

BRYN MAWR BANK CORP  
Form 10-Q  
May 10, 2006  
Table of Contents

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**Form 10-Q**

---

**Quarterly Report Under Section 13 or 15 (d)**  
**of the Securities and Exchange Act of 1934.**

**For Quarter ended March 31, 2006**

**Commission File Number 0-15261**

---

**Bryn Mawr Bank Corporation**

(Exact name of registrant as specified in its charter)

---

<b>Pennsylvania</b> (State or other jurisdiction of incorporation or organization)	<b>23-2434506</b> (I.R.S. Employer identification No.)
<b>801 Lancaster Avenue, Bryn Mawr, Pennsylvania</b> (Address of principal executive offices)	<b>19010</b> (Zip Code)
<b>Registrant's telephone number, including area code (610) 525-1700</b>	

**Not Applicable**

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

---

## Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

Indicate by check whether the registrant (1) has filed all reports to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes  No

Indicate the number of shares outstanding of each of the issuer's class of common stock, as of the latest practicable date.

Class	Outstanding at May 3, 2006
Common Stock, par value \$1	8,580,517

---

**Table of Contents**

BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

FORM 10-Q

QUARTER ENDED March 31, 2006

INDEX

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

Consolidated Financial Statements

Page 3

Notes to Consolidated Financial Statements

Page 7

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

Page 15

ITEM 3. Quantitative and Qualitative Disclosures About Market Risks

Page 27

ITEM 4. Controls and Procedures

Page 27

PART II OTHER INFORMATION

Page 28

ITEM 1. Legal Proceedings

Page 28

ITEM 1a. Risk Factors

Page 28

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Page 28

ITEM 3. Defaults Upon Senior Securities

Page 28

ITEM 4. Submission of Matters to Vote of Security Holders

Page 28

ITEM 5. Other Information

Page 28

ITEM 6. Exhibits

Page 28

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****BRYN MAWR BANK CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****Unaudited**

	<b>Three Months Ended</b>	
	<b>March 31</b>	
(dollars in thousands, except per share data)	<b>2006</b>	<b>2005</b>
<b>Net interest income:</b>		
<b>Interest income:</b>		
Interest and fees on loans	\$ 9,927	\$ 8,354
Interest on federal funds sold	66	25
Interest on interest bearing deposits with banks	5	18
Interest and dividends on investment securities	360	274
<b>Total interest and dividend income</b>	<b>10,358</b>	<b>8,671</b>
<b>Interest expense:</b>		
Savings, NOW, and market rate accounts	821	562
Time deposits	1,301	732
Borrowings	42	9
<b>Total interest expense</b>	<b>2,164</b>	<b>1,303</b>
<b>Net interest income</b>	<b>8,194</b>	<b>7,368</b>
<b>Loan loss provision</b>	<b>154</b>	<b>187</b>
<b>Net interest income after loan loss provision</b>	<b>8,040</b>	<b>7,181</b>
<b>Non-interest income:</b>		
Fees for wealth management services	3,120	2,654
Service charges on deposits	379	395
Loan servicing and late fees	290	339
Net gain on sale of loans	250	458
Other operating income	547	568
<b>Total non-interest income</b>	<b>4,586</b>	<b>4,414</b>
<b>Non-interest expenses:</b>		
Salaries and wages	3,829	3,507
Employee benefits	1,318	1,141
Occupancy	624	556
Furniture, fixtures, and equipment	482	460
Advertising	200	176
Amortization of mortgage servicing rights	86	189
Professional fees	297	303
Other operating expenses	1,009	1,052

Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

Total non-interest expenses	7,845	7,384
Income before income taxes	4,781	4,211
<b>Income taxes</b>	1,645	1,409
Net income	\$ 3,136	\$ 2,802
Total Basic earnings per share	\$ 0.37	\$ 0.33
Total Diluted earnings per share	\$ 0.36	\$ 0.32
Dividends declared per share	\$ 0.11	\$ 0.10
Weighted-average basic shares outstanding	8,570,675	8,591,622
Dilutive potential shares	137,135	105,718
Adjusted weighted-average shares	8,707,810	8,697,340

The accompanying notes are an integral part of the unaudited consolidated financial statements.

**Table of Contents****BRYN MAWR BANK CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****Unaudited**

	March 31,	December 31,
(dollars in thousands, except per share data)	2006	2005
<b>Assets</b>		
Cash and due from banks	\$ 26,132	\$ 33,896
Interest bearing deposits with banks	508	405
Federal funds sold		32,341
Investment securities available for sale, at fair value (amortized cost of \$44,277 and \$35,608 as of March 31, 2006 and December 31, 2005, respectively)	43,428	34,991
Loans held for sale	4,061	2,765
Portfolio loans	606,578	595,165
Less: Allowance for loan losses	(7,571)	(7,402)
<b>Net portfolio loans</b>	<b>599,007</b>	<b>587,763</b>
Premises and equipment, net	14,649	14,622
Accrued interest receivable	3,300	3,265
Deferred income taxes	1,370	709
Mortgage servicing rights	2,980	2,982
Other assets	14,498	13,487
<b>Total assets</b>	<b>\$ 709,933</b>	<b>\$ 727,226</b>
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing demand	\$ 151,324	\$ 168,042
Savings, NOW and market rate accounts	303,356	312,896
Time deposits	153,412	155,322
<b>Total deposits</b>	<b>608,092</b>	<b>636,260</b>
Borrowed funds	8,000	
Accrued interest payable	2,428	2,143
Other liabilities	11,743	11,310
<b>Total liabilities</b>	<b>630,263</b>	<b>649,713</b>
<b>Shareholders equity</b>		
Common stock, par value \$1; authorized 25,000,000 shares; issued 11,282,199 and 11,221,899 shares as of March 31, 2006 and December 31, 2005 respectively and outstanding of 8,575,555 and 8,556,255 shares as of March 31, 2006 and December 31, 2005, respectively	11,282	11,222
Paid-in capital in excess of par value	8,832	7,888
Accumulated other comprehensive income, net of taxes	(793)	(643)
Retained earnings	85,122	82,930
	104,443	101,397
	(24,773)	(23,884)

## Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

Less: Common stock in treasury at cost 2,706,644, and 2,665,644 shares as of March 31, 2006 and December 31, 2006 respectively

Total shareholders' equity	79,670	77,513
Total liabilities and shareholders' equity	\$ 709,933	\$ 727,226
Book value per share	\$ 9.29	\$ 9.06

The accompanying notes are an integral part of the unaudited consolidated financial statements.

