

HARRIS PREFERRED CAPITAL CORP

Form 10-Q

August 13, 2009

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**United States
Securities and Exchange Commission
Washington, D.C. 20549**

Form 10-Q

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2009

Commission file number 1-13805

Harris Preferred Capital Corporation
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction
of incorporation or organization)

36-4183096
(I.R.S. Employer
Identification No.)

111 West Monroe Street, Chicago, Illinois
(Address of principal executive offices)

60603
(Zip Code)

Registrant's telephone number, including area code:
(312) 461-2121

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
73/8% Noncumulative Exchangeable Preferred Stock, Series A, par value \$1.00 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The number of shares of Common Stock, \$1.00 par value, outstanding on August 13, 2009 was 1,180. No common equity is held by nonaffiliates.

HARRIS PREFERRED CAPITAL CORPORATION

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	June 30 2009 (unaudited)	December 31 2008 (audited)	June 30 2008 (unaudited)
	(in thousands, except share data)		
Assets			
Cash on deposit with Harris N.A.	\$ 729	\$ 816	\$ 640
Securities purchased from Harris N.A. under agreement to resell	10,672	5,863	11,710
Total cash and cash equivalents	\$ 11,401	\$ 6,679	\$ 12,350
Notes receivable from Harris N.A.	3,896	4,284	4,755
Securities available-for-sale, at fair value			
Mortgage-backed	566,047	488,282	469,357
U.S. Treasury Bills			
Other assets	2,094	1,885	2,063
Total assets	\$ 583,438	\$ 501,130	\$ 488,525
Liabilities and Stockholders Equity			
Accrued expenses	\$ 869	\$ 112	\$ 58
Deferred state tax liabilities	846	774	
Total liabilities	\$ 1,715	\$ 886	\$ 58
Commitments and contingencies			
Stockholders Equity			
73/8% Noncumulative Exchangeable Preferred Stock, Series A (\$1 par value); liquidation value of \$250,000; 20,000,000 shares authorized, 10,000,000 shares issued and outstanding	\$ 250,000	\$ 250,000	\$ 250,000
Common stock (\$1 par value); 5,000 shares authorized; 1,180 issued and outstanding at June 30, 2009, and 1,000 shares authorized, issued and outstanding at December 31, 2008 and June 30, 2008	1	1	1
Additional paid-in capital	320,733	240,733	240,733
Earnings in excess (less than) of distributions	250	(322)	1,352
Accumulated other comprehensive income (loss) net unrealized gains (losses) on available-for-sale securities	10,739	9,832	(3,619)
Total stockholders equity	\$ 581,723	\$ 500,244	\$ 488,467
Total liabilities and stockholders equity	\$ 583,438	\$ 501,130	\$ 488,525

The accompanying notes are an integral part of these financial statements.

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AND COMPREHENSIVE INCOME****(Unaudited)**

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
	(in thousands, except share data)			
Interest income:				
Securities purchased from Harris N.A. under agreement to resell	\$ 8	\$ 174	\$ 17	\$ 808
Notes receivable from Harris N.A.	62	78	127	160
Securities available-for-sale:				
Mortgage-backed	5,612	5,114	10,994	9,788
U.S. Treasury Bills	1	1	1	16
Total interest income	\$ 5,683	\$ 5,367	\$ 11,139	\$ 10,772
Operating expenses:				
Loan servicing fees paid to Harris N.A.	\$ 3	\$ 4	\$ 6	\$ 8
Advisory fees paid to Harris N.A.	41	62	97	102
General and administrative	74	63	194	159
Total operating expenses	\$ 118	\$ 129	\$ 297	\$ 269
Income before income taxes	\$ 5,565	\$ 5,238	\$ 10,842	10,503
Applicable state income taxes	406		791	
Net Income	\$ 5,159	\$ 5,238	\$ 10,051	\$ 10,503
Preferred stock dividends	4,609	4,609	9,218	9,218
Net income available to common stockholder	\$ 550	\$ 629	\$ 833	\$ 1,285
Basic and diluted earnings per common share	\$ 466	\$ 629	\$ 746	\$ 1,285
Average number of common shares outstanding	1,180	1,000	1,117	1,000
Net income	\$ 5,159	\$ 5,238	\$ 10,051	\$ 10,503
Other comprehensive income (loss):				
Available-for-sale securities:				
Unrealized holding (losses) gains arising during the period, net of deferred state taxes	\$ (2,728)	\$ (6,985)	\$ 907	\$ (2,612)
Less reclassification adjustment for realized (gains) losses included in net income				
Comprehensive income (loss)	\$ 2,431	\$ (1,747)	\$ 10,958	\$ 7,891

The accompanying notes are an integral part of these financial statements.

