”) which were available and outstanding under the Engility Holdings, Inc. Second Amended and Restated 2012 Long Term Performance Plan (the “Plan”), as set forth on the cover page hereto. The Assumed Engility Awards remain subject to the terms and conditions set forth in the award agreement governing the award and the Plan, except that (1) the Assumed PUs shall vest solely based on the passage of time on the terms and conditions set forth in the award agreement governing the award and the Plan, and (2) that the Assumed Engility Awards relate to a number of shares of Company common stock, rounded up to the nearest whole share, determined, pursuant to the Merger Agreement, by multiplying the number of shares of Engility common stock subject to such Assumed Engility Awards immediately prior to the Effective Time by the Exchange Ratio (as defined in the Merger Agreement). After the Merger and notwithstanding any other provisions of the Plan, no further grants will be made under the Plan, and the Company is solely maintaining the Plan with respect to the Assumed Engility Awards.

This registration statement on Form S-8 (this “Registration Statement”) is filed by the Registrant for the purpose of registering its shares of common stock issuable under the Plan.

PART I  
INFORMATION REQUIRED IN THE  
SECTION 10(A) PROSPECTUS

The information required by Part I is included in the documents sent or given to participants in the Plan pursuant to Rule 428(b)(1) under the Securities Act. In accordance with Rule 428 and the requirements of Part I of the Form S-8, such documents are not being filed with the Securities and Exchange Commission (the “Commission”) either as part of this Registration Statement or as prospectuses or prospectus supplements pursuant to Rule 424 under the Securities Act. The Registrant will maintain a file of such documents in accordance with the provisions of Rule 428. Upon request, the registrant shall furnish the Commission or its staff a copy or copies of all of the documents included in such file.

PART II  
INFORMATION REQUIRED IN THE  
REGISTRATION STATEMENT

Item 3. Incorporation of Documents by Reference.

The Registrant hereby incorporates by reference into this Registration Statement the following documents previously filed with the Commission:

- (a) The Registrant's Annual Report on Form 10-K for the fiscal year ended February 2, 2018, filed with the Commission on March 29, 2018;
- (b) The Registrant's Quarterly Report on Form 10-Q for the fiscal quarters ended May 4, 2018, August 3, 2018, and November 2, 2018, filed with the Commission on December 6, 2018;
- (c) Current Reports on Form 8-K, filed on February 9, 2018, March 29, 2018, March 30, 2018, June 8, 2018, June 12, 2018, September 10, 2018, September 11, 2018, October 23, 2018, November 5, 2018, November 15, 2018, December 4, 2018, December 6, 2018, December 31, 2018, January 7, 2019, January 8, 2019, January 11, 2018, and January 14, 2018 (other than documents or portions of those documents not deemed to be filed).
- (d) All other reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act"), since the end of the fiscal year covered by the Registrant's Annual Report referred to in (a) above; and

(e) The description of the Registrant's common stock contained in the Registrant's effective registration statement on Form 10, as amended (File No. 001-35832) and any amendment or report filed for the purpose of updating such description.

All documents subsequently filed by the Registrant pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act after the date of this Registration Statement, and prior to the filing of a post-effective amendment which indicates that all securities offered hereby have been sold or which de-registers all securities then remaining unsold, shall be deemed to be incorporated by reference in this Registration Statement and to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Registration Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Registration Statement.

Item 4. Description of Securities.

Not applicable.

Item 5. Interests of Named Experts and Counsel.

Not applicable.

Item 6. Indemnification of Directors and Officers.

Section 145 of the General Corporation Law of the State of Delaware permits a Delaware corporation to indemnify its directors, officers, employees and agents, subject to certain limitations.

As permitted by the General Corporation Law of the State of Delaware, our amended and restated certificate of incorporation includes a provision that eliminates the personal liability of our directors for monetary damages for breach of fiduciary duty as a director, except for liability (1) for any breach of the director's duty of loyalty to us or our stockholders, (2) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (3) under Section 174 of the General Corporation Law of the State of Delaware or (4) for any transaction from which the director derived an improper personal benefit.

As permitted by the General Corporation Law of the State of Delaware, our amended and restated certificate of incorporation provides that (1) we shall indemnify our directors and officers to the fullest extent permitted by the General Corporation Law of the State of Delaware, subject to certain limited exceptions, (2) we may indemnify our other employees and agents as set forth in the General Corporation Law of the State of Delaware, (3) we are required to advance expenses, as incurred, to our directors and executive officers in connection with a legal proceeding to the fullest extent not prohibited by applicable law, subject to the receipt by us of an undertaking to repay such amounts to the extent required by law and (4) the rights conferred in the amended and restated certificate of incorporation are not exclusive.

We have entered into indemnification agreements with each of our directors and executive officers to give such directors and officers additional contractual assurances regarding the scope of the indemnification set forth in our restated certificate of incorporation and to provide additional procedural protections.

The exculpation and indemnification provisions in our amended and restated certificate of incorporation and the indemnification provisions of indemnification agreements entered into between us and each of our directors and executive officers may be sufficiently broad to permit indemnification of our directors and executive officers for liabilities arising under the Securities Act of 1933.

We also maintain director and officer liability insurance to insure our directors and officers against the cost of defense, the cost of settlement or payment of a judgment under certain circumstances.

Item 7. Exemption from Registration Claimed.

Not applicable.

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Item 8. Exhibits.

The following Exhibits are filed as part of this Registration Statement:

Exhibit Number	Description
<u>4.1</u>	Amended and Restated Certificate of Incorporation of Science Applications International Corporation. Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K as filed with the SEC October 1, 2013.
<u>4.2</u>	Amended and Restated By-laws of Science Applications International Corporation. Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K as filed with the SEC June 8, 2017.
<u>5.1</u>	Opinion of Morrison & Foerster LLP
<u>10.1</u>	Science Applications International Corporation Third Amended and Restated 2012 Long Term Performance Plan.
<u>23.1</u>	Consent of Morrison & Foerster LLP (Included in Exhibit 5.1)
<u>23.2</u>	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm
<u>24.1</u>	Power of Attorney (included on signature page)

Item 9. Undertakings.

The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) to include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Securities and Exchange Commission (the "Commission") pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (i) and (ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the Commission by a Registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the "Securities Exchange Act"), that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the Company's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers, and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant for expenses incurred or paid by a director, officer, or controlling person in the successful defense of any action, suit, or proceeding) is asserted by such director, officer, or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Reston, State of Virginia on January 14, 2019.

SCIENCE  
APPLICATIONS  
INTERNATIONAL  
CORPORATION

By: /s/ Charles A. Mathis  
Charles A. Mathis  
Chief Financial Officer

Each person whose signature appears below constitutes and appoints Steven G. Mahon and Charles A. Mathis, and each of them, as attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendment to this Registration Statement and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting to said attorneys-in-fact, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all the said attorney-in-fact, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Anthony J. Moraco Anthony J. Moraco	Director and Chief Executive Officer (Principal Executive Officer)	January 14, 2019
/s/ Charles A. Mathis Charles A. Mathis	Chief Financial Officer (Principal Financial and Accounting Officer)	January 14, 2019
/s/ Donna Morea Donna Morea	Director and Chair of the Board	January 14, 2019
/s/ Bob Bedingfield Bob Bedingfield	Director	January 14, 2019
/s/ Deborah Dunie Deborah Dunie	Director	January 14, 2019
/s/ John Hamre John Hamre	Director	January 14, 2019
/s/ Mark Johnson Mark Johnson	Director	January 14, 2019
/s/ Tim Mayopoulos	Director	January 14, 2019

Tim Mayopoulos

/s/ Edward Sanderson, Jr. Director  
Edward Sanderson, Jr.

January 14, 2019

/s/ Steven Shane Director  
Steven Shane

January 14, 2019

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Interest & fees on loans and leases

\$7,031 \$6,856 \$21,050 \$20,564

Interest on interest-bearing time deposits with financial institutions

125 198 442 622

Interest and dividends on investment securities:

U.S. Treasury and government agencies

522 215 1,069 567

State and political subdivision obligations, tax-exempt

307 273 932 811

Other securities

3 3 9 9

Interest on federal funds sold and securities purchased under agreements to resell

6 9 20 20

Total Interest Income

7,994	7,554	23,522	22,593
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INTEREST EXPENSE

Interest on deposits

2,128	2,251	6,564	7,071
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Interest on short-term borrowings

1	3	4	16
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Interest on long-term debt

246 313 762 993

Total Interest Expense

2,375 2,567 7,330 8,080

Net Interest Income

5,619 4,987 16,192 14,513

PROVISION FOR LOAN AND LEASE LOSSES

405 975 1,155 2,060

Net Interest Income After Provision for Loan and Lease Losses

5,214 4,012 15,037 12,453

NONINTEREST INCOME

Income from fiduciary activities

157 104 367 335

Service charges on deposits

167 262 539 918

Earnings from cash surrender value of life insurance

64 67 194 203

Mortgage banking income

102 98 305 241

Other income

274 293 822 843

Total Noninterest Income

764 824 2,227 2,540

NONINTEREST EXPENSE

Salaries and employee benefits

2,390 2,202 6,992 6,464

Occupancy expense, net

274 243 826 693

Equipment expense

318 334 980 1,027

Pennsylvania Bank Shares tax expense

121 106 363 326

FDIC Assessment

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225 205 756 610

Legal and professional fees

87 96 315 377

Director fees and benefits expense

90 78 235 234

Marketing and advertising expense

86 86 244 230

Computer expense

171 164 500 425

Telephone expense

92 91 278 271

(Gain) Loss on sale/write-down of foreclosed assets

27 128 (32) 248

Core deposit intangible amortization

16 16 49 49

Other expenses

637 603 1,736 1,719

Total Noninterest Expense

4,534 4,352 13,242 12,673

INCOME BEFORE PROVISION FOR INCOME TAXES

1,444 484 4,022 2,320

Provision for income taxes

312 4 831 314

NET INCOME

1,132 480 3,191 2,006

Preferred stock dividends and discount accretion

128 128 385 385

NET INCOME AVAILABLE TO COMMON SHAREHOLDERS

\$1,004 \$352 \$2,806 \$1,621

PER COMMON SHARE DATA:

Basic Earnings Per Common Share

\$0.29 \$0.11 \$0.81 \$0.47

Diluted Earnings Per Common Share

\$0.29 \$0.11 \$0.81 \$0.47

Cash Dividends

\$0.05 \$ \$0.15 \$

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

**Table of Contents****MID PENN BANCORP, INC.****Consolidated Statements of Changes in Shareholders' Equity (Unaudited)**

