OLD LINE BANCSHARES INC
Form 10QSB
August 09, 2004

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

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly ended June 30, 2004.

Commission file number: 000-50345

OLD LINE BANCSHARES, INC.
(Exact name of small business issuer as specified in its charter)

Maryland	20-0154352
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2995 Crain Highway, Waldorf, Maryland 20601
Address of principal executive offices

(301) 645-0333
Issuer's telephone number

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

At July 31, 2004, 1,776,394.5 shares of the issuer's Common Stock, par value $.01 per share, were issued and outstanding.

Transitional Small Business Disclosure Format (Check One): Yes [ ] No [X]

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

OLD LINE BANCSHARES, INC. & SUBSIDIARY
CONSOLIDATED
BALANCE SHEETS

ASSETS

	JUNE 30, 2004 (UNAUDITED)
Cash and due from banks	$ 2,203,411
Federal funds sold	6,284,464
Time deposits in other banks	600,000
Investment securities available for sale	16,746,018
Investment securities held to maturity	2,204,715
Loans, less allowance for loan losses	67,185,678
Restricted equity securities at cost	868,450
Bank premises and equipment	2,282,053
Accrued interest receivable	326,276
Deferred income taxes	185,402
Other assets	120,439
	$ 99,006,906

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits	
Noninterest-bearing	$ 18,882,600
Interest bearing	60,899,613
Total deposits	79,782,213
Borrowed funds	6,000,000
Accured interest payable	153,921
Income tax payable	54,150
Deferred income taxes	-
Other liabilities	83,738
	86,074,022
Stockholders' equity	
Common stock, par value $.01 per share in 2004 and 2003, authorized 5,000,000 shares in 2004 and 2003; issued and outstanding 1,776,394.50 in 2004 and 1,756,894.5 in 2003	$ 17,764
Additional paid-in-capital	12,446,229
Retained earnings	741,349
	13,205,342
Accumulated other comprehensive income	(272,458)
	12,932,884
	$ 99,006,906

See accompanying notes to consolidated financial statements

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OLD LINE BANCSHARES, INC.
CONSOLIDATED
STATEMENTS OF INCOME
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30, 2004	2003
INTEREST REVENUE		
Loans, including fees	$ 938,162	$ 761,006
U.S. Treasury securities	26,087	-
U. S. government agency securities	73,810	106,377
Mortgage backed securities	30,548	29,661
Tax exempt securities	28,486	21,545
Federal funds sold	13,964	24,356
Other	12,547	9,787
Total interest revenue	$1,123,604	$ 952,732
INTEREST EXPENSE		
Deposits	225,746	278,790
Borrowed funds	57,583	48,533
Total interest expense	283,329	327,323
Net interest income	840,275	625,409
PROVISION FOR LOAN LOSSES	45,000	42,000
Net interest income after provision for loan losses	795,275	583,409
NONINTEREST REVENUE		
Service charges on deposit accounts	60,866	58,873
Other fees and commissions	84,094	91,893
Gain on disposal of assets	-	47,257
Total noninterest revenue	144,960	198,023
NONINTEREST EXPENSES		
Salaries	340,184	298,559
Employee benefits	59,902	46,044
Occupancy	49,369	46,007
Equipment	32,116	29,583
Data processing	32,305	29,198
Other operating	190,093	130,338
Total noninterest expenses	703,969	579,729
Income before income taxes	236,266	201,703
Income taxes	85,911	66,590
NET INCOME	$ 150,355	$ 135,113
Basic earnings per common share	$ 0.08	$ 0.13
Diluted earnings per common share	$ 0.08	$ 0.12

See accompanying notes to consolidated financial statements.

OLD LINE BANCSHARES, INC. & SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
(UNAUDITED)

	Common stock Shares	Common stock Par value	Additional paid-in capital	Retained earnings
Balance, December 31, 2003	1,756,894.5	$ 17,569	$12,362,902	$ 517,0
Net income	-	-	-	330,7
Unrealized gain (loss) on securities available for sale, net of income taxes	-	-	-	
Comprehensive income	-	-	-	
Cash dividend $.03 per share	-	-	-	(106,4
Stock options exercised	19,500.0	195	83,327	
Balance, June 30, 2004	1,776,394.5	$ 17,764	$12,446,229	$ 741,3

See accompanying notes to consolidated financial statements

OLD LINE BANCSHARES, INC. & SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30, 2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	$ 2,155,461	$ 1,941,187
Fees and commissions received	303,187	255,882
Interest paid	(559,641)	(662,656)
Cash paid to suppliers and employees	(1,245,778)	(1,086,086)
Income taxes paid	(271,457)	(14,529)
	381,772	433,798
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities		
Held to maturity	(842,422)	(2,498,750)
Available for sale at maturity or call	(1,253,113)	(8,244,023)
Proceeds from disposal of investment securities		
Held to maturity	440,000	4,000,000
Available for sale at maturity or call	1,573,275	9,126,322
Available for sale sold	-	1,249,275
Loans made, net of principal collected	(7,709,306)	(7,624,693)
Purchase of equity securities	(50,000)	(1,100)

Net purchase of certificates of deposit	100,000	-
Purchase of premises and equipment and software	(86,487)	(361,684)
Proceeds from sale of premises and equipment	20,000	-
	(7,808,053)	(4,354,653)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in		
Time deposits	4,682,175	282,106
Other deposits	5,774,961	13,400,629
Repurchase agreements	(1,000,000)	-
Proceeds from stock options exercised-2004	83,522	
Proceeds from stock offering 2003		6,909,437
Dividends paid	(106,449)	(80,257)
	9,434,209	20,511,915
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,007,928	16,591,060
Cash and cash equivalents at beginning of period	6,479,947	7,032,155
Cash and cash equivalents at end of period	$ 8,487,875	$ 23,623,215

See accompanying notes to consolidated financial statements.

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OLD LINE BANCSHARES, INC. & SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(Continued)

	SIX MONTHS ENDED JUNE 30	
	2004	2003
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net income	$ 330,701	$ 261,654
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation and amortization	75,115	84,988
Provision for loan losses	90,000	78,000
Gain on disposal of securities	-	(88,359)
Loss (gain) on sale of equipment	1,964	-
Change in deferred loan fees net of costs	(48,682)	(16,306)
Amortization of premiums and discounts	5,251	17,223
Deferred income taxes	(15,414)	-
Increase (decrease) in		
Accrued interest payable	4,090	(7,498)
Other liabilities	(95,353)	295,672
Decrease (increase) in		
Accrued interest receivable	(10,950)	22,250

Other assets	45,050	(213,826)
	$ 381,772	$ 433,798

See accompanying notes to consolidated financial statements

OLD LINE BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. GENERAL

ORGANIZATION

Old Line Bancshares, Inc. was incorporated under the laws of the State of Maryland on April 11, 2003 to serve as the holding company of Old Line Bank. On May 22, 2003, the stockholders of Old Line Bank approved an Agreement and Plan of Reorganization and Articles of Share Exchange pursuant to which (i) Old Line Bank would become a wholly-owned subsidiary of Old Line Bancshares, Inc., and (ii) each outstanding share (or fraction thereof) of Old Line Bank common stock would be converted into one share (or fraction thereof) of Old Line Bancshares, Inc. common stock, and the former holders of Old Line Bank common stock would become the holders of all the outstanding shares of Old Line Bancshares, Inc. common stock. The reorganization became effective at 12:01 a.m. on September 15, 2003.

