

SHORE BANCSHARES INC  
Form DEF 14A  
March 27, 2009

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

SCHEDULE 14A  
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT  
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant:   
Filed by a Party other than the Registrant:

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

Shore Bancshares, Inc.  
(Name of Registrant as Specified in Its Charter)

N/A  
(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- (1) Title of each class of securities to which transaction applies: N/A
- (2) Aggregate number of securities to which transaction applies: N/A
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): N/A
- (4) Proposed maximum aggregate value of transaction: N/A
- (5) Total fee paid: N/A

Fee paid previously with preliminary materials: N/A

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

- (1) Amount previously paid:

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- (2) Form, Schedule or Registration Statement no.:
  - (3) Filing Party:
  - (4) Date Filed:
-

18 East Dover Street, Easton, Maryland 21601  
410-822-1400/Fax 410-820-4238

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders of SHORE BANCSHARES, INC.

Notice is hereby given that the Annual Meeting of Stockholders of Shore Bancshares, Inc. (the "Company") will be held at the Avalon Theatre, 42 East Dover Street, Easton, Maryland 21601 at 11:00 a.m., local time, on Wednesday, April 29, 2009, for the following purposes:

1. To elect the six director nominees named in the enclosed Proxy Statement and on the Proxy to the Board of Directors.
2. To ratify the appointment of Stegman & Company as the Company's independent registered public accounting firm for fiscal year 2009.
3. To consider and approve a non-binding advisory vote on the Company's executive compensation program and policies; and
4. To transact any other business that may properly come before the Annual Meeting.

Stockholders of record at the close of business on March 12, 2009 will be entitled to notice of and to vote at the meeting. This Proxy Statement is accompanied by the Company's Annual Report to Stockholders for the year ended December 31, 2008.

All stockholders are cordially invited to attend the meeting in person. Those who cannot attend are urged to sign, date and mail promptly the enclosed proxy in the envelope provided for that purpose. Whether you own a few or many shares, your proxy is important in fulfilling this requirement. To assist us with planning the meeting, please mark the appropriate box on your proxy card as to whether you plan to attend the meeting in person. Returning your proxy does not deprive you of your right to attend the meeting and to vote your shares in person.

By Order of the Board of Directors,

W. Moorhead Vermilye  
President and CEO

March 27, 2009

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting  
to be Held on April 29, 2009:

The attached Proxy Statement and the form of Proxy and Shore Bancshares, Inc.'s Annual Report to Stockholders (including its Annual Report on Form 10-K) are available at <http://www.shbi.net> under the "Documents" tab. Information on this website, other than the Proxy Statement, is not a part of the attached Proxy Statement.

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18 East Dover Street, Easton, Maryland 21601  
410-822-1400/Fax 410-820-4238

PROXY STATEMENT  
FOR  
2009 ANNUAL MEETING OF STOCKHOLDERS

This Proxy Statement is furnished to the stockholders of Shore Bancshares, Inc. (the "Company") in connection with the solicitation of proxies by the Board of Directors of the Company to be voted at the 2009 Annual Meeting of Stockholders. The Annual Meeting of Stockholders will be held on Wednesday, April 29, 2009, at 11:00 a.m., local time, at the Avalon Theatre, 42 East Dover Street, Easton, Maryland 21601, and at any adjournments thereof. The expense of preparing, printing, and mailing the proxies and solicitation materials will be borne by the Company. In addition to solicitations by mail, the Company may solicit proxies in person, by telephone or by electronic means, and may arrange for brokerage houses and other custodians, nominees, and fiduciaries to send proxies and proxy material to their principals at the expense of the Company. The approximate date on which this Proxy Statement and attached form of proxy are being mailed to stockholders is March 27, 2009.

At the Annual Meeting, stockholders will be asked to vote on the election of six director nominees named in this Proxy Statement to the Board of Directors, each of which was nominated by the Nominating and Corporate Governance Committee of the Company's Board of Directors (the "Nominating Committee"). If elected, five of the nominees will serve as Class III directors until the 2012 Annual Meeting of Stockholders and until their successors are duly elected and qualify, and one of the nominees will serve as a Class I director until the 2010 Annual Meeting of Stockholders and until his successor is duly elected and qualifies. Holders of record at the close of business on March 12, 2009 (the "Record Date") of outstanding shares of the Company's common stock, par value \$.01 per share ("Common Stock"), are entitled to notice of and to vote at the meeting. As of the Record Date, the number of shares of outstanding Common Stock entitled to vote is 8,404,709 shares. Each share is entitled to one vote.

The presence, in person or by proxy, of stockholders entitled to cast a majority of all votes entitled to be cast at the Annual Meeting will constitute a quorum. Directors are elected by a plurality of all votes cast at the Annual Meeting, so the withholding of a vote, an abstention and a broker non-vote will have no impact on the outcome of the vote on Proposal 1, as described in this Proxy Statement, but all of the foregoing will be counted for purposes of determining whether a quorum is present for the transaction of business. All other matters to be acted upon by stockholders, including Proposal 2 and Proposal 3, as described in this Proxy Statement, are decided by a majority of all votes cast at the Annual Meeting on that matter. Abstentions and broker non-votes with respect to any such other matter are included for purposes of determining the presence of a quorum but are not included in calculating votes cast with respect to such matter.

All properly executed proxies received pursuant to this solicitation will be voted as directed by the stockholder on the proxy card. If no direction is given, the proxy will be voted FOR ALL NOMINEES named in Proposal 1, FOR the ratification of the appointment of the Company's independent registered public accounting firm named in Proposal 2, FOR approval of the Company's executive compensation program and policies as described in the non-binding advisory Proposal 3, and in the discretion of the proxies as to any other matter that may properly come before the meeting.

A stockholder may revoke the proxy at any time prior to its use by execution of another proxy bearing a later date, or by written notice delivered to W. Moorhead Vermilye, President and CEO of the Company, at the Company's address listed above or at the meeting.

## BENEFICIAL OWNERSHIP OF COMMON STOCK

The following table sets forth information as of March 3, 2009 relating to the beneficial ownership of the Common Stock by (i) each person or group known by the Company to own beneficially more than five (5%) of the outstanding shares of Common Stock; (ii) each of the Company's directors, director nominees, and "named executive officers" (as defined below); and (iii) all directors and executive officers of the Company as a group; and includes all shares of Common Stock that may be acquired within 60 days of March 3, 2009. The address of each of the persons named below is the address of the Company except as otherwise indicated.

Name	Number of Shares Beneficially Owned	Percent of Class Beneficially Owned
<b>Directors, Nominees and Named Executive Officers</b>		
Herbert L. Andrew, III	88,311(1)	1.05%
Blenda W. Armistead	9,343(2)	*
Lloyd L. Beatty, Jr.	19,145(3)	*
Paul M. Bowman	5,076(4)	*
William W. Duncan, Jr.	9,058(5)	*
Richard C. Granville	147,299	1.75%
Susan E. Leaverton	22,432(6)	*
Neil R. LeCompte	3,373(7)	*
Jerry F. Pierson	8,254(8)	*
Christopher F. Spurry	18,450(9)	*
F. Winfield Trice, Jr.	3,279	*
W. Moorhead Vermilye	165,704(10)	1.97%
James A. Judge	11,149(11)	
John H. Wilson	-	
<b>All Directors, Nominees and Executive Officers as a Group (14 Persons)</b>		
	510,873	
<b>5% Stockholders</b>		
Nicholas F. Brady PO Box 1410 Easton, MD 21601	519,696(12)	6.18%
Total	1,030,569	
	*	Amount constitutes less than 1%.

## Notes:

- (1) Includes 82,905 shares held as tenants in common by Herbert L. Andrew, III and Della M. Andrew.
- (2) Includes 1,305 shares held individually by Bruce C. Armistead; 2,532 shares held by Bruce C. Armistead under an Individual Retirement Account arrangement; 1,770 shares held by Bruce C. Armistead, as custodian for a minor child; and exercisable options to acquire 300 shares.
- (3) Includes 7,975 shares held jointly with Nancy W. Beatty; and 855 shares held individually by Nancy W. Beatty.
- (4) Includes 1,438 shares held individually by Elaine M. Bowman of which Mr. Bowman disclaims beneficial ownership; 1,462 shares held jointly by Thelma B. Gaines and Paul M. Bowman; and exercisable options to acquire 1,500 shares.
- (5) Includes 500 shares held jointly by William W. Duncan and Diana L. Duncan.

(6) Includes 300 shares held by Susan E. Leaverton, as custodian for two minor children; 3,607 shares held by Keith R. Leaverton under an Individual Retirement Account arrangement; and exercisable options to acquire 2,250 shares.

- (7) Includes exercisable options to acquire 150 shares.
- (8) Includes 1,512 shares held jointly by Jerry F. Pierson and Bonnie K. Pierson; and exercisable options to acquire 1,500 shares.
- (9) Includes 8,452 shares held jointly with Beverly B. Spurry; 300 shares held by Beverly B. Spurry under a SEP arrangement; and 747 shares held by Beverly B. Spurry under an Individual Retirement Account arrangement.
- (10) Includes 2,958 shares held individually by Sarah W. Vermilye.
- (11) Includes 6,840 shares held individually by Margaret B. Judge; 172 shares held by Anthony, Judge & Ware, LLC Profit Sharing Plan of which Mr. Judge is the plan administrator and trustee, and 3,516 shares held by the Radcliffe Creek School, Inc. of which Mr. Judge is a trustee and officer.
- (12) Includes 5,387 shares held in a defined benefit pension plan of which Nicholas Brady is the plan administrator and co-trustee, 18,806 shares owned by a foundation of which Nicholas Brady and his spouse are trustees, 9,300 shares owned by Nicholas Brady's spouse, and 12,825 shares owned by two trusts of which Nicholas Brady's spouse serves as trustee.

#### ELECTION OF DIRECTORS (Proposal 1)

The number of directors constituting the Board of Directors is currently set at 13. Directors are divided into three classes, as nearly equal in number as possible, with respect to the time for which the directors may hold office. Directors are elected to three-year terms, and one class of directors expires each year. In accordance with the Company's organizational documents, the terms of directors of Class III expire this year, the terms of directors of Class I expire in 2010, and the terms of directors of Class II expire in 2011. In all cases, directors are elected until their successors are duly elected and qualify.

At this year's Annual Meeting, stockholders will be asked to vote for the election of the six director nominees selected by the Nominating Committee. Each of the previously-elected incumbent Class III directors is standing for reelection except for W. Edwin Kee, Jr. James A. Judge has been nominated to replace Mr. Kee as a Class III director. Thomas H. Evans resigned as a Class I director on January 1, 2009, and John H. Wilson has been nominated to replace Mr. Evans as a Class I director. Mr. Judge was recommended to the Nominating Committee by an independent director, and Mr. Wilson was recommended to the Nominating Committee by an executive officer. Also on January 1, 2009, Mark M. Freestate resigned as a Class II director, but the Board decided to eliminate the vacancy created by his resignation by reducing the number of directorships by one.

Information about these director nominees, including their names, ages as of the Record Date, and principal occupations and business experience for the past five years, is set forth below.

#### NOMINEES FOR CLASS III DIRECTORS

(Terms expire in 2012)

Name	Age	Principal Occupation and Business Experience
Lloyd L. Beatty, Jr.	56	Mr. Beatty has served as a director of the Company since December 2000 and as a director of The Talbot Bank of Easton, Maryland, a wholly-owned subsidiary of the Company ("Talbot Bank"), since 1992. He currently serves as Executive Vice President and Chief Operating Officer of the Company, a position he has held since August 2007. Previously and since July 2006 Mr. Beatty served as Vice President and Chief Operating Officer of the Company. From October 2004 until July 2006, Mr. Beatty served as a Vice President of the Company. From October 2004 until October 2005, Mr. Beatty's employment with the Company was on a part-time basis. Prior



to October 2005, Mr. Beatty was the Chief Operating Officer of Darby Overseas Investments, LP and President of Darby Advisors, Inc.