**Table of Contents****BRYN MAWR BANK CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****Unaudited**

(dollars in thousands)	Three Months Ended March 31	
	2006	2005
<b>Operating activities:</b>		
Net income from operations	\$ 3,136	\$ 2,802
Adjustments to reconcile net income from continuing operations to net cash (used) provided by operating activities:		
Provision for loan losses	154	187
Provision for depreciation and amortization	367	356
Loans originated for resale	(15,597)	(38,354)
Proceeds from loans sold	14,551	34,308
Gain on sale of loans	(250)	(458)
Provision for deferred income taxes (benefit)	(580)	(303)
Change in tax receivable		1,215
Change in accrued interest receivable	(35)	(305)
Change in accrued interest payable	285	(1,404)
Change in mortgage servicing rights, net	2	58
Other	(659)	33
Net cash provided (used) by operating activities	1,374	(1,865)
<b>Investing activities:</b>		
Purchases of investment securities available for sale	(8,810)	(1,250)
Proceeds from maturity of investment securities		
Proceeds from sale of investment securities available for sale		279
Proceeds from calls of investment securities	200	1,000
Net portfolio loan (originations) repayments	(11,398)	6,292
Purchases of premises and equipment	(371)	(608)
Acquisition of OREO		(234)
Net cash (used) provided by investing activities	(20,379)	5,479
<b>Financing activities:</b>		
Net (decrease) increase in demand and savings deposits	(26,256)	(38,746)
Net (decrease) increase in time deposits	(1,911)	20,965
Dividends paid	(944)	(860)
Purchases of treasury stock	(889)	(1,269)
Retirement of treasury stock		
Change in borrowed funds	8,000	
Proceeds from issuance of common stock	1,003	229
Net cash used by financing activities	(20,997)	(19,681)
(Decrease) increase in cash and cash equivalents	(40,002)	(16,067)
Cash and cash equivalents at beginning of period	66,642	55,242
Cash and cash equivalents at end of period	\$ 26,640	\$ 39,175

**Supplemental cash flow information:**



Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

Income taxes paid	\$ 20	\$ 24
Interest paid	\$ 1,879	\$ 2,707

The accompanying notes are an integral part of the unaudited consolidated financial statements.

**Table of Contents**

**BRYN MAWR BANK CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**Unaudited**

(dollars in thousands)	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2006</b>	<b>2005</b>
Net income	\$ 3,136	\$ 2,802
Other comprehensive income:		
Unrealized holding gain (loss) on available-for-sale securities	(232)	(353)
Deferred income tax (expense) benefit on unrealized holding gain (loss) on available for sale securities	81	124
<b>Total comprehensive income</b>	<b>\$ 2,985</b>	<b>\$ 2,573</b>

The accompanying notes are an integral part of the unaudited consolidated financial statements.

**Table of Contents****BRYN MAWR BANK CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2006 and 2005****(Unaudited)****1. Basis of Presentation:**

The unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. In the opinion of Bryn Mawr Bank Corporation's (the Corporation) Management, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the consolidated financial position and the results of operations for the interim period presented have been included. **These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto in the Corporation's 2005 Annual Report on Form 10-K.** The Corporation's consolidated financial condition and results of operations consist almost entirely of The Bryn Mawr Trust Company's (the Bank) financial condition and results of operations.

The results of operations for the three month period ended March 31, 2006 are not necessarily indicative of the results to be expected for the full year.

**2. Earnings Per Common Share:**

The Corporation follows the provisions of SFAS No. 128, Earnings Per Share. Basic earnings per common share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average common shares outstanding during the period. Diluted earnings per common share takes into account the potential dilution, computed pursuant to the treasury stock method, that could occur if stock options were exercised and converted into common stock. The effects of stock options are excluded from the computation of diluted earnings per share in periods in which the effect would be antidilutive. As of March 31, 2005 and 2006 the antidilutive shares were 3,250 for both periods. All weighted average shares, actual shares and per share information in the financial statements have been adjusted retroactively for the effect of stock dividends and splits.

(dollars in thousands, except per share data)	Three Months Ended	
	March 31,	
	2006	2005
<b>Numerator:</b>		
Net income available to common shareholders	\$ 3,136	\$ 2,802
<b>Denominator for basic earnings per share</b> - weighted average shares		
outstanding	8,570,675	8,591,622
Effect of dilutive potential common shares	137,135	105,718
<b>Denominator for diluted earnings per share</b> - adjusted weighted average shares		
outstanding	8,707,810	8,697,340
Basic earnings per share	\$ .37	\$ .33
Diluted earnings per share	\$ .36	\$ .32

**3. Allowance for Loan Losses**

The allowance for loan losses is established through a provision for loan losses charged as an expense. Loans are charged against the allowance for loan losses when Management believes that the collectability of principal is unlikely. The allowance for loan losses is maintained at a level that Management believes is sufficient to absorb estimated probable credit losses. Note 1, Summary of Significant Accounting Policies Allowance for Loan Losses, included in the Corporation's 2005 Annual Report on Form 10K contains additional information relative to Management's determination of the adequacy of the allowance for loan losses.

**4. Stock Based Compensation**

The Corporation adopted SFAS No. 123R Share-Based Payments effective January 1, 2006. SFAS 123R establishes accounting for stock-based awards exchanged for employee services. Accordingly, stock based compensation cost is

**Table of Contents**

measured at the grant date, based on the fair value of the award and is recognized as an expense over the vesting period. The Corporation previously applied Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations and provided the required pro forma disclosures of SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123).

Generally, the approach in SFAS 123R to stock-based payment accounting is similar to SFAS 123. However, SFAS 123R requires all share-based payments, including grants of stock options, be recognized as compensation cost in the statement of income at their fair value. Pro forma disclosure for periods beginning after January 1, 2006 is not an alternative under SFAS 123R.

The Corporation elected to adopt SFAS 123R using the modified prospective application method in which compensation cost is recognized beginning with the effective date (a) based upon the requirements of SFAS 123R for all share-based payments granted after the effective date, and (b) based on the requirements of SFAS 123 for all awards granted prior to the effective date of SFAS 123R that remain unvested on the effective date.

The Corporation recorded stock-based compensation expense for the three months ended March 31, 2006 as follows:

	Three Months Ended		
	March 31, 2006		
	Using Previous Accounting	SFAS 123R Effects	As Reported
<b>(dollars in thousands, except per share data)</b>			
Income before taxes	\$ 4,820	\$ (39)	\$ 4,781
Income taxes	(1,658)	13	(1,645)
<b>Net Income</b>	<b>\$ 3,162</b>	<b>\$ (26)</b>	<b>\$ 3,136</b>
Basic Earnings per share	0.37	0.00	0.37
Diluted earnings per share	0.36	0.00	0.36

The proforma net income that would have resulted if the Corporation applied the fair value method of accounting for stock based compensation under SFAS No. 123 for the three months ended March 31, 2005 is as follows:

