

Yes No

o x

The number of shares of common stock, \$1.25 par value, outstanding at October 31, 2005 was 12,444,228 shares.

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TOTAL SHAREHOLDERS EQUITY	79,727	73,548	74,490
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 1,074,261	\$ 990,406	\$ 989,117
	<u> </u>	<u> </u>	<u> </u>

The accompanying Notes should be read with these financial statements.

Diluted	0.76	0.62	0.85
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The accompanying Notes should be read with these financial statements.

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NET INCOME PER SHARE - NOTE 18

Basic	\$	0.28	\$	0.23
Diluted		0.27		0.22

The accompanying Notes should be read with these financial statements.

Securities Available- for-Sale
Adjustment

Total Comprehensive Income
NOTE 25

7,898

Balance at September 30, 2005	12,430,116	\$	15,538	\$	8,083	\$	58,361	\$	(2,236)	\$	(19)	\$	79,727
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Payments of Cash Dividends	(2,603)	(2,589)	(3,453)
Proceeds from Stock Options Exercised	503	208	353
Purchases of Treasury Stock	(561)	(581)	(694)
	<u> </u>	<u> </u>	<u> </u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	76,901	102,729	99,375
	<u> </u>	<u> </u>	<u> </u>
NET (DECREASE) INCREASE IN CASH AND DUE FROM BANKS	7,748	2,216	(1,401)
CASH AND DUE FROM BANKS AT BEGINNING OF PERIOD	27,219	28,620	28,620
	<u> </u>	<u> </u>	<u> </u>
CASH AND DUE FROM BANKS AT END OF PERIOD	\$ 34,967	\$ 30,836	\$ 27,219
	<u> </u>	<u> </u>	<u> </u>
SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES:			
Interest Paid	\$ 10,760	\$ 6,506	\$ 9,199
Income Taxes Paid	5,549	4,821	6,377
Other Real Estate and Other Assets Acquired in Settlement of Loans	-0-	55	321

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net of direct loan origination costs, is deferred and amortized over the life of the related loan. The accrual of interest on a loan is discontinued when, in the opinion of management, there is doubt about the ability of the borrower to pay interest or principal. Interest previously earned, but uncollected on such loans, is written off. After loans are placed on non-accrual all payments received are applied to principal and no interest income is recorded until the loan is returned to accrual status or the principal has been reduced to zero.

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For the purpose of presentation in the Statements of Cash Flows, cash and cash equivalents include cash on hand, clearings and exchanges, and balances due from correspondent banks.

Reclassification

Certain reclassifications have been made to the 2004 financial statements to conform to the 2005 presentation.

NOTE 2 Acquisitions

On May 3, 2004, the Corporation completed its merger with ANB Financial Corporation and its wholly-owned subsidiary, Arlington National Bank of Arlington, Texas (collectively, ANB). Under the terms of the merger agreement with ANB, the Corporation acquired ANB for approximately \$16.0 million in cash. ANB was privately held and operated four (4) banking offices in Arlington, Texas. On May 1, 2004, ANB had total assets of \$89.0 million, loans of \$59.4 million, deposits of \$83.6 million and shareholders' equity of \$3.1 million. This acquisition was partially funded through the formation of SBI Trust and its subsequent issuance of \$12.0 million of its floating rate Capital Securities and \$372,000 of trust common securities.

On March 21, 2005, the Corporation completed the acquisition of Dignum Financial Services (DFS), a proprietorship engaged in financial planning and management services. Goodwill of \$955,000 was recorded in connection with the acquisition.

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million. At September 30, 2004, the Corporation had \$70.0 million of borrowings outstanding under the line of credit at a rate of 1.80%, \$20.0 million of which matured in 2004, \$40.0 million of which matures in 2005 and the remaining \$10.0 million of which matures in April 2006. At December 31, 2004, \$60.0 million of borrowings were outstanding at an average rate of 2.11%, \$40.0 million of which matures during 2005 and \$20.0 million of which matures during 2006. For the year ended December 31, 2004, the Corporation had average borrowings of \$67.7 million.