Paul M. Bowman	61	Mr. Bowman has served as a director of the Company since 1998 and as a director of The Centreville National Bank of Maryland, a wholly-owned subsidiary of the Company (“Centreville National Bank”), since 1997. He served as a director of Kent Savings & Loan Association until Centreville National Bank acquired the financial institution on April 1, 1997. Mr. Bowman is an attorney in the Law Office of Paul M. Bowman.
Jerry F. Pierson	68	Mr. Pierson has been a director of the Company since 2003 and previously as a director from 1996 to December 2000. He has served as a director of Centreville National Bank since 1981 and is President of Jerry F. Pierson, Inc., a plumbing and heating contracting company.
W. Moorhead Vermilye	68	Mr. Vermilye has served as a director of the Company since December 2000, as a director of Talbot Bank since 1977, and as a director of The Felton Bank, a wholly-owned subsidiary of the Company (“Felton Bank”), since 2004. He currently serves as President and CEO of the Company, a position he has held since December 2000. He served as President of Talbot Bank from 1988 until July 2006 and as Chief Executive Officer of Talbot Bank from 1993 until July 2006.
James A. Judge	50	Mr. Judge has served as a director of Centreville National Bank since 2005. He is a Certified Public Accountant and partner in the accounting firm of Anthony Judge & Ware, LLC.

**NOMINEE FOR CLASS I DIRECTOR**

(Term expires in 2010)

Name	Age	Principal Occupation and Business Experience
John H. Wilson	63	Mr. Wilson is the President and CEO of Coastal South of Maryland, Inc., a land development and real estate consulting company. He is also the owner and operator of the Chesapeake Bay Beach Club and heads up the Urban Land Institute, Delmarva Committee. Mr. Wilson has served as a director the Avon Dixon Agency, LLC, a subsidiary of the Company, since 2006.

The Board of Directors Recommends that you vote FOR ALL NOMINEES named above.

The following tables provide information about the directors of the other classes whose terms do not expire in 2009, including their names, ages as of the Record Date, and principal occupations and business experience for the past five years.

**CLASS I DIRECTORS**

(Terms expire in 2010)

Name	Age	Principal Occupation and Business Experience
William W. Duncan, Jr.	62	Mr. Duncan has served as a director of the Company and of Talbot Bank since July 2006. He currently serves as President and Chief Executive Officer of Talbot Bank, a position he has held since July 2006. From 2004 until his appointment with Talbot Bank, Mr. Duncan served as the Chairman of Mercantile Eastern Shore Bank, located in Chestertown, Maryland. From 1982 to 2004, Mr. Duncan was President and Chief Executive Officer of St. Michaels Bank, located in St. Michaels, Maryland. Mr. Duncan served as a director of the Federal Reserve Bank of Richmond from 2001 through 2004.
Richard C. Granville	66	Mr. Granville has served as a director of the Company since December 2000. He also served as a director of Talbot Bank from 1994 until 2005. He is an investor.
Christopher F. Spurry	61	Mr. Spurry has served as a director of the Company since April 2004 and as a director of Talbot Bank since 1995. He is the President of Spurry & Associates, Inc. and currently serves as Chairman of the Board of the Company.

**CLASS II DIRECTORS**

(Terms expire in 2011)

Name	Age	Principal Occupation and Business Experience
Herbert L. Andrew, III	72	Mr. Andrew has served as a director of the Company since December 2000 and as a director of Talbot Bank since 1977. He is a farmer.
Blenda W. Armistead	57	Ms. Armistead has served as a director of the Company since 2002 and as a director of Talbot Bank since 1992. She is an investor.
Neil R. LeCompte	68	Mr. LeCompte has served as a director of the Company since 1996 and as a director of Centreville National Bank since 1995. He is a Certified Public Accountant in the Accounting Office of Neil R. LeCompte.
F. Winfield Trice, Jr.	54	Mr. Trice has served as a director of the Company since August 9, 2007 and as a director of Centreville National Bank since June 19, 2007. He currently serves as President and CEO of Centreville National Bank, a position he has held since June 4, 2007. From 1997 until his appointment with Centreville

National Bank, Mr. Trice served as the Executive Vice President and Senior Lending Officer of Mercantile Peninsula Bank, located in Salisbury, Maryland.

## Board Committees

The Company's Board of Directors has an Executive Committee, an Audit Committee, the Nominating Committee, and a Personnel and Compensation Committee (the "Compensation Committee"), each of which is described below. The Board also has a Strategic Planning Committee.

The Company's Executive Committee consists of Christopher F. Spurry, Chairman, Blenda W. Armistead, Lloyd L. Beatty, Jr., William W. Duncan, Richard C. Granville, F. Winfield Trice, Jr. and W. Moorhead Vermilye. Thomas H. Evans served on the Executive Committee until January 1, 2009. The Executive Committee has the authority to exercise the powers of the Board in the management of the business and affairs of the Company, subject to any restrictions imposed by law and to subsequent revision or alteration of any such action by the Board of Directors of the Company. The Executive Committee did not meet in 2008.

The Company's Audit Committee is established pursuant to Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and consists of Neil R. LeCompte, Chairman, Jerry F. Pierson, and Paul M. Bowman. The Board has determined that Mr. LeCompte qualifies as an "audit committee financial expert" as that term is defined by the Securities and Exchange Commission ("SEC") in Item 407 of Regulation S-K. The Audit Committee assists the Board in monitoring the integrity of the financial statements, the performance of the Company's internal audit function, and compliance by the Company with legal and regulatory requirements, and it oversees the qualification, performance and independence of the Company's outside auditors, including whether satisfactory accounting procedures are being followed. During 2008, the Audit Committee held five meetings. The Board of Directors has adopted a written charter for the Audit Committee, a copy of which was attached as Appendix A to the Company's definitive Proxy Statement for the 2007 Annual Meeting of Stockholders. The charter is not available on the Company's website.

The Company's Compensation Committee is responsible for reviewing and recommending director and executive compensation to the full Board, recommending executive promotions to the full Board, and administering and making grants under the Company's various compensation plans. The Compensation Committee determines executive compensation pursuant to the principles discussed below under "Compensation Discussion and Analysis" and determines director compensation by periodically reviewing the compensation practice of peer group institutions. The members of the Compensation Committee are Christopher F. Spurry, Chairman, Herbert L. Andrew, III, Paul M. Bowman, and W. Edwin Kee, Jr. The Compensation Committee held five meetings in 2008. The Compensation Committee has a written charter, a copy of which was attached as Appendix B to the Company's definitive Proxy Statement for the 2007 Annual Meeting of Stockholders. The charter is not available on the Company's website.

The Company's Nominating Committee consists of Blenda W. Armistead, Chairman, Herbert L. Andrew, III, Jerry F. Pierson and W. Edwin Kee, Jr., and is responsible for identifying qualified individuals for nomination to the Board Directors, considering candidates for nomination proposed by stockholders, recommending director nominees to the Board (see "Director Recommendations and Nominations" below), recommending directors for each Board committee, and recommending corporate governance guidelines to the Board. During 2008, the Nominating Committee held two meetings. The Nominating Committee has adopted a written charter, a copy of which was attached as Appendix C to the Company's definitive Proxy Statement for the 2007 Annual Meeting of Stockholders. The charter is not available on the Company's website.

## Director Independence

Pursuant to Rule 4350(c) of The NASDAQ Stock Market Rules (the "NASDAQ Rules"), a majority of the Company's directors must be "independent directors" as that term is defined by NASDAQ Rule 4200(a)(15). The Company's Board of Directors has determined that Herbert L. Andrew, III, Blenda W. Armistead, Paul M. Bowman, Richard C.

Granville, W. Edwin Kee, Jr., Neil R. LeCompte, Jerry F. Pierson, and Christopher F. Spurry are “independent directors”, and these independent directors constitute a majority of the Company’s Board of Directors. Each member of the Compensation Committee and of the Nominating Committee is an “independent director” as defined by NASDAQ Rule 4200(a)(15), and each member of the Audit Committee meets the independence standards of NASDAQ Rule 4350(d)(2). The Board of Directors has also determined that the two director nominees, James A. Judge and John H. Wilson are “independent” as defined by NASDAQ Rule 4200(a)(15). These independent directors and nominees engaged in no transactions with the Company and its subsidiaries, other than those disclosed below under the heading “Certain Relationships and Related Transactions”.

## Board Meeting Attendance

The Board of Directors held eight meetings in 2008. No incumbent director during the last full fiscal year attended fewer than 75% of the aggregate of (1) the total number of meetings of the Board of Directors (held during the period for which that person served as a director); and (2) the total number of meetings held by all committees of the Board on which that person served (held during the period served), except that Mr. Duncan attended 63% of such meetings and Mr. Kee attended 67% of such meetings.

## Director Compensation

The following table provides information about the compensation paid to or earned by the Company's directors during 2008 who are not named executive officers. Information regarding directors who are also named executive officers is presented in the Summary Compensation Table below.

## DIRECTOR COMPENSATION

Name	Fees earned or paid in cash (\$)	Stock awards (\$)(3)	Option awards (\$)(3)	Non-equity incentive plan compensation (\$)	Change in pension value and nonqualified deferred earnings (\$)	All other compensation (\$)(4)-(8)	Total (\$)
Mr. Andrew	23,800(1)	-	-	-	-	7,843	31,643
Ms. Armistead	24,300(1)	-	-	-	-	102	24,402
Mr. Bowman	22,600(2)	-	-	-	-	-	22,600
Mr. Evans	6,200	-	-	-	-	144,600	150,800
Mr. Freestate	19,200(2)	-	-	-	-	218,934	238,134
Mr. Granville	7,100	-	-	-	-	-	7,100
Mr. Kee	8,000	-	-	-	-	-	8,000
Mr. LeCompte	23,100(2)	-	-	-	-	-	23,100
Mr. Pierson	21,100(2)	-	-	-	-	20,507	41,607
Mr. Spurry	31,000(1)	-	-	-	-	102	31,102

## Notes:

- (1) Includes amounts earned for serving on the Boards of the Company and Talbot Bank.
- (2) Includes amounts earned for serving on the Boards of the Company and Centreville National Bank.
- (3) Amounts shown for stock awards and option awards reflect the amounts recognized for financial statement reporting purposes during the year in accordance with Statement of Financial Accounting Standards No. 123R, "Accounting for Share-based Payments". The number of outstanding awards at December 31, 2008 were as follows: Ms. Armistead, options to purchase 300 shares, Mr. Bowman options to purchase 2,250 shares, Mr. Freestate, options to purchase 1,800 shares; Mr. LeCompte, options to purchase 800 shares and Mr. Pierson, options to purchase 2,250 shares.
- (4) For Messrs. Andrew and Spurry and Ms. Armistead, amounts include premiums of \$43, \$102, and \$102, respectively, paid by Talbot Bank for life insurance coverage.
- (5) The amounts shown for Messrs. Freestate and Pierson include contributions of \$2,660 and \$18,912, respectively, under the Centreville National Bank Director Indexed Fee Continuation Plan. The amount shown for Mr. Pierson includes imputed income of \$1,595 related to the economic value of the split-dollar life insurance benefit payable under the Centreville National Bank Director Endorsement Agreement.





- (6) For Mr. Andrew, amount includes \$7,800 for inspection fees paid in conjunction with his monitoring of Talbot Bank construction loans.
- (7) For Mr. Evans, amount reflects compensation earned for serving as the President/CEO of Felton Bank as follows: annual salary of \$125,000; bonus of \$7,000; profit sharing payments of \$7,000; matching 401(k) contributions of \$5,600 and \$1,001 opt out payment in lieu of health insurance coverage provided by the Company.
- (8) For Mr. Freestate, amount reflects compensation earned as an employee/insurance producer of The Avon-Dixon Agency, LLC, a wholly-owned subsidiary of the Company (“Avon-Dixon”) as follows: commission income of \$198,417; profit sharing payments of \$9,921; and matching 401(k) contributions of \$7,936.

#### Company Director Compensation

During 2008, directors of the Company received \$300 for attending each Board and committee meeting, except that committee chairpersons (Messrs. Spurry and LeCompte and Ms. Armistead) received \$500 for attending each Board and committee meeting. In addition, the Chairman of the Board (Mr. Spurry) received a \$10,000 annual retainer and each other director received a \$5,000 annual retainer. Effective January 1, 2009, the Board changed the director fee policy to provide that only directors who are not employed by the Company or one of its subsidiaries will receive fees and retainers.

Directors of the Company and of its subsidiaries are eligible to participate in the Shore Bancshares, Inc. 2006 Stock and Incentive Compensation Plan (the “2006 Equity Plan”), which is discussed below in the section entitled “Compensation Discussion and Analysis”.

