

HARBOR BANKSHARES CORP
Form DEF 14A
November 13, 2006

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement
Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

HARBOR BANKSHARES CORPORATION
(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1. Title of each class of securities to which transaction applies:

Common Stock , \$0.01 par value

2. Aggregate number of securities to which transaction applies:

12,478

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

\$31.00, the per share price to be paid in the transaction

4. Proposed maximum aggregate value of transaction:

\$386,818

5. Total Fee Paid:

\$41.39

Fee paid previously with preliminary materials:

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or

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the Form or Schedule and the date of its filing.

1. Amount Previously Paid:
 2. Form, Schedule or Registration Statement No.:
 3. Filing Party:
 4. Date Filed:
-

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HARBOR BANKSHARES CORPORATION

25 West Fayette Street

Baltimore, Maryland 21201

November 16, 2006

To Our Shareholders:

On behalf of our Board of Directors, we cordially invite you to attend the Annual Meeting of Shareholders of Harbor Bankshares Corporation to be held at Harbor's main office at 25 West Fayette Street, Baltimore, Maryland 21201 on Wednesday, January 17, 2007, at 12:00 noon Eastern Time. The formal Notice of Annual Meeting appears on the next page.

At the Annual Meeting, you will be asked to consider and vote on the approval of a merger agreement which provides for the merger of Harbor Bankshares Corporation with Harbor Merger Corporation, its wholly-owned subsidiary, in what is commonly referred to as a "going private" transaction. Harbor Bankshares Corporation will continue after the merger as the surviving company.

The purpose of the merger is to reduce the number of our shareholders of record to fewer than 300, as required for the suspension of our reporting requirements under Section 13 of the Securities Exchange Act of 1934, in order to eliminate the significant expense required to comply with the those requirements.

If you approve the merger agreement and the merger is completed, each share of Harbor Bankshares Corporation common stock owned of record at the effective time of the merger by a shareholder owning 100 or fewer shares (other than shareholders who properly exercise their rights as objecting shareholders) will be converted into the right to receive from Harbor Bankshares Corporation \$31.00 in cash per share, without interest. Shares owned of record by a holder of more than 100 shares will remain as outstanding shares of Harbor Bankshares Corporation common stock after the merger and those shareholders will not receive any cash payment.

Because Harbor Bankshares Corporation has a large number of shareholders who own 100 or fewer shares each, we expect that the merger will reduce the number of shareholders of record by approximately 58%, but will reduce the number of total outstanding shares by less than 2%.

Our Board of Directors believes that the merger agreement is fair to our shareholders and is in the best interests of Harbor Bankshares Corporation and its affiliated and unaffiliated shareholders and unanimously recommends that shareholders vote **FOR** approval of the merger agreement, and **FOR** adjournment of the meeting if necessary to solicit additional votes for approval of the merger agreement. The approval of the merger agreement requires the affirmative vote of the holders of at least two-thirds (2/3) of the outstanding voting shares of Harbor Bankshares Corporation common stock, including a majority of voting shares held by shareholders who are not Directors or executive officers of Harbor.

The enclosed proxy statement gives you detailed information about the Annual Meeting, the merger, and related matters. We urge you to read carefully the enclosed proxy statement, including the considerations discussed under "SPECIAL FACTORS," beginning on page 13, and the appendices to the proxy statement, which include the merger agreement. Shareholders also are asked to reelect Nathaniel Higgs, Delores G. Kelley, Erich March, and Stanley W. Tucker as Class II Directors for three-year terms.

In deciding how to vote, you should consider that Directors and executive officers of Harbor have interests in addition to those as shareholders that may conflict with the interests of unaffiliated shareholders. Please see "How do the Board of Directors and the executive officers recommend that I vote?" on page 8.

It is important that your views be represented whether or not you attend the Annual Meeting. Your vote is important, whether you own a few shares or many. We urge you to vote your shares either in person at the Annual Meeting or by returning your proxy as soon as possible. **The Board of Directors recommends that shareholders vote FOR approval of the merger, FOR adjournment of the Annual Meeting, if necessary,**

and FOR reelection of the four Class II Directors.

