COMMERCIAL BANKSHARES INC
Form 10-Q
August 06, 2004

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2004

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 00-22246

COMMERCIAL BANKSHARES, INC.

(Exact name of Registrant as specified in its charter)

FLORIDA	65-0050176
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1550 S.W. 57th Avenue, Miami, Florida	33144
(Address of principal executive offices)	(Zip Code)

(305) 267-1200

(Registrant's Telephone Number, including area code)

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 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 .

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Yes X No .

On August 5, 2004 there were 5,932,566 shares of common stock (par value $.08 per share) outstanding.

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to Rule 15A-14(A) or 15D-14(A) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.2 Certification of the Chief Financial Officer pursuant

to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

PART I - FINANCIAL INFORMATION

ITEM I - FINANCIAL STATEMENTS

COMMERCIAL BANKSHARES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
June 30, 2004 and December 31, 2003
(Dollars in thousands, except share data)

	6/30/2004	12/31/2003
Assets:	(Unaudited)	
Cash and due from banks	$ 47,347	$ 30,569
Federal funds sold	41,066	29,382
Total cash and cash equivalents	88,413	59,951
Investment securities available for sale, at fair value (cost of $142,244 in 2004 and $103,206 in 2003)	146,356	110,096
Investment securities held to maturity, at cost (fair value of $155,564 in 2004 and $179,559 in 2003)	162,222	185,781
Loans, net	433,324	408,100
Premises and equipment, net	12,407	12,420
Accrued interest receivable	5,615	5,959
Goodwill, net	253	253
Other assets	3,395	3,619
Total assets	$851,985	$786,179

Liabilities and stockholders' equity:
Deposits:

Demand	$140,871	$117,893
Interest-bearing checking	97,166	87,918
Money market accounts	82,701	72,218
Savings	33,933	32,240
Time	354,022	344,520
Total deposits	708,693	654,789
Securities sold under agreements to repurchase	69,836	60,210
Accrued interest payable	567	618
Accounts payable and accrued liabilities	3,489	4,464
Total liabilities	782,585	720,081
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Common stock, $.08 par value, 15,000,000 authorized shares, 6,487,341 issued (6,390,242 in 2003)	519	511
Additional paid-in capital	47,243	45,818
Retained earnings	25,656	22,037
Accumulated other comprehensive income	2,750	4,500
Treasury stock, 554,775 shares, at cost	(6,768)	(6,768)
Total stockholders' equity	69,400	66,098
Total liabilities and stockholders' equity	$851,985	$786,179

The accompanying notes are an integral part of these condensed consolidated financial statements

COMMERCIAL BANKSHARES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the three and six months ended June 30, 2004 and 2003
(Dollars in thousands, except share data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Interest income:				
Interest and fees on loans	$6,633	$5,998	$13,089	$11,834
Interest on investment securities	3,784	3,489	7,518	6,767
Interest on federal funds sold and due from banks	156	154	290	281

Total interest income	10,573	9,641	20,897	18,882
Interest expense:				
Interest on deposits	2,700	2,782	5,413	5,544
Interest on securities sold under agreements to repurchase	179	200	343	390
Total interest expense	2,879	2,982	5,756	5,934
Net interest income	7,694	6,659	15,141	12,948
Provision for loan losses	125	135	140	135
Net interest income after provision	7,569	6,524	15,001	12,813
Non-interest income:				
Service charges on deposit accounts	579	633	1,163	1,266
Other fees and service charges	140	157	270	303
Securities gains	-	139	-	139
Total non-interest income	719	929	1,433	1,708
Non-interest expense:				
Salaries and employee benefits	2,612	2,365	5,260	4,697
Occupancy	331	312	643	606
Data processing	298	278	597	535
Furniture and equipment	205	186	402	371
Insurance	107	104	209	201
Professional fees	91	84	252	108
Stationery and supplies	65	69	133	129
Administrative service charges	62	55	123	101
Telephone and fax	38	46	48	87
Other	299	262	568	497
Total non-interest expense	4,108	3,761	8,235	7,332
Income before income taxes	4,180	3,692	8,199	7,189
Provision for income taxes	1,374	1,181	2,688	2,217
Net income	$2,806	$2,511	$ 5,511	$ 4,972
Earnings per common and common equivalent share:				
Basic	$.47	$.44	$.93	$.87
Diluted	$.45	$.41	$.89	$.82
Weighted average number of shares and common equivalent shares:				
Basic	5,922,699	5,737,604	5,900,944	5,724,230
Diluted	6,198,109	6,130,963	6,184,691	6,099,563