#### Talbot Bank Board Compensation

During 2008, directors of the Company who served as directors of, and who were not employed by, Talbot Bank (Messrs. Andrew, Beatty, Spurry and Vermilye and Ms. Armistead) also received an annual retainer of \$5,000 per year for serving on the Board of Directors of Talbot Bank, plus \$200 per meeting attended. Talbot Bank paid these fees. Directors are compensated once for attending joint meetings of the Company’s Board and the Board of Directors of Talbot Bank. Effective January 1, 2009, the Board of Talbot Bank changed the director fee policy to provide that only directors of Talbot Bank who are not employed by the Company or one of its subsidiaries will receive fees and retainers.

#### Centreville National Bank Board Compensation

During 2008, directors of the Company who served as directors of, and who were not employed by, Centreville National Bank (Messrs. Bowman, Freestate, Pierson, and LeCompte) also received an annual retainer of \$10,000, plus \$100 for each meeting attended. These fees were paid by Centreville National Bank. Directors are compensated once for attending joint meetings of the Company’s Board and the Board of Directors of Centreville National Bank. Effective January 1, 2009, the Board of Centreville National Bank changed the director fee policy to provide that only directors of Centreville National Bank who are not employed by the Company or one of its subsidiaries will receive fees and retainers.

In 1997, Centreville National Bank entered into a Director Indexed Fee Continuation Plan Agreement (a “Director Fee Agreement”) with each of Messrs. Freestate and Pierson that calls for the payment of certain benefits on and after retirement from the Board. The benefits are funded by a life insurance policy on the life of each participant, which is owned solely by Centreville National Bank. Each year during a participant’s service to the Board, Centreville National Bank deposits to or withdraws from a retirement account an amount equal to the difference between the annual after-tax earnings or loss, respectively, generated by the insurance policy and the “Cost of Funds” (as defined in the

Director Fee Agreement) for that year. Upon normal retirement after age 65, the participant is entitled to receive (i) the balance of his retirement account paid in 15 annual installments commencing 30 days after retirement, and (ii) each year after retirement until death, the difference between the after-tax income generated by the policy for that year and the “Cost of Funds” for that year. If the participant elects early retirement after reaching age 55 but before age 65, then he will be entitled to receive (x) the balance of his retirement account as of the

date of retirement paid in 15 annual installments commencing at age 65, and (y) each year after early retirement until death, the difference between the after-tax income generated by the policy for that year and the Cost of Funds for that year. If a participant should retire prior to reaching age 55, then no benefits will be paid. If a participant should die prior to receiving the entire amount of his retirement account, then his designated beneficiaries will receive the unpaid amount as a lump sum payment. If a participant's service is terminated following a "Change of Control", then he will be automatically vested in the promised normal retirement benefits and entitled to receive them starting at age 65. At December 31, 2008, the retirement account balances for Messrs. Freestate and Pierson were \$30,087, and \$240,612, respectively.

In connection with the Director Fee Agreement, Centreville National Bank and Messrs. Freestate and Pierson entered into a Life Insurance Endorsement Method Split-Dollar Plan Agreement in 1997 (a "Director Endorsement Agreement") pursuant to which Centreville National Bank agreed to endorse to the beneficiaries named by those directors 80% of the net-at-risk insurance portion of the death benefits payable to Centreville National Bank under the insurance policy discussed above on the life of that director. The net-at-risk portion of the proceeds is defined as the total proceeds paid at death less the then cash value of the policy. The benefits payable under the Director Endorsement Agreements as of December 31, 2008 to the beneficiaries of Messrs. Freestate and Pierson are approximately \$84,443, and \$729,026, respectively.

#### Felton Bank Board Compensation

During 2008, Mr. Vermilye who served as a director of, and who was not employed by, Felton Bank received an additional \$250 for each meeting of Felton Bank Board of Directors that he attended. These fees were paid by Felton Bank. Effective January 1, 2009, the Board of Felton Bank changed the director fee policy to provide that only directors of Felton Bank who are not employed by the Company or one of its subsidiaries will receive fees and retainers.

#### Employment Agreements with Directors who are not Named Executive Officers

The Company and/or its subsidiaries have employment agreements in place with Messrs. Evans and Freestate, both of whom served as directors of the Company during 2008.

Mr. Evans is the President and Chief Executive Officer of Felton Bank and entered into an employment agreement with the Company and Felton Bank in connection with the Company's merger with Midstate Bancorp, Inc. in 2004, which was approved by the Company's Board of Directors. Under the terms of his employment agreement, Mr. Evans is entitled to an annual salary (currently \$134,750), subject to periodic adjustment, and is eligible to receive discretionary bonuses and participate in all other employee benefit plans that the Company may adopt for the benefit of its employees, including pension, profit sharing, and other retirement benefits and medical coverage or reimbursement plans. The current term of Mr. Evan's agreement expires on March 31, 2009 unless sooner terminated by the parties and will automatically renew for additional 12-month terms unless the parties elect otherwise.

In the event that Mr. Evans becomes disabled while employed, he will be entitled to continued compensation as follows: 100% for the first 6 months of disability; 75% for the next 12 months; and 50% thereafter for the remainder of the terms of the agreement (inclusive of any benefits payable under the provisions of any disability insurance). In the event that Mr. Evans returns to active employment on other than a full-time basis, then his compensation may be reduced in proportion to the time he was employed. If he again becomes disabled, then the foregoing benefits will (a) begin again at 100% for the first six months if he has been engaged in active full-time employment for more than 12 months immediately prior to the later disability or (b) resume where benefits left off if he has been engaged in active full-time employment for 12 months or less immediately prior to the later disability.

The Company may terminate Mr. Evans' agreements at any time. If the Company terminates Mr. Evans' employment for "cause" (as defined in the agreement), he generally will be entitled only to accrued but unpaid compensation and benefits. If the Company terminates Mr. Evans' employment for any

other reason (except in connection with a change in control), then he will be entitled to a lump sum payment equal to one year's salary. If Mr. Evans is terminated without cause within 12 months following a "change in control" (as defined in the employment agreement) or terminates his employment within 12 months following a change in control for certain specified reasons, he will be entitled to receive a lump sum payment equal to the difference between 2.99 times his "base amount" (as defined in the Internal Revenue Code) and all other parachute payments to which he is entitled to receive upon the change in control and subsequent termination.

The following table quantifies the approximate amounts that would be paid to Mr. Evans under all compensation agreements and plans upon a termination of employment other than for cause (assuming no return to active service and excluding any disability insurance payments), as of December 31, 2008:

Reason for Termination	Estimated Cash Payments (\$)
Involuntary termination (other than for cause)	125,000
Disability (assuming no return to active employment)	31,250
Change in control	435,303

Mr. Evans' employment agreement prohibits him from serving as a director, an officer, or an employee of, or a consultant to, any federal or state financial institution operating within 50 miles of the Company or Felton Bank.

On November 1, 2002, Avon-Dixon purchased substantially all of the assets of W.M. Freestate & Son, Inc., an insurance agency that was owned by Mr. Freestate. As part of this acquisition, Mr. Freestate and Avon-Dixon entered into an employment agreement, which was approved by the Company's Board of Directors, that calls for Mr. Freestate to serve as an insurance producer and entitles him to receive a portion of the insurance commissions received by Avon-Dixon as follows: (i) 32% of the commissions received on the commercial insurance business of W.M. Freestate that existed at the time of the acquisition; (ii) 50% of commissions received on the life insurance business placed by Mr. Freestate; (iii) 32% of commissions received on the commercial insurance business placed by Mr. Freestate; (iv) 50% of the first-year commissions received on personal lines insurance business placed by Mr. Freestate; and (v) 20% of first-year commissions received on all insurance business that results directly from a referral of such insurance business by Mr. Freestate to another employee of Avon-Dixon. Mr. Freestate's right to receive these payments generally terminates upon the termination of his employment. Mr. Freestate is also entitled to participate in all employee benefit plans that the Company may adopt for the benefit of its employees, including pension, profit sharing, and other retirement benefits and medical coverage or reimbursement plans. The agreement is terminable by either party upon 30 days' prior notice and may be terminated earlier under certain conditions. For three years after the termination of his employment, Mr. Freestate is prohibited from competing with Avon-Dixon within the Delmarva Peninsula and he may not serve or solicit, in connection with insurance producer or related services, any person who was a customer of Avon-Dixon at any time within 18 months of the date his employment terminated.

In an effort to reduce the number of employee directors on the Company's Board, Messrs. Evans and Freestate resigned from the Board effective January 1, 2009. As compensation for giving up these Board seats, Mr. Evans received a \$6,000 salary adjustment for 2009 and Mr. Freestate received a one-time lump sum payment of \$6,000 in 2009.

#### Director Recommendations and Nominations

The Nominating Committee is responsible for assembling and maintaining a list of qualified candidates to fill vacancies on the Board, and it periodically reviews this list and researches the talent, skills, expertise, and general background of these candidates. The Nominating Committee will from time to time review and consider candidates

recommended by stockholders. Stockholder recommendations should be submitted in writing to: Shore Bancshares, Inc., 18 East Dover Street, Easton, Maryland 21601, Attn: W. David Morse, Secretary; and must specify (i) the recommending stockholder's contact information, (ii) the class and number of shares of the Company's Common Stock beneficially owned by the recommending stockholder, (iii) the name, address and credentials of the candidate for nomination, and (iv) the candidate's consent to be considered as a candidate.

Whether recommended by a stockholder or chosen independently by the Nominating Committee, a candidate will be selected for nomination based on his or her talents and the needs of the Board. The Nominating Committee's goal in selecting nominees is to identify persons that possess complimentary skills and that can work well together with existing Board members at the highest level of integrity and effectiveness. A candidate, whether recommended by a Company stockholder or otherwise, will not be considered for nomination unless he or she is of good character and is willing to devote adequate time to Board duties. In assessing the qualifications of potential candidates, the Nominating Committee will also consider the candidate's experience, judgment, and civic and community relationships, and the diversity of backgrounds and experience among existing directors. Certain Board positions, such as Audit Committee membership, may require other special skills, expertise, or independence from the Company.

It should be noted that a stockholder recommendation is not a nomination, and there is no guarantee that a candidate recommended by a stockholder will be approved by the Nominating Committee or nominated by the Board of Directors. A stockholder who desires to nominate a candidate for election may do so only in accordance with Article II, Section 4 of the Company's Amended and Restated By-Laws, as amended (the "By-Laws"), which provides that directors may be nominated by stockholders by written request to the Secretary of the Company received not less than 120 days nor more than 180 days prior to the date fixed for the meeting. Additional time constraints are applicable in the cases of a change in stockholder meeting date or a special meeting called for the purpose of electing directors. As provided in the By-Laws, the notice of nomination must specify: (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the number of shares of capital stock of the Company owned by each proposed nominee; (d) the name and residence address of the notifying stockholder; (e) the number of shares of capital stock of the Company owned by the notifying stockholder; (f) the consent in writing of the proposed nominee as to the proposed nominee's name being placed in nomination for director; (g) a description of all arrangements or understandings between such notifying stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such notifying stockholder, (h) a representation that such notifying stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice; and (i) all information relating to such proposed nominee that would be required to be disclosed by Regulation 14A under the Exchange Act and Rule 14a-11 promulgated thereunder, assuming such provisions would be applicable to the solicitation of proxies for such proposed nominee.

#### Stockholder Communications with the Board of Directors

Stockholders may communicate with the Company's Board of Directors by contacting W. David Morse, Secretary, at Shore Bancshares, Inc., 18 East Dover Street, Easton, Maryland 21601 or (410) 822-1400. All communications will be forwarded directly to the Chairman of the Board for consideration.

The Company believes that the Annual Meeting is an opportunity for stockholders to communicate directly with directors and, accordingly, expects that all directors will attend each Annual Meeting. If you would like an opportunity to discuss issues directly with our directors, please consider attending this year's Annual Meeting. At the 2008 Annual Meeting, all directors (who were serving as such) were in attendance.

## AUDIT COMMITTEE REPORT

The Audit Committee has (i) reviewed and discussed the Company's consolidated audited financial statements for fiscal year ended December 31, 2008 with Company management; (ii) discussed with Stegman & Company, the Company's independent registered public accounting firm, all matters required to be discussed by Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU § 380), as adopted by the Public Company Accounting Oversight Board; and (iii) received the written disclosures and the letter from Stegman & Company, required by Independence Standards Board Standard No. 1 (Independence Standards Board Standards No. 1, Independence Discussions with Audit Committees), and discussed with the registered public accounting firm its independence. Based on its review and discussions, the Audit Committee recommended to the Board of Directors that the consolidated audited financial statements for the year ended December 31, 2008 be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

## AUDIT COMMITTEE

By: Neil R. LeCompte, Chairman  
Jerry F. Pierson  
Paul M. Bowman

## EXECUTIVE OFFICERS

Information about the Company's current executive officers is provided below.

