

FIRST MARINER BANCORP
Form 10-Q
November 09, 2005

**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, 2005.

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: 0-21815

FIRST MARINER BANCORP

(Exact name of registrant as specified in its charter)

Maryland
(State of Incorporation)

52-1834860
(I.R.S. Employer Identification Number)

3301 Boston Street, Baltimore, MD
(Address of principal executive offices)

21224
(Zip Code)

410-342-2600
(Telephone Number)

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 during the preceding 12 months (or for such shorter period that the registrant was required to file such report, and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act)

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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

The number of shares of common stock outstanding as of November 4, 2005 is 6,250,223 shares.

**FIRST MARINER BANCORP AND SUBSIDIARIES
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PART I FINANCIAL INFORMATION

Item 1 Financial Statements

First Mariner Bancorp and Subsidiaries

Consolidated Statements of Financial Condition

(dollars in thousands, except per share data)

	September 30, 2005 (unaudited)	December 31, 2004
ASSETS		
Cash and due from banks	\$ 41,853	\$ 29,765
Federal funds sold and interest-bearing deposits	18,014	5,682
Securities available for sale, at fair value	287,014	322,965
Loans held for sale	110,000	79,955
Loans receivable	834,380	746,146
Allowance for loan losses	(11,269)	(9,580)
Loans, net	823,111	736,566
Other real estate owned	931	65
Restricted stock investments	15,393	11,886
Premises and equipment, net	39,493	17,445
Accrued interest receivable	7,234	6,417
Deferred income taxes	4,695	2,976
Bank-owned life insurance	27,113	26,338
Prepaid expenses and other assets	10,419	10,471
Total assets	\$ 1,385,270	\$ 1,250,531
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 182,592	\$ 160,538
Interest-bearing	687,982	664,879
Total deposits	870,574	825,417
Short-term borrowings	241,244	162,292
Repurchase agreements	15,000	25,000
Long-term borrowings	118,420	109,369
Junior subordinated deferrable interest debentures	63,259	58,249
Accrued expenses and other liabilities	6,606	5,890
Total liabilities	1,315,103	1,186,217
Stockholders equity:		
Common stock, \$.05 par value; 20,000,000 shares authorized; 6,250,223 and 5,826,011 shares issued and outstanding, respectively	313	291
Additional paid-in capital	55,027	51,792
Retained earnings	17,678	12,363
Accumulated other comprehensive loss	(2,851)	(132)
Total stockholders equity	70,167	64,314

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Total liabilities and stockholders equity	\$	1,385,270	\$	1,250,531
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See accompanying notes to the consolidated financial statements

First Mariner Bancorp and Subsidiaries

Consolidated Statements of Operations

(dollars in thousands except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Interest income:	(unaudited)		(unaudited)	
Loans	\$ 18,422	\$ 13,206	\$ 49,608	\$ 37,614
Investments and other earning assets	3,387	3,659	10,393	10,088
Total interest income	21,809	16,865	60,001	47,702
Interest expense:				
Deposits	4,384	3,203	11,896	9,452
Short-term borrowings	2,148	380	4,495	687
Long-term borrowings	2,862	2,218	8,011	6,353
Total interest expense	9,394	5,801	24,402	16,492
Net interest income	12,415	11,064	35,599	31,210
Provision for loan losses	1,116	692	2,511	1,481
Net interest income after provision for loan losses	11,299	10,372	33,088	29,729
Noninterest income:				
Gain on sale of mortgage loans	1,859	762	3,598	2,457
Other mortgage-banking revenue	712	289	1,716	1,131
ATM fees	802	737	2,321	2,080
Service fees on deposits	1,866	1,781	5,338	5,022
Gain on sales of investment securities, net		100		440
Commissions on sales of nondeposit investment products	109	152	401	569
Income from bank-owned life insurance	261	282	770	797
Commissions on sales of other insurance products	691	403	1,673	1,049
Other	407	217	857	572
Total noninterest income	6,707	4,723	16,674	14,117
Noninterest expense:				
Salaries and employee benefits	8,054	6,817	23,017	19,769
Net occupancy	1,701	1,586	4,592	4,610
Furniture, fixtures and equipment	779	790	2,296	2,255
Professional services	219	160	862	589
Advertising	300	336	1,090	1,013
Data processing	490	513	1,529	1,558
ATM servicing expenses	311	256	869	854
Service & maintenance	501	390	1,340	1,120
Other	2,510	2,026	6,710	6,152
Total noninterest expense	14,865	12,874	42,305	37,920
Net income before income taxes	3,141	2,221	7,457	5,926
Income tax expense	928	646	2,142	1,671
Net income	\$ 2,213	\$ 1,575	\$ 5,315	\$ 4,255
Net income per common share:				
Basic	\$ 0.35	\$ 0.27	\$ 0.88	\$ 0.74
Diluted	\$ 0.34	\$ 0.25	\$ 0.82	\$ 0.67