The reorganization was accounted for in a manner similar to that for a pooling of interests. Under this accounting treatment, the net assets and liabilities of Old Line Bank were recorded as the asset of Old Line Bancshares, Inc. (investment in subsidiary) at book value, and the stockholders' equity account of Old Line Bancshares, Inc. equals the stockholders' equity account of Old Line Bank. As part of this reorganization, $500,000 was transferred from Old Line Bank to fund the expenses associated with the holding company formation and other anticipated holding company expenses.

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the activity of Old Line Bancshares, Inc. and its wholly owned subsidiary, Old Line Bank. All significant intercompany transactions and balances have been eliminated in consolidation.

The foregoing consolidated financial statements are unaudited; however, in the opinion of management, all adjustments (comprising only normal recurring accruals) necessary for a fair presentation of the results of the interim period have been included. The balances as of December 31, 2003 were derived from audited financial statements. These statements should be read in conjunction with Old Line Bancshares' financial statements and accompanying notes included in Old Line Bancshares, Inc.'s Form 10-KSB/A. There have been no significant changes to the Company's accounting policies as disclosed in the Form 10-KSB/A. The results shown in this interim report are not necessarily indicative of results expected for the full year 2004.

The accounting and reporting policies of Old Line Bancshares, Inc. conform to accounting principles generally accepted in the United States of America.

2. INVESTMENT SECURITIES

As Old Line Bancshares, Inc. purchases securities, management determines if the securities should be classified as held to maturity, available for sale or trading. Securities which management has the intent and ability to hold to maturity are recorded at amortized cost which is cost adjusted for amortization of premiums and accretion of discounts to maturity. Securities which management may sell before maturity are classified as available for sale and carried at fair value with unrealized gains and losses included in stockholders' equity on an after tax basis. Management has not identified any investment securities as trading.

3. INCOME TAXES

The provision for income taxes includes taxes payable for the current year and deferred income taxes. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

4. EARNINGS PER SHARE

Basic earnings per common share are determined by dividing net income by the weighted average number of shares of common stock outstanding giving retroactive affect to the 200% stock dividend paid to shareholders of record on September 26, 2003 and payable October 10, 2003. Diluted earnings per share is calculated including the average dilutive common stock equivalents outstanding during the period. Dilutive common equivalent shares consist of stock options, calculated using the treasury stock method.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	20
Weighted average number of shares	1,775,949.45	1,059,227.83	1,769,990.65	968,9
Dilutive average number of shares	28,214.00	23,619.00	29,152.00	23,6

5. STOCK-BASED COMPENSATION

Old Line Bancshares, Inc. applies APB No. 25 in accounting for stock options. Accordingly, the Old Line Bancshares has not recognized compensation for stock options granted. Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS No. 123) was issued in October, 1995 to establish accounting and reporting standards for stock-based employee compensation plans. SFAS No. 123 requires measurement of compensation expense provided by stock-based plans using a fair value based method of accounting, and recognition of compensation expense in the statement of income or disclosure in the notes to the financial statements.

A summary of the status of the outstanding options follows:

	June 30, 2004	
	Number of Shares	Weighted average exercise price
Outstanding, beginning of year	89,250	$5.92
Options granted	-	
Options exercised	(19,500)	3.75
Options expired	-	-
Outstanding, June 30, 2004	69,750	$6.55

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

Some of the matters discussed below include forward-looking statements. Forward-looking statements often use words such as "believe," "expect," "plan," "may," "will," "should," "project," "contemplate," "anticipate," "forecast," "intend" or other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts. Our actual results and the actual outcome of our expectations and strategies could be different from those anticipated or estimated for the reasons discussed below and the reasons under the heading "Information Regarding Forward Looking Statements."

GENERAL

Old Line Bancshares, Inc. was formed under the laws of the State of Maryland on April 11, 2003 to serve as the holding company of Old Line Bank, a Maryland commercial bank.

On May 22, 2003, the stockholders of Old Line Bank approved an Agreement and Plan of Reorganization and Articles of Share Exchange. The reorganization became effective at 12:01 a.m. on September 15, 2003. Pursuant to the Agreement and Plan of Reorganization and Articles of Share Exchange, (i) Old Line Bank became a wholly-owned subsidiary of Old Line Bancshares, Inc., and (ii) each outstanding share (or fraction thereof) of Old Line Bank common stock was converted into one share (or fraction thereof) of Old Line Bancshares, Inc. common stock, and the former holders of Old Line Bank common stock became the holders of all the outstanding shares of Old Line Bancshares, Inc. common stock. The discussion contained herein with respect to time periods prior to September 15, 2003 relates solely to Old Line Bank.

In June 2003, Old Line Bank completed a public offering of 299,000 shares of common stock at an offering price of $25 per share. The $6.9 million in net offering proceeds provided Old Line Bank the capital necessary to retain higher percentages of loans that it previously participated to other financial institutions. It also allowed Old Line Bank to maintain its well capitalized status with the bank regulatory authorities. We may also use these funds for future expansion efforts including, potentially, opening or acquiring new branch locations.

Other than owning all of the capital stock of Old Line Bank, Old Line

Bancshares, Inc. does not currently engage in any other business activity.

All share amounts and dollar amounts per share with regard to the common stock have been adjusted, unless otherwise indicated, to reflect the 200% stock dividend paid October 10, 2003.

SUMMARY OF RECENT PERFORMANCE

We are pleased to report that during the quarter and six months that ended June 30, 2004, we have continued to make progress towards accomplishing the goals outlined in our December 31, 2003 KSB/A. As we outlined in that report, during 2004 we plan to improve earnings by:

- Increasing interest revenue through continued growth.

- Reducing interest expense by growing core deposits and non-interest bearing deposits with increased business development and promotional campaigns.

- Reducing other operating expenses relative to revenues with reductions in security costs and legal and organization expenses.

Because of our continued and we believe successful business development efforts, Old Line Bank has achieved increased name recognition in the markets in which we operate and experienced 12.88% growth in net loans and a 15.08% growth in deposits during the six months ended June 30, 2004 compared to December 31, 2003. This loan and deposit growth coupled with expense management, have allowed us to improve Old Line Bancshares' net income while maintaining asset quality. At June 30, 2004, we had no loans past due more than 90 days and no non-performing loans. We maintained an allowance for loan losses to period end loans of 0.94% at June 30, 2004 compared to 0.91% at December 31, 2003. We have accomplished this growth while preserving leverage and capital standards that exceed regulatory requirements.

Although net income grew during the three and six month period, earnings per share declined because of the increase in the weighted average number of shares outstanding. This increase was a result of the 897,000 additional shares issued in the June 2003 public offering. Non-interest revenue declined primarily because we had no gain on disposal of assets during the period and we experienced a decline in mortgage origination fees. However, increases in commitment and other loan fees offset some of this decline. Non-interest expense grew because of the hiring of a loan officer in March 2003, a credit officer in March 2004, our increased customer base, new services offered to our customers, increased costs associated with SEC filings and Nasdaq fees, and the deductible on our insurance policy for robbery related expenses in June 2004.

