

HARBOR BANKSHARES CORP
Form SC 13E3/A
August 01, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13E-3

(Rule 13e-100)

TRANSACTION STATEMENT UNDER SECTION 13(E) OF THE SECURITIES

EXCHANGE ACT OF 1934 AND RULE 13E-3 THEREUNDER

RULE 13E-3 TRANSACTION STATEMENT UNDER SECTION 13(E) OF THE

SECURITIES EXCHANGE ACT OF 1934)

Amendment No. 1

HARBOR BANKSHARES CORPORATION

(Name of the Issuer)

HARBOR BANKSHARES CORPORATION

HARBOR MERGER CORPORATION

Joseph Haskins, Jr., Teodoro J. Hernandez, Darius L. Davis, James H. DeGraffereidt, Jr., Louis J. Grasmick, Nathaniel Higgs, Delores G. Kelley, Erich March, Garnetta Massey, John Paterakis, John D. Ryder, James Scott, Jr., Edward St. John, Walter S. Thomas, Stanley W. Tucker, and George F. Vaeth, Jr.

(Name of Person(s) Filing Statement)

Common Stock \$.01 par value

411465 10 7

(CUSIP Number of Class of Securities)

Joseph Haskins, Jr.
Chairman, President and
Chief Executive Officer
Harbor Bankshares Corporation
25 West Fayette Street
Baltimore, MD 21201

With a copy to:
James I. Lundy, III
Attorney at Law
Suite 400
1700 Pennsylvania Avenue, NW
Washington, DC 20006

Edgar Filing: HARBOR BANKSHARES CORP - Form SC 13E3/A

(410) 528-1800

202.349.7130

(Name, Address and Telephone Number of Person Authorized to Receive Notices

and Communications on Behalf of Person(s) Filing Statement)

This statement is filed in connection with (check the appropriate box):

- a. The filing of solicitation materials or an information statement subject to Regulation 14A, Regulation 14C or Rule 13e-3(c) under the Securities Exchange Act of 1934.
- b. The filing of a registration statement under the Securities Act of 1933.
- c. A tender offer.
- d. None of the above.

Check the following box if the soliciting materials or information statement referred to in checking box (a) are preliminary copies:

Check the following box if the filing is a final amendment reporting the results of the transaction:

Calculation of Filing Fee

Transaction Valuation *	Amount of Filing Fee
\$386,818	\$41.39

* The transaction value is calculated based on the \$31.00 per share to be paid for an estimated 12,478 shares expected to be cashed out in the Rule 13e-3 transaction. The filing fee is \$107 per million dollars of the total transaction value of \$386,818.

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

Amount Previously Paid:	\$41.39	Filing Party:	Harbor Bankshares Corporation
Form or Registration No.: Schedule 14A		Date Filed:	May 2, 2006

INTRODUCTORY STATEMENT

This Amendment No. 1 to Schedule 13E-3 is being filed in connection with the proposed merger (the "merger") of Harbor Merger Corporation, a wholly-owned subsidiary of Harbor ("merger subsidiary"), with and into Harbor, with Harbor being the surviving corporation following the merger, pursuant to an Agreement and Plan of Merger (the "merger agreement"). Pursuant to the merger agreement, shares owned by holders of Harbor common stock, par value \$0.01 per share, who own of record 100 or fewer shares would be converted into the right to receive \$31.00 per share. The shares owned by other holders would not be affected. Following the merger, Harbor would have fewer than 300 shareholders of record. Harbor intends to terminate registration of its common stock under the Securities Exchange Act of 1934 (the "Exchange Act") and to suspend its reporting obligations under Section 13 of the Exchange Act following the merger.

This Schedule 13E-3 is being filed concurrently with a preliminary proxy statement (the "Proxy Statement") filed by Harbor as Amendment No. 1 to the Schedule 14A under the Exchange Act for Harbor's 2006 annual meeting of shareholders. That meeting has been called to consider and vote upon a proposal to approve the merger agreement; approve an adjournment of the Annual Meeting to solicit additional proxies for approval of the merger agreement, if necessary, 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 Proxy Statement is attached hereto as Exhibit (a)(1).