W. Moorhead Vermilye, 68, has served as President and Chief Executive Officer of the Company (the "CEO") since December 2000. Between 1997 and December 2000, Mr. Vermilye served as President of Talbot Bancshares. Mr. Vermilye served as President of Talbot Bank from 1988 to July 2006 and as Chief Executive Officer of Talbot Bank from 1993 to July 2006. Mr. Vermilye serves on the Boards of Directors of the Company, Talbot Bank, and Felton Bank.

Lloyd L. Beatty, Jr., 56, has served as the Executive Vice President and Chief Operating Officer of the Company since August 2007 and previously as Vice President and Chief Operating Officer of the Company since July 2006 and as Vice President of the Company since October 2004. Until January 1, 2006, Mr. Beatty primarily assisted management of the Company with certain strategic initiatives, and he worked on a part-time basis until October 2005. Starting January 1, 2006, Mr. Beatty's duties were expanded to include management authority with respect to certain aspects of the Company's strategic initiatives and to provide corporate oversight of the Company's non-traditional products and services and the Company's information technology (IT) system. Since August 2006, Mr. Beatty has been responsible for overall operations of the Company.

Susan E. Leaverton, 45, has served as Treasurer and Principal Accounting Officer of the Company (the "CFO") since December 2000. Between 1997 and December 2000, Ms. Leaverton served as Secretary/Treasurer of Talbot Bancshares. Ms. Leaverton has served as Vice President of Finance of Talbot Bank since 1994.

Information about certain significant executive officers of the Company's subsidiaries is provided below.

William W. Duncan, Jr., 62, has served as a director of the Company and of Talbot Bank since July 2006. He currently serves as President and Chief Executive Officer of Talbot Bank, a position he has held since July 2006. From 2004 until his appointment with Talbot Bank, Mr. Duncan served as the Chairman of Mercantile Eastern Shore Bank, located in Chestertown, Maryland. From 1982 to 2004, Mr. Duncan was President and Chief Executive Officer of St. Michaels Bank, located in St. Michaels, Maryland. Mr. Duncan served as a director of the Federal



Reserve Bank of Richmond from 2001 through 2004.

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F. Winfield Trice, Jr., 54, has served as the President and Chief Executive Officer of Centreville National Bank since June 4, 2007. Prior to June 2007, Mr. Trice was employed by Mercantile Peninsula Bank as the Executive Vice President and Senior Lending Officer. Mr. Trice serves on the Boards of Directors of the Company and Centreville National Bank.

## COMPENSATION DISCUSSION AND ANALYSIS

### Introduction

This discussion and analysis describes briefly the philosophy, strategy and major details of the Company's approach to compensating key executives, as well as the various components of executive compensation. The Compensation Committee has developed our compensation approach over several years with guidance from management and our independent compensation and benefits consultants.

We expect senior management of the Company to lead and direct our staffing to exceed customer expectations and to produce superior returns for stockholders. Later in this Proxy Statement, in the section entitled "Executive Compensation", you will find tables and narrative disclosure containing detailed information concerning compensation earned by or paid to our "named executive officers" in 2008, which persons include:

- W. Moorhead Vermilye — President & Chief Executive Officer
  - Susan E. Leaverton — Chief Financial Officer
  - Lloyd L. Beatty, Jr. — Chief Operating Officer
  - William W. Duncan — President, Talbot Bank
- F. Winfield Trice, Jr. – President, Centreville National Bank

The discussion below is intended to help you understand the information provided in that section and provide context for our overall executive compensation program.

### Objective

The primary objective of our approach is to provide competitive levels of compensation so that we may attract, retain and reward outstanding executive officers. In a highly competitive community banking marketplace, excellent leadership is essential. Our executive officers are expected to manage the business of the Company and its subsidiaries in a manner that promotes growth and profitability for the benefit of our stockholders, while exceeding our customers' requirements and service expectations. To that end, we believe that:

- Our key executives should have compensation opportunities at levels that are competitive with peer institutions.
- Total compensation should include significant "at risk" components that are linked to annual and longer-term performance results.
- Stock-based compensation should form a key component of total compensation as a means of linking senior management to the long-term performance of the Company and aligning their interests with those of stockholders.



## Discussion of Our Philosophy

Our success depends on the ability of our key executives to meet and exceed operational and financial goals defined in our business plan. Consequently, we apply the following principles when structuring compensation arrangements for our key executives:

1. **Benchmarking** – In order to determine competitiveness in the marketplace, we rely on an analysis of peer institutions, comparable in asset size and corporate structure, prepared by Lockton Companies' Compensation Consulting Practice, an independent compensation advisor to the Compensation Committee. The members of this peer group include:

ACNB Corporation	First Chester County Corporation
Alliance Financial Corporation	First National Community Bancorp, Inc.
American National Bankshares, Inc.	First South Bancorp, Inc.
Ameriserv Financial, Inc.	FNB Financial Services Corporation
Bank of Granite Corporation	FNB United Corporation
Bryn Mawr Bank Corporation	Franklin Financial Services Corporation
C & F Financial Corporation	IBT Bancorp, Inc.
Capital Bank Corporation	Leesport Financial Corporation
CNB Financial Corporation	LSB Bancshares, Inc.
Eagle Bancorp, Inc.	National Bankshares, Inc.
Eastern Virginia Bankshares, Inc.	Old Point Financial Corporation

We believe that total direct compensation should be established at a level that is competitive with our defined peer group. To be competitive, we believe that the total cash compensation (base salary and annual incentives) paid to key executives, including our named executive officers, should approximate the 75th percentile of the total cash compensation levels paid by this peer group. In addition, we believe it is essential to offer long-term incentives in the form of stock-based compensation and supplemental retirement in certain instances to match the benefits provided by our peers.

2. **Allocation of Elements of Compensation** – We believe that the weighting of compensation elements should vary somewhat within the management group in order to reflect the role of each executive and his or her ability to influence short- and long-term performance. In general, we believe that fixed base salary should approximate 50% of the targeted total compensation opportunity for senior management, with the balance split between short-term (cash) and long-term incentives (such as stock options and time- and performance-based stock awards), as the circumstances dictate. In order to attract, retain and reward key executives for their long-term contributions to our profitability, as well as to reflect “pension equity” relative to non-highly compensated employees, we believe that a supplemental retirement benefit program is also essential. Finally, while not a significant component of the executive compensation package, fringe benefits for senior management are important to enhance the retention value of the executive compensation package. These fringe benefits may include car allowances, country club dues and supplemental insurance.

## Elements of and Rationale for 2008 Compensation

We use the following primary elements of compensation and benefits to recruit, retain and reward our key executives:

1. **Employment Agreements**—The Compensation Committee believes that securing the continued service of certain key executives is essential to our future success, and it attempts to do this through competitive and creative compensation arrangements. In certain cases, the Compensation Committee will recommend that the Company

enter into an employment agreement with a key executive, which will typically provide for a competitive salary, the

possibility of cash and non-cash incentive awards, participation in the Company's equity compensation plans, and provisions for payments upon certain severances and changes in control. We believe that this type of agreement provides security to both the Company and the executive, in that it clearly defines the obligations and expectations of each party, protects the Company's business interests, and rewards a loyal and valuable executive in the event that his or her service is unexpectedly terminated.

The Company entered into an employment agreement with Mr. Vermilye in connection with its 2000 merger with Talbot Bancshares, Inc.. The agreement originally provided that he was to serve as President and Chief Executive Officer of the Company and of Talbot Bank. On December 1, 2005, Mr. Vermilye's agreement was renewed for an additional five-year term. Mr. Vermilye's agreement expires on December 1, 2010 and is thereafter subject to automatic renewals for successive one-year terms.

In addition to an annual salary and participation in our various executive compensation plans, Mr. Vermilye's agreement provides for continued compensation in the event he becomes disabled, as follows: 100% for the first six months of disability; 75% for the next 12 months; and 50% thereafter for the remainder of the terms of the agreement (inclusive of any benefits payable to the employee under the provisions of any disability insurance). In the event that Mr. Vermilye returns to active employment on other than a full-time basis, then his compensation may be reduced in proportion to the time he was employed. If he again becomes disabled, then the foregoing benefits will (a) begin again at 100% for the first six months if he has been engaged in active full-time employment for more than 12 months immediately prior to the later disability or (b) resume where benefits left off if he has been engaged in active full-time employment for 12 months or less immediately prior to the later disability.

The agreement provides that the Company may terminate Mr. Vermilye's agreements at any time. If the Company terminates the agreements for "cause" (as defined in the agreement), Mr. Vermilye generally will not be entitled to any further compensation or benefits. If the Company terminates the agreement other than for cause (except in connection with a change in control, as discussed below), then Mr. Vermilye will be entitled to compensation and benefits for the remainder of the terms of his agreement. The agreement further provides that, in the event Mr. Vermilye is terminated without cause within 12 months following a "change in control" (as defined in the employment agreement) or terminates his employment within 12 months following a change in control for certain specified reasons, he will be entitled to receive a lump sum payment equal to the difference between 2.99 times his "base amount" (as defined in the Internal Revenue Code) and all other parachute payments to which he is entitled to receive upon the change in control and subsequent termination.

Mr. Vermilye has agreed during the term of his agreement not to be a director, an officer, or an employee of, or a consultant to, any federal or state financial institution operating in Queen Anne's County, Kent County, Caroline County, Talbot County, or Anne Arundel County in Maryland or Kent County in Delaware, other than Talbot Bank or its subsidiaries or affiliates.

Messrs. Beatty, Duncan and Trice and Ms. Leaverton are not parties to written employment agreements with the Company or its subsidiaries, but they are entitled to receive what the Compensation Committee believes to be very competitive compensation packages. The independent consultant to the Compensation Committee recommended that the Company enter into employment agreements with these executive officers and the Committee took that recommendation under advisement in 2008.

Mr. Duncan was hired in 2006 and, to attract him to the organization, the Compensation Committee believed it was essential to provide a robust compensation package. Mr. Duncan's compensation package was developed by the Compensation Committee not only to pay and reward him for his service with the Company but also to compensate him for the loss of certain benefits that he forfeited when he terminated his previous employment. Part of his package includes the right to receive, subject to the satisfaction of certain vesting and other requirements, annual awards of



restricted stock under the 2006 Equity Plan starting in 2007 and certain guaranteed payments under the Company's deferred compensation arrangements.

2. Salary – A competitive salary for senior management is essential. Furthermore, flexibility to adapt to the particular skills of an individual or our specific needs is required. Each year, proposed salary adjustments for senior management are presented to the Compensation Committee by Mr. Vermilye, typically in December. The Compensation Committee reviews the recommendations and makes any further adjustments with input from the Compensation Committee's external compensation advisor. Recommendations regarding adjustments to Mr. Vermilye's salary are heard and discussed in executive session and, if appropriate, approved by the Compensation Committee in executive session.

The Compensation Committee determined that salaries paid to senior management in 2008 were generally at or below the targeted levels of our peer group. Accordingly, at the recommendation of the Compensation Committee's external compensation advisor, the Compensation Committee approved proposed salary adjustments in 2008 for each of the named executive officers and will consider future increases to annual base salaries to bring senior management base pay in line with targeted compensation levels and pay mix as defined from time to time pursuant to our executive compensation philosophy.