The following outlines the highlights of our financial performance for the three month period ended June 30, 2004 compared to the three month period ended June 30, 2003 (000's):

THREE MONTHS ENDED JUNE 30,	2004	2003	$ CHANGE	% CHANGE
NET INCOME	$ 150	$ 135	$ 15	11.11%
INTEREST REVENUE	1,124	953	171	17.94%
INTEREST EXPENSE	283	327	(44)	(13.46%)
NET INTEREST INCOME				

AFTER PROVISION FOR LOAN LOSSES	795	583	212	36.36%
NON-INTEREST REVENUE	145	198	(53)	(26.77%)
NON-INTEREST EXPENSE	704	580	124	21.38%
	======	======	======	=====

The following outlines the highlights of our financial performance for the six month period ended June 30, 2004 compared to the six month period ended June 30, 2003 (000's):

SIX MONTHS ENDED JUNE 30,	2004	2003	$ CHANGE	% CHANGE
NET INCOME	$ 331	$ 262	$ 69	26.34%
INTEREST REVENUE	2,210	1,915	295	15.40%
INTEREST EXPENSE	564	669	(105)	(15.70%)
NET INTEREST INCOME				
AFTER PROVISION FOR LOAN LOSSES	1,556	1,168	388	33.22%
NON-INTEREST REVENUE	303	344	(41)	(11.92%)
NON-INTEREST EXPENSE	1,349	1,124	225	20.02%
AVERAGE INTEREST EARNING ASSETS	87,634	70,525	17,109	24.26%
AVERAGE GROSS LOANS	63,854	46,214	17,640	38.17%
AVERAGE INTEREST BEARING DEPOSITS	54,888	50,083	4,805	9.59%
AVERAGE NON INTEREST BEARING DEPOSITS	19,668	14,603	5,065	34.68%
INTEREST MARGIN (1)	3.86%	3.66%		
RETURN ON AVERAGE EQUITY	5.25%	9.17%		
EARNINGS PER SHARE BASIC	$ 0.19	$ 0.27		
EARNINGS PER SHARE DILUTED	$ 0.18	$ 0.26		

(1) See "Reconciliation of Non-GAAP Measures"

As we look ahead at the remainder of the year, our loan backlog remains strong. We anticipate that our loans and deposits will continue to grow and we will continue to realize improved earnings over the prior year.

RESULTS OF OPERATIONS

NET INTEREST INCOME

Net interest income is the difference between income on interest earning assets and the cost of funds supporting those assets. Earning assets are comprised primarily of loans, investments, and federal funds sold; interest on interest-bearing deposits and other borrowings make up the cost of funds. Non-interest bearing deposits and capital are also funding sources. Changes in the volume and mix of earning assets and funding sources along with changes in associated interest rates determine changes in net interest income.

Three months ended June 30, 2004 compared to three months ended June 30, 2003

Net interest income after provision for loan losses for the three months ended June 30, 2004 increased 36.32% to $795,275 from $583,409 for the same period in 2003. The increase was primarily attributable to a 24.26% or $17.1 million increase in total average interest earning assets to $87.6 million for the six months ended June 30, 2004 from $70.5 million for the same period in

2003.

Interest revenue increased from $952,732 for the three months ended June 30, 2003 to $1.1 million for the same period in 2004. Interest expense for all interest bearing liabilities amounted to $283,329 for the three months ended June 30, 2004 versus $327,323 for the three months ended June 30, 2003. These changes were a result of normal business growth offset by declines in interest rates.

Six months ended June 30, 2004 compared to six months ended June 30, 2003

Net interest income after provision for loan losses for the six months ended June 30, 2004 increased 33.33% to $1.6 million from $1.2 million for the same period in 2003. The increase was primarily attributable to a 24.26% or $17.1 million increase in total average interest earning assets to $87.6 million for the six months ended June 30, 2004 from $70.5 million for the same period in 2003.

Interest revenue increased from $1.9 million for the six months ended June 30, 2003 to $2.2 million for the same period in 2004. Interest expense for all interest bearing liabilities amounted to $563,731 for the six months ended June 30, 2004 versus $668,971 for the six months ended June 30, 2003. As discussed below and outlined in detail in the Rate/Volume Analysis, these changes were a result of normal business growth offset by declines in the interest rates.

Our net interest margin was 3.86% for the first six months of 2004, as compared to 3.66% for the first six months of 2003. The increase in the net interest margin is the result of a $17.7 million or 38.31% increase in average gross loans outstanding to $63.9 million at June 30, 2004 compared to $46.2 million at June 30, 2003. This increase along with a $4.8 million increase in average interest bearing deposits to $54.9 million with an average interest rate of 1.66% from $50.1 million at June 30, 2003 with an average interest rate of 2.30%, and a $5.1 million increase in non interest-bearing deposits, improved the interest margin.

The following table illustrates average balances of total interest earning assets and total interest bearing liabilities for the periods indicated, showing the average distribution of assets, total liabilities, stockholders' equity and related income, expense and corresponding weighted average yields and rates. The average balances used in this table and other statistical data were calculated using average daily balances.

AVERAGE BALANCES, INTEREST, AND YIELDS

	FOR THE SIX MONTHS ENDED			
	2004			
	AVERAGE BALANCE	INTEREST	YIELD	AVERAG BALANC
ASSETS:				

Federal Funds Sold	$ 4,288,086	$ 21,097	0.99%	$ 6,263,
Interest bearing deposits	659,890	9,491	2.89	600,
Investment Securities (1) (2)				
U.S. Treasury	3,188,183	52,007	3.23	
U.S. Agency	8,876,931	159,458	3.55	12,126,
Mortgage-backed securities	3,225,328	63,877	3.92	2,970,
Tax exempt securities	3,283,925	84,779	5.11	2,408,
Other	854,439	18,206	4.21	374,
Total investment securities	19,428,806	378,327	3.85	17,880,
Loans: (3)				
Commercial	8,455,232	298,372	7.10	6,079,
Mortgage	35,791,803	1,009,065	5.67	22,737,
Installment	19,607,026	534,963	5.49	17,397,
Total gross loans	63,854,061	1,842,400	5.80	46,213,
Allowance for loan losses	597,049			433,
Total loans, net of allowance	63,257,012	1,842,400	5.86	45,780,
Total interest-earning assets	87,633,794	2,251,315	5.15	70,524,
Noninterest-bearing cash	2,394,454			2,006,
Premises and equipment	2,280,060			2,044,
Other assets	990,762			959,
Total Assets	$93,299,070	$ 2,251,315	4.84%	$75,534,
LIABILITIES AND STOCKHOLDERS' EQUITY				
Interest-bearing deposits				
Savings and Now deposits	$10,607,277	$ 26,370	0.50%	12,428,
Money market and super NOW	15,268,556	34,428	0.45	11,208,
Other time deposits	29,012,512	392,017	2.72	26,445,
Total interest-bearing deposits	54,888,345	452,815	1.66	50,082,
Borrowed funds	5,696,703	110,916	3.92	4,074,
Total interest-bearing liabilities	60,585,048	563,731	1.87	54,157,
Non interest-bearing deposits	19,668,484			14,602,
	80,253,532	563,731	1.41	68,760,
Other liabilities	373,714			1,022,
Stockholders' equity	12,671,824			5,751,
Total liabilities and stockholders' equity	$93,299,070			$75,534,
NET INTEREST SPREAD			3.28%	
NET INTEREST INCOME		$ 1,687,584	3.86%	

(1) Interest revenue is presented on a fully taxable equivalent (FTE) basis. The FTE basis adjusts for the tax favored status of these types of securities. Management believes providing this information on a FTE basis provides investors with a more accurate picture of our net interest spread and net interest income and we believe it to be the preferred industry measurement of these calculations. See "Reconciliation of Non-GAAP Measures."