In accordance with the requirements of General Instruction G to Schedule 13E-3 this Schedule 13E-3 incorporates, where applicable, the information contained in the Proxy Statement in response to the Items hereof.

Item 1. Summary Term Sheet.

The information set forth in the Proxy Statement under the caption "Summary Term Sheet" is incorporated herein by reference.

Item 2. Subject Company Information.

(a), (b) The information set forth in the Proxy Statement under the caption "Introduction" is incorporated herein by reference.

(c), (d) The information set forth in the Proxy Statement under the caption "Market for Common Stock and Dividends" is incorporated herein by reference.

(e) No underwritten public offering or Regulation A exempt offering of the common stock for cash has been made during the past three years.

(f) The information set forth in the Proxy Statement under the captions, "The Parties Recent Transactions" and "Prior Stock Purchases" is incorporated herein by reference.

Item 3. Identity and Background of Filing Person.

(a) The information set forth under "Notice of Annual Meeting of Shareholders" and "The Parties Directors and Executive Officers of Harbor" is incorporated herein by reference.

(b) Not applicable.

(c) (1), (2) The information set forth under the caption "Election of Directors" and "Compensation of Directors and Executive Officers" is incorporated herein by reference.

(3) None of such persons has been convicted in a criminal proceeding during the past five years (excluding traffic violations and similar misdemeanors).

(4) None of such persons was a party to any judicial or administrative proceeding during the past five years that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding if any violation of federal or state securities laws. See "Directors and Executive Officers" in the Proxy Statement.

(5) Each of such persons is a citizen of the United States.

(d) Not applicable.

Item 4. Terms of the Transaction.

(a) The information set forth under Summary Term Sheet, Special Factors Background of the Merger, Special Factors Reasons for the Merger, Special Factors Effects of the Merger, Special Factors Effect of the Merger on Shareholders, Special Factors Accounting Treatment, Special Factors Certain U.S. Federal Income Tax Consequences, The Merger Agreement Conversion of Shares in the Merger, and The Annual Meeting Shares Entitled to Vote; Quorum and Vote Required is incorporated herein by reference.

(b) The information set forth under Summary Term Sheet How does the board recommend that I vote? and Compensation of Directors and Executive Officers Certain Relationships and Related Transactions is incorporated herein by reference.

(c) The information set forth under Summary Term Sheet, Special Factors Background of the Merger, Special Factors Effects of the Merger, Special Factors Effects of the Merger on Shareholders, and The Merger Agreement Conversion of Shares in the Merger is incorporated herein by reference.

(d) Appraisal Rights. The information set forth in the Proxy Statement under Summary Term Sheet Do I have appraisal or dissenter's rights? and Appraisal Rights of Harbor Shareholders is incorporated herein by reference.

(e) None.

(f) Not applicable.

Item 5. Past Contacts, Transactions, Negotiations and Agreements.

(a) The information set forth in The parties Recent Transactions, The Parties-Prior Stock Purchases, and Compensation of Directors and Executive Officers is incorporated herein by reference.

(2) The information set forth in the Proxy Statement under the caption Compensation of Directors and Executive Officers Certain Relationships and Related Transactions is incorporated herein by reference.

(b), (c) Not applicable.

(e) The information set forth under The Parties Security Ownership of Certain Beneficial Owners and Management and Election of Directors Compensation of Directors and Executive Officers is incorporated herein by reference.

Item 6. Purposes of the Transaction and Plans or Proposals.

(b) The information set forth under Summary Financial Information Summary Unaudited Pro Forma Financial Information is incorporated herein by reference.

(c) (1-8) The information set forth under Summary Term Sheet, Special Factors Background of the Merger, Special Factors Conduct of Harbor's Business After the Merger, Special Factors Effects of the Merger, Market for Common Stock and Dividends, and The Merger Agreement is incorporated herein by reference.

Item 7. Purposes, Alternatives, Reasons and Effects.

(a) The information set forth under Summary Term Sheet, Special Factors Background of the Merger, Special Factors Reasons for the Merger, and Special Factors Fairness Determination by Filing Persons is incorporated herein by reference.