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Accretion	79	27	34
Unrealized Gains on Available-for-Sale Securities	-0-	346	-0-
Other	156	169	108
	<u> </u>	<u> </u>	<u> </u>
Gross Federal Deferred Tax Liabilities	1,649	1,743	1,608
	<u> </u>	<u> </u>	<u> </u>
Net Deferred Tax Asset	\$ 4,416	\$ 2,715	\$ 3,006
	<u> </u>	<u> </u>	<u> </u>

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The Corporation implemented a 401(k) plan in December 1997 covering substantially all employees. The Corporation made no contribution to this plan in 1998 or 1999. In 2000 through 2004, the Corporation made matching contributions, not to exceed 6% of the employee's annual compensation, to the participant's deferrals of compensation up to 100% of the employee contributions. The Corporation's Board of Directors has approved matching contributions for 2005, not to exceed 6% of the employee's annual compensation.

The amount expensed in support of the plan was \$451,000 and \$417,000 during the first nine months of 2005 and 2004, respectively, and \$490,000 for the year 2004.

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The total contractual amounts of financial instruments with off-balance sheet risk are as follows (in thousands):

	September 30,	
	2005	2004
Financial Instruments Whose Contract Amounts Represent Credit Risk:		
Loan Commitments Including Unfunded Lines of Credit	\$ 189,257	\$ 181,304
Standby Letters of Credit	5,112	5,339

NOTE 24 - Fair Values of Financial Instruments

The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts reported in the balance sheet for cash and due from banks and federal funds sold approximate those assets' fair values.

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Shareholders' equity was \$79.7 million at September 30, 2005, an increase of \$5.2 million, or 7.0%, from December 31, 2004 and an increase of \$6.2 million, or 8.4%, from September 30, 2004. See the Consolidated Statements of Changes in Shareholders' Equity on page 6 for a detail of the changes.

The following table shows selected performance ratios for the first nine months of 2005 and 2004 that management believes to be key indicators of the Corporation's overall financial performance:

	2005	2004
Annualized Return on Average Assets (ROAA)	1.27%	1.15%
Annualized Return on Average Shareholders' Equity (ROAE)	16.75	14.82
Shareholders' Equity to Assets - Average	7.61	7.81
Dividend Payout Ratio	26.95	33.01
Net Interest Margin (tax equivalent)	4.54	4.28
Efficiency Ratio	58.49	58.11

The return on average assets ratio is calculated by dividing net income by average total assets for the period. Management believes our return on average assets ratio of 1.27% for the first nine months of 2005 compares favorably to the return on average assets ratio of other financial institutions in our selected peer group, which averaged 1.34% for the first nine months of 2005. Our selected peer group is comprised of seven other publicly traded bank holding companies headquartered in Texas with assets ranging from \$2.4 billion to \$10.0 billion and was selected by our management.

The return on average shareholders' equity ratio is calculated by dividing net income by average shareholders' equity for the period. Management believes our return on average shareholders' equity ratio of 16.75% in the first nine months of 2005 compares favorably to the return on average shareholders' equity ratio of other financial institutions in our peer group, which averaged 14.42% for the first nine months of 2005.

The shareholders' equity to assets ratio is calculated by dividing average shareholders' equity by average total assets for the period. Management believes our average shareholders' equity to average assets ratio of 7.61% for the first nine months of 2005 compares favorably to the average shareholders' equity to average asset ratio of other financial institutions in our peer group, which averaged 9.28% in the first nine months of 2005.

The dividend payout ratio is determined by dividing the total dividends paid by net income for the period. For the first nine months of 2005, our dividend payout ratio resulted in a yield-to-market price return that compared favorably to our peer group.

Net interest margin is calculated by dividing net interest income on a tax equivalent basis by average total earning assets. Management believes our net interest margin of 4.54% in the first nine months of 2005 compares favorably to the net interest margin ratio of other financial institutions in our peer group, which averaged 4.21% in the first nine months of 2005.

The efficiency ratio is calculated by dividing non-interest expenses by the sum of total non-interest income and net interest income on a tax equivalent basis for the period. The efficiency ratio provides a measure of the extent to which our revenues are absorbed by our non-interest expenses. Management believes our efficiency ratio of 58.49% in the first nine months of 2005 compares favorably to the average efficiency ratio of other financial institutions in our peer group, which was 57.10% in the first nine months of 2005.

yields, average loan balances include non-accrual loans with no related interest income.

(2) Presented on tax equivalent basis using a federal income tax rate of 35% for 2005 and 34% for 2004.

