

SHORE BANCSHARES INC
Form 10-Q
August 11, 2008

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2008

OR

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

For the transition period from _____ to _____

Commission file number 0-22345

SHORE BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)

52-1974638
(I.R.S. Employer
Identification No.)

18 East Dover Street, Easton, Maryland
(Address of Principal Executive Offices)

21601
(Zip Code)

(410) 822-1400

Registrant's Telephone Number, Including Area Code

N/A

Former name, former address and former fiscal year, if changed since 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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x

Non-accelerated filer

(Do not check if a smaller reporting company)

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

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 8,404,609 shares of common stock outstanding as of August 1, 2008.

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PART I - FINANCIAL INFORMATION**Item 1. Financial Statements.**

SHORE BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share amounts)

	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Cash and due from banks	\$ 19,532	\$ 17,198
Interest bearing deposits with other banks	343	3,036
Federal funds sold	23,111	6,646
Investment securities:		
Available for sale, at fair value	80,721	97,137
Held-to-maturity, at amortized cost (fair value of \$11,100 and \$12,924, respectively)	11,121	12,896
Loans	841,600	776,350
Less: allowance for credit losses	(8,282)	(7,551)
Loans, net	833,318	768,799
Insurance premiums receivable	1,603	1,083
Premises and equipment, net	14,465	15,617
Accrued interest receivable	4,843	5,008
Investment in unconsolidated subsidiary	937	937
Goodwill	15,954	15,954
Other intangible assets, net	6,179	6,436
Deferred income taxes	2,639	1,847
Other real estate owned	-	176
Other assets	4,697	4,141
TOTAL ASSETS	\$ 1,019,463	\$ 956,911
LIABILITIES		
Deposits:		
Noninterest bearing demand	\$ 109,718	\$ 104,081
Interest bearing demand	108,549	115,623
Money market and savings	190,355	169,896
Certificates of deposit \$100,000 or more	186,926	161,568
Other time	223,108	214,727
Total deposits	818,656	765,895
Accrued interest payable	1,873	2,793
Short-term borrowings	58,263	47,694
Long-term debt	8,485	12,485
Other liabilities	9,148	7,809
TOTAL LIABILITIES	896,425	836,676
STOCKHOLDERS' EQUITY		
	84	84

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Common stock, par value \$.01; shares authorized - 35,000,000; shares issued and outstanding - 8,400,109 and 8,380,530, respectively

Additional paid in capital	29,663	29,539
Retained earnings	93,498	90,365
Accumulated other comprehensive (loss) income	(207)	247
TOTAL STOCKHOLDERS' EQUITY	123,038	120,235
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,019,463	\$ 956,911

See accompanying notes to Consolidated Financial Statements.

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SHORE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(Dollars in thousands, except per share amounts)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
INTEREST INCOME				
Interest and fees on loans	\$ 13,961	\$ 14,210	\$ 28,521	\$ 27,834
Interest and dividends on investment securities:				
Taxable	945	1,291	2,025	2,575
Tax-exempt	109	135	232	259
Interest on federal funds sold	83	290	205	810
Interest on deposits with other banks	29	329	67	667
Total interest income	15,127	16,255	31,050	32,145
INTEREST EXPENSE				
Interest on deposits	4,997	5,402	10,340	10,770
Interest on short-term borrowings	316	276	682	559
Interest on long-term debt	182	335	366	669
Total interest expense	5,495	6,013	11,388	11,998
NET INTEREST INCOME	9,632	10,242	19,662	20,147
Provision for credit losses	615	413	1,077	655
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	9,017	9,829	18,585	19,492
NONINTEREST INCOME				
Service charges on deposit accounts	917	782	1,788	1,471
Other service charges and fees	765	517	1,501	988
Gain on sale of investment securities	-	1	-	1
Insurance agency commissions	3,111	1,562	6,578	3,601
Other noninterest income	401	399	829	848
Total noninterest income	5,194	3,261	10,696	6,909
NONINTEREST EXPENSE				
Salaries and wages	4,568	3,816	9,175	7,633
Employee benefits	1,191	899	2,568	2,015
Occupancy expense	537	474	1,036	984
Furniture and equipment expense	298	348	584	670
Data processing	440	467	910	899
Directors' fees	130	128	295	291
Amortization of other intangible assets	129	64	258	147
Agency commissions	712	-	1,323	-
Other noninterest expenses	1,724	1,551	3,171	2,999
Total noninterest expense	9,729	7,747	19,320	15,638
INCOME BEFORE INCOME TAXES	4,482	5,343	9,961	10,763

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Income tax expense		1,716		1,987		3,823		4,004
NET INCOME	\$	2,766	\$	3,356	\$	6,138	\$	6,759
Basic earnings per common share	\$	0.33	\$	0.40	\$	0.73	\$	0.81
Diluted earnings per common share	\$	0.33	\$	0.40	\$	0.73	\$	0.81
Dividends paid per common share	\$	0.16	\$	0.16	\$	0.32	\$	0.32

See accompanying notes to Consolidated Financial Statements.

SHORE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)
For the Six Months Ended June 30, 2008 and 2007
(Dollars in thousands, except per share amounts)

	Common Stock	Paid in Capital	Additional Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances, January 1, 2008	\$ 84	\$ 29,539	\$ 90,365	\$ 247	\$ 120,235
Adjustment to initially apply EITF Issue 06-4	-	-	(318)	-	(318)
Comprehensive income:					
Net income	-	-	6,138	-	6,138
Unrealized losses on available-for-sale securities, net of taxes	-	-	-	(454)	(454)
Total comprehensive income					5,684
Shares issued for employee stock-based awards	-	77	-	-	77
Stock-based compensation expense	-	47	-	-	47
Cash dividends paid (\$0.32 per share)	-	-	(2,687)	-	(2,687)
Balances, June 30, 2008	\$ 84	\$ 29,663	\$ 93,498	\$ (207)	\$ 123,038
Balances, January 1, 2007	\$ 84	\$ 29,687	\$ 82,279	(723)	111,327
Comprehensive income:					
Net income	-	-	6,759	-	6,759
Unrealized losses on available-for-sale securities, net of taxes	-	-	-	(274)	(274)
Total comprehensive income					6,485
Shares issued for employee stock-based awards	-	37	-	-	37
Stock-based compensation expense	-	29	-	-	29
Repurchase and retirement of 10,234 shares	-	(266)	-	-	(266)
Cash dividends paid (\$0.32 per share)	-	-	(2,682)	-	(2,682)
Balances, June 30, 2007	\$ 84	\$ 29,487	\$ 86,356	\$ (997)	\$ 114,930

See accompanying notes to Consolidated Financial Statements.

SHORE BANCSHARES, INC.
 CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
 (Dollars in thousands)

	For the Six Months Ended June 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 6,138	\$ 6,759
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	889	743
Stock-based compensation expense	47	29
Discount accretion on debt securities		