	Three Months Ended		
	March 31, 2005		
	As Reported	Pro Forma Adjustment	Pro Forma If under SFAS 123
<b>(dollars in thousands, except per share data)</b>			
Income before taxes	\$ 4,211	\$ (138)	\$ 4,073
Income taxes	(1,409)	46	(1,363)
<b>Net Income</b>	<b>\$ 2,802</b>	<b>\$ (92)</b>	<b>\$ 2,710</b>
Basic Earnings per share	0.33	(0.01)	0.32
Diluted earnings per share	0.32	(0.01)	0.31

The Corporation's Stock Option Plan (SOP) permits the issuance of options to key employees and Directors to purchase shares of the Corporation's common stock. A total of 431,143 shares were authorized in 2004 by the Board of Directors. As of March 31, 2006 there are 21,064 shares available for future grant. The option price is set at the closing price for the stock on the day preceeding issuance of grants as determined by the Corporation's Board of Directors. Options granted may either be incentive stock options within the meaning of the Internal Revenue Service Code, or non-qualified options. The stock options are exercisable over a period determined by the Board of Directors; however,

## Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

the option period will not be longer than ten years from the date of the grant. The vesting period of option grants issued is also determined by the Corporation's Board of Directors. During 2005 all grants were issued with immediate vesting. Also, during 2005 the vesting period on 83,916 out of money options outstanding was accelerated to avoid stock based compensation expense in future years. The historical vesting period for options issued had been three years. The SOP provides that the option price at the date of the grant will not be less than the fair market value of the Corporation's common stock. The Corporation's practice is to issue option related shares from authorized but unissued.

**Table of Contents**

The following table provides information about options outstanding for the three-months ended March 31, 2006:

	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Options outstanding December 31, 2005	934,308	\$ 17.44	\$ 3.74
Granted			
Forfeited			
Expired			
Exercised	60,300	\$ 14.02	\$ 2.91
Options outstanding March 31, 2006	874,008	\$ 17.68	\$ 3.80

The following table provides information about unvested options for the three-months ended March 31, 2006:

	Shares	Weighted Average Grant Date Fair Value
Unvested options December 31, 2005	33,334	\$ 18.04
Granted		
Vested	333	\$ 17.85
Forfeited		
Unvested options March 31, 2006	33,001	\$ 18.05

The total compensation cost on unvested stock options is \$15,600. This expense will be recognized over a weighted average period of 2 months.

Proceeds, related tax benefits realized from options exercised and intrinsic value of options exercised during the quarters ended March 31, 2006 and 2005 were as follows:

	2006	2005
Proceeds from strike price of value of options exercised	\$ 845,406	\$ 149,275
Related tax benefit recognized	158,191	78,371
Proceeds of options exercised	\$ 1,003,597	\$ 227,646

The intrinsic value of the options exercised during the three months ended March 31, 2006 and 2005 were \$451,000 and \$224,000, respectively.

The following table provides information about options outstanding and exercisable options at March 31, 2006:

	Outstanding	Exercisable
Number	874,008	841,007

Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

Weighted average exercise price	\$ 17.68	\$ 17.66
Aggregate intrinsic value	\$ 3,630,672	\$ 3,505,836
Weighted average contractual term	7.1	7.1

The weighted average remaining contractual life for options outstanding and weighted average exercise price per share for exercisable options at March 31, 2006 were as follows:

Exercise Price	Outstanding Weighted Average			Exercisable		
	Shares	Remaining Contractual Life (in years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Weighted Average Exercise Price
\$ 6.25 - \$10.75	51,200	3.4	\$ 10.07	51,200	\$ 10.07	\$ 10.07
\$12.25 - \$15.15	175,350	3.8	13.30	175,350	13.30	13.30
\$16.25 - \$18.91	361,033	7.8	18.34	328,032	18.37	18.37
\$19.11 - \$22.68	286,425	9.0	20.89	286,425	20.89	20.89
	874,008	7.1	\$ 17.68	841,007	\$ 17.66	\$ 17.66



**Table of Contents**

There were no stock options granted during the three months ended March 31, 2006 or March 31, 2005.

**5. Pension and Other Post-Retirement Benefit Plans**

The Corporation sponsors two pension plans, the qualified defined benefit pension plan ( QDBP ) and the non-qualified defined benefit pension plan ( SERP ), and a post-retirement benefit plan ( PRBP ).

The following table provides a reconciliation of the components of the net periodic benefits cost for the three months ended March 31, 2006 and 2005:

	For The Three Months			
	Ended March 31			
	Defined Benefit		Post-Retirement	
	Pension Plans		Benefit Plan	
	2006	2005	2006	2005
Service cost	\$ 323	\$ 328	\$ 3	\$ 6
Interest cost	434	416	35	50
Expected return on plan assets	(557)	(544)		
Amortization of transition obligation			6	6
Amortization of prior service costs	32	32	(34)	
Amortization of net (gain) loss	111	111	51	50
<b>Net periodic benefit cost</b>	<b>\$ 373</b>	<b>\$ 343</b>	<b>\$ 61</b>	<b>\$ 112</b>

As stated in the Corporation's 2005 Annual Report, the Corporation does not have any minimum funding requirement for its QDBP for 2006. Additionally, the Corporation is expected to contribute approximately \$131 thousand to the SERP plan for 2006. As of March 31, 2006 no contributions have been made to either of the pension plans for 2006. Changes were made to the PRBP in 2005 limiting future increases in plan costs to 120% of the then current benefit.

**6. Segment Information**

SFAS No. 131, Segment Reporting, identifies operating segments as components of an enterprise which are evaluated regularly by the Corporation's Chief Executive Officer in deciding how to allocate resources and assess performance. The Corporation has applied the aggregation criterion set forth in SFAS No. 131 to the results of its operations.

The Corporation has identified four segments as defined by SFAS No. 131 as follows: Banking, Wealth Management, Mortgage Banking and All Other. Footnote 24 Segment Information, in the Notes to the Consolidated Financial Statements in the Corporation's 2005 Annual Report on Form 10K provides additional descriptions of the identified segments.

**Table of Contents**

Segment information for the quarter ended March 31, 2006 and 2005 is as follows:

(Dollars in thousands)

	Banking	Wealth Management	2006 Mortgage Banking	All Other	Consolidated
Net interest income	\$ 8,184	\$	\$	\$ 10	\$ 8,194
Less: Loan loss provision	154				154
Net interest income after loan loss provision	8,030			10	8,040
Other income:					
Fees for wealth management services		3,120			3,120
Other income	837		564	65	1,466
Total other income	837	3,120	564	65	4,586
Other expenses:					
Salaries and benefits	3,591	1,277	176	103	5,147
Occupancy	929	159	49	(31)	1,106
Amortization of mortgage servicing rights			86		86
Other operating expense	1,295	258	67	(114)	1,506
Total other expense	5,815	1,694	378	(42)	7,845
Segment profit (loss) before income taxes	3,052	1,426	186	117	4,781
Intersegment pretax revenues (expenses) *	(20)	45		(25)	
Segment pretax profit (loss) after eliminations	\$ 3,032	\$ 1,471	\$ 186	\$ 92	\$ 4,781
% of segment pretax profit (loss)	63.4%	30.8%	3.9%	1.9%	100.0%