Sincerely,

/s/Joseph Haskins, Jr.
Chairman, President, and Chief
Executive Officer

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HARBOR BANKSHARES CORPORATION
25 West Fayette Street
Baltimore, Maryland 21201

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held January 17, 2007

To Our Shareholders:

The Annual Meeting of Shareholders of Harbor Bankshares Corporation will be held at Harbor's main office at 25 West Fayette Street, Baltimore, Maryland 21201 on Wednesday, January 17, 2007, at 12:00 noon Eastern Time, for the following purposes:

- ☐ Proposal I□To consider and vote upon a proposal to approve the Agreement and Plan of Merger, dated as of November 1, 2006, by and between Harbor Bankshares Corporation and Harbor Merger Corporation, a Maryland corporation and wholly-owned subsidiary of Harbor Bankshares Corporation (the "merger subsidiary"), pursuant to which the merger subsidiary will merge with and into Harbor Bankshares Corporation, with Harbor Bankshares Corporation being the surviving corporation;
- ☐ Proposal II□To consider and vote upon the proposal for an adjournment of the Annual Meeting to solicit additional proxies for approval of Proposal I, if necessary.
- ☐ Proposal III□To elect four Class II Directors, each to serve for a three-year term; and
- ☐ To act upon such other matters as may properly come before the Annual Meeting or any adjournments or postponements thereof.

Note: The Board of Directors is not aware of any other business to come before the Special meeting.

The Board of Directors has fixed the close of business on November 13, 2006, as the record date for determination of shareholders entitled to vote at the Annual Meeting. The Harbor Board of Directors unanimously recommends that you vote **FOR** approval of the merger agreement, **FOR** an adjournment of the Annual Meeting to solicit additional proxies for approval of the merger agreement, if necessary, and **FOR** the election of four Class II Directors.

Only shareholders of record of Harbor Bankshares Corporation voting common stock at the close of business on the record date will be entitled to notice of, and to vote at the Annual Meeting or any adjournment thereof. To grant a proxy to vote your shares, you may complete and return the enclosed proxy card. You also may vote in person at the Annual Meeting. Please vote promptly whether or not you expect to attend the Annual Meeting. In the event that there are not sufficient votes to vote upon the merger or to approve other business properly before the Annual Meeting, the Annual Meeting may be adjourned in order to permit further solicitation of proxies by Harbor Bankshares Corporation.

You are requested to fill in and sign the enclosed Form of Proxy and to mail it in the enclosed envelope. The Proxy will not be used if you attend and choose to vote in person at the Annual Meeting. **Executed but unmarked proxies will be voted FOR Proposal I to approve the Agreement and Plan of Merger, FOR Proposal II for an adjournment of the Annual Meeting to solicit additional proxies for approval of Proposal I, if necessary. and FOR the election of the four Class II Directors.**

Harbor Bankshares Corporation's only class of voting stock is its common stock, par value \$0.01 per share. A complete list of shareholders entitled to vote at the Annual Meeting will be available for inspection by any shareholder at the offices of Harbor Bankshares Corporation during ordinary business hours for a period of at least ten days prior to the Annual Meeting.

By Order of the Board of Directors,

/s/George F. Vaeth, Jr.

Corporate Secretary

Baltimore, Maryland
November 16, 2006

Your Vote Is Important. Please promptly sign, date, and return the enclosed proxy card. If you attend the Annual Meeting and decide that you wish to vote in person or for any other reason desire to revoke your proxy, you can do so at any time prior to its use.