The accompanying notes are an integral part of these
condensed consolidated financial statements

COMMERCIAL BANKSHARES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three and six months ended June 30, 2004 and 2003
(In thousands)
(Unaudited)

	Three months ended June 30,	
	2004	2003
Net income	$2,806	$2,511
Other comprehensive (loss)income, net of tax:		
Unrealized holding (loss)gain arising during the period (net of tax (benefit)expense of ($1,531) in 2004 and $289 in 2003)	(2,606)	492
Reclassification adjustment for gains realized in net income (net of tax expense of $0 in 2004 and $51 in 2003)	-	(88)
Other comprehensive (loss)income	(2,606)	404
Comprehensive income	$ 200	$2,915

	Six months ended June 30,	
	2004	2003
Net income	$5,511	$4,972
Other comprehensive (loss)income, net of tax:		
Unrealized holding (loss)gain arising during the period (net of tax (benefit)expense of ($1,028) in 2004 and $395 in 2003)	(1,750)	673
Reclassification adjustment for gains		

	2004	2003
realized in net income (net of tax expense of $0 in 2004 and $51 in 2003)	-	(88)
Other comprehensive (loss)income	(1,750)	585
Comprehensive income	$3,761	$5,557

The accompanying notes are an integral part of these condensed consolidated financial statements

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COMMERCIAL BANKSHARES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six months ended June 30, 2004 and 2003
(In thousands)
(Unaudited)

	2004	2003
Cash flows from operating activities:		
Net income	$ 5,511	$ 4,972
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	140	135
Depreciation, amortization and accretion, net	387	583
Gain on sale of investment securities	-	(139)
Gain on sale of premises and equipment	-	(1)
Change in accrued interest receivable	344	55
Change in other assets	224	(577)
Change in accounts payable and accrued liabilities	649	(7)
Change in accrued interest payable	(51)	(27)
Net cash provided by operating activities	7,204	4,994
Cash flows from investing activities:		
Proceeds from maturities of investment securities held to maturity	22,943	52,549
Proceeds from maturities and sales of investment securities available for sale	18,380	134,486
Prepayments from mortgage backed securities held to maturity	775	1,346
Prepayments from mortgage backed securities available for sale	3,372	9,660
Purchases of investment securities held to maturity	-	(114,012)
Purchases of investment securities available for sale	(60,994)	(87,467)
Net change in loans	(25,364)	(22,976)
Purchases of premises and equipment	(329)	(319)
Sales of premises and equipment	-	1

Net cash used in investing activities	(41,217)	(26,732)
Cash flows from financing activities:		
Net change in deposits	53,904	49,853
Net change in securities sold under agreements to repurchase	9,626	2,803
Dividends paid	(2,173)	(1,739)
Proceeds from issuance of stock	1,118	377
Net cash provided by financing activities	62,475	51,294
Increase in cash and cash equivalents	28,462	29,556
Cash and cash equivalents at beginning of period	59,951	60,533
Cash and cash equivalents at end of period	$88,413	$90,089
Supplemental disclosures:		
Interest paid (net of amounts credited to deposit accounts)	$ 1,343	$ 989
Income taxes paid	$ 2,325	$ 2,136

The accompanying notes are an integral part of these condensed consolidated financial statements

COMMERCIAL BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements, which are for interim periods, do not include all disclosures provided in the annual consolidated financial statements. These financial statements and the footnotes thereto should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2003 for Commercial Bankshares, Inc. (the "Company").

All material intercompany balances and transactions have been eliminated.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary for a fair presentation of the financial statements. Those adjustments are of a normal recurring nature. The results of operations for the six month period ended June 30, 2004, are not necessarily indicative of the results to be expected for the full year.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the statements of financial condition and revenues and expenses for the periods covered. Actual results could differ from those estimates and assumptions.

