NUVEEN NEW YORK DIVIDEND ADVANTAGE MUNICIPAL INCOME FUND
Form PRE 14A
October 12, 2012

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

# NUVEEN NEW YORK DIVIDEND ADVANTAGE MUNICIPAL INCOME FUND

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

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**IMPORTANT NOTICE TO HOLDERS OF**

**VARIABLE RATE DEMAND PREFERRED SHARES**

**OF**

**NUVEEN NEW YORK INVESTMENT QUALITY MUNICIPAL FUND, INC. (NQN)**

**NUVEEN NEW YORK SELECT QUALITY MUNICIPAL FUND, INC. (NVN)**

**NUVEEN NEW YORK QUALITY INCOME MUNICIPAL FUND, INC. (NUN)**

**AND**

**NUVEEN NEW YORK DIVIDEND ADVANTAGE MUNICIPAL INCOME FUND (NKO)**

**(EACH, A FUND AND COLLECTIVELY, THE FUNDS )**

**, 2012**

Although we recommend that you read the complete Joint Proxy Statement, for your convenience, we have provided a brief overview of the issues to be voted on.

**Q.** **Why am I receiving this Joint Proxy Statement?**

**A.** You are receiving this Joint Proxy Statement in connection with the special shareholder meetings of the Funds, at which a proposal regarding the reorganization of your Fund will be considered.

**Q.** **What actions has each Fund s Board of Trustees or Board of Directors (the Board ) approved?**

**A.** The boards of Nuveen s municipal closed-end funds have approved a series of mergers of municipal closed-end funds, including the reorganization of each of: (i) Nuveen New York Investment Quality Municipal Fund, Inc. ( Investment Quality ); (ii) Nuveen New York Select Quality Municipal Fund, Inc. ( Select Quality ); (iii) Nuveen New York Quality Income Municipal Fund, Inc. ( Quality Income ); (iv) Nuveen New York Premium Income Municipal Fund, Inc. ( Premium Income ); and (v) Nuveen New York Dividend Advantage Municipal Income Fund ( Dividend Advantage and collectively with Investment Quality, Select Quality, Quality Income and Premium Income, the Acquired Funds or, each individually, an Acquired Fund ) into Nuveen New York AMT-Free Municipal Income Fund ( AMT-Free Municipal Income or the Acquiring Fund ) (each, a Reorganization and collectively, the Reorganizations ).

**Q.** **Why has each Fund s Board recommended these proposals?**

**A.** Each Fund s Board has determined that the proposed Reorganizations would be in the best interests of its respective Fund. Each Fund s Board considered the Reorganizations as part of a broad initiative to rationalize the product offerings of Nuveen Funds and eliminate overlapping products. The Acquiring Fund and the Acquired Funds have substantially similar investment objectives and policies, comparable portfolio compositions, and are managed by the same portfolio manager. In light of these similarities, the proposed Reorganizations are intended to reduce fund redundancies and create a single, larger state fund. As a result of the larger size of the combined fund, the proposed Reorganizations are intended to result in lower operating expenses per common share (excluding costs of leverage) and to enhance the secondary trading market for common shares of the Funds, as further discussed below.

**Q.** **How will holders of Variable Rate Demand Preferred Shares ( VRDP Shares ) be impacted by the Reorganizations?**

**A.** Each of the Acquired Funds, other than Premium Income, currently has shares of Variable Rate Demand Preferred Shares ( VRDP Shares ) outstanding. The Acquiring Fund currently has one series of MuniFund Term Preferred Shares ( MTP Shares ) outstanding and Premium Income currently has one series of Variable MuniFund Term Preferred Shares ( VMTP Shares ) outstanding. Upon the closing of the Reorganizations, preferred shareholders of the Funds will receive on a one-for-one basis newly issued preferred shares of the Acquiring Fund with substantially similar terms, as of the time of exchange, as the VRDP Shares of the Fund exchanged therefor. However, there are some differences between the Acquiring Fund VRDP Shares to be issued in the Reorganizations and the Funds VRDP Shares exchanged therefor as described in the immediately following Q and A.

The Acquiring Fund s currently outstanding MTP Shares will remain outstanding following the Reorganizations. In addition to issuing four series of VRDP Shares to the Funds in the Reorganizations, the Acquiring Fund also will issue a new series of VMTP Shares to holders of VMTP Shares of Premium Income. As a result, preferred shareholders of the Funds will become shareholders of a combined fund with six series and three different types (i.e., MTP Shares, VMTP Shares and VRDP Shares) of preferred shares outstanding. Although all preferred shares will rank on a parity to each other as to the payment of dividends and as to distributions upon liquidation, the different series may be subject to differing provisions regarding redemptions, dividend payments, rating requirements and other matters as discussed in more detail in the Proxy Statement.

Because of the large number of MTP Shares outstanding relative to the number of VRDP Shares being issued in the Reorganizations, holders of VRDP Shares will hold substantially less voting power in the Acquiring Fund with respect to matters that are voted on by all preferred shares as a single class or by common and preferred shareholders voting together than they hold in the Acquired Funds individually.

**Q.** **Will the terms of the VRDP Shares to be received in the Reorganizations be substantially similar to the terms of the VRDP Shares of each Acquired Fund currently outstanding?**

**A.** Upon the closing of the Reorganizations, holders of VRDP Shares of a Fund will receive, in exchange for each VRDP Share held immediately prior to the Reorganizations, one VRDP Share of a new series of the Acquiring Fund having substantially similar terms, as of the time of the closing of the Reorganizations, to the Fund s VRDP Shares exchanged therefor, including:

- the same short-term and long-term credit rating from one or more rating agencies;
- the same liquidation preference and final mandatory redemption date;
- the same terms with respect to the payment of an adjustable dividend rate set weekly by a remarketing agent;
- the same right to give notice on any business day to tender the securities for remarketing in seven days;

the same terms with respect to the mandatory tender for remarketing upon the occurrence of certain events; and

continuing to have the benefit of an unconditional demand feature pursuant to a purchase agreement provided by the same bank acting as liquidity provider immediately prior to the closing of the Reorganizations with respect to each outstanding series of VRDP Shares.

In addition, the Agreement and Plan of Reorganization provides that each series of Acquiring Fund VRDP Shares to be issued in the Reorganizations will be rated no less than the then current rating assigned to the VRDP Shares being exchanged therefor.

However, there are some differences between the VRDP Shares to be issued in the Reorganizations and the Funds VRDP Shares exchanged therefor including changes to (i) resolve certain inconsistencies and ambiguities created by having multiple series of VRDP Shares and other preferred shares concurrently outstanding, (ii) provide increased flexibility and clarification regarding rating agency requirements, consistent with VRDP offerings of the Nuveen Funds since December 2010, (iii) increase flexibility to replace a liquidity provider, (iv) provide flexibility for different or modified terms in connection with a special rate period, and (v) conform asset coverage compliance dates and cure dates to the corresponding provisions of MTP Shares and VMTP Shares. A vote by a holder of a Fund s VRDP Shares for the applicable Reorganization is effectively a vote in favor of the foregoing changes.

**Q. Do the Acquiring Fund and Acquired Funds have similar investment objectives and policies?**

**A.** Yes. The Acquiring Fund and Acquired Funds have substantially similar investment objectives, policies and risks and are managed by the same portfolio manager. The Acquiring Fund and Acquired Funds invest primarily in municipal securities and other related investments the income from which is exempt from regular federal, New York State and New York City income taxes and, with respect to the Acquiring Fund, from the federal alternative minimum tax applicable to individuals ( AMT ). The Acquiring Fund and each Acquired Fund emphasize investments in investment-grade municipal securities. The Acquiring Fund and each Acquired Fund are closed-end management investment companies, and currently engages in leverage through the issuance of preferred shares and the use of inverse floating rate securities.

**Q. What specific proposals will I be asked to vote on in connection with a proposed Reorganization?**

**A.** Generally, shareholders of each Acquired Fund will be asked to vote on an Agreement and Plan of Reorganization with common shareholders and preferred shareholders voting as a single class and preferred shareholders voting separately.

**Q. Will holders of VRDP Shares of the Funds receive new shares in exchange for their current shares?**

**A.** Yes. Upon the closing of the Reorganizations, each Acquired Fund will transfer substantially all of its assets to the Acquiring Fund in exchange for common and preferred shares of the Acquiring Fund, and the assumption by the Acquiring Fund of substantially all of the liabilities of such Acquired Fund. Each Acquired Fund will then be liquidated, dissolved and terminated in accordance with applicable law.

Acquired Fund shareholders will become shareholders of the Acquiring Fund. Holders of VRDP Shares of each Fund will receive on a one-for-one basis newly issued VRDP Shares of the Acquiring Fund having substantially similar terms to those preferred shares of the Fund held immediately prior to the closing of the Reorganization.

Current shareholders of the Acquiring Fund will remain shareholders of the Acquiring Fund.

**Q. Do the Reorganizations constitute a taxable event for holders of VRDP Shares of the Funds?**

**A.** No. Each Reorganization is intended to qualify as a tax-free reorganization for federal income tax purposes. It is expected that you will recognize no gain or loss for federal income tax purposes as a direct result of a Reorganization, except that gain or loss may be recognized by preferred shareholders of Investment Quality, Select Quality and Quality Income who exercise dissenters rights of appraisal under Minnesota law. To the extent that portfolio securities are sold in connection with the Reorganizations, an Acquired Fund may realize capital gains or losses. Gains from such sales will be taxable to Acquired Fund preferred shareholders to the extent such amounts are required to be allocated to distributions received by Acquired Fund preferred shareholders. While each Acquired Fund is expected to dispose of certain securities subject to the AMT prior to the closing of the Reorganizations, it is not currently expected that any significant portfolio sales will occur solely in connection with the Reorganizations (less than 5% of the assets of each Acquired Fund).

**Q. What will happen if all the required shareholder approvals in connection with the Reorganizations are not obtained?**

**A.** The closing of each Reorganization is contingent upon the closing of all the Reorganizations. Because the closing of each Reorganization is contingent on each Acquired Fund and the Acquiring Fund obtaining the requisite shareholder approvals and satisfying other closing conditions, it is possible that your Fund s Reorganization will not occur, even if shareholders of your Fund approve the Reorganization and your Fund satisfies all of its closing conditions, if the Acquiring Fund or one or more of the other Acquired Funds do not obtain the requisite shareholder approvals or satisfy their closing conditions. If all the shareholder approvals are not obtained, each Fund s Board may take such actions as it deems in the best interests of its Fund, including conducting additional solicitations with respect to the proposals or continuing to operate the Fund as a stand-alone fund.

**Q. Will I have to pay any direct fees or expenses in connection with the Reorganizations?**

**A.** The costs of the Reorganizations (whether or not consummated) will be allocated among the Acquiring Fund and the Acquired Funds ratably based on the relative expected benefits of the Reorganizations comprised of forecasted cost savings and distribution increases, if any, to the Acquiring Fund and each Acquired Fund during the first year following the Reorganizations. Common shareholders will indirectly bear the costs of the Reorganizations. The costs of the Reorganizations are estimated to be $210,000 for the Acquiring Fund, $300,000 for Investment Quality, $200,000 for Select Quality, $45,000 for Quality Income, $95,000 for Premium Income and $180,000 for Dividend Advantage. Preferred shareholders are not expected to bear any costs of the Reorganizations. The Reorganizations are expected to result in cost savings (excluding the costs of leverage) over time for the common shareholders of the Acquiring Fund and each Acquired Fund (as common shareholders of the Acquiring Fund following the Reorganizations).

**Q.** **What is the timetable for the Reorganizations?**

**A.** If the shareholder voting and other conditions to closing are satisfied (or waived), the Reorganizations are expected to take effect on or about February 11, 2013 or as soon as practicable thereafter.

**Q.** **How does the Board recommend that I vote on the Reorganizations?**

**A.** After careful consideration, each Board has determined that the Reorganizations are in the best interests of its respective Fund and recommends that you vote FOR your Fund s proposal(s).

***General***

**Q.** **Who do I call if I have questions?**

**A.** If you need any assistance, or have any questions regarding the proposal or how to vote your shares, please call Computershare Fund Services, your proxy solicitor, at (888) 916-1753 weekdays during its business hours of 9:00 a.m. to 11:00 p.m. and Saturdays 12:00 p.m. to 6:00 p.m. Eastern time. Please have your proxy materials available when you call.

**Q.** **How do I vote my shares?**

**A.** You may vote by mail, by telephone or over the Internet:

*To vote by mail*, please mark, sign, date and mail the enclosed proxy card. No postage is required if mailed in the United States.

*To vote by telephone*, please call the toll-free number located on your proxy card and follow the recorded instructions, using your proxy card as a guide.

*To vote over the Internet*, go to the Internet address provided on your proxy card and follow the instructions, using your proxy card as a guide.

**Q.** **Will anyone contact me?**

**A.** You may receive a call from Computershare Fund Services, the proxy solicitor hired by your Fund, to verify that you received your proxy materials, to answer any questions you may have about the proposals and to encourage you to vote your proxy.

We recognize the inconvenience of the proxy solicitation process and would not impose on you if we did not believe that the matters being proposed were important. Once your vote has been registered with the proxy solicitor, your name will be removed from the solicitor s follow-up contact list.

**Your vote is very important. We encourage you as a shareholder to participate in your Fund s governance by returning your vote as soon as possible. If enough shareholders fail to cast their votes, your Fund may not be able to hold its meeting or the vote on each issue, and will be required to incur additional solicitation costs in order to obtain sufficient shareholder participation.**

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**, 2012**

**NUVEEN NEW YORK INVESTMENT QUALITY MUNICIPAL FUND, INC. (NQN)**

**NUVEEN NEW YORK SELECT QUALITY MUNICIPAL FUND, INC. (NVN)**

**NUVEEN NEW YORK QUALITY INCOME MUNICIPAL FUND, INC. (NUN)**

**AND**

**NUVEEN NEW YORK DIVIDEND ADVANTAGE MUNICIPAL INCOME FUND (NKO)**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON NOVEMBER 27, 2012**

**To Holders of Variable Rate Demand Preferred Shares:**

Notice is hereby given that a Special Meeting of Shareholders (the Special Meeting ) of Nuveen New York Investment Quality Municipal Fund, Inc. ( Investment Quality ), Nuveen New York Select Quality Municipal Fund, Inc. ( Select Quality ), Nuveen New York Quality Income Municipal Fund, Inc. ( Quality Income ) and Nuveen New York Dividend Advantage Municipal Income Fund ( Dividend Advantage and collectively with Investment Quality, Select Quality and Quality Income, the Funds and each, a Fund ), will be held in the offices of Nuveen Investments, Inc. ( Nuveen or Nuveen Investments ), 333 West Wacker Drive, Chicago, Illinois 60606, on Tuesday, November 27, 2012, at 2:00 p.m., Central time, for the following purposes:

1. Agreement and Plan of Reorganization. For the shareholders of each Fund, the common and preferred shareholders voting as a single class and the preferred shareholders voting separately, to approve the Agreement and Plan of Reorganization pursuant to which each Fund would: (i) transfer substantially all of its assets to Nuveen New York AMT-Free Municipal Income Fund (the Acquiring Fund ) in exchange solely for common shares and preferred shares of the Acquiring Fund, and the Acquiring Fund s assumption of substantially all of the liabilities of the Fund; (ii) distribute such shares of the Acquiring Fund to the common shareholders and preferred shareholders of the Fund (with cash being issued in lieu of fractional common shares); and (iii) liquidate, dissolve and terminate in accordance with applicable law.