For 2008, executive salaries were reviewed and the following adjustments made:

Name	Title	Base Salary		Increase	
		2007	2008	Amount	Percentage
W. Moorhead					
Vermilye	Chief Executive Officer	267,750	300,000	32,250	12.0%
Susan E. Leaverton	Chief Financial Officer	144,375	152,000	7,625	5.3%
Lloyd L. Beatty, Jr.	Chief Operating Officer	249,000	264,000	15,000	6.0%
William W. Duncan	CEO Talbot Bank	257,250	270,000	12,750	5.0%
F. Winfield Trice, Jr.	CEO Centreville National Bank	200,000	210,000	10,000	5.0%

3. Annual Bonus – Our bonus program, the Management Incentive Plan (the "MIP"), was developed to provide additional cash compensation to our key management personnel when corporate and individual performance meet or exceed specific predetermined goals. Incentive award targets are assigned to each executive based on the executive's position and responsibilities and on identified comparative compensation targets and mix outlined in our executive compensation philosophy. Target awards for 2008 ranged from 25% to 75% of the prior year's salary, depending on the executive's position. Within these target awards are specific, individualized metrics for each executive based on that person's position and responsibilities and our overall compensation objectives. Target awards are weighted between our net income and individual executive performance, and each component of the target award is subject to an upward or downward adjustment when performance exceeds or falls below targeted expectations, as follows:

Percent of Company Performance	Percent of Company Incentive Award	Percent of Division / Individual Goal Performance	Percent of Division / Individual Incentive Award
120%	150%	120% or (Exceeded All Goals)	150%



110%	120%	110% or (Met All and Exceeded Some Goals)	120%
100%	100%	100% or (Met Most Goals)	100%
90%	50%	90% or (Met Some Goals)	50%
Less than 90%	0%	Less than 90% or (Did Not Meet Goals)	0%

For Mr. Vermilye, the 2008 target award was 75% of 2007 salary, weighted 80%/20% between our net income target and individual performance, respectively. For Mr. Beatty, the 2008 target award was 40% of 2007 annual salary, weighted 80%/20% between our net income target and individual performance, respectively. For Ms. Leaverton, the 2008 incentive award was 40% of annual salary, weighted 30%/70% between our net income target

and individual performance, respectively. For Mr. Duncan, the 2008 target award was 50% of 2007 salary, weighted 30%/70% between the Company net income target and individual performance, respectively. For Mr. Trice, the 2008 target award was 30% of 2007 annual salary, weighted 20%/80% between our net income target and individual performance, respectively.

The net income target for 2008 was \$14.0 million. The 2008 division/individual goals for Mr. Vermilye included implementation of strategic plan initiatives, presentation of investor relations road shows, the identification and development of appropriate merger and acquisition candidates, and evaluation of corporate management and report on succession planning. The 2008 division/individual goals for Mr. Beatty included the continuation of the core processing system selection and implementation, Long-term strategic plan update for 2009, investor relations road shows, and merger and acquisition goals listed above for Mr. Vermilye. The 2008 division/individual goals for Ms. Leaverton were to assist in the consolidation of the investment functions of the Company's bank subsidiaries, begin automation of the budgeting process for bank subsidiaries and begin the automation of financial reporting systems within the Company. The 2008 division/individual goals for Mr. Duncan were achievement at Talbot Bank of budgeted earnings, loan growth, and deposit growth while maintaining delinquencies at a level less than 1%. Mr. Trice's 2008 division/individual goals were achievement of budgeted earning plus 5%, loan growth and deposit growth.

These goals and awards, other than for Mr. Vermilye, were determined based on a review of 2008 performance results provided by Mr. Vermilye and his recommendations, as well as advice provided by the Compensation Committee's external compensation advisor. The Compensation Committee reviewed these recommendations and compared the proposed awards and the projected total annual cash compensation for each executive to the executive compensation parameters established under our executive compensation philosophy. The Compensation Committee determined the 2008 goals and possible payouts for Mr. Vermilye in executive session after considering Mr. Vermilye's personal performance against several pre-established performance goals, including, but not limited to, our financial/operating performance, management of our succession plan, and stock performance.

For 2008, the named executive officers received only that portion of the MIP bonus that related to Division / Individual Performance, because the Compensation Committee determined that the Company's net income performance was less than 90% of target. The Compensation Committee determined that the reason the Company failed to meet this target was due to factors outside the control of the named executive officers. Specifically, the 400 basis point reduction in interest rates during the year by the Board of Governors of the Federal Reserve System significantly reduced the Company's interest rate spread and, thus, its net interest income (i.e., the difference between the interest the Company earns on interest-earning assets and the interest the Company pays on interest-bearing liabilities). Because the Company's performance and, thus, the loss by the named executive officers of their Company Incentive Awards was beyond their control, the Compensation Committee recommended to the Board that discretionary cash bonuses be paid to each of the named executive officers in amounts that the Compensation Committee believed approximated the MIP awards that the named executive officers would have earned but for this special circumstance.

4. Stock-Based Compensation –The Compensation Committee believes that stock-based compensation is an important component of our overall executive compensation package. In 2006, the Board and the stockholders approved the 2006 Equity Plan. Participation under the 2006 Equity Plan is available to all directors of the Company and its subsidiaries and all officers, employees and consultants of the Company and its subsidiaries who, in the opinion of the Compensation Committee, can contribute significantly to the growth and profitability of, or perform services of major importance to, the Company and its subsidiaries. The 2006 Equity Plan permits the Compensation Committee, in its sole discretion, to grant stock options (both incentive and non-qualified stock options), stock appreciation rights (settled in cash, stock or both), restricted stock, restricted stock units (settled in cash, stock or both), and performance units (settled in cash, stock or both). The Compensation Committee may make the degree

of payout and/or

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vesting of any award dependent upon the attainment of certain performance goals, measured over certain performance periods. Performance goals may be specific to a participant, specific to the performance of the Company generally, or specific to the performance of a subsidiary of the Company, a division, a business unit, or a line of business served by a participant. Performance goals may be based on stock value (and/or increases therein), earnings per share or growth in earnings per share, net income, earnings or earnings growth, operating profit, operating cash flow, operating or other expenses, operating efficiency, return on equity, assets, capital or investments, deposits, loan volume or growth, the efficiency ratio, customer satisfaction, regulatory compliance, operating or other margins, non-performing assets, productivity, and any other number of qualitative or quantitative benchmarks.

Each award will be reflected in an agreement between the Company and the participant, will be subject to the applicable terms and conditions of the 2006 Equity Plan and may also be subject to other terms and conditions contained in the award agreement consistent with the 2006 Equity Plan that the Compensation Committee deems appropriate, including accelerated vesting or settlement in the event of a participant's death, disability or termination of employment. The provisions of the various agreements entered into under the 2006 Equity Plan do not need to be identical.

For 2008, the Compensation Committee decided to include restricted stock awards as part of the general compensation package for all the named executive officers except Mr. Vermilye, as follows:

Name	Shares (#)	Vesting
Mr. Beatty	5,699	5 years (20% per year)
Ms. Leaverton	1,367	3 years (25%, 25%, 50%)
Mr. Duncan	2,793	5 years (20% per year)
Mr. Trice	2,279	3 years (25%, 25%, 50%)

The amounts of each award was based upon the contributions of the named executive officer during 2007 and his or her level of responsibility, and the vesting requirements were based upon the size of the grant. Given Mr. Vermilye's current beneficial ownership of 165,704 shares, the Board Compensation Committee is considering alternative compensation strategies for Mr. Vermilye in lieu of his participation in the Company's 2006 Equity Plan. Among other things, the committee is considering increasing Mr. Vermilye's short term incentive award target and/or annual contributions to his Executive Deferred Compensation Plan account.

In addition to his 2008 award, Mr. Duncan also received a grant of 1,645 shares of restricted stock pursuant to the terms of his 2006 offer of employment. These terms entitle Mr. Duncan to receive five annual awards of restricted stock under the 2006 Equity Plan, provided that he remains employed by Talbot Bank. The value of each of these awards is determined by dividing \$36,076 by the fair market value (as defined in the 2006 Equity Plan) of a share of Common Stock on the date of that award. Twenty percent of each award vests annually, except that vesting will accelerate on March 11, 2012 (his 65th birthday). The value of each award was intended to compensate Mr. Duncan for foregoing certain benefits he would have received from his former employer, and the vesting requirements were intended to protect the interests of the Company and its stockholders.

Further information about the 2008 equity awards is provided in the section of this Proxy Statement entitled "Executive Compensation".

5. Non-Qualified Deferred Compensation and Other Post-Termination Plans – We believe that non-qualified compensation plays an important role in retaining key executives, as well as helping them provide for retirement. The Compensation Committee retained an independent consultant to analyze the total retirement benefits expected to be provided to an employee by the Company, as well as his or her probable social security benefits, so that the Compensation Committee could determine the projected replacement ratio of income at

retirement compared with active employment. Because of

limits under our qualified retirement plan on the amount of deferrals that our executives can make, the Compensation Committee expects several of our executives to have a lower retirement replacement ratio than we have targeted for all employees. Consequently, as a matter of “pension equity”, we have adopted certain non-qualified deferred compensation plans.

In October 2006, the Company adopted the Shore Bancshares, Inc. Executive Deferred Compensation Plan (the “Company Deferred Compensation Plan”), which permits executive officers selected by the Compensation Committee to elect, each year, to defer receipt of up to 100% of their salaries and bonuses to be earned in the following year. This plan also permits the participant to defer the receipt of performance-based compensation not later than six months before the end of the period for which it is to be earned. The Company has the authority to agree, with respect to any participant, to make mandatory, matching, and discretionary contributions. Amounts deferred by a participant and amounts contributed by the Company are credited to accounts maintained on behalf of the participant and are deemed to be invested in certain investment options established from time to time by the Compensation Committee. Matching contributions for a plan year, if any, are announced prior to the beginning of that year. Discretionary contributions for a plan year, if any, may vary among participants and are credited to the participant’s account at the end of the plan year in which they are made.

For Mr. Vermilye, the Company agreed to make an annual mandatory contribution of \$20,000 for each full Plan Year (as defined in the Company Deferred Compensation Plan) in which he is an employee, starting with the Plan Year that began January 1, 2007. The contributions were formulated based on the contribution that has historically been made under the Talbot Bank Deferred Compensation Plan (the “Talbot Deferred Compensation Plan”), which was phased out for plan years beginning on and after January 1, 2007. The Talbot Deferred Compensation Plan is discussed in more detail below in the section of this Proxy Statement entitled “Executive Compensation”.

For Mr. Duncan, the Company agreed as part of its 2006 offer of employment to make mandatory contributions equal to 21% of his cash compensation that exceeds the limit established in Section 415 of the Internal Revenue Code, plus the following amounts for the first five Plan Years beginning January 1, 2007, assuming he is employed in those years:

Year	Amount (\$)
2007	28,914
2008	30,649
2009	32,488
2010	34,437
2011	36,503

The mandatory contributions for Mr. Duncan were meant to replace the value of certain benefits that he forfeited when he terminated employment with his previous employer.

No other named executive officer is entitled to receive mandatory contributions, and the Company did not make any discretionary contribution in 2008 due to current economic conditions and the Company’s focus on preserving capital.

6.401(k) Plan. In furtherance of our belief that every employee should have the ability to accrue valuable retirement benefits, the Company adopted the Shore Bancshares, Inc. and Subsidiaries 401(k) Profit Sharing Plan on January 1, 2002, which is available to all employees, including executive officers, who have completed six months of service. In addition to contributions by participants, the plan contemplates annual employer matching



contributions equal to 100% of the member's pay reduction contributions up to 3% of base salary, plus 50% of contributions which exceed 3% of base salary, up to 5% of base salary, as well as employer discretionary contributions that are made on a pro-rata basis to all eligible employees based on compensation levels. The discretionary contribution is determined by the Board of Directors in conjunction with the approval of the annual operating budget of the Company. Contributions are made after the end of each fiscal year. For the 2008 plan year, the Company made a contribution to each eligible employee, including the named executive officers, equal to 5% of his or her eligible compensation.

7. Perquisites – We believe that certain perquisites and other personal benefits can be effective elements of a compensation package, because they can permit and encourage executives to perform their duties better and generate business for the Company. Perquisites provided by the Company to various executives may include such things as car allowances, country club dues and supplemental insurance.

#### Accounting and Tax Considerations

We have structured our compensation program to comply with Internal Revenue Code Sections 162(m) and 409A. Under Section 162(m) of the Internal Revenue Code, a limitation was placed on tax deductions of any publicly held corporation for individual compensation to certain executives of such corporation exceeding \$1,000,000 in any taxable year, unless the compensation is performance-based. If an executive is entitled to nonqualified deferred compensation benefits that are subject to Section 409A, and such benefits do not comply with Section 409A, then the benefits are taxable in the first year they are not subject to a substantial risk of forfeiture. In such case, the Service Provider is subject to regular federal income tax, interest and an additional federal income tax of 20% of the benefit includible in income. The Company has no individuals with non-performance based compensation paid in excess of the Internal Revenue Code Section 162(m) tax deduction limit.