2. STOCK OPTIONS

The new disclosure requirements under Statement of Financial Accounting Standard (SFAS) No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure an amendment of FASB Statement No. 123" for interim financial statements are effective and were adopted by the Company on January 1, 2003. See Note 5 for a discussion of SFAS No. 148, which requires disclosure of pro forma net income and earnings per share as if the Company had adopted the fair value method of accounting for stock-based awards. The following table provides the newly required disclosures for the three and six month periods ended June 30, 2004 compared to the same periods in the prior year:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(Dollars in thousands)			
Net income as reported	$2,806	$2,511	$5,511	$4,972
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects (1)	(85)	(128)	(131)	(158)
Pro forma net income	$2,721	$2,383	$5,380	$4,814

Earnings per share, basic as reported	$ .47	$ .44	$ .93	$ .87
Earnings per share, basic pro forma	$ .46	$ .42	$ .91	$ .84
Earnings per share, diluted as reported	$ .45	$ .41	$ .89	$ .82
Earnings per share, diluted pro forma	$ .44	$ .39	$ .87	$ .79

(1) The fair value of each option has been estimated on June 30, 2004 using the Black Scholes option pricing model.

3. PER SHARE DATA

Earnings per share have been computed by dividing net income by the weighted average number of shares of common stock (basic earnings per share) and by the weighted average number of shares of common stock plus dilutive shares of common stock equivalents outstanding (diluted earnings per share). Common stock equivalents include the effect of all outstanding stock options, using the treasury stock method. Per share data and weighted average shares outstanding have been adjusted for the three and six months ended June 30, 2003 for the five-for-four stock split which was effective on January 2, 2004.

The following tables reconcile the weighted average shares used to calculate basic and diluted earnings per share (EPS)(in thousands, except per share amounts):

	Three Months Ended June 30, 2004			Three Months Ended June 30, 2003		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS	$2,806	5,923	$.47	$2,511	5,738	$.44
Effect of Dilutive Options	-	275	(.02)	-	393	(.03)
Diluted EPS	$2,806	6,198	$.45	$2,511	6,131	$.41

	Six Months Ended June 30, 2004			Six Months Ended June 30, 2003		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS	$5,511	5,901	$.93	$4,972	5,724	$.87
Effect of Dilutive Options	-	284	(.04)	-	376	(.05)
Diluted EPS	$5,511	6,185	$.89	$4,972	6,100	$.82

Options to purchase 76,875 and 2,500 shares of common stock at $26.66 and

$25.94 per share were outstanding at June 30, 2004, and 76,875 shares of common stock at $26.66 per share were outstanding at June 30, 2003, which were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares.

4. COMMITMENTS AND CONTINGENCIES

Standby letters of credit are conditional commitments issued by Commercial Bank of Florida ("the Bank") to guarantee the performance of a customer to a third party. The Bank had outstanding standby letters of credit in the amount of $5.4 million as of June 30, 2004 as compared to $4.4 million as of December 31, 2003. Approximately $4.3 million of the standby letters of credit outstanding at June 30, 2004 were issued subsequent to December 31, 2003 and are being carried at fair value. The Bank's exposure to credit loss in the event of non-performance by the other party to the financial instrument for standby letters of credit is represented by the contractual amounts of those instruments. The Bank uses the same credit policies in establishing conditional obligations as those for on-balance sheet instruments. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies but may include cash, or the goods acquired by the customer for which the standby letter of credit was issued. Since certain letters of credit are expected to expire without being drawn upon, they do not necessarily represent future cash requirements.

5. NEW ACCOUNTING PRONOUNCEMENTS

On January 17, 2003, the Financial Accounting Standard Board (FASB) issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB 51" (FIN 46). The primary objectives of FIN 46 are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights ("variable interest entities" or "VIEs") and how to determine when and which business enterprise should consolidate the VIE (the "primary beneficiary"). This new model for consolidation applies to an entity which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. During December 2003, the FASB issued FIN 46R, which deferred certain portions created prior to February 1, 2003 until the first reporting period ended after March 15, 2004. The provisions of this interpretation have not had a significant impact on the Company's consolidated financial condition or results of operations.