The net interest margin was 4.58% for the third quarter of 2005, which represented an increase of 29 basis points from the third quarter of 2004. This increase in net interest margin reflected a 93 basis point increase in yield on earning assets from the third quarter of 2004 to the third quarter of 2005, which was substantially offset by an 89 basis point increase in rates paid on interest-bearing liabilities from the third quarter of 2004 to the third quarter of 2005. The increase in net interest margin also reflected an increase in the volume of loans, up \$56.2 million or 8.3%, over the third quarter of 2004 and increases in non-interest bearing funding sources, such as demand deposits and shareholders' equity. Average demand deposits were \$242.8 million in the third quarter of 2005, an increase of \$16.4 million, or 7.2%, over the third quarter of 2004.

the purpose of calculating loan yields, average loan balances include non-accrual loans with no related interest income.

(2) Presented on tax equivalent basis using a federal income tax rate of 35% for 2005 and 34% for 2004.

The net interest margin was 4.54% for the nine months ended September 30, 2005 which represented a 26 basis point increase over the net interest margin of 4.28% for the nine months ended September 30, 2004. The increase in net interest margin reflected a 76 basis point increase in yield on earning assets from the first nine months of 2004 to the first nine months of 2005, which was partially offset by a 68 basis point increase in rates paid on interest-bearing liabilities from the first nine months of 2004 to the first nine months of 2005. The increase in net interest margin also reflected an increase in the volume of loans, up \$89.9 million, or 14.2%, over the first nine months of 2004 and increases in non-interest bearing funding sources, such as, demand deposits and shareholders' equity. Average demand deposits were \$235.9 million for the first nine months of 2005, an increase of \$31.3 million, or 15.3%, over the same period in 2004.

Allowance for Loan Losses and Non-Performing Assets (cont. d.)

The following table summarizes the relationship between non-performing loans, criticized loans and the allowance for loan losses (dollars in thousands):

	September 30, 2005	June 30, 2005	March 31, 2005	December 31, 2004	September 30, 2004
Non-Performing Loans	\$ 4,989	\$ 3,372	\$ 3,294	\$ 2,587	\$ 2,545
Criticized Loans	39,450	35,580	38,110	35,375	40,289
Allowance for Loan Losses	11,131	10,798	10,519	10,187	10,079
Allowance for Loan Losses as a Percent of:					
Non-Performing Loans	223%	320%	319%	394%	396%
Criticized Loans	28%	30%	28%	29%	25%

Loans are graded on a system similar to that used by the banking industry regulators. The first level of criticized loans is Other Assets Especially Mentioned (OAEM). These loans are fundamentally sound but have potential weaknesses which may, if not corrected, weaken the asset or inadequately protect the bank's credit position at some future date. The second level is Substandard, which are loans inadequately protected by current sound net worth, paying capacity or pledged collateral of the borrower. The last level of criticized loans, before they are charged-off, is Doubtful. Doubtful loans are considered to have inherent weaknesses because collection or liquidation in full is highly questionable. In addition to the above grading system, the Corporation maintains a separate watch list which further aids the Corporation in monitoring loan quality. Watch list loans show warning elements where the present status portrays one or more deficiencies that require attention in the short run or where pertinent ratios of the account have weakened to a point where more frequent monitoring is warranted.

Total criticized loans at September 30, 2005, loans classified as OAEM, Substandard or Doubtful as noted above, have decreased slightly from September 30, 2004. As a percentage of total loans, criticized loans have decreased from 5.8% as of September 30, 2004 to 5.2% as of September 30, 2005. The allowance for possible loan losses as a percentage of criticized loans has increased from 25% as of September 30, 2004 to 28% as of September 30, 2005. The Corporation remains diligent in its efforts to identify any loan that might reflect weakness of the borrower as soon as practicable. Management is not aware of any potential loan problems that have not been disclosed to which serious doubt exists as to the ability of the borrower to substantially comply with the present repayment terms and the Corporation does not anticipate any significant losses from these criticized loans.

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Our income, which provides funds for the payment of dividends to our shareholders and for other corporate purposes, is derived from our investment in the Bank.

