

HARBOR BANKSHARES CORP

Form 10QSB

May 12, 2006

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended March 31, 2006.

OR

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

For the transition period from _____ to _____

Commission File Number 0-20990

HARBOR BANKSHARES CORPORATION
(Exact name of registrant as specified in its charter)

Maryland

(State of other jurisdiction of
incorporation or organization)

52-1786341

(IRS Employer identification No.)

25 W. Fayette Street, Baltimore, Maryland

(Address of principal executive office)

21201

(Zip code)

Registrants' telephone number, including area code: (410) 528-1800

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock, non-voting, \$.01 Par value 33,795 shares as of May 1, 2006.

Common stock, \$.01 Par value -641,784 shares as of May 1, 2006.

HARBOR BANKSHARES CORPORATION AND SUBSIDIARIES

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	March 31, 2006	December 31, 2005
	(Unaudited)	
	Dollars in Thousands	
ASSETS		
Cash and Due from Banks	\$ 5,287	\$ 7,334
Federal Funds Sold	□	15,625
Investment Securities:		
Held to maturity at amortized cost (fair value of \$24 as of March 31, 2006 and \$30 as of December 31, 2005)	24	30
Available for Sale, at fair value	26,043	26,117
Total Investment Securities	26,067	26,147
Loans Held for Sale	□	716
Loans	202,650	190,279
Allowance for Loan Losses	(2,105)	(2,059)
Net Loans	200,545	188,220
Property and Equipment □ Net	7,556	7,526
Goodwill	2,506	2,506
Intangible Assets	443	463
Bank-owned Life Insurance	4,217	4,179
Accrued Interest Receivable and Other Assets	4,334	3,920
TOTAL ASSETS	\$ 250,955	\$ 256,636
LIABILITIES AND STOCKHOLDER'S EQUITY		
Deposits:		
Non-Interest Bearing Demand	\$ 46,964	\$ 50,433
Interest Bearing Transaction Accounts	22,622	25,562
Savings	85,743	87,499
Time, \$100,000 or more	33,387	32,810
Other Time	33,201	33,540
Total Deposits	221,917	229,844
Short Term Borrowings	3,000	
Junior Subordinated Debentures	7,217	7,217
Accrued Interest and Other Liabilities	2,056	2,621
TOTAL LIABILITIES	234,190	239,682
STOCKHOLDERS' EQUITY		
Common stock, □ par value \$.01 per share:		
Authorized 10,000,000 shares; issued and outstanding 641,784 at March 31, 2006 and 651,784 at December 31, 2005	6	7

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and 33,795 common non-voting at March 31, 2006 and December 31, 2005.

Paid in Capital	6,366	6,616
Retained Earnings	10,958	10,853
Accumulated other comprehensive loss	(565)	(522)
	<u>16,765</u>	<u>16,954</u>
TOTAL STOCKHOLDERS' and EQUITY		
	<u>\$ 250,955</u>	<u>\$ 256,636</u>

See Notes to Unaudited Consolidated Financial Statements

[Back to Index](#)**HARBOR BANKSHARES CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

	Three Months Ended March 31	
	2006	2005
	(Unaudited) Dollars in Thousands Except Per Share Data	
INTEREST INCOME		
Interest and Fees on Loans	\$ 3,777	\$ 3,167
Interest on Investment Securities (Taxable)	207	219
Interest on Deposits in Other Banks	1	9
Interest on Federal Funds Sold	151	26
Other Interest Income	8	7
	<hr/>	<hr/>
TOTAL INTEREST INCOME	4,144	3,428
	<hr/>	<hr/>
INTEREST EXPENSE		
Interest on Deposits:		
Savings	609	263
Interest Bearing Transaction Accounts	13	14
Time \$100,000 or More	259	135
Other Time	334	230
Interest Other Borrowed Money	1	4
Interest on Junior Subordinated Debentures	130	97
	<hr/>	<hr/>
TOTAL INTEREST EXPENSE	1,346	743
	<hr/>	<hr/>
NET INTEREST INCOME	2,798	2,685
Provision for Loan Losses	55	120
	<hr/>	<hr/>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,743	2,565
NON-INTEREST INCOME		
Service Charges on Deposit Accounts	168	238
Other Income	209	254
Loss on Sale of Loans	(2)	□
	<hr/>	<hr/>
TOTAL NON-INTEREST INCOME	375	492
	<hr/>	<hr/>
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	1,186	1,121
Advertising	89	87
Occupancy Expense of Premises	330	214
Equipment Expense	86	87
Professional Cost	55	188
Data Processing Expense	274	261