2. With respect to each Fund, to transact such other business as may properly come before the Special Meeting.

Together with this notice, each Fund is delivering to holders of its preferred shares a Joint Proxy Statement and to holders of its common shares a separate proxy statement/prospectus with respect to the matters outlined above. Only shareholders of record as of the close of business on September 28, 2012 are entitled to notice of and to vote at the Special Meeting and any adjournments or postponements thereof.

As described in the accompanying Joint Proxy Statement under the caption Proposal No. 1 Information about the Reorganizations Dissenting Shareholders Rights of Appraisal, preferred shareholders of Investment Quality, Select Quality and Quality Income who object to the proposed reorganization of their Fund are entitled to demand payment of the fair value of their preferred shares under procedures set forth in the Minnesota Business Corporation Act. The relevant sections of that Act are reproduced in Appendix B to this Joint Proxy Statement.

**All shareholders are cordially invited to attend the Special Meeting. In order to avoid delay and additional expense for the Funds, and to assure that your shares are represented, please vote as promptly as possible, whether or not you plan to attend the Special Meeting. You may vote by mail, by telephone or over the Internet.**

*To vote by mail*, please mark, sign, date and mail the enclosed proxy card. No postage is required if mailed in the United States.

*To vote by telephone*, please call the toll-free number located on your proxy card and follow the recorded instructions, using your proxy card as a guide.

*To vote over the Internet*, go to the Internet address provided on your proxy card and follow the instructions, using your proxy card as a guide.

Kevin J. McCarthy

*Vice President and Secretary*

The Nuveen Funds

**NUVEEN FUNDS**

**333 WEST WACKER DRIVE**

**CHICAGO, ILLINOIS 60606**

**(800) 257-8787**

**JOINT PROXY STATEMENT**

**FOR**

**HOLDERS OF VARIABLE RATE DEMAND PREFERRED SHARES**

**OF**

**NUVEEN NEW YORK INVESTMENT QUALITY MUNICIPAL FUND, INC. (NQN)**

**NUVEEN NEW YORK SELECT QUALITY MUNICIPAL FUND, INC. (NVN)**

**NUVEEN NEW YORK QUALITY INCOME MUNICIPAL FUND, INC. (NUN)**

**AND**

**NUVEEN NEW YORK DIVIDEND ADVANTAGE MUNICIPAL INCOME FUND (NKO)**

**(EACH, A FUND AND COLLECTIVELY, THE FUNDS )**

**, 2012**

This Joint Proxy Statement is being furnished to the holders of Variable Rate Demand Preferred Shares ( VRDP Shares ) of Nuveen New York Investment Quality Municipal Fund, Inc. ( Investment Quality ), Nuveen New York Select Quality Municipal Fund, Inc. ( Select Quality ), Nuveen New York Quality Income Municipal Fund, Inc. ( Quality Income ) and Nuveen New York Dividend Advantage Municipal Income Fund ( Dividend Advantage ), each a closed-end management investment company, in connection with the solicitation of proxies by each Fund s Board of Trustees or Board of Directors (each, a Board and each Trustee or Director, a Board Member ) for use at a Special Meeting of Shareholders of each Fund to be held in the offices of Nuveen Investments, Inc. ( Nuveen or Nuveen Investments ), 333 West Wacker Drive, Chicago, Illinois 60606, on Tuesday, November 27, 2012, at 2:00 p.m., Central time, and at any and all adjournments or postponements thereof (each, a Special Meeting and collectively, the Special Meetings ) to consider the proposal listed below and discussed in greater detail elsewhere in this Joint Proxy Statement. Investment Quality, Select Quality and Quality Income are each organized as a Minnesota corporation. Dividend Advantage is organized as a Massachusetts business trust. The enclosed proxy and this Joint Proxy Statement are first being sent to holders of VRDP Shares of the Funds on or about . Shareholders of record of the Funds as of the close of business on September 28, 2012 are entitled to notice of, and to vote at, the Special Meeting and any and all adjournments or postponements thereof.

This Joint Proxy Statement explains concisely what you should know before voting on the proposals described in this Joint Proxy Statement or investing in the Acquiring Fund (as defined in the attached notice). Please read it carefully and keep it for future reference.

On the matters coming before each Special Meeting as to which a choice has been specified by shareholders on the accompanying proxy card, the shares will be voted accordingly where such proxy card is properly executed, timely received and not properly revoked (pursuant to the instructions below). If a proxy is returned and no choice is specified, the shares will be voted FOR the proposals. Shareholders of a Fund who execute proxies may revoke them at any time before they are voted by filing with that Fund a written notice of revocation, by delivering a duly executed proxy bearing a later date, or by attending the Special Meeting and voting in person. Merely attending the Special Meeting, however, will not revoke any previously submitted proxy.

The Board of each Fund has determined that the use of this Joint Proxy Statement for the Special Meetings is in the best interests of each Fund and its holders of VRDP Shares in light of the similar matters being considered and voted on by holders of VRDP Shares.

The proposal of each Fund for which the votes of the holders of the Fund s VRDP Shares are being solicited pursuant to this Joint Proxy Statement are set forth below.

| | Matter | Preferred Shares |
|---|---|---|
| **For Shareholders of Investment Quality,** | | |
| 1(a) | the common and preferred shareholders voting as a single class, to approve the Agreement and Plan of Reorganization, | X* |
| 1(b) | the preferred shareholders voting separately as a single class, to approve the Agreement and Plan of Reorganization. | X |
| **For Shareholders of Select Quality,** | | |
| 1(a) | the common and preferred shareholders voting as a single class, to approve the Agreement and Plan of Reorganization, | X* |
| 1(b) | the preferred shareholders voting separately as a single class, to approve the Agreement and Plan of Reorganization. | X |
| **For Shareholders of Quality Income,** | | |
| 1(a) | the common and preferred shareholders voting as a single class, to approve the Agreement and Plan of Reorganization, | X* |
| 1(b) | the preferred shareholders voting separately as a single class, to approve the Agreement and Plan of Reorganization. | X |
| **For Shareholders of Dividend Advantage,** | | |
| 1(a) | the common and preferred shareholders voting as a single class, to approve the Agreement and Plan of Reorganization, | X* |
| 1(b) | the preferred shareholders voting separately as a single class, to approve the Agreement and Plan of Reorganization. | X |

* Each Fund is separately soliciting the votes of its respective common shareholders on each of the foregoing proposals that require common shareholders to vote together with preferred shareholders as a single class through a separate proxy statement/prospectus and not through this Joint Proxy Statement.

References herein to your Fund, a Fund, the Fund or the Funds refer to each of or collectively, as applicable, Investment Quality, Select Quality Quality Income and Dividend Advantage. Acquired Fund or Acquired Funds is intended to refer to each of or collectively, as applicable, the Funds and Nuveen New York Premium Income Municipal Fund, Inc. ( Premium Income ). The Acquiring Fund is Nuveen New York AMT-Free Municipal Income Fund. Unless the context indicates otherwise, references to a fund, the fund or the funds mean each of or collectively, as applicable, the Acquiring Fund and the Acquired Funds. Premium Income is separately soliciting the votes of its holders of Variable MuniFund Term Preferred shares ( VMTP Shares ) through a separate proxy statement.

A quorum of shareholders is required to take action at each Special Meeting. A majority of the shares entitled to vote at each Special Meeting, represented in person or by proxy, will constitute a quorum of shareholders at that Special Meeting. Votes cast by proxy or in person at each Special Meeting will be tabulated by the inspectors of election appointed for that Special Meeting. The inspectors of election will determine whether or not a quorum is present at the Special Meeting. The inspectors of election will treat abstentions and broker non-votes (i.e., shares held by brokers or nominees, typically in street name, as to which (i) instructions have not been received from the beneficial owners or persons entitled to vote and (ii) the broker or nominee does not have discretionary voting power on a particular matter) as present for purposes of determining a quorum.

Those persons who were shareholders of record at the close of business on September 28, 2012 will be entitled to one vote for each share held and, with respect to holders of common shares, a proportionate fractional vote for each fractional common share held.

As of September 30, 2012, the shares of the Acquiring Fund and each Acquired Fund issued and outstanding were as follows:

| Fund & Ticker Symbol | Common Shares(1) | Preferred Shares Series | Preferred Shares Shares Outstanding | Exchange(2) |
|---|---|---|---|---|
| Acquiring Fund, NRK | 3,506,560 | MTP | 2,768,000 | NYSE MKT |
| Investment Quality, NQN | 17,542,953 | VRDP | 1,123 | |
| Select Quality, NVN | 23,230,215 | VRDP | 1,648 | |
| Quality Income, NUN | 23,782,336 | VRDP | 1,617 | |
| Premium Income, NNF | 8,254,571 | VMTP | 507 | |
| Dividend Advantage, NKO | 7,937,131 | VRDP | 500 | |

(1) The common shares of Investment Quality, Premium Income, Quality Income and Select Quality are listed on the New York Stock Exchange ( NYSE ). The common shares of Dividend Advantage and the Acquiring Fund are listed on NYSE MKT (formerly NYSE Amex). Upon the closing of the reorganizations, it is expected that the common shares of the Acquiring Fund will be listed on the NYSE MKT.

(2) MTP Shares of the Acquiring Fund are listed on NYSE MKT under the ticker symbol NRK PrC. VMTP Shares and VRDP Shares are not listed on any exchange.

The proposed reorganizations seek to combine six funds that have substantially similar (but not identical) investment objectives, policies and risks to achieve certain economies of scale and other operational efficiencies for the funds. The Agreement and Plan of Reorganization by and among each Acquired Fund and the Acquiring Fund (the Agreement ) provides for: (i) the Acquiring Fund s acquisition of substantially all of the assets of each Acquired Fund in exchange for newly issued common shares of the Acquiring Fund, par value $0.01 per share, and, newly issued VMTP Shares or VRDP Shares of the Acquiring Fund, as applicable, each with a par value of $0.01 per share and a liquidation preference of $100,000 per share, and the Acquiring Fund s assumption of substantially all of the liabilities of each Acquired Fund; and (ii) the distribution of the Acquiring Fund common shares and Acquiring Fund preferred shares received by each Acquired Fund to its common and preferred shareholders, respectively, as part of the liquidation, dissolution and termination of each Acquired Fund in accordance with applicable law (each, a Reorganization and collectively, the Reorganizations ). Preferred shareholders of each Fund will receive the same number of Acquiring Fund VRDP Shares, having substantially similar terms as the outstanding preferred shares of the Fund held by such preferred shareholders immediately prior to the closing of the Reorganizations. Each new series of the Acquiring Fund VRDP Shares will have the same variable dividend rate terms, mandatory tender terms, liquidity provider purchase obligation and liquidation preference as the VRDP Shares for which it will be exchanged. The optional tender for remarketing right of each new series of VRDP Shares of the Acquiring Fund will be the same as the rights of the corresponding VRDP Shares of a Fund as of the closing of the related Reorganization. However, there are certain differences between the VRDP Shares of the Acquiring Fund being issued in the Reorganizations and the VRDP Shares of a Fund exchanged therefor. The changes are described in detail in the Joint Proxy Statement. A vote by a holder of VRDP Shares for the applicable Reorganization is effectively a vote in favor of those changes. The aggregate liquidation preference of the preferred shares issued by the Acquiring Fund in the Reorganizations will equal the aggregate liquidation preference of the corresponding Acquired Fund preferred shares held immediately prior to the Reorganizations.

All preferred shares of the Acquiring Fund, including the preferred shares to be issued in connection with the Reorganizations and the Acquiring Fund s existing outstanding preferred shares will rank on a parity to each other as to the payment of dividends and as to the distribution of assets in the event of the Acquiring Fund s liquidation. In addition, the preferred shares of the Acquiring Fund, including preferred shares of the Acquiring Fund to be issued in connection with the Reorganizations, will be senior in priority to the Acquiring Fund s common shares as to the payment of dividends and as to the distribution of assets in the event of the Acquiring Fund s liquidation. The Acquiring Fund will continue to operate after the Reorganizations as a registered closed-end management investment company with the investment objectives and policies described in this Joint Proxy Statement.

With respect to each Reorganization, the Reorganization is required to be approved by the affirmative vote of the holders of a majority of the outstanding shares of each Acquired Fund s common shares and preferred shares and by the affirmative vote of a majority of each Acquired Fund s outstanding preferred shares, voting separately as a single class. Similarly, each Reorganization must be approved by the affirmative vote of a majority of the Acquiring Fund s outstanding preferred shares, voting separately as a single class. In addition, Acquiring Fund shareholders must approve the issuance of additional Acquiring Fund common shares.

The closing of each Reorganization is contingent on the closing of all the Reorganizations. In order for the Reorganizations to occur, the Acquiring Fund and each Acquired Fund must obtain the requisite shareholder approvals as well as certain consents, confirmations and/or waivers from various third parties, including liquidity providers and rating agencies with respect to preferred shares. Because the closing of the Reorganizations is contingent on all of the Acquired Funds and the Acquiring Fund obtaining the requisite shareholder approvals and satisfying (or obtaining the waiver of) other closing conditions, it is possible that your Fund s Reorganization will not occur, even if shareholders of your Fund approve the Reorganization and your Fund satisfies all of its closing conditions. The VRDP Shares and VMTP Shares were issued on a private placement basis to one or a small number of institutional holders. To the extent that one or more preferred shareholders of an Acquired Fund own, hold or control, individually or in the aggregate, all or a significant portion of an Acquired Fund s outstanding preferred shares, one or more shareholder approvals required for a Reorganization may turn on the exercise of voting rights by such particular shareholder(s) and its or their determination as to the favorable view of such proposal with respect or its or their interests. The Acquired Funds exercise no influence or control over the determinations of such shareholders with respect to the proposal; there is no guarantee that such shareholder(s) will approve the proposals over which they may exercise effective disposition power. If the requisite shareholder approvals are not obtained, each fund s Board may take such actions as it deems in the best interest of such fund, including conducting additional solicitations with respect to the proposals or continuing to operate the fund as a stand-alone fund.