	Banking	Wealth Management	2005** Mortgage Banking	All Other	Consolidated
Net interest income	\$ 7,348	\$	\$	\$ 20	\$ 7,368
Less: Loan loss provision	187				187
Net interest income after loan loss provision	7,161			20	7,181
Other income:					
Fees for wealth management services		2,654			2,654
Other income	848	1	845	66	1,760
Total other income	848	2,655	845	66	4,414
Other expenses:					
Salaries and benefits	3,208	1,127	248	65	4,648
Occupancy	835	154	58	(31)	1,016
Amortization of mortgage servicing rights			189		189
Other operating expense	1,108	257	129	37	1,531
Total other expense	5,151	1,538	624	71	7,384
Segment profit (loss) before income taxes	2,858	1,117	221	15	4,211
Intersegment pretax revenues (expenses) *	85	45		(130)	

## Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

Segment pretax profit (loss) after eliminations	\$ 2,943	\$ 1,162	\$ 221	\$ (115)	\$ 4,211
% of segment pretax profit (loss)	69.9%	27.6%	5.2%	(2.7)%	100.0%

---

\* Intersegment revenues consist of rental payments, insurance commissions and a management fee.

\*\* Reclassified for comparative purposes.

**Table of Contents****7. Mortgage Servicing Rights**

The following summarizes the Corporation's activity related to mortgage servicing rights (MSRs) for the three months ended March 31, 2006 and 2005:

(dollars in thousands)	2006	2005
Balance, January 1	\$ 2,982	\$ 3,172
Additions	84	131
Amortization	(86)	(183)
Impairment		(6)
Sales		
Balance, March 31	\$ 2,980	\$ 3,114
Fair Value	\$ 4,828	\$ 4,395

There was no impairment of MSRs for the three months ended March 31, 2006. For the three months ended March 31, 2005 there was \$6,000 of temporary impairment concentrated in higher rate mortgages. This impairment was reversed in the second half of 2005.

At March 31, 2006, key economic assumptions and the sensitivity of the current fair value of MSRs to immediate 10 and 20 percent adverse changes in those assumptions are as follows:

(dollars in thousands)	March 31, 2006
Fair value amount of MSRs	\$ 4,828
Weighted average life (in years)	7
Prepayment speeds (constant prepayment rate)*:	11.2%
Impact on fair value:	
10% adverse change	\$ (193)
20% adverse change	\$ (333)
Discount rate:	
Impact on fair value:	
10% adverse change	\$ (129)
20% adverse change	\$ (261)

\* Represents the weighted average prepayment rate for the life of the MSR asset.

These assumptions and sensitivities are hypothetical and should be used with caution. As the table also indicates, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the MSRs is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which could magnify or counteract the sensitivities.

**8. Impaired Loans**

The following summarizes the Corporation's impaired loans as of the applicable dates as follows:

(dollars in thousands)	March 31, 2006	December 31, 2005	March 31, 2005
------------------------	-------------------	----------------------	-------------------

Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

Period end balance	\$ 773	\$ 261	\$ 1,432
Average period to date balance	778	825	1,376
Loans with specific loss allowances			
Charge offs and recoveries			
Loss allowances reserved			
Year to date income recognized	\$ 22	\$ 22	\$ 10

## **Table of Contents**

### **9. Capital**

The Corporation declared and paid a regular dividend of \$0.11 per share, during the first quarter of 2006. This payment totaled \$943 thousand.

During the first quarter of 2006, the Corporation repurchased 41,000 shares of its common stock for \$888,870 at an average purchase price of \$21.68 per share.

### **10. Notes Receivable**

Notes receivable held by the Corporation relating to the sale of assets of JWR & Co. were paid in full in the first quarter of 2006. The notes receivable had a balance of \$954,000 at December 31, 2005. The notes receivable were classified as commercial and industrial loans in the consolidated balance sheet.

### **11. New Accounting Pronouncements**

#### **SFAS 123R**

Stock Based Compensation - In April of 2005, the FASB revised SFAS No. 123R Share Based Payment an Amendment of FASB No. 123 and APB No. 95 . See Note 4, Stock Based Compensation, above for additional information.

#### **SFAS 155**

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments. This Statement amends FASB Statements No. 133 and No. 140. This Statement resolves issues addressed in Statement 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets. This Statement:

- a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation;
- b) clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133;
- c) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation;
- d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and
- e) amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument.

This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The fair value election provided for in paragraph 4(c) of this Statement may also be applied upon adoption of this Statement for hybrid financial instruments that had been bifurcated under paragraph 12 of Statement 133 prior to the adoption of this Statement. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including financial statements for any interim period for that fiscal year. Provisions of this Statement may be applied to instruments that an entity holds at the date of adoption on an instrument-by-instrument basis. The Corporation did not early adopt SFAS 155. The Corporation has not yet determined whether this Statement will have a material impact on their consolidated financial statements upon adoption.

#### **SFAS 156**

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets. This Statement amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement:



**Table of Contents**

1) requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in any of the following situations:

- a) a transfer of the servicer's financial assets that meets the requirements for sale accounting;
- b) a transfer of the servicer's financial assets to a qualifying special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale securities or trading securities in accordance with FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities;
- c) an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates.

2) requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable;

3) permits an entity to choose either of the following subsequent measurement methods for each class of separately recognized servicing assets and servicing liabilities:

- a) amortization method Amortize servicing assets or servicing liabilities in proportion to and over the period of estimated net servicing income or net servicing loss and assess servicing assets or servicing liabilities for impairment or increased obligation based on fair value at each reporting date;
- b) fair value measurement method Measure servicing assets or servicing liabilities at fair value at each reporting date and report changes in fair value in earnings in the period in which the changes occur;

4) at its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under Statement 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value;

5) requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities.

An entity should adopt this Statement as of the beginning of its first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. The effective date of this Statement is the date an entity adopts the requirements of this Statement. The Corporation did not early adopt SFAS 156. The Corporation has not yet determined whether this Statement will have a material impact on their consolidated financial statements upon adoption.



