SHORE BANCSHARES INC
Form 10-Q
August 10, 2009

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 June 30, 2009

OR

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

For the transition period from ________ to ________

Commission file number 0-22345

SHORE BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Maryland (State or Other Jurisdiction of Incorporation or Organization)	52-1974638 (I.R.S. Employer Identification No.)
18 East Dover Street, Easton, Maryland (Address of Principal Executive Offices)	21601 (Zip Code)

(410) 822-1400
Registrant's Telephone Number, Including Area Code

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 £ No £ (Not Applicable)

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

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	June 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Cash and due from banks	$ 20,498	$ 16,803
Interest bearing deposits with other banks	1,622	481
Federal funds sold	85,242	10,010
Investment securities:		
Available for sale, at fair value	80,278	79,204
Held to maturity, at amortized cost – fair value of $9,111 (2009) and $10,390 (2008)	8,994	10,252
Loans	919,088	888,528
Less: allowance for credit losses	(10,784)	(9,320)
Loans, net	908,304	879,208
Insurance premiums receivable	1,391	1,348
Premises and equipment, net	14,018	13,855
Accrued interest receivable	4,355	4,606
Goodwill	15,954	15,954
Other intangible assets, net	5,663	5,921
Deferred income taxes	2,579	1,579
Other real estate owned	2,212	148
Other assets	7,102	5,272
TOTAL ASSETS	$ 1,158,212	$ 1,044,641
LIABILITIES		
Deposits:		
Noninterest bearing demand	$ 113,111	$ 102,584
Interest bearing demand	126,859	125,370
Money market and savings	244,233	150,958
Certificates of deposit $100,000 or more	259,348	235,235
Other time	237,783	231,224
Total deposits	981,334	845,371
Accrued interest payable	2,368	2,350
Short-term borrowings	28,096	52,969
Long-term debt	7,947	7,947
Other liabilities	10,591	8,619
TOTAL LIABILITIES	1,030,336	917,256
STOCKHOLDERS' EQUITY		
Common stock, par value $.01; shares authorized – 35,000,000; shares issued and outstanding – 8,418,963 (2009) and 8,404,684 (2008)	84	84

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

See accompanying notes to Consolidated Financial Statements.

SHORE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(Dollars in thousands, except per share amounts)

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

INCOME BEFORE INCOME TAXES		3,059		4,482		6,649		9,961
Income tax expense		1,166		1,716		2,543		3,823
NET INCOME		1,893		2,766		4,106		6,138
Preferred stock dividends and discount accretion		1,539		-		1,876		-
Net income available to common shareholders	$	354	$	2,766	$	2,230	$	6,138
Basic earnings per common share	$	0.04	$	0.33	$	0.27	$	0.73
Diluted earnings per common share	$	0.04	$	0.33	$	0.27	$	0.73
Dividends paid per common share	$	0.16	$	0.16	$	0.32	$	0.32

See accompanying notes to Consolidated Financial Statements.

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

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

Net income	-	-	-	-	6,138	-	6,138
Unrealized losses on available-for-sale securities, net of taxes	-	-	-	-	-	(454)	(454)
Total comprehensive income							5,684
Shares issued for employee stock-based awards	-	-	-	77	-	-	77
Stock-based compensation expense	-	-	-	47	-	-	47
Cash dividends paid ($0.32 per share)	-	-	-	-	(2,687)	-	(2,687)
Balances, June 30, 2008	$ -	$ 84	$ -	$ 29,663	$ 93,498	$ (207)	$ 123,038

See accompanying notes to Consolidated Financial Statements.

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

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

Cash and cash equivalents at beginning of period		27,294		26,880
Cash and cash equivalents at end of period	$	107,362	$	42,986
Supplemental cash flows information:				
Interest paid	$	8,934	$	12,309
Income taxes paid	$	3,123	$	4,979
Transfers from loans to other real estate owned	$	2,064	$	138

See accompanying notes to Consolidated Financial Statements.

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

Note 1 - Basis of Presentation

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

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

Note 2 – Earnings Per Share

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(In thousands, except per share data)	2009	2008	2009	2008
Net income available to common shareholders	$ 354	$ 2,766	$ 2,230	$ 6,138
Weighted average shares outstanding - Basic	8,413	8,398	8,409	8,394
Dilutive effect of stock-based awards	4	7	4	8
Weighted average shares outstanding - Diluted	8,417	8,405	8,413	8,402
Earnings per common share - Basic	$ 0.04	$ 0.33	$ 0.27	$ 0.73
Earnings per common share - Diluted	$ 0.04	$ 0.33	$ 0.27	$ 0.73

There were 173 thousand antidilutive weighted average warrants and no antidilutive weighted average stock-based awards excluded from the diluted earnings per share calculation for the three months ended June 30, 2009. There were 165 thousand antidilutive weighted average warrants and no antidilutive weighted average stock-based awards excluded from the diluted earnings per share calculation for the six months ended June 30, 2009. There were 22 thousand and 20 thousand antidilutive weighted average stock-based awards excluded from the diluted earnings per share calculation for the three and six months ended June 30, 2008, respectively.

