

SHORE BANCSHARES INC
Form 10-Q
August 10, 2009

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, 2009

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 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 (Not Applicable)

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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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(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

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: 8,418,963 shares of common stock outstanding as of July 31, 2009.

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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, 2009 (Unaudited)	December 31, 2008
ASSETS		
Cash and due from banks	\$ 20,498	\$ 16,803
Interest bearing deposits with other banks	1,622	481
Federal funds sold	85,242	10,010
Investment securities:		
Available for sale, at fair value	80,278	79,204
Held to maturity, at amortized cost – fair value of \$9,111 (2009) and \$10,390 (2008)	8,994	10,252
Loans	919,088	888,528
Less: allowance for credit losses	(10,784)	(9,320)
Loans, net	908,304	879,208
Insurance premiums receivable	1,391	1,348
Premises and equipment, net	14,018	13,855
Accrued interest receivable	4,355	4,606
Goodwill	15,954	15,954
Other intangible assets, net	5,663	5,921
Deferred income taxes	2,579	1,579
Other real estate owned	2,212	148
Other assets	7,102	5,272
TOTAL ASSETS	\$ 1,158,212	\$ 1,044,641
LIABILITIES		
Deposits:		
Noninterest bearing demand	\$ 113,111	\$ 102,584
Interest bearing demand	126,859	125,370
Money market and savings	244,233	150,958
Certificates of deposit \$100,000 or more	259,348	235,235
Other time	237,783	231,224
Total deposits	981,334	845,371
Accrued interest payable	2,368	2,350
Short-term borrowings	28,096	52,969
Long-term debt	7,947	7,947
Other liabilities	10,591	8,619
TOTAL LIABILITIES	1,030,336	917,256
STOCKHOLDERS' EQUITY		
Common stock, par value \$.01; shares authorized – 35,000,000; shares issued and outstanding – 8,418,963 (2009) and 8,404,684 (2008)	84	84

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Warrants	1,543	-
Additional paid in capital	29,816	29,768
Retained earnings	95,679	96,140
Accumulated other comprehensive income	754	1,393
TOTAL STOCKHOLDERS' EQUITY	127,876	127,385
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,158,212	\$ 1,044,641

See accompanying notes to Consolidated Financial Statements.

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,	
	2009	2008	2009	2008
INTEREST INCOME				
Interest and fees on loans	\$ 13,754	\$ 13,961	\$ 27,371	\$ 28,521
Interest and dividends on investment securities:				
Taxable	768	945	1,524	2,025
Tax-exempt	79	109	164	232
Interest on federal funds sold	23	83	30	205
Interest on deposits with other banks	6	29	7	67
Total interest income	14,630	15,127	29,096	31,050
INTEREST EXPENSE				
Interest on deposits	4,441	4,997	8,726	10,340
Interest on short-term borrowings	28	316	77	682
Interest on long-term debt	75	182	149	366
Total interest expense	4,544	5,495	8,952	11,388
NET INTEREST INCOME	10,086	9,632	20,144	19,662
Provision for credit losses	1,681	615	3,616	1,077
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	8,405	9,017	16,528	18,585
NONINTEREST INCOME				
Service charges on deposit accounts	888	917	1,697	1,788
Other service charges and fees	774	765	1,512	1,501
Investment securities gains	-	-	49	-
Insurance agency commissions	2,893	3,219	6,228	6,750
Other noninterest income	792	293	1,211	657
Total noninterest income	5,347	5,194	10,697	10,696
NONINTEREST EXPENSE				
Salaries and wages	4,759	4,568	9,299	9,175
Employee benefits	1,200	1,191	2,580	2,568
Occupancy expense	587	537	1,136	1,036
Furniture and equipment expense	302	298	616	584
Data processing	580	550	1,190	1,118
Directors' fees	117	130	285	295
Amortization of other intangible assets	129	129	258	258
Insurance agency commissions expense	537	712	1,087	1,323
FDIC insurance premium expense	919	60	1,163	74
Other noninterest expenses	1,563	1,554	2,962	2,889
Total noninterest expense	10,693	9,729	20,576	19,320

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INCOME BEFORE INCOME TAXES	3,059	4,482	6,649	9,961
Income tax expense	1,166	1,716	2,543	3,823
NET INCOME	1,893	2,766	4,106	6,138
Preferred stock dividends and discount accretion	1,539	-	1,876	-
Net income available to common shareholders	\$ 354	\$ 2,766	\$ 2,230	\$ 6,138
Basic earnings per common share	\$ 0.04	\$ 0.33	\$ 0.27	\$ 0.73
Diluted earnings per common share	\$ 0.04	\$ 0.33	\$ 0.27	\$ 0.73
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, 2009 and 2008
(Dollars in thousands, except per share amounts)