(b) The information set forth in the Proxy Statement under Special Factors Background of the Merger and Special Factors Fairness Determination by Filing Persons is incorporated herein by reference.

(c) The information set forth under Summary Term Sheet, Special Factors Background of the Merger, Special Factors Reasons for the Merger, and Special Factors Fairness Determination by Filing Persons is incorporated herein by reference.

(d) The information set forth under Special Factors Certain Effects of the Merger, Special Factors Effect of the Merger on Shareholders, Special Factors Certain U.S. Federal Income Tax Consequences, and Special Factors Conduct of Harbor's Business After the Merger is incorporated herein by reference.

Item 8. Fairness of the Transaction.

(a)-(e) The information set forth under Summary Term Sheet, Special Factors Background of the Merger, Special Factors Reasons for the Merger, Special Factors Recommendation of the Board of Directors; Fairness of the Merger Proposal, Special Factors Merger Subsidiary's Determination of Fairness of the Merger Proposal, Special Factors Fairness Determination by Filing Persons, and Special Factors Opinion of Financial Advisor is incorporated herein by reference.

(f) Other Offers. Not applicable.

Item 9. Reports, Opinions, Appraisals and Certain Negotiations.

The information set forth under Special Factors Background of the Merger, Special Factors Reasons for the Merger, Special Factors Opinion of Financial Advisor, and Special Factors Price Adjustment Since Opinion Date is incorporated herein by reference.

Item 10. Source and Amounts of Funds or Other Consideration.

(a)-(b) The information set forth under Special Factors Effects of the Merger Financial Effects of the Merger; Financing of the Merger is incorporated herein by reference.

(c) Expenses. The information set forth in the Proxy Statement under Special Factors Fees and Expenses, and Unaudited Pro Forma Consolidated Financial Statements is incorporated herein by reference.

(d) The information set forth under Special Factors Effects of the Merger Financial Effects of the Merger; Financing of the Merger is incorporated herein by reference.

Item 11. Interest in Securities of the Subject Company.

(a) The information set forth under The Parties Securities Ownership of Beneficial Owners and Management and Owners of more than 5% of Harbor Common Stock is incorporated herein by reference.

(b) The information set forth under The Parties Recent Transactions is incorporated herein by reference.

Item 12. The Solicitation or Recommendation.

(d)-(e) The information set forth under Summary Term Sheet How does the Board of Directors recommend that I vote? and Special Factors Recommendation of the Board of Directors; Fairness of the Merger Proposal is incorporated herein by reference.

Item 13. Financial Information.

- (a)
 - (1) The financial statements set forth under Item 7 in Harbor's Annual Report on Form 10-KSB for the year ended December 31, 2005, included at Appendix D to the Proxy Statement, are incorporated herein by reference. (Previously filed.)
 - (2) The unaudited financial statements set forth in Harbors Quarterly Report on Form 10-QSB for the quarterly period ended March 31, 2006, included at Appendix E to the Proxy Statement, are incorporated herein by reference.
 - (3) The unaudited statement of Earnings to Fixed Charges included under the caption Summary Financial Information Selected Historical Financial Information is incorporated herein by reference.
 - (4) The information set forth under Selected Financial Data is incorporated herein by reference.

- (b) The information set forth under Summary Financial Information Summary Unaudited Pro Forma Financial Information is incorporated herein by reference.

Item 14. Persons/ Assets, Retained, Employed, Compensated or Used.

(a), (b) None.

Item 15. Additional Information

None.

Item 16. Exhibits.

- (a) Preliminary Proxy Statement for the Annual Meeting of Shareholders
 - (b) Not applicable.