Note 3 – Significant Accounting Policy

Under the provisions of SFAS Nos. 114 and 118, "Accounting by Creditors for Impairment of a Loan," a loan is considered impaired if it is probable that the Company will not collect all principal and interest payments according to the loan's contracted terms. The impairment of a loan is measured at the present value of expected future cash flows using the loan's effective interest rate, or at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan's principal balance. Interest income on other nonaccrual loans is recognized only to the extent of interest payments received.

Information with respect to impaired loans and the related valuation allowance is shown below:

(Dollars in thousands)	June 30, 2009	December 31, 2008	June 30, 2008
Impaired loans with a valuation allowance	$ 1,093	$ 2,550	$ 4,520
Impaired loans with no valuation allowance	12,602	5,565	277
Total impaired loans	$ 13,695	$ 8,115	$ 4,797
Allowance for credit losses applicable to impaired loans	$ 454	$ 341	$ 991
Allowance for credit losses applicable to other than impaired loans	10,330	8,979	7,291
Total allowance for credit losses	$ 10,784	$ 9,320	$ 8,282
Average recorded investment in impaired loans	$ 4,817	$ 5,477	$ 3,924

Gross interest income of $327 thousand for the first six months of 2009, $476 thousand for fiscal year 2008 and $187 thousand for the first six months of 2008 would have been recorded if nonaccrual loans had been current and performing in accordance with their original terms. Interest actually recorded on such loans was $4 thousand for the first six months of 2009, $193 thousand for fiscal year 2008 and $190 thousand for the first six months of 2008.

Impaired loans do not include groups of smaller balance homogenous loans such as residential mortgage and consumer installment loans that are evaluated collectively for impairment. Reserves for probable credit losses related to these loans are based upon historical loss ratios and are included in the allowance for credit losses.

Note 4 – Investment Securities

The amortized cost and estimated fair values of investment securities are as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
June 30, 2009:				
Obligations of U.S. Treasury	$ 6,990	$ 1	$ -	$ 6,991
Obligations of U.S. Government agencies and corporations	47,026	975	281	47,720
Mortgage-backed securities	21,316	625	62	21,879
Federal Home Loan Bank stock	2,822	-	-	2,822
Federal Reserve Bank stock	302	-	-	302
Other equity securities	561	3	-	564

	$	79,017	$	1,604	$	343	$	80,278
December 31, 2008:								
Obligations of U.S. Treasury	$	1,000	$	-	$	-	$	1,000
Obligations of U.S. Government agencies and corporations		49,996		1,451		-		51,447
Mortgage-backed securities		22,028		879		8		22,899
Federal Home Loan Bank stock		3,003		-		-		3,003
Federal Reserve Bank stock		302		-		-		302
Other equity securities		551		2		-		553
	$	76,880	$	2,332	$	8	$	79,204
Held-to-maturity securities:								
June 30, 2009:								
Obligations of states and political subdivisions	$	8,994	$	139	$	22	$	9,111
December 31, 2008:								
Obligations of states and political subdivisions	$	10,252	$	159	$	21	$	10,390

Gross unrealized losses and fair value by length of time that the individual available-for-sale securities have been in a continuous unrealized loss position at June 30, 2009, are as follows:

	Less than 12 Months		More than 12 Months		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale securities:						
U.S. Gov't. agencies and corporations	$ 17,651	$ 281	$ -	$ -	$ 17,651	$ 281
Mortgage-backed securities	3,095	62	-	-	3,095	62
Total	$ 20,746	$ 343	$ -	$ -	$ 20,746	$ 343

The available-for-sale securities have a fair value of approximately $80.3 million, of which approximately $20.7 million of these securities have unrealized losses when compared to their purchase price. The securities with the unrealized losses in the available-for-sale portfolio all have modest duration risk, low credit risk, and minimal losses (approximately 0.43%) when compared to amortized cost. The unrealized losses that exist are the result of market changes in interest rates since the original purchase. Because the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell these securities before recovery of their amortized cost bases, which may be at maturity, the Company considers that the unrealized losses in the available-for-sale portfolio are temporary.