	Preferred Stock	Common Stock	Warrants	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances, January 1, 2009	\$ -	\$ 84	\$ -	\$ 29,768	\$ 96,140	\$ 1,393	\$ 127,385
Comprehensive income:							
Net income	-	-	-	-	4,106	-	4,106
Unrealized losses on available-for-sale securities, net of taxes	-	-	-	-	-	(639)	(639)
Total comprehensive income	-	-	-	-	-	-	3,467
Warrants issued	-	-	1,543	-	-	-	1,543
Preferred shares issued pursuant to TARP	25,000	-	-	-	-	-	25,000
Discount from issuance of preferred stock	(1,543)	-	-	-	-	-	(1,543)
Discount accretion	68	-	-	-	(68)	-	-
Repurchase of preferred stock	(23,525)	-	-	-	-	-	(23,525)
Common shares issued for employee stock-based awards	-	-	-	2	-	-	2
Stock-based compensation expense	-	-	-	46	-	-	46
Preferred stock dividends	-	-	-	-	(1,808)	-	(1,808)
Cash dividends paid (\$0.32 per share)	-	-	-	-	(2,691)	-	(2,691)
Balances, June 30, 2009	\$ -	\$ 84	\$ 1,543	\$ 29,816	\$ 95,679	\$ 754	\$ 127,876
Balances, January 1, 2008	\$ -	\$ 84	\$ -	\$ 29,539	\$ 90,365	\$ 247	\$ 120,235
Adjustment to initially apply EITF Issue 06-4	-	-	-	-	(318)	-	(318)
Comprehensive income:							

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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

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,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 4,106	\$ 6,138
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	3,616	1,077
Depreciation and amortization	890	889
Discount accretion on debt securities	(131)	(116)
Stock-based compensation expense	46	47
Gain on sales of securities	(49)	-
Loss on disposals of premises and equipment	-	9
Loss on sales of other real estate owned	-	50
Net changes in:		
Insurance premiums receivable	(43)	(520)
Accrued interest receivable	251	165
Other assets	(2,384)	(1,598)
Accrued interest payable	18	(920)
Other liabilities	1,973	1,021
Net cash provided by operating activities	8,293	6,242
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and principal payments of securities available for sale	30,828	39,193
Proceeds from sales of investment securities available for sale	2,048	-
Purchases of securities available for sale	(34,933)	(23,477)
Proceeds from maturities and principal payments of securities held to maturity	2,080	2,785
Purchases of securities held to maturity	(824)	(1,012)
Net increase in loans	(34,776)	(65,734)
Purchases of premises and equipment	(715)	(193)
Proceeds from sales of premises and equipment	-	1,318
Proceeds from sales of other real estate owned	-	264
Net cash used in investing activities	(36,292)	(46,856)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand, money market and savings deposits	105,291	19,022
Net increase in certificates of deposit	30,672	33,739
Net (decrease) increase in short-term borrowings	(24,874)	10,569
Proceeds from issuance of long-term debt	-	3,000
Repayment of long-term debt	-	(7,000)
Proceeds from issuance of preferred stock and warrants	25,000	-
Repurchase of preferred stock	(23,525)	-
Proceeds from issuance of common stock	2	77
Preferred stock dividends paid	(1,808)	-
Common stock dividends paid	(2,691)	(2,687)
Net cash provided by financing activities	108,067	56,720
Net increase in cash and cash equivalents	80,068	16,106

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Cash and cash equivalents at beginning of period		27,294		26,880
Cash and cash equivalents at end of period	\$	107,362	\$	42,986

Supplemental cash flows information:

Interest paid	\$	8,934	\$	12,309
Income taxes paid	\$	3,123	\$	4,979
Transfers from loans to other real estate owned	\$	2,064	\$	138

See accompanying notes to Consolidated Financial Statements.

Shore Bancshares, Inc.
Notes to Consolidated Financial Statements
For the Three and Six Months Ended June 30, 2009 and 2008
(Unaudited)

Note 1 - Basis of Presentation

The consolidated financial statements include the accounts of Shore Bancshares, Inc. and its subsidiaries with all significant intercompany transactions eliminated. The consolidated financial statements conform to accounting principles generally accepted in the United States of America (“GAAP”) and to prevailing practices within the banking industry. The accompanying interim financial statements are unaudited; however, in the opinion of management all adjustments necessary to present fairly the consolidated financial position at June 30, 2009, the consolidated results of operations for the three and six months ended June 30, 2009 and 2008, changes in stockholders’ equity for the six months ended June 30, 2009 and 2008, and cash flows for the six months ended June 30, 2009 and 2008, have been included. All such adjustments are of a normal recurring nature. The amounts as of December 31, 2008 were derived from the 2008 audited financial statements. The results of operations for the three and six months ended June 30, 2009 are not necessarily indicative of the results to be expected for any other interim period or for the full year. This Quarterly Report on Form 10-Q should be read in conjunction with the Annual Report of Shore Bancshares, Inc. on Form 10-K for the year ended December 31, 2008. Further, in connection with preparation of the consolidated financial statements and in accordance with the recently issued Statement of Financial Accounting Standards (“SFAS”) No. 165, “Subsequent Events,” the Company evaluated subsequent events after the balance sheet date of June 30, 2009 through August 10, 2009, the date the consolidated financial statements included in this Form 10-Q were issued.

When used in these notes, the term “the Company” refers to Shore Bancshares, Inc. and, unless the context requires otherwise, its consolidated subsidiaries.

Note 2 – Earnings Per Share

Basic earnings per common share are calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share are calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period, adjusted for the dilutive effect of stock-based awards. The following table provides information relating to the calculation of earnings per common share:

(In thousands, except per share data)	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Net income available to common shareholders	\$ 354	\$ 2,766	\$ 2,230	\$ 6,138
Weighted average shares outstanding - Basic	8,413	8,398	8,409	8,394
Dilutive effect of stock-based awards	4			