

SHORE BANCSHARES INC
Form 10-Q
November 09, 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 September 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 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 October 31, 2009.

INDEX

	Page
Part I. Financial Information	2
Item 1. Financial Statements	2
Consolidated Balance Sheets - September 30, 2009 (unaudited) and December 31, 2008	2
Consolidated Statements of Income - For the three and nine months ended September 30, 2009 and 2008 (unaudited)	3
Consolidated Statements of Changes in Stockholders' Equity - For the nine months ended September 30, 2009 and 2008 (unaudited)	4
Consolidated Statements of Comprehensive Income - For the three and nine months ended September 30, 2009 and 2008 (unaudited)	5
Consolidated Statements of Cash Flows - For the nine months ended September 30, 2009 and 2008 (unaudited)	6
Notes to Consolidated Financial Statements (unaudited)	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3. Quantitative and Qualitative Disclosures about Market Risk	26
Item 4. Controls and Procedures	26
Part II. Other Information	27
Item 1A. Risk Factors	27
Item 6. Exhibits	27
Signatures	27
Exhibit Index	28

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	September 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Cash and due from banks	\$ 13,699	\$ 16,803
Interest bearing deposits with other banks	1,601	481
Federal funds sold	72,061	10,010
Investment securities:		
Available for sale, at fair value	94,917	79,204
Held to maturity, at amortized cost – fair value of \$9,183 (2009) and \$10,390 (2008)	9,004	10,252
Loans	918,601	888,528
Less: allowance for credit losses	(10,723)	(9,320)
Loans, net	907,878	879,208
Insurance premiums receivable	1,193	1,348
Premises and equipment, net	14,012	13,855
Accrued interest receivable	4,769	4,606
Goodwill	15,954	15,954
Other intangible assets, net	5,535	5,921
Deferred income taxes	2,903	1,579
Other real estate owned	2,062	148
Interest rate caps	6,034	-
Other assets	6,063	5,272
TOTAL ASSETS	\$ 1,157,685	\$ 1,044,641
LIABILITIES		
Deposits:		
Noninterest bearing demand	\$ 124,440	\$ 102,584
Interest bearing demand	113,735	125,370
Money market and savings	243,576	150,958
Certificates of deposit \$100,000 or more	275,351	235,235
Other time	235,094	231,224
Total deposits	992,196	845,371
Accrued interest payable	2,218	2,350
Short-term borrowings	17,673	52,969
Long-term debt	1,947	7,947
Other liabilities	15,432	8,619
TOTAL LIABILITIES	1,029,466	917,256
STOCKHOLDERS' EQUITY		
	84	84

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Common stock, par value \$.01 per share; shares authorized – 35,000,000; shares issued and outstanding – 8,418,963 (2009) and 8,404,684 (2008)

Warrants	1,543	-
Additional paid in capital	29,844	29,768
Retained earnings	96,283	96,140
Accumulated other comprehensive income	465	1,393
TOTAL STOCKHOLDERS' EQUITY	128,219	127,385
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,157,685	\$ 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 September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
INTEREST INCOME				
Interest and fees on loans	\$ 14,001	\$ 14,179	\$ 41,372	\$ 42,700
Interest and dividends on investment securities:				
Taxable	800	924	2,324	2,949
Tax-exempt	77	95	241	327
Interest on federal funds sold	31	79	61	284
Interest on deposits with other banks	4	21	11	88
Total interest income	14,913	15,298	44,009	46,348
INTEREST EXPENSE				
Interest on deposits	4,368	4,955	13,094	15,295
Interest on short-term borrowings	19	344	96	1,026
Interest on long-term debt	98	90	247	456
Total interest expense	4,485	5,389	13,437	16,777
NET INTEREST INCOME	10,428	9,909	30,572	29,571
Provision for credit losses	1,702	875	5,318	1,952
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	8,726	9,034	25,254	27,619
NONINTEREST INCOME				
Service charges on deposit accounts	861	923	2,558	2,711
Other service charges and fees	763	668	2,275	2,169
Investment securities gains	-	-	49	-
Other than temporary impairment of securities	-	(371)	-	(371)
Insurance agency commissions income	2,744	2,845	8,972	9,595
Gain on disposals of premises and equipment	-	1,264	-	1,255
Loss on sale of investment in unconsolidated subsidiary	-	(337)	-	(337)
Other noninterest income	351	254	1,562	920
Total noninterest income	4,719	5,246	15,416	15,942
NONINTEREST EXPENSE				
Salaries and wages	4,765	4,662	14,064	13,837
Employee benefits	1,211	1,140	3,791	3,708
Occupancy expense	616	558	1,752	1,594
Furniture and equipment expense	299	310	915	894
Data processing	675	610	1,865	1,728
Directors' fees	109	131	394	426
Amortization of intangible assets	128	128	386	386
Insurance agency commissions expense	428	447	1,515	1,770