This Joint Proxy Statement concisely sets forth the information shareholders of the Funds should know before voting on the proposals. Shareholders should read it carefully and retain it for future reference.

The following documents have been filed with the SEC and are incorporated into this Joint Proxy Statement by reference:

(i) the audited financial statements and related independent registered public accounting firm s report for the Acquiring Fund contained in the Acquiring Fund s Annual Report for the fiscal year ended September 30, 2011;

(ii) the audited financial statements and related independent registered public accounting firm s report for each Fund contained in the Fund s Annual Report for the fiscal year ended September 30, 2011;

(iii) the unaudited financial statements for the Acquiring Fund contained in the Acquiring Fund s Semi-Annual Report for the fiscal period ended March 31, 2012; and

(iv) the unaudited financial statements for each Fund contained in the Fund s Semi-Annual Report for the fiscal period ended March 31, 2012.

No other parts of the Acquiring Fund s and the Funds Annual or Semi-Annual Reports are incorporated by reference herein.

Copies of the foregoing may be obtained without charge by calling (800) 257-8787 or writing the Funds at 333 West Wacker Drive, Chicago, Illinois 60606. In addition, the Acquiring Fund will furnish, without charge, a copy of its most recent Annual Report or Semi-Annual Report to a shareholder upon request. Any such request should be directed to the Acquiring Fund by calling (800) 257-8787 or by writing the Acquiring Fund at 333 West Wacker Drive, Chicago, Illinois 60606.

The funds are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the 1934 Act ), and the Investment Company Act of 1940, as amended (the 1940 Act ), and in accordance therewith file reports and other information with the SEC. Reports, proxy statements, registration statements and other information filed by the funds may be inspected without charge and copied (for a duplication fee at prescribed rates) at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549 or at the SEC s New York Regional Office (3 World Financial Center, Suite 400, New York, New York 10281) or Chicago Regional Office (175 W. Jackson Boulevard, Suite 900, Chicago, Illinois 60604). You may call the SEC at (202) 551-8090 for information about the operation of the public reference room. You may obtain copies of this information, with payment of a duplication fee, by electronic request at the following e-mail address: publicinfo@sec.gov, or by writing the SEC s Public Reference Branch, Office of Consumer Affairs and Information Services, Securities and Exchange Commission, Washington, D.C. 20549. You may also access reports and other information about the funds on the EDGAR database on the SEC s Internet site at http://www.sec.gov.

The common shares of the Acquiring Fund and Dividend Advantage are listed on the NYSE MKT, and the common shares of the other Acquired Funds are listed on the NYSE. The VRDP Shares of each Fund are not listed on any exchange. Reports, proxy statements and other information concerning the funds can be inspected at the offices of the NYSE and NYSE MKT, 11 Wall Street, New York, New York 10005.

The issuance of the VRDP Shares in connection with the Reorganizations has not been registered under the Securities Act of 1933, as amended (the Securities Act ), any state securities laws, and unless so registered, may not be offered, sold, assigned, transferred, pledged, encumbered or otherwise disposed of except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the VRDP Shares to be issued in the Reorganizations are being offered and sold only to holders of VRDP Shares of the Funds that are qualified institutional buyers (as defined in Rule 144A under the Securities Act) in accordance with the exemption from the registration requirements of the Securities Act provided by Section 4(a)(2) of the Securities Act and are subject to restrictions on transfer. See the Confidential Information Memorandum (the Memorandum ) attached as Appendix C to this Joint Proxy Statement.

**JOINT PROXY STATEMENT**

**, 2012**

**NUVEEN NEW YORK INVESTMENT QUALITY MUNICIPAL FUND, INC. (NQN)**

**NUVEEN NEW YORK SELECT QUALITY MUNICIPAL FUND, INC. (NVN)**

**NUVEEN NEW YORK QUALITY INCOME MUNICIPAL FUND, INC. (NUN)**

**AND**

**NUVEEN NEW YORK DIVIDEND ADVANTAGE MUNICIPAL INCOME FUND (NKO)**

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## PROPOSAL NO. 1 REORGANIZATION OF EACH FUND INTO THE ACQUIRING FUND

### A. SYNOPSIS

The following is a summary of certain information contained elsewhere in this Joint Proxy Statement with respect to the proposed Reorganizations and is qualified in its entirety by reference to the more complete information contained in this Joint Proxy Statement and the appendices thereto. Shareholders should read the entire Joint Proxy Statement carefully. Certain capitalized terms used but not defined in this summary are defined elsewhere in this Joint Proxy Statement.

**Background and Reasons for the Reorganizations**

The Boards of Nuveen s municipal closed-end funds have approved a series of mergers of municipal closed-end funds, including the reorganization of each of the Acquired Funds into the Acquiring Fund. Each Board has determined that the Reorganization proposed for the Acquiring Fund and each Acquired Fund would be in the best interests of such fund. The Acquiring Fund and the Acquired Funds have substantially similar investment objectives and policies, and comparable portfolio compositions. The proposed Reorganizations are intended to enhance the secondary trading market for common shares of the combined fund and to result in lower operating expenses (excluding the costs of leverage) as a result of the larger size of the combined fund. The closing of each Reorganization is contingent upon the closing of all the Reorganizations. In order for the Reorganizations to occur, the Acquiring Fund and each Acquired Fund must obtain all requisite shareholder approvals as well as certain consents, confirmations and/or waivers from various third parties, including liquidity providers and rating agencies with respect to preferred shares. Because the closing of the Reorganizations is contingent on all of the Acquired Funds and the Acquiring Fund satisfying (or obtaining the waiver of) their respective closing conditions, it is possible that your Fund s Reorganization will not occur, even if shareholders of your Fund approve the Reorganization and your Fund satisfies all of its closing conditions. If the requisite shareholder approvals are not obtained, each fund s Board may take such actions as it deems in the best interest of such fund including conducting additional solicitations with respect to the proposals or continuing to operate the fund as a stand-alone fund. For a fuller discussion of the Boards considerations regarding the approval of the Reorganizations, see Proposal No. 1 Information About the Reorganizations Reasons for the Reorganizations.

**Material Federal Income Tax Consequences of the Reorganizations**

As a condition to closing, the funds will receive an opinion of Vedder Price P.C., subject to certain representations, assumptions and conditions, substantially to the effect that each proposed Reorganization will qualify as a tax-free reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended (the Code ). In addition, Sidley Austin LLP, as special tax counsel to the Acquiring Fund, will deliver an opinion to the Acquiring Fund, subject to certain representations, assumptions and conditions, to the effect that the VRDP Shares received in the Reorganizations by holders of VRDP Shares of the Acquired Funds will qualify as equity in the Acquiring Fund for federal income tax purposes. Accordingly, it is expected that no Acquired Fund will recognize gain or loss for federal income tax purposes as a direct result of the Reorganizations. It is also expected that preferred shareholders of each Fund who receive VRDP Shares pursuant to a Reorganization will recognize no gain or loss for federal income tax purposes. However, gain or loss may be recognized by a shareholder who exercises dissenter s rights of appraisal under Minnesota law. To the extent that an Acquired Fund s portfolio securities are sold in connection with a Reorganization, such Acquired Fund may realize gains or losses. Gains from such sales will be taxable to holders of VRDP Shares of the

Fund to the extent such amounts are required to be allocated to distributions received by holders of VRDP Shares of the Fund. It is not currently expected that any significant portfolio sales will occur solely in connection with the Reorganizations (less than 5% of the assets of each Acquired Fund).

**Comparison of the Acquiring Fund and the Acquired Funds**

*General.* Set forth below is certain comparative information about the organization, capitalization and operation of the Acquiring Fund and each Acquired Fund.

**ORGANIZATION**

| Fund | Organization Date | State of Organization | Entity Type |
|---|---|---|---|
| Acquiring Fund | July 29, 2002 | Massachusetts | business trust |
| Investment Quality | September 19, 1990 | Minnesota | corporation |
| Select Quality | April 2, 1991 | Minnesota | corporation |
| Quality Income | July 25, 1991 | Minnesota | corporation |
| Premium Income | March 30, 1992 | Minnesota | corporation |
| Dividend Advantage | July 12, 1999 | Massachusetts | business trust |

**CAPITALIZATION COMMON SHARES**

| Fund | Authorized Shares | Shares Outstanding(1) | Par Value Per Share | Exchange on which Common Shares are Listed* |
|---|---|---|---|---|
| Acquiring Fund | Unlimited | 3,506,560 | $ 0.01 | NYSE MKT |
| Investment Quality | 200,000,000 | 17,542,953 | $ 0.01 | NYSE |
| Select Quality | 200,000,000 | 23,230,215 | $ 0.01 | NYSE |
| Quality Income | 200,000,000 | 23,782,336 | $ 0.01 | NYSE |
| Premium Income | 200,000,000 | 8,254,571 | $ 0.01 | NYSE |
| Dividend Advantage | Unlimited | 7,937,131 | $ 0.01 | NYSE MKT |

**CAPITALIZATION PREFERRED SHARES**

| Fund | Authorized Preferred Shares | Type of Preferred | Shares Outstanding(1) | Par Value Per Share | Liquidation Preference Per Share | Final Mandatory Redemption Date | Exchange on which Preferred Shares are Listed |
|---|---|---|---|---|---|---|---|
| Acquiring Fund | Unlimited | MTP | 2,768,000 | $ 0.01 | $ 10.00 | May 1, 2015 | NYSE MKT |
| Investment Quality | 1,000,000 | VRDP | 1,123 | $ 0.01 | $ 100,000 | August 1, 2040 | None |
| Select Quality | 1,000,000 | VRDP | 1,648 | $ 0.01 | $ 100,000 | August 1, 2040 | None |
| Quality Income | 1,000,000 | VRDP | 1,617 | $ 0.01 | $ 100,000 | December 1, 2040 | None |
| Premium Income | 1,000,000 | VMTP | 507 | $ 0.01 | $ 100,000 | October 1, 2014 | None |
| Dividend Advantage | Unlimited | VRDP | 500 | $ 0.01 | $ 100,000 | June 1, 2040 | None |

* Upon the closing of the Reorganizations, it is expected that the common shares of the Acquiring Fund will be listed on the NYSE MKT.

(1) As of September 30, 2012.

Preferred shares of the Acquiring Fund, including preferred shares to be issued in connection with the Reorganizations and outstanding Acquired Fund preferred shares will rank on parity with each other, as to the payment of dividends and the distribution of assets in the event of the Acquiring Fund s liquidation. In addition, preferred shares of the Acquiring Fund will have priority in all respects to the Acquiring Fund s common shares as to the payment of dividends and the distribution of assets upon liquidation.

*Investment Objectives and Policies.* The Acquired Funds have substantially similar investment objectives and policies. The investment objectives of each Acquired Fund are to provide current income exempt from regular federal, New York State and New York City income taxes and to enhance portfolio value relative to the municipal bond market by investing in tax-exempt municipal bonds that the Fund s investment adviser, Nuveen Fund Advisors, Inc. ( Nuveen Fund Advisors or the Adviser ), believes are underrated or undervalued or that represent municipal market sectors that are undervalued. The Acquiring Fund s investment objectives are the same as those of each Acquired Fund, except that in addition to seeking to provide current income exempt from regular federal income tax and New York State and New York City income tax, the Acquiring Fund seeks to provide current income exempt from the federal alternative minimum tax applicable to individuals (the AMT ).

Under normal circumstances, each fund invests at least 80% of its net assets, including assets attributable to any principal amount of any borrowings (including the issuance of commercial paper or notes) or any preferred shares outstanding ( Managed Assets ), in municipal securities and other related investments the income from which is exempt from regular federal, New York State and New York City income taxes, and, with respect to the Acquiring Fund only, from the AMT.

Under normal circumstances, each fund invests at least 80% of its Managed Assets in investment grade securities that, at the time of investment, are rated within the four highest grades (Baa or BBB or better) by at least one nationally recognized statistical rating organization ( NRSRO ) or are unrated but judged to be of comparable quality by the Adviser. Each fund may invest up to 20% of its Managed Assets in municipal securities that at the time of investment are rated below investment grade or are unrated but judged to be of comparable quality by the Adviser. Each fund may invest no more than 10% of its Managed Assets in municipal securities rated below B3/B- or that are unrated but judged to be of comparable quality by the Adviser. If a municipal security satisfies the ratings requirements described above at the time of purchase, a fund will not be required to dispose of the security upon a downgrade.

Each fund may enter into certain derivative instruments in pursuit of its investment objectives. Such instruments include financial futures contracts, swap contracts (including credit default swaps and interest rate swaps), options on financial futures, options on swap contracts, or other derivative instruments. Each fund may not enter into a futures contract or related options or forward contracts if more than 30% of a fund s net assets would be represented by futures contracts or more than 5% of a fund s net assets would be committed to initial margin deposits and premiums on future contracts or related options.

Each fund may invest up to 15% of its net assets in inverse floating rate securities. Inverse floating rate securities represent a leveraged investment in the underlying municipal bond deposited. Inverse floating rate securities offer the opportunity for higher income than the underlying bond, but will subject a fund to the risk of lower or even no income if short-term interest rates rise sufficiently. By investing in an inverse floating rate security rather than directly in the underlying bond, a fund will experience a greater increase in its common share net asset value if the underlying municipal bond increases in value, but will also experience a correspondingly larger decline in its common share net asset value if the underlying bond declines in value.

Each fund may borrow for temporary or emergency purposes, including to pay dividends, repurchase its shares, or settle portfolio transactions.

*Credit Quality.* A comparison of the credit quality of the respective portfolios of the Acquiring Fund and the Acquired Funds, as of March 31, 2012, is set forth in the table below.

| Credit Rating | Acquiring Fund | Investment Quality | Select Quality | Quality Income | Premium Income | Dividend Advantage | Combined Fund Pro Forma(1) |
|---|---|---|---|---|---|---|---|
| Aaa/AAA* | 17% | 19% | 20% | 22% | 20% | 16% | 20% |
| Aa/AA | 41% | 50% | 48% | 50% | 53% | 54% | 49% |
| A/A | 26% | 16% | 18% | 17% | 16% | 22% | 18% |
| Baa/BBB | 12% | 12% | 11% | 8% | 8% | 6% | 10% |
| Ba/BB or Lower | N/A | 2% | 3% | 2% | 2% | 1% | 2% |
| Unrated | 4% | 1% | %(2) | 1% | 1% | 1% | 1% |
| TOTAL | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

* Includes securities that are backed by an escrow or trust containing sufficient, U.S. Government or U.S. Government agency securities which ensure the timely payment of principal and interest. Such investments are normally considered to be equivalent to AAA rated securities.

(1) Reflects the effect of the Reorganizations.

(2) Rounds to less than 1%.