Gross unrealized losses and fair value by length of time that the individual held-to-maturity securities have been in a continuous unrealized loss position at June 30, 2009, are as follows:

	Less than 12 Months		More than 12 Months		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-maturity securities::						
Obligations of states and political subdivisions	$ 817	$ 6	$ 798	$ 16	$ 1,615	$ 22

The held-to-maturity securities have a fair value of approximately $9.1 million, of which approximately $1.6 million of these securities have unrealized losses when compared to their purchase price. All of the securities with unrealized losses are municipal securities with modest duration risk, low credit risk, and minimal losses (approximately 0.24%) when compared to amortized cost. The unrealized losses that exist are the result of market changes in interest rates since the original purchase. Because the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell these securities before recovery of their amortized cost bases, which may be at maturity, the Company considers that the unrealized losses in the held-to-maturity portfolio are temporary.

Note 5 – Commitments

In the normal course of business, to meet the financial needs of its customers, the Company’s bank subsidiaries are parties to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and standby letters of credit. At June 30, 2009, total commitments to extend credit were approximately $173.7 million. The comparable amount was $211.4 million at December 31, 2008. Outstanding letters of credit were approximately $18.6 million at June 30, 2009 and $12.5 million at December 31, 2008.

Note 6 - Stock-Based Compensation

At June 30, 2009, Shore Bancshares, Inc. had three equity compensation plans: (i) the Shore Bancshares, Inc. 2006 Stock and Incentive Compensation Plan (“2006 Equity Plan”); (ii) the Shore Bancshares, Inc. Employee Stock Purchase Plan (“ESPP”); and (iii) the Shore Bancshares, Inc. 1998 Stock Option Plan (the “1998 Option Plan”). The plans are described in detail in Note 13 to the audited financial statements contained in the Annual Report of Shore Bancshares, Inc. on Form 10-K for the year ended December 31, 2008. The ability of Shore Bancshares, Inc. 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 June 30, 2009.

Stock-based awards granted to date are generally time-based, vesting on each anniversary of the grant date over a three to five-year period of time and, in the case of stock options, expiring 10 years from the grant date. ESPP awards allow employees to purchase shares of Shore Bancshares, Inc. common stock at 85% of the fair market value on the date of grant. ESPP grants are 100% vested at date of grant and have a 27-month term.

During the three and six months ended June 30, 2009, the Company recognized pre-tax stock-based compensation expense of $25 thousand and $46 thousand, respectively, compared to $24 thousand and $47 thousand, respectively, for the same periods last year. Stock-based compensation expense is recognized ratably over the requisite service period for all awards and is based on the grant-date fair value. Unrecognized stock-based compensation expense related to nonvested share-based compensation arrangements was $510 thousand as of June 30, 2009. The weighted-average period over which this unrecognized expense was expected to be recognized was 2.9 years.

The following table summarizes restricted stock award activity for the Company under the 2006 Equity Plan for the six months ended June 30, 2009:

	Number of Shares	Weighted Average Grant Date Fair Value	
Nonvested at January 1, 2009	16,859	$	22.55
Granted	14,254		18.12
Vested	(3,708)		22.63
Cancelled	-		-
Nonvested at June 30, 2009	27,405	$	20.23

The Company estimates the fair value of stock options using the Black-Scholes valuation model with weighted average assumptions for dividend yield, expected volatility, risk-free interest rate and expected lives (in years). The expected dividend yield is calculated by dividing the total expected annual dividend payout by the average stock price. The expected volatility is based on historical volatility of the underlying securities. The risk-free interest rate is based on the Federal Reserve Bank’s constant maturities daily interest rate in effect at grant date. The expected life of the options represents the period of time that the Company expects the awards to be outstanding based on historical experience with similar awards. Stock-based compensation expense recognized in the consolidated statements of income for the six months ended June 30, 2009 and 2008 reflected forfeitures as they occurred.

No options were granted during the first six months of 2009 or 2008.

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The following table summarizes stock option activity for the Company under all plans for the six months ended June 30, 2009:

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at beginning of year	18,550	$ 15.52	
Granted	-	-	
Exercised	(25)	21.33	
Expired/Cancelled	(4,975)	21.33	
Outstanding at end of period	13,550	13.37	$ 61,932
Exercisable at end of period	13,550	$ 13.37	$ 61,932

The following summarizes information about options outstanding at June 30, 2009:

Options Outstanding		Options Outstanding and Exercisable	
Exercise Price	Number	Number	Weighted Average Remaining Contract Life (in years)
$ 14.00	3,255	3,255	0.7
13.17	10,295	10,295	2.9
	13,550	13,550	

The total intrinsic value of stock options exercised during the six months ended June 30, 2009 was less than $1 thousand. The comparable amount for the six months ended June 30, 2008 was approximately $58 thousand. Cash received upon exercise of options during the first six months of 2009 and 2008 was approximately $1 thousand and $77 thousand, respectively.