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FDIC insurance premium expense	458	135	1,621	209
Other noninterest expenses	1,608	1,308	4,570	4,197
Total noninterest expense	10,297	9,429	30,873	28,749
INCOME BEFORE INCOME TAXES				
Income tax expense	3,148	4,851	9,797	14,812
	1,197	1,780	3,740	5,603
NET INCOME				
	1,951	3,071	6,057	9,209
Preferred stock dividends and discount accretion	-	-	1,876	-
Net income available to common shareholders	\$ 1,951	\$ 3,071	\$ 4,181	\$ 9,209
Basic earnings per common share				
	\$ 0.23	\$ 0.37	\$ 0.50	\$ 1.10
Diluted earnings per common share				
	\$ 0.23	\$ 0.37	\$ 0.50	\$ 1.10
Cash dividends paid per common share				
	\$ 0.16	\$ 0.16	\$ 0.48	\$ 0.48

See accompanying notes to Consolidated Financial Statements.

SHORE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)
For the Nine Months Ended September 30, 2009 and 2008
(Dollars in thousands, except per share amounts)

	Preferred	Common		Additional	Retained	Accumulated	Total
	Stock	Stock	Warrants	Paid in	Earnings	Other	Stockholders'
				Capital		Comprehensive	Equity
						Income	
						(Loss)	
Balances, January 1, 2009	\$ -	\$ 84	\$ -	\$ 29,768	\$ 96,140	\$ 1,393	\$ 127,385
Comprehensive income:							
Net income	-	-	-	-	6,057	-	6,057
Unrealized losses on available-for-sale securities, net of taxes	-	-	-	-	-	(276)	(276)
Unrealized losses on cash flow hedging activities, net of taxes	-	-	-	-	-	(652)	(652)
Total comprehensive income							5,129
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	-	-	-	74	-	-	74
Preferred stock dividends	-	-	-	-	(1,808)	-	(1,808)
Cash dividends paid (\$0.48 per share)	-	-	-	-	(4,038)	-	(4,038)
	\$ -	\$ 84	\$ 1,543	\$ 29,844	\$ 96,283	\$ 465	\$ 128,219

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Balances, September 30, 2009														
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		-		-		-		-		9,209		-		9,209
Unrealized gains on available-for-sale securities, net of taxes		-		-		-		-		-		102		102
Total comprehensive income														9,311
Shares issued for employee stock-based awards		-		-		-		136		-		-		136
Stock-based compensation expense		-		-		-		69		-		-		69
Cash dividends paid (\$0.48 per share)		-		-		-		-		(4,032)		-		(4,032)
Balances, September 30, 2008	\$	-	\$	84	\$	-	\$	29,744	\$	95,224	\$	349	\$	125,401

See accompanying notes to Consolidated Financial Statements.

SHORE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(Dollars in thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Net income	\$ 1,951	\$ 3,071	\$ 6,057	\$ 9,209
Other comprehensive (loss) income:				
Securities available for sale:				
Unrealized holding gains (losses) on available-for-sale securities	604	926	(410)	175
Tax effect	(241)	(370)	163	(73)
Reclassification of (gains) losses recognized in net income	-	-	(49)	-
Tax effect	-	-	20	-
Net of tax amount	363	556	(276)	102
Cash flow hedging activities:				
Unrealized holding losses on cash flow hedging activities	(1,093)	-	(1,093)	-
Tax effect	441	-	441	-
Net of tax amount	(652)	-	(652)	-
Total other comprehensive (loss) income	(289)	556	(928)	102
Comprehensive income	\$ 1,662	\$ 3,627	\$ 5,129	\$ 9,311

See accompanying notes to Consolidated Financial Statements.

