

SHORE BANCSHARES INC  
Form 10-Q  
November 09, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-Q**

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

For the Quarterly Period Ended September 30, 2012

**OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-22345

**SHORE BANCSHARES, INC.**

(Exact name of registrant as specified in its charter)

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Maryland 52-1974638  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

18 East Dover Street, Easton, Maryland 21601  
(Address of Principal Executive Offices) (Zip Code)

(410) 763-7800

Registrant's Telephone Number, Including Area Code

N/A

Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R No £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer £ Accelerated filer R  
Non-accelerated filer £ Smaller reporting company £  
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes £ No R

**APPLICABLE ONLY TO CORPORATE ISSUERS**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 8,457,359 shares of common stock outstanding as of October 31, 2012.

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**PART I – FINANCIAL INFORMATION**

## Item 1. Financial Statements.

## SHORE BANCSHARES, INC.

## CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	September 30, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
Cash and due from banks	\$ 22,005	\$ 22,986
Interest-bearing deposits with other banks	138,422	99,776
Federal funds sold	23,021	4,980
Investment securities:		
Available for sale, at fair value	126,372	129,780
Held to maturity, at amortized cost – fair value of \$4,326 (2012) and \$6,732 (2011)	4,075	6,480
Loans	808,030	841,050
Less: allowance for credit losses	(12,955 )	(14,288 )
Loans, net	795,075	826,762
Premises and equipment, net	15,537	14,662
Goodwill	12,454	12,454
Other intangible assets, net	3,890	4,208
Other real estate and other assets owned, net	8,418	9,385
Other assets	29,364	26,720
<b>TOTAL ASSETS</b>	<b>\$ 1,178,633</b>	<b>\$ 1,158,193</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$ 156,579	\$ 133,801
Interest-bearing	881,935	876,118
Total deposits	1,038,514	1,009,919
Short-term borrowings	13,079	17,817
Other liabilities	8,422	8,753
Long-term debt	455	455
<b>TOTAL LIABILITIES</b>	<b>1,060,470</b>	<b>1,036,944</b>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, par value \$.01 per share; shares authorized – 35,000,000; shares issued and outstanding – 8,457,359 (2012 and 2011)	85	85

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Additional paid in capital	32,120	32,052
Retained earnings	86,152	90,801
Accumulated other comprehensive loss	(194 )	(1,689 )
TOTAL STOCKHOLDERS' EQUITY	118,163	121,249
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,178,633	\$ 1,158,193

See accompanying notes to Consolidated Financial Statements.

## SHORE BANCSHARES, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(Dollars in thousands, except per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>INTEREST INCOME</b>				
Interest and fees on loans	\$ 10,604	\$ 12,003	\$ 32,505	\$ 35,900
Interest and dividends on investment securities:				
Taxable	685	795	2,149	2,234
Tax-exempt	22	38	92	116
Interest on federal funds sold	3	3	7	24
Interest on deposits with other banks	79	29	188	47
Total interest income	11,393	12,868	34,941	38,321
<b>INTEREST EXPENSE</b>				
Interest on deposits	2,647	2,720	7,931	8,322
Interest on short-term borrowings	10	15	36	41
Interest on long-term debt	6	10	16	31
Total interest expense	2,663	2,745	7,983	8,394
<b>NET INTEREST INCOME</b>				
Provision for credit losses	8,730	10,123	26,958	29,927
	6,200	3,650	18,095	15,435
<b>NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES</b>	<b>2,530</b>	<b>6,473</b>	<b>8,863</b>	<b>14,492</b>
<b>NONINTEREST INCOME</b>				
Service charges on deposit accounts	628	697	1,898	2,145
Trust and investment fee income	410	389	1,279	1,183
Gains on sales of investment securities	278	354	278	435
Insurance agency commissions	2,427	2,312	7,522	7,297
Other noninterest income	258	771	2,175	2,239
Total noninterest income	4,001	4,523	13,152	13,299
<b>NONINTEREST EXPENSE</b>				
Salaries and wages	4,386	4,097	13,178	12,447
Employee benefits	945	878	3,071	2,917
Occupancy expense	625	585	1,950	1,749
Furniture and equipment expense	265	262	728	825
Data processing	703	661	2,063	2,192
Directors' fees	131	198	367	417

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Goodwill and other intangible assets impairment	-	1,344	-	1,344
Amortization of other intangible assets	96	129	318	386
Insurance agency commissions expense	275	250	1,004	982
FDIC insurance premium expense	376	180	993	1,044
Write-downs of other real estate owned	224	395	1,077	563
Other noninterest expenses	1,683	1,698	5,121	4,896
Total noninterest expense	9,709	10,677	29,870	29,762
(LOSS) INCOME BEFORE INCOME TAXES	(3,178 )	319	(7,855 )	(1,971 )
Income tax (benefit) expense	(1,357 )	225	(3,291 )	(749 )
NET (LOSS) INCOME	\$(1,821 )	\$94	\$(4,564 )	\$(1,222 )
Basic net (loss) income per common share	\$(0.22 )	\$0.01	\$(0.54 )	\$(0.14 )
Diluted net (loss) income per common share	\$(0.22 )	\$0.01	\$(0.54 )	\$(0.14 )
Dividends paid per common share	\$-	\$0.01	\$0.01	\$0.08

See accompanying notes to Consolidated Financial Statements.



SHORE BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

(Dollars in thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Net (loss) income	\$ (1,821 )	\$ 94	\$ (4,564 )	\$ (1,222 )
Other comprehensive income (loss)				
Securities available for sale:				
Unrealized holding gains on available-for-sale securities	609	723	1,524	1,555
Tax effect	(245 )	(292 )	(614 )	(632 )
Reclassification of gains recognized in net income				