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HARBOR BANKSHARES CORPORATION
25 West Fayette Street
Baltimore, Maryland 21201

PROXY STATEMENT
FOR THE ANNUAL MEETING OF SHAREHOLDERS
To Be Held on January 17, 2007

INTRODUCTION

This Proxy Statement is being sent to holders of the common stock, \$0.01 par value, of Harbor Bankshares Corporation, a Maryland corporation ("Harbor" or the "Company"), in connection with the solicitation of proxies by the Board of Directors of Harbor for use at the 2006 Annual Meeting of Shareholders to be held at Harbor's main office at 25 West Fayette Street, Baltimore, Maryland 21201 on Wednesday, January 17, 2007, at 12:00 noon Eastern Time, and at any adjournment or postponement of the meeting, for the following purposes:

- ☐ Proposal I□To consider and vote upon a proposal to approve the Agreement and Plan of Merger, dated as of November 1, 2006, by and between Harbor Bankshares Corporation and Harbor Merger Corporation, a Maryland corporation and wholly-owned subsidiary of Harbor Bankshares Corporation (the "merger subsidiary"), pursuant to which the merger subsidiary will merge with and into Harbor Bankshares Corporation, with Harbor Bankshares Corporation being the surviving corporation;
- ☐ Proposal II□To consider and vote upon the proposal for an adjournment of the Annual Meeting to solicit additional proxies for approval of Proposal I, if necessary.
- ☐ Proposal III□To elect four Class II Directors, each to serve for a three-year term; and
- ☐ To act upon such other matters as may properly come before the Annual Meeting or any adjournments or postponements thereof.

The purpose of the Agreement and Plan of Merger is to allow Harbor to eliminate the substantial expenses of being a Securities and Exchange Commission ("SEC") reporting company under the Securities Exchange Act of 1934. If approved and completed, the merger will reduce the number of Harbor record shareholders to fewer than 300, and will allow Harbor to terminate the registration of its common stock under the Exchange Act.

In the merger, holders of record of 100 or fewer shares will receive \$31.00 per share in exchange for their shares; holders of more than 100 shares will remain shareholders of Harbor after the merger. The merger cannot occur unless the merger agreement is approved by the holder of at least two-thirds (2/3) of the outstanding shares of Harbor common stock that are eligible to vote, including a majority of voting shares held by shareholders who are not Directors or executive officers of Harbor.

This document provides you with detailed information about the proposed merger. Please see the "Summary Term Sheet" on page 4 and the other material referred to therein for important additional information and "WHERE YOU CAN FIND MORE INFORMATION" on page 50 for additional information about Harbor on file with the SEC.

This Proxy Statement and the accompanying form of proxy are being sent to Harbor shareholders on or about November 16, 2006.

Only shareholders of record of voting common stock at the close of business on November 13, 2006, the record date, are entitled to notice of and to vote at the annual meeting and any adjournment or postponement of the meeting. As of November 13, 2006, there were 675,579 shares of Harbor common stock, par value \$0.01 per share, outstanding, consisting of 641,784 shares of voting common stock and 33,795 shares of nonvoting common stock.

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The cost of soliciting proxies will be borne by Harbor. In addition to the solicitation of proxies by mail, Harbor also may solicit proxies personally or by telephone or other means through its Directors, officers, and regular employees. Harbor also will request persons, firms, and corporations holding shares in their names or in the name of nominees that are beneficially owned by others to send proxy materials to and obtain proxies from those beneficial owners and will reimburse the holders for their reasonable expenses in doing so.

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For additional information regarding the annual meeting and related corporate matters, please see "COMPANY CORPORATE GOVERNANCE" on page 41 and "THE ANNUAL MEETING" on page 48.

This transaction has not been approved or disapproved by the Securities and Exchange Commission nor has the Commission passed upon the fairness or merits of such transaction or upon the accuracy or adequacy of the information contained in this document. Any representation to the contrary is unlawful.

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PROPOSAL TO ACQUIRE HARBOR BANKSHARES CORP. BY AGREEMENT AND PLAN OF MERGER

SUMMARY TERM SHEET

This summary highlights selected information from this proxy statement regarding the proposed transaction and may not contain all of the information that is important to you. For a more complete description of the terms and conditions of the transaction and its effects, you should carefully read this entire document, the attachments, and any other documents to which we refer.

Why is Harbor proposing the merger?