On May 3, 2004, the Corporation formed SBI Trust and SBI Trust subsequently issued \$12.0 million of floating rate (three month LIBOR plus a margin of 2.65%) Capital Securities (the Trust Capital Securities). Concurrent with the issuance of the Trust Capital Securities, SBI Trust issued trust common securities to the Corporation with an aggregate liquidation value of \$372,000. The proceeds of the issuance of the Trust Capital Securities and trust common securities were invested in the Corporation's Floating Rate Junior Subordinated Deferrable Debentures (the Deferrable Debentures), which mature on July 7, 2034 and have a call feature that permits the Corporation to redeem any or all of the securities after July 7, 2009. The interest rate on the Deferrable Debentures at

the initial determination.

Factors That May Affect Future Results

This Quarterly Report on Form 10-Q contains forward-looking statements concerning the business, results of operations and financial condition of the Corporation and our subsidiaries. The forward-looking statements are based upon management's current expectations and assumptions about future events. Such expectations and assumptions have been expressed in good faith, and management believes that there is a reasonable basis for them.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Corporation may be subject to legal actions, including various legal actions arising in the ordinary course of business. The ultimate outcome of pending and potential proceedings is difficult to project with certainty. However, based on management's experience to date, it is the opinion of management, that the settlement or other disposition of these matters is not reasonably likely to materially affect the Corporation's business or financial position.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On April 19, 2005, the Board of Directors of the Corporation approved a stock purchase plan (the 2005 Stock Purchase Plan) authorizing the Corporation to purchase up to 620,467 shares of the Corporation's common stock over the twelve-month period beginning April 19, 2005, including in open market transactions, privately negotiated transactions or other transactions. The expiration date of the 2005 Stock Purchase Plan is April 18, 2006. The Corporation purchased (but did not retire) 988 shares of the Corporation's common stock pursuant to the 2005 Stock Purchase Plan in the quarter covered by this report.

The Corporation's ability to purchase shares of the Corporation's common stock is subject to various banking laws, regulations and policies as well as rules and regulations of the Securities and Exchange Commission. The Corporation anticipates purchasing additional shares of the Corporation's common stock pursuant to the 2005 Stock Purchase Plan as conditions warrant.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

- 3.1 Restated Articles of Incorporation of the Corporation (incorporated herein by Reference to Exhibit 3(a) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 1998)
- 3.2 Amended and Restated Bylaws of the Corporation (incorporated herein by reference to Exhibit 3(b) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2002)
- 3.3 Amendment to the Amended and Restated Bylaws of the Corporation adopted by resolution of the Board of Directors of the Corporation (incorporated herein by reference to Exhibit 99.1 to the Corporation's Current Report on Form 8-K filed February 22, 2005)
- 4.1 Rights Agreement, dated April 17, 1990, by and between the Corporation and Summit Bancservices, Inc. (incorporated herein by reference to Exhibit 1 to the Corporation's Current Report on Form 8-K dated April 18, 1990 filed on April 24, 1990)
- 4.2 Amendment No. 1 to Rights Agreement, effective as of April 16, 2000, by and between the Corporation and Summit Bancservices, Inc. (incorporated herein by reference to Exhibit 4(b) to the Corporation's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2000)

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- 4.3 Junior Subordinated Debt Securities Indenture Agreement dated May 3, 2004 (incorporated herein by reference to Exhibit 4(a) to the Corporation's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004)
- 4.4 Junior Subordinated Debt Securities Due 2034 (incorporated herein by reference to Exhibit 4(b) to the Corporation's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004)
- 10 Loan Agreement dated September 15, 2005 between the Corporation and Frost National Bank
- 11 Computation of Earnings Per Common Share
- 31.1 Certification of Principal Executive Officer of Summit Bancshares, Inc. pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
- 31.2 Certification of Principal Financial Officer of Summit Bancshares, Inc. pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
- 32.1 Certification of Principal Executive Officer of Summit Bancshares, Inc. pursuant to Section 1350, Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Principal Financial Officer of Summit Bancshares, Inc. pursuant to Section 1350, Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SUMMIT BANCSHARES, INC.

Registrant

Date: November 8, 2005

By: /s/ Philip E. Norwood

Philip E. Norwood, Chairman, President
and Chief Executive Officer

Date: November 8, 2005

By: /s/ Bob G. Scott

Bob G. Scott, Executive Vice President
and Chief Operating Officer
(Principal Financial Officer)

EXHIBIT INDEX

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