 - (c)
 - (i) Opinion of Danielson Associates dated December 8, 2006
(Previously filed as Exhibit (c) to Schedule 13E-3 filed May 2, 2006
and Appendix B to Preliminary Proxy Statement filed May 2, 2006.)
 - (ii) Opinion of Danielson Associates, as amended (Included as Appendix
B to Amendment No. 1. to Preliminary Proxy Statement filed
simultaneously herewith.)
 - (iii) Fairness Opinion and Report of Danielson Associates dated as of
December 8, 2006.
 - (iv) Fairness Opinion and Report of Danielson Associates dated as of
December 8, 2006, amended to clarify opinion with respect to
fairness to shareholders and valuation methodology.
 - (d) Not applicable.
 - (f) Form of Proxy for the Annual Meeting of Shareholders.
 - (g) Not applicable.
-

Edgar Filing: HARBOR BANKSHARES CORP - Form SC 13E3/A

SIGNATURES

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

July 31, 2006

HARBOR BANKSHARES CORPORATION

By: /s/ Joseph Haskins, Jr.

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

July 31, 2006

HARBOR MERGER CORPORATION

By: /s/ Joseph Haskins, Jr.

Joseph Haskins, Jr.
President

By: /s/ Joseph Haskins, Jr.

Joseph Haskins, Jr.
Date: July 31, 2006

By: /s/ Delores J. Kelly

Delores J. Kelly
Date: July 31, 2006

By: /s/ Nathaniel Higgs

Nathaniel Higgs
Date: July 31, 2006

By: /s/ James H. DeGraffereidt

James H. DeGraffereidt
Date: July 31, 2006

By: /s/ George F. Vaeth, Jr.

George F. Vaeth, Jr.
Date: July 31, 2006

By: /s/ Louis Grasmick

Louis Grasmick
Date: July 31, 2006

By: /s/ Stanley W. Tucker

Stanley W. Tucker
Date: July 31, 2006

By: /s/ John D. Ryder

John D. Ryder
Date: July 31, 2006

By: /s/ James Scott, Jr.

James Scott, Jr.
Date: July 31, 2006

By: /s/ Erich W. March

Erich W. March
Date: July 31, 2006

By: /s/ John Paterakis

John Paterakis
Date: July 31, 2006

By: /s/ Edward St. John

Edward St. John
Date: July 31, 2006

Edgar Filing: HARBOR BANKSHARES CORP - Form SC 13E3/A

By: /s/ Walter S. Thomas, Sr.

Walter S. Thomas, Sr.
Date: July 31, 2006

By: /s/ Teodoro J. Hernandez

Teodoro J. Hernandez
Date: July 31, 2006

By: /s/ Garnetta Massey

Garnetta Massey
Date: July 31, 2006

By: /s/ Darius L. Davis

Darius L. Davis
Date: July 31, 2006

Exhibit (a) to Schedule 13E-3

[PRELIMINARY]

HARBOR BANKSHARES CORPORATION

25 West Fayette Street

Baltimore, Maryland 21201

_____, 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, _____ 2006, 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 12, 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,

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

HARBOR BANKSHARES CORPORATION

25 West Fayette Street

Baltimore, Maryland 21201

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD _____ 2006

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, _____ 2006, 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 _____, 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 _____, 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,

George F. Vaeth, Jr.
Corporate Secretary

Baltimore, Maryland

_____, 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.

HARBOR BANKSHARES CORPORATION

25 West Fayette Street

Baltimore, Maryland 21201

PROXY STATEMENT

FOR THE ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON _____ 2006

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, _____, 2006, 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 _____, 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 48 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 _____, 2006.

Only shareholders of record of voting common stock at the close of business on _____, 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 _____, 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.

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.

For additional information regarding the annual meeting and related corporate matters, please see COMPANY CORPORATE GOVERNANCE on page 39 and THE ANNUAL MEETING on page 46.

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.