The purpose of the merger is to reduce the number of shareholders of record below 300, which will enable Harbor to terminate the registration of its common stock under the Securities Exchange Act of 1934.

By terminating the Harbor's registration under that Act, we hope to:

- ☐ Achieve significant savings in ongoing legal and accounting costs related to the reporting process and shareholder communications required by the Act;
- ☐ Avoid significant expenses and efforts that would be necessary for the Company to comply with additional procedures relating to internal control that otherwise are required by year-end 2007 under the Sarbanes-Oxley Act and SEC regulations; and.
- ☐ Enable management, employees, and the Board of Directors to focus their efforts on the operations and management of the Company's business, rather than the reporting processes.

See "SPECIAL FACTORS—Reasons for the Merger" on page 15.

What are the effects of not being a reporting company?

After we terminate the registration of our common stock, we will no longer prepare and file the quarterly, annual, and other reports and proxy statements with the Securities and Exchange Commission. We will continue to issue reports and proxy materials, but these may not contain all of the information that is contained in the annual report and proxy statements that Harbor currently distributes.

Harbor common stock is not currently traded on any exchange and will not be listed or quoted on any exchange following the merger, but is traded from time to time in the over the counter market. After we terminate the registration of our common stock, we will not be eligible for future quotation or listing on any stock exchange or organized market, and the number of trading markets where the shares may be traded by market makers will be limited.

Harbor and its wholly owned subsidiary, Harbor Bank of Maryland ("Harbor Bank" or the "Bank") will continue to be highly regulated and subject to periodic examination by federal and state bank regulatory agencies

See "Special Factors—Effects of the Merger" on page 18 and "Reasons for the Merger" on page 15.

What will I receive if the merger is approved by shareholders and becomes effective?

If the merger is approved by shareholders and becomes effective:

- ☐ Each holder of 100 or fewer shares of common stock will receive \$31.00 in cash per share. Share ownership will be calculated by adding all shares registered in the same manner under procedures established by Harbor.
- ☐ Each holder of more than 100 shares of common stock will continue as a Harbor shareholder and will own the same number of shares as the holder owned before the merger.

When will the merger become effective?

The Board of Directors currently plans to make the merger effective within thirty calendar days of the date on which shareholders approve the merger.

Who are "Filing Persons" and "Affiliates"?

Under the SEC rules that govern going-private transactions, Harbor and the merger subsidiary are "Filing persons," and they and each of their Directors and executive officers are "Affiliates." Each of the Filing Persons and Affiliates has determined that the terms of the merger are substantively and procedurally fair to shareholders

who will receive cash for their shares in the merger, unaffiliated shareholders who will not receive cash in the merger, and affiliated shareholders. No executive officers or Directors of Harbor own 100 or fewer shares of Harbor common stock, and, accordingly, no executive officers or Directors of Harbor will receive cash in the merger. As a result of the merger, the percentage of common shares beneficially owned by Directors and executive officers of Harbor will increase by less than 2%. See "SPECIAL FACTORS" INTRODUCTION" on page 28.

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□ Does the Board of Directors believe that the terms of the merger are fair?

Yes. The Board of Directors and each of the executive officers believes that the terms of the merger, including the amount to be paid per share, are fair to and in the best interests of Harbor and all of its shareholders. In reaching its conclusion, the Board considered, among other things:

- The matters discussed under “Reasons for the Merger”;
- The opinion of Harbor’s financial advisor, Danielson Associates, as to the fair value of the common stock;
- Harbor’s current financial position and its available sources of liquidity;
- Harbor’s business and financial prospects;
- The continued costs of compliance with Harbor’s reporting obligations under the Exchange Act; and
- The current and historical prices for our common stock and the liquidity of the market for the common stock.

The members of the Board of Directors and the executive officers have specifically determined that the transaction is financially and procedurally fair to unaffiliated shareholders. See “Special Factors-Reasons for the Merger” on page 15, “-Recommendation of the Board of Directors; Fairness of the Merger Proposal” on page 17, “-Fairness Determination by Filing Persons” on page 18, “-Opinion of Financial Advisor” on page 18, and “-Price Adjustment since Opinion Date” on page 24.

