

GLEN BURNIE BANCORP
Form 10-Q
August 15, 2011

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

FORM 10-Q

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

For the Quarterly period ended June 30, 2011

OR

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

Commission file number 0-24047

GLEN BURNIE BANCORP

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

52-1782444
(I.R.S. Employer
Identification No.)

101 Crain Highway, S.E.
Glen Burnie, Maryland
(Address of principal executive offices)

21061
(Zip Code)

Registrant's telephone number, including area code: (410) 766-3300

Inapplicable

(Former name, former address and former fiscal year if changed from 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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Indicate by check mark if 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 Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

At August 8, 2011, the number of shares outstanding of the registrant's common stock was 2,712,656.

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ITEM 1.

CONSOLIDATED FINANCIAL STATEMENTS

GLEN BURNIE BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

	June 30, 2011 (unaudited)	December 31, 2010 (audited)
ASSETS		
Cash and due from banks	\$7,056	\$ 6,492
Interest-bearing deposits in other financial institutions	2,625	1,568
Federal funds sold	710	940
Cash and cash equivalents	10,391	9,000
Investment securities available for sale, at fair value	96,386	87,268
Federal Home Loan Bank stock, at cost	1,634	1,745
Maryland Financial Bank stock, at cost	30	100
Loans, less allowance for credit losses (June 30: \$3,595; December 31: \$3,400)	230,156	229,851
Premises and equipment, at cost, less accumulated depreciation	4,118	4,124
Other real estate owned	1,435	215
Cash value of life insurance	8,313	7,954
Other assets	5,378	6,810
Total assets	\$357,841	\$ 347,067
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	\$306,735	\$ 294,444
Short-term borrowings	185	4,274
Long-term borrowings	20,000	20,000
Other liabilities	1,844	2,017
Total liabilities	328,764	320,735
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$1, authorized 15,000,000 shares; issued and outstanding: June 30: 2,712,656 shares; December 31: 2,702,091 shares	2,713	2,702
Surplus	9,404	9,335
Retained earnings	16,226	15,300
Accumulated other comprehensive gain (loss), net of taxes (benefits)	734	(1,005)
Total stockholders' equity	29,077	26,332
Total liabilities and stockholders' equity	\$357,841	\$ 347,067

See accompanying notes to condensed consolidated financial statements.

GLEN BURNIE BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Interest income on:				
Loans, including fees	\$3,486	\$3,686	\$6,996	\$7,395
U.S. Treasury and U.S. Government agency securities	412	533	753	1,013
State and municipal securities	399	339	783	660
Other	26	54	77	116
Total interest income	4,323	4,612	8,609	9,184
Interest expense on:				
Deposits	766	947	1,544	1,944
Short-term borrowings	1	-	4	-
Long-term borrowings	160	264	318	525
Junior subordinated debentures	-	220	-	440
Total interest expense	927	1,431	1,866	2,909
Net interest income	3,396	3,181	6,743	6,275
Provision for credit losses	-	450	225	750
Net interest income after provision for credit losses	3,396	2,731	6,518	5,525
Other income:				
Service charges on deposit accounts	153	157	318	318
Other fees and commissions	202	205	396	392
Other non-interest income	2	-	5	3
Income on life insurance	59	67	120	134
Gains on investment securities	73	-	261	-
Total other income	489	429	1,100	847
Other expenses:				
Salaries and employee benefits	1,636	1,654	3,278	3,349
Occupancy	200	197	429	420
Impairment of securities and stocks	70	66	92	66
Other expenses	981	925	1,899	1,768
Total other expenses	2,887	2,842	5,698	5,603
Income before income taxes	998	318	1,920	769
Income tax expense	240	(4)	453	48
Net income	\$758	\$322	\$1,467	\$721

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Basic and diluted earnings per share of common stock	\$0.28	\$0.12	\$0.54	\$0.27
Weighted average shares of common stock outstanding	2,708,233	2,687,501	2,705,434	2,685,384
Dividends declared per share of common stock	\$0.10	\$0.10	\$0.20	\$0.20

See accompanying notes to condensed consolidated financial statements.

GLEN BURNIE BANCORP AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Dollars in Thousands)
 (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2011	2010	June 30, 2011	2010
Net income	\$758	\$322	\$1,467	\$721
Other comprehensive income (loss) , net of tax				
Unrealized gains (losses) securities:				
Unrealized holding gains arising during the period	1,119	1,213	1,896	859
Reclassification adjustment for (gains) included in net income	(44)	-	(157)	-
Comprehensive income	\$1,833	\$1,535	\$3,206	\$1,580

See accompanying notes to condensed consolidated financial statements.