(2) Available for sale investment securities are presented at amortized cost.

(3) We had no non-accruing loans for the periods presented.

The following table describes the impact on our interest income and expense resulting from changes in average balances and average rates for the periods indicated. The change in interest income due to both volume and rate is allocated between the rate and volume amounts based on the magnitude of each amount.

RATE/VOLUME VARIANCE ANALYSIS

	Six months ended June 30, 2004 compared to 2003 Variance due to:		
	Total	Rate	Volume
EARNING ASSETS:			
Federal Funds Sold	$ (16,039)	(5,669)	$ (10,370)
Interest bearing deposits	(185)	(185)	-
Investment Securities			
U.S. Treasury	52,007	-	52,007
U.S. Agency	(87,812)	(88,085)	273
Mortgage backed	7,299	7,279	20
Tax exempt securities	23,951	23,865	86
Other	7,475	1,167	6,308
Loans:	-		
Commercial	46,856	46,639	217
Mortgage	285,639	266,287	19,352
Installment	(17,048)	(17,022)	(26)
Total interest revenue	302,143	234,276	67,867
INTEREST-BEARING LIABILITIES			
Savings and NOW deposits	(10,317)	(10,335)	18
Money market and supernow	477	475	2
Other time deposits	(109,249)	(109,098)	(151)
Other borrowed funds	13,849	(19,437)	33,286
Total interest expense	(105,240)	(138,395)	33,155
NET INTEREST INCOME	$ 407,383	$ 372,671	$ 34,712

Interest revenue is presented on a fully taxable equivalent (FTE) basis. The FTE basis adjusts for the tax favored status of these types of securities. Management believes providing this information on a FTE basis provides investors with a more accurate picture of our net interest spread and net interest income and we believe it to be the preferred industry measurement of these calculations. See "Reconciliation of Non-GAAP Measures."

PROVISION FOR LOAN LOSSES

Originating loans involves a degree of risk that credit losses will occur in varying amounts according to, among other factors, the type of loans being made, the credit-worthiness of the borrowers over the term of the loans, the quality of the collateral for the loan, if any, as well as general economic conditions. We charge the provision for loan losses to earnings to maintain the total allowance for loan losses at a level considered by management to represent its best estimate of the losses known and inherent in the portfolio that are both probable and reasonable to estimate, based on, among other factors, prior loss experience, volume and type of lending conducted, estimated value of any underlying collateral, economic conditions (particularly as such conditions relate to Old Line Bank's market area), regulatory guidance, peer statistics, management's judgment, past due loans in the loan portfolio, loan charge-off experience and concentrations of risk (if any). We charge losses on loans against the allowance when we believe that collection of loan principal is unlikely. Recoveries on loans previously charged off are added back to the allowance.

The provision for loan losses increased $3,000 or 7.14% to $45,000 for the three months ended June 30, 2004 versus $42,000 for the three months ended June 30, 2003.

The provision for loan losses was $90,000 for the six months ended June 30, 2004, as compared to $78,000 for the six months ended June 30, 2003, an increase of $12,000 or 15.38%. The increase was primarily the result of growth in loan balances outstanding in all segments of the portfolio as well as a change in the composition of the portfolio. If the loan portfolio continues to grow at the rate we anticipate it will grow, we expect that we will increase the provision for loan losses at a higher rate than we did during the first six months of the year.

Historically, we have experienced loan losses in the consumer loan portfolio, specifically indirect automobile loans. We have exited that business and have reduced that element of the portfolio by $3.4 million during the past three years to an outstanding balance of $29,614 at June 30, 2004 as compared to a balance of $160,000 at June 30, 2003. As a result, our loss ratios in the consumer loan portfolio have declined dramatically during the prior 18 month period which is the period we use to determine loss ratios as described below.

As we have decreased indirect automobile loans, we have simultaneously increased our mortgage loans, specifically commercial real estate loans, both as a percentage of loans in the loan portfolio and in total dollar value. From June 30, 2003 to June 30, 2004, the dollar value of our commercial real estate loans increased from $26.9 million to $31.2 million, and the percentage of commercial real estate loans to total loans increased from 44.87% to 46.11%

Because commercial real estate loans generally have higher loan balances and greater credit risk than indirect automobile loans, the loss estimates for these types of loans are generally greater than the loss estimates for indirect automobile loans. As a result, the reduction in the indirect automobile loan portfolio was more than offset by increased provisions allocated to the mortgage loan portfolio as a result of the increase in commercial real estate loans. We expect that this trend will continue.

The adequacy of the allowance for loan losses is reviewed at least quarterly. Our review includes evaluation of impaired loans as required by SFAS No. 114, Accounting by Creditors for Impairment of a Loan, and SFAS No. 118, Accounting by Creditors for Impairment of a Loan-Income Recognition and

Disclosure. Also incorporated in determining the adequacy of the allowance is guidance contained in the Securities and Exchange Commissions SAB No. 102, Loan Loss Allowance Methodology and Documentation; and the Federal Financial Institutions Examination Council's Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions.

We base the evaluation of the adequacy of the allowance for loan losses upon loan categories. We categorize loans as installment and other consumer loans (other than boat loans), boat loans, mortgage loans (commercial real estate, residential real estate and real estate construction) and commercial loans.

We apply loss ratios to each category of loan other than commercial loans (including letters of credit and unused commitments). We further divide commercial loans by risk rating and apply loss ratios by risk rating, to determine estimated loss amounts. We evaluate delinquent loans and loans for which management has knowledge about possible credit problems of the borrower or knowledge of problems with loan collateral separately and assign loss amounts based upon the evaluation.

We determine loss ratios for installment and other consumer loans (other than boat loans), boat loans and mortgage loans (commercial real estate, residential real estate and real estate construction) based upon a review of prior 18 months delinquency trends for the category, the three year loss ratio for the category, peer group loss ratios and industry standards.

With respect to commercial loans, management assigns a risk rating of one through eight to each loan at inception, with a risk rating of one having the least amount of risk and a risk rating of eight having the greatest amount of risk. For commercial loans of less than $250,000, we may review the risk rating annually based on, among other things, the borrower's financial condition, cash flow and ongoing financial viability; the collateral securing the loan; the borrower's industry and payment history. We review the risk rating for all commercial loans in excess of $250,000 at least annually. We evaluate loans with a risk rating of five or greater separately and assign loss amounts based upon the evaluation. For loans with risk ratings between one and four, we determine loss ratios based upon a review of prior 18 months delinquency trends, the three year loss ratio, peer group loss ratios and industry standards.