□ What is the merger, and how will Harbor be operated after the merger?

In the merger, Harbor Merger Corporation, a newly formed wholly-owned subsidiary of Harbor, will merge with and into Harbor, with Harbor being the surviving corporation. As a result of the merger, shareholders who own 100 or fewer shares of Harbor common stock, except for shares owned by shareholders who properly exercise their rights to object to the merger, will receive \$31.00 in cash for each share owned, without interest. Shareholders who own more than 100 shares of Harbor common stock will continue to hold shares of Harbor common stock and will not receive any cash in connection with the merger. Approximately 12,478 shares, or less than 2% of total outstanding shares, are expected to be exchanged for cash in the merger. The estimated costs of the merger, including cash to be paid to shareholders with 100 or fewer shares, is \$486,818, or less than 3% of total stockholder’s equity at June 30, 2006.

After the merger, Harbor will continue to operate as a bank holding company and as the parent corporation for Harbor Bank, and expects its business and operations to continue as they are currently being conducted, but without the need to file reports with the SEC. Also, the executive officers and Directors of Harbor will continue to be the executive officers and Directors of Harbor following the merger. We expect to complete the merger in January 2007.

See: “THE MERGER AGREEMENT” on page 36 and the copy of the merger agreement attached as Appendix A.

□ What vote is required to approve the merger agreement?

The affirmative vote of least two-thirds (2/3) of the outstanding shares of Harbor common stock eligible to vote is needed for approval of the merger. Members of Harbor’s Board of Directors and executive officers having the power to vote approximately 193,177 or 30.1% of the 641,784 outstanding voting shares have indicated that they intend to vote FOR the merger. The members of the Board of Directors and the executive officers do not intend to acquire any additional shares of common stock prior to approval of the merger. The approval of approximately 52% of the remaining 448,607 outstanding voting shares owned by other, unaffiliated shareholders will be required for approval of the merger. All holders of record of Harbor voting common stock as of November 13, 2006, will receive a copy of this proxy statement and are entitled to vote at the Annual Meeting.

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Who is entitled to vote?

Shareholders of voting common stock as of the close of business on November 13, 2006, the record date, are entitled to vote at the meeting. Each share of voting common stock is entitled to one vote. See "The Annual Meeting-Shares Entitled to Vote; Quorum and Vote Required" on page 48.

How do the Board of Directors and the executive officers recommend that I vote?

The Board of Directors, by a unanimous vote, has approved the merger agreement and recommends that you vote FOR approval of the merger agreement. Executive officers who are not Directors also recommend that you vote FOR approval. You should note that all of the Directors and executive officers own more than 100 shares and expect to remain Harbor shareholders after the merger, and that no Director or executive officer is expected to receive cash in the merger. As you consider the recommendation of the Board of Directors, you should be aware that the Directors and officers of Harbor have interests in addition to their interests as shareholders of Harbor that may conflict with the interests of shareholders who will be cashed out in the merger or non-affiliated shareholders who will not be cashed out in the merger. See "Special Factors-Interests of Executive Officers and Directors in the Merger" on page 28.

How do I vote?

Each shareholder should sign and date the enclosed proxy card and return it to us in the prepaid envelope. Unless contrary instructions are indicated on the proxy, all shares represented by valid proxies received pursuant to this solicitation will be voted in favor of the merger and in favor of the election of all nominees as Director. If you own your shares through a bank, broker, or other nominee, you must vote through your record holder. See "THE ANNUAL MEETING" on page 48.

Do I have appraisal or dissenter's rights?

Yes. If the merger is approved by the shareholders and is completed, any shareholder who properly perfects his or her right to object to the merger will be entitled to receive an amount of cash equal to the fair value of his shares rather than the consideration provided by the merger agreement. See "APPRAISAL RIGHTS OF HARBOR SHAREHOLDERS" on page 32.

What are the federal income tax implications of the merger?