(Dollars in thousands)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
<b>Balance, December 31, 2010</b>	\$ 10,000	\$ 3,480	\$ 29,810	\$ 4,875	\$ 36	\$ 48,201
Comprehensive income:						
Net income				3,191		3,191
Change in net unrealized gain on securities available for sale, net of tax effects					2,009	2,009
Defined benefit plans, net of tax effects					9	9
Total comprehensive income						5,209
Cash dividends				(522)		(522)
Employee Stock Purchase Plan		3	24			27
Preferred dividends				(375)		(375)
Amortization of warrant cost			(10)			(10)
<b>Balance, September 30, 2011</b>	\$ 10,000	\$ 3,483	\$ 29,824	\$ 7,169	\$ 2,054	\$ 52,530
<b>Balance, December 31, 2009</b>	\$ 10,000	\$ 3,480	\$ 29,824	\$ 2,627	\$ 773	\$ 46,704
Comprehensive income:						
Net income				2,006		2,006
Change in net unrealized gain on securities available for sale, net of tax effects					490	490
Defined benefit plans, net of tax effects					10	10
Total comprehensive income						2,506
Preferred dividends				(375)		(375)
Amortization of warrant cost			(10)			(10)
<b>Balance, September 30, 2010</b>	\$ 10,000	\$ 3,480	\$ 29,814	\$ 4,258	\$ 1,273	\$ 48,825

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

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

(Dollars in thousands)	Nine Months Ended September 30,	
	2011	2010
<b>Operating Activities:</b>		
Net Income	\$ 3,191	\$ 2,006
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	1,155	2,060
Depreciation	933	969
Amortization of intangibles	51	18
Net amortization (accretion) of securities premiums (discounts)	1,895	(11)
Earnings on cash surrender value of life insurance	(194)	(203)
(Gain) loss on sale / write-down of foreclosed assets	(32)	248
Deferred income tax benefit	(28)	(300)
(Increase) decrease in accrued interest receivable	(227)	115
Decrease in other assets	2,360	552
Increase in accrued interest payable	681	458
Increase (decrease) in other liabilities	3,613	(60)
<b>Net Cash Provided by Operating Activities</b>	<b>13,398</b>	<b>5,852</b>
<b>Investing Activities:</b>		
Net decrease (increase) in interest-bearing balances	15,670	(10,175)
Proceeds from the maturity of investment securities	14,273	5,578
Purchases of investment securities	(94,042)	(30,058)
Redemptions of restricted investment in bank stock	544	
Net (increase) decrease in loans and leases	(19,092)	8,791
Purchases of bank premises and equipment	(1,014)	(1,508)
Proceeds from sale of foreclosed assets	830	334
<b>Net Cash Used in Investing Activities</b>	<b>(82,831)</b>	<b>(27,038)</b>
<b>Financing Activities:</b>		
Net increase in demand deposits and savings accounts	85,014	88,843
Net decrease in time deposits	(4,216)	(40,542)
Net decrease in short-term borrowings	(925)	(14,148)
Preferred stock dividend paid	(375)	(375)
Common stock dividend paid	(522)	
Employee Stock Purchase Plan	27	
Long-term debt repayment	(5,136)	(10,130)
<b>Net Cash Provided by Financing Activities</b>	<b>73,867</b>	<b>23,648</b>
Net increase in cash and cash equivalents	4,434	2,462
Cash and cash equivalents, beginning of period	12,901	8,960
Cash and cash equivalents, end of period	\$ 17,335	\$ 11,422
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Interest paid	\$ 6,649	\$ 7,622
Income taxes paid	565	385
<b>Supplemental Noncash Disclosures:</b>		
Transfers to foreclosed assets held for sale	\$ 1,054	\$ 506

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

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

The consolidated financial statements for 2011 and 2010 include the accounts of Mid Penn Bancorp, Inc. ( Mid Penn ), and its subsidiaries Mid Penn Bank (the Bank ) and Mid Penn Investment Corporation (collectively the Corporation ). All material intercompany accounts and transactions have been eliminated in consolidation.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). We believe the information presented is not misleading and the disclosures are adequate. For comparative purposes, the September 30, 2010 balances have been reclassified to conform to the 2011 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, 2010.

Mid Penn has evaluated events and transactions occurring subsequent to the balance sheet date of September 30, 2011, for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

***2. Investment Securities***

Securities to be held for indefinite periods, but not intended to be held to maturity, are classified as available for sale and carried at fair value. Securities held for indefinite periods include securities that management intends to use as part of its asset and liability management strategy and that may be sold in response to liquidity needs, changes in interest rates, resultant prepayment risk, and other factors related to interest rate and resultant prepayment risk changes.

Realized gains and losses on dispositions are based on the net proceeds and the adjusted book value of the securities sold, using the specific identification method. Unrealized gains and losses on investment securities available for sale are based on the difference between book value and fair value of each security. These gains and losses are credited or charged to other comprehensive income, whereas realized gains and losses flow through Mid Penn s results of operations.

Accounting Standards Codification ( ASC ) Topic 320, *Investments – Debt and Equity Securities*, clarifies the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the entity will recover the cost basis of the investment. Previously, this assessment required management to assert it has both the intent and the ability to hold a security for a period of time sufficient to allow for an anticipated recovery in fair value to avoid recognizing other-than-temporary impairment. This change does not affect the need to forecast recovery of the value of the security through either cash flows or market price.

In instances when a determination is made that other-than-temporary impairment exists but the investor does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to its anticipated recovery, this guidance changes the presentation and amount of the other-than-temporary impairment recognized in the income statement. The other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

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

At September 30, 2011 and December 31, 2010, 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
September 30, 2011				
Available-for-sale securities:				
U.S. Treasury and U.S. government agencies	\$ 27,150	\$ 1,583	\$	\$ 28,733
Mortgage-backed U.S. government agencies	76,903	631	365	77,169
State and political subdivision obligations	43,856	1,580	114	45,322
Equity securities	400		5	395
	\$ 148,309	\$ 3,794	\$ 484	\$ 151,619

(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2010				
Available-for-sale securities:				
U.S. Treasury and U.S. government agencies	\$ 16,726	\$ 668	\$	\$ 17,394
Mortgage-backed U.S. government agencies	25,528	144	285	25,387
State and political subdivision obligations	27,932	481	735	27,678
Equity securities	250		7	243
	\$ 70,436	\$ 1,293	\$ 1,027	\$ 70,702

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

Mid Penn's sole equity security is an investment in Access Capital Strategies, an equity fund that invests in low to moderate income financing projects. This investment was purchased in 2004 to help fulfill the Bank's regulatory requirement of the Community Reinvestment Act and at September 30, 2011 and December 31, 2010, is reported at fair value.

Investment securities having a fair value of \$82,924,000 at September 30, 2011, and \$37,259,000 at December 31, 2010, were pledged to secure public deposits and other borrowings.

**Table of Contents****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 September 30, 2011 and December 31, 2010.

(Dollars in thousands)	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2011						
Available-for-sale securities:						
Mortgage-backed U.S. government agencies	\$ 37,728	\$ 365	\$	\$	\$ 37,728	\$ 365
State and political subdivision obligations	3,421	114			3,421	114
Equity securities			395	5	395	5
Total temporarily impaired available for sale securities	\$ 41,149	\$ 479	\$ 395	\$ 5	\$ 41,544	\$ 484

(Dollars in thousands)	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2010						
Available-for-sale securities:						
Mortgage-backed U.S. government agencies	\$ 13,032	\$ 285	\$	\$	\$ 13,032	\$ 285
State and political subdivision obligations	11,318	668	808	67	12,126	735
Equity securities			243	7	243	7
Total temporarily impaired available for sale securities	\$ 24,350	\$ 953	\$ 1,051	\$ 74	\$ 25,401	\$ 1,027

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 September 30, 2011, Mid Penn had 33 debt securities from separate issuers with unrealized losses. These securities have depreciated 1.22% from their amortized cost basis. At December 31, 2010, 30 debt securities with unrealized losses had depreciated 3.60% 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 September 30, 2011 and December 31, 2010:

(Dollars in thousands)	September 30, 2011		December 31, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in 1 year or less	\$ 4,062	\$ 4,093	\$ 7,791	\$ 7,825
Due after 1 year but within 5 years	23,749	24,769	6,319	6,558

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Due after 5 years but within 10 years	12,528	13,622	15,245	16,014
Due after 10 years	30,667	31,571	15,303	14,675
	71,006	74,055	44,658	45,072
Mortgage-backed securities	76,903	77,169	25,528	25,387
Equity securities	400	395	250	243
	\$ 148,309	\$ 151,619	\$ 70,436	\$ 70,702

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Mortgage-backed securities at September 30, 2011 had an average life of 2.5 years compared to an average life of 3.7 years at December 31, 2010. New investment purchases in this category have shorter average lives than the portfolio at December 31, 2010.

**3. Loans and Allowance for Loan and Lease Losses**

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. These amounts are generally being amortized over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

The loan portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial and industrial, commercial real estate, commercial real estate-construction and lease financing. Consumer loans consist of the following classes: residential mortgage loans, home equity loans and other consumer loans.

For all classes of loans, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days or more past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan and lease losses. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

*Commercial and industrial*

Mid Penn originates commercial and industrial loans. Most of the Bank's commercial and industrial loans have been extended to finance local and regional businesses and include short-term loans to finance machinery and equipment purchases, inventory, and accounts receivable. Commercial loans also involve the extension of revolving credit for a combination of equipment acquisitions and working capital in expanding companies.

The maximum term for loans extended on machinery and equipment is based on the projected useful life of such machinery and equipment. Generally, the maximum term on non-mortgage lines of credit is one year. The loan-to-value ratio on such loans and lines of credit generally may not exceed 80% of the value of the collateral securing the loan. The Bank's commercial business lending policy includes credit file documentation and analysis of the borrower's character, capacity to repay the loan, the adequacy of the borrower's capital and collateral as well as an evaluation of conditions affecting the borrower. Analysis of the borrower's past, present, and future cash flows is also an important aspect of the Bank's current credit analysis. Nonetheless, such loans are believed to carry higher credit risk than more traditional investments.

Commercial and industrial loans typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself, which, in turn, is likely to be dependent upon the general economic environment. Mid Penn's commercial and industrial loans are usually, but not always, secured by business assets and personal guarantees. However, the collateral securing the loans may depreciate over time, may be difficult to appraise, and may fluctuate in value based on the success of the business.

*Commercial real estate and commercial real estate - construction*

Commercial real estate and commercial real estate construction loans generally present a higher level of risk than loans secured by one to four family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties, and the increased difficulty of evaluating and monitoring these types of loans. In addition, the repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired.

*Lease financing*

Mid Penn originates leases for select commercial and state and municipal government lessees. The nature of the leased asset is often subject to rapid depreciation in salvage value over a relatively short time frame or may be of an industry specific nature, making appraisal or liquidation of the asset difficult. These factors have led the Bank to severely curtail the origination of new leases to state or municipal government agencies where default risk is extremely limited and to only the most credit-worthy commercial customers. These commercial customers are primarily leasing fleet vehicles for use in their primary line of business, mitigating some of the asset value concerns within the portfolio. Leasing has been a declining percentage of the Mid Penn's portfolio since 2006, declining 59% during that period.

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Mid Penn offers a wide array of residential mortgage loans for both permanent structures and those under construction. The Bank's residential mortgage originations are secured primarily by properties located in its primary market and surrounding areas. Residential mortgage loans have terms up to a maximum of 30 years and with loan to value ratios up to 100% of the lesser of the appraised value of the security property or the contract price. Private mortgage insurance is generally required in an amount sufficient to reduce the Bank's exposure to at or below the 85% loan to value level. Residential mortgage loans generally do not include prepayment penalties.