GLEN BURNIE BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

	Six Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 1,467	\$ 721
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion	597	436
Provision for credit losses	225	750
Gains on disposals of assets, net	(261)	-
Impairment of securities and stocks	92	66
Income on investment in life insurance	(119)	(134)
Changes in assets and liabilities:		
Decrease in other assets	266	289
(Decrease) increase in other liabilities	(172)	313
Net cash provided by operating activities	2,095	2,441
Cash flows from investing activities:		
Maturities of available for sale mortgage-backed securities	11,843	5,995
Proceeds from maturities and sales of other investment securities	3,188	3,385
Purchases of investment securities	(21,412)	(19,541)
Sales of Federal Home Loan Bank stock	111	-
Purchase of life insurance contracts	(240)	-
Proceeds from sales of other real estate	87	-
(Increase) decrease in loans, net	(1,837)	5,742
Purchases of premises and equipment	(184)	(102)
Net cash used by investing activities	(8,444)	(4,521)
Cash flows from financing activities:		
Increase in deposits, net	12,291	8,892
(Decrease) increase in short-term borrowings, net	(4,089)	260
Repayment of long-term borrowings	-	(20)
Dividends paid	(542)	(540)
Common stock dividends reinvested	80	82
Net cash provided by financing activities	7,740	8,674
Increase in cash and cash equivalents	1,391	6,594
Cash and cash equivalents, beginning of year	9,000	11,434
Cash and cash equivalents, end of period	\$ 10,391	\$ 18,028

See accompanying notes to condensed consolidated financial statements.

GLEN BURNIE BANCORP AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying condensed balance sheet as of December 31, 2010, which has been derived from audited financial statements, and the unaudited interim consolidated financial statements were prepared in accordance with instructions for Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations, changes in stockholders' equity, and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments (consisting only of normal recurring accruals) which, in the opinion of management, are necessary for a fair presentation of the unaudited consolidated financial statements have been included in the results of operations for the three and six months ended June 30, 2011 and 2010.

Operating results for the three and six months ended June 30, 2011 is not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

NOTE 2 - EARNINGS PER SHARE

Basic earnings per share of common stock are computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated by including the average dilutive common stock equivalents outstanding during the periods. Dilutive common equivalent shares consist of stock options, calculated using the treasury stock method.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Basic and diluted:				
Net income	\$758,000	\$322,000	\$1,467,000	\$721,000
Weighted average common shares outstanding	2,708,233	2,687,501	2,705,434	2,685,384
Basic and dilutive net income per share	\$0.28	\$0.12	\$0.54	\$0.27

Diluted earnings per share calculations were not required for the three and six months ended June 30, 2011 and 2010, since there were no options outstanding.

NOTE 3 – RECENT ACCOUNTING PRONOUNCEMENTS

In July 2010, the FASB issued ASU No. 2010-20, Receivables (Topic 310), Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. The main objective of this ASU is to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. The ASU requires that entities provide additional information to assist financial statement users in assessing their credit risk exposures and evaluating the adequacy of its allowance for credit losses. For the Company, the disclosures as of the end of a reporting period were required for the annual reporting periods ended December 31, 2010. Required disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning January 1, 2011. The adoption of this ASU resulted in additional disclosures in the Company's financial statements regarding its loan portfolio and related allowance for loan losses but does not change the accounting for loans or the allowance. The Company has complied with the reporting requirements as of June 30, 2011.

The FASB has issued several exposure drafts which, if adopted, would significantly alter the Company's (and all other financial institutions') method of accounting for, and reporting, its financial assets and some liabilities from a historical cost method to a fair value method of accounting as well as the reported amount of net interest income. Also, the FASB has issued an exposure draft regarding a change in the accounting for leases. Under this exposure draft, the total amount of "lease rights" and total amount of future payments required under all leases would be reflected on the balance sheets of all entities as assets and debt. If the changes under discussion in either of these exposure drafts are adopted, the financial statements of the Company could be materially impacted as to the amounts of recorded assets, liabilities, capital, net interest income, interest expense, depreciation expense, rent expense and net income. The Company has not determined the extent of the possible changes at this time. The exposure drafts are in different stages of review, approval and possible adoption.