We also identify and make any necessary allocation adjustments for any specific concentrations of credit in a loan category that in management's estimation increase the risk inherent in the category. If necessary, we will also make an adjustment within one or more loan categories for economic considerations in our market area that may impact the quality of the loans in the category. For all periods presented, there were no specific adjustments made for concentrations of credit or economic considerations. We will not create a separate valuation allowance unless a loan is considered impaired under SFAS No. 114 and SFAS No. 118. For all periods presented, there were no impaired loans.

Our policies require a review of assets on a regular basis, and we believe that we appropriately classify loans as well as other assets if warranted. We believe that we use the best information available to make a determination with respect to the allowance for loan losses, recognizing that the determination is inherently subjective and that future adjustments may be necessary depending upon, among other factors, a change in economic conditions of specific borrowers or generally in the economy, and new information that becomes available to us. However, there are no assurances that the allowance for loan losses will be sufficient to absorb losses on non-performing assets, or that the allowance will be sufficient to cover losses on non-performing assets in the future.

The allowance for loan losses represents 0.94% of gross loans at June 30, 2004 and 0.92% of gross loans at June 30, 2003. Old Line Bank has no exposure to foreign countries or foreign borrowers. Management believes that the allowance for loan losses is adequate for each period presented.

The following table represents an analysis of the allowance for loan losses for the periods indicated:

ALLOWANCE FOR LOAN LOSSES

	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,
	2004	2003	2003
Balance, beginning of period	$ 547,690	$ 389,553	$ 389,553
Provision for loan losses	90,000	78,000	162,000
Chargeoffs:			
Commercial	-	-	-
Mortgage	-	-	-
Consumer	(15,768)	(2,309)	(16,554)
Total chargeoffs	(15,768)	(2,309)	(16,554)
Recoveries:			
Commercial	-	-	-
Mortgage	-	-	-
Consumer	13,142	3,773	12,691
Total recoveries	13,142	3,773	12,691
Net chargeoffs	(2,627)	1,464	(3,863)
Balance, end of period	$ 635,063	$ 469,017	$ 547,690
Allowance for loan losses to gross loans	0.94%	0.92%	0.91%
Ratio of net-chargeoffs during period to average loans outstanding during period	(0.004%)	0.003%	(0.007%)

The following table provides a breakdown of the allowance for loan losses.

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES

	JUNE 30,		DECEMBER 31,
	2004	2003	2003

	AMOUNT	% OF LOANS IN EACH CATEGORY	AMOUNT	% OF LOANS IN EACH CATEGORY	AMOUNT	% OF LO IN EA CATEGO
Installment & others	$ 7,838	0.93%	$ 16,653	2.15%	9,840	1.2
Boat	146,496	29.09	128,304	32.35	141,826	31.0
Mortgage	325,372	56.94	234,514	52.40	278,329	53.8
Commercial	155,357	13.04	89,546	13.10	117,695	13.7
TOTAL	$635,063	100.00%	$469,017	100.00%	$547,690	100.0

NON-INTEREST REVENUE

Three months ended June 30, 2004 compared to three months ended June 30, 2003

Non-interest revenue for the three months ended June 30, 2004 and June 30, 2003 included primarily construction loan fees, fee income from service charges on deposit accounts, mortgage origination fees from a third party processor, credit card fees, ATM fees and gain on disposal of assets. Non-interest revenue totaled $144,960 for the three months ended June 30, 2004, a decline of 26.80% over the 2003 amount of $198,023. The decline was primarily because there were no gains on disposal of assets during the period in 2004 compared to a gain of $47,257 in 2003. There was also a $7,799 decrease in other fees and commissions during the period because of a $41,358 decline in broker origination fees and a $13,509 decline in construction loan fees (part of "other fees and commissions" on the income statement). Broker fees declined because of a rise in interest rates that caused a decrease in refinancing of residential mortgages. These decreases were offset by a $43,730 increase in other loan fees resulting from increased commitment fees. We anticipate we will continue to improve fee income during the year due to the addition of new customer relationships unless there is a significant rise in interest rates that may cause a curtailment in credit requests.

Six months ended June 30, 2004 compared to six months ended June 30, 2003

Non-interest revenue for the six months ended June 30, 2004 included primarily construction loan fees, fee income from service charges on deposit accounts, mortgage origination fees from a third party processor, credit card fees, ATM fees and gain on disposal of assets. Non-interest revenue totaled $303,187 for the six months ended June 30, 2004, a decrease of $41,054 or 11.93% over the 2003 amount of $344,241. During the period, we sold no securities and this caused an $88,359 decrease in gains on disposal of assets. This was offset by a $5,468 increase in construction loan fees (part of "other fees and commissions" on the income statement) that occurred as a result of establishment of new relationships with local builders and the continued low interest rate environment which caused an increase in construction of single family residences. There was also an $89,953 increase in other loan fees resulting from increased commitment fees. Because we have increased the number of relationships that we have with local builders, we expect to continue to improve fee income unless there is a significant rise in interest rates that may cause a curtailment in credit requests.

NON-INTEREST EXPENSE

Three months ended June 30, 2004 compared to three months ended June 30, 2003

Non-interest expense for the three months ended June 30, 2004 increased $124,240 or 21.43% to $703,969 compared to $579,729 at June 30, 2003. Salaries and benefit expenses increased $55,483 during the period because we hired a new credit officer in March 2004 and changed our method for accruing annual bonus payments in September 2003. Other operating expenses increased $59,755 during the period primarily because we experienced a robbery in June 2004 and we incurred a $25,000 expense that represented the deductible on Old Line Bank's robbery insurance policy. Additionally, the holding company expensed approximately $8,500 in filing and NASDAQ fees (included in other operating expenses) during the period that it did not incur during 2003 because the holding company did not exist until September 2003. Because of the increase in the number of shareholders and shares outstanding that occurred with the offering in June 2003, the annual shareholder meeting and transfer agent expenses also increased in 2004.

Six months ended June 30, 2004 compared to six months ended June 30, 2003

Non-interest expense for the six months ended June 30, 2004 was $1.3 million versus $1.1 million for the same period in 2003. The $200,000 or 18.18% increase was attributable to a $7,239 increase in data processing costs incurred with the increased volume of customers and new services we began offering, and expenses associated with SEC and public filings, and Nasdaq fees incurred by the holding company. Additionally, we incurred a $25,000 expense that represented the deductible on Old Line Bank's robbery insurance policy. Salary and benefit expenses were $115,591 higher due to the hiring of a new lending officer in March 2003, a new credit officer in March 2004, annual payroll increases and a change in our method of accruing for annual bonus payments. Although these bonus payments remain discretionary, in September 2003, we began accruing for this annual expense on a twelve month basis. Historically, we had accrued for these bonuses during the last quarter of the year. During the six month period ended June 30, 2004, we incurred approximately $17,650 in expenses associated with filing fees and Nasdaq listing fees for the holding company (included in other operating expenses). Old Line Bancshares, Inc. did not exist in the quarter ended June 30, 2003 and therefore, did not incur similar expenses during 2003.

INCOME TAXES

Three months ended June 30, 2004 compared to three months ended June 30, 2003

Income tax expense was $85,911 (36.36%) of pre-tax income for the three months ended June 30, 2004 as compared to $66,590 (33.01%) for the three months ended June 30, 2003.