**Table of Contents**

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

**Special Cautionary Notice Regarding Forward Looking Statements**

Certain of the statements contained in this Report and the documents incorporated by reference herein, may constitute forward-looking statements for the purposes of the Securities Act of 1933, as amended and the Securities Exchange Act of 1934, as amended, and may involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of the Corporation to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements include statements with respect to the Corporation's financial goals, business plans, business prospects, credit quality, credit risk, reserve adequacy, liquidity, origination and sale of residential mortgage loans, impairment of goodwill, the effect of changes in accounting standards, and market and pricing trends. The words expect, anticipate, intended, plan, believe, seek, estimate, and similar expressions are intended to identify such forward-looking statements. The Corporation's actual results may differ materially from the results anticipated by the forward-looking statement due to a variety of factors, including without limitation:

the effect of future economic conditions on the Corporation and its customers, including economic factors which affect consumer confidence in the securities markets, wealth creation, investment and savings patterns, and the Corporation's interest rate risk exposure and credit risk;

changes in the securities markets with respect to the market values of financial assets and the stability of particular securities markets;

**Table of Contents**

governmental monetary and fiscal policies, as well as legislation and regulatory changes;

changes in accounting requirements or interpretations;

the risks of changes in interest rates on the level and composition of deposits, loan demand, and the value of loan collateral and securities, as well as interest rate risk;

the effects of competition from other commercial banks, thrifts, mortgage companies, finance companies, credit unions, securities brokerage firms, insurance companies, money-market and mutual funds and other institutions operating in the Corporation's trade market area and elsewhere including institutions operating locally, regionally, nationally and internationally together with such competitors offering banking products and services by mail, telephone, computer and the internet;

any extraordinary event (such as the September 11, 2001 events, the war on terrorism and the U.S. Government's response to those events including the war in Iraq);

the Corporation's success in continuing to generate new business in its existing markets, as well as its success in identifying and penetrating targeted markets and generating a profit in those markets in a reasonable time;

the Corporation's ability to continue to generate investment results for customers and the ability to continue to develop investment products in a manner that meets customers needs;

the Corporation's timely development of competitive new products and services in a changing environment and the acceptance of such products and services by customers;

the Corporation's ability to originate and sell residential mortgage loans;

the accuracy of assumptions underlying the establishment of reserves for loan losses and estimates in the value of collateral, and various financial assets and liabilities and technological changes being more difficult or expensive than anticipated;

technological changes being more difficult or expensive than anticipated; and

the Corporation's success in managing the risks involved in the foregoing.

All written or oral forward-looking statements attributed to the Corporation are expressly qualified in their entirety by use of the foregoing cautionary statements. All forward-looking statements included in this Report are based upon information presently available, and the Corporation assumes no obligation to update any forward-looking statement.

**Brief History of the Corporation**

The Bryn Mawr Trust Company (the Bank) received its Pennsylvania banking charter in 1889 and is a member of the Federal Reserve System. In 1986, Bryn Mawr Bank Corporation (the Corporation) was formed and on January 2, 1987, the Bank became a wholly-owned subsidiary of the Corporation. The Bank and Corporation are headquartered in Bryn Mawr, PA, a western suburb of Philadelphia, PA. The Corporation and its subsidiaries provide wealth management, community banking, residential mortgage lending, insurance and business banking services to its

## Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

customers through eight full service branches and seven retirement community offices throughout Montgomery, Delaware and Chester counties. The Corporation trades on the NASDAQ National Market under the symbol BMTC.

The goal of the Corporation is to become the preeminent community bank and wealth management organization in the Philadelphia area.

The Corporation competes in a highly competitive market area and includes local, national and regional banks as competitors along with savings banks, credit unions, insurance companies, trust companies, registered investment advisors and mutual fund families. The Corporation and its subsidiaries are regulated by many regulatory agencies including the Securities and Exchange Committee ( SEC ), NASDAQ, FDIC, the Federal Reserve Bank of Philadelphia and the Pennsylvania Department of Banking.

---

## **Table of Contents**

### **Results of Operations**

The following is Management's discussion and analysis of the significant changes in the results of operations, capital resources and liquidity presented in its accompanying consolidated financial statements for the Corporation. The Corporation's consolidated financial condition and results of operations consist almost entirely of the Bank's financial condition and results of operations. Current performance does not guarantee, and may not be indicative of similar performance in the future. These interim financial statements are unaudited.

### **Critical Accounting Policies, Judgments and Estimates**

The accounting and reporting policies of the Corporation and its subsidiaries conform with accounting principles generally accepted in the United States of America (US GAAP) applicable to the financial services industry. All significant inter-company transactions are eliminated in consolidation and certain reclassifications are made when necessary to conform the previous year's financial statements to the current year's presentation. In preparing the consolidated financial statements, Management is required to make estimates and assumptions that affect the reported amount of assets and liabilities as of the dates of the balance sheets and revenues and expenditures for the periods presented. Therefore, actual results could differ from these estimates.

**The allowance for loan losses** involves a higher degree of judgment and complexity than other significant accounting policies. The allowance for loan losses is calculated with the objective of maintaining a reserve level believed by Management to be sufficient to absorb estimated probable credit losses. Management's determination of the adequacy of the allowance is based on periodic evaluations of the loan portfolio and other relevant factors. However, this evaluation is inherently subjective as it requires material estimates, including, among others, expected default probabilities, expected loan commitment usage, the amounts and timing of expected future cash flows on impaired loans, value of collateral, estimated losses on consumer loans and residential mortgages and general amounts for historical loss experience. The process also considers economic conditions, international events, and inherent risks in the loan portfolio. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from Management estimates, additional provisions for loan losses may be required that would adversely impact earnings in future periods.

**The Corporation recognizes deferred tax assets** and liabilities for the future tax effects of temporary differences, net of operating loss carry forwards and tax credits. Deferred tax assets are subject to Management's judgment based upon available evidence that future realization is more likely than not. If Management determines that the Corporation may be unable to realize all or part of net deferred tax assets in the future, a direct charge to income tax expense may be required to reduce the recorded value of the net deferred tax asset to the expected realizable amount.

**The valuation of mortgage servicing rights** (MSRs) is a critical accounting policy due to the complexity of the quarterly valuation process which is performed by an outside consultant based on data provided by Management. Changes in market interest rates, consumer behavior, demographic trends and other factors influence the value of MSRs.

### **Executive Overview**

The Corporation reported first quarter 2006 diluted earnings per share of \$0.36, an increase of \$0.04 or 12.5% compared to \$0.32 in the same period of 2005. Net income for the first quarter of 2006 was \$3.136 million, an increase of 11.9% or \$334,000, compared to \$2.802 million in last year's first quarter. Return on average equity (ROE) and return on average assets (ROA) for the quarter ended March 31, 2006, were 16.27% and 1.83%, respectively. ROE was 15.94% and ROA was 1.70% for the same period last year.

The major factors contributing to the increase in earnings for the first quarter of 2006 compared to the same period last year were an \$826,000 or an 11.2% increase in net interest income, as the Corporation's net interest margin expanded to 5.16% from 4.89%, as well as a \$466,000 or 17.6% increase in Wealth Management revenues. Both were partially offset by declines in residential mortgage related revenue and increased personnel costs.

Total portfolio loans at March 31, 2006 of \$606.6 million increased \$11.4 million or 1.9% from \$595.2 million at December 31, 2005 and average portfolio loans increased to \$595.4 million, an increase of \$4.1 million or 0.7% from \$591.3 million in the fourth quarter of 2005. This increase is concentrated in the residential mortgage portfolio.