Note 7 – Segment Reporting

The Company operates in two primary business segments: Community Banking and Insurance Products and Services. Through the Community Banking business, the Company provides services to consumers and small businesses on the Eastern Shore of Maryland and Delaware through its 19-branch network. Community banking activities include small business services, retail brokerage, and consumer banking products and services. Loan products available to consumers include mortgage, home equity, automobile, marine, and installment loans, credit cards and other secured and unsecured personal lines of credit. Small business lending includes commercial mortgages, real estate development loans, equipment and operating loans, as well as secured and unsecured lines of credit, credit cards, accounts receivable financing arrangements, and merchant card services.

Through the Insurance Products and Services business, the Company provides a full range of insurance products and services to businesses and consumers in the Company's market areas. Products include property and casualty, life, marine, individual health and long-term care insurance. Pension and profit sharing plans and retirement plans for executives and employees are available to suit the needs of individual businesses.

Selected financial information by line of business for the first six months of 2009 and 2008 is included in the following table:

(Dollars in thousands)	Community Banking	Insurance Products and Services	Parent Company	Total
2009				
Interest income	$ 29,063	$ 33	$ -	$ 29,096
Interest expense	(8,912)	-	(40)	(8,952)
Provision for credit losses	(3,616)	-	-	(3,616)
Noninterest income	4,134	6,563	-	10,697
Noninterest expense	(11,837)	(5,666)	(3,073)	(20,576)
Net intersegment income (expense)	(2,799)	(238)	3,037	-
Income (loss) before taxes	6,033	692	(76)	6,649
Income tax (expense) benefit	(2,308)	(264)	29	(2,543)
Net income	$ 3,725	$ 428	$ (47)	$ 4,106
Total assets	$ 1,134,421	$ 20,012	$ 3,779	$ 1,158,212
2008				
Interest income	$ 31,018	$ 32	$ -	$ 31,050
Interest expense	(11,320)	-	(68)	(11,388)
Provision for credit losses	(1,077)	-	-	(1,077)
Noninterest income	3,607	7,089	-	10,696
Noninterest expense	(10,306)	(6,189)	(2,825)	(19,320)
Net intersegment income (expense)	(2,431)	(194)	2,625	-
Income (loss) before taxes	9,491	738	(268)	9,961
Income tax (expense) benefit	(3,643)	(283)	103	(3,823)
Net income	$ 5,848	$ 455	$ (165)	$ 6,138
Total assets	$ 995,389	$ 20,719	$ 3,355	$ 1,019,463

Note 8 – Disclosures about Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents
For short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investment Securities
For all investments in debt securities, fair values are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loan Receivables
The fair values of categories of fixed rate loans, such as commercial loans, residential mortgage, and other consumer loans are estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Other loans, including variable rate loans, are adjusted for differences in loan characteristics.

Financial Liabilities

The fair values of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair values of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities. These estimates do not take into consideration the value of core deposit intangibles. The fair values of securities sold under agreements to repurchase and long-term debt is estimated using the rates offered for similar borrowings.

Commitments to Extend Credit and Standby Letters of Credit

The majority of the Company's commitments to grant loans and standby letters of credit are written to carry current market interest rates if converted to loans. Because commitments to extend credit and letters of credit are generally unassignable by the Company or the borrower, they only have value to the Company and the borrower and therefore it is impractical to assign any value to these commitments.

The estimated fair values of the Company's financial instruments, excluding goodwill, as of June 30, 2009 and December 31, 2008 are as follows:

	June 30, 2009		December 31, 2008	
(Dollars in thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 107,362	$ 107,362	$ 27,294	$ 27,294
Investment securities	89,272	89,389	89,456	89,594
Loans	919,088	939,575	888,528	914,695
Less: allowance for loan losses	(10,784)	-	(9,320)	_ -
	$ 1,104,938	$ 1,136,326	$ 995,958	$ 1,031,583
Financial liabilities:				
Deposits	$ 981,334	$ 990,914	$ 845,371	$ 861,951
Short-term borrowings	28,096	28,096	52,969	52,969
Long-term debt	7,947	8,011	7,947	8,060
	$ 1,017,377	$ 1,027,021	$ 906,287	$ 922,980

June 30, 2009 December 31, 2008