In underwriting residential mortgage loans, the Bank evaluates both the borrower's ability to make monthly payments and the value of the property securing the loan. Most properties securing real estate loans made by Mid Penn are appraised by independent fee appraisers. The Bank generally requires borrowers to obtain an attorney's title opinion or title insurance and fire and property insurance (including flood insurance, if necessary) in an amount not less than the amount of the loan. Real estate loans originated by the Bank generally contain a due on sale clause allowing the Bank to declare the unpaid principal balance due and payable upon the sale of the security property.

The Bank underwrites residential mortgage loans to the standards established by the secondary mortgage market, i.e., Fannie Mae, Ginnie Mae, Freddie Mac, or Pennsylvania Housing Finance Agency standards, with the intention of selling the majority of residential mortgages originated into the secondary market. In the event that the facts and circumstances surrounding a residential mortgage application do not meet all underwriting conditions of the secondary mortgage market, the Bank will evaluate the failed conditions and evaluate the potential risk of holding the residential mortgage in the Bank's portfolio rather than rejecting the loan request. In the event that the loan is held in the Bank's portfolio, the interest rate on the residential mortgage would be increased to compensate for the added portfolio risk.

*Consumer, including home equity*

Mid Penn offers a variety of secured consumer loans, including home equity, automobile, and deposit secured loans. In addition, the Bank offers other secured and unsecured consumer loans. Most consumer loans are originated in Mid Penn's primary market and surrounding areas.

The largest component of Mid Penn's consumer loan portfolio consists of fixed rate home equity loans and variable rate home equity lines of credit. Substantially all home equity loans and lines of credit are secured by second mortgages on principal residences. The Bank will lend amounts, which, together with all prior liens, typically may be up to 85% of the appraised value of the property securing the loan. Home equity term loans may have maximum terms up to 20 years while home equity lines of credit generally have maximum terms of five years.

Consumer loan terms vary according to the type and value of collateral, length of contract and creditworthiness of the borrower. The underwriting standards employed by the Bank for consumer loans include an application, a determination of the applicant's payment history on other debts and an assessment of ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, in relation to the proposed loan amount.

Consumer loans may entail greater credit risk than do residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

The allowance for credit losses consists of the allowance for loan and lease losses and the reserve for unfunded lending commitments. The allowance for loan and lease losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated balance sheet. The allowance for loan and lease losses is increased by the provision for loan and lease losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan and lease losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than 120 days past due on a contractual basis, earlier in the event of Bankruptcy, or if there is an amount deemed uncollectible. Because all identified losses are immediately charged off, no portion of the

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allowance for loan and lease losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance for credit losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a monthly evaluation of the adequacy of the allowance. The allowance is based on Mid Penn's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

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The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include changes in economic conditions, fluctuations in loan quality measures, changes in the experience of the lending staff and loan review systems, growth or changes in the mix of loans originated, and shifting industry or portfolio concentrations.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

Mid Penn considers a commercial loan (consisting of commercial and industrial, commercial real estate, commercial real estate-construction, and lease financing loan classes) to be impaired when it becomes 90 days or more past due and not in the process of collection. This methodology assumes the borrower cannot or will not continue to make additional payments. At that time the loan would be considered collateral dependent as the discounted cash flow (DCF) method indicates no operating income is available for evaluating the collateral position; therefore, all impaired loans are deemed to be collateral dependent.

In addition, 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.

Mid Penn evaluates loans for charge-off on a monthly basis. Policies that govern the recommendation for charge-off are unique to the type of loan being considered. Commercial loans rated as nonaccrual or lower will first have a collateral evaluation completed in accordance with the guidance on impaired loans. Once the collateral evaluation has been completed, a specific allocation of allowance is made based upon the results of the evaluation. In the event the loan is unsecured, the loan would have been charged-off at the recognition of impairment. If the loan is secured, it will undergo a 90 day waiting period to ensure the collateral shortfall identified in the evaluation is accurate and then charged down by the specific allocation. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). Commercial loans secured by real estate rated as impaired will also have an initial collateral evaluation completed in accordance with the guidance on impaired loans. An updated real estate valuation is ordered and the collateral evaluation is modified to reflect any variations in value. A specific allocation of allowance is made for any anticipated collateral shortfall and a 90 day waiting period begins to ensure the accuracy of the collateral shortfall. The loan is then charged down by the specific allocation. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). The process of charge-off for residential mortgage loans begins upon a loan becoming delinquent for 90 days and not in the process of collection. The existing appraisal is reviewed and a lien search is obtained to determine lien position and any instances of intervening liens. A new appraisal of the property will be ordered if deemed necessary by management and a collateral evaluation is completed. The loan will then be charged down to the value indicated in the evaluation. Consumer loans (including home equity loans and other consumer loans) are recommended for charge-off after reaching delinquency of 90 days and the loan is not in the process of collection. The entire balance of the consumer loan is recommended for charge-off at this point.

As noted above, Mid Penn assesses a specific allocation for commercial loans prior to reducing the carrying value or charging off the loan. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). In addition, Mid Penn takes a preemptive step when any commercial loan becomes classified under its internal classification system. A preliminary collateral evaluation in accordance with the guidance on impaired loans is prepared using the existing collateral information in the loan file. This process allows Mid Penn to review both the credit and documentation files to determine the status of the information needed to make a collateral evaluation. This collateral evaluation is preliminary but allows Mid Penn to determine if any potential collateral shortfalls exist.

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. The credit department employs an electronic tracking system to monitor the receipt of and need for updated appraisals. To date, there have been no significant time lapses noted with the above processes.

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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.

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For impaired loans with no valuation allowance required, Mid Penn's practice of obtaining independent third party market valuations on the subject property within 30 days of being placed on non-accrual status sometimes indicates that the loan to value ratio is sufficient to obviate the need for a specific allocation in spite of significant deterioration in real estate values in Mid Penn's primary market area. These circumstances are determined on a case by case analysis of the impaired loans.

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 in the future to, use automated valuation methodologies as a method of valuing real estate collateral.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, Mid Penn does not separately identify individual residential mortgage loans, home equity loans and other consumer loans for impairment disclosures, unless such loans are the subject of a troubled debt restructuring agreement.

Loans whose terms are modified are classified as troubled debt restructurings if the borrowers have been granted concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve interest rates being granted below current market rates for the credit risk of the loan or an extension of a loan's stated maturity date. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors, and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful, and loss. Loans criticized as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Any loans not classified as noted above are rated pass.

In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan and lease losses and may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

The classes of the loan portfolio, summarized by the aggregate pass rating and the classified ratings of special mention, substandard, and doubtful within Mid Penn's internal risk rating system as of September 30, 2011 and December 31, 2010 are as follows:

(Dollars in thousands)

	Pass	Special Mention	Substandard	Doubtful	Total
<b>September 30, 2011</b>					
Commercial and industrial	\$ 76,158	\$ 2,196	\$ 4,431	\$	\$ 82,785
Commercial real estate	277,704	5,146	15,879		298,729
Commercial real estate - construction	23,560	454	584		24,598
Lease financing	1,780		130		1,910

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Residential mortgage	45,154			45,154
Home equity	23,068	225	699	23,992
Consumer	6,887	311		7,198
	\$ 454,311	\$ 8,332	\$ 21,723	\$ 484,366

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(Dollars in thousands)

December 31, 2010	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	\$ 63,195	\$ 1,830	\$ 2,803	\$	\$ 67,828
Commercial real estate	262,743	6,421	16,537		285,701
Commercial real estate - construction	34,495	2,768	1,565		38,828
Lease financing	2,177		277		2,454
Residential mortgage	43,960		106		44,066
Home equity	19,708	308	352		20,368
Consumer	8,058	432			8,490
	\$ 434,336	\$ 11,759	\$ 21,640	\$	\$ 467,735

Impaired loans by loan portfolio class as of September 30, 2011 and December 31, 2010 are summarized as follows:

(Dollars in thousands)	September 30, 2011			December 31, 2010		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
<u>With no related allowance recorded:</u>						
Commercial and industrial	\$ 561	\$ 1,874	\$	\$ 766	\$ 1,730	\$
Commercial real estate	5,889	10,670		7,414	10,642	
Commercial real estate - construction	584	721		1,565	1,957	
Lease financing				169	211	
Residential mortgage				96	99	
Home equity	252	516		113	516	
<u>With an allowance recorded:</u>						
Commercial and industrial	\$ 612	\$ 747	\$ 366	\$ 896	\$ 1,518	\$ 685
Commercial real estate	2,096	2,247	1,026	4,218	5,839	1,166
Lease financing	130	185	31			
Residential mortgage				10	10	10
Home equity	17	19		22	113	22
<u>Total:</u>						
Commercial and industrial	\$ 1,173	\$ 2,621	\$ 366	\$ 1,662	\$ 3,248	\$ 685
Commercial real estate	7,985	12,917	1,026	11,632	16,481	1,166
Commercial real estate - construction	584	721		1,565	1,957	
Lease financing	130	185	31	169	211	
Residential mortgage				106	109	10
Home equity	269	535		135	629	22

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Average recorded investment of impaired loans and related interest income recognized for three and nine months ended September 30, 2011 are summarized as follows:

(Dollars in thousands)	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<b><u>With no related allowance recorded:</u></b>				
Commercial and industrial	\$ 691	\$	\$ 1,072	\$ 84
Commercial real estate	6,168	13	7,752	278
Commercial real estate - construction	673		1,160	18
Residential mortgage		16		28
Home equity	254		273	
<b><u>With an allowance recorded:</u></b>				
Commercial and industrial	\$ 613	\$	\$ 622	\$
Commercial real estate	2,107		2,193	
Lease financing	130		162	
Home equity	17		19	
<b><u>Total:</u></b>				
Commercial and industrial	\$ 1,304	\$	\$ 1,694	\$ 84
Commercial real estate	8,275	13	9,945	278
Commercial real estate - construction	673		1,160	18
Residential mortgage		16		28
Home equity	271		292	

Non-accrual loans by loan portfolio class as of September 30, 2011 and December 31, 2010 are summarized as follows:

(Dollars in thousands)	September 30, 2011	December 31, 2010
Commercial and industrial	\$ 1,173	\$ 1,839
Commercial real estate	7,985	11,878
Commercial real estate - construction	584	1,565
Lease financing	130	219
Residential mortgage	1,126	1,376
Home equity	364	320
Consumer		31
	\$ 11,362	\$ 17,228

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The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The classes of the loan portfolio summarized by the past due status as of September 30, 2011 and December 31, 2010 are summarized as follows:

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Loans Receivable > 90 Days and Accruing
<b>September 30, 2011</b>							
Commercial and industrial	\$ 120	\$	\$ 1,141	\$ 1,261	\$ 81,524	\$ 82,785	\$
Commercial real estate	3,059		5,966	9,025	289,704	298,729	93
Commercial real estate - construction			584	584	24,014	24,598	
Lease financing			130	130	1,780	1,910	
Residential mortgage	77	5	1,112	1,194	43,960	45,154	
Home equity	95	135	303	533	23,459	23,992	10
Consumer	7	5		12	7,186	7,198	
<b>Total</b>	<b>\$ 3,358</b>	<b>\$ 145</b>	<b>\$ 9,236</b>	<b>\$ 12,739</b>	<b>\$ 471,627</b>	<b>\$ 484,366</b>	<b>\$ 103</b>

