

BAR HARBOR BANKSHARES  
Form 10-Q  
November 10, 2008

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, 2008

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, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and smaller reporting company" in Rule 12b-2 of the Exchange Act: Large accelerated filer  Accelerated filer  Non-accelerated filer (do not check if a smaller reporting company)  Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):  
 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>November 4, 2008</u>
\$2.00 Par Value	2,900,908

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**PART I. FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS**

**BAR HARBOR BANKSHARES AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS  
 SEPTEMBER 30, 2008 AND DECEMBER 31, 2007**

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(Dollars in thousands, except share data)  
(*unaudited*)

	September 30, 2008	December 31, 2007
<b>Assets</b>		
Cash and due from banks	\$ 9,287	\$ 7,726
Overnight interest bearing money market funds	3	5
Total cash and cash equivalents	9,290	7,731
Securities available for sale, at fair value	269,609	264,617
Federal Home Loan Bank stock	14,031	13,156
Loans	624,205	579,711
Allowance for loan losses	(5,220)	(4,743)
Loans, net of allowance for loan losses	618,985	574,968
Premises and equipment, net	10,421	10,795
Goodwill	3,158	3,158
Bank owned life insurance	6,521	6,340
Other assets	9,989	8,707
<b>TOTAL ASSETS</b>	<b>\$942,004</b>	<b>\$889,472</b>
<b>Liabilities</b>		
Deposits		
Demand and other non-interest bearing deposits	\$ 62,568	\$ 65,161
NOW accounts	71,884	67,050
Savings and money market deposits	163,611	163,009
Time deposits	202,031	140,204
Brokered time deposits	78,069	103,692
Total deposits	578,163	539,116
Short-term borrowings	96,901	148,246
Long-term advances from Federal Home Loan Bank	193,671	130,607
Junior subordinated debentures	5,000	---
Other liabilities	5,598	5,529
<b>TOTAL LIABILITIES</b>	<b>879,333</b>	<b>823,498</b>
<b>Shareholders' equity</b>		
Capital stock, par value \$2.00; authorized 10,000,000 shares; issued 3,643,614 shares at September 30, 2008 and December 31, 2007	7,287	7,287
Surplus	4,863	4,668
Retained earnings	67,258	63,292

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Accumulated other comprehensive (loss) income:		
Unamortized net actuarial losses on employee benefit plans, net of tax of (\$60) and (\$64), at September 30, 2008 and December 31, 2007, respectively	(117)	(124)
Net unrealized (depreciation) appreciation on securities available for sale, net of tax of (\$2,036) and \$616, at September 30, 2008 and December 31, 2007, respectively	(3,953)	1,196
Net unrealized appreciation on derivative instruments, net of tax of \$183 and \$24 at September 30, 2008 and December 31, 2007, respectively	355	46
Total accumulated other comprehensive (loss) income	(3,715)	1,118
Less: cost of 728,373 and 640,951 shares of treasury stock at September 30, 2008 and December 31, 2007, respectively	(13,022)	(10,391)
TOTAL SHAREHOLDERS' EQUITY	62,671	65,974
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$942,004	\$889,472

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, 2008 AND 2007  
(Dollars in thousands, except share data)  
*(unaudited)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Interest and dividend income:				
Interest and fees on loans	\$ 9,412	\$ 9,681	\$28,310	\$28,281
Interest and dividends on securities	4,103	3,685	11,800	10,051
Total interest and dividend income	13,515	13,366	40,110	38,332
Interest expense:				
Deposits	3,551	4,207	11,465	12,084
Short-term borrowings	358	1,967	1,155	4,919
Long-term borrowings	2,478	1,279	7,538	4,538
Total interest expense	6,387	7,453	20,158	21,541