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

	For the Nine Months Ended September 30,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 6,057	\$ 9,209
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	5,318	1,952
Depreciation and amortization	1,370	1,330
Discount accretion on debt securities	(191)	(164)
Stock-based compensation expense	74	69
Gain on sales of securities	(49)	-
Other than temporary impairment of securities	-	371
Gain on disposals of premises and equipment	-	(1,255)
Loss on sale of investment in unconsolidated subsidiary	-	337
Loss on sales of other real estate owned	-	50
Write-downs of other real estate owned	159	-
Net changes in:		
Insurance premiums receivable	155	(81)
Accrued interest receivable	(163)	(15)
Other assets	(2,124)	(1,592)
Accrued interest payable	(132)	(656)
Other liabilities	285	579
Net cash provided by operating activities	10,759	10,134
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and principal payments of securities available for sale	36,686	71,189
Proceeds from sales of investment securities available for sale	2,048	-
Purchases of securities available for sale	(54,851)	(56,416)
Proceeds from maturities and principal payments of securities held to maturity	2,815	2,991
Purchases of securities held to maturity	(1,563)	(1,012)
Net increase in loans	(36,059)	(90,109)
Purchases of premises and equipment	(982)	(292)
Proceeds from sales of premises and equipment	-	2,773
Proceeds from sale of investment in unconsolidated subsidiary	-	600
Proceeds from sales of other real estate owned	-	264
Purchases of interest rate caps	(6,475)	-
Net cash used in investing activities	(58,381)	(70,012)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand, money market and savings deposits	102,839	29,990
Net increase in certificates of deposit	43,987	43,332
Net (decrease) increase in short-term borrowings	(35,296)	5,384

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Proceeds from issuance of long-term debt	-	3,000
Repayment of long-term debt	(6,000)	(7,000)
Net receipt of counterparty collateral – interest rate caps	6,528	
Proceeds from issuance of preferred stock and warrants	25,000	-
Repurchase of preferred stock	(23,525)	-
Proceeds from issuance of common stock	2	136
Preferred stock dividends paid	(1,808)	-
Common stock dividends paid	(4,038)	(4,032)
Net cash provided by financing activities	107,689	70,810
Net increase in cash and cash equivalents	60,067	10,932
Cash and cash equivalents at beginning of period	27,294	26,880
Cash and cash equivalents at end of period	\$ 87,361	\$ 37,812

Supplemental cash flows information:

Interest paid	\$ 13,569	\$ 17,433
Income taxes paid	\$ 3,678	\$ 7,437
Transfers from loans to other real estate owned	\$ 2,072	\$ 138

See accompanying notes to Consolidated Financial Statements.

Shore Bancshares, Inc.
Notes to Consolidated Financial Statements
For the Three and Nine Months Ended September 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 September 30, 2009, the consolidated results of operations for the three and nine months ended September 30, 2009 and 2008, changes in stockholders’ equity for the nine months ended September 30, 2009 and 2008, and cash flows for the nine months ended September 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 nine months ended September 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.

The Financial Accounting Standards Board’s (FASB) Accounting Standards Codification (ASC) became effective on July 1, 2009. At that date, the ASC became FASB’s officially recognized source of authoritative U.S. generally accepted accounting principles (GAAP) applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related literature. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. The switch to the ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of September 30, 2009 for items that should potentially be recognized or disclosed in these financial statements as prescribed by recently issued FASB ASC Topic 855, “Subsequent Events”. The evaluation was conducted through November 9, 2009, the date these financial statements 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:

For the Three Months Ended September 30,	For the Nine Months Ended September 30,
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(In thousands, except per share data)

	2009	2008	2009	2008
Net income available to common shareholders	\$ 1,951	\$ 3,071	\$ 4,181	\$ 9,209
Weighted average shares outstanding - Basic	8,419	8,405	8,412	8,398
Dilutive effect of stock-based awards	4	6	4	7
Weighted average shares outstanding - Diluted				