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Loans Receivable > 90 Days and Accruing
<b>December 31, 2010</b>							
Commercial and industrial	\$ 112	\$ 186	\$ 1,652	\$ 1,950	\$ 65,878	\$ 67,828	\$
Commercial real estate	1,670	469	4,954	7,093	278,608	285,701	
Commercial real estate - construction			931	931	37,897	38,828	
Lease financing			1	1	2,453	2,454	1
Residential mortgage	823	133	870	1,826	42,240	44,066	
Home equity	330		238	568	19,800	20,368	
Consumer	369	11	49	429	8,061	8,490	18
<b>Total</b>	<b>\$ 3,304</b>	<b>\$ 799</b>	<b>\$ 8,695</b>	<b>\$ 12,798</b>	<b>\$ 454,937</b>	<b>\$ 467,735</b>	<b>\$ 19</b>

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Activity in the allowance for loan and lease losses for the three and nine months ended September 30, 2011 was as follows:

(Dollars in thousands)	Commercial							Consumer	Unallocated	Total
	Commercial and industrial	Commercial real estate	Commercial real estate - construction	Lease financing	Residential mortgage	Home equity				
Beginning balance, July 1, 2011	\$ 2,586	\$ 3,664	\$ 52	\$ 1	\$ 334	\$ 312	\$ 49	\$ (85)	\$ 6,913	
Charge-offs		(304)			(219)	(7)			(530)	
Recoveries		5			11	1	4		21	
Provisions	(170)	92	(22)	31	207	(6)	(9)	282	405	
Ending balance	\$ 2,416	\$ 3,457	\$ 30	\$ 32	\$ 333	\$ 300	\$ 44	\$ 197	\$ 6,809	

(Dollars in thousands)	Commercial							Consumer	Unallocated	Total
	Commercial and industrial	Commercial real estate	Commercial real estate - construction	Lease financing	Residential mortgage	Home equity				
Beginning balance, January 1, 2011	\$ 2,447	\$ 3,616	\$ 159	\$ 1	\$ 219	\$ 363	\$ 61	\$ 195	\$ 7,061	
Charge-offs	(535)	(520)			(296)	(47)	(86)		(1,484)	
Recoveries	13	22		5	12	4	21		77	
Provisions	491	339	(129)	26	398	(20)	48	2	1,155	
Ending balance	\$ 2,416	\$ 3,457	\$ 30	\$ 32	\$ 333	\$ 300	\$ 44	\$ 197	\$ 6,809	

The allowance for loan and lease losses and recorded investment in financing receivables as of September 30, 2011 and December 31, 2010 are as follows:

(Dollars in thousands) September 30, 2011	Commercial							Consumer	Unallocated	Total
	Commercial and industrial	Commercial real estate	Commercial real estate - construction	Lease financing	Residential mortgage	Home equity				
<b>Allowance for loan and lease losses:</b>										
Ending balance	\$ 2,416	\$ 3,457	\$ 30	\$ 32	\$ 333	\$ 300	\$ 44	\$ 197	\$ 6,809	
Ending balance: individually evaluated for impairment	\$ 366	\$ 1,026	\$	\$ 31	\$	\$	\$	\$	\$ 1,423	
Ending balance: collectively evaluated for impairment	\$ 2,050	\$ 2,431	\$ 30	\$ 1	\$ 333	\$ 300	\$ 44	\$ 197	\$ 5,386	
<b>Loans receivables:</b>										
Ending balance	\$ 82,785	\$ 298,729	\$ 24,598	\$ 1,910	\$ 45,154	\$ 23,992	\$ 7,198	\$	\$ 484,366	
Ending balance: individually evaluated for impairment	\$ 1,173	\$ 7,985	\$ 584	\$ 130	\$	\$ 269	\$	\$	\$ 10,141	

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Ending balance: collectively evaluated for impairment	\$ 81,612	\$ 290,744	\$ 24,014	\$ 1,780	\$ 45,154	\$ 23,723	\$ 7,198	\$	\$ 474,225
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**Table of Contents****MID PENN BANCORP, INC.****Notes to Consolidated Financial Statements (Unaudited)**

(Dollars in thousands) December 31, 2010	Commercial and industrial	Commercial real estate	Commercial real estate - construction	Lease financing	Residential mortgage	Home equity	Consumer	Unallocated	Total
<b>Allowance for loan and lease losses:</b>									
Ending balance	\$ 2,447	\$ 3,616	\$ 159	\$ 1	\$ 219	\$ 363	\$ 61	\$ 195	\$ 7,061
Ending balance: individually evaluated for impairment	\$ 685	\$ 1,166	\$	\$	\$ 10	\$ 22	\$	\$	\$ 1,883
Ending balance: collectively evaluated for impairment	\$ 1,762	\$ 2,450	\$ 159	\$ 1	\$ 209	\$ 341	\$ 61	\$ 195	\$ 5,178
<b>Loans receivables:</b>									
Ending balance	\$ 67,828	\$ 285,701	\$ 38,828	\$ 2,454	\$ 44,066	\$ 20,368	\$ 8,490	\$	\$ 467,735
Ending balance: individually evaluated for impairment	\$ 1,662	\$ 11,632	\$ 1,565	\$ 169	\$ 106	\$ 135	\$	\$	\$ 15,269
Ending balance: collectively evaluated for impairment	\$ 66,166	\$ 274,069	\$ 37,263	\$ 2,285	\$ 43,960	\$ 20,233	\$ 8,490	\$	\$ 452,466

The recorded investments in troubled debt restructured loans at September 30, 2011 are as follows:

(Dollars in thousands)	September 30, 2011	
	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
Commercial and industrial	\$ 2,275	\$ 2,008
Commercial real estate	2,328	2,036
Residential mortgage	950	909
Home equity	28	18
	\$ 5,581	\$ 4,971

Mid Penn's troubled debt restructured loans at September 30, 2011 totaled \$4,971,000, of which, \$626,000, representing nine loans, are accruing residential mortgages in compliance with the terms of the modification. The remaining \$4,345,000, representing 16 loans, are nonaccrual impaired loans, and resulted in a collateral evaluation in accordance with the guidance on impaired loans. As a result of the evaluation, a specific allocation and, subsequently, charge offs have been taken as appropriate. As of September 30, 2011, charge offs associated with troubled debt restructured loans while under a forbearance agreement totaled \$0. As of September 30, 2011, there were no defaulted troubled debt restructured loans as all troubled debt restructured loans were current with respect to their associated forbearance agreements. Six forbearance agreements were negotiated during 2009, while the remaining 19 were negotiated during 2010.

Mid Penn entered into forbearance agreements on all loans currently classified as troubled debt restructures and all of these agreements have resulted in additional principal repayment. The terms of these forbearance agreements vary whereby principal payments have been decreased, interest rates have been reduced and/or the loan will be repaid as collateral is sold.

As a result of adopting the amendments in ASU No. 2011-02, Mid Penn reassessed all restructurings that occurred on or after the beginning of the current fiscal year (January 1, 2011) for identification as troubled debt restructurings. Mid Penn identified no loans for which the allowance

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for loan losses had previously been measured under a general allowance for credit losses methodology that are now considered troubled debt restructurings in accordance with ASU No. 2011-02.

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**Table of Contents****MID PENN BANCORP, INC.****Notes to Consolidated Financial Statements (Unaudited)*****4. 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.

There were no transfers of assets between fair value Level 1 and Level 2 for the nine months ended September 30, 2011. The following table illustrates the financial instruments measured at fair value on a recurring basis segregated by hierarchy fair value levels:

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

(Dollars in thousands)	Fair value measurements at September 30, 2011 using:			
	Total carrying value at September 30, 2011	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets:</b>				
U.S. Treasury and U.S. government agencies	\$ 28,733	\$	\$ 28,733	\$
Mortgage-backed U.S. government agencies	77,169		77,169	
State and political subdivision obligations	45,322		45,322	
Equity securities	395	395		
	\$ 151,619	\$ 395	\$ 151,224	\$

(Dollars in thousands)	Fair value measurements at December 31, 2010 using:			
	Total carrying value at December 31, 2010	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets:</b>				
U.S. Treasury and U.S. government agencies	\$ 17,394	\$	\$ 17,394	\$
Mortgage-backed U.S. government agencies	25,387		25,387	
State and political subdivision obligations	27,678		27,678	
Equity securities	243	243		
	\$ 70,702	\$ 243	\$ 70,459	\$

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).

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 September 30, 2011 using:			
	Total carrying value at September 30, 2011	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets:</b>				
Impaired Loans	\$ 1,432	\$	\$	\$ 1,432
Foreclosed Assets Held for Sale	208			208

(Dollars in thousands)	Fair value measurements at December 31, 2010 using:			
	Total carrying value at December 31, 2010	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets:</b>				

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	Total carrying value at December 31, 2010	markets (Level 1)	observable inputs (Level 2)	inputs (Level 3)
Impaired Loans	\$ 3,263	\$	\$	\$ 3,263
Foreclosed Assets Held for Sale	299			299

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.

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**MID PENN BANCORP, INC.**

**Notes to Consolidated Financial Statements (Unaudited)**

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 Held for Sale:***

Assets included in foreclosed assets held for sale are carried at fair value and accordingly is 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 amount of accrued interest receivable and payable approximates 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) is 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.

**Table of Contents****MID PENN BANCORP, INC.****Notes to Consolidated Financial Statements (Unaudited)****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 September 30, 2011 and December 31, 2010.

(Dollars in thousands)	September 30, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 17,335	\$ 17,335	\$ 12,901	\$ 12,901
Interest-bearing balances with other financial institutions	39,371	39,371	55,041	55,041
Investment securities	151,619	151,619	70,702	70,702
Net loans and leases	477,557	502,776	460,674	481,248
Restricted investment in bank stocks	3,284	3,284	3,828	3,828
Accrued interest receivable	2,859	2,859	2,632	2,632
<b>Financial liabilities:</b>				
Deposits	\$ 635,780	\$ 643,640	\$ 554,982	\$ 560,843
Short-term borrowings	636	636	1,561	1,561
Long-term debt	22,747	24,586	27,883	28,318
Accrued interest payable	1,792	1,792	1,111	1,111
<b>Off-balance sheet financial instruments:</b>				
Commitments to extend credit	\$	\$	\$	\$
Financial standby letters of credit				

**5. 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 \$7,820,000 and \$10,048,000 of standby letters of credit outstanding as of September 30, 2011 and December 31, 2010, respectively. Mid Penn does not anticipate any losses because of these transactions. The current amount of the liability as of September 30, 2011 for payment under standby letters of credit issued was not material.



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MID PENN BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

**6. Short-term Borrowings**

Short-term borrowings as of September 30, 2011 and December 31, 2010 consisted of:

(Dollars in thousands)	September 30, 2011	December 31, 2010
Securities sold under repurchase agreements	\$ 636	\$ 578
Treasury, tax and loan notes	636	983
	\$ 636	\$ 1,561

Short-term borrowings are comprised primarily of securities sold under repurchase agreements and Treasury tax and loan notes. 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.

