

BAR HARBOR BANKSHARES  
Form 10-Q  
August 08, 2007

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 June 30, 2007**

**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

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

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

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>August 6, 2007</u>
\$2.00 Par Value	3,040,771

TABLE OF CONTENTS

	Page No.	
<b>PART I</b>	<b>FINANCIAL INFORMATION</b>	
Item 1.	Financial Statements ( <i>unaudited</i> ):	
	Consolidated Balance Sheets at June 30, 2007, and December 31, 2006	3
	Consolidated Statements of Income for the three and six months ended June 30, 2007 and 2006	4
	Consolidated Statements of Changes in Shareholders' Equity for the six months ended	
	June 30, 2007 and 2006	5
	Consolidated Statements of Cash Flows for the six months ended June 30, 2007 and 2006	6
	Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2007 and 2006	7
	Notes to Consolidated Interim Financial Statements	8-16
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	17-45
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	46-49
Item 4.	Controls and Procedures	49
<b>PART II</b>	<b>OTHER INFORMATION</b>	
Item 1.	Legal Proceedings	49
Item 1A.	Risk Factors	49
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	50
Item 3.	Defaults Upon Senior Securities	50
Item 4.	Submission of Matters to a Vote of Security Holders	50-51
Item 5.	Other Information	51
Item 6.	Exhibits	51-52
	Signatures	52

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

BAR HARBOR BANKSHARES AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
JUNE 30, 2007 AND DECEMBER 31, 2006  
(Dollars in thousands, except share data)  
*(unaudited)*

	June 30, 2007	December 31, 2006
<b>Assets</b>		
Cash and due from banks	\$ 9,037	\$ 11,838
Overnight interest bearing money market funds	2,884	7,709
Total cash and cash equivalents	11,921	19,547
Securities available for sale, at fair value	230,313	213,252
Investment in Federal Home Loan Bank stock	12,531	11,849
Loans	551,801	555,099
Allowance for loan losses	(4,501)	(4,525)
Loans, net of allowance for loan losses	547,300	550,574
Premises and equipment, net	11,102	11,368
Goodwill	3,158	3,158
Bank owned life insurance	6,225	6,116
Other assets	10,900	9,013
<b>TOTAL ASSETS</b>	<b>\$833,450</b>	<b>\$824,877</b>
<b>Liabilities</b>		
Deposits		
Demand deposits	\$ 53,958	\$ 53,872
NOW accounts	63,309	63,588
Savings and money market deposits	136,294	164,213
Time deposits	129,346	132,285
Brokered time deposits	134,524	82,361
Total deposits	517,431	496,319
Short-term borrowings	166,998	175,246
Long-term debt	81,997	85,466
Other liabilities	5,663	6,795
<b>TOTAL LIABILITIES</b>	<b>772,089</b>	<b>763,826</b>
<b>Shareholders' equity</b>		
Capital stock, par value \$2.00; authorized 10,000,000 shares; issued 3,643,614 shares at June 30, 2007 and December 31, 2006	7,287	7,287
Surplus	4,519	4,365
Retained earnings	60,974	59,339
Accumulated other comprehensive (loss) income:		
Prior service cost and unamortized net actuarial gains/losses on employee benefit plans, net of tax of (\$69) and \$80, at June 30, 2007 and December 31, 2006, respectively	(132)	156
Net unrealized depreciation on securities available for sale, net of tax of \$950 and \$351, at June 30, 2007 and December 31, 2006,	(1,843)	(680)

respectively

Net unrealized depreciation on derivative instruments, net of tax of \$171

and \$221 at June 30, 2007 and December 31, 2006, respectively

	(333)	(429)
Total accumulated other comprehensive loss	(2,308)	(953)

Less: cost of 599,981

and 596,169 shares of treasury stock

at June 30, 2007 and December 31, 2006, respectively

	(9,111)	(8,987)
TOTAL SHAREHOLDERS' EQUITY	61,361	61,051
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$833,450	\$824,877

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 SIX MONTHS ENDED JUNE 30, 2007 AND 2006**  
(Dollars in thousands, except share data)  
*(unaudited)*

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Interest and dividend income:				
Interest and fees on loans	\$ 9,412	\$ 8,743	\$18,600	\$17,006
Interest and dividends on securities and other earning assets	3,194	2,581	6,366	5,012
Total interest and dividend income	12,606	11,324	24,966	22,018
Interest expense:				
Deposits	3,990	3,101	7,877	5,710
Short-term borrowings	1,035	1,734	2,952	3,053
Long-term borrowings	1,985	1,221	3,259	2,500
Total interest expense	7,010	6,056	14,088	11,263
Net interest income	5,596	5,268	10,878	10,755
Provision for loan losses	33	15	33	43
Net interest income after provision for loan losses	5,563	5,253	10,845	10,712
Non-interest income:				
Trust and other financial services	642	568	1,183	1,072
Service charges on deposit accounts	418	405	788	748
Other service charges, commissions and fees	53	57	105	110
Credit and debit card service charges and fees	441	393	708	623
Net securities gains (losses)	18	---	(902)	310
Other operating income	86	102	154	266
Total non-interest income	1,658	1,525	2,036	3,129
Non-interest expenses:				