HARBOR BANKSHARES CORPORATION

PROXY STATEMENT

TABLE OF CONTENTS

<u>INTRODUCTION</u>	1
<u>PROPOSAL I AGREEMENT AND PLAN OF MERGER</u>	6
<u>SUMMARY TERM SHEET</u>	6
<u>Why is Harbor proposing the merger?</u>	6
<u>What are the effects of not being a reporting company?</u>	6
<u>What will I receive if the merger is approved by shareholders and becomes effective?</u>	6
<u>When will the merger become effective?</u>	6
<u>Who are Filing Persons and Affiliates ?</u>	6
<u>Does the Board of Directors believe that the terms of the merger are fair?</u>	7
<u>What is the merger, and how will Harbor be operated after the merger?</u>	7
<u>What vote is required to approve the merger agreement?</u>	7
<u>Who is entitled to vote?</u>	7
<u>How do the Board of Directors and the executive officers recommend that I vote?</u>	8
<u>How do I vote?</u>	8
<u>Do I have appraisal or dissenter s rights?</u>	8
<u>What are the federal income tax implications of the merger?</u>	8
<u>Should I send in my certificates now?</u>	8
<u>Who can help answer my questions?</u>	8
<u>STATEMENT REGARDING FORWARD-LOOKING INFORMATION</u>	8
<u>SUMMARY FINANCIAL INFORMATION</u>	9
<u>Selected Historical Financial Information</u>	9
<u>Summary Unaudited Pro Forma Financial Information</u>	10
<u>CONSOLIDATED UNAUDITED RATIO OF EARNINGS TO FIXED CHARGES</u>	11
<u>SPECIAL FACTORS</u>	12
<u>Background of the Merger</u>	12
<u>Reasons for the Merger</u>	14
<u>Recommendation of the Board of Directors; Fairness of the Merger Proposal</u>	15
<u>Merger Subsidiary s Determination of Fairness of the Merger Proposal</u>	16
<u>Fairness Determination by Filing Persons</u>	16
<u>Opinion of Financial Advisor</u>	17
<u>Price Adjustment since Opinion Date</u>	22
<u>Effects of the Merger</u>	23
<u>Effects of the Merger on Shareholders</u>	25
<u>Interests of Executive Officers and Directors in the Merger</u>	26
<u>Conduct of Harbor s Business after the Merger</u>	27
<u>Fees and Expenses</u>	27
<u>Accounting Treatment</u>	28
<u>Material U.S. Federal Income Tax Consequences</u>	28
<u>APPRAISAL RIGHTS OF HARBOR SHAREHOLDERS</u>	30
<u>GOVERNMENTAL REQUIREMENTS</u>	32
<u>MARKET FOR COMMON STOCK AND DIVIDENDS</u>	32
<u>THE PARTIES</u>	32
<u>Harbor Bankshares Corporation</u>	32
<u>The Harbor Bank of Maryland</u>	32
<u>Harbor Merger Corporation</u>	32
<u>Security Ownership of Certain Beneficial Owners and Management</u>	33
<u>Recent Transactions</u>	34