In April 2011, the FASB issued ASU No. 2011-02, Receivable (Topic 310), A Creditors Determination of Whether a Restructuring is a Troubled Debt Restructuring. The main objective of the ASU is to clarify a creditor's evaluation of whether in modifying a loan, it has granted a concession in circumstances that qualify the loan as a Troubled Debt Restructured (TDR) loan. These loans are subject to various accounting and disclosure requirements. The ASU is effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. Certain disclosures are required for loans considered as TDR loans resulting from the application of the ASU that were not considered TDR under prior guidance. The Company has not yet determined the effect, if any, of the ASU on its financial statements; however, it will comply with the new guidance as required.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The main objective of the ASU is to conform the requirements for measuring fair value and the disclosure information under U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). The amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for the disclosure about fair value measurements. Other amendments clarify existing requirements and change particular principles or requirements for measuring fair value or disclosing information about fair value measurements. The ASU is effective for the first interim or annual period beginning on or after December 15, 2011, early application for public entities is not permitted. The Company will review the requirements of ASU No. 2011-04 and comply with its requirements. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

NOTE 4 – FAIR VALUE

ASC 820-10, formerly SFAS No. 157, defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements.

Fair Value Hierarchy

ASC 820-10 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. In accordance with ASC 820-10, these inputs are summarized in the three broad levels listed below:

- o Level 1 – Quoted prices in active markets for identical securities
- o Level 2 – Other significant observable inputs (including quoted prices in active markets for similar securities)
- o Level 3 – Significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments)

In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are subject to ASC 820-10.

The Company's bond holdings in the investment securities portfolio are the only asset or liability subject to fair value measurements on a recurring basis. No assets are valued under Level 1 inputs at June 30, 2011 or December 31, 2010. The Company has assets measured by fair value measurements on a non-recurring basis during 2011. At June 30, 2011, these assets include 21 loans classified as impaired, which include nonaccrual, past due 90 days or more and still accruing, or troubled debt restructuring, and a homogeneous pool of indirect loans all considered to be impaired

loans, which are valued under Level 3 inputs and two properties classified as OREO valued under Level 2 inputs.

The changes in the assets subject to fair value measurements are summarized below by Level:

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(Dollars in Thousands)

December 31, 2010	Level 1	Level 2	Level 3	Fair Value
Recurring:				
Investment securities available for sale (AFS)	\$ -	\$ 87,268	\$ -	\$ 87,268
Non-recurring:				
Maryland Financial Bank stock	-	100	-	100
Impaired loans	-	-	9,476	9,476
OREO	-	215	-	215
	-	87,583	9,476	97,059
Activity:				
Investment securities AFS				
Purchases of investment securities	-	21,412	-	21,412
Sales, calls and maturities of investment securities	-	(14,770)	-	(14,770)
Amortization/accretion of premium/discount	-	(388)	-	(388)
Increase in market value	-	2,886	-	2,886
OTTI on investments	-	(22)	-	(22)
Maryland Financial Bank stock				
OTTI on stock	-	(70)	-	(70)
Loans				
New impaired loans	-	-	96	96
Payments and other loan reductions	-	-	(942)	(942)
Change in total provision	-	-	30	30
Loans converted to OREO	-	-	(1,307)	(1,307)
OREO				
OREO converted from loans	-	1,307	-	1,307
Sales of OREO	-	(87)	-	(87)
June 30, 2011				
Recurring:				
Investment securities AFS	-	96,386	-	96,386
Non-recurring:				
Maryland Financial Bank stock	-	30	-	30
Impaired loans	-	-	7,353	7,353
OREO	-	1,435	-	1,435
	\$ -	\$ 97,851	\$ 7,353	\$ 105,204

The estimated fair values of the Company's financial instruments at June 30, 2011 and December 31, 2010 are summarized below. The fair values of a significant portion of these financial instruments are estimates derived using present value techniques and may not be indicative of the net realizable or liquidation values. Also, the calculation of

estimated fair values is based on market conditions at a specific point in time and may not reflect current or future fair values.

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(In Thousands)	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	\$ 7,056	\$ 7,056	\$ 6,492	\$ 6,492
Interest-bearing deposits	2,625	2,625	1,568	1,568
Federal funds sold	710	710	940	940
Investment securities	96,386	96,386	87,268	87,268
Investments in restricted stock	1,634	1,634	1,745	1,745
Ground rents	178	178	178	178
Loans, net	230,156	232,710	229,851	234,426
Accrued interest receivable	1,494	1,494	1,539	1,539
Financial liabilities:				
Deposits	306,735	281,887	294,444	269,480
Short-term borrowings	185	185	4,274	4,274
Long-term borrowings				