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Salaries and employee benefits	2,154	2,273	4,499	4,717
Postretirement plan settlement	---	---	(832)	---
Occupancy expense	320	337	693	649
Furniture and equipment expense	439	422	888	922
Credit and debit card expenses	270	250	458	416
Other operating expense	1,370	1,168	2,644	2,631
Total non-interest expenses	4,553	4,450	8,350	9,335
Income before income taxes	2,668	2,328	4,531	4,506
Income taxes	825	682	1,313	1,297
Net income	\$ 1,843	\$ 1,646	\$ 3,218	\$ 3,209
<u>Earnings Per Share:</u>				
Basic earnings per share	\$ 0.61	\$ 0.54	\$ 1.06	\$ 1.05
Diluted earnings per share	\$ 0.59	\$ 0.53	\$ 1.03	\$ 1.03

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 SIX MONTHS ENDED JUNE 30, 2007 AND 2006  
(Dollars in thousands, except share data)  
(unaudited)

	Capital Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity
Balance December 31, 2005	\$7,287	\$4,002	\$55,181	\$(1,738)	\$(8,628)	\$56,104
Cumulative effect adjustment from the adoption of SAB No. 108	---	---	331	---	---	331
Adjusted balance December 31, 2005	7,287	4,002	55,512	(1,738)	(8,628)	56,435
Net income	---	---	3,209	---	---	3,209
Total other comprehensive loss	---	---	---	(2,091)	---	(2,091)
Cash dividends declared (\$0.445 per share)	---	---	(1,358)	---	---	(1,358)
Purchase of treasury stock (27,435 shares)	---	---	---	---	(764)	(764)
Stock options exercised (16,266 shares), net of tax effects	---	---	(168)	---	467	299
Recognition of stock option expense	---	71	---	---	---	71
Balance June 30, 2006	\$7,287	\$4,073	\$57,195	\$(3,829)	\$(8,925)	\$55,801
Balance December 31, 2006	\$7,287	\$4,365	\$59,339	\$(953)	\$(8,987)	\$61,051
Net income	---	---	3,218	---	---	3,218
Total other comprehensive income	---	---	---	(1,355)	---	(1,355)
Cash dividends declared (\$0.470 per share)	---	---	(1,431)	---	---	(1,431)

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Purchase of treasury stock (15,169 shares)	---	---	---	---	(488)	(488)
Stock options exercised (11,357 shares), net of tax effects	---	50	(152)	---	364	262
Recognition of stock option expense	---	104	---	---	---	104
Balance June 30, 2007	\$7,287	\$4,519	\$60,974	\$(2,308)	\$(9,111)	\$61,361

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 SIX MONTHS ENDED JUNE 30, 2007 AND 2006  
(Dollars in thousands)  
(unaudited)**

	2007	2006
Cash flows from operating activities:		
Net income	\$ 3,218	\$ 3,209
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	626	671
Amortization of core deposit intangible	34	33
Provision for loan losses	33	43
Net securities losses (gains)	902	(310)
Net amortization of bond premiums	82	133
Recognition of stock option expense	104	71
Postretirement plan settlement	(832)	---
Net change in other assets	(1,332)	(629)
Net change in other liabilities	(591)	(395)
Net cash provided by operating activities	2,244	2,826
Cash flows from investing activities:		
Purchases of securities available for sale	(89,345)	(41,811)
Proceeds from maturities, calls and principal paydowns of securities available for sale	21,166	14,902
Proceeds from sales of securities available for sale	48,372	3,140
Net increase in Federal Home Loan Bank stock	(682)	(1,325)
Net loans repaid by (made to) customers	3,241	(29,044)
Capital expenditures	(360)	(551)
Net cash used in investing activities	(17,608)	(54,689)
Cash flows from financing activities:		

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Net increase in deposits	21,112	41,833
Net decrease in securities sold under repurchase agreements and fed funds purchased	(2,529)	(4,562)
Proceeds from Federal Home Loan Bank advances	32,000	40,500
Repayments of Federal Home Loan Bank advances	(41,188)	(23,496)
Purchases of treasury stock	(488)	(764)
Proceeds from stock option exercises, including tax benefits	262	299
Payments of dividends	(1,431)	(1,358)
Net cash provided by financing activities	7,738	52,452
Net (decrease) increase in cash and cash equivalents	(7,626)	589
Cash and cash equivalents at beginning of period	19,547	