<u>Prior Stock Purchases</u>	<u>34</u>
<u>THE MERGER AGREEMENT</u>	<u>34</u>
<u>Structure of the Merger</u>	<u>34</u>
<u>Conversion of Shares in the Merger</u>	<u>34</u>
<u>Treatment of Options</u>	<u>35</u>
<u>Exchange of Certificates</u>	<u>35</u>
<u>Effective Time of the Merger</u>	<u>36</u>
<u>Directors and Officers</u>	<u>36</u>
<u>Articles of Incorporation and Bylaws</u>	<u>36</u>
<u>Representations and Warranties</u>	<u>36</u>
<u>Conditions to the Completion of the Merger</u>	<u>36</u>
<u>Termination of Merger Agreement</u>	<u>37</u>
<u>PROPOSAL II ADJOURNMENT OF THE ANNUAL MEETING</u>	<u>38</u>
<u>PROPOSAL III ELECTION OF DIRECTORS</u>	<u>38</u>
<u>Directors to be elected at the 2006 Annual Meeting to serve until the 2008 Annual Meeting (Class II)</u>	<u>38</u>
<u>Continuing Directors</u>	<u>38</u>
<u>COMPANY CORPORATE GOVERNANCE</u>	<u>39</u>
<u>General</u>	<u>39</u>
<u>Board Organization and Operation</u>	<u>39</u>
<u>Board Committees</u>	<u>40</u>
<u>Nomination Process</u>	<u>40</u>
<u>Director Attendance at the Corporation Annual Meeting</u>	<u>41</u>
<u>Shareholder Communication with the Board</u>	<u>41</u>
<u>Shareholder Proposals</u>	<u>41</u>
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	<u>41</u>
<u>Code of Ethics and Business Conduct</u>	<u>42</u>
<u>OWNERS OF MORE THAN 5% OF HARBOR COMMON STOCK</u>	<u>42</u>
<u>COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS</u>	<u>42</u>
<u>Summary Compensation Table</u>	<u>42</u>
<u>Option Grants in Last Fiscal Year</u>	<u>43</u>
<u>Aggregated Option Exercises in Last Fiscal Year and Year End Value of Options</u>	<u>43</u>
<u>Compensation of Directors</u>	<u>43</u>
<u>Mr. Haskins Employment Agreement and Retirement Benefit</u>	<u>44</u>
<u>Information Regarding Mr. Hernandez</u>	<u>44</u>
<u>Certain Relationships and Related Transactions</u>	<u>45</u>
<u>INDEPENDENT PUBLIC ACCOUNTANTS</u>	<u>45</u>
<u>General</u>	<u>45</u>
<u>Audit and Non-Audit Fees</u>	<u>45</u>
<u>Policy on Audit Committee Pre-Approval of Audit and Non-Audit Services</u>	<u>46</u>
<u>THE ANNUAL MEETING</u>	<u>46</u>
<u>Purpose</u>	<u>46</u>
<u>Date, Place and Time of Annual Meeting</u>	<u>46</u>
<u>Shares Entitled to Vote; Quorum and Vote Required</u>	<u>46</u>
<u>Voting Procedures and Revocation of Proxies</u>	<u>47</u>
<u>Attending the Annual Meeting</u>	<u>47</u>
<u>Annual Report</u>	<u>47</u>
<u>Other Matters to be Considered</u>	<u>47</u>
<u>Solicitation of Proxies and Expenses</u>	<u>47</u>
<u>OTHER MATTERS</u>	<u>47</u>
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	<u>48</u>
<u>DOCUMENTS INCORPORATED BY REFERENCE</u>	<u>48</u>

Appendix A Agreement and Plan of Merger
Appendix B Fairness Opinion
Appendix C Rights of Objecting Shareholders
Appendix D Form 10-KSB
Appendix E Form 10-QSB

[Back to Contents](#)

PROPOSAL I 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 14.

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 Harbor 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 23 and Reasons for the Merger on page 14

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 101 or more 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 ?

Harbor, the merger corporation, and each of their Directors and executive officers are Filing Persons and Affiliates under the SEC rules that govern going-private transactions. 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 fewer than 101 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 26.

[Back to Contents](#)

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 financial performance since the date of the Danielson Associates opinion;
- 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 14, -Recommendation of the Board of Directors; Fairness of the Merger Proposal on page 15, -Fairness Determination by Filing Persons on page 16, -Opinion of Financial Advisor on page 17, and -Price Adjustment since Opinion Date on page 22.

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 12,500 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 \$442, 143, or less than 3% of total stockholder's equity at March 31, 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 _____ 2006.

See: THE MERGER AGREEMENT on page 34 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 _____, 2006, will receive a copy of this proxy statement and are entitled to vote at the Annual Meeting.

Who is entitled to vote?

Shareholders of voting common stock as of the close of business on _____, 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 46.

[Back to Contents](#)

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 26.

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 46.

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 30.

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 28.

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 101 or more shares will not be required to exchange their certificates. See THE MERGER AGREEMENT Exchange of Certificates on page 35.

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.