**7. Long-term Debt**

During the three and nine months ended September 30, 2011, the Bank entered into no additional long-term borrowings with the Federal Home Loan Bank of Pittsburgh. During the three months ended September 30, 2011, no long-term borrowings with the Federal Home Loan Bank of Pittsburgh matured. During the nine months ended September 30, 2011, \$5,000,000 in long-term borrowings, at an interest rate of 5.13%, matured with the Federal Home Loan Bank of Pittsburgh and were not renewed.

**8. 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:

(Dollars in thousands)	Three Months Ended September 30,			
	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
Service cost	\$ 6	\$ 6	\$ 6	\$ 5
Interest cost	14	13	10	11
Amortization of prior service cost	6	5	1	
Amortization of net gain				(3)
Net periodic benefit cost	\$ 26	\$ 24	\$ 17	\$ 13

(Dollars in thousands)	Nine Months Ended September 30,			
	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
Service cost	\$ 18	\$ 18	\$ 16	\$ 15
Interest cost	40	39	32	33
Amortization of prior service cost	16	15	1	

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Amortization of net gain (9)

Net periodic benefit cost	\$ 74	\$ 72	\$ 49	\$ 39
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### **9. 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 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 and the related tax effects are as follows:

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(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Change in unrealized holding gains on available for sale securities	\$ 919	\$ 769	\$ 3,043	\$ 742
Less reclassification adjustment for gains realized in income				
<b>Net unrealized gains</b>	<b>919</b>	<b>769</b>	<b>3,043</b>	<b>742</b>
Change in defined benefit plans	8	6	14	15
<b>Other comprehensive income</b>	<b>927</b>	<b>775</b>	<b>3,057</b>	<b>757</b>
Income tax effect	(315)	(264)	(1,039)	(257)
<b>Net of tax amount</b>	<b>\$ 612</b>	<b>\$ 511</b>	<b>\$ 2,018</b>	<b>\$ 500</b>

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	September 30, 2011	\$ 2,185	\$ (131)	\$ 2,054
Balance	December 31, 2010	\$ 176	\$ (140)	\$ 36

**10. 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 specified senior executives; and (4) agreeing not to deduct for tax purposes executive compensation in excess of \$500,000 for each senior executive.

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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.

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

**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.

**11. 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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net Income	\$ 1,132	\$ 480	\$ 3,191	\$ 2,006
Less: Dividends on preferred stock	(125)	(125)	(375)	(375)
Accretion of preferred stock discount	(3)	(3)	(10)	(10)
Net income available to common shareholders	\$ 1,004	\$ 352	\$ 2,806	\$ 1,621
Weighted average common shares outstanding	3,483,118	3,479,780	3,483,118	3,479,780
Basic earnings per common share	\$ 0.29	\$ 0.11	\$ 0.81	\$ 0.47

The computations of diluted earnings per common share follow:

(Dollars in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income available to common shareholders	\$ 1,004	\$ 352	\$ 2,806	\$ 1,621
Weighted average number of common shares outstanding	3,483,118	3,479,780	3,483,118	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	3,483,118	3,479,780	3,483,118	3,479,780

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Diluted earnings per common share \$ 0.29 \$ 0.11 \$ 0.81 \$ 0.47  
As of September 30, 2011, 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.

**Table of Contents****MID PENN BANCORP, INC.****Notes to Consolidated Financial Statements (Unaudited)*****12. Recent Accounting Pronouncements***

**ASU 2011-03:** The FASB has issued this ASU to clarify the accounting principles applied to repurchase agreements, as set forth by FASB ASC Topic 860, *Transfers and Servicing*. This ASU, entitled Reconsideration of Effective Control for Repurchase Agreements, amends one of three criteria used to determine whether or not a transfer of assets may be treated as a sale by the transferor. Under Topic 860, the transferor may not maintain effective control over the transferred assets in order to qualify as a sale. This ASU eliminates the criteria under which the transferor must retain collateral sufficient to repurchase or redeem the collateral on substantially agreed upon terms as a method of maintaining effective control. This ASU is effective for both public and nonpublic entities for interim and annual reporting periods beginning on or after December 15, 2011, and requires prospective application to transactions or modifications of transactions which occur on or after the effective date. Early adoption is not permitted. The Corporation does not expect the adoption will have a significant impact on the Corporation's financial condition or results of operations.

**ASU 2011-04:** This ASU amends FASB ASC Topic 820, *Fair Value Measurements*, to bring U.S. GAAP for fair value measurements in line with International Accounting Standards. The ASU clarifies existing guidance for items such as: the application of the highest and best use concept to non-financial assets and liabilities; the application of fair value measurement to financial instruments classified in a reporting entity's stockholder's equity; and disclosure requirements regarding quantitative information about unobservable inputs used in the fair value measurements of level 3 assets. The ASU also creates an exception to Topic 820 for entities which carry financial instruments within a portfolio or group, under which the entity is now permitted to base the price used for fair valuation upon a price that would be received to sell the net asset position or transfer a net liability position in an orderly transaction. The ASU also allows for the application of premiums and discounts in a fair value measurement if the financial instrument is categorized in level 2 or 3 of the fair value hierarchy. Lastly, the ASU contains new disclosure requirements regarding fair value amounts categorized as level 3 in the fair value hierarchy such as: disclosure of the valuation process used; effects of and relationships between unobservable inputs; usage of nonfinancial assets for purposes other than their highest and best use when that is the basis of the disclosed fair value; and categorization by level of items disclosed at fair value, but not measured at fair value for financial statement purposes. For public entities, this ASU is effective for interim and annual periods beginning after December 15, 2011. For nonpublic entities, the ASU is effective for annual periods beginning after December 15, 2011. Early adoption is not permitted. The Corporation does not expect the adoption will have a significant impact on the Corporation's financial condition or results of operations.

**ASU 2011-05:** The provisions of this ASU amend FASB ASC Topic 220, *Comprehensive Income*, to facilitate the continued alignment of U.S. GAAP with International Accounting Standards. The ASU prohibits the presentation of the components of comprehensive income in the statement of stockholder's equity. Reporting entities are allowed to present either: a statement of comprehensive income, which reports both net income and other comprehensive income; or separate but consecutive statements of net income and other comprehensive income. Under previous GAAP, all 3 presentations were acceptable. Regardless of the presentation selected, the reporting entity is required to present all reclassifications between other comprehensive and net income on the face of the new statement or statements. The provisions of this ASU are effective for fiscal years and interim periods beginning after December 15, 2011 for public entities. For nonpublic entities, the provisions are effective for fiscal years ending after December 15, 2012, and for interim and annual periods thereafter. As the two remaining options for presentation existed prior to the issuance of this ASU, early adoption is permitted. The Corporation does not expect the adoption will have a significant impact on the Corporation's financial condition or results of operations.

**ASU 2011-08:** In September, 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment*. The purpose of this ASU is to simplify how entities test goodwill for impairment by adding a new first step to the preexisting goodwill impairment test under ASC Topic 350, *Intangibles - Goodwill and other*. This amendment gives the entity the option to first assess a variety of qualitative factors such as economic conditions, cash flows, and competition to determine whether it was more likely than not that the fair value of goodwill has fallen below its carrying value. If the entity determines that it is not likely that the fair value has fallen below its carrying value, then the entity will not have to complete the original two-step test under Topic 350. The amendments in this ASU are effective for impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Corporation is evaluating the impact of this ASU on its consolidated financial statements.

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**MID PENN BANCORP, INC.**

**Management's Discussion and Analysis**

**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 September 30, 2011, compared to year-end 2010, and the Results of Operations for the three and nine months ended September 30, 2011, compared to the same period in 2010.

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, 2010. 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 economic deterioration on current customers, specifically the effect of the economy on loan customers' ability to repay loans;

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 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, 2010.

### ***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 Corporation considers the accounting judgments relating to the allowance for loan and lease losses, the evaluation of the Corporation's investment securities for other-than-temporary impairment, and the assessment of goodwill for 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.

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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.

Accounting Standards Codification (ASC) Topic 350, *Intangibles-Goodwill and Other*, requires that goodwill is not amortized to expense, but rather that it be tested for impairment at least annually. Impairment write-downs are charged to results of operations in the period in which the impairment is determined. The Corporation did not identify any impairment on its outstanding goodwill from its most recent testing, which was performed as of December 31, 2010. If certain events occur which might indicate goodwill has been impaired, the goodwill is tested when such events occur.

**Results of Operations***Overview*

Net income available to common shareholders was \$1,004,000, \$0.29 per common share, for the quarter ended September 30, 2011, as compared to net income available to common shareholders of \$352,000, or \$0.11 per common share, for the quarter ended September 30, 2010. During the nine months ended September 30, 2011, net income available to common shareholders was \$2,806,000, or \$0.81 per common share, versus \$1,621,000, or \$0.47 per common share for the same period in 2010.

Net interest income increased \$632,000, or 12.7%, to \$5,619,000 for the quarter ended September 30, 2011 from \$4,987,000 during the quarter ended September 30, 2010. Through the first nine months of 2011, net interest income increased \$1,679,000, or 11.6%, to \$16,192,000 from \$14,513,000 during the same period in 2010. This increase has been spurred by a moderating cost of funds and increasing levels of average earning assets.

The provision for loan and lease losses in the third quarter of 2011 was \$405,000, compared to \$975,000 in the third quarter of 2010. During the nine months ended September 30, 2011, the provision for loan and lease losses was \$1,155,000 compared to \$2,060,000 for the nine months ended September 30, 2010.

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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Return on average assets	0.64%	0.30%	0.63%	0.43%
Return on average equity	8.69%	3.93%	8.53%	5.61%

Total assets increased to \$720,817,000 at September 30, 2011, from \$637,457,000 at December 31, 2010. This asset increase was driven by strong core deposit growth through the first nine months of 2011 with total deposits of \$635,780,000 at September 30, 2011, compared to \$554,982,000 at December 31, 2010, an increase of approximately \$81,000,000. This growth in core deposits led to an increase in federal funds sold, and is being deployed to replace maturing long-term borrowings, and principally 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 remained strong, as noted above, during the first nine months of 2011. This increase in deposits was primarily the result of 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 nine months of 2011, \$5,000,000 of long-term FHLB debt has matured and been replaced with core deposits at a more advantageous rate structure. These strategies have improved the cost of funds and overall net interest margin despite continued downward pressure on asset yields.

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### *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:

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MID PENN BANCORP, INC.