Total deposits at March 31, 2006 were \$608.1 million, a decrease of \$28.2 million or 4.4% from \$636.3 million at December 31, 2005, while average deposits decreased \$733,000 or 0.1% from \$600.6 million in the fourth quarter of 2005 to \$599.8 million for the first quarter of 2006. The decrease in balances from December 31, 2005 reflects the short term nature of certain deposit accounts at year end 2005.



**Table of Contents**

The Corporation continues its business development efforts on building banking relationships with privately held businesses, non-profits, high-quality residential builders and owners of commercial real estate. In addition, the Corporation continues to provide high-touch retail lending services to consumers in the Delaware Valley. Additional business development efforts in the fast growing Chester County, PA area are planned in 2006.

**Key Performance Ratios**

Key financial performance ratios for the three months ended March 31, 2006 and 2005 are shown in the table below:

	Three Months Ended	
	March 31,	
	2006	2005
Return on Average Equity (ROE)	16.27%	15.94%
Return on Average Assets (ROA)	1.83%	1.70%
Efficiency Ratio	61.39%	62.67%
Net Interest Margin	5.16%	4.89%
Diluted Earnings Per Share	\$ .36	\$ 0.32
Dividend Per Share	\$ .11	\$ 0.10

	March 31	December 31	March 31
	2006	2005	2005
Book Value Per Share	\$ 9.29	\$ 9.06	\$ 8.40
Allowance for Loan Losses as a Percentage of Loans	1.25%	1.24%	1.27%

**Components of Net Income**

Net income is affected by five major elements: **Net Interest Income**, or the difference between interest income earned on loans and investments and interest expense paid on deposit and borrowed funds; the **Provision for Loan Losses**, or the amount added to the allowance for loan losses to provide reserves for inherent losses on loans; **Non-Interest Income** which is made up primarily of certain fees, trust income, residential mortgage activities and gains and losses from the sale of securities; **Non-Interest Expenses**, which consist primarily of salaries, employee benefits and other operating expenses; and **Income Taxes**. Each of these major elements will be reviewed in more detail in the following discussion.

**NET INTEREST INCOME**

The rate volume analysis in the table below analyzes changes in net interest income for the quarter ended March 31, 2006 compared to March 31, 2005 by its rate and volume components.

**Rate /Volume Analysis**

(in thousands)	Three Months Ended		
	March 31,		
	2006 Compared to 2005		
Increase/(Decrease)	Volume	Rate	Total
Interest Income:			
Interest-bearing deposits with other banks	\$ (31)	\$ 18	\$ (13)
Federal funds sold	19	22	41

Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

Investment securities available for sale	32	54	86
Loans	516	1,057	1,573
Total interest income	536	1,151	1,687
Interest expense:			
Savings, NOW and market rate	(58)	317	259
Time deposits	267	302	569
Short term borrowings	26	7	33
Total interest expense	235	626	861
Interest differential	\$ 301	\$ 525	\$ 826

**Table of Contents****Analyses of Interest Rates and Interest Differential**

The table below presents the major asset and liability categories on an average daily basis for the periods presented, along with interest income and expense and key rates and yields.

	For the Three Months ended March 31,					
	2006			2005		
	Average		Average	Average		Average
	Interest	Rates	Interest	Rates	Interest	Rates
Average	Income/	Earned/	Average	Income/	Earned/	
(dollars in thousands)	Balance	Expense	Paid	Balance	Expense	Paid
<b>Assets:</b>						
Interest-bearing deposits with other banks	\$ 439	\$ 5	4.62%	\$ 3,147	\$ 18	2.32%
Federal funds sold	6,161	66	4.34%	4,415	25	2.30%
Investment securities available for sale:						
Taxable	33,685	319	3.84%	30,182	233	3.13%
Tax-exempt	5,014	41	3.32%	5,109	41	3.25%
<b>Total investment securities</b>	<b>38,699</b>	<b>360</b>	<b>3.77%</b>	<b>35,291</b>	<b>274</b>	<b>3.15%</b>
Loans <sup>(1) (2)</sup>	598,663	9,927	6.72%	567,842	8,354	5.97%
<b>Total interest earning assets</b>	<b>643,962</b>	<b>10,358</b>	<b>6.52%</b>	<b>610,695</b>	<b>8,671</b>	<b>5.76%</b>
Cash and due from banks	24,332			33,357		
Allowance for loan losses	(7,524)			(7,058)		
Other assets	34,189			32,697		
<b>Total assets</b>	<b>\$ 694,959</b>			<b>\$ 669,691</b>		
<b>Liabilities:</b>						
Savings, NOW and market rate accounts	\$ 304,942	\$ 821	1.09%	\$ 326,547	\$ 562	0.70%
Time deposits	147,610	1,301	3.57%	117,375	732	2.53%
<b>Total interest-bearing deposits</b>	<b>452,552</b>	<b>2,122</b>	<b>1.90%</b>	<b>443,922</b>	<b>1,294</b>	<b>1.18%</b>
Short term borrowings	3,544	42	4.81%	1,250	9	2.60%
<b>Total interest-bearing liabilities</b>	<b>456,096</b>	<b>2,164</b>	<b>1.92%</b>	<b>445,172</b>	<b>1,303</b>	<b>1.19%</b>
Noninterest-bearing demand deposits	147,274			143,434		
Other liabilities	13,419			9,791		
<b>Total noninterest-bearing liabilities</b>	<b>160,693</b>			<b>153,225</b>		
<b>Total liabilities</b>	<b>616,789</b>			<b>598,397</b>		
Shareholders' equity	78,170			71,294		
<b>Total liabilities and shareholders' equity</b>	<b>\$ 694,959</b>			<b>\$ 669,691</b>		
<b>Net interest spread</b>			4.60%			4.57%
Effect of noninterest-bearing sources			0.56%			0.32%



<b>Net interest income/ margin on earning assets</b>	\$ 8,194	5.16%	\$ 7,368	4.89%
--	----------	-------	----------	-------

---

(1) Non-accrual loans have been included in average loan balances, but interest on nonaccrual loans has not been included for purposes of determining interest income.

(2) Loans include portfolio loans and loans held for sale.

Net interest income for the three months ended March 31, 2006 of \$8.194 million was \$826,000 or 11.2% higher than the net interest income for the same period in 2005 of \$7.368 million. The analysis above indicates that increased loan volume along with the increase in rates were the primary drivers of the increase in net interest income. Average earning assets increased \$33.267 million or 5.4% in the first quarter of 2006 compared to the same period in 2005. Average loans grew \$30.821 million or 5.4% while investments increased \$3.408 million or 9.7% over 2005.