Six months ended June 30, 2004 compared to six months ended June 30, 2003

Income tax expense was $179,518 (35.18%) of pre-tax income for the six months ended June 30, 2004 as compared to $127,140 (32.70% of pre-tax net income) for the same period in 2003.

NET INCOME

Three months ended June 30, 2004 compared to three months ended June 30, 2003

Net income increased $15,242 or 11.28% to $150,355 for the three months ended June 30, 2004 compared to $135,113 for the three months ended June 30, 2003. Earnings per share declined for the three months to $0.08 basic and diluted because of the 716,721.62 increase in the weighted average number of shares outstanding. This increase occurred primarily because of the additional 897,000 shares issued in the public offering in June 2003. The $15,242 increase in net income was due to the $214,866 increase in net interest income offset by the $53,063 decline in non-interest revenue, the $124,240 increase in non-interest expenses and the $19,321 increase in income taxes.

Six months ended June 30, 2004 compared to six months ended June 30, 2003

Net income was $330,701 or $0.19 basic and $0.18 diluted earnings per common share for the six month period ending June 30, 2004, an increase of $69,047 or 26.39% compared to net income of $261,654 or $0.27 basic and $0.26 diluted earnings per common share for the same period in 2003. The increase in net income was the result of a $387,294 increase in net interest income after provision for loan losses. A $41,054 decrease in non-interest revenue, a $225,445 increase in non-interest expense and a $52,378 increase in income tax expense for the period as compared to the same period in 2003 offset the increase in net interest income. Earnings per share declined on a basic and diluted basis because of the 801,068.65 increase in the weighted average number of shares outstanding that occurred because of the 897,000 additional shares issued in the public offering in June 2003.

ANALYSIS OF FINANCIAL CONDITION

INVESTMENT SECURITIES

Old Line Bank's portfolio consists primarily of U.S. government agency securities, securities issued by states, counties and municipalities, mortgage-backed securities, and certain equity securities, including Federal Reserve Bank Stock and Federal Home Loan Bank Stock. The portfolio provides a source of liquidity, collateral for repurchase agreements as well as a means of diversifying Old Line Bank's earning asset portfolio. While we generally intend to hold the investment portfolio assets until maturity, we classify the majority (88.37%) of the portfolio as available for sale. We account for securities so classified at fair value and report the unrealized appreciation and depreciation as a separate component of stockholders' equity, net of income tax effects. We account for securities classified in the held to maturity category at amortized cost. Old Line Bank invests in securities for the yield they produce and not to profit from trading the securities. There are no trading securities in the portfolio.

The investment portfolio at June 30, 2004 amounted to $18.9 million, a decrease of $234,598, or 1.22%, from the amount at December 31, 2003. The decrease in the investment portfolio occurred because these assets matured or were called and we deployed the proceeds into loans and federal funds for future loan fundings. The carrying value of available for sale securities includes unrealized depreciation of $421,339 at June 30, 2004 (reflected as unrealized depreciation of $272,456 in stockholders' equity after deferred taxes) as compared to net unrealized depreciation of $109,732 ($69,914 net of taxes) as of December 31, 2003. In general, this increase in unrealized depreciation was a result of rising interest rates, the maturity of securities or the fact that some of the securities were called.

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LOAN PORTFOLIO

The loan portfolio, net of allowance, unearned fees and origination costs increased $7.7 million or 12.94% to $67.2 million at June 30, 2004 from $59.5 million at December 31, 2003. This growth was attributable to increased business development efforts as well as our ability to retain a higher dollar amount of loans. Commercial business loans increased by $562,222 (6.81%), commercial real estate loans (generally owner-occupied) increased by $4.3 million (16.02%), residential real estate loans (generally home equity and fixed rate home improvement loans) increased by $1.4 million (37.44%), real estate construction loans increased by $549,429 (31.19%) and installment loans increased by $930,340 (4.81%) from their respective balances at December 31, 2003.

Loans secured by real estate or luxury boats comprise the majority of the loan portfolio. Old Line Bank's loan customers are generally located in the greater Washington, D.C. metropolitan area.

During the period, our increased business development efforts have allowed Old Line Bank to establish several new customer relationships and expand existing relationships. Considering our current backlog of approved loans, we anticipate that loan growth will continue during the third quarter.

The following table summarizes the composition of the loan portfolio by dollar amount and percentages:

LOAN PORTFOLIO
(Dollars in thousands)

	June 30, 2004	%	December 31, 2003	%
Real Estate				
Commercial	$31,162	46.11	$ 26,859	44.87
Construction	2,311	3.42	1,762	2.94
Residential	5,004	7.41	3,641	6.08
Commercial	8,813	13.04	8,251	13.78
Installment	20,286	30.02	19,355	32.33
	67,576	100.00	59,868	100.00
Allowance for loan losses	635		547	
Net deferred loan fees and (costs)	(245)		(197)	
	390		350	
	$67,186		$ 59,518	

ASSET QUALITY

Management performs reviews of all delinquent loans and relationship officers are charged with working with customers to resolve potential credit issues in a timely manner. Management generally classifies loans as non-accrual when collection of full principal and interest under the original terms of the loan is not expected or payment of principal or interest has become 90 days past due. Classifying a loan as non-accrual results in Old Line Bank no longer accruing interest on such loan and reversing any interest previously accrued but not collected. We will generally restore a non-accrual loan to accrual status when delinquent principal and interest payments are brought current and we expect to collect future monthly principal and interest payments. Old Line Bank recognizes interest on non-accrual loans only when received. As of June 30, 2004 and December 31, 2003, Old Line Bank did not have any non-accrual loans. As of June 30, 2004 and December 31, 2003, Old Line Bank had no accruing loans past due more than 90 days.

We classify any property acquired as a result of foreclosure on a mortgage loan as "real estate owned" and record it at the lower of the unpaid principal balance or fair value at the date of acquisition and subsequently carry the loan at the lower of cost or net realizable value. We charge any required write-down of the loan to its net realizable value against the allowance for credit losses at the time of foreclosure. We charge to expense any subsequent adjustments to net realizable value. Upon foreclosure, Old Line Bank generally requires an appraisal of the property and, thereafter, appraisals of the property on at least an annual basis and external inspections on at least a quarterly basis. As of June 30, 2004 and December 31, 2003, Old Line Bank held no real estate acquired as a result of foreclosure.

Old Line Bank applies the provisions of Statement of Financial Accounting Standards No. 114 ("SFAS No. 114"), "Accounting by Creditors for Impairment of a Loan," as amended by Statement of Financial Accounting Standards No. 118 ("SFAS No. 118"), "Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosure." SFAS No. 114 and SFAS No. 118 require that impaired loans, which consist of all modified loans and other loans for which collection of all contractual principal and interest is not probable, be measured based on the present value of expected future cash flows discounted at 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. If the measure of the impaired loan is less than the recorded investment in the loan, an impairment is recognized through a valuation allowance and corresponding provision for credit losses. Old Line Bank considers consumer loans as homogenous loans and thus does not apply the SFAS No. 114 impairment test to these loans. We write off impaired loans when collection of the loan is doubtful.

We had no impaired or restructured loans as of June 30, 2004 or December 31, 2003.