Management's Discussion and Analysis

**Average Balances, Effective Interest Differential and Interest Yields**

Interest rates and interest differential - taxable equivalent basis

(Dollars in thousands)	For the Nine Months Ended September 30, 2011			For the Nine Months Ended September 30, 2010		
	Average	Interest	Rate (%)	Average	Interest	Rate (%)
<b>ASSETS:</b>						
Interest Earning Balances	\$ 56,747	\$ 442	1.04%	\$ 41,668	\$ 622	2.00%
<b>Investment Securities:</b>						
Taxable	70,510	1,079	2.05%	28,048	577	2.75%
Tax-Exempt	31,723	1,412	5.95%	25,504	1,228	6.44%
Total Investment Securities	102,233			53,552		
Federal Funds Sold	11,356	20	0.24%	9,763	20	0.27%
Loans and Leases, Net	474,040	21,346	6.02%	474,291	20,859	5.88%
Restricted Investment in Bank Stocks	3,533		0.00%	4,029		0.00%
Total Earning Assets	647,909	24,299	5.01%	583,303	23,306	5.34%
Cash and Due from Banks	7,690			7,646		
Other Assets	25,306			26,438		
Total Assets	\$ 680,905			\$ 617,387		
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY:</b>						
<b>Interest Bearing Deposits:</b>						
NOW	\$ 55,994	104	0.25%	\$ 48,618	50	0.14%
Money Market	242,056	2,315	1.28%	150,391	1,625	1.44%
Savings	27,585	11	0.05%	26,936	11	0.05%
Time	211,892	4,133	2.61%	246,470	5,385	2.92%
Short-term Borrowings	868	4	0.62%	4,491	16	0.48%
Long-term Debt	23,620	763	4.32%	29,182	993	4.55%
Total Interest Bearing Liabilities	562,015	7,330	1.74%	506,088	8,080	2.13%
Demand Deposits	61,624			57,457		
Other Liabilities	7,229			6,065		
Shareholders' Equity	50,037			47,777		
Total Liabilities and Shareholders' Equity	\$ 680,905			\$ 617,387		
Net Interest Income		\$ 16,969		\$ 15,226		
<b>Net Yield on Interest Earning Assets:</b>						
Total Yield on Earning Assets			5.01%			5.34%
Rate on Supporting Liabilities			1.74%			2.13%
Average Interest Spread			3.27%			3.21%
Net Interest Margin			3.50%			3.49%

For the nine months ended September 30, 2011, Mid Penn's taxable-equivalent net interest margin increased to 3.50%, from 3.49%, as compared to the nine months ended September 30, 2010, driven primarily by a reduction in cost of supporting liabilities. Net interest income, on a

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taxable-equivalent basis, in the first nine months of 2011, increased to \$16,969,000 from \$15,226,000 in the first nine months of 2010, related to the changing composition of interest bearing liabilities and the growth in average earning assets, which increased 11.1% from September 30, 2010 to September 30, 2011. In spite of increasing earning assets, the positive impact on net interest margin has been dampened by the continued lack of qualified borrowers. Average loans and leases decreased \$251,000 from September 30, 2010 to September 30, 2011. Earning asset growth has been concentrated primarily in the area of investment securities which carry an average yield of 3.26% during the nine months ended September 30, 2011 versus 4.51% during the nine months ended September 30, 2010.

Although the effective interest rate impact on earning assets and funding sources can be reasonably estimated at current interest rate levels, the options selected by customers, and the future mix of the loan, investment, and deposit products in the Bank's portfolios, may significantly change the estimates used in the simulation models. In addition, our net interest income may be impacted by further interest rate actions of the Federal Reserve Bank.

**Table of Contents****MID PENN BANCORP, INC.****Management's Discussion and Analysis***Provision for Loan Losses*

The provision for loan and lease losses is the expense necessary to maintain the allowance for loan and lease losses at a level adequate to absorb management's estimate of probable losses in the loan and lease portfolio. Mid Penn's provision for loan and lease losses is based upon management's monthly review of the loan portfolio. The purpose of the review is to assess loan quality, identify impaired loans and leases, analyze delinquencies, ascertain loan and lease growth, evaluate potential charge-offs and recoveries, and assess general economic conditions in the markets we serve.

During the first nine months of 2011, Mid Penn continued to experience a challenging economic and operating environment. Given the economic pressures that impact some borrowers, Mid Penn has increased the allowance for loan and lease losses in accordance with Mid Penn's assessment process, which took into consideration the decrease in collateral values from December 31, 2010 to September 30, 2011. The provision for loan and lease losses was \$405,000 for the three months ended September 30, 2011, as compared to \$975,000 for the three months ended September 30, 2010. During the nine months ended September 30, 2011, the provision for loan and lease losses was \$1,155,000, as compared to \$2,060,000 for the nine months ended September 30, 2010. For further discussion of factors affecting the provision for loan and lease losses please see *Credit Quality, Credit Risk, and Allowance for Loan and Lease Losses* in the Financial Condition section of this Management's Discussion and Analysis.

*Noninterest Income*

Noninterest income decreased \$60,000, or 7.3%, during the third quarter of 2011 versus the third quarter of 2010. During the nine months ended September 30, 2011, noninterest income decreased \$313,000, or 12.3%, versus the same period in 2010. The following components of noninterest income showed significant changes:

(Dollars in Thousands)	Three Months Ended September 30,			
	2011	2010	\$ Variance	% Variance
Income from fiduciary activities	\$ 157	\$ 104	\$ 53	51.0%
Service charges on deposits	167	262	(95)	-36.3%

  

(Dollars in Thousands)	Nine Months Ended September 30,			
	2011	2010	\$ Variance	% Variance
Income from fiduciary activities	\$ 367	\$ 335	\$ 32	9.6%
Service charges on deposits	539	918	(379)	-41.3%
Mortgage banking income	305	241	64	26.6%

Income from fiduciary activities increased during the three and nine months ended September 30, 2011 versus the same period in 2010. This increase was the result of greater sales of third party mutual funds during these periods in 2011. Service charges on deposits, primarily fees from insufficient funds, have decreased during both the three and nine months ended September 30, 2011. During this period of economic downturn, customers seem to have become more conscientious about their account balances and avoiding unnecessary charges related to insufficient funds. In addition to this behavioral change, Mid Penn was negatively impacted by recent regulatory changes governing overdraft charges on electronic transactions, which has resulted in a reduction in NSF revenue. Helping to offset this reduction in revenue is the increase in mortgage banking income during the nine months ended September 30, 2011 versus the same period in 2010. Historically low long-term mortgage rates have triggered a wave of refinancing activity, improving fee income from this line of business. The negative variance in other income during the three and nine months ended September 30, 2011 versus the same period in 2010 is primarily the result of reduced volume in letters of credit to commercial borrowers and net expenses associated with amortization of mortgage servicing rights on the Bank's sold mortgage portfolio to Fannie Mae.

**Table of Contents****MID PENN BANCORP, INC.****Management's Discussion and Analysis***Noninterest Expenses*

Noninterest expenses increased \$182,000 or 4.2% during the third quarter of 2011, versus the same period in 2010. During the nine months ended September 30, 2011, noninterest expenses increased \$569,000, or 4.5%, versus the same period in 2010. The changes were primarily a result of the following components of noninterest expense:

(Dollars in Thousands)	Three Months Ended September 30,			
	2011	2010	\$ Variance	% Variance
Salaries and employee benefits	\$ 2,390	\$ 2,202	\$ 188	8.5%
Occupancy expense, net	274	243	31	12.8%
FDIC Assessment	225	205	20	9.8%
Loss on sale/write-down of foreclosed assets	27	128	(101)	-78.9%

  

(Dollars in Thousands)	Nine Months Ended September 30,			
	2011	2010	\$ Variance	% Variance
Salaries and employee benefits	\$ 6,992	\$ 6,464	\$ 528	8.2%
Occupancy expense, net	826	693	133	19.2%
Equipment expense	980	1,027	(47)	-4.6%
FDIC Assessment	756	610	146	23.9%
Legal and professional fees	315	377	(62)	-16.4%
Computer expense	500	425	75	17.6%
(Gain) Loss on sale/write-down of foreclosed assets	(32)	248	(280)	-112.9%

Salaries and employee benefits have shown increases during the three and nine months ended September 30, 2011, due to the hiring of experienced team members to bolster compliance functions and to add depth to the operations areas of Mid Penn. Occupancy expense for the three and nine months ended September 30, 2011 increased \$31,000 and \$133,000 from the same periods in 2010 respectively. This increase was attributable to an increase in utility costs and real estate taxes between the two periods. Equipment expense for the nine months ended September 30, 2011 decreased by \$47,000 from the same period in 2010. During 2010, significant repairs and enhancements were made to both security and communication systems, as well as costs for items for the opening of the new banking office on Derry Street. These costs were not duplicated during 2011. The negative variance in FDIC Assessment during the three and nine months ended September 30, 2011, was driven by the growth in the assessment base used in the calculation. Legal and professional fees for the nine months ended September 30, 2011 have decreased from the same period in 2010. During 2010, employee search services were utilized to fill specialized positions within the organization. Also, Mid Penn utilized technology consultants to assist in reorganizing computer hardware assets to gain greater functionality. Computer expenses have increased during the nine months ended September 30, 2011, due to increasing annual maintenance costs on hardware and software components as well as the addition of new components to support enhanced online banking capabilities. A positive variance during the three and nine months ended September 30, 2011 was the (gain) loss on sale/write-down of foreclosed assets. Real estate values for these distressed properties have stabilized and their liquidation has been able to proceed in a more orderly manner, preventing unanticipated losses at the time of sale.

*Income Taxes*

The provision for income taxes was \$312,000 for the three months ended September 30, 2011, as compared to the provision for income taxes of \$4,000 in the same period last year. The effective tax rate for the three months ended September 30, 2011, was 21.6% compared to 0.8% for the three months ended September 30, 2010. The provision for income taxes for the nine months ended September 30, 2011 was \$831,000, as compared to \$314,000 during the same period of 2010. The effective tax rate for the nine months ended September 20, 2011, was 20.7% compared to 13.5% for the nine months ended September 30, 2010. Generally, our effective tax rate is below the statutory rate due to earnings on tax-exempt loans, investments, and bank-owned life insurance, as well as the impact of tax credits. The higher effective tax rate in both the three and nine months ended September 30, 2011 versus the same period in 2010 is a result of the reduced marginal impact these tax exempt elements have within the Corporation's increasing income stream. During 2011, Mid Penn has recognized higher taxable earnings from increased net interest income and reduced provisions for loan and lease losses than the comparable periods in 2010. The realization of deferred tax assets is dependent on future earnings. We currently anticipate that future earnings will be adequate to fully utilize deferred tax assets.

*Financial Condition*

*Loans*

During the first nine months of 2011, Mid Penn experienced an increase in loans outstanding. Residential real estate loans have increased during the first nine months of 2011, aided by historically low long-term mortgage rates triggering a wave of refinancing activity. Commercial, industrial, and agricultural balances showed a modest increase as requests from creditworthy borrowers have begun to increase. Balances in the

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other components of the loan portfolio have eroded through contractual payments and the refinancing of real estate secured debt by borrowers with equity in their properties. While loan demand has shown modest improvement, Mid Penn is still experiencing weaker than normal loan demand during the first nine months of 2011 despite a desire to sensibly lend to support creditworthy existing and new customers in our marketplace.