See accompanying notes to the consolidated financial statements.

First Mariner Bancorp and Subsidiaries

Consolidated Statements of Cash Flows

(dollars in thousands)

	Nine Months Ended September 30,	
	2005	2004
	(unaudited)	
Cash flows from operating activities:		
Net income	\$ 5,315	\$ 4,255
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	2,897	2,469
Amortization of unearned loan fees and costs, net	(790)	(811)
Amortization of premiums and discounts on loans, net	(556)	(672)
Amortization of premiums and discounts on mortgage-backed securities, net	206	465
Gain on sale of mortgage loans	(3,598)	(2,457)
Gain on sale of securities available for sale		(440)
Gain on other real estate owned		(59)
Valuation allowance of other real estate owned		(41)
Increase in accrued interest receivable	(817)	(993)
Provision for loan losses	2,511	1,481
Increase in cash surrender value of bank-owned life insurance	(770)	(797)
Gain on sale of premises and equipment	3	
Originations of mortgage loans held for sale	(880,128)	(460,116)
Proceeds from mortgage loans held for sale	853,681	462,708
Deferred taxes		15
Net increase in accrued expenses and other liabilities	708	361
Net decrease in prepaids and other assets	48	3,610
Net cash (used in) provided by operating activities	(21,290)	8,978
Cash flows from investing activities:		
Loan disbursements, net of principal repayments	(88,576)	(66,610)
Purchases of premises and equipment	(24,949)	(1,857)
Purchases of restricted stock investments	(3,507)	(1,950)
Activity in securities available for sale:		
Sale of securities available for sale		18,674
Maturities/calls/repayments of securities available for sale	41,683	141,272
Purchase of securities available for sale	(10,367)	(207,442)
Proceeds from sales of other real estate owned		351
Purchase of bank-owned life insurance		(10,796)
Net cash used in investing activities	(85,716)	(128,358)
Cash flows from financing activities:		
Net increase in deposits	45,157	64,707
Net increase in other borrowed funds	93,012	69,300
Repayment of repurchase agreements	(10,000)	
Proceeds from stock issuance	4,835	1,250
Repurchase of common stock, net of costs	(1,578)	(478)
Net cash provided by financing activities	131,426	134,779
Increase in cash and cash equivalents	24,420	15,399
Cash and cash equivalents at beginning of period	35,447	46,679
Cash and cash equivalents at end of period	\$ 59,867	\$ 62,078
Supplemental information:		
Interest paid on deposits and borrowed funds	\$ 23,649	\$ 16,190
Income taxes paid	\$ 2,115	\$ 1,489
Real estate acquired in satisfaction of loans	\$ 866	\$

See accompanying notes to the consolidated financial statements.

First Mariner Bancorp and Subsidiaries

Notes to Consolidated Financial Statements

(Information as of and for the three months and nine months

ended September 30, 2005 and 2004 is unaudited)

NOTE 1 BASIS OF PRESENTATION

The accompanying consolidated financial statements for First Mariner Bancorp (the Company) have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and notes necessary for a full presentation of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements should be read in conjunction with the audited financial statements included in our 2004 Annual Report on Form 10-K.