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

The following discussion and analysis of the Company's consolidated results of operations and financial condition should be read in conjunction with the unaudited interim consolidated financial statements and the related notes included herein and the consolidated financial statements for the year ended December 31, 2003 appearing in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

CORPORATE OVERVIEW

Commercial Bankshares, Inc. (the "Company"), a Florida corporation organized in 1988, is a bank holding company whose wholly-owned subsidiary and principal asset is the Commercial Bank of Florida (the "Bank"). The Company, through its ownership of the Bank, is engaged in a commercial banking business. Its primary source of earnings is derived from income generated by its ownership and operation of the Bank. The Bank is a Florida chartered banking corporation with fourteen branch locations throughout Miami-Dade and Broward counties in South Florida. The Bank primarily focuses on providing personalized banking services to businesses and individuals within the market areas where its banking offices are located.

RESULTS OF OPERATIONS

Three and Six Months Ended June 30, 2004 and 2003

The Company's net income reported for the three months ended June 30, 2004, was $2.81 million, a 12% increase over the three months ended June 30, 2003 of $2.51 million. Basic and diluted earnings per share were $.47 and $.45, respectively, for the three months ended June 30, 2004, as compared to $.44 and $.41, respectively, for the three months ended June 30, 2003.

Results for the six months ended June 30, 2004, showed net income of $5.51 million, an 11% increase over net income for the six months ended June 30, 2003 of $4.97 million. Basic and diluted earnings per share were $.93 and $.89, respectively, for the six months ended June 30, 2004 as compared to $.87 and $.82, respectively, for the six months ended June 30, 2003.

The Company's second quarter tax-equivalent net interest income increased 16% to $8.0 million, from $6.9 million for the corresponding quarter in 2003. The increase is the result of growth in average earning assets, which have increased 11% to $778 million for the second quarter of 2004, as compared to $698 million for the second quarter of 2003. It is also the result of a higher net interest yield. The tax-equivalent net interest yield for the three months ended June 30, 2004 was 4.12%, as compared to 3.96% for the same period in 2003. The increase in yield is the result of an increase in gross loans and a decrease in the cost of funds as compared to the same period in 2003.

Tax-equivalent net interest income for the six months ended June 30, 2004 increased 17% to $15.7 million from the same six month period one year ago. The net interest yield for the six months ended June 30, 2004 was 4.13% as compared to 3.96% for the same period in 2003. The net interest margin has been calculated on a tax-equivalent basis, which includes an adjustment for interest on tax-exempt securities.

Non-interest income decreased by $210,000, or 23%, for the second quarter of 2004, and $275,000, or 19%, for the six months ended June 30, 2004, as compared to the corresponding periods in 2003. The decrease in the second quarter is due to a decrease in service charges on deposit accounts of $54,000 and security gains in 2003 of $139,000. The decrease in the six months ended June 30, 2004 is also due to a decrease in service charges on deposit accounts of $103,000 and security gains in 2003 of $139,000.

Non-interest expenses for the second quarter of 2004 increased $347,000, or 9% from the same quarter in 2003, due primarily to increases in salaries and employee benefits, audit fees and donation expenses. Salaries and employee benefits increased $247,000, or 10%, due to an increase in the number of officers, an increase of $55,000 for employee benefits including medical insurance premiums and 401K contributions and normal salary increases. Audit fees increased by $26,000 due to Sarbanes-Oxley 404 requirements and donation expense increased $24,000 for charitable gifts to several South Florida organizations.

Non-interest expenses for the six months ended June 30, 2004 increased $903,000, or 12%, from the six months ended June 30, 2003 due to an increase in salaries and employee benefits, professional fees, data processing, occupancy and donation expenses. Salaries and employee benefits increased $563,000, or 12%, due to an increase in the number of officers, an increase of $96,000 for employee benefits including medical insurance premiums and 401K contributions and normal salary increases. Professional fees increased $144,000 due to several SEC filings, including the 2004 Employee and Outside Director Stock Options Plans and an S-8, legal matters in the normal course of business and increased audit fees due to Sarbanes-Oxley 404 requirements. Data processing increased $62,000, or 12%, due to increases from our service provider for new platforms, increased number of accounts processed and regular contractual increases. Occupancy increased $37,000, or 6%, due to increased real estate taxes and repairs. Donation expense increased $31,000 due to charitable gifts to several South Florida organizations.