Our stock option grant policies have been impacted by the implementation of SFAS No. 123R, "Share-Based Payment (Revised 2004)", which we adopted on January 1, 2006. Prior to that date, employee compensation expense under stock option plans was reported only if options were granted below market price at grant date in accordance with the intrinsic value method of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Because the exercise price of the Company's employee stock options always equaled the market price of the underlying stock on the date of grant, no compensation expense was recognized on options granted. SFAS 123R eliminates the ability to account for stock-based compensation using APB 25 and requires that such transactions be recognized as compensation cost in the income statement based on their fair values on the measurement date, which, for the Company, is the date of the grant. Details related to the adoption of SFAS 123R and the impact to the Company's financial statements are discussed in Note 13 to the Consolidated Financial Statements included in the accompanying Annual Report on Form 10-K under the heading "Stock Option Plans".

We have structured the change in control provision of Mr. Vermilye's employment agreement to minimize income tax penalties that could be imposed on us and/or Mr. Vermilye under Section 280G of the Internal Revenue Code. Under Section 280G, an excise tax is imposed on an executive officer who receives payments that are deemed to be contingent on a change in the ownership or effective control of the Company to the extent they exceed 2.99 times the executive's "annualized includable compensation for the base period" (i.e., the average annual compensation that was includable in his or her gross income for the last five taxable years ending before the date on which the change in control occurs). In addition, the Company is not entitled to treat such excess as compensation expense for federal income tax purposes.

#### Emergency Economic Stabilization Act of 2008 Certification



The Compensation Committee certifies that it has reviewed with our senior risk officers the incentive compensation arrangements with our “senior executive officers”, as defined in 31 C.F.R. § 30.2 (“SEOs”), and has made reasonable efforts to ensure that such arrangements do not encourage our SEOs to take unnecessary and excessive risks that threaten the value of Shore Bancshares, Inc.

### COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis that is included above. Based on this review and these discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this definitive Proxy Statement and that it be incorporated by reference into the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

By: COMPENSATION COMMITTEE

Christopher F. Spurry  
Herbert L. Andrew, III  
Paul M. Bowman  
W. Edwin Kee, Jr.

### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee oversees executive compensation matters. The Compensation Committee consists of Christopher F. Spurry, Chairman, Herbert L. Andrew, III, Paul M. Bowman, and W. Edwin Kee, Jr. Each of the foregoing persons is a non-employee director, has not formerly served as an officer of the Company or its subsidiaries, and has no interlocking relationship or insider participation as defined by the SEC.

## EXECUTIVE COMPENSATION

The following table sets forth for the last three fiscal years the total remuneration for services in all capacities awarded to, earned by, or paid to the Company's CEO, its CFO and its three most highly compensated executive officers other than the CEO and CFO who were serving as executive officers as of December 31, 2008 and whose total compensation (excluding changes in pension value and non-qualified deferred compensation earnings) exceeded \$100,000 during 2008 (the CEO, CFO and such other officers are referred to as the "named executive officers").

## SUMMARY COMPENSATION TABLE

Name and principal position	Year	Salary (\$)(2)	Bonus (\$)(3)	Stock awards (\$)(4)	Option awards (\$)(4)	Non-equity incentive compensation plan (\$)(3)	Change in pension value and non-qualified deferred compensation earnings (\$)	All other compensation (\$)(5)-(9)	Total (\$)
W. Moorhead Vermilye, President/CEO	2008	322,550	124,838	-	-	40,162	-	50,499	538,049
	2007	289,850	-	-	-	180,000	-	111,429	581,279
	2006	268,867	170,000	-	-	-	-	158,674	597,541
Lloyd L. Beatty, COO	2008	284,900	60,800	22,917	-	19,200	-	29,922	417,739
	2007	262,500	-	-	-	80,000	-	68,784	411,284
	2006	235,700	60,000	-	-	-	-	19,800	315,500
Susan E. Leaverton, CFO	2008	152,000	15,882	6,875	-	30,318	-	17,838	222,913
	2007	144,375	-	-	-	46,200	-	16,954	207,529
	2006	137,500	44,000	-	-	-	-	27,790	209,290
William W. Duncan, Jr., President/CEO of Talbot Bank	2008	276,500	30,465	37,294	-	85,535	-	96,752	526,546
	2007	263,750	-	14,589	-	116,000	-	66,020	460,359
	2006	103,510	52,083	-	-	-	-	-	155,593
F. Winfield Trice, Jr./CEO of Centreville National Bank(1)	2008	216,500	11,200	11,458	-	28,800	-	25,779	293,737
	2007	115,900	-	-	-	40,000	-	49,430	205,330

2006	-	-	-	-	-	-	-	-
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Notes:

- (1) Mr. Trice was hired as President and CEO of Centreville National Bank effective June 4, 2007. Mr. Trice also serves as a director of the Company, for which he received director's fees as described above, and of the Centreville National Bank, for which he received no fees. Director's fees earned in a particular year are included in the "Salary" Column for that year.

- (2) Messrs. Vermilye and Beatty serve on the Boards of Directors of the Company and Talbot Bank and Mr. Vermilye also serves on the Board of Directors of the Felton Bank, for which they received director's fees as described above. Mr. Duncan serves on the Board of Directors of the Company, for which he received director's fees, and he serves on the Board of Directors of Talbot Bank, for which he received no fees. Director's fees earned in a particular year are included in the "Salary" column for that year.
- (3) Amounts reflect discretionary cash bonuses awarded to the named executive officers. Incentive awards paid under the MIP are reported in the column entitled "Non-Equity Incentive Plan Compensation".
- (4) The Company calculates the value of stock and option awards using the provisions of Statement of Financial Accounting Standards No. 123R, "Share-based Payments". See Note 13 to the consolidated audited financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 regarding assumptions underlying valuation of equity awards.
- (5) For Mr. Vermilye, the 2008 amount includes a \$20,000 contribution under the Company Deferred Compensation Plan, a \$9,200 matching contribution under the 401(k) plan, an \$11,500 discretionary contribution under the 401(k) plan, \$5,391 for use of an automobile and \$4,408 for club dues. The 2007 amount includes an \$80,000 contribution under the Company Deferred Compensation Plan, a \$9,000 matching contribution under the 401(k) plan, an \$11,250 discretionary contribution under the 401(k) plan, \$5,731 for use of an automobile and \$5,448 for club dues. The 2006 amount includes a \$20,000 contribution under the Talbot Deferred Compensation Plan, an \$8,800 matching contribution under the 401(k) plan, an \$11,000 discretionary contribution under the 401(k) plan, \$5,129 for use of an automobile, \$5,929 for club dues, and a tax gross up of \$107,816 paid in connection with the exercise of stock options.
- (6) For Mr. Beatty, the 2008 amount includes a \$9,200 matching contribution under the 401(k) plan and an \$11,500 discretionary contribution under the 401(k) plan, \$4,544 for use of an automobile and \$4,678 for club dues. The 2007 amount includes a \$40,000 contribution under the Company Deferred Compensation Plan, a \$9,000 matching contribution under the 401(k) plan and an \$11,250 discretionary contribution under the 401(k) plan, \$4,656 for use of an automobile and \$3,878 for club dues. The 2006 amount includes an \$8,800 matching contribution under the 401(k) plan and an \$11,000 discretionary contribution under the 401(k) plan.
- (7) For Ms. Leaverton, the 2008 amount includes a \$7,928 matching contribution under the 401(k) plan and \$9,910 discretionary contribution under the 401(k) plan. The 2007 amount includes a \$7,535 matching contribution under the 401(k) plan and \$9,419 discretionary contribution under the 401(k) plan. The 2006 amount includes a \$7,100 matching contribution under the 401(k) plan, an \$8,875 discretionary contribution under the 401(k) plan, and a tax gross up of \$11,815 paid in connection with the exercise of stock options.
- (8) For Mr. Duncan, the 2008 amount includes a \$63,829 contribution under the Company Deferred Compensation Plan, a \$9,200 matching contribution under the 401(k) plan and an \$11,500 discretionary contribution under the 401(k) plan, \$1,001 opt out payment in lieu of health insurance coverage provided by the Company, \$5,180 for use of an automobile and \$6,042 for club dues. The 2007 amount includes a \$46,834 contribution under the Company Deferred Compensation Plan, a \$5,165 matching contribution under the 401(k) plan and a \$6,456 discretionary contribution under the 401(k) plan, \$1,001 opt out payment in lieu of health insurance coverage provided by the Company, \$5,523 for use of an automobile and \$2,042 for club dues.
- (9) For Mr. Trice, the 2008 amount includes a \$9,200 matching contribution under the 401(k) plan and \$11,500 discretionary contribution under the 401(k) plan and \$5,079 for use of an automobile. The 2007 amount includes \$47,367 for relocation expenses and \$2,063 for use of an automobile.

#### Employment Arrangements

Of the named executive officers, only Mr. Vermilye is a party to an employment agreement. The terms of employment for all of the named executive officers provide for salary, the possibility for additional compensation each year through the Company's bonus and profit sharing plans, matching 401(k) contributions, to the extent such plans permit participation, and the other elements of compensation described in the section of this Proxy Statement entitled "Compensation Discussion and Analysis", as well as coverage under the Company's group term life insurance

program that is generally available to all employees.

#### Incentive Compensation

As discussed in the section of this Proxy Statement entitled “Compensation Discussion and Analysis”, the Company adopted the MIP to provide executives with cash rewards when the Company and the executive attain or exceed certain performance targets. The following table provides information about awards that could have been earned by the named executive officers in 2008 pursuant to the MIP upon satisfaction of the performance measures discussed above.

## GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	Estimated Possible Annual Payouts Under Non-Equity Incentive Plan Award		
		Threshold	Target	Maximum
		(\$)	(\$)	(\$)
Mr. Vermilye	2008	100,406	200,813	301,219
Mr. Beatty	2008	48,000	96,000	144,000
Ms. Leaverton	2008	28,875	57,750	86,625
Mr. Duncan	2008	64,313	128,625	192,938
Mr. Trice	2008	30,000	60,000	90,000

The following table provides information about the actual awards earned by each of the executive officers in 2008, as disclosed in the Summary Compensation Table.

Name	Award Target (% of 2007 Salary)	Actual Company Performance (% of Net Income Target)	Company Performance Portion of Award (\$)	Actual Individual Performance (% of Individual Goals)	Individual Performance Portion of Award (\$)	Actual Award (\$)
Mr. Vermilye	75%	Less than 90%	0	100%	40,162	40,162
Mr. Beatty	40%	Less than 90%	0	100%	19,200	19,200
Ms. Leaverton	40%	Less than 90%	0	75%	30,318	30,318
Mr. Duncan	50%	Less than 90%	0	95%	85,535	85,535
Mr. Trice	30%	Less than 90%	0	60%	28,800	28,800

## Equity Compensation

During 2008, the Company maintained three equity compensation plans: (i) the 2006 Equity Plan; (ii) the Shore Bancshares, Inc. 1998 Stock Option Plan (“1998 Option Plan”); and (iii) the Shore Bancshares, Inc. 1998 Employee Stock Purchase Plan (the “Employee Stock Purchase Plan”). The ability of the Company to grant options under the 1998 Option Plan terminated by its terms on March 3, 2008, but stock options granted under the 1998 Option Plan were outstanding at December 31, 2008. The Employee Stock Purchase Plan is not available to the named executive officers.

The 2006 Equity Plan reserves 600,000 shares of Common Stock, subject to adjustment for stock splits and other similar reclassification events, plus up to 31,972 shares that were subject to outstanding awards under the 1998 Option Plan as of April 26, 2006 that thereafter terminate, lapse or are forfeited, for issuance pursuant to awards. To date, restricted stock is the only type of award that has been granted since the 2006 Equity Plan was adopted. As detailed in the section entitled “Compensation Discussion and Analysis” above, the Company granted a total of 13,783 shares of restricted stock to the named executive officers in 2008 under the 2006 Equity Plan. Under the terms of outstanding awards, all unvested shares will lapse and be forfeited upon the termination of the participant’s employment with the Company.

The 1998 Option Plan was approved by the Company’s Board of Directors and stockholders and was in effect through March 3, 2008. The 1998 Option Plan contemplated the grant of options to purchase shares of Common Stock to directors and key management employees of the Company and its subsidiaries. The total number of shares of Common Stock that were reserved for issuance under the 1998 Option Plan was 120,000 shares, subject to adjustment for stock splits and other similar reclassification events. The 1998 Option Plan contemplated the grant of both

incentive stock options and nonqualified stock options. An option granted under the plan generally expires on the 10th anniversary of the date the option was granted. In 2008, the Company did not grant any options to named executive officers under the 1998 Option Plan.



The following table provides information with respect to outstanding equity awards held by the named executive officers at December 31, 2008.