DEPOSITS

We seek deposits within our market area by paying competitive interest rates, offering high quality customer service and using technology to deliver deposit services effectively. At June 30, 2004, the deposit portfolio had grown to $79.8 million, a $10.5 million or 15.15% increase over the December 31, 2003 level of $69.3 million. We have seen growth in several key categories over the period. Demand deposits, NOW, money market and certificates of deposit have all grown while savings have remained stable. Our deposit base expanded due to increased commercial relationships and additional personnel. Although deposit growth remained strong during the period, balances in real estate settlement accounts declined as the pace of re-financings continued to slow with the increase in interest rates.

As a general practice, we do not purchase brokered deposits. During the periods reported, we had no brokered deposits. As market conditions warrant and balance sheet needs dictate, we may participate in the wholesale certificates of deposit market.

BORROWINGS

Old Line Bank has available lines of credit, including overnight federal funds and repurchase agreements from its correspondent banks totaling $8.5 million as of June 30, 2004. Old Line Bank has an additional secured line of credit from the Federal Home Loan Bank of $29.7 million at June 30, 2004 of which we have borrowed $6 million as outlined below. At June 30, 2004, Old Line Bank had nothing outstanding in overnight federal funds. As of June 30, 2004, Old Line Bank had borrowed $6.0 million from the Federal Home Loan Bank. Old Line Bank borrowed $4.0 million of the $6.0 million in January 2001, currently pays interest only at 4.80%, and must repay the $4.0 million in January 2011. In February

2004, Old Line Bank borrowed an additional $2 million from the Federal Home Loan Bank, Old Line Bank pays interest only, currently at 1.79%, and must repay the $2.0 million in February 2009. Old Line Bank may not prepay the loans prior to maturity without incurring a significant prepayment penalty. These facilities have variable interest rates that are subject to adjustments on the 2 or 5 year anniversary.

INTEREST RATE SENSITIVITY ANALYSIS AND INTEREST RATE RISK MANAGEMENT

A principal objective of Old Line Bank's asset/liability management policy is to minimize exposure to changes in interest rates by an ongoing review of the maturity and re-pricing of interest-earning assets and interest-bearing liabilities. The Asset and Liability Committee of the Board of Directors oversees this review.

The Asset and Liability Committee establishes policies to control interest rate sensitivity. Interest rate sensitivity is the volatility of a bank's earnings resulting from movements in market interest rates. Management monitors rate sensitivity in order to reduce vulnerability to interest rate fluctuations while maintaining adequate capital levels and acceptable levels of liquidity. Monthly financial reports supply management with information to evaluate and manage rate sensitivity and adherence to policy. Old Line Bank's asset/liability policy's goal is to manage assets and liabilities in a manner that stabilizes net interest income and net economic value within a broad range of interest rate environments. Adjustments to the mix of assets and liabilities are made periodically in an effort to achieve dependable, steady growth in net interest income regardless of the behavior of interest rates in general.

As part of the interest rate risk sensitivity analysis, the Asset and Liability Committee examines the extent to which Old Line Bank's assets and liabilities are interest rate sensitive and monitors the interest rate sensitivity gap. An interest rate sensitive asset or liability is one that, within a defined time period, either matures or experiences an interest rate change in line with general market rates. The interest rate sensitivity gap is the difference between interest-earning assets and interest-bearing liabilities scheduled to mature or re-price within such time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the interest rate sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income. During a period of declining interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to adversely affect net interest income. If re-pricing of assets and liabilities were equally flexible and moved concurrently, the impact of any increase or decrease in interest rates on net interest income would be minimal.

Old Line Bank currently has a positive gap over the short term, which suggests that the net yield on interest earning assets may increase during periods of rising interest rates. However, a simple interest rate "gap" analysis by itself may not be an accurate indicator of how net interest income will be affected by changes in interest rates. Income associated with interest-earning assets and costs associated with interest-bearing liabilities may not be affected uniformly by changes in interest rates. In addition, the magnitude and duration of changes in interest rates may have a significant impact on net interest income. Although certain assets and liabilities may have similar maturities or periods of re-pricing, they may react in different degrees to changes in market interest rates. Interest rates on certain types of assets and liabilities fluctuate in advance of changes in general market interest rates, while interest rates on other types may lag behind changes in general market rates. In the event of a change in interest rate, prepayment and early withdrawal levels also could deviate significantly from those assumed in calculating the interest-rate gap. The ability of many borrowers to service their debts also may decrease in the event of an interest rate increase.

LIQUIDITY

Our overall asset/liability strategy takes into account our need to maintain adequate liquidity to fund asset growth and deposit runoff. Our management monitors the liquidity position daily in conjunction with Federal Reserve guidelines. We have credit lines unsecured and secured available from several correspondent banks totaling $8.5 million. Additionally, we may borrow funds from the Federal Home Loan Bank of Atlanta. We can use these credit facilities in conjunction with the normal deposit strategies, which include pricing changes to increase deposits as necessary. We can also sell or pledge investment securities to create additional liquidity. From time to time we may sell or participate out loans to create additional liquidity as required. Additional sources of liquidity include funds held in time deposits and cash from the investment and loan portfolios.

Our immediate sources of liquidity are cash and due from banks and federal funds sold. As of June 30, 2004, we had $2.2 million in cash and due from banks and $6.3 million in federal funds sold and other overnight investments compared to $2.5 million in cash and due from banks and $4.0 million in Federal Funds sold at December 31, 2003.

Old Line Bank has sufficient liquidity to meet its loan commitments as well as fluctuations in deposits. We usually retain maturing certificates of deposit as we offer competitive rates on certificates of deposit. Management is not aware of any demands, trends, commitments, or events that would result in Old Line Bank's inability to meet anticipated or unexpected liquidity needs.

CAPITAL

Our stockholders' equity amounted to $12.9 million at June 30, 2004 and $12.8 million at December 31, 2003. We are considered "well capitalized" under the risk-based capital guidelines adopted by the Federal Reserve. Stockholders' equity increased during the period as a result of net income of $330,701, the $83,522 in proceeds after tax adjustment for stock options exercised less the $106,449 dividends paid in March and June and the $202,544 depreciation in securities.

OFF-BALANCE SHEET ARRANGEMENTS

Old Line Bancshares, Inc. is a party to financial instruments with off-balance sheet risk in the normal course of business. These financial instruments primarily may include commitments to extend credit, lines of credit and standby letters of credit. In addition, Old Line Bancshares, Inc. also has operating lease obligations. Old Line Bancshares, Inc. uses these financial instruments to meet the financing needs of its customers. These financial instruments involve, to varying degrees, elements of credit, interest rate, and liquidity risk. These do not represent unusual risks and management does not anticipate any losses which would have a material effect on Old Line Bancshares, Inc.

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Outstanding loan commitments and lines and letters of credit at June 30, 2004 and December 31, 2003 are as follows:

	June 30, 2004	December 31, 2003
	(DOLLARS IN THOUSANDS)	
Commitments to extend credit and available credit lines:		
Commercial	$ 2,233	$ 1,395
Real estate-undisbursed development and construction	6,064	3,931
Real estate-undisbursed home equity lines of credit	3,445	2,686
	$11,742	$ 8,012
Standby letters of credit	$ 986	$ 317

We are not aware of any loss we would incur by funding our commitments or lines of credit. Commitments for real estate development and construction, which totaled $6.1 million, or 51.64% of the $11.7 million, are generally short-term and turn over rapidly, satisfying cash requirements with principal repayments and from sales of the properties financed.