*Leverage.* Each fund may utilize the following forms of leverage: (a) portfolio investments that have the economic effect of leverage, including but not limited to investments in futures, options and inverse floating rate securities, and (b) the issuance of preferred shares. Each fund currently engages in leverage through the issuance of preferred shares and the use of inverse floaters. Certain important ratios related to each fund s use of leverage for the last three fiscal years are set forth below:

**LEVERAGE RATIOS**

| Acquiring Fund | 2011 | 2010 | 2009 |
|---|---|---|---|
| Asset Coverage Ratio | 290.36% | 294.60% | 297.12% |
| Regulatory Leverage Ratio(1) | 34.44% | 33.94% | 33.66% |
| Effective Leverage Ratio(2) | 37.45% | 36.93% | 36.71% |
| **Investment Quality** | **2011** | **2010** | **2009** |
| Asset Coverage Ratio | 339.33% | 342.23% | 336.92% |
| Regulatory Leverage Ratio(1) | 29.47% | 29.22% | 29.68% |
| Effective Leverage Ratio(2) | 37.29% | 37.01% | 37.58% |
| **Select Quality** | **2011** | **2010** | **2009** |
| Asset Coverage Ratio | 318.67% | 322.21% | 317.51% |
| Regulatory Leverage Ratio(1) | 31.38% | 31.04% | 31.50% |
| Effective Leverage Ratio(2) | 37.69% | 37.31% | 37.84% |

| **Quality Income** | **2011** | **2010** | **2009** |
|---|---|---|---|
| Asset Coverage Ratio | 324.36% | 329.21% | 323.81% |
| Regulatory Leverage Ratio(1) | 30.83% | 30.38% | 30.88% |
| Effective Leverage Ratio(2) | 37.37% | 36.90% | 37.46% |

| **Premium Income** | **2011** | **2010** | **2009** |
|---|---|---|---|
| Asset Coverage Ratio | 355.11% | 357.56% | 350.76% |
| Regulatory Leverage Ratio(1) | 28.16% | 27.97% | 28.51% |
| Effective Leverage Ratio(2) | 36.06% | 35.89% | 36.50% |

| **Dividend Advantage** | **2011** | **2010** | **2009** |
|---|---|---|---|
| Asset Coverage Ratio | 343.52% | 344.48% | 340.81% |
| Regulatory Leverage Ratio(1) | 29.11% | 29.03% | 29.34% |
| Effective Leverage Ratio(2) | 34.56% | 34.48% | 34.82% |

(1) Regulatory leverage consists of preferred shares or debt issued by the fund. Both of these are part of a fund s capital structure. Regulatory leverage is sometimes referred to as 1940 Act Leverage and is subject to asset coverage limits set forth in the 1940 Act.

(2) Effective leverage is a fund s effective economic leverage, and includes both regulatory leverage and the leverage effects of certain derivative investments in the fund s portfolio. Currently, the leverage effects of Tender Option Bond (TOB) inverse floater holdings, in addition to any regulatory leverage, are included in effective leverage ratios.

*Board Members and Officers.* The funds have the same Board Members and officers. The management of each fund, including general supervision of the duties performed by the Adviser under an investment management agreement between the Adviser and each fund (an Investment Management Agreement ), is the responsibility of its Board. Each fund currently has ten (10) trustees or directors, one (1) of whom is an interested person (as defined in the 1940 Act) and nine (9) of whom are not interested persons (the independent directors/trustees ).

While the funds have the same Board Members, the Acquiring Fund and Dividend Advantage (the Massachusetts Funds ) have a board structure that is different from the structure for Investment Quality, Premium Income, Quality Income and Select Quality (the Minnesota Funds ). All members of the Board of Directors of each Minnesota Fund stand for election each year. In contrast to the Minnesota Funds board structure, and pursuant to the Massachusetts Funds by-laws, the Board of Trustees of each Massachusetts Fund is divided into three classes (Class I, Class II and Class III) with staggered multi-year terms, such that only the members of one of the three classes stand for election each year.

*Investment Adviser.* The Adviser, Nuveen Fund Advisors, is the investment adviser to each fund and is responsible for investing each fund s assets. The Adviser oversees the management of each fund s portfolio, manages each fund s business affairs and provides certain clerical, bookkeeping and other administrative services. Nuveen Fund Advisors is located at 333 West Wacker Drive, Chicago, Illinois 60606.

The Adviser, a registered investment adviser, is a wholly-owned subsidiary of Nuveen Investments Inc. Founded in 1898, Nuveen Investments and its affiliates had approximately $212 billion of assets under management as of June 30, 2012. On November 13, 2007, Nuveen Investments was acquired by investors led by Madison Dearborn Partners, LLC (the MDP Acquisition ).

Nuveen Fund Advisors has selected its affiliate, Nuveen Asset Management, LLC ( Nuveen Asset Management or the Sub-Adviser ), located at 333 West Wacker Drive, Chicago, IL 60606, to serve as a sub-adviser to each of the funds. Nuveen Asset Management manages the investment of the funds assets on a discretionary basis, subject to the supervision of Nuveen Fund Advisors. Nuveen Asset Management, is a wholly-owned subsidiary of Nuveen Fund Advisors and was appointed as Sub-Adviser effective in January 2011 as part of an internal restructuring of the Adviser.

Each fund is dependent upon services and resources provided by its Adviser, and therefore the Adviser s parent, Nuveen Investments. Nuveen Investments significantly increased its level of debt in connection with the MDP Acquisition. While Nuveen Investments believes that monies generated from operations and cash on hand will be adequate to fund debt service requirements, capital expenditures and working capital requirements for the foreseeable future, there can be no assurance that Nuveen Investments business will generate sufficient cash flow from operations or that future borrowings will be available in an amount sufficient to enable Nuveen Investments to pay its indebtedness (with scheduled maturities beginning in 2014) or to fund its other liquidity needs. Nuveen Investments believes that potential adverse changes to its overall financial position and business operations would not adversely affect its or its affiliate s portfolio management operations and would not otherwise adversely affect its ability to fulfill its obligations to the Funds under the investment management agreements.

Pursuant to each Investment Management Agreement, each fund s management fee consists of two components a complex-level component, based on the aggregate amount of all eligible fund assets managed by Nuveen Fund Advisors, and a fund-level component, based only on the amount of managed assets within such fund. The pricing structure enables the funds shareholders to benefit from growth in assets within each individual fund as well as from growth of complex-wide assets managed by Nuveen Fund Advisors.

The annual fund-level fee for Investment Quality, Select Quality, Premium Income and Quality Income, payable monthly, is calculated according to the following schedule:

| Average Daily Managed Assets* | Fund-Level Fee Rate (Investment Quality, Select Quality, Premium Income and Quality Income) |
|---|---|
| For the first $125 million | 0.4500% |
| For the next $125 million | 0.4375% |
| For the next $250 million | 0.4250% |
| For the next $500 million | 0.4125% |
| For the next $1 billion | 0.4000% |
| For the next $3 billion | 0.3875% |
| For managed assets over $5 billion | 0.3750% |

The annual fund-level fee for the Acquiring Fund and Dividend Advantage, payable monthly, is calculated according to the following schedule:

| Average Daily Managed Assets* | Fund-Level Fee Rate (Acquiring Fund and Dividend Advantage) |
|---|---|
| For the first $125 million | 0.4500% |
| For the next $125 million | 0.4375% |
| For the next $250 million | 0.4250% |
| For the next $500 million | 0.4125% |
| For the next $1 billion | 0.4000% |
| For managed assets over $2 billion | 0.3750% |

The management fee compensates the Adviser for overall investment advisory and administrative services and general office facilities. Each fund pays all of its other costs and expenses of its operations, including compensation of its Board Members (other than those affiliated with the Adviser), custodian, transfer agency and dividend disbursing expenses, legal fees, expenses of independent auditors, expenses of repurchasing shares, expenses of issuing any preferred shares, expenses of preparing, printing and distributing shareholder reports, notices, proxy statements and reports to governmental agencies, and taxes, if any. For the services provided pursuant to an investment sub-advisory agreement, Nuveen Fund Advisors pays Nuveen Asset Management a fee, payable monthly, equal to 38.462% of the management fee (net of applicable breakpoints, waivers and reimbursements) paid by the funds to Nuveen Fund Advisors.

Due to the increased size of the combined fund, the effective fund-level fee rate as a percentage of average daily Managed Assets for the combined fund is expected to be lower than the current effective fund-level fee rate for the Acquiring Fund and each of the Acquired Funds. Each fund also pays a complex-level fee to Nuveen Fund Advisors, which is payable monthly and is in addition to the fund-level fee. The complex-level fee is based on the aggregate daily amount of eligible assets for all Nuveen sponsored funds in the U.S., as stated in the table below. As of March 31, 2012, the complex-level fee was 0.1735%.

The complex-level fee rate schedule is as follows:

**Complex-Level Fee Rates**

| Complex-Level Managed Asset Breakpoint Level* | Effective Rate at Breakpoint Level |
|---|---|
| $55 billion | 0.2000% |
| $56 billion | 0.1996% |
| $57 billion | 0.1989% |
| $60 billion | 0.1961% |
| $63 billion | 0.1931% |
| $66 billion | 0.1900% |
| $71 billion | 0.1851% |
| $76 billion | 0.1806% |
| $80 billion | 0.1773% |
| $91 billion | 0.1691% |
| $125 billion | 0.1599% |
| $200 billion | 0.1505% |
| $250 billion | 0.1469% |
| $300 billion | 0.1445% |

* For the fund-level and complex-level fees, managed assets include closed-end fund assets managed by the Adviser that are attributable to financial leverage. For these purposes, financial leverage includes the funds use of preferred stock and borrowings and certain investments in the residual interest certificates (also called inverse floating rate securities) in tender option bond (TOB) trusts, including the portion of assets held by a TOB trust that has been effectively financed by the trust s issuance of floating rate securities, subject to an agreement by the Adviser as to certain funds to limit the amount of such assets for determining managed assets in certain circumstances. The complex-level fee is calculated based upon the aggregate daily managed assets of all Nuveen Funds that constitute eligible assets. Eligible assets do not include assets attributable to investments in other Nuveen Funds or assets in excess of a determined amount (originally $2 billion) added to the Nuveen Fund complex in connection with Nuveen Fund Advisors assumption of the management of the former First American Funds effective January 1, 2011.

A discussion of the basis for the Board s most recent approval of each fund s Investment Management Agreement and the Sub-Advisory Agreement is included in the fund s Annual Report for the period ended September 30, 2011.

*Portfolio Management.* Subject to the supervision of Nuveen Fund Advisors, Nuveen Asset Management is responsible for execution of specific investment strategies and day-to-day investment operations. Nuveen Asset Management manages the funds using a team of analysts and a portfolio manager that focuses on a specific group of funds. Scott R. Romans, Ph.D., has served as the portfolio manager of each fund since January 2011.

Mr. Romans is a Senior Vice President of Nuveen Investments. He has direct responsibility for managing approximately $6.96 billion of securities in 27 Nuveen-sponsored investment companies as of September 30, 2012. He joined Nuveen Investments in 2000 as a senior analyst in the education sector and moved to portfolio management in 2003. Mr. Romans earned his undergraduate degree from the University of Pennsylvania, an M.S.F. from the Illinois Institute of Technology Stuart School of Business, and an M.A. and Ph.D. from the University of Chicago.

**Comparative Expense Information**

The purpose of the comparative fee table is to assist you in understanding the various costs and expenses of investing in shares of the funds. The information in the table reflects the fees and expenses for each fund s fiscal year ended September 30, 2011, as adjusted as described in footnote 1 below, and the pro-forma expenses for the 12 months ended September 30, 2011, for the combined fund.

**Comparative Fee Table(1)**

| | **Acquiring Fund** | **Investment Quality** | **Select Quality** | **Quality Income** | **Premium Income** | **Dividend Advantage** | **Combined Fund Pro Forma(2)** |
|---|---|---|---|---|---|---|---|
| **Annual Expenses (as a percentage of net assets applicable to common shares)** | | | | | | | |
| Management Fees | 0.97% | 0.96% | 0.96% | 0.96% | 0.95% | 0.95% | 0.92% |
| Interest and Related Expenses from Inverse Floaters and Preferred Shares(3) | 1.66% | 0.67% | 0.69% | 0.58% | 0.67% | 0.72% | 0.70% |
| Other Expenses | 0.28% | 0.10% | 0.08% | 0.09% | 0.13% | 0.10% | 0.09% |
| Total Annual Expenses | 2.91% | 1.73% | 1.73% | 1.63% | 1.75% | 1.77% | 1.71% |

(1) Annual Expenses (as a percentage of net assets applicable to common shares) are based on the expenses of the funds for the 12 months ended September 30, 2011, subject to the following adjustments. For Quality Income and Premium Income, Interest and Related Expenses from Inverse Floaters and Preferred Shares reflects annualized interest and related expenses for preferred shares that were outstanding for less than the 12-month period. For Quality Income and Premium Income, Other Expenses excludes expenses incurred during the 12-month period for auction fees and/or dividend disbursing agent fees associated with auction rate preferred shares that are no longer outstanding. For the Acquiring Fund and Dividend Advantage, fee and expense reimbursements that expired during the 12-month period and/or will expire during the current

period are not reflected. It is important for you to understand that a decline in a fund s average net assets applicable to common shares during the current fiscal year due to recent market volatility or other factors could cause each fund s expense ratios for that fund s current fiscal year to be higher than the expense information presented.

(2) The Combined Fund Pro Forma figures assume the consummation of the Reorganizations on September 30, 2011, and reflect average net assets applicable to common shares for the Funds for the 12-month period ended September 30, 2011. Combined Fund Pro Forma expenses do not include the expenses in connection with the Reorganizations, which are estimated to be $210,000 (0.41%) for the Acquiring Fund, $300,000 (0.12%) for Investment Quality, $200,000 (0.06%) for Select Quality, $45,000 (0.01%) for Quality Income, $95,000 (0.08%) for Premium Income and $180,000 (0.15%) for Dividend Advantage.

(3) Interest and Related Expenses from Inverse Floaters arises because accounting rules require the funds to treat interest paid by trusts issuing certain inverse floating rate investments held by the funds as having been paid (indirectly) by the funds. Because the funds also recognize corresponding amounts of interest income (also indirectly), each fund s common share net asset value, net investment income and total return are not affected by this accounting treatment. The actual Interest and Related Expenses from Inverse Floaters incurred in the future may be higher or lower. Dividends paid on each fund s currently outstanding preferred shares are recognized as interest expense for financial reporting purposes.