**Table of Contents**

The average earning asset yield during the first quarter of 2006 of 6.52% was 76 basis points higher than the 5.76% during the same period in 2005 as floating rate loans in the portfolio responded to the Fed's rate increases. The rate paid on average interest bearing liabilities of 1.92% in 2006 was 73 basis points higher than the 1.19% in 2005 due to the need to pay higher rates on interest bearing deposits to remain competitive. Average non-interest bearing demand deposits grew 2.7%, while savings decreased 6.6% and time deposits increased 25.8% in the first quarter of 2006 compared to the same period in 2005.

**Net Interest Margin**

The Corporation's net interest margin increased 27 basis points to 5.16% in the first quarter of 2006 from 4.89% in the same period last year. As rates continue to rise, the yield on earning assets has increased due to the asset sensitivity of the balance sheet. Conversely, the cost of interest bearing deposit has also increased. This is a result of the increasing rate environment and the need to remain competitive with pricing in order to be successful in deposit retention and gathering. The impact of the increasing cost of deposits resulted in a 1 basis point increase in the net interest margin from 5.15% for the fourth quarter of 2005 to 5.16% for the first quarter of 2006. The net interest margin and related components for the past five linked quarters are as follows:

Year	Quarter	Interest			Effect of	
		Earning Asset	Bearing Liability	Net Interest	Non-Interest Bearing Sources	Net Interest
		Yield	Cost	Spread		Margin
2006	1 <sup>st</sup>	6.52%	1.92%	4.60%	0.56%	5.16%
2005	4 <sup>th</sup>	6.37%	1.73%	4.64%	0.51%	5.15%
2005	3 <sup>rd</sup>	6.13%	1.57%	4.56%	0.45%	5.01%
2005	2 <sup>nd</sup>	5.94%	1.37%	4.57%	0.37%	4.94%
2005	1 <sup>st</sup>	5.76%	1.19%	4.57%	0.32%	4.89%

**Interest Rate Sensitivity**

The Corporation actively manages its interest rate sensitivity position. The objectives of interest rate risk management are to control exposure of net interest income to risks associated with interest rate movements and to achieve sustainable growth in net interest income. Management's Asset Liability Committee (ALCO), using policies and procedures approved by the Corporation's Board of Directors, is responsible for managing the rate interest sensitivity position. The Corporation manages interest rate sensitivity by changing the mix, pricing and repricing characteristics of its assets and liabilities, through the management of its investment portfolio, its offering of loan and deposit terms and through borrowings from the Federal Home Loan Bank of Pittsburgh (FHLB).

The Corporation uses several tools to manage its interest rate risk including interest rate sensitivity analysis (aka Gap Analysis), market value of portfolio equity analysis, interest rate simulations under various rate scenarios and net interest margin reports. The results of these reports are compared to limits established by the Corporation's Asset Liability Management Policies and appropriate adjustments are made if the results are outside of established limits.

The following table demonstrates the annualized result of an interest rate simulation and the expected effect that a parallel interest rate shift in the yield curve and subjective adjustments in deposit pricing might have on the Corporation's projected net interest income over the next 12 months. The changes to net interest income shown below are in compliance with the Corporation's policy guidelines.

**Summary of Interest Rate Simulation**

**March 31, 2006**  
**Change In Net Interest Income Over**

(dollars in thousands)

Next 12 Months

Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

<b>Change in Interest Rates</b>		
+200 basis points	\$	1,498 4.28%
+100 basis points	\$	942 2.69%
-100 basis points	\$	(1,058) (3.02)%
-200 basis points	\$	(3,004) (8.58)%

The interest rate simulation above indicates that the Corporation's balance sheet as of March 31, 2006 is asset sensitive meaning that an increase in interest rates should increase net interest income and a decline in interest rates will cause a decline in net interest income over the next 12 months. The asset sensitivity position has been reduced during the first quarter of 2006 when compared to December 31, 2005 with the addition of fixed rate commercial loans, residential mortgages and mortgage-backed securities to the asset mix. Additionally, the Corporation purchased a \$25 million three-year interest rate floor in April, 2006 to mitigate the impact on earnings of declining rates over the next three years.

**Table of Contents**

The following table presents the Corporation's interest rate sensitivity position or Gap Analysis as of March 31, 2006

	0 to 90	90 to 365	1-5	Over	Non-Rate	Total
(dollars in thousands)	Days	Days	Years	5 Years	Sensitive	
<b>Assets:</b>						
Interest-bearing deposits with other banks	\$ 508	\$	\$	\$	\$	\$ 508
Federal funds sold						
Investment securities	3,478	9,201	22,849	7,900		43,428
Loans <sup>(1)</sup>	271,252	40,667	217,223	81,497		610,639
Loan loss reserve	(271)	(811)	(4,326)	(2,163)		(7,571)
Cash and due from banks					26,132	26,132
Other assets					36,797	36,797
<b>Total assets</b>	<b>\$ 274,967</b>	<b>\$ 49,057</b>	<b>\$ 235,746</b>	<b>\$ 87,234</b>	<b>\$ 62,929</b>	<b>\$ 709,933</b>
<b>Liabilities and shareholders' equity:</b>						
Non-interest-bearing demand	\$ 28,636	\$ 18,967	\$ 101,153	\$	\$ 2,568	\$ 151,324
Savings, NOW and market rate	50,367	42,707	162,084	48,198		303,356
Time deposits	67,025	65,700	20,553	134		153,412
Fed funds purchased	8,000					8,000
Other liabilities					14,171	14,171
Shareholders' equity	2,845	8,536	45,526	22,763		79,670
<b>Total liabilities and shareholders' equity</b>	<b>\$ 156,873</b>	<b>\$ 135,910</b>	<b>\$ 329,316</b>	<b>\$ 71,095</b>	<b>\$ 16,739</b>	<b>\$ 709,933</b>
<b>Gap</b>	<b>\$ 118,094</b>	<b>\$ (86,853)</b>	<b>\$ (93,570)</b>	<b>\$ 16,139</b>	<b>\$ 46,190</b>	<b>\$</b>
<b>Cumulative gap</b>	<b>\$ 118,094</b>	<b>\$ 31,241</b>	<b>\$ (62,329)</b>	<b>\$ (46,190)</b>	<b>\$</b>	<b>\$</b>
Cumulative earning assets as a % of cumulative interest bearing liabilities	179%	116%	100%	107%		

<sup>(1)</sup> Loans include portfolio loans and loans held for sale.

The table above indicates that the Corporation is asset sensitive in the immediate to 90 day time frame and should experience an increase in net interest income in the near term if interest rates rise. The converse is also true.

**PROVISION FOR LOAN LOSSES****General Discussion of the Allowance for Loan Losses**

The Corporation uses the allowance method of accounting for credit losses. The balance in the allowance for loan losses is determined based on Management's review and evaluation of the loan portfolio in relation to past loss experience, the size and composition of the portfolio, current economic events and conditions, and other pertinent factors, including Management's assumptions as to future delinquencies, recoveries and losses.