RECONCILIATION OF NON-GAAP MEASURES

Below is a reconciliation of the FTE adjustments and the GAAP basis information presented in this report.

	SIX MONTHS ENDED JUNE 30, 2004			
	Federal Funds Sold	Investment Securities	Interest Earning Assets	Total Assets
GAAP Interest income	$ 20,836	$ 337,115	$ 2,209,842	$ 2,209,842
Tax Equivalent adjustment	261	41,212	41,473	41,473
Tax Equivalent interest income	$ 21,097	$ 378,327	$ 2,251,315	$ 2,251,315
GAAP Interest yield	0.98%	3.43%	5.06%	4.75
Taxable Equivalent adjustment	0.01%	0.42%	0.09%	0.09

Tax Equivalent interest yield	0.99%	3.85%	5.15%	4.84

	SIX MONTHS ENDED JUNE 30, 2004			
	Federal Funds Sold	Investment Securities	Interest Earning Assets	Total Assets
GAAP Interest income	$ 36,695	$ 341,834	$ 1,915,158	$ 1,915,158
Tax Equivalent adjustment	441	33,573	34,014	34,014
Tax Equivalent interest income	$ 37,136	$ 375,407	$ 1,949,172	$ 1,949,172
GAAP Interest yield	1.18%	3.86%	5.48%	5.11%
Taxable Equivalent adjustment	0.02%	0.37%	0.09%	0.09%
Tax Equivalent interest yield	1.20%	4.23%	5.57%	5.20%

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and follow general practices within the industry in which we operate. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available.

Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the provision for loan losses as the accounting area that requires the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available.

Management has significant discretion in making the judgments inherent in the determination of the provision and allowance for loan losses, including in connection with the valuation of collateral and the financial condition of the borrower, and in establishing loss ratios and risk ratings. The establishment of allowance factors is a continuing exercise and allowance factors may change over time, resulting in an increase or decrease in the amount of the provision or allowance based upon the same volume and classification of loans.

Changes in allowance factors or in management's interpretation of those factors will have a direct impact on the amount of the provision, and a corresponding effect on income and assets. Also, errors in management's perception and assessment of the allowance factors could result in the allowance not being adequate to cover losses in the portfolio, and may result in additional provisions or charge-offs, which would adversely affect income and capital. For additional information regarding the allowance for loan losses, see the "Provision for Loan Losses" section of this financial review.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

In addition to the historical information contained in Part I of this Quarterly Report on Form 10-QSB, the discussion in Part I of this Quarterly Report on Form 10-QSB contains certain forward-looking statements. Forward-looking statements often use words such as "believe," "expect," "plan," "may," "will," "should," "project," "contemplate," "anticipate," "forecast," "intend" or other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts.

The statements presented herein with respect to, among other things, Old Line Bancshares, Inc.'s plans, objectives, expectations and intentions, including statements regarding profitability, liquidity, allowance for loan losses, interest rate sensitivity, market risk and financial and other goals are forward looking. These statements are based on Old Line Bancshares, Inc.'s beliefs, assumptions and on information available to Old Line Bancshares, Inc. as of the date of this filing, and involve risks and uncertainties. These risks and uncertainties include, among others, those discussed in this Quarterly Report on Form 10-QSB; the dependence on key personnel; the composition of the loan portfolio; fluctuations in market rates of interest and the effect on loan and deposit pricing, adverse changes in the overall national economy as well as adverse economic conditions in Old Line Bancshares, Inc.'s specific market area; competitive factors within the financial services industry; changes in regulatory requirements and/or restrictive banking legislation; Old Line Bancshares, Inc.'s lending limit; sufficiency of the allowance for loan losses; market value of the investment portfolio and Old Line Bancshares, Inc.'s expansion strategy. For a more complete discussion of some of these risks and uncertainties see the discussion under the caption "Factors Affecting Future Results" in Old Line Bancshares, Inc.'s Annual Report on Form 10K-SB/A.

Old Line Bancshares, Inc.'s actual results could differ materially from those discussed herein and you should not put undue reliance on any forward-looking statements. All forward-looking statements speak only as of the date of this filing, and Old Line Bancshares, Inc. undertakes no obligation to make any revisions to the forward-looking statements to reflect events or circumstances after the date of this filing or to reflect the occurrence of unanticipated events.

ITEM 3. CONTROLS AND PROCEDURES

As of the end of the period covered by this quarterly report on Form 10-QSB, Old Line Bancshares, Inc.'s Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of Old Line Bancshares, Inc.'s disclosure controls and procedures. Based upon that evaluation, Old Line Bancshares, Inc.'s

Chief Executive Officer and Chief Financial Officer concluded that Old Line Bancshares, Inc.'s disclosure controls and procedures are effective. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by Old Line Bancshares, Inc. in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

In addition, there were no changes in Old Line Bancshares, Inc.'s internal controls over financial reporting (as defined in Rule 13a-15 or Rule 15d-15) under the Securities Act of 1934, as amended) during the quarter ended June 30, 2004, that have materially affected, or are reasonably likely to materially affect, Old Line Bancshares, Inc.'s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 2. Changes in Securities.

None

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Submission of Matters to a Vote of Securities Holders.

(a) Old Line Bancshares, Inc. held its annual meeting of stockholders on May 27, 2004.

(b) No response required.

(c) 1. The following individuals were nominees for the Board of Directors for a term to expire at the 2007 annual meeting of stockholders. The number of votes for or withheld for each nominee is as follows:

	For	Against	Withheld	Total
James W. Cornelsen	1,545,098	6,627	0	1,551,725
Daniel D. Deming	1,520,723	31,002	0	1,551,725
James F. Dent	1,544,873	6,852	0	1,551,725
John D. Mitchell, Jr.	1,545,098	6,627	0	1,551,725

2. The approval of the Old Line Bancshares, Inc. 2004 Equity Incentive Plan:

For	Against	Abstain	Broker Non-Votes	Total

922,716	206,904	5,475	416,630	1,551,725

3. The approval of Articles of Amendment to Old Line Bancshares, Inc.'s charter:

(i) Add a provision permitting charter amendments without providing appraisal rights to dissenting stockholders:

For	Against	Abstain	Broker Non-Votes	Total
1,002,116	127,829	5,150	416,630	1,551,725

(ii) Add a provision expressly granting the Board of Directors the power to issue capital stock and convertible securities:

For	Against	Abstain	Broker Non-Votes	Total
993,791	141,079	225	416,630	1,551,725

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4. The ratification of the appointment of Rowles & Company, LLP as independent public accountants to audit the financial statements of Old Line Bancshares, Inc. for 2004:

For	Against	Abstain	Broker Non-Votes	Total
1,544,201	6,072	1,452	0	1,551,725

Item 5. Other Information.

Not applicable.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K.

Form 8-K filed, dated August 6, 2004, Items 5, 7 and 12.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Old Line Bancshares, Inc.

Date: August 9, 2004 By: /s/ James W. Cornelsen

James W. Cornelsen, President
(Principal Executive Officer)

Date: August 9, 2004 By: /s/ Christine M. Rush

Christine M. Rush, Chief Financial Officer
(Principal Accounting and Financial Officer)