**Comparative Performance Information**

Comparative total return performance for the funds for periods ended March 31, 2012:

| | **Average Annual Total Return on Net Asset Value** | | | | **Average Annual Total Return on Market Value** | | | |
|---|---|---|---|---|---|---|---|---|
| **Fund (Inception Date)** | **One Year** | **Five Years** | **Ten Years** | **Since Inception** | **One Year** | **Five Years** | **Ten Years** | **Since Inception** |
| Acquiring Fund (11/21/02) | 13.10% | 5.45% | | 5.81% | 15.60% | 4.64% | | 5.04% |
| Investment Quality (11/20/90) | 16.12% | 6.02% | 6.58% | | 20.22% | 6.75% | 7.10% | |
| Select Quality (5/22/91) | 17.29% | 6.04% | 6.70% | | 18.43% | 6.13% | 7.17% | |
| Quality Income (11/20/91) | 16.17% | 5.88% | 6.47% | | 17.13% | 6.31% | 6.73% | |
| Premium Income (12/17/92) | 15.91% | 5.86% | 6.28% | | 15.76% | 6.19% | 6.48% | |
| Dividend Advantage (3/25/02) | 14.66% | 5.69% | 6.64% | | 15.27% | 4.69% | 5.87% | |

Average Annual Total Return on Net Asset Value is the combination of changes in common share net asset value, reinvested dividend income at net asset value and reinvested capital gains distributions at net asset value, if any. The last dividend declared in the period, which is typically paid on the first business day of the following month, is assumed to be reinvested at the ending net asset value. The actual reinvestment price for the last dividend declared in the period may often be based on the fund s market price (and not its net asset value), and therefore may be different from the price used in the calculation. Average Annual Total Return on Market Value is the combination of changes in the market price per share and the effect of reinvested dividend income and reinvested capital gains distributions, if any, at the average price paid per share at the time of reinvestment. The last dividend declared in the period, which is typically paid on the first business day of the following month, is assumed to be reinvested at the ending market price. The actual reinvestment for the last dividend declared in the period may take place over several days, and in some instances it may not be based on the market price, so the actual reinvestment price may be different from the price used in the calculation. Total returns are not annualized. Past performance information is not necessarily indicative of future results.

**B. RISK FACTORS**
Because the funds have substantially similar investment strategies, the principal risks of the Acquiring Fund and each Acquired Fund are similar. The principal risks of investing in the Acquiring Fund, including risks inherent in investing in VRDP Shares, are described under the caption Risk Factors in the Memorandum accompanying this Joint Proxy Statement as Appendix C.

**C. INFORMATION ABOUT THE REORGANIZATIONS**
**General**

The Boards of Nuveen s municipal closed-end funds have approved a series of mergers of municipal closed-end funds, including the Reorganizations with respect to the Acquiring Fund and each Acquired Fund. As noted above, the funds have substantially similar investment objectives, policies and portfolio compositions. With respect to the proposed Reorganizations, it is intended that the combination of the funds will enhance the secondary trading market for common shares of the funds and will result in lower operating expenses per common share (excluding the cost of leverage) as a result of the increased size of the combined fund. The closing of Reorganizations is contingent upon the closing of all the Reorganizations. In order for the Reorganizations to occur, the fund must obtain the requisite shareholder approvals as well as certain consents, confirmations and/or waivers from various third parties, such as liquidity providers and rating agencies, in connection with its outstanding preferred shares. Because the closing of the Reorganizations is contingent on all of the funds obtaining the requisite shareholder approvals and satisfying (or obtaining the waiver of) their closing conditions, it is possible that your Fund s Reorganization will not occur, even if shareholders of your Fund approve the Reorganization and your Fund satisfies all of its closing conditions. If the Reorganizations are not consummated, the Board of each fund may take such actions as it deems in the best interests of its fund, including conducting additional solicitations with respect to the proposals or continuing to operate the fund as a stand-alone fund.

**Terms of the Reorganizations**

*General.* With respect to the Reorganizations, the Agreement and Plan of Reorganization by and among each Acquired Fund and the Acquiring Fund (the Agreement ) provides for: (i) the Acquiring Fund s acquisition of substantially all of the assets of each Acquired Fund in exchange for newly issued common shares of the Acquiring Fund, par value $0.01 per share, and, with respect to Premium Income, newly issued VMTP Shares, par value $0.01 per share and a liquidation preference of $100,000 per share, of the Acquiring Fund, and, with respect to each of Dividend Advantage, Investment Quality, Quality Income and Select Quality, newly issued VRDP Shares of the Acquiring Fund, each with a par value of $0.01 per share and a liquidation preference of $100,000 per share, and the Acquiring Fund s assumption of substantially all of the liabilities of each Acquired Fund; and (ii) the distribution of the Acquiring Fund common shares and Acquiring Fund preferred shares received by each Acquired Fund to its common and preferred shareholders, respectively, as part of the liquidation, dissolution and termination of each Acquired Fund in accordance with applicable law. Preferred shareholders of each Fund will receive the same number of Acquiring Fund VRDP Shares as such shareholders held in the Acquired Fund immediately prior to the Reorganizations, having substantially similar terms as the outstanding preferred shares of the Fund held by such preferred shareholders immediately prior to the Reorganizations. The aggregate liquidation preference of the Acquiring Fund preferred shares received in each Reorganization will equal the aggregate liquidation preference of the preferred shares of the corresponding Acquired Fund held immediately prior to the

Reorganization. Preferred shares issued by the Acquiring Fund in connection with the Reorganizations will rank on a parity with each other, with the Acquiring Fund s outstanding preferred shares, and with future series of preferred shares as to the payment of dividends and the distribution of assets in the event of the Acquiring Fund s liquidation. In addition, the preferred shares of the Acquiring Fund, including the Acquiring Fund preferred shares to be issued in the Reorganizations, will be senior in priority to the Acquiring Fund s common shares as to the payment of dividends and the distribution of assets in the event of the Acquiring Fund s liquidation.

As a result of the Reorganizations, the assets of the Acquiring Fund and each Acquired Fund would be combined, and the shareholders of each Acquired Fund would become shareholders of the Acquiring Fund. The closing date is expected to be on or about February 11, 2013 at 8:00 a.m. Central time, or such other date as the parties may agree (the Closing Date ). Following the Reorganizations, each Acquired Fund would terminate its registration as an investment company under the 1940 Act. The Acquiring Fund will continue to operate after the Reorganizations as a registered closed-end management investment company with the investment objectives and policies described in this Joint Proxy Statement.

Following the Reorganizations, each preferred shareholder of an Acquired Fund would own the same number of shares of the Acquiring Fund preferred shares with the same aggregate liquidation preference as an Acquired Fund s preferred shares held by such shareholder immediately prior to the Closing Date, with substantially similar terms in the case of VRDP Shares and substantially identical terms in the case of VMTP Shares, as of the time of the closing of the Reorganizations, to the Acquired Fund preferred shares for which they were exchanged. As a result of the Reorganizations, preferred shareholders of the Acquired Funds would hold reduced voting percentages of preferred shares of the Acquiring Fund than they held in an Acquired Fund individually for matters to be voted on by common and preferred shareholders or preferred shareholders voting as a single class.

The holders of VRDP Shares of a Fund will receive the following new series of VRDP Shares of the Acquiring Fund:

| **Acquired Fund** | **Acquired Fund Preferred Shares Outstanding** | **Acquiring Fund Preferred Shares to be Issued in the Reorganizations** |
|---|---|---|
| Investment Quality | VRDP Shares, Series 1<br><br>$100,000 liquidation value per share<br>Final Mandatory Redemption Date:<br>August 1, 2040 | VRDP Shares, Series 1<br><br>$100,000 liquidation value per share<br>Final Mandatory Redemption Date:<br>August 1, 2040 |
| Select Quality | VRDP Shares, Series 1<br><br>$100,000 liquidation value per share<br>Final Mandatory Redemption Date:<br>August 1, 2040 | VRDP Shares, Series 2<br><br>$100,000 liquidation value per share<br>Final Mandatory Redemption Date:<br>August 1, 2040 |
| Quality Income | VRDP Shares, Series 1<br><br>$100,000 liquidation value per share<br>Final Mandatory Redemption Date:<br>December 1, 2040 | VRDP Shares, Series 3<br><br>$100,000 liquidation value per share<br>Final Mandatory Redemption Date:<br>December 1, 2040 |
| Dividend Advantage | VRDP Shares, Series 2<br><br>$100,000 liquidation value per share<br>Final Mandatory Redemption Date:<br>June 1, 2040 | VRDP Shares, Series 4<br><br>$100,000 liquidation value per share<br>Final Mandatory Redemption Date:<br>June 1, 2040 |

*Valuation of Assets and Liabilities.* If the Reorganizations are approved and the other closing conditions are satisfied or waived, the value of the net assets of an Acquired Fund will be the value of its assets, less its liabilities, computed as of the close of regular trading on the NYSE on the business day immediately prior to the Closing Date (such time and date being hereinafter called the Valuation Time ). The value of an Acquired Fund s assets shall be determined by using the valuation procedures of the Nuveen closed-end funds adopted by the Board or such other valuation procedures as shall be mutually agreed upon by the parties. The value of an Acquired Fund s net assets will be calculated net of the liquidation preference (including accumulated and unpaid dividends) of all outstanding Acquired Fund preferred shares.

Dividends will accumulate on VRDP Shares of each Fund, up to and including the day before the Closing Date occurs and will be paid on the Closing Date. The first dividend period for the Acquiring Fund VRDP Shares to be issued in the Reorganizations will commence on the Closing Date and end on the last day of the month in which the Closing Date occurs.

*Amendments.* Under the terms of the Agreement, the Agreement may be amended, modified, or supplemented in such manner as may be mutually agreed upon in writing by each party as specifically authorized by each party s Board; provided, however, that following the meeting of the shareholders of the parties called by each party, no such amendment, modification or supplement may have the effect of changing the provisions for determining the number of Acquiring Fund shares to be issued to the Acquired Funds shareholders under the Agreement to the detriment of such shareholders without their further approval.

*Conditions.* Under the terms of the Agreement, the closing of the Reorganizations is conditioned upon (a) the requisite approval by the shareholders of the Acquiring Fund each Acquired Fund of the shareholders proposals relating to the Reorganizations, (b) the receipt of an opinion substantially to the effect that each Reorganization will qualify as a reorganization under the Code, (c) the absence of legal proceedings challenging the Reorganizations and (d) the receipt of certain customary certificates and legal opinions. See Material Federal Income Tax Consequences of the Reorganizations. Additionally, in order for the Reorganizations to occur, (i) the Acquiring Fund and each Fund must obtain certain consents, confirmations and/or waivers from various third parties, including liquidity providers with respect to outstanding VRDP Shares, (ii) the liquidity provider, the remarketing agent and the tender and paying agent for each Fund must enter into the relevant agreements described in the Memorandum with respect to each new series of Acquiring Fund VRDP Shares to be issued in the Reorganizations, and (iii) confirmation of the requisite ratings on the Acquiring Fund VRDP Shares to be issued in the Reorganizations must be obtained.

*Termination.* The Agreement may be terminated by the mutual agreement of the parties and such termination may be effected by each party s Chief Administrative Officer or a Vice President without further action by the Board. In addition, any party may at its option terminate the Agreement at or before the Closing Date due to (a) a breach by any other party of any representation, warranty, or agreement contained herein to be performed at or before the Closing Date, if not cured within 30 days; (b) a condition precedent to the obligations of the terminating party that has not been met and it reasonably appears it will not or cannot be met; or (c) a determination by its Board that the consummation of the transactions contemplated by the Agreement is not in the best interests of such party.

**Reasons for the Reorganizations**

Based on the considerations below, the Board of each fund, including the Board Members who are not interested persons (as defined in the 1940 Act) of the funds (the Independent Board Members ), has determined that its Reorganization would be in the best interests of the fund and that the interests of the existing shareholders of the fund would not be diluted as a result of the Reorganization. The Boards approved the Reorganizations and recommended that shareholders of the respective funds approve the Reorganizations.

In preparation for a meeting of the Boards held on June 21, 2012 (the Meeting ) at which the Reorganizations were considered, the Adviser provided the Boards, prior to the Meeting and in prior meetings, with information regarding the proposed Reorganizations, including the rationale therefor and alternatives considered to the Reorganizations. Prior to approving the Reorganizations, the Independent Board Members reviewed the foregoing information with their independent legal counsel and with management, reviewed with independent legal counsel applicable law and their duties in considering such matters, and met with independent legal counsel in a private session without management present. The Boards considered a number of principal factors presented at the time of the Meeting or prior meetings in reaching their determinations, including the following:

- the compatibility of the Acquired Funds and the Acquiring Fund s investment objectives, policies and related risks;
- consistency of portfolio management;
- improved economies of scale and the potential for lower operating expenses (excluding the costs of leverage);
- the potential for improved secondary market trading with respect to the common shares;
- the anticipated tax-free nature of the Reorganizations;
- the expected costs of the Reorganizations;
- the terms of the Reorganizations and whether the Reorganizations would dilute the interests of shareholders of the funds;
- the effect of the Reorganizations on shareholder rights; and
- any potential benefits of the Reorganizations to the Adviser and its affiliates as a result of the Reorganizations.

In addition, at a meeting held on September 19, 2012, the Board of Trustees of the Acquiring Fund approved the Acquiring Fund VRDP Shares to be issued in connection with the Reorganizations with terms that differ in certain respects from those of the VRDP Shares of the Corresponding Funds.

*Compatibility of Investment Objectives, Policies and Related Risks.* Based on the information presented, the Boards noted that the investment objectives, policies and risks of the funds are substantially similar (although not identical). Each fund invests primarily in municipal securities and other related investments the income from which is exempt from regular federal, New York State and New York City income taxes, and with respect to the Acquiring Fund only, from the AMT. Each fund also emphasizes investments in investment grade municipal securities. The Boards considered that the portfolio composition of each fund is similar or comparable and considered the impact of the applicable Reorganization on each fund s portfolio, including any shifts in sector allocations, credit ratings, duration, yield and leverage costs. The Boards also recognized that each fund utilizes leverage. Because the funds have similar investment strategies, the principal risks of each fund are also similar. However, the Acquiring Fund and Dividend Advantage are non-diversified funds and therefore subject to non-diversification risk. Moreover, the Acquiring Fund s policy of generally investing in bonds that are exempt from the federal AMT applicable to individuals may prevent the Acquiring Fund from investing in certain kinds of bonds.

*Consistency of Portfolio Management.* The Boards noted that each fund has the same investment adviser, sub-adviser and portfolio manager. Through the Reorganizations, the Boards recognized that shareholders will remain invested in a closed-end management investment company that will have greater net assets and benefits from potential economies of scale; the same investment adviser, sub-adviser and portfolio manager; and similar investment objectives and investment strategies.