The consolidated financial statements include the accounts of the Company's subsidiaries First Mariner Bank (the Bank), Finance Maryland LLC (Finance Maryland), and FM Appraisals, LLC (FM Appraisals). All significant intercompany balances and transactions have been eliminated.

The consolidated financial statements as of September 30, 2005 and for the three months and nine months ended September 30, 2005 and 2004 are unaudited but include all adjustments, consisting only of normal recurring adjustments, which we consider necessary for a fair presentation of financial position and results of operations for those periods. The results of operations for the three months and nine months ended September 30, 2005 are not necessarily indicative of the results that will be achieved for the entire year.

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for credit losses (the allowance), other than temporary impairment of investment securities and deferred tax assets.

Certain reclassifications have been made to amounts previously reported to conform to the classifications made in 2005.

NOTE 2 COMPREHENSIVE INCOME

The following table shows the Company's comprehensive income for the three and nine months ended September 30, 2005 and 2004.

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(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income	\$ 2,213	\$ 1,575	\$ 5,315	\$ 4,255
Other comprehensive income items:				
Unrealized holding gains (losses) arising during the period (net of tax expense (benefit) of \$(1,269), \$1,916, \$(1,711) and \$(434), respectively)	(2,018)	3,045	(2,719)	(689)
Less: reclassification adjustment for gains (net of taxes of \$0, \$39, \$0 and \$170, respectively) included in net income		61		270
Total other comprehensive income (loss)	(2,018)	2,984	(2,719)	(959)
Total comprehensive income	\$ 195	\$ 4,559	\$ 2,596	\$ 3,296

NOTE 3 PER SHARE DATA

Basic earnings per share is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding. Diluted earnings per share is computed after adjusting the denominator of the basic earnings per share computation for the effects of all dilutive potential common shares outstanding during the period. The dilutive effects of options,

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warrants and their equivalents are computed using the treasury stock method. For the three month periods ended September 30, 2005 and 2004, there were 257,850 and 0 shares, respectively, which were antidilutive and excluded from the computation and for the nine month periods ended September 30, 2005 and 2004, there were 193,200 and 0 shares, respectively, which were antidilutive and excluded from the computation.

Information relating to the calculation of earnings per common share is summarized as follows:

(dollars in thousands, except for per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income - basic and diluted	\$ 2,213	\$ 1,575	\$ 5,315	\$ 4,255
Weighted-average share outstanding - basic	6,234,250	5,772,195	6,054,835	5,743,231
Dilutive securities - options and warrants	313,876	526,451	412,013	595,264
Adjusted weighted-average shares outstanding - dilutive	6,548,126	6,298,646	6,466,848	6,338,495
Earnings per share - basic	\$ 0.35	\$ 0.27	\$ 0.88	\$ 0.74
Earnings per share - diluted	\$ 0.34	\$ 0.25	\$ 0.82	\$ 0.67

NOTE 4 - STOCK BASED COMPENSATION

We apply the intrinsic value method to account for stock-based compensation plans. Under this method, compensation cost is recognized for awards of shares of common stock to employees only if the quoted market price of the stock at the grant date (or

other measurement date, if later) is greater than the amount the employee must pay to acquire the stock.

The option price is equal to the market price of the common stock at the date of grant for all of our options granted in 2005 and 2004 and, accordingly, we do not record compensation expense related to options granted. If we had applied the fair value-based method to recognize compensation cost for the options granted, our net income and net income per share would have been changed to the following pro forma amounts for the three and nine months ended September 30:

(dollars in thousands, except for per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income, as reported	\$ 2,213	\$ 1,575	\$ 5,315	\$ 4,255
Deduct: Total stock-based employee compensation expense determined using the fair value based method for all awards, net of related tax effects	113		711	452
Pro forma net income	\$ 2,100	\$ 1,575	\$ 4,604	\$ 3,803
Earnings per share:				
Basic - as reported	\$ 0.35	\$ 0.27	\$ 0.88	\$ 0.74
Basic - pro forma				