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Net interest income	7,128	5,913	19,952	16,791
Provision for loan losses	860	214	1,669	247
Net interest income after provision for loan losses	6,268	5,699	18,283	16,544
Noninterest income:				
Trust and other financial services	639	564	1,917	1,747
Service charges on deposit accounts	459	454	1,226	1,242
Other service charges, commissions and fees	64	57	171	162
Credit and debit card service charges and fees	876	871	1,716	1,579
Net securities gains (losses)	89	231	604	(671)
Other operating income	97	86	571	240
Total non-interest income	2,224	2,263	6,205	4,299
Noninterest expense:				
Salaries and employee benefits	2,592	2,386	7,933	6,885
Postretirement plan settlement	---	---	---	(832)
Occupancy expense	312	294	1,049	987
Furniture and equipment expense	357	396	1,220	1,284
Credit and debit card expenses	619	621	1,200	1,079
Other operating expense	1,232	1,099	3,932	3,743
Total non-interest expense	5,112	4,796	15,334	13,146
Income before income taxes	3,380	3,166	9,154	7,697
Income taxes	1,047	1,019	2,840	2,332
Net income	\$ 2,333	\$ 2,147	\$ 6,314	\$ 5,365
<u>Earnings Per Share:</u>				
Basic earnings per share	\$ 0.80	\$ 0.71	\$ 2.13	\$ 1.76
Diluted earnings per share	\$ 0.78	\$ 0.69	\$ 2.09	\$ 1.72

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, 2008 AND 2007  
(Dollars in thousands, except share data)  
*(unaudited)*

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	Capital Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
Balance December 31, 2006	\$7,287	\$4,365	\$59,339	\$ (953)	\$ (8,987)	\$61,051
Net income	---	---	5,365	---	---	5,365
Total other comprehensive income	---	---	---	306	---	306
Cash dividends declared (\$0.710 per share)	---	---	(2,161)	---	---	(2,161)
Purchase of treasury stock (36,947 shares)	---	---	---	---	(1,152)	(1,152)
Stock options exercised (18,216 shares), including related tax effects	---	78	(233)	---	569	414
Recognition of stock option expense	---	157	---	---	---	157
Balance September 30, 2007	\$7,287	\$4,600	\$62,310	\$ (647)	\$ (9,570)	\$63,980
Balance December 31, 2007	\$7,287	\$4,668	\$63,292	\$1,118	\$(10,391)	\$65,974
Net income	---	---	6,314	---	---	6,314
Total other comprehensive loss	---	---	---	(4,833)	---	(4,833)
Cash dividends declared (\$0.760 per share)	---	---	(2,250)	---	---	(2,250)
Purchase of treasury stock (95,943 shares)	---	---	---	---	(2,888)	(2,888)
Stock options exercised (8,521 shares), including related tax effects	---	27	(98)	---	257	186
Recognition of stock option expense	---	168	---	---	---	168
Balance September 30, 2008	\$7,287	\$4,863	\$67,258	\$(3,715)	\$(13,022)	\$62,671

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, 2008 AND 2007  
(Dollars in thousands)  
(unaudited)

	2008	2007
Cash flows from operating activities:		
Net income	\$ 6,314	\$ 5,365
Adjustments to reconcile net income to net cash provided by operating activities:		

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Depreciation and amortization of premises and equipment	750	919
Amortization of core deposit intangible	50	50
Provision for loan losses	1,669	247
Net securities (gains) losses	(604)	671
Net (accretion) amortization of bond discounts and premiums	(508)	132
Recognition of stock option expense	168	157
Postretirement plan settlement	---	(832)
Net change in other assets	1,198	(93)
Net change in other liabilities	69	(763)
Net cash provided by operating activities	9,106	5,853
Cash flows from investing activities:		
Purchases of securities available for sale	(72,264)	(117,581)
Proceeds from maturities, calls and principal paydowns of mortgage-backed securities	39,518	31,559
Proceeds from sales of securities available for sale	21,065	54,513
Net increase in Federal Home Loan Bank stock	(875)	(983)
Net loans made to customers	(45,769)	(11,055)
Proceeds from sale of other real estate owned	340	---
Capital expenditures	(376)	(408)
Net cash used in investing activities	(58,361)	(43,955)
Cash flows from financing activities:		
Net increase in deposits	39,047	30,543
Proceeds from issuance of junior subordinated debentures	5,000	---
Net (decrease) increase in securities sold under repurchase agreements and fed funds purchased	(3,705)	7,545
Proceeds from Federal Home Loan Bank advances	91,980	79,000
Repayments of Federal Home Loan Bank advances	(76,556)	(84,578)
Purchases of treasury stock	(2,888)	(1,152)
Proceeds from stock option exercises, including excess tax benefits	186	414
Payments of dividends	(2,250)	(2,161)
Net cash provided by financing activities	50,814	29,611
Net increase (decrease) in cash and cash equivalents	1,559	(8,491)
Cash and cash equivalents at beginning of period	7,731	19,547
Cash and cash equivalents at end of period	\$ 9,290	\$ 11,056
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		