Name	OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END				Stock Awards	
	Option Awards				Stock Awards	
	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable	Option exercise price (\$)	Option expiration date	Number of shares or units that have not vested (#)	Market value of shares or units of stock that have not vested (\$)
Mr. Vermilye	-	-	-	-	-	-
Mr. Beatty	-	-	-	-	5,699(1)	136,719
Ms. Leaverton	2,250	-	13.17	May 9, 2012	1,367(2)	32,794
Mr. Duncan	-	-	-	-	3,076(3) 4,438(4)	73,793 106,468
Mr. Trice	-	-	-	-	2,279(2)	54,673

(1) Unless forfeited, 20% of the amount vests each year beginning January 30, 2009.

(2) Unless forfeited, 25% of the amount vests on January 30, 2009, 25% vests on January 30, 2010, and 50% vests on January 30, 2011.

(3) Unless forfeited, 25% of the amount vests each year beginning April 9, 2009, except all unvested shares will vest on March 11, 2012.

(4) Unless forfeited, 20% of the amount vests each year beginning January 30, 2009, except that all unvested shares will vest on March 11, 2012.

The following table sets forth the number of stock options (under all plans) exercised by the named executive officers during 2008, the number of shares of restricted stock held by the named executive officers that vested during 2008, and the value realized upon exercise or vesting.

#### OPTION EXERCISES AND STOCK VESTED

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Mr. Vermilye	4,500	22,275	-	-
Mr. Beatty	-	-	-	-
Ms. Leaverton	-	-	-	-
Mr. Duncan	-	-	769	16,414
Mr. Trice	-	-	-	-



## Deferred Compensation

The following table provides information regarding 2008 contributions, earnings, and other financial information in respect of the Company's deferred compensation plans:

NONQUALIFIED DEFERRED COMPENSATION						
Name	Plan (1)	Executive contributions in last FY (\$)	Registrant contributions in last FY (\$)	Aggregate earnings(loss) in last FY (\$)	Aggregate withdrawals/distributions (\$)	Aggregate balance at last FYE (\$)
Mr. Vermilye	TSDCP	-	-	(51,737)	-	144,787
	SEDCP	-	20,000	(16,455)	-	87,869
Mr. Beatty	SEDCP	-	-	(15,625)	-	26,412
Ms. Leaverton	-	-	-	-	-	-
Mr. Duncan	SEDCP	193,501	63,829	(91,308)	-	447,973
Mr. Trice	-	-	-	-	-	-

(1) "TSDCP" stands for the Talbot Bank Supplemental Deferred Compensation Plan and "SEDCP" stands for the Shore Bancshares, Inc. Executive Deferred Compensation Plan.

## Shore Bancshares, Inc. Executive Deferred Compensation Plan

Under the Company Deferred Compensation Plan, amounts deferred at the election of the employee are credited to an account maintained on behalf of the participant and are deemed to be invested in certain investment options established from time to time by the Compensation Committee. Mandatory, matching and discretionary contributions will be credited to an Employer Funded Account (as defined in the plan) established by the Company and will be deemed to be invested in the manner specified in the participant's election form for that Plan Year in respect of his or her voluntary deferrals. An employee's account is credited with the gain or loss generated on the investments in which the funds in those account are deemed to be invested. Mandatory contributions will be reduced on a pro-rata basis in the event a participant has a Separation from Service (generally defined as a termination of employment other than because of death, Disability (as defined in the plan) or the taking of leave of absence).

A participant is fully vested at all times in employee deferrals (and earnings thereon). Starting in the second year of participation, a participant vests in his or her Employer Funded Account at the rate of 25% each year. If, however, the participant's service with the Company terminates because of death, Disability, or retirement at or after age 65, or if the Company experiences a Change in Control (as defined in the plan), then the participant's interest in his or her Employer Funded Account will be automatically 100% vested regardless of years in the plan. If the participant separates from service for any other reason, then any non-vested portion of his or her Employer Funded Account will be forfeited.

The Company Deferred Compensation Plan contemplates automatic distributions upon the occurrence of certain events and elective distributions.

If a participant dies or experiences a Disability while employed by the Company or if the Company experiences a Change in Control, then the vested portions of a participant's accounts will be distributed in a lump sum payment to the participant or, in the case of death, to his or her designated beneficiaries. If a participant experiences a Separation from Service, then the vested portions of a participant's accounts will be distributed in a lump sum or in installments, as specified in the most recent election form. Certain restrictions on the commencement of automatic distributions apply to Key Employees (as defined in the plan).

A participant may elect in his or her annual election form to receive elective distributions, or “In-Service Distributions”, of his or her employee deferrals (and earnings thereon) for a given Plan Year as soon as three years after the end of that Plan Year. At the time of the election, the participant must also elect whether to receive the elective distribution in a lump sum or in installments over a period of up to 10 years. If a participant fails to make a payment

method election, then the distribution will be made in one lump sum. A participant may change his or her election to postpone a distribution or change the form of payment, but such change must be made at least 12 months prior to the original distribution date, cannot be effective until at least 12 months following the subsequent election, and must postpone the commencement of the payment for a period of at least five years from the original distribution date.

The Company Deferred Compensation Plan also permits certain limited distributions upon the occurrence of an Unforeseen Emergency (as defined in the plan) and a lump sum distribution, at the administrator's sole discretion, in the event the participant's accounts have a value of less than \$10,000.

#### Talbot Bank Supplemental Deferred Compensation Plan

Talbot Bank elected to suspend contributions to the Talbot Deferred Compensation Plan for all plan years beginning on and after January 1, 2007. As noted above, this plan called for annual employer contributions of \$20,000 to an account established for the benefit of Mr. Vermilye. Mr. Vermilye is immediately vested in the deferred amounts and is entitled to direct the manner in which these amounts are deemed to be invested in the investment options offered from time to time by Talbot Bank. His account is credited or debited with the deemed earnings or losses on the investments. Subject to any waiting period required by law, upon termination of employment, Mr. Vermilye is entitled to a lump sum cash payment equal to the amount in his account. If Mr. Vermilye dies before terminating his employment, his designated beneficiaries are entitled to receive a lump sum cash payment equal to the amount in his account. The plan automatically terminates in the event of a change of control where the successor does not specifically assume the plan.

For information about amounts that could be payable to the named executive officers under these deferred compensation plans upon a termination of employment, see the section below entitled "Benefits Upon Termination of Employment".

#### Benefits Upon Termination of Employment

The following table shows the estimated present value of benefits (as of December 31, 2008) that could be payable to the named executive officers under employment agreements and deferred compensation plans upon a termination of employment (without regard to the limitations on severance payments discussed below under "Impact of Recent Legislation on Executive Compensation"). Information is provided only for those named executive officers who are eligible to receive such benefits.

Name	Reason for Termination	Payment Under Employment Agreement	Payment Under Deferred Compensation Plans
Mr. Vermilye	Death	-	232,656
	Disability	437,500	232,656
	Change in control	1,953,698	232,656
	Termination for cause	-	144,787
	Retirement	-	232,656
	Involuntary Termination	575,000	232,656
Mr. Beatty	Death, disability or change in control	-	26,412
	Termination for cause, retirement or other termination	-	-



Mr. Duncan	Death, disability or change in control	-	447,973
	Termination for cause, retirement or other termination	-	372,202

#### 401(k) Profit Sharing Plan

All employee contributions to the 401(k) Profit Sharing Plan are immediately vested. Discretionary and matching contributions by the Company vest incrementally over a six-year period. Discretionary, pre-tax and matching contributions may be withdrawn while a participant is employed by the Company if the participant has reached age 59½ in circumstances of financial hardship or in certain other circumstances pursuant to plan restrictions.

#### Compensation for 2009

The Compensation Committee has approved the following 2009 salaries for the named executive officers: Mr. Vermilye, \$324,000; Mr. Beatty, \$294,000; Ms. Leaverton, \$156,600; Mr. Duncan, \$284,100; and Mr. Trice \$222,300; which amounts include the one time salary increases for Messrs. Vermilye, Beatty, Duncan and Trice of \$15,000, \$22,000, \$6,000 and \$6,000, respectively, to compensate them for the loss of directors' fees going forward. In addition to salary, other elements of compensation described in the section of this Proxy Statement entitled "Compensation Discussion and Analysis" may also be earned in 2009, except for directors' fees which were eliminated for employee-directors effective January 1, 2009.

#### Impact of Recent Legislation on Executive Compensation

On January 9, 2009, the Company participated in the Troubled Asset Relief Program ("TARP") Capital Purchase Program (the "CPP") adopted by the U.S. Department of Treasury ("Treasury") pursuant to the Emergency Economic Stabilization Act of 2008 ("EESA") by selling shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock") to Treasury and issuing a 10-year common stock purchase warrant (the "Warrant") to Treasury. As part of these transactions, the Company adopted Treasury's standards for executive compensation and corporate governance for the period during which Treasury holds any shares of the Series A Preferred Stock and/or any shares of Common Stock that may be acquired upon exercise of the Warrant. On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (the "Recovery Act") was signed into law, which, among other things, imposed additional restrictions on the payment of executive compensation by institutions that participate in TARP. The Recovery Act's restrictions apply to the Company for as long as Treasury holds any of the Series A Preferred Stock (the "Covered Period").

Treasury's standards for executive compensation apply to the Company's named executive officers and include: (i) a prohibition on incentive compensation plans and arrangements for named executive officers that encourage unnecessary and excessive risks that threaten the value of the Company; (ii) a clawback of any bonus or incentive compensation paid (or under a legally binding obligation to be paid) to a named executive officer on materially inaccurate financial statements or other materially inaccurate performance metric criteria; (iii) a prohibition on making "golden parachute payments" to named executive officers; and (iv) an agreement not to claim a deduction, for federal income tax purposes, for compensation paid to any of the named executive officers in excess of \$500,000 per year.

The Recovery Act continues all of the same compensation and governance restrictions imposed under EESA and the CPP, and adds substantially to these restrictions in several areas. The new standards include (but are not limited to): (i) prohibitions on bonuses, retention awards and other incentive compensation to the Company's five most highly compensated employees, other than restricted stock grants in an amount not more than one-third of the





employee's total annual compensation which do not fully vest during the Covered Period; (ii) prohibitions on making severance payments to any named executive officer or any of the Company's next five most highly compensated employees; (iii) an expanded clawback of bonuses, retention awards, and incentive compensation if payment is based on materially inaccurate statements of earnings, revenues, gains or other criteria; (iv) prohibitions on compensation plans that encourage manipulation of reported earnings; (v) retroactive review of bonuses, retention awards and other compensation previously provided by CPP participants if found by the Treasury to be inconsistent with the purposes of such program or otherwise contrary to public interest, (vi) required establishment of a company-wide policy regarding "excessive or luxury expenditures"; and (vii) inclusion in a CPP participant's proxy statements for annual shareholder meetings of a non-binding "Say-on-Pay" proposal to allow a stockholder vote to approve the compensation of executives.

Accordingly, for so long as Treasury holds any shares of the Series A Preferred Stock, the Company may not (i) pay any severance benefits (other than payments related to services rendered and accrued benefits) to the named executive officers (e.g., severance payments to Mr. Vermilye pursuant to his employment agreement) or our five next most highly compensated employees, (ii) make any payments under the MIP to our five most highly compensated employees, or (iii) make any payments under future 2006 Equity Plan awards that are deemed to be "incentive compensation" to our five most highly compensated employees, other than long-term restricted stock that meets the requirements discussed above. Each of the named executive officers, except Ms. Leaverton, is among the five most highly compensated employees of the Company and its subsidiaries.

There is no stated effective date for each of the Recovery Act's executive compensation standards. Treasury is directed to issue regulations to implement these standards and the SEC is required to issue regulations related to the "Say on Pay" requirements. The SEC recently announced that the "Say on Pay" requirement is currently effective, so the Company has included a "Say on Pay" proposal in this proxy statement to provide shareholders with the right to cast an advisory vote at the 2009 Annual Meeting on its executive compensation policies and practices. For more information, see Proposal 3, "Non-Binding Advisory Vote On Executive Compensation". Until Treasury's implementing regulations are adopted, it is unclear whether the other requirements of the Recovery Act are immediately effective.

The Company will carefully review the remaining Recovery Act executive compensation standards and any Treasury and/or SEC regulations, once issued. To the extent that Treasury amends the securities purchase agreement pursuant to which the Series A Preferred Stock was sold to make these standards applicable, Treasury and/or the SEC issues regulations describing how the Company is to comply with these standards or the Company determines that these standards apply, the Company will work with its covered employees to take such steps as it deems necessary to comply with the standards and adopt administrative and other procedures consistent with the foregoing.