(Dollars in thousands)	September 30, 2011		December 31, 2010	
	Amount	%	Amount	%
Commercial real estate, construction and land development	\$ 250,150	51.6%	\$ 252,915	54.1%
Commercial, industrial and agricultural	84,718	17.5%	70,295	15.0%
Real estate residential	142,323	29.4%	136,048	29.1%
Consumer	7,175	1.5%	8,477	1.8%
	\$ 484,366	100.0%	\$ 467,735	100.0%

Most of Mid Penn's lending activities are with customers located within the trading area of Dauphin County, lower Northumberland County, western Schuylkill County and eastern Cumberland County, Pennsylvania. This region currently, and historically, has lower unemployment than the U.S. as a whole. This is due in part to a diversified manufacturing and services base and the presence of state government offices which help shield the local area from national trends. At September 30, 2011, the unadjusted unemployment rate for the Harrisburg/Carlisle area was 7.7% versus the seasonally adjusted national unemployment rate of 9.1%.

*Credit Quality, Credit Risk, and Allowance for Loan and Lease Losses*

During the first nine months of 2011, Mid Penn had net charge-offs of \$1,407,000 compared to net charge-offs of \$1,596,000 during the same period of 2010. Loans charged off during the first nine months of 2011 were comprised of eight commercial real estate loans totaling \$539,000. Four of these loans totaling \$156,000 were to a single borrower with the remaining loans to unrelated borrowers. In addition, eight commercial loans to unrelated borrowers totaling \$536,000, ten residential real estate loans to unrelated borrowers totaling \$295,000, and three leases to unrelated borrowers totaling \$8,000. The remaining \$106,000 was comprised primarily of various consumer loans to unrelated borrowers. Mid Penn may need to make future adjustments to the allowance and the provision for loan and lease losses if economic conditions or loan credit quality differs substantially from the assumptions used in making Mid Penn's evaluation of the level of the allowance for loan losses as compared to the balance of outstanding loans.

Changes in the allowance for loan and lease losses for the nine months ended September 30, 2011 and 2010 are summarized as follows:

*Analysis of the Allowance for Loan and Lease Losses:*

(Dollars in thousands)	Nine Months	Nine Months
	Ended September 30, 2011	Ended September 30, 2010
Average total loans outstanding (net of unearned income)	\$ 474,040	\$ 474,291
Period ending total loans outstanding (net of unearned income)	\$ 484,366	\$ 469,492
Balance, beginning of period	\$ 7,061	\$ 7,686
Loans charged off during period	(1,484)	(1,700)
Recoveries of loans previously charged off	77	104
Net chargeoffs	(1,407)	(1,596)

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Provision for loan and lease losses	1,155	2,060
Balance, end of period	\$ 6,809	\$ 8,150
Ratio of net loans charged off to average loans outstanding (annualized)	0.40%	0.45%
Ratio of allowance for loan losses to net loans at end of period	1.41%	1.74%

Other than as described herein, we do not believe there are any trends, events or uncertainties that are reasonably expected to have a material impact on future results of operations, liquidity, or capital resources. Further, based on known information, we believe that the effects of current and past economic conditions and other unfavorable business conditions may influence certain borrowers' abilities to comply with their repayment terms. Mid Penn continues to monitor closely the financial strength of these borrowers. Mid Penn does not engage in practices which may be used to artificially shield certain borrowers from the negative economic or business cycle effects that may compromise their ability to repay. Mid Penn does not structure construction loans with interest reserve components. Mid Penn has not in the past performed any commercial real estate or other type loan workouts whereby an existing loan was restructured into multiple new loans. Also, Mid Penn does not

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extend loans at maturity due to the existence of guarantees, without recognizing the credit as impaired. While the existence of a guarantee may be a mitigating factor in determining the proper level of allowance once impairment has been identified, the guarantee does not affect the impairment analysis.

At September 30, 2011, total nonperforming loans amounted to \$11,988,000, or 2.47% of loans and leases net of unearned income, as compared to levels of \$19,551,000, or 4.18%, at December 31, 2010 and \$18,752,000, or 3.99%, at September 30, 2010.

*Schedule of Nonperforming Assets:*

(Dollars in thousands)	September 30, 2011	December 31, 2010	September 30, 2010
<b>Nonperforming Assets:</b>			
Nonaccrual loans	\$ 11,362	\$ 17,228	\$ 18,255
Loans renegotiated with borrowers	626	2,323	497
<b>Total nonperforming loans</b>	<b>11,988</b>	<b>19,551</b>	<b>18,752</b>
Foreclosed real estate	852	596	587
<b>Total non-performing assets</b>	<b>12,840</b>	<b>20,147</b>	<b>19,339</b>
Accruing loans 90 days or more past due	103	19	29
<b>Total risk elements</b>	<b>\$ 12,943</b>	<b>\$ 20,166</b>	<b>\$ 19,368</b>
Nonperforming loans as a % of total loans outstanding	2.47%	4.18%	3.99%
Nonperforming assets as a % of total loans outstanding and other real estate	2.65%	4.31%	4.11%
Ratio of allowance for loan losses to nonperforming loans	56.80%	36.12%	43.46%

Mid Penn assesses a specific allocation for both commercial loans and commercial real estate loans prior to charging down or charging off the loan. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact and is not treated as a restructured credit. The following table provides additional analysis of partially charged-off loans:

*Schedule of Partially Charged Off Loans:*

(Dollars in thousands)	September 30, 2011	December 31, 2010
Period ending total loans outstanding (net of unearned income)	\$ 484,366	\$ 467,735
Allowance for loan and lease losses	6,809	7,061
<b>Total Nonperforming loans</b>	<b>11,988</b>	<b>19,551</b>
Nonperforming and impaired loans with partial charge-offs	4,678	7,487
<b>Ratio of nonperforming loans with partial charge-offs to total loans</b>	<b>0.97%</b>	<b>1.60%</b>
Ratio of nonperforming loans with partial charge-offs to total nonperforming loans	39.02%	38.29%
<b>Coverage ratio net of nonperforming loans with partial charge-offs</b>	<b>93.15%</b>	<b>58.53%</b>
Ratio of total allowance to total loans less nonperforming loans with partial charge-offs	1.42%	1.53%

Mid Penn has not experienced any additional charge-offs on loans for which a partial charge-off had originally been taken.

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Mid Penn considers a commercial loan or commercial real estate loan to be impaired when it becomes 90 days or more past due and not in the process of collection. This methodology assumes the borrower cannot or will not continue to make additional payments. At that time the loan would be considered collateral dependent as the discounted cash flow ( DCF ) method indicates no operating income is available for evaluating

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the collateral position; therefore, all impaired loans are deemed to be collateral dependent.

Mid Penn evaluates loans for charge-off on a monthly basis. Policies that govern the recommendation for charge-off are unique to the type of loan being considered. Commercial loans rated as nonaccrual or lower will first have a collateral evaluation completed in accordance with the guidance on impaired loans. Once the collateral evaluation has been completed, a specific allocation of allowance is made based upon the results of the evaluation. In the event the loan is unsecured, the loan would have been charged-off at the recognition of impairment. If the loan is secured, it will undergo a 90 day waiting period to ensure the collateral shortfall identified in the evaluation is accurate and then charged down by the specific allocation. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). Commercial real estate loans rated as impaired will also have an initial collateral evaluation completed in accordance with the guidance on impaired loans. An updated real estate valuation is ordered and the collateral evaluation is modified to reflect any variations in value. A specific allocation of allowance is made for any anticipated collateral shortfall and a 90 day waiting period begins to ensure the accuracy of the collateral shortfall. The loan is then charged down by the specific allocation. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). The process of charge-off for residential mortgage loans begins upon a loan becoming delinquent for 90 days and not in the process of collection. The existing appraisal is reviewed and a lien search is obtained to determine lien position and any instances of intervening liens. A new appraisal of the property will be ordered if deemed necessary by management and a collateral evaluation is completed. The loan will then be charged down to the value indicated in the evaluation. Consumer loans are recommended for charge-off after reaching delinquency of 90 days and the loan is not in the process of collection. The entire balance of the consumer loan is recommended for charge-off at this point.

As noted above, Mid Penn assesses a specific allocation for both commercial loans and commercial real estate loans prior to charging down or charging off the loan. Once the charge down is taken, the remaining balance remains a nonperforming loan with the original terms and interest rate intact (not restructured). In addition, Mid Penn takes a preemptive step when any commercial loan or commercial real estate loan becomes classified under its internal classification system. A preliminary collateral evaluation in accordance with the guidance on impaired loans is prepared using the existing collateral information in the loan file. This process allows Mid Penn to review both the credit and documentation files to determine the status of the information needed to make a collateral evaluation. This collateral evaluation is preliminary but allows Mid Penn to determine if any potential collateral shortfalls exist.

Larger groups of small-balance loans, such as residential mortgages and consumer installment loans are collectively evaluated for impairment. Accordingly, individual consumer and residential loans are not separately identified for impairment disclosures unless such loans are the subject of a restructuring agreement.

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. The credit department employs an electronic tracking system to monitor the receipt of and need for updated appraisals. To date, there have been no significant time lapses noted with the above processes.

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.

For impaired loans with no valuation allowance required, Mid Penn's practice of obtaining independent third party market valuations on the subject property within 30 days of being placed on non-accrual status sometimes indicates that the loan to value ratio is sufficient to obviate the need for a specific allocation in spite of significant deterioration in real estate values in Mid Penn's primary market area. These circumstances are determined on a case by case analysis of the impaired loans.

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.

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

As of September 30, 2011, Mid Penn had several unrelated loan relationships, with an aggregate carrying balance of \$10,141,000, deemed impaired. This pool of loans is further broken down into a group of loans with an aggregate carrying balance of \$2,855,000 for which specific allocations totaling \$1,423,000 have been included within the loan loss reserve for these loans. The remaining \$7,286,000 of loans requires no

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specific allocation within the loan loss reserve. The \$10,141,000 pool of impaired loan relationships is comprised of \$6,872,000 in real estate secured commercial relationships and \$3,269,000 in business relationships. There are specific allocations against the real estate secured pool totaling \$332,000, spread among six relationships composed primarily of customers engaged in real estate investment activities. The group of impaired business relationships with specific allocations is made up of seven unaffiliated relationships primarily engaged in various forms of manufacturing and a specific allocation of \$1,091,000 has been set aside against these credits. Six unrelated manufacturing relationships account for \$391,000 of the specific allocations due to the negative effects of the economy on their businesses and the subsequent collateral devaluation. One additional large commercial participation loan in this pool has shown exceptional collateral devaluation and is responsible for a specific allocation of \$700,000 of the total pool attributable to this segment. Management currently believes that the specific reserves are adequate to cover probable future losses related to these relationships.

The allowance for loan losses is a reserve established in the form of a provision expense for loan and lease losses and is reduced by loan charge-offs net of recoveries. In conjunction with an internal loan review function that operates independently of the lending function, management monitors the loan portfolio to identify risk on a monthly basis so that an appropriate allowance is maintained. Based on an evaluation of the loan portfolio, management presents a monthly review of the allowance for loan and lease losses to the Board of Directors, indicating any changes in the allowance since the last review. In making the evaluation, management considers the results of recent regulatory examinations, which typically include a review of the allowance for loan and lease losses an integral part of the examination process.