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ATM Loss		225
Other Expenses	395	415
	<u> </u>	<u> </u>
TOTAL NON-INTEREST EXPENSES	2,415	2,598
	<u> </u>	<u> </u>
INCOME BEFORE INCOME TAXES	703	459
Applicable Income Taxes	256	165
	<u> </u>	<u> </u>
NET INCOME	\$ 447	\$ 294
	<u> </u>	<u> </u>
BASIC EARNINGS PER SHARE	\$ 0.66	\$ 0.42
DILUTED EARNINGS PER SHARE	\$ 0.62	\$ 0.39
Dividends Declared per Share	\$ 0.50	\$ 0.40

See notes to unaudited consolidated Financial Statements

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	Three Months Ended March 31	
	2006	2005
	(Unaudited) Dollars in Thousands	
OPERATING ACTIVITIES		
Net Income	\$ 447	\$ 294
Adjustments to Reconcile Net Income to Net Cash And Cash Equivalents Provided by Operating Activities:		
Origination of Loans Held for Sale	□	(152)
Proceeds from the Sale of Loans Held for Sale	714	□
Increase in bank-owned life insurance policies	(40)	(38)
Loss on sale of loans	2	□
Provisions for loan losses	55	120
Depreciation and Amortization	237	151
(Increase) Decrease in Interest Receivable and Other Assets	(412)	360
Decrease in Interest Payable and Other Liabilities	(565)	(189)
	<hr/>	<hr/>
Net Cash Provided by Operating Activities	\$ 438	\$ 546
	<hr/>	<hr/>
INVESTING ACTIVITIES		
Net decrease in Deposits at Other Banks	□	12
Proceeds from Matured Securities and Principal Payments	□	2,002
Net Increase in Loans	(12,344)	(6,236)
Purchase of Premises and Equipment	(246)	(967)
	<hr/>	<hr/>
Net Cash Used in Investing Activities	(12,590)	(5,189)
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FINANCING ACTIVITIES		
Net Decrease in Non-Interest Bearing Transaction Accounts	(3,469)	(7,115)
Net (Decrease) Increase in Interest Bearing Transaction Accounts	(2,940)	2,398
Net (Decrease) Increase in Savings Deposits	(1,756)	3,679
Net Increase in Time Deposits	238	1,044
Short Term Borrowings	3,000	□
Payment of Cash Dividends	(343)	(282)
Retirement of Common Stock	(250)	(275)
Proceeds from the Sale of Common Stock	□	63
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Net Cash Used by Financing Activities	(5,520)	(488)
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Decrease in Cash and Cash Equivalents	(17,672)	(5,131)
Cash and Cash Equivalents at Beginning of Period	22,959	16,714

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Cash and Cash Equivalents at End of Period	<u>\$ 5,287</u>	<u>\$ 11,583</u>
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See notes to unaudited consolidated Financial Statements

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**Notes to Unaudited Consolidated Financial Statements
For the Three Months Ended March 31, 2006**Note Basis of Presentation

A:

The accompanying unaudited consolidated financial statements of Harbor Bankshares Corporation and subsidiaries (The "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB. Certain reclassifications have been made to amounts previously reported to conform to the classifications made in 2006. Accordingly, they do not include all the information required for complete financial statements. In the opinion of management, all adjustments and reclassifications considered necessary for a fair presentation have been included. All such adjustments are of a normal renewable nature. Operating results for the three month period ended March 31, 2006, are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. The enclosed unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto incorporated by reference in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005.

Note Comprehensive Income

B:

The Company's comprehensive income consists of its net income and unrealized holding losses on its available for sale securities, net of taxes.

Presented below is a reconciliation of net income to comprehensive income.

	Three Months Ended March 31	
	2006	2005
	(In Thousands)	
Net Income	\$ 447	\$ 294
Unrealized (loss) gains on securities Available-for-sale	(71)	(409)
Related Income Tax (benefit) expense	(28)	(165)
	(43)	(244)
Total Comprehensive Income	\$ 404	\$ 50

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EARNINGS PER SHARE

Note C: Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Basic earnings per share does not include the effect of potentially dilutive transactions or conversions. This computation of diluted earnings per share reflects the potential dilution of earnings per share under the treasury stock method, which could occur if contracts to issue common stock, such as stock options, were exercised and shared in corporate earnings. At March 31, 2006 and 2005, there were no antidilutive options to purchase common shares.

The following table presents a summary of per share data and amounts for the period indicated:

Three Months Ended	
2006	2005