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HARRIS PREFERRED CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Six Months Ended	
	June 30	
	2009	2008
	(in thousands)	
Balance at January 1	\$ 500,244	\$ 489,794
Net income	10,051	10,503
Other comprehensive income	907	(2,612)
Capital contribution and issuance of common stock	80,000	
Dividends common stock	(261)	
Dividends (preferred stock \$0.4609 per share)	(9,218)	(9,218)
Balance at June 30	\$ 581,723	\$ 488,467

The accompanying notes are an integral part of these financial statements.

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HARRIS PREFERRED CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended	
	June 30,	
	2009	2008
	(in thousands)	
Operating Activities:		
Net income	\$ 10,051	\$ 10,503
Adjustments to reconcile net income to net cash provided by operating activities:		
Net increase in other assets	(209)	(534)
Net increase (decrease) in accrued expenses	756	(71)
Net cash provided by operating activities	\$ 10,598	\$ 9,898
Investing Activities:		
Repayments of notes receivable from Harris N.A.	\$ 388	\$ 580
Purchases of securities available-for-sale	(261,617)	(191,612)
Proceeds from maturities/redemptions of securities available-for-sale	184,832	188,837
Net cash used in investing activities	\$ (76,397)	\$ (2,195)
Financing Activities:		
Cash dividends paid on preferred stock	\$ (9,218)	\$ (9,218)
Cash dividends paid on common stock	(261)	(3,000)
Capital contribution and issuance of common stock	80,000	
Net cash provided by (used in) financing activities	\$ 70,521	\$ (12,218)
Net increase (decrease) in cash on deposit with Harris N.A.	\$ 4,722	\$ (4,515)
Cash and cash equivalents with Harris N.A. at beginning of period	6,679	16,865
Cash and cash equivalents with Harris N.A. at end of period	\$ 11,401	\$ 12,350

The accompanying notes are an integral part of these financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Harris Preferred Capital Corporation (the Company) is a Maryland corporation whose principal business objective is to acquire, hold, finance and manage qualifying real estate investment trust (REIT) assets (the Mortgage Assets), consisting of a limited recourse note or notes (the Notes) issued by Harris N.A. (the Bank) secured by real estate mortgage assets (the Securing Mortgage Loans) and other obligations secured by real property, as well as certain other qualifying REIT assets, primarily U.S. treasury securities and securities collateralized with real estate mortgages. The Company holds its assets through a Maryland real estate investment trust subsidiary, Harris Preferred Capital Trust. Harris Capital Holdings, Inc., owns 100% of the Company's common stock. The Bank owns all common stock outstanding issued by Harris Capital Holdings, Inc.

The accompanying consolidated financial statements have been prepared by management from the books and records of the Company. These statements reflect all adjustments and disclosures which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented and should be read in conjunction with the notes to financial statements included in the Company's 2008 Form 10-K. Certain reclassifications were made to conform prior years' financial statements to the current year's presentation. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. Events occurring subsequent to the date of the balance sheet have been evaluated for potential recognition or disclosure in the consolidated financial statements through August 13, 2009, the date of the filing of the consolidated financial statements with the Securities and Exchange Commission.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Commitments and Contingencies

Legal proceedings in which the Company is a defendant may arise in the normal course of business. There is no pending litigation against the Company at June 30, 2009.

3. Securities

The Company adopted Financial Accounting Standards Board (FASB) Staff Position (FSP) FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, as of April 1, 2009. The FSP relate to the evaluation of other-than-temporary impairment (OTTI) for debt securities classified as available-for-sale or held-to-maturity, the identification of credit and noncredit components of impairment and the recognition of impairment in earnings or OCI. The adoption of the FSP did not have a material effect on the Company's financial position or results of operations. There was no cumulative effect of initially applying the FSP and there was no OTTI expense recorded for the quarter or six months ended June 30, 2009.

The amortized cost and estimated fair value of securities available-for-sale were as follows:

	Amortized Cost	June 30, 2009 Unrealized Gains Unrealized Losses (in thousands)		Fair Value
Available-for-Sale Securities				
Residential mortgage-backed	\$ 554,463	\$ 13,207	\$ 1,623	\$ 566,047

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	Amortized Cost	December 31, 2008 Unrealized Gains Unrealized Losses (in thousands)		Fair Value
Available-for-Sale Securities				
Residential mortgage-backed	\$ 477,678	\$ 10,720	\$ 116	\$ 488,282

	Amortized Cost	June 30, 2008 Unrealized Gains Unrealized Losses		Fair Value
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