*Improved Economies of Scale and Potential for Lower Operating Expenses (Excluding the Costs of Leverage).* The Boards considered the fees and expense ratios of each of the funds (including estimated expenses of the Acquiring Fund following the Reorganizations). As a result of the greater economies of scale from the larger asset size of the Acquiring Fund after the Reorganizations, the Boards noted that it was expected that the effective management fee rate (as a percentage of average daily Managed Assets) and net operating expenses per common share (excluding the costs of leverage) of the combined fund would be lower than that of the Acquiring Fund and the Funds prior to the Reorganizations. It is anticipated that the funds will benefit from the larger asset size as fixed costs are shared over a larger asset base. In addition, as each fund utilizes leverage, the Boards considered the differences in the costs of leverage among the funds and the impact of the Reorganizations on such costs. In connection, the Boards noted the Adviser s position that the greater asset size of the combined fund may provide greater flexibility in managing the structure and costs of leverage over time.

*Potential for Improved Secondary Market Trading with Respect to the Common Shares.* While it is not possible to predict trading levels at the time the Reorganizations close, the Boards noted that the Reorganizations are being proposed, in part, to seek to enhance the secondary trading market for the common shares of the funds. The Boards considered that the potential for higher common share net earnings and enhanced total returns over time may increase investor interest in the combined fund and contribute to higher common share market prices relative to net asset value, and the Acquiring Fund s greater share volume may result in increased market liquidity after the Reorganizations, which may lead to narrower bid-ask spreads and smaller trade-to-trade price movements. In addition, Acquired Fund common shareholders may experience improved secondary market trading after the Reorganizations because the Acquiring Fund s policy of investing primarily in municipal securities exempt from the federal AMT applicable to individuals, which is not currently in place with respect to the Acquired Funds, may appeal to a broader group of investors.

*Anticipated Tax-Free Reorganizations.* The Reorganizations will be structured with the intention that they qualify as tax-free reorganizations for federal income tax purposes, and the funds will obtain an opinion of counsel substantially to this effect (based on certain factual representations and certain customary assumptions).

*Expected Costs of the Reorganizations.* The Boards considered the terms and conditions of the Agreement, including the estimated costs associated with the Reorganizations and the allocation of such costs among the Acquiring Fund and each Acquired Fund. The Boards noted, however, that, assuming the Reorganizations are consummated, the Adviser anticipated that the projected costs of each Reorganization may be recovered over time and that preferred shareholders are not expected to bear any costs of the Reorganizations.

*Terms of the Reorganizations and Impact on Shareholders.* The terms of the Reorganizations are intended to avoid dilution of the interests of the existing shareholders of the Funds. In this regard, the Boards considered that each holder of common shares of a Fund would own common shares of the Acquiring Fund (taking into account any fractional shares to which the shareholder would be entitled) equal to the aggregate per share net asset value of that shareholder s Acquired Fund common shares as of the Valuation Time. No fractional common shares of the Acquiring Fund, however, will be issued to shareholders in connection with the Reorganizations and, in lieu of such fractional shares, an Acquired Fund s common shareholders will receive cash.

With respect to preferred shareholders of the Funds, preferred shareholders of each Fund will receive the same number of Acquiring Fund VRDP Shares as such shareholder held in the applicable Fund immediately prior to the Reorganizations, having substantially similar terms as the outstanding VRDP Shares of the applicable Fund held by such preferred shareholders immediately prior to the Reorganizations. The aggregate liquidation preference of each series of Acquiring Fund VRDP Shares received in each Reorganization will equal the aggregate liquidation preference of the corresponding VRDP Shares of a Fund held immediately prior to the Reorganization.

*Effect on Shareholder Rights.* The Boards considered that the Acquiring Fund and Dividend Advantage are each organized as a Massachusetts business trust and each of Investment Quality, Quality Income and Select Quality is organized as a Minnesota corporation. In this regard, the Boards noted that, unlike a Massachusetts business trust, many aspects of the corporate governance of a Minnesota corporation are prescribed by state statutory law. In addition, the Boards are aware that the structure of the Massachusetts Funds differs from that of the Minnesota Funds.

*Potential Benefits to Nuveen Fund Advisors and Affiliates.* The Boards recognized that the Reorganizations may result in some benefits and economies for the Adviser and its affiliates. These may include, for example, a reduction in the level of operational expenses incurred for administrative, compliance and portfolio management services as a result of the elimination of the Acquired Funds as separate funds in the Nuveen complex.

*Conclusion.* Each Board, including the Independent Board Members, approved the Reorganization involving its Fund, concluding that such Reorganization is in the best interests of the Fund and that the interests of existing shareholders of the Fund will not be diluted as a result of the Reorganization.

**Capitalization**

The following table sets forth the unaudited capitalization of the funds as of March 31, 2012, and the pro-forma combined capitalization of the combined fund as if the Reorganizations had occurred on that date. The table reflects a pro forma exchange ratio of approximately 1.0137 common shares of the Acquiring Fund issued for each common share of Investment Quality, 1.0323 common shares of the Acquiring Fund issued for each common share of Select Quality, 1.0134 common shares of the Acquiring Fund for each common share of Quality Income, 1.0332 common shares of the Acquiring Fund for each common share of Premium Income and 1.0158 common shares of the

Acquiring Fund for each common share of Dividend Advantage. If the Reorganizations are consummated, the actual exchange ratio may vary.

| | Acquiring Fund | Investment Quality | Select Quality | Quality Income | Premium Income | Dividend Advantage | Pro Forma Adjustments | Combined Fund Pro Forma(1) |
|---|---|---|---|---|---|---|---|---|
| MuniFund Term Preferred (MTP) Shares, $10 stated value per share, at liquidation value: 2,768,000 shares outstanding for the Acquiring Fund and Combined Fund Pro Forma | $ 27,680,000 | $ | $ | $ | $ | $ | $ | $ 27,680,000 |
| Variable Rate MuniFund Term Preferred (VMTP) Shares , $100,000 stated value per share, at liquidation value; 507 shares outstanding for Premium Income and Combined Fund Pro Forma | $ | $ | $ | $ | $ 50,700,000 | $ | $ | $ 50,700,000 |
| Variable Rate Demand Preferred (VRDP) Shares, $100,000 stated value per share, at liquidation value; 1,123 shares outstanding for Investment Quality, 1,648 shares outstanding for Select Quality, 1,617 shares outstanding for Quality Income, 500 shares outstanding for Dividend Advantage and 4,888 shares outstanding for Combined Fund Pro Forma | $ | $ 112,300,000 | $ 164,800,000 | $ 161,700,000 | $ | $ 50,000,000 | $ | $ 488,800,000 |
| **Common Shareholders Equity:** | | | | | | | | |
| Common Shares, $.01 par value per share; 3,506,560 shares outstanding for Acquiring Fund; 17,542,953 shares outstanding for Investment Quality; 23,230,215 shares outstanding for Select Quality; 23,782,336 shares outstanding for Quality Income; 8,250,390 shares outstanding for Premium Income; | $ 35,066 | $ 175,430 | $ 232,302 | $ 237,823 | $ 82,504 | $ 79,371 | $ 17,100[2] | $ 859,596 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 7,937,131 shares outstanding for Dividend Advantage; and 85,959,644 shares outstanding for Combined Fund Pro Forma | | | | | | | | |
| Paid-in surplus | 49,724,125 | 249,350,008 | 328,920,003 | 334,996,330 | 118,734,995 | 113,645,351 | (1,047,100)[3] | 1,194,323,712 |
| Undistributed (Over-distribution of) net investment income | 108,798 | 3,625,359 | 4,936,235 | 5,063,208 | 2,422,667 | 1,455,041 | (16,343,330)[4] | 1,267,978 |

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| | | Acquiring Fund | | Investment Quality | Select Quality QualityIncome**2008** | 2007 |
|---|---|---|---|---|---|---|
| Net Income | **$** | **3,372** | $ | 3,403 | | |
| Weighted Average Shares Outstanding – Basic | | **8,391** | | 8,382 | | |
| Dilutive effect of stock-based awards | | **9** | | 14 | | |
| Weighted Average Shares Outstanding – Diluted | | **8,400** | | 8,396 | | |
| Earnings per common share – Basic | **$** | **0.40** | $ | 0.41 | | |
| Earnings per common share – Diluted | **$** | **0.40** | $ | 0.41 | | |

There were no antidilutive stock-based awards excluded from the calculation of earnings per share for the three months ended
March 31, 2008 and 2007.

Note 3 – Significant Accounting Policy

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

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

| (Dollars in thousands) | | **March 31, 2008** | | December 31, 2007 | | March 31, 2007 |
|---|---|---|---|---|---|---|
| Impaired loans with a valuation allowance | **$** | **3,387** | $ | 3,413 | $ | 3,797 |
| Impaired loans with no valuation allowance | | **51** | | 127 | | 177 |
| Total impaired loans | **$** | **3,438** | $ | 3,540 | $ | 3,974 |
| Allowance for credit losses applicable to impaired loans | **$** | **999** | $ | 819 | $ | 880 |
| Allowance for credit losses applicable to other than impaired loans | | **6,927** | | 6,732 | | 5,626 |
| Total allowance for credit losses | **$** | **7,926** | $ | 7,551 | $ | 6,506 |
| Average recorded investment in impaired loans | **$** | **3,489** | $ | 3,958 | $ | 5,172 |

Gross interest income of $68 thousand for the first quarter of 2008, $404 thousand for fiscal year 2007 and $194 thousand for the first quarter of 2007 would have been recorded if nonaccrual loans had been current and performing in accordance with their original terms. Interest actually recorded on such loans was $1 thousand for the first quarter of 2008, $142 thousand for fiscal year 2007 and $133 thousand for the first quarter of 2007.

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

Note 4 – Commitments

In the normal course of business, to meet the financial needs of its customers, the Company's bank subsidiaries are parties to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and standby letters of credit. At March 31, 2008, total commitments to extend credit were approximately $242.6 million. Outstanding letters of credit were approximately $18.4 million at March 31, 2008.

Note 5 - Stock-Based Compensation

At March 31, 2008, the Company had three equity compensation plans: (i) the Shore Bancshares, Inc. 1998 Stock Option Plan; (ii) the Shore Bancshares, Inc. Employee Stock Purchase Plan ("ESPP"); and (iii) the Shore Bancshares, Inc. 2006 Stock and Incentive Compensation Plan ("2006 Equity Plan"). The plans are described in detail in Note 13 to the audited financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. Stock-based awards granted to date are generally time-based, vesting on each anniversary of the grant date over a three to five year period of time and, in the case of stock options, expiring 10 years from the grant date. ESPP awards allow employees to purchase shares of common stock at 85% of the fair market value on the date of grant. ESPP grants are 100% vested at date of grant and have a 27-month term.

During the three-month periods ended March 31, 2008 and 2007, the Company recognized pre-tax stock-based compensation expense of $23 thousand and $12 thousand, respectively. Stock-based compensation expense is recognized ratably over the requisite service period for all awards and is based on the grant-date fair value. Unrecognized stock-based compensation expense related to nonvested share-based compensation arrangements was $368 thousand as of March 31, 2008. The weighted-average period over which this unrecognized expense was expected to be recognized was 4.2 years.

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The Company estimates the fair value of stock options using the Black-Scholes valuation model with weighted average assumptions for dividend yield, expected volatility, risk-free interest rate and expected lives (in years). The expected dividend yield is calculated by dividing the total expected annual dividend payout by the average stock price. The expected volatility is based on historical volatility of the underlying securities. The risk-free interest rate is based on the Federal Reserve Bank's constant maturities daily interest rate in effect at grant date. The expected life of the options represents the period of time that the Company expects the awards to be outstanding based on historical experience with similar awards. Stock-based compensation expense recognized in the consolidated statements of income in the first quarter of 2008 and 2007 reflects forfeitures as they occurred.

No options were granted during the quarters ended March 31, 2008 and 2007.

The following table summarizes stock option activity for the Company under all plans for the three months ended March 31, 2008:

| | Number of Shares | Weighted Average Exercise Price | Aggregate Intrinsic Value |
|---|---|---|---|
| Outstanding at beginning of year | 33,797 | $ 15.67 | |
| Granted | - | - | |
| Exercised | (1,331) | 15.48 | |
| Expired/Cancelled | (82) | 18.47 | |
| Outstanding at end of period | 32,384 | 15.67 | $ 187,051 |
| | | | |
| Exercisable at end of period | 32,384 | $ 15.67 | $ 187,051 |

The following summarizes information about options outstanding at March 31, 2008:

| Options Outstanding | | Options Outstanding and Exercisable | |
|---|---|---|---|
| Exercise Price | Number | Number | Weighted Average Remaining Contract Life (in years) |
| $ 21.33 | 5,075 | 5,075 | 0.8 |
| 14.00 | 4,005 | 4,005 | 1.8 |
| 13.17 | 16,445 | 16,445 | 4.0 |
| 18.47 | 6,859 | 6,859 | 0.1 |
| | 32,384 | 32,384 | |

The total intrinsic value of stock options exercised during the three-month periods ended March 31, 2008 and 2007 was approximately $9 thousand and $15 thousand, respectively. Cash received upon exercise of options during the three-month periods ended March 31, 2008 and 2007 was approximately $16 thousand and $24 thousand, respectively.

The following table summarizes restricted stock award activity for the Company under the 2006 Equity Plan for the three months ended March 31, 2008:

| | Number of Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Nonvested at January 1, 2008 | 3,845 | $ 25.31 |
| Granted | 13,783 | 21.93 |

| | | | |
|---|---|---|---|
| Vested | - | | - |
| Cancelled | - | | - |
| Nonvested at March 31, 2008 | 17,628 | $ | 22.67 |

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Note 6 – Segment Reporting

The Company operates two primary business segments: Community Banking and Insurance Products and Services. Through the Community Banking business, the Company provides services to consumers and small businesses on the Eastern Shore of Maryland and Delaware through its 17-branch network. Community banking activities include small business services, retail brokerage, and consumer banking products and services. Loan products available to consumers include mortgage, home equity, automobile, marine, and installment loans, credit cards and other secured and unsecured personal lines of credit. Small business lending includes commercial mortgages, real estate development loans, equipment and operating loans, as well as secured and unsecured lines of credit, credit cards, accounts receivable financing arrangements, and merchant card services.