Company management continually reviews and evaluates the allowance for loan losses. In evaluating the adequacy of the allowance for loan losses, management considers the results of its methodology, along with other factors such as the amount of non-performing loans and the economic conditions affecting the Company's markets and customers. The allowance for loan losses was $5.15 million at June 30, 2004, as compared with $4.87 million at December 31, 2003. For the six months ended June 30, 2004, the allowance for loan losses was increased with a provision for loan losses of $140,000 and increased by approximately $137,000 in net recoveries. For the six months ended June 30, 2003, the allowance was increased with a provision for loan losses of $135,000 and decreased by approximately $91,000 in net charge-offs. The allowance as a percentage of total loans has decreased to 1.17% at June 30, 2004, from 1.18% at December 31, 2003. Based on the nature of the loan portfolio and prevailing economic factors, management believes that the current level of the allowance for loan losses is sufficient to absorb probable losses in the loan portfolio.

Approximately $288.4 million, or 66%, of total loans was secured by non-residential real estate, and $98.5 million, or 22%, of total loans was secured by residential real estate as of June 30, 2004. Virtually all loans are within the Company's markets in Miami-Dade and Broward counties.

The Company had no non-accrual loans at June 30, 2004.

LIQUIDITY AND CAPITAL RESOURCES

The objective of liquidity management is to maintain cash flow requirements to meet immediate and ongoing future needs for loan demand, deposit withdrawals, maturing liabilities, and expenses. In evaluating actual and

anticipated needs, management seeks to obtain funds at the most economical cost. Management believes that the level of liquidity is sufficient to meet future funding requirements.

For banks, liquidity represents the ability to meet both loan commitments and withdrawals of deposited funds. Funds to meet these needs can be obtained by converting liquid assets to cash or by attracting new deposits or other sources of funding. Many factors affect a bank's ability to meet liquidity needs. The Bank's principal sources of funds are deposits, repurchase agreements, payments on loans, maturities and sales of investments. As an additional source of funds, the Bank has credit availability with the Federal Home Loan Bank amounting to $127 million, and Federal Funds purchased lines available at correspondent banks amounting to $23 million as of June 30, 2004.

The Bank's primary use of funds is to originate loans and purchase investment securities. The Bank purchased $61 million of investment securities during the first six months of 2004, and loans increased by $25 million. Funding for the above came from increases in deposits of $54 million, an increase in securities sold under agreements to repurchase of $10 million and increases from proceeds of maturities of investment securities of $45 million.

In accordance with risk-based capital guidelines issued by the Federal Reserve Board, the Company and the Bank are each required to maintain a minimum ratio of total capital to risk weighted assets of 8%. Additionally, all bank holding companies and member banks must maintain "core" or "Tier 1" capital of at least 3% of total assets ("leverage ratio"). Member banks operating at or near the 3% capital level are expected to have well diversified risks, including no undue interest rate risk exposure, excellent control systems, good earnings, high asset quality, high liquidity, and well managed on- and off-balance sheet activities, and in general be considered strong banking organizations with a composite 1 rating under the CAMELS rating system of banks. For all but the most highly rated banks meeting the above conditions, the minimum leverage ratio is to be 3% plus an additional 100 to 200 basis points. The Tier 1 Capital, Tier 2 Capital, and Leverage Ratios of the Company were 12.62%, 13.97%, and 7.76%, respectively, as of June 30, 2004.