It is impossible to predict when, if at all, Treasury will dispose of the Series A Preferred Stock. At the time of the transactions, Treasury's stated intention was to sell the Series A Preferred Stock as it is able to do so, and we recently filed a registration statement with the SEC to register the Series A Preferred Stock for resale. Moreover, the Recovery Act permits the Company to repay CPP assistance at any time after consulting with the Federal Reserve Bank of Richmond.

#### Compensation Consultants

In 2008, the Compensation Committee engaged Lockton Companies, LLC ("Lockton") to assist them in maintaining and administering the Company's comprehensive executive compensation strategy. The consultants provided peer group data to be used in benchmarking compensation for the Company's executive officers and assisted in the development of the Company's long term incentive program implemented in 2008 and updated for use in 2009. The Company paid fees totaling \$20,500 to the consultants during 2008.



## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's directors and executive officers and persons who own more than 10% of the outstanding shares of Common Stock to file with the SEC an initial report of beneficial ownership of the Common Stock, periodic reports of changes in beneficial ownership of the Common Stock, and, in certain cases, annual statements of beneficial ownership of the Common Stock. Based solely on a review of copies of such reports furnished to the Company, or on written representations that no reports were required, the Company believes that all directors, executive officers and holders of more than 10% of the Common Stock complied in a timely manner with the filing requirements applicable to them with respect to transactions during the year ended December 31, 2008, except one Form 4 (purchase of stock) was filed late by Mr. Kee and one Form 4 (sale of stock) was filed late by Mr. Freestate.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

### Related Party Transactions since January 1, 2008

During the past year Talbot Bank, Centreville National Bank, and Felton Bank have had banking transactions in the ordinary course of their businesses with their directors and officers and with the associates of such persons on substantially the same terms, including interest rates, collateral, and repayment terms on loans, as those prevailing at the same time for comparable transactions with others. Extensions of credit by Talbot Bank, Centreville National Bank, and Felton Bank to these persons have not and do not currently involve more than the normal risk of collectability or present other unfavorable features.

### Review, Approval and Ratification of Related Party Transactions

NASDAQ Rule 4350(h) requires the Company to conduct an appropriate review of all related party transactions for potential conflict of interest situations on an ongoing basis and further requires all such transactions to be approved by the Company's Audit Committee or another "independent body" of the Board of Directors. The term "related party transaction" is generally defined as any transaction (or series of related transactions) in which the Company is a participant and the amount involved exceeds \$120,000, and in which any director, director nominee, or executive officer of the Company, any holder of more than 5% of the outstanding voting securities of the Company, or any immediate family member of the foregoing persons will have a direct or indirect interest. The term includes most financial transactions and arrangements, such as loans, guarantees and sales of property, and remuneration for services rendered (as an employee, consultant or otherwise) to the Company.

The Company and its subsidiaries have adopted policies and procedures to ensure compliance with the foregoing requirements.

**RATIFICATION OF THE APPOINTMENT OF STEGMAN & COMPANY AS THE COMPANY'S  
INDEPENDENT REGISTERED ACCOUNTING FIRM FOR FISCAL YEAR 2009 (Proposal 2)**

Stockholders will also be asked to ratify the Audit Committee's appointment of Stegman & Company to audit the books and accounts of the Company for the fiscal year ended December 31, 2009. Stegman & Company served as the Company's auditing firm in 2008. Stegman & Company has advised the Company that neither the accounting firm nor any of its members or associates has any direct financial interest in or any connection with the Company other than as independent public auditors. A representative of Stegman & Company is expected to be present at this year's Annual Meeting, will have an opportunity to make a statement if he or she desires to do so, and will be available to respond to appropriate questions.

The Board of Directors recommends that shareholders vote FOR the ratification of the appointment of Stegman & Company as the Company's independent registered public accounting firm for fiscal year 2009.

**AUDIT FEES AND SERVICES**

The following table shows the fees paid or accrued by the Company for the audit and other services provided by Stegman & Company during fiscal years 2008 and 2007:

	2008	2007
Audit Fees	151,405	\$ 146,948
Audit-Related Fees	7,000	6,993
Tax Fees	14,450	13,500
All Other Fees	-	-
<b>Total</b>	<b>172,855</b>	<b>\$ 167,441</b>

Audit Fees incurred in fiscal years 2008 and 2007 include charges for the examination of the consolidated financial statements of the Company, quarterly reviews of financial statements, and the attestation of management's report on internal control over financial reporting. Audit-Related Fees incurred in fiscal year 2008 and 2007 include charges related to the audit of the 401(k) and profit sharing plan. Tax Fees incurred in fiscal years 2008 and 2007 include charges primarily related to tax return preparation. The Audit Committee has reviewed summaries of the services provided and the related fees and has determined that the provision of non-audit services is compatible with maintaining the independence of Stegman & Company.

The Audit Committee's policy is to pre-approve all audit and permitted non-audit services, except that de minimis non-audit services, as defined in Section 10A(i)(1) of the Exchange Act, may be approved prior to the completion of the independent auditor's audit. All of the 2008 and 2007 services described above were pre-approved by the Audit Committee.

**NON-BINDING ADVISORY VOTE ON EXECUTIVE COMPENSATION (Proposal 3)**

As stated above, the Recovery Act was signed into law on February 17, 2009. In addition to a wide variety of programs intended to stimulate the economy, the Recovery Act imposes significant new requirements for and restrictions relating to the compensation arrangements of financial institutions that received government funds through TARP, including institutions like the Company that participated in the CPP prior to the enactment of the Recovery Act. These restrictions apply until a participant repays the financial assistance received through TARP (the "TARP Period").

One of the new requirements is that any proxy for a meeting of shareholders at which directors are to be elected which is held during the TARP Period permit a non-binding advisory vote on the compensation of the executive officers of the TARP participant, as described in the participant's proxy statement. This advisory vote is commonly referred to as a "Say on Pay" proposal.

As a stockholder, you are being provided with the opportunity to endorse or not endorse the Company's executive compensation program and policies through the following resolution:

“Resolved, that the stockholders approve the compensation of the Company's executive officers, as described in the sections of this Proxy Statement entitled “COMPENSATION DISCUSSION AND ANALYSIS” AND “EXECUTIVE COMPENSATION”.

Because your vote is advisory, it will not be binding upon the Board of Directors, overrule any decision made by the Board of Directors, or create or imply any additional fiduciary duty by the Board of Directors. The Board and the Compensation Committee may, however, take into account the outcome of the vote when considering future executive compensation arrangements.

The Board of Directors and its Compensation Committee believe that the Company's compensation policies and procedures are reasonable in comparison both to the Company's peer group and to the Company's relatively strong performance during 2008. The Board of Directors and its Compensation Committee also believe that the Company's compensation program strongly aligns with the interests of stockholders in the long-term value of the Company as well as the components that drive long-term value.

The Board of Directors unanimously recommends that stockholders vote FOR approval of the Company's executive compensation program and policies.

#### FINANCIAL STATEMENTS

A copy of the Company's Annual Report on Form 10-K for the year ended December 31, 2008, which contains audited financial statements for the year ended December 31, 2008, accompanies this Proxy Statement. This Form 10-K may also be obtained without charge by visiting the Company's website ([www.shbi.net](http://www.shbi.net)) or upon written request to W. David Morse, Secretary, Shore Bancshares, Inc., 18 East Dover Street, Easton, Maryland 21601.

#### DATE FOR SUBMISSION OF STOCKHOLDER PROPOSALS

Any stockholder desiring to present a proposal pursuant to Rule 14a-8 of the Exchange Act to be included in the definitive proxy statement and voted on by the stockholders at the 2010 Annual Meeting of Stockholders must submit a written proposal, including all supporting information, to the Company at its principal executive offices no later than November 27, 2009 (120 days before the date of mailing based on this year's proxy statement date), and must meet all other requirements for inclusion in the proxy statement. As provided in the By-Laws, if a stockholder intends to present a proposal for business to be considered at the 2010 Annual Meeting of Stockholders but does not seek inclusion of the proposal in the Company's proxy statement for that meeting, then such proposal, including all supporting information, must be delivered to and received by the Company's Secretary at the Company's principal executive offices no earlier than January 29, 2010 and no later than March 1, 2010 (not more than 90 days nor less than 60 days before the first anniversary of the prior year's annual meeting). Additional time constraints are applicable where the date of the Annual Meeting is changed. Proposals received by the Company outside of these timelines will be considered untimely. If a stockholder proposal is not timely received, then the proxies will be authorized to exercise discretionary authority with respect to the proposal.

OTHER BUSINESS

As of the date of this Proxy Statement, management does not know of any other matters that will be brought before the meeting requiring action of the stockholders. However, if any other matters requiring the vote of the stockholders properly come before the meeting, it is the intention of the persons named in the enclosed form of proxy to vote the proxies in accordance with the discretion of management. The persons designated as proxies will also have the right to approve any and all adjournments of the meeting for any reason.

By Order of the Board of Directors,

W. Moorhead Vermilye  
President and CEO  
March 27, 2009

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APPENDIX A

Form of Proxy  
SHORE BANCSHARES, INC.

PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned stockholder of Shore Bancshares, Inc. (the "Company") hereby appoints W. Moorhead Vermilye and Neil R. LeCompte, or either of them, the lawful attorneys and proxies of the undersigned, with full power of substitution, and hereby authorizes them to represent and to vote, as designated below, all shares of common stock of the Company held by the undersigned on March 12, 2009 at the Annual Meeting of Stockholders called to convene on Wednesday, April 29, 2009, and any adjournment or postponement thereof, for the purposes identified on this proxy and with discretionary authority as to any other matters that may properly come before the Annual Meeting, including substitute nominees if any of the named nominees for director should be unavailable to serve for election in accordance with and as described in the Notice of Annual Meeting of Shareholders and Proxy Statement.

The Board of Directors recommends a vote "FOR ALL NOMINEES" in Proposal 1.

The Board of Directors recommends a vote "FOR" in Proposal 3.

1. Election of the six (6) director nominees named below to serve on the Board of Directors for the terms indicated and until their successor are duly elected and qualify.

3. Approve the Corporation's executive compensation program and policies (non-binding advisory vote).

Class III (terms expire 2012)

FOR " AGAINST " ABSTAIN "

Lloyd L. Beatty, Jr. " FOR ALL  
NOMINEES

Paul M. Bowman  
Jerry F. Pierson " WITHHOLD  
W. Moorhead Vermilye

AUTHORITY  
James A. Judge FOR ALL  
NOMINEES

4. In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting and any adjournments or postponements thereof.

Class I (term expires 2010)

John H. Wilson " FOR ALL EXCEPT  
below) (see instruction

INSTRUCTION: To withhold authority to vote for any individual nominee, mark "FOR ALL EXCEPT" and strike a line through that nominee's name in the list above.

The Board of Directors recommends a vote "FOR" in Proposal 2.

2. Ratification of the appointment of Stegman & Company as the Company's independent registered public accounting firm for 2009.

THE UNDERSIGNED  
ACKNOWLEDGES RECEIPT OF  
NOTICE OF THE AFORESAID  
ANNUAL MEETING OF  
STOCKHOLDERS

FOR " AGAINST " ABSTAIN "



Date: \_\_\_\_\_,  
2009

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Signature

NOTE: Please sign exactly as name appears hereon. Joint holders should each sign. When signing as attorney, executor, administrator, trustee or guardian, please indicate the capacity in which you are signing. If a corporation or other entity, please sign in full corporate or entity name by authorized person.

If you plan to attend the meeting, please designate the number that will attend  
[    ]

If this proxy is properly executed, then all shares represented hereby will be voted in accordance with the instructions appearing on the proxy. In the absence of specific instructions, proxies will be voted "FOR ALL NOMINEES" with respect to Proposal 1, "FOR" the ratification of appointment of Stegman & Company with respect to Proposal 2, "FOR" the approval of the Company's executive compensation program and policies with respect to Proposal 3, and in the discretion of the proxy holders as to any other matter that may properly come before the meeting.

Important Notice Regarding the Availability of Proxy Materials  
For the Stockholder Meeting to be Held on April 29, 2009:

This form of Proxy, the related Proxy Statement, and Shore Bancshares, Inc.'s Annual Report to Stockholders (including its Annual Report on Form 10-K) are available at <http://www.shbi.net>.

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