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

Selected financial information by line of business for the three months ended March 31, 2008 and 2007 is included in the following table:

| (Dollars in thousands) | Community banking | Insurance products and services | Parent Company | Total |
|---|---|---|---|---|
| **2008** | | | | |
| Interest income | **$ 15,906** | **$ 17** | **$ -** | **$ 15,923** |
| Interest expense | **(5,859)** | **-** | **(34)** | **(5,893)** |
| Provision for credit losses | **(462)** | **-** | **-** | **(462)** |
| Noninterest income | **1,802** | **3,700** | **-** | **5,502** |
| Noninterest expense | **(5,141)** | **(3,044)** | **(1,406)** | **(9,591)** |
| Net intersegment income (expense) | **(1,263)** | **(90)** | **1,353** | **-** |
| Income before taxes | **4,983** | **583** | **(87)** | **5,479** |
| Income tax (expense) benefit | **(1,916)** | **(224)** | **33** | **(2,107)** |
| Net income | **$ 3,067** | **$ 359** | **$ (54)** | **$ 3,372** |
| | | | | |
| Total assets | **$ 980,506** | **$ 20,818** | **$ 2,512** | **$ 1,003,836** |
| | | | | |
| 2007 | | | | |
| Interest income | $ 15,890 | $ - | $ - | $ 15,890 |
| Interest expense | (5,985) | - | - | (5,985) |
| Provision for credit losses | (242) | - | - | (242) |
| Noninterest income | 1,593 | 2,055 | - | 3,648 |
| Noninterest expense | (5,185) | (1,373) | (1,333) | (7,891) |
| Net intersegment income (expense) | ( 1,186) | (95) | 1,281 | - |
| Income before taxes | 4,885 | 587 | (52) | 5,420 |
| Income tax (expense) benefit | (1,818) | (218) | 19 | (2,017) |
| Net income | $ 3,067 | $ 369 | $ (33) | $ 3,403 |
| | | | | |
| Total assets | $ 947,392 | $ 9,972 | $ 2,986 | $ 960,350 |

Note 7 – Fair Value Measurements

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 157, *"Fair Value Measurements."* SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. In this standard, the Financial Accounting Standards Board ("FASB") clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, SFAS 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy is as follows:

Level 1 inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Available-for-sale securities is the only balance sheet category that the Company is required by generally accepted accounting principles to account for at fair value. The following table presents information about the Company's assets measured at fair value on a recurring basis as of March 31, 2008, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

| (Dollars in thousands) | Carrying Value (Fair Value) | Quoted Prices (Level 1) | Significant Other Observable Inputs (Level 2) | Trading Gains and (Losses) | Total Changes In Fair Values Included In Period Earnings |
|---|---|---|---|---|---|
| Securities available for sale | $ 86,056 | - | $ 86,056 | - | - |

Securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Note 8 – New Accounting Pronouncements

**Pronouncements adopted**

*SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88 106, and 132(R)."* SFAS 158 requires an employer to recognize the overfunded or underfunded status of post-retirement defined benefit plans as an asset or a liability in its statement of financial position. The funded status is measured as the difference between plan assets at fair value and the benefit obligation (the projected benefit obligation for pension plans or the accumulated benefit obligation for other post-retirement benefit plans). An employer is also required to measure the funded status of a plan as of the date of its year-end statement of financial position with changes in the funded status recognized through comprehensive income.
SFAS 158 also requires certain disclosures regarding the effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of gains or losses, prior service costs or credits, and the transition asset or obligation. The adoption of SFAS 158's requirement to recognize the funded status in the financial statements for fiscal years ending after December 15, 2006 did not have a significant impact on the Company's consolidated financial statements. SFAS 158's requirement to use the fiscal year-end date as the measurement date is effective for fiscal years ending after December 15, 2008, and did not have a significant impact on the Company's consolidated financial statements.

*SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115."* SFAS 159 permits entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) may be applied instrument by instrument, with certain exceptions, (ii) is irrevocable (unless a new election date occurs) and (iii) is applied only to entire instruments and not to portions of instruments. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the FASB's long-term measurement objectives for accounting for financial instruments. The Company adopted SFAS 159 on January 1, 2008 and has not elected the fair value option for any financial assets or liabilities at March 31, 2008.

The Emerging Issues Task Force ("EITF") of the FASB issued EITF Issue 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," which was effective January 1, 2008. EITF 06-4 requires the recognition of a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods as defined in SFAS No. 106, " Employers' Accounting for Postretirement Benefits Other Than Pensions." The EITF reached a consensus that Bank Owned Life Insurance policies purchased for this purpose do not effectively settle the entity's obligation to the employee in this regard and thus the entity must record compensation cost and a related liability. Entities should recognize the effects of applying this Issue through either, (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the balance sheet as of the beginning of the year of adoption, or (b) a change in accounting principle through retrospective application to all prior periods. This Issue is effective for fiscal years beginning after December 15, 2007. The effects of the guidance have been applied as a change in accounting principle through a cumulative-effect adjustment to retained earnings of $318,000.

EITF Issue 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards." EITF 06-11 requires that tax benefits generated by dividends paid during the vesting period on certain equity-classified share-based compensation awards be classified as additional paid-in capital and included in a pool of excess tax benefits available to absorb tax deficiencies from share-based payment awards. EITF 06-11 is effective for years beginning after December 15, 2007. The adoption of EITF 06-11 did not have a significant impact on the Company's consolidated financial position or results of operations.

**Pronouncements issued but not yet effective**
*SFAS No. 141R, "Business Combinations."* SFAS 141R's objective is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after December 31, 2008. The Company does not expect the implementation of SFAS 141R to have a material impact on its consolidated financial statements.

*SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements."* SFAS 160's objective is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 shall be effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect the implementation of SFAS 160 to have a material impact on its consolidated financial statements.

*SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133"*. SFAS 161 is intended to enhance the disclosures previously required for derivative instruments and hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", to include how and why an entity uses derivative instruments, how derivative instruments and related hedge items are accounted for and their impact on an entity's financial positions, results of operations and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company does not expect the implementation of SFAS 161 to have a material impact on its consolidated financial statements.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

Unless the context clearly suggests otherwise, references to "the Company", "we", "our", and "us" in this report are to Shore Bancshares, Inc. and its consolidated subsidiaries.

**Forward-Looking Information**
Portions of this Quarterly Report on Form 10-Q contain forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Statements that are not historical in nature, including statements that include the words "anticipate", "estimate", "should", "expect", "believe", "intend", and similar expressions, are expressions ab our confidence, policies, and strategies, the adequacy of capital levels, and liquidity and are not guarantees of future performance. Such forward-looking statements involve certain risks and uncertainties, including economic conditions, competition in the geographic and business areas in which we operate, inflation, fluctuations in interest rates, legislation, and governmental regulation. These risks and uncertainties are described in detail in the section of the periodic reports that Shore Bancshares, Inc. files with the Securities and Exchange Commission entitled "Risk Factors" (see Item 1A of Part II of this report). Actual results may differ materially from such forward-looking statements, and we assume no obligation to update forward-looking statements at any time except as required by law.

**Introduction**
The following discussion and analysis is intended as a review of significant factors affecting the financial condition and results of operations of Shore Bancshares, Inc. and its consolidated subsidiaries for the periods indicated. This

discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and related notes presented in this report, as well as the audited consolidated financial statements and related notes included in the Annual Report of Shore Bancshares, Inc. on Form 10-K for the year ended December 31, 2007.

Shore Bancshares, Inc. is the largest independent financial holding company located on the Eastern Shore of Maryland. It is the parent company of The Talbot Bank of Easton, Maryland located in Easton, Maryland ("Talbot Bank"), The Centreville National Bank of Maryland located in Centreville, Maryland ("Centreville National Bank") and The Felton Bank, located in Felton, Delaware ("Felton Bank") (collectively, the "Banks"). The Banks operate 17 full service branches in Kent, Queen Anne's, Talbot, Caroline and Dorchester Counties in Maryland and Kent County, Delaware. The Company engages in the insurance business through three insurance producer firms, The Avon-Dixon Agency, LLC, Elliott Wilson Insurance, LLC and Jack Martin Associates, Inc.; a wholesale insurance company, TSGIA, Inc.; and two insurance premium finance companies, Mubell Finance, LLC and ESFS, Inc. (all of the foregoing are collectively referred to as the "Insurance Subsidiary") and the mortgage broker business through Wye Mortgage Group, LLC, all of which are wholly-owned subsidiaries of Shore Bancshares, Inc.

The shares of common stock of Shore Bancshares, Inc. are listed on the Nasdaq Global Select Market under the symbol "SHBI".

The Company maintains an Internet site at www.shbi.net on which it makes available free of charge its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to the foregoing as soon as reasonably practicable after these reports are electronically filed with, or furnished to, the Securities and Exchange Commission.

**Critical Accounting Policies**

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The financial information contained within the financial statements is, to a significant extent, financial information contained that is based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset or relieving a liability.

We believe that our most critical accounting policy relates to the allowance for credit losses. The allowance for credit losses is an estimate of the losses that may be sustained in the loan portfolio. The allowance is based on two basic principles of accounting: (i) SFAS No. 5, Accounting for Contingencies, which requires that losses be accrued when they are probable of occurring and estimable, and (ii) SFAS No. 114, Accounting by Creditors for Impairment of a Loan, which requires that losses be accrued based on the differences between the loan balance and the value of collateral, present value of future cash flows or values that are observable in the secondary market. Management uses many factors, including economic conditions and trends, the value and adequacy of collateral, the volume and mix of the loan portfolio, and our internal loan processes in determining the inherent loss that may be present in our loan portfolio. Actual losses could differ significantly from Management's estimates. In addition, GAAP itself may change from one previously acceptable method to another. Although the economics of transactions would be the same, the timing of events that would impact the transactions could change.

Management has significant discretion in making the adjustments inherent in the determination of the provision and allowance for credit losses, including in connection with the valuation of collateral, the borrower's prospects of repayment, and in establishing allowance factors on the formula allowance and unallocated allowance components of the allowance. The establishment of allowance factors is a continuing exercise, based on Management's continuing assessment of the totality of all factors, including, but not limited to, delinquencies, loss history, trends in volume and terms of loans, effects of changes in lending policy, the experience and depth of Management, national and local economic trends, concentrations of credit, the quality of the loan review system and the effect of external factors such as competition and regulatory requirements, and their impact on the portfolio, and allowance factors may change from period to period, 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 will have a direct impact on the amount of the provision, and a corresponding effect on net income. Errors in Management's perception and assessment of these factors and their impact on the portfolio could result in the allowance not being adequate to cover losses in the portfolio, and may result in additional provisions or charge-offs.

Three basic components comprise our allowance for credit losses: (i) a specific allowance; (ii) a formula allowance; and (iii) a nonspecific allowance. Each component is determined based on estimates that can and do change when the actual events occur. The specific allowance is used to individually allocate an allowance to loans identified as impaired. An impaired loan may show deficiencies in the borrower's overall financial condition, payment history, support available from financial guarantors and/or the fair market value of collateral. When a loan is identified as impaired, a specific allowance is established based on our assessment of the loss that may be associated with the individual loan. The formula allowance is used to estimate the loss on internally risk rated loans, exclusive of those identified as impaired. Loans identified as special mention, substandard, doubtful and loss, as well as impaired, are segregated from performing loans. Remaining loans are then grouped by type (commercial, commercial real estate, construction, home equity or consumer). Each loan type is assigned an allowance factor based on Management's estimate of the risk, complexity and size of individual loans within a particular category. Classified loans are assigned higher allowance factors than non-rated loans due to Management's concerns regarding collectibility or Management's knowledge of particular elements regarding the borrower. Allowance factors grow with the worsening of the internal risk rating. The nonspecific formula is used to estimate the loss of non-classified loans stemming from more global factors such as delinquencies, loss history, trends in volume and terms of loans, effects of changes in lending policy, the experience and depth of Management, national and local economic trends, concentrations of credit, the quality of the loan review system and the effect of external factors such as competition and regulatory requirements. The nonspecific allowance captures losses that have impacted the portfolio but have yet to be recognized in either the formula or specific allowance.

**OVERVIEW**

Net income for the first quarter of 2008 was $3.372 million, or diluted earnings per share of $0.40, compared to $3.403 million, or diluted earnings per share of $0.41, for the first quarter of 2007. For the fourth quarter of 2007, net income was $3.340 million or $0.40 per diluted share.

Annualized return on average assets was 1.38% for the three months ended March 31, 2008, compared to 1.43% for the same period in 2007. Annualized return on average stockholders' equity was 10.96% for the three-month period ended March 31, 2008, compared to 12.09% for the same period in 2007. For the fourth quarter of 2007, return on average assets was 1.40% and return on average equity was 11.78%.

**RESULTS OF OPERATIONS**

**Net Interest Income**
Net interest income for the three-month period ended March 31, 2008 was $10.0 million, representing an increase of 1.3% when compared to the same period last year. Increased loan volume was the reason for the increase. The net interest margin remained relatively flat at 4.42% for the first quarter of 2008 when compared to the first quarter of 2007. Net interest income decreased 3.8% from the fourth quarter of 2007 primarily due to decreased rates. The net interest margin decreased 28 basis points from 4.70% for the fourth quarter of 2007. The 200 basis-point reduction in interest rates by the Federal Reserve in the first quarter of 2008 had a significant and immediate impact on the overall yield on earning assets.

Interest income was $15.9 million for both the first quarters of 2008 and 2007. Average earning assets increased 3.1% during the first quarter of 2008 when compared to the same period in 2007, and yields earned decreased 15 basis points to 7.00%. Average loans increased 14.0% while the yield earned on loans decreased 44 basis points. Loans comprised 86.5% and 78.1% of total average earning assets for the quarters ended March 31, 2008 and 2007, respectively. Interest income decreased 3.2% when compared to the fourth quarter of 2007.

Interest expense decreased 1.5% for the three-month period ended March 31, 2008 when compared to the same period last year. Average interest bearing liabilities increased 3.0% while rates paid decreased 13 basis points to 3.17%. Declining average balances and lower rates paid on money market and savings deposits and long-term debt were the primary reasons for the decreased expense. Although lower rates were paid for certificates of deposit and short-term borrowings, interest expense increased for these two categories due to increased average balances. The average balance of interest bearing deposits increased by 2.6% for the three months ended March 31, 2008 when compared to the same period in 2007. The overall rate paid for interest bearing deposits decreased 8 basis points to 3.12%. For the three months ended March 31, 2008, the average balance of certificates of deposits $100,000 or more increased by 13.5% when compared to the same period last year, and the average rate paid for those certificates of deposit decreased 24 basis points to 4.60%. Interest expense decreased 2.2% when compared to the fourth quarter of 2007.