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 Three Months Ended March 31,		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	\$4,144	\$3,428	\$15,014	\$12,648	\$11,886	\$11,647	\$13,609
Interest expense	1,346	743	3,787	2,283	2,411	3,402	5,973
Net interest income	2,798	2,685	11,227	10,365	9,475	8,245	7,636
Provision for loan losses	55	120	410	360	755	340	400
Non-interest income	375	492	1,771	1,514	2,506	2,220	2,329
Non-interest expense	2,415	2,598	9,638	9,295	8,610	8,575	8,526
Income before taxes	703	459	2,950	2,224	2,616	1,550	1,039
Income taxes	256	165	1,067	762	831	473	309
Net income	\$447	\$294	\$1,883	\$1,462	\$1,785	\$1,077	\$730
Per Share Data:							
Net income-basic	\$0.66	\$0.42	\$2.73	\$2.07	\$2.46	\$1.47	\$1.02
Net income-diluted	0.62	0.39	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	24.82	22.62	24.73	23.04	21.69	19.23	16.72
Balance Sheet Data:							
Total assets	\$250,955	\$234,799	\$256,636	\$235,464	\$219,547	\$210,234	\$186,586
Deposits	221,917	210,230	229,845	210,224	195,901	193,294	171,531
Total net loans	200,545	177,291	188,936	172,205	149,729	120,523	105,847
Total shareholders' equity	16,785	15,796	16,954	16,240	15,274	14,149	12,241
Performance Ratios:							
Return on average assets	0.70	% 0.50	% 0.78	% 0.63	% 0.84	% 0.54	% 0.37
Return on average equity	10.72	7.29	11.57	9.33	12.23	8.20	6.20
Dividends declared to diluted net income	80.65	102.56	15.69	18.13	10.59	17.48	NA
Capital Ratios:							
Tier 1 regulatory capital to average assets	7.20	% 7.40	% 7.31	% 7.36	% 7.46	% 5.20	% 5.40
Average equity to average assets	6.53	6.90	6.74	7.27	6.48	5.24	4.77

[Back to Contents](#)

Summary Unaudited Pro Forma Financial Information

The following table sets forth the Harbor's shareholders' equity accounts as of March 31, 2006, and pro forma equity accounts as of such date as if the merger were then effective, resulting in the cashing out of 12,478 shares of common stock for an aggregate payment of \$442,143, including payments for shares of stock of \$386,818 and payment of related professional and other costs of \$55,325. Shares acquired will be classified as authorized and unissued. Harbor's shareholders' equity as of the date of this proxy statement, the date of the Annual Meeting, or as of any other day, may be higher or lower than the amount set forth below, as a result of earnings or losses from operations, the payment of dividends or other distributions, and changes in the value of Harbor's available for sale securities. This table indicates that, on a pro forma basis, book value per share decreases by \$0.20, or less than 1%, as a result of the merger.

(In thousands, except per share data)

	<u>Actual</u>	<u>Pro forma</u>
Common stock (par value \$0.01 per share):		
Authorized 10,000,000 shares; issued 675,579, including 33,795 common nonvoting Shares	\$7	\$7
Additional paid in capital	6,365	5,923
Retained earnings	10,958	10,958
Accumulated other comprehensive loss	(565)	(565)
	<u> </u>	<u> </u>
Total Shareholders' Equity	\$16,765	\$16,323
	<u> </u>	<u> </u>
Common equity per share	\$24.82	\$24.62

The following table sets forth Harbor's and the Bank's actual and estimated pro forma regulatory capital ratios as of December 31, 2005, as if the merger were effective as of that date, resulting in the cashing out of 12,478 shares of common stock for an aggregate payment of \$442,143.

	<u>Actual</u>	<u>Pro forma</u>		
Total Capital to risk weighted assets				
Harbor Bankshares Corporation	11.17	% 10.98	%	
Harbor Bank of Maryland	11.07	% 10.83	%	
Tier I Capital to risk weighted assets				
Harbor Bankshares Corporation	8.65	% 8.43	%	
Harbor Bank of Maryland	10.06	% 9.83	%	
Tier I Capital to average assets				
Harbor Bankshares Corporation	7.20	% 7.102	%	
Harbor Bank of Maryland	8.38	% 8.19	%	

The above table indicates that, on a pro forma basis, regulatory capital ratios decrease by less than 25 one-hundredth of a percent and remain in excess of the levels required for well capitalized status for regulatory purposes.

[Back to Contents](#)

CONSOLIDATED UNAUDITED RATIO OF EARNINGS TO FIXED CHARGES

Ratio of Earnings to Fixed Charges

Quarter Ended	Years ended December 31				
	2005	2004	2003	2002	2001
March 31, 2006					