The Company's critical accounting policies are disclosed on page 16 of its 2003 Annual Report under the heading Management's Discussion and Analysis of Financial Condition and Results of Operations, which report is filed with the Annual Report on Form 10-K for the year ended December 31, 2003. On an ongoing basis, the Company evaluates its estimates and assumptions, including those related to valuation of the loan portfolio. Since the date of the 2003 Annual Report, there have been no material changes to the Company's critical accounting policies.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q may contain forward-looking statements (within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended), representing the Company's expectations and beliefs concerning future events. The actual results of the Company could differ materially from those indicated by the forward-looking statement because of various risks and uncertainties, including, without limitation, the Company's effective and timely initiation and development of new client relationships, the maintenance of existing client relationships and programs, the recruitment and retention of qualified personnel, possible or proposed products, branch offices, or strategic plans, the ability to increase sales of Company products and to increase deposits, the adequacy of cash flows from operations and available financing to fund capital needs and future growth, changes in management's estimate of the adequacy of the allowance for loan losses, changes in the overall mix of the Company's loan and

deposit products, the impact of repricing and competitors' pricing initiatives on loan and deposit products as well as other changes in competition, the extent of defaults, the extent of losses given such defaults, the amount of lost interest income that may result in the event of a severe recession, the status of the national economy and the South Florida economy in particular, the impact that changing interest rates have on the Company's net interest margin, changes in governmental rules and regulations applicable to the Company and other risks in the Company's filings with the Securities and Exchange commission. The Company cautions that its discussion of these matters is further qualified, as these risks and uncertainties are beyond the ability of the Company to control. In many cases, the Company cannot predict the risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements.

The Company undertakes no obligation to revise or update these forward-looking statements to reflect events or circumstances after the date of this filing.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ASSET/LIABILITY MANAGEMENT AND INTEREST RATE RISK

Changes in interest rates can substantially impact the Company's long-term profitability and current income. An important part of management's efforts to maintain long-term profitability is the management of interest rate risk. The goal is to maximize net interest income within acceptable levels of interest rate risk and liquidity. Interest rate exposure is managed by monitoring the relationship between interest-earning assets and interest-bearing liabilities, focusing on the size, maturity or repricing date, rate of return and degree of risk. The Asset/Liability Management Committee of the Bank oversees the interest rate risk management and reviews the Bank's asset/liability structure on a quarterly basis.

The Bank uses interest rate sensitivity or GAP analysis to monitor the amount and timing of balances exposed to changes in interest rates. The GAP analysis is not relied upon solely to determine future reactions to interest rate changes because it is presented at one point in time and could change significantly from day-to-day. Other methods such as simulation analysis are utilized in evaluating the Bank's interest rate risk position. The table presented below shows the Bank's GAP analysis at June 30, 2004.

INTEREST RATE SENSITIVITY ANALYSIS
(Dollars in Thousands)

	Term to Repricing				
	90 Days or Less	91-181 Days	182-365 Days	Over 1 Year & Non-rate Sensitive	Total
Interest-earning assets:					
Federal funds sold	$ 41,066	$ -	$ -	$ -	$ 41,066
Investment securities	5,393	11,079	7,997	279,639	304,108
Gross loans (excluding non-accrual)	81,168	48,219	_ 68,130	241,767	439,284
Total interest-earning assets	$127,627	$ 59,298	$ 76,127	$521,406	$784,458
Interest-bearing liabilities:					
Interest-bearing checking	$ -	$ -	$ -	$ 97,166	$ 97,166
Money market	-	20,675	20,675	41,351	82,701
Savings	-	-	-	33,933	33,933
Time deposits	83,272	79,424	80,210	111,116	354,022
Borrowed funds	75,591	-	-	-	75,591
Total interest-bearing liabilities	$158,863	$100,099	$100,885	$283,566	$643,413
Interest sensitivity gap	($ 31,236)	($ 40,801)	($ 24,758)	$237,840	$141,045
Cumulative gap	($ 31,236)	($ 72,037)	($ 96,795)	$141,045	
Cumulative ratio of interest-earning assets to interest-bearing liabilities	80%	72%	73%	122%	
Cumulative gap as a percentage of total interest-earning assets	(4.0%)	(9.2%)	(12.3%)	18.0%	

Management's assumptions reflect the Bank's estimate of the anticipated repricing sensitivity of non-maturity deposit products. Money market accounts have been allocated 25% to the "91-181 days" category, 25% to the "182-365 days" category, and 50% to the "over 1 year" category.

Interest checking and savings are allocated to the "over 1 year" category.