**Analysis of Interest Rates and Interest Differentials.**
The following table presents the distribution of the average consolidated balance sheets, interest income/expense, and annualized yields earned and rates paid through March 31, 2008 and 2007:

| | **March 31, 2008** | | | March 31, 2007 | | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | **Average Balance** | **Income(1)/ Expense** | **Yield/ Rate** | Average Balance | Income(1)/ Expense | Yield/ Rate |
| Earning assets | | | | | | |
| Investment securities | | | | | | |
| Taxable | **$ 91,556** | **$ 1,080** | **4.74%** | $ 116,792 | $ 1,284 | 4.40% |
| Nontaxable | **12,676** | **190** | **6.01** | 13,215 | 192 | 5.81 |
| Loans (2), (3) | **796,849** | **14,601** | **7.37** | 698,735 | 13,641 | 7.81 |
| Federal funds sold | **16,237** | **122** | **3.03** | 38,819 | 520 | 5.35 |
| Interest bearing deposits | **4,204** | **38** | **3.64** | 26,678 | 338 | 5.07 |
| Total earning assets | **921,522** | **16,031** | **7.00%** | 894,239 | 15,975 | 7.15% |
| Cash and due from banks | **16,648** | | | 17,226 | | |
| Other assets | **55,013** | | | 43,835 | | |
| Allowance for credit losses | **(7,716)** | | | (6,445) | | |
| Total assets | **$ 985,467** | | | $ 948,855 | | |
| | | | | | | |
| Interest bearing liabilities | | | | | | |
| Demand deposits | **$ 115,215** | **171** | **0.60%** | $ 111,248 | 236 | 0.85% |
| Money market and savings deposits | **175,363** | **705** | **1.62** | 185,017 | 824 | 1.78 |
| Certificates of deposit $100,000 or more | **180,826** | **2,070** | **4.60** | 159,281 | 1,926 | 4.84 |
| Other time deposits | **217,123** | **2,397** | **4.44** | 215,285 | 2,382 | 4.43 |
| Interest bearing deposits | **688,527** | **5,343** | **3.12** | 670,831 | 5,368 | 3.20 |
| Short-term borrowings | **43,354** | **366** | **3.40** | 27,180 | 246 | 3.62 |
| Long-term debt | **14,925** | **184** | **4.95** | 27,000 | 371 | 5.50 |
| Total interest bearing liabilities | **746,806** | **5,893** | **3.17%** | 725,011 | 5,985 | 3.30% |
| Noninterest bearing deposits | **100,982** | | | 102,915 | | |
| Other liabilities | **13,940** | | | 8,297 | | |
| Stockholders' equity | **123,739** | | | 112,632 | | |
| Total liabilities and stockholders' equity | **$ 985,467** | | | $ 948,855 | | |
| | | | | | | |
| Net interest spread | | **$ 10,138** | **3.83%** | | $ 9,990 | 3.85% |
| Net interest margin | | | **4.42%** | | | 4.47% |

(1) All amounts are reported on a tax equivalent basis computed using the statutory federal income tax rate of 35% exclusive of the
alternative minimum tax rate and nondeductible interest expense.
(2) Average loan balances include nonaccrual loans.
(3) Interest income on loans includes amortized loan fees, net of costs, for each loan category and yield calculations are stated to include all.

**Noninterest Income**
Noninterest income for the first quarter of 2008 increased $1.9 million when compared to the first quarter of 2007. The increase was primarily the result of the acquisition of two insurance agencies during the fourth quarter of 2007. Service charges on deposit accounts increased $182 thousand, other service charges and fees increased $265 thousand and insurance agency commissions increased $1.4 million for the first quarter of 2008 when compared to the first quarter of 2007. Noninterest income increased $787 thousand from the fourth quarter of 2007 primarily due to an

increase in insurance agency commissions.

**Noninterest Expense**

Noninterest expense for the first quarter of 2008 increased $1.7 million when compared to the first quarter of 2007. The increase was primarily attributable to the operating expenses of the two insurance agencies acquired during the fourth quarter of 2007. Salaries and benefits increased $1.1 million and other noninterest expenses increased $610 thousand for the first quarter of 2008 when compared to the first quarter of 2007. Included in other noninterest expenses was $611 thousand in commissions paid to unrelated insurance companies relating to wholesale insurance company activities. Noninterest expense increased $289 thousand from the fourth quarter of 2007 primarily due to an increase in salaries and benefits partially offset by a decrease in other noninterest expenses.

**Income Taxes**
The effective tax rate was 38.5% for the three months ended March 31, 2008 compared to 37.2% for the same period last year. Management believes that there have been no changes in tax laws or to our tax structure that are likely to have a material impact on our future effective tax rate.

**ANALYSIS OF FINANCIAL CONDITION**

**Loans**
Loans, net of unearned income, totaled $808.6 million at March 31, 2008, an increase of $32.2 million, or 4.2%, since December 31, 2007. Average loans, net of unearned income, were $796.8 million for the three months ended March 31, 2008, an increase of $98.1 million, or 14.0%, when compared to the same period last of year.

**Allowance for Credit Losses**
We have established an allowance for credit losses, which is increased by provisions charged against earnings and recoveries of previously charged-off debts. The allowance is decreased by current period charge-offs of uncollectible debts. Management evaluates the adequacy of the allowance for credit losses on a quarterly basis and adjusts the provision for credit losses based upon this analysis. The evaluation of the adequacy of the allowance for credit losses is based on a risk rating system of individual loans, as well as on a collective evaluation of smaller balance homogenous loans based on factors such as past credit loss experience, local economic trends, nonperforming and problem loans, and other factors which may impact collectibility. A loan is placed on nonaccrual when it is specifically determined to be impaired and principal and interest is delinquent for 90 days or more. Please refer to the discussion above under the caption "Critical Accounting Policies" for an overview of the underlying methodology Management employs on a quarterly basis to maintain the allowance.

The provision for credit losses for the three-month periods ended March 31, 2008 and 2007 was $462 thousand and $242 thousand, respectively. The provision for credit losses for the fourth quarter of 2007 was $465 thousand. The increased provision for the first quarter of 2008 when compared to the same period last year reflected the overall growth in the loan portfolio and current economic conditions. The overall credit quality of the portfolio remains strong as evidenced by loan delinquency and charge-off data at March 31, 2008. Management believes that we continue to maintain strong underwriting guidelines.

Our historical charge-off ratios remain lower than those of similarly sized institutions according to the most recent Bank Holding Company Performance Report prepared by the Federal Reserve Board. Net charge-offs were $87 thousand for the three-month period ended March 31, 2008, compared to $36 thousand for the same period last year and $135 thousand for the fourth quarter of 2007. The allowance for credit losses as a percentage of average loans was 0.99% at March 31, 2008, compared to 0.93% at March 31, 2007. Loans past due 90 days and still accruing at March 31, 2008 were $1.1 million compared to $1.6 million at December 31, 2007. Nonperforming assets decreased to $3.4 million at March 31, 2008 from $3.7 million at December 31, 2007. Based on Management's quarterly evaluation of the adequacy of the allowance for credit losses, it believes that the allowance for credit losses and the related provision are adequate at March 31, 2008.

The following table presents a summary of the activity in the allowance for credit losses:

| | For the Three Months Ended March 31, | |
|---|---|---|
| (Dollars in thousands) | **2008** | 2007 |
| Allowance balance - beginning of period | **$ 7,551** | $ 6,300 |
| Charge-offs: | | |
| Real estate | **(12)** | - |
| Consumer | **(63)** | (79) |
| Commercial and other | **(42)** | (16) |
| Totals | **(117)** | (95) |
| Recoveries: | | |
| Real estate | **8** | - |
| Consumer | **19** | 27 |
| Commercial and other | **3** | 32 |
| Totals | **30** | 59 |
| Net charge-offs | **(87)** | (36) |
| Provision for credit losses | **462** | 242 |
| Allowance balance - end of period | **$ 7,926** | $ 6,506 |
| | | |
| Average loans outstanding during period | **$ 796,849** | $ 698,735 |
| Net charge-offs (annualized) as a percentage of average loans outstanding during period | **0.04%** | 0.02% |
| Allowance for credit losses at period end as a percentage of average loans | **0.99%** | 0.93% |

Because most of our loans are secured by real estate, weaknesses in the local real estate market may have a material adverse effect on the performance of our loan portfolio and the value of the collateral securing that portfolio. Despite the weaknesses in the national economy and real estate market, Management believes that the local economy and real estate market remain relatively stable.

We have a concentration of commercial real estate loans. Commercial real estate loans, excluding construction and land development loans, at March 31, 2008 were approximately $266.4 million, or 33.0% of total loans, compared to $249.5 million, or 32.1% of total loans at December 31, 2007. Construction and land development loans at March 31, 2008 were $166.6 million, or 20.6% of total loans, compared to $155.5 million, or 20.0% of total loans at December 31, 2007. We do not engage in foreign or subprime lending activities.

**Nonperforming Assets**

The following table summarizes our past due and nonperforming assets:

| (Dollars in thousands) | **March 31, 2008** | December 31, 2007 |
|---|---|---|
| Nonperforming assets | | |
| Nonaccrual loans | **$ 3,438** | $ 3,540 |
| Other real estate owned | **-** | 176 |
| Total nonperforming assets | **3,438** | 3,716 |
| Loans 90 days past due and still accruing | **1,098** | 1,606 |
| Total nonperforming assets and past due loans | **$ 4,536** | $ 5,322 |

**Investment Securities**

Investment securities totaled $99.1 million at March 31, 2008, compared to $110.0 million at December 31, 2007. The decreased balance reflects that a portion of maturing securities were used to fund loan growth. The average balance of investment securities was $104.2 million for the three months ended March 31, 2008, compared to $130.0 million for the same period in 2007. The tax equivalent yields on investment securities were 4.90% and 4.54% for the three-month periods ended March 31, 2008 and 2007, respectively.

**Deposits**

Total deposits at March 31, 2008 were $808.9 million, compared to $765.9 million at December 31, 2007. Certificates of deposit of $100,000 or more increased $27.0 million, or 16.7%, due primarily to increased deposits of a large municipal customer, and money market and savings deposits increased $14.6 million, or 8.6%, since the end of 2007. Growth in other time and demand deposits have remained relatively flat since December 31, 2007.

**Short-term borrowings**

Short-term borrowings at March 31, 2008 and December 31, 2007 were $42.7 million and $47.7 million, respectively. Short-term borrowings consisted of securities sold under agreements to repurchase, overnight borrowings from correspondent banks and short-term advances from the Federal Home Loan Bank. Short-term advances are defined as those with original maturities of one year or less.

**Long-Term Debt**

At March 31, 2008 and December 31, 2007, the Company had the following long-term debt:

| (Dollars in thousands) | **March 31, 2008** | December 31, 2007 |
|---|---|---|
| Federal Home Loan Bank (FHLB) 5.69% Advance due June 2008 | **$ 7,000** | $ 7,000 |
| FHLB 4.17% Advance due November 2009 | **3,000** | 3,000 |
| FHLB 3.09% Advance due January 2010 | **3,000** | - |
| Acquisition related debt, 4.08% interest, equal annual installments for five years | **2,485** | 2,485 |
| | **$ 15,485** | $ 12,485 |

**Liquidity and Capital Resources**

We derive liquidity through increased customer deposits, maturities in the investment portfolio, loan repayments and income from earning assets. To the extent that deposits are not adequate to fund customer loan demand, liquidity needs can be met in the short-term funds markets through arrangements with correspondent banks. Talbot Bank and Centreville National Bank are also members of the Federal Home Loan Bank of Atlanta and Felton Bank is a member of the Federal Home Loan Bank of Pittsburgh to which they have pledged collateral sufficient to permit additional borrowings of up to approximately $74.3 million in the aggregate at March 31, 2008. Management is not aware of any trends or demands, commitments, events or uncertainties that are likely to materially affect our future ability to maintain liquidity at satisfactory levels.

Total stockholders' equity was $122.7 million at March 31, 2008, an increase of 2.0% since December 31, 2007. Accumulated other comprehensive income, which consists solely of net unrealized gains or losses on investment securities available for sale, increased by $714 thousand since the end of 2007, resulting in accumulated other comprehensive income of $961 thousand at March 31, 2008.

Bank regulatory agencies have adopted various capital standards for financial institutions, including risk-based capital standards. The primary objectives of the risk-based capital framework are to provide a more consistent system for comparing capital positions of financial institutions and to take into account the different risks among financial institutions' assets and off-balance sheet items.

Risk-based capital standards have been supplemented with requirements for a minimum Tier 1 capital to average assets ratio (leverage ratio). In addition, regulatory agencies consider the published capital levels as minimum levels and may require a financial institution to maintain capital at higher levels.

A comparison of our capital ratios as of March 31, 2008 to the minimum regulatory requirements is presented below:

| | Actual | Minimum Requirements |
|---|---|---|
| Tier 1 risk-based capital | 11.88% | 4.00% |
| Total risk-based capital | 12.88% | 8.00% |
| Leverage ratio | 10.32% | 4.00% |

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

Our primary market risk is to interest rate fluctuation and Management has procedures in place to evaluate and mitigate this risk. This risk and these procedures are discussed in Item 7 of Part II of the Annual Report of Shore Bancshares, Inc. on Form 10-K for the year ended December 31, 2007 under the caption "Market Risk Management". Management believes that there have been no material changes in our market risks, the procedures used to evaluate and mitigate these risks, or our actual and simulated sensitivity positions since December 31, 2007.

**Item 4. Controls and Procedures.**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 with the SEC, such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in those rules and forms, and that such information is accumulated and communicated to Management, including the Chief Executive Officer ("CEO") and the Principal Accounting Officer ("PAO"), as appropriate, to allow for timely decisions regarding required disclosure. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

An evaluation of the effectiveness of these disclosure controls as of March 31, 2008 was carried out under the supervision and with the participation of Management, including the CEO and the PAO. Based on that evaluation, the Company's management, including the CEO and the PAO, has concluded that our disclosure controls and procedures are, in fact, effective at the reasonable assurance level.

During the first quarter of 2008, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

**Item 1A. Risk Factors.**

The risks and uncertainties to which our financial condition and operations are subject are discussed in detail in Item 1A of Part I of the Annual Report of Shore Bancshares, Inc. on Form 10-K for the year ended December 31, 2007. Management does not believe that any material changes in our risk factors have occurred since they were last disclosed.

**Item 6. Exhibits.**

The exhibits filed or furnished with this quarterly report are shown on the Exhibit List that follows the signatures to this report, which list is incorporated herein by reference.

## 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.

SHORE BANCSHARES, INC.

| | | |
|---|---|---|
| Date: May 8, 2008 | By: | /s/ W. Moorhead Vermilye<br>W. Moorhead Vermilye<br>President/Chief Executive Officer |

| | | |
|---|---|---|
| Date: May 8, 2008 | By: | /s/ Susan E. Leaverton |
| | | Susan E. Leaverton, CPA |
| | | Treasurer/Principal Accounting Officer |

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**EXHIBIT INDEX**

| Exhibit Number | Description |
|---|---|
| 31.1 | Certifications of the CEO pursuant to Section 302 of the Sarbanes-Oxley Act (filed herewith). |
| 31.2 | Certifications of the PAO pursuant to Section 302 of the Sarbanes-Oxley Act (filed herewith). |
| 32.1 | Certification of the CEO pursuant to Section 906 of the Sarbanes-Oxley Act (furnished herewith). |
| 32.2 | Certification of the PAO pursuant to Section 906 of the Sarbanes-Oxley Act (furnished herewith). |