The receipt of cash in the merger will be taxable for United States federal income tax purposes. You will be treated as either having sold your shares of Harbor common stock for the cash received or as having received the cash as a dividend. In general, your receipt of cash in exchange for your shares of Harbor common stock will be treated as a sale or exchange and you will recognize gain or loss in an amount equal to the cash received less your adjusted tax basis of your shares exchanged for such cash if you actually and constructively own no shares of Harbor common stock immediately after the exchange. If you actually or constructively own shares of Harbor common stock after the exchange, your receipt of cash in exchange for your shares of Harbor common stock may be taxed as a dividend. Shareholders who do not receive cash should not recognize any gain or loss on continuing to hold their shares of Harbor common stock as a result of the merger.

See "SPECIAL FACTORS—Material U.S. Federal Income Tax Consequences" on page 30.

Should I send in my certificates now?

No. After the effectiveness of the merger, holders of 100 or fewer shares will be sent a letter of transmittal and instructions for submitting shares for payment. Holders of more than 100 shares will not be required to exchange their certificates. See "THE MERGER AGREEMENT—Exchange of Certificates" on page 37.

Who can help answer my questions?

If you have additional questions about the merger, you should contact Teodoro J. Hernandez, Vice President and Treasurer, at Harbor Bankshares Corporation, 25 West Fayette Street, Baltimore, MD 21201, telephone (410) 528-1800.

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STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This proxy statement and the documents incorporated by reference in this proxy statement include forward-looking statements such as: statements of Harbor's goals, intentions, and expectations; estimates of risks and of future costs and benefits; and statements of Harbor's ability to achieve financial and other goals. These forward-looking statements are subject to significant uncertainties because they are based upon: the amount and timing of future changes in interest rates, market behaviors, and other economic conditions; future laws and regulations; and a variety of other matters. Because of these uncertainties, the actual future results may be materially different from the results indicated by these forward-looking statements. In addition, Harbor's past performance does not necessarily indicate its future results.

[Back to Contents](#)**SUMMARY FINANCIAL INFORMATION****Selected Historical Financial Information**

	As of and for the Six Months Ended June 30,		As of and for the Years Ended December				
	2006	2005	2005	2004	2003	2002	2001
(Dollars in thousands, except per share data)							
Operations Data:							
Interest income	\$ 8,436	\$ 7,062	\$ 12,648	\$ 11,886	\$ 11,886	\$ 11,647	\$ 13,609
Interest expense	2,814	1,618	2,283	2,411	2,411	3,402	5,973
Net interest income	5,622	5,444	11,227	10,365	9,475	8,245	7,636
Provision for loan losses	135	240	410	360	755	340	400
Non-interest income	784	939	1,771	1,514	2,506	2,220	2,329
Non-interest expense	4,880	4,825	9,638	9,295	8,610	8,575	8,526
Income before taxes	1,391	1,318	2,950	2,224	2,616	1,550	1,039
Income taxes	496	486	1,067	762	831	473	309
Net income	\$ 895	\$ 832	\$ 1,883	\$ 1,462	\$ 1,785	\$ 1,077	\$ 730
Per Share Data:							
Net income-basic	\$ 1.32	\$ 1.20	\$ 2.73	\$ 2.07	\$ 2.46	\$ 1.47	\$ 1.02
Net income-diluted	1.24	1.11	2.55	1.93	2.36	1.43	0.99
Cash dividends declared per share	0.50	0.40	0.40	0.35	0.25	0.25	0
Book value per share	25.50	23.61	24.73	23.04	21.69	19.23	16.72
Balance Sheet Data:							
Total assets	\$ 258,174	\$ 243,475	\$ 256,636	\$ 235,464	\$ 219,547	\$ 210,234	\$ 186,586
Deposits	228,475	217,905	229,845	210,224	195,901	193,294	171,531
Total net loans	203,460	179,101	188,936	172,205	149,729	120,523	105,847
Total shareholders' equity	17,230	16,248	16,954	16,240	15,274	14,149	12,241
Performance Ratios:							
Return on average assets	0.70%	0.71%	0.78%				