The Bank uses simulation analysis to quantify the effects of various immediate parallel shifts in interest rates on net interest income over the next 12 month period. Such a "rate shock" analysis requires key assumptions which are inherently uncertain, such as deposit sensitivity, cash flows from investments and loans, reinvestment options, management's capital plans, market conditions, and the timing, magnitude and frequency of interest rate changes. As a result, the simulation is only a best-estimate and cannot accurately predict the impact of the future interest rate changes on net income. As of March 31, 2004, the Bank's simulation analysis projects a decrease to net interest income of 6.70%, assuming an immediate parallel shift downward in interest rates by 200 basis points. If rates rise by 200 basis points, the simulation analysis projects net interest income would decrease by 1.36%. These projected levels are within the Bank's policy limits.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company has carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report in timely alerting them as to material information relating to the Company (including its consolidated subsidiary) required to be included in this Quarterly Report.

(b) Changes in Internal Control Over Financial Reporting

There have been no significant changes in the Company's internal control over financial reporting during the quarter ended June 30, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On April 15 2004, the Company held an annual meeting of the stockholders for holders of the Common Stock to vote on the following matters: (1) to elect seven persons to the Company's Board of Directors, (2) to approve the Company's 2004 Outside Directors Stock Option Plan and (3) to approve the Company's 2004 Employee Stock Option Plan.

The following table sets forth the votes for and votes withheld with respect to the election of the directors:

Director Nominee	Votes Cast For	Votes Withheld

Joseph W. Armaly	5,113,523	130,195
Jack J. Partagas	5,113,523	130,195
Cromwell A. Anderson	5,149,010	94,708
Robert Namoff	5,217,341	26,377
Sherman Simon	5,149,010	94,708
Michael W. Sontag	5,217 341	26,377
Martin Yelen	5,149,732	93,986

With respect to the approval of the Company's 2004 Outside Directors Stock Option Plan, 2,869,011 votes were cast for this matter, 797,938 votes were cast against this matter and there were 15,567 abstentions and 1,561,202 broker non-votes.

With respect to the approval of the Company's 2004 Employee Stock Option Plan, 2,987,076 votes were cast for this matter, 681,075 votes were cast against this matter and there were 14,365 abstentions and 1,561,202 broker non-votes.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

31.1 Certification of the Chief Executive Officer pursuant to Rule 15A-14(A) or 15D-14(A) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of the Chief Financial Officer pursuant to Rule 15A-14(A) or 15D-14(A) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

A Form 8-K was filed on April 14, 2004 to announce first quarter 2004 earnings for Commercial Bankshares, Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMMERCIAL BANKSHARES, INC.

By:/s/ Joseph W. Armaly

Joseph W. Armaly
Chairman of the Board and Chief Executive Officer
(Duly Authorized Officer)
August 6, 2004

By:/s/ Barbara E. Reed

Barbara E. Reed
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

August 6, 2004

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 15A-14(A) OR 15D-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph W. Armaly, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Commercial Bankshares, Inc;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) [Reserved.]

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on our evaluation; and

d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: August 6, 2004 COMMERCIAL BANKSHARES, INC.

/s/ Joseph W. Armaly

Joseph W. Armaly
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 15A-14(A) OR 15D-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Barbara E. Reed, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Commercial Bankshares, Inc;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact

necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) [Reserved.]

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on our evaluation; and

   d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: August 6, 2004

COMMERCIAL BANKSHARES, INC.

/s/ Barbara E. Reed

Barbara E. Reed
Chief Financial Officer

EXHIBIT 32.1

Certification of Chief Executive Officer Pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Commercial Bankshares, Inc. (the "Company") on Form 10-Q for the quarter ended, June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph W. Armaly, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

/s/ Joseph W. Armaly

Joseph W. Armaly
Chief Executive Officer
August 6, 2004

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

EXHIBIT 32.2

Certification of Chief Financial Officer Pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Commercial Bankshares, Inc. (the "Company") on Form 10-Q for the quarter ended, June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Barbara E. Reed, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

2) The information contained in the Report fairly presents, in all

material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

/s/ Barbara E. Reed

Barbara E. Reed
Chief Financial Officer
August 6, 2004

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.