

SHORE BANCSHARES INC
Form 10-Q
November 12, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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, 2014

OR

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

For the transition period from _____ to _____

Commission file number 0-22345

SHORE BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or Other Jurisdiction of

52-1974638
(I.R.S. Employer

Edgar Filing: SHORE BANCSHARES INC - Form 10-Q

Incorporation or Organization)	Identification No.)
28969 Information Lane, Easton, Maryland (Address of Principal Executive Offices)	21601 (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.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company R
(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: 12,614,943 shares of common stock outstanding as of October 31, 2014.

INDEX

	Page
<u>Part I. Financial Information</u>	2
<u>Item 1. Financial Statements</u>	2
<u>Consolidated Balance Sheets - September 30, 2014 (unaudited) and December 31, 2013</u>	2
<u>Consolidated Statements of Operations - For the three and nine months ended September 30, 2014 and 2013 (unaudited)</u>	3
<u>Consolidated Statements of Comprehensive Income (Loss) - For the three and nine months ended September 30, 2014 and 2013 (unaudited)</u>	4
<u>Consolidated Statements of Changes in Stockholders' Equity - For the nine months ended September 30, 2014 and 2013 (unaudited)</u>	5
<u>Consolidated Statements of Cash Flows - For the nine months ended September 30, 2014 and 2013 (unaudited)</u>	6
<u>Notes to Consolidated Financial Statements (unaudited)</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	40
<u>Item 4. Controls and Procedures</u>	40
<u>Part II. Other Information</u>	41
<u>Item 1. Legal Proceedings</u>	41
<u>Item 1A. Risk Factors</u>	41
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	41
<u>Item 3. Defaults Upon Senior Securities</u>	41
<u>Item 4. Mine Safety Disclosures</u>	41
<u>Item 5. Other Information</u>	41
<u>Item 6. Exhibits</u>	41
<u>Signatures</u>	41

Exhibit Index

1

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

SHORE BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Cash and due from banks	\$ 26,879	\$ 21,238
Interest-bearing deposits with other banks	79,045	109,384
Federal funds sold	3,715	468
Investment securities:		
Available for sale, at fair value	223,273	147,101
Held to maturity, at amortized cost – fair value of \$4,754 (2014) and \$5,062 (2013)	4,732	5,185
Loans held for sale	-	3,521
Loans	705,042	711,919
Less: allowance for credit losses	(8,606)	(10,725)
Loans, net	696,436	701,194
Premises and equipment, net	15,229	15,198
Goodwill	11,931	12,454
Other intangible assets, net	1,364	3,520
Other real estate owned, net	4,799	3,779
Other assets	28,882	31,082
TOTAL ASSETS	\$ 1,096,285	\$ 1,054,124
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 190,197	\$ 172,797
Interest-bearing	750,455	760,671
Total deposits	940,652	933,468
Short-term borrowings	10,755	10,140
Other liabilities	6,204	7,217
TOTAL LIABILITIES	957,611	950,825
STOCKHOLDERS' EQUITY		
	126	85

Edgar Filing: SHORE BANCSHARES INC - Form 10-Q

Common stock, par value \$.01 per share; shares authorized – 35,000,000; shares issued and outstanding – 12,614,943 (2014) and 8,471,289 (2013)		
Additional paid in capital	63,524	32,207
Retained earnings	75,269	71,444
Accumulated other comprehensive loss	(245) (437
TOTAL STOCKHOLDERS' EQUITY	138,674	103,299
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,096,285	\$ 1,054,124

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,	
	2014	2013	2014	2013
INTEREST INCOME				
Interest and fees on loans	\$ 8,788	\$ 9,767	\$ 26,475	\$ 29,816
Interest and dividends on investment securities:				
Taxable	850	357	2,040	1,568
Tax-exempt	3	5	9	14
Interest on federal funds sold	1	-	1	3
Interest on deposits with other banks	44	53	139	143
Total interest income	9,686	10,182	28,664	31,544
INTEREST EXPENSE				
Interest on deposits	1,046	1,348	3,244	5,218
Interest on short-term borrowings	4	6	14	20
Total interest expense	1,050	1,354	3,258	5,238
NET INTEREST INCOME				
Provision for credit losses	775	22,460	2,700	27,310
NET INTEREST INCOME (EXPENSE) AFTER PROVISION FOR CREDIT LOSSES				
	7,861	(13,632)	22,706	(1,004)
NONINTEREST INCOME				
Service charges on deposit accounts	618	600	1,778	1,772
Trust and investment fee income	496	401	1,382	1,184
Gains on sales of investment securities	-	-	-	913
Insurance agency commissions	2,176	2,724	7,789	8,170
Loss on termination of cash flow hedge	-	-	-	(1,306)
Other noninterest income	704	1,067	2,361	2,511
Total noninterest income	3,994	4,792	13,310	13,244
NONINTEREST EXPENSE				
Salaries and wages	4,689	4,420	13,295	13,010
Employee benefits	934	971	3,136	3,111
Occupancy expense	565	566	1,769	1,775
Furniture and equipment expense	225	275	741	768
Data processing	741	718	2,240	2,127

Edgar Filing: SHORE BANCSHARES INC - Form 10-Q

Directors' fees	131	86	375	262
Amortization of other intangible assets	34	74	168	222
Insurance agency commissions expense	-	409	906	1,328
FDIC insurance premium expense	399	467	1,234	1,200
Write-downs of other real estate owned	290	219	466	947
Other noninterest expenses	1,811	1,763	5,521	5,468
Total noninterest expense	9,819	9,968	29,851	30,218
INCOME (LOSS) BEFORE INCOME TAXES (BENEFIT)	2,036	(18,808)	6,165	(17,978)
Income tax expense (benefit)	774	(7,416)	2,340	(7,169)
NET INCOME (LOSS)	\$ 1,262	\$ (11,392)	\$ 3,825	\$ (10,809)
Basic net income per common share	\$ 0.10	\$ (1.35)	\$ 0.37	\$ (1.28)
Diluted net income per common share	\$ 0.10	\$ (1.35)	\$ 0.37	\$ (1.28)
Dividends paid per common share	\$ -	\$ -	\$ -	\$ -

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, 2014		For the Nine Months Ended September 30, 2014	
	2013		2013	
Net income (loss)	\$ 1,262	\$ (11,392)	\$ 3,825	\$ (10,809)
Other comprehensive income (loss)				
Securities available for sale:				
Unrealized holding gains (losses) on available-for-sale securities	(181)	(367)	322	(3,167)
Tax effect	73	148	(130)	1,278
Reclassification of gains recognized in net income	-	-	-	(913)
Tax effect	-	-	-	368
Net of tax amount	(108)	(219)	192	(2,434)
Cash flow hedging activities:				
Unrealized holding gains on cash flow hedging activities	-	-	-	681
Tax effect	-	-	-	(274)
Reclassification of losses recognized in net income	-	-	-	1,306
Tax effect	-	-	-	(527)
Net of tax amount	-	-	-	1,186
Total other comprehensive income (loss)	(108)	(219)	192	(1,248)
Comprehensive income (loss)	\$ 1,154	\$ (11,611)	\$ 4,017	\$ (12,057)

See accompanying notes to Consolidated Financial Statements.

SHORE BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)

For the Nine Months Ended September 30, 2014 and 2013

(Dollars in thousands, except per share amounts)

	Additional		Accumulated	
Common	Paid in	Retained	Other	Total
			Comprehensive	Stockholders'