In establishing the allowance, management evaluates on a quantitative basis individual classified loans and nonaccrual loans, and determines an aggregate reserve for those loans based on that review. In addition, an allowance for the remainder of the loan and lease portfolio is determined based on historical loss experience within certain components of the portfolio. These allocations may be modified if current conditions indicate that loan and lease losses may differ from historical experience.

In addition, a portion of the allowance is established for losses inherent in the loan and lease portfolio which have not been identified by the quantitative processes described above. This determination inherently involves a higher degree of subjectivity, and considers risk factors that may not have yet manifested themselves in historical loss experience. These factors include:

Changes in local, regional, and national economic and business conditions affecting the collectability of the portfolio, the values of underlying collateral, and the condition of various market segments.

Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified loans.

Changes in the experience, ability, and depth of lending management and other relevant staff as well as the quality of the institution's loan review system.

Changes in the nature and volume of the portfolio and the terms of loans generally offered.

The existence and effect of any concentrations of credit and changes in the level of such concentrations.

While the allowance for loan and lease losses is maintained at a level believed to be adequate by management for covering estimated losses in the loan and lease portfolio, determination of the allowance is inherently subjective, as it requires estimates, all of which may be susceptible to significant change. Changes in these estimates may impact the provisions charged to expense in future periods.

Management believes, based on information currently available, that the allowance for loan and lease losses of \$6,809,000 is adequate as of September 30, 2011.

*Liquidity*

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Mid Penn Bank's objective is to maintain adequate liquidity to meet funding needs at a reasonable cost and to provide contingency plans to meet unanticipated funding needs or a loss of funding sources, while minimizing interest rate risk. Adequate liquidity provides resources for credit needs of borrowers, for depositor withdrawals and for funding corporate operations. Sources of liquidity are as follows:

A growing core deposit base;

Proceeds from the sale or maturity of investment securities;

Proceeds from certificates of deposit in other financial institutions;

Payments received on loans and mortgage-backed securities; and,

Overnight correspondent bank borrowings on various credit lines; and,

Borrowing capacity available from the FHLB.

We believe that our core deposits are stable even in periods of changing interest rates. Liquidity and funds management are governed by policies and are measured on a monthly basis. These measurements indicate that liquidity generally remains stable and exceeds our minimum defined levels of adequacy. Other than the trends of continued competitive pressures and volatile interest rates, there are no known demands, commitments, events, or uncertainties that will result in, or that are reasonably likely to result in, liquidity increasing or decreasing in any material way.

**Table of Contents****MID PENN BANCORP, INC.****Management's Discussion and Analysis***Capital Resources*

Shareholders' equity, or capital, is evaluated in relation to total assets and the risk associated with those assets. The greater a corporation's capital resources, the more likely it is to meet its cash obligations and absorb unforeseen losses. Too much capital, however, indicates that not enough of the corporation's earnings have been paid to shareholders and the buildup makes it difficult for a corporation to offer a competitive return on the shareholders' capital going forward. For these reasons capital adequacy has been, and will continue to be, of paramount importance.

Capital growth is achieved primarily by retaining more earnings than are paid out to shareholders. Shareholders' equity increased during the nine months ended September 30, 2011 by \$4,329,000 or 9.0%, from December 31, 2010. Capital has been positively impacted in 2011 by positive earnings of \$2,806,000 and an increase in other comprehensive income of \$2,018,000 that offset common dividend payments of \$522,000.

The Small Business Jobs and Credit Act was signed into law on September 27, 2010, which created a \$30 billion Small Business Lending Fund (the SBLF) to provide community banks with capital to increase small business lending. Generally, bank holding companies with assets equal to or less than \$10 billion are eligible to apply for and receive a capital investment from the SBLF in an amount equal to 3-5% of risk-weighted assets. The deadline to apply to receive capital under the SBLF was March 31, 2011.

The capital investment will take the form of preferred stock carrying a 5% dividend, which has the potential to decrease to as low as 1% if the participant sufficiently increases small business lending within the first two and one-half years. If the participant does not increase small business lending by at least 2.5% in the first two and one-half years, the dividend rate will increase to 7%. After four and one-half years, the dividend will increase to 9% regardless of the participant's small business lending.

During March 2011, Mid Penn applied for participation in the SBLF. Management requested up to \$20,000,000 of capital, of which \$10,000,000 would be used to refinance, with applicable regulatory approvals, all of the outstanding preferred stock issued under the U.S. Treasury's Capital Purchase Program (the CPP). Mid Penn subsequently withdrew its application to participate in SBLF after notification from Treasury that its application would not be approved. However, despite not participating in SBLF, Mid Penn remains well capitalized under current regulatory standards.

Mid Penn maintained the following regulatory capital levels, leverage ratios, and risk-based capital ratios in its bank subsidiary as of September 30, 2011, and December 31, 2010, as follows:

(Dollars in thousands)	Capital Adequacy					
	Minimum Capital Required:				To Be Well-Capitalized Under Prompt Corrective Action Provisions:	
	Actual:		Ratio		Amount	Ratio
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of September 30, 2011:</b>						
Tier 1 Capital (to Average Assets)	\$ 49,207	7.1%	\$ 27,912	4.0%	\$ 34,890	5.0%
Tier 1 Capital (to Risk Weighted Assets)	49,207	10.1%	19,440	4.0%	29,161	6.0%
Total Capital (to Risk Weighted Assets)	55,292	11.4%	38,881	8.0%	48,601	10.0%
<b>As of December 31, 2010:</b>						
Tier 1 Capital (to Average Assets)	\$ 46,799	7.4%	\$ 25,388	4.0%	\$ 31,735	5.0%
Tier 1 Capital (to Risk Weighted Assets)	46,799	10.2%	18,357	4.0%	27,536	6.0%
Total Capital (to Risk Weighted Assets)	52,553	11.5%	36,714	8.0%	45,893	10.0%

*Capital Purchase Program Participation*

On December 19, 2008, Mid Penn entered into an agreement (including the Securities Purchase Agreement - Standard Terms) (the Purchase Agreement) with the United States Department of the Treasury (the Treasury) pursuant to which the Treasury invested \$10,000,000 in Mid Penn

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under the Treasury's Capital Purchase Program (the CPP).

Under the Purchase Agreement, 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 the Mid Penn's common stock at an exercise price of \$20.52 per share.

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**MID PENN BANCORP, INC.**

**Management's Discussion and Analysis**

The preferred shares pay cumulative dividends at a rate of 5% per annum for the first five years and 9% per annum thereafter. The preferred shares are non-voting, other than class voting rights on certain matters that could adversely affect the preferred shares. If dividends on the preferred shares have not been paid for an aggregate of six quarterly dividend periods or more, whether consecutive or not, Treasury will have the right to appoint two members of Mid Penn's Board of Directors to serve until all accrued and unpaid dividends on the preferred shares have been paid.

Mid Penn is generally permitted, subject to consultation with the appropriate Federal banking agency, to redeem the Series A Preferred Stock 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 is required to liquidate the warrants associated with Mid Penn's participation in the CPP at the current market price. Any redemption is subject to the consent of the Board of Governors of the Federal Reserve System. Until December 19, 2011, or such earlier time as all preferred shares have been redeemed by Mid Penn or transferred by Treasury to third parties that are not affiliated with Treasury, Mid Penn may not, without Treasury's consent, increase its dividend rate per share of common stock above the per share quarterly amount in effect immediately prior to October 14, 2008 (\$0.20 per share) or, with certain limited exceptions, repurchase its common stock.

The warrants are immediately exercisable and have a 10-year term. The exercise price and number of shares subject to the warrants are both subject to anti-dilution adjustments. Treasury has agreed not to exercise voting power with respect to any shares of common stock issued upon exercise of the warrants; however, this agreement not to vote the shares does not apply to any person who may acquire such shares.

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**MID PENN BANCORP, INC.**

**ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There has been no material change in market risk since December 31, 2010, as reported in Mid Penn's Form 10-K filed with the SEC on March 15, 2011.

**ITEM 4T CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures*

Mid Penn maintains controls and procedures designed to ensure that information required to be disclosed in the reports that Mid Penn files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures as of September 30, 2011, Mid Penn's management, with the participation of the Principal Executive Officer and Principal Financial and Accounting Officer, concluded that the disclosure controls and procedures were effective as of such date.

*Changes in Internal Controls*

During the nine months ended September 30, 2011, there were no changes in Mid Penn's internal control over financial reporting, that have materially affected, or are reasonable likely to materially affect, Mid Penn's internal control over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1 LEGAL PROCEEDINGS**

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

**ITEM 1A RISK FACTORS**

*The ratings downgrade of the United States government may adversely affect the Corporation*

In August 2011, Standard & Poor's downgraded the United States' credit rating from AAA to AA+, and there are indications that Moody's or Fitch Ratings also may downgrade the United States' credit rating. Standard & Poor's also downgraded the credit rating of the Federal Home Loan Bank System, a government-sponsored enterprise in which the Corporation invests and from which the Corporation receives a line of credit, from AAA to AA+. Furthermore, the credit rating of other entities, such as state and local governments, may be downgraded as a consequence of the downgrading of the United States' credit rating. The impact that these credit rating downgrades may have on the national and local economy and on the Corporation's financial condition and results of operations is uncertain and may adversely affect the Corporation and its business.

**ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None

**ITEM 3 DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4 (Removed and Reserved)**

**ITEM 5 OTHER INFORMATION**

None

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**MID PENN BANCORP, INC.**

**ITEM 6 EXHIBITS**

Exhibit 3(i) The Registrant's Amended and Restated Articles of Incorporation (Incorporated by reference to Exhibit 3(i) to Registrant's Quarterly Report on form 10-Q filed with the Securities and Exchange Commission on May 11, 2009.)

Exhibit 3(ii) Statement with Respect to Shares for Series A Preferred Stock. (Incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on December 22, 2008.)

Exhibit 3(iii) The Registrant's Amended and Restated By-laws (Incorporated by reference to Exhibit 3(iii) to Registrant's Current Report on form 8-K filed with the Securities and Exchange Commission on August 30, 2010.)

Exhibit 4 Warrants for Purchase of Shares of Common Stock. (Incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on December 22, 2008).

Exhibit 11 Statement regarding the computation of Per Share Earnings. (Incorporated by reference to Part I Item 1 of this Quarterly Report on Form 10-Q.)

Exhibit 31.1 Certification of Principal Executive Officer Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a) as added by Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification of Principal Financial Officer Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a) as added by Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32 Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 as added by Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 101.LAB XBRL Taxonomy Extension Label Linkbase

Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase

Exhibit 101.INS XBRL Instance Document

Exhibit 101.SCH XBRL Taxonomy Extension Schema

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Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase

Exhibit 101.DEF XBRL Taxonomy Extension Definition Linkbase

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**MID PENN BANCORP, INC.**

**SIGNATURES**

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

**Mid Penn Bancorp, Inc.**  
(Registrant)

By */s/ RORY G. RITRIEVI*  
**Rory G. Ritrievi**  
**President and CEO**  
**(Principal Executive Officer)**

Date: November 14, 2011

By */s/ KEVIN W. LAUDENSLAGER*  
**Kevin W. Laudenslager**  
**Treasurer**  
**(Principal Financial and Principal Accounting Officer)**

Date: November 14, 2011