

BAR HARBOR BANKSHARES  
Form 10-Q  
November 08, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

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

Commission File Number: **841105-D**

BAR HARBOR BANKSHARES

(Exact name of registrant as specified in its charter)

Maine

(State or other jurisdiction of  
incorporation or organization)  
PO Box 400

82 Main Street, Bar Harbor, ME

(Address of principal executive offices)

01-0393663

(I.R.S. Employer  
Identification Number)

04609-0400

(Zip Code)

-

(207) 288-3314

(Registrant's telephone number, including area code)

Inapplicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES \_\_\_ NO \_

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in exchange act rule 12b-2): YES:  NO:

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

<u>Class of Common Stock</u>	<u>Number of Shares Outstanding</u> <u>November 06, 2006</u>
\$2.00 Par Value	3,046,750

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## PART I. FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

BAR HARBOR BANKSHARES AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
SEPTEMBER 30, 2006 AND DECEMBER 31, 2005  
(Dollars in thousands, except per share data)  
*(unaudited)*

	September 30, 2006	December 31, 2005
Assets		
Cash and due from banks	\$ 12,516	\$ 10,994
Overnight interest bearing money market funds	20	3,006
Total cash and cash equivalents	12,536	14,000
Securities available for sale, at fair value	197,884	183,300
Investment in Federal Home Loan Bank stock	12,649	11,324
Loans	547,487	514,866
Allowance for loan losses	(4,593)	(4,647)
Loans, net of allowance for loan losses	542,894	510,219
Premises and equipment, net	11,466	11,785
Goodwill	3,158	3,158
Bank owned life insurance	6,057	5,945
Other assets	8,404	8,723
<b>TOTAL ASSETS</b>	<b>\$795,048</b>	<b>\$748,454</b>
Liabilities		
Deposits		
Demand deposits	\$ 64,018	\$ 55,451
NOW accounts	65,629	66,965
Savings and money market deposits	164,948	133,113
Time deposits	133,860	129,816
Brokered time deposits	85,926	60,386
Total deposits	514,381	445,731
Short-term borrowings	122,035	131,338
Long-term debt	93,143	108,358
Other liabilities	6,485	6,923
<b>TOTAL LIABILITIES</b>	<b>736,044</b>	<b>692,350</b>
Shareholders' equity		
Capital stock, par value \$2.00; authorized 10,000,000 shares; issued 3,643,614 shares at September 30, 2006 and December 31, 2005	7,287	7,287
Surplus	4,111	4,002
Retained earnings	58,055	55,181
Accumulated other comprehensive loss:		

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Net unrealized depreciation on securities available for sale and derivative instruments, net of taxes of \$762 and \$895 at September 30, 2006 and December 31, 2005, respectively	(1,479)	(1,738)
Less: cost of 595,631		
and 583,655 shares of treasury stock at September 30, 2006 and December 31, 2005, respectively	(8,970)	(8,628)
TOTAL SHAREHOLDERS' EQUITY	59,004	56,104
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$795,048	\$748,454

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

BAR HARBOR BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005  
(Dollars in thousands, except per share data)  
(*unaudited*)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Interest and dividend income:				
Interest and fees on loans	\$9,137	\$7,686	\$26,143	\$21,499
Interest and dividends on securities and federal funds	2,943	1,800	7,955	5,473
Total interest and dividend income	12,080	9,486	34,098	26,972
Interest expense:				
Deposits	3,561	1,869	9,271	4,718
Short-term borrowings	1,684	656	4,737	1,711
Long-term borrowings	1,287	1,474	3,787	4,395
Total interest expense	6,532	3,999	17,795	10,824
Net interest income	5,548	5,487	16,303	16,148
Provision for loan losses	81	25	124	50
Net interest income after provision for loan losses	5,467	5,462	16,179	16,098
Non-interest income:				
Trust and other financial services	486	474	1,558	1,489
Service charges on deposit accounts	440	406	1,188	1,050
Other service charges, commissions and fees	61	64	171	187
Credit card service charges and fees	776	894	1,399	1,472
Net securities gains	357	38	667	580
Other operating income	79	91	345	245
Total non-interest income	2,199	1,967	5,328	5,023
Non-interest expenses:				
Salaries and employee benefits	2,360	2,323	7,077	7,421
Occupancy expense	329	290	978	891
Furniture and equipment expense	456	392	1,378	1,238

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Credit card expenses	577	667	993	1,068
Other operating expense	1,135	1,155	3,766	3,857
Total non-interest expenses	4,857	4,827	14,192	14,475
Income before income taxes	2,809	2,602	7,315	6,646
Income taxes	845	780	2,142	1,911
Net income	\$1,964	\$1,822	\$5,173	\$ 4,735
<b>EARNINGS PER SHARE:</b>				
Basic	\$ 0.64	\$ 0.59	\$ 1.70	\$ 1.54
Diluted	\$ 0.63	\$ 0.58	\$ 1.66	\$ 1.49

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

**BAR HARBOR BANKSHARES AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005**  
(Dollars in thousands, except per share data)  
*(unaudited)*

	Capital Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
Balance December 31, 2004	\$7,287	\$4,002	\$51,733	\$ 1,118	(\$8,098)	\$56,042
Net income	---	---	4,735	---	---	4,735
Total other comprehensive loss	---	---	---	(1,834)	---	(1,834)
Cash dividends declared (\$0.630 per share)	---	---	(1,939)	---	---	(1,939)
Purchase of treasury stock (41,442 shares)	---	---	---	---	(1,134)	(1,134)
Stock options exercised (30,641 shares)	---	---	(359)	---	849	490
Balance September 30, 2005	\$7,287	\$4,002	\$54,170	(\$ 716)	(\$8,383)	\$56,360
Balance December 31, 2005	\$7,287	\$4,002	\$55,181	(\$ 1,738)	(\$8,628)	\$56,104
Net income	---	---	5,173	---	---	5,173
Total other comprehensive income	---	---	---	259	---	259
Cash dividends declared (\$0.675 per share)	---	---	(2,060)	---	---	(2,060)
Purchase of treasury stock (35,377 shares)	---	---	---	---	(1,014)	(1,014)
Stock options exercised (23,401 shares)	---	---	(239)	---	672	433
Recognition of stock option expense	---	109	---	---	---	109
Balance September 30, 2006	\$7,287	\$4,111	\$58,055	(\$ 1,479)	(\$8,970)	\$59,004

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

BAR HARBOR BANKSHARES AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

(Dollars in thousands)  
(unaudited)

	2006	2005
Cash flows from operating activities:		
Net income	\$ 5,173	\$ 4,735
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	1,001	854
Amortization of core deposit intangible	50	50
Provision for loan losses	124	50
Net realized gains on sales of securities available for sale	(667)	(580)
Net amortization of bond premiums	209	717
Venture capital fund investment impairment loss	1	19
Recognition of stock option expense	109	---
Net change in other assets	40	(697)
Net change in other liabilities	(402)	115
Net cash provided by operating activities	5,638	5,263
Cash flows from investing activities:		
Purchases of securities available for sale	(44,995)	(27,307)
Proceeds from maturities, calls and principal paydowns of securities available for sale	24,580	29,097
Proceeds from sales of securities available for sale	6,628	12,398
Net increase in Federal Home Loan Bank stock	(1,325)	(300)
Net loans made to customers	(32,799)	(45,530)
Capital expenditures	(682)	(884)
Net cash used in investing activities	(48,593)	(32,526)
Cash flows from financing activities:		
Net increase in deposits	68,650	38,333
Net (decrease) increase in securities sold under repurchase agreements	(2,738)	631
Proceeds from Federal Home Loan Bank advances	30,000	---
Repayments of Federal Home Loan Bank advances	(51,780)	(3,500)
Purchases of treasury stock	(1,014)	(1,134)
Stock options exercised	433	490
Payments of dividends	(2,060)	(1,939)
Net cash provided by financing activities	41,491	32,881
Net (decrease) increase in cash and cash equivalents	(1,464)	5,618
Cash and cash equivalents at beginning of period	14,000	9,571
Cash and cash equivalents at end of period	\$12,536	\$ 9,838
Supplemental disclosures of cash flow information:		

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Cash paid during the period for:		
Interest	\$17,202	\$10,754
Income taxes, net of refunds	1,362	1,678
Non-cash transactions:		
Unrealized appreciation (depreciation) on securities available for sale, net of reclassification adjustment, net of tax of \$115 and (\$790), respectively	224	(1,535)
Net unrealized appreciation (depreciation) on interest rate derivatives, net of tax of \$12 and (\$156) respectively	24	(303)
Amortization of net deferred loss related to interest rate derivatives, net of tax of \$6 and \$2, respectively	11	4

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

BAR HARBOR BANKSHARES AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005  
(Dollars in thousands)  
*(unaudited)*

Three Months Ended  
September 30,