Increases to the allowance for loan losses are implemented through a corresponding provision (expense) in the Corporation's statement of income. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged-off amounts are credited to the allowance for loan losses.

While Management considers the allowance for loan losses to be adequate based on information currently available, future additions to the allowance may be necessary due to changes in economic conditions or Management's assumptions as to future delinquencies, recoveries and losses and Management's intent with regard to the disposition of loans. In addition, the Pennsylvania Department of Banking and the Federal Reserve Bank of Philadelphia, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses.

## Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

The Corporation's allowance for loan losses is the accumulation of four components that are calculated based on various independent methodologies. All components of the allowance for loan losses are estimations. Management discusses these estimates earlier in this document under the heading of "Critical Accounting Policies, Judgments and Estimates". The four components are as follows:

Specific Loan Evaluation Component Includes the specific evaluation of larger classified loans

**Table of Contents**

Historical Charge-Off Component Applies a five year historical charge-off rate to pools of non-classified loans

Additional Factors Component The loan portfolio is broken down into multiple homogenous subclassifications upon which multiple factors (such as delinquency trends, economic conditions, loan terms, and regulatory environment) are evaluated resulting in an allowance amount for each of the subclassifications. The sum of these amounts equals the Additional Factors Component.

Unallocated Component This amount represents a general reserve against all loans.

**Asset Quality and Analysis of Credit risk**

Asset quality remains strong at March 31, 2006 as nonperforming loans as a percentage of total loans were 13 basis points. This compares with 7 basis points at December 31, 2005 and 27 basis points at March 31, 2005. The allowance for loan losses as a percentage of total loans was 1.25% at March 31, 2006 compared with 1.24% at December 31, 2005 and 1.27% at March 31, 2005. The provision for loan losses in the first quarter of 2006 was \$154 thousand, compared to \$187 thousand in the same period last year.

**Non Performing Assets and Related Ratios**

	March 31, 2006	December 31, 2005	March 31, 2005
(dollars in thousands)			
Non-accrual loans	\$ 773	\$ 261	\$ 1,432
Loans 90 days or more past due	5	129	92
Total non performing loans	778	390	1,524
Other real estate owned ( OREO )	25	25	591
Total non performing assets	\$ 803	\$ 415	\$ 2,115
Allowance for loan losses to non performing assets	942.8%	1,783.6%	336.9%
Allowance for loan losses to non performing loans	973.1%	1,897.9%	467.5%
Non performing loans to total loans	.13%	.07%	0.27%
Allowance for loan losses to portfolio loans	1.25%	1.24%	1.27%
Non performing assets to portfolio assets	.11%	0.06%	0.32%
Period end portfolio loans	\$ 606,578	\$ 595,165	\$ 558,334
Average portfolio loans (quarterly average)	\$ 595,446	\$ 591,295	\$ 561,780
Allowance for loan losses	\$ 7,571	\$ 7,402	\$ 7,125

**Summary of Changes in the Allowance For Loan Losses**

	Three Months Ended		Year Ended
	March 31,	December 31,	December 31,
(dollars in thousands)	2006	2005	2005
Balance, beginning of period	\$ 7,402	\$ 6,927	\$ 6,927
<b>Charge-offs:</b>			
Consumer	(10)	(2)	(158)
Commercial and industrial			
Real estate			(156)
Total charge-offs	(10)	(2)	(314)

Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

<b>Recoveries:</b>			
Consumer	23	5	11
Commercial and industrial	2	8	12
Real estate			4
Total recoveries	25	13	27
Net (charge-offs) / recoveries	15	11	(287)
<b>Provision for loan losses</b>	<b>154</b>	<b>187</b>	<b>762</b>
Balance, end of period	\$ 7,571	\$ 7,125	\$ 7,402

**Table of Contents****NON-INTEREST INCOME****Three months ended March 31, 2006 Compared to March 31, 2005**

Non-interest income for the first quarter of 2006 was \$4.586 million, an increase of \$172,000 or 3.9% compared with \$4.414 million in the same period last year. Fees for Wealth Management services grew \$466,000 or 17.6% to \$3.120 million in the first quarter of 2006 from \$2.654 million in same period last year. New business development efforts, an April 2005 fee schedule increase, an increase in estate settlements and asset growth due to market performance all contributed to these results. Wealth Management assets under management and administration were \$2.262 billion at March 31, 2006 compared to \$1.919 billion at March 31, 2005. Partially offsetting this higher Wealth Management services revenue were reduced fees from residential mortgage-related activities and lower services charges on deposit accounts. Loan servicing and late fees were \$290,000 for the first quarter last year, a \$49,000 or 14.5% decrease. The volume of loans sold servicing retained declined as more loans were sold servicing released to obtain a higher gain at the time of sale, and a decision by management to hold more of the shorter term fixed rate loans in portfolio to help reduce the Corporation's asset sensitivity position. Net gain on sale of loans was \$250,000 for the first quarter, a decrease of \$208,000 or 45.4% compared to \$458,000 for the same period last year as a result of the slowdown in mortgage refinance activity compounded by very competitive pricing pressures and the decision to portfolio more loans.

**NON-INTEREST EXPENSE****Three months ended March 31, 2006 Compared to March 31, 2005**

Non-interest expense for the first quarter of 2006 was \$7.845 million, an increase of \$461,000 or 6.2% compared to \$7.384 million in the same period last year. Salaries and wages were \$3.829 million for the first quarter of 2006 compared to \$3.507 million for the same period last year, a \$322,000 or 9.2% increase which was primarily the result of merit increases and additions to staff. Employee benefits were \$1.318 million for the quarter, up \$177,000 or 15.5% compared to \$1.141 million for the same period last year. The primary reasons for this increase were related to higher Social Security and Medicare tax, medical and post-retirement benefit expenses. Operating expenses related to the opening of the Exton branch in March 2005 also contributed to increases in occupancy and furniture, fixtures and equipment expense. Partially offsetting these increases in non-interest expense were reductions in the amortization of mortgage servicing rights and professional fees. Amortization of mortgage servicing rights decreased \$103,000 or 54.5% to \$86,000 for the first quarter of 2006 compared to \$189,000 for the same period last year as a result of the lower volume of loans sold serviced for others as well as slower prepayment speeds of mortgage loans due to the increased mortgage rate environment from year to year. Other operating expenses decreased \$43,000 or 4.08% to \$1.009 million for the first quarter of 2006 compared to \$1.052 million for the first quarter of 2005.

**INCOME TAXES**

Income taxes from operations for the three months ended March 31, 2006 were \$1.645 million compared to \$1.409 million for the same period in 2005. This represents an effective tax rate for the three months ended March 31, 2006 of 34.4% and an effective tax rate of 33.5% for the same period in 2005. The increase in the effective tax rate is due an increase in pretax book income for the three months ended March 31, 2006, as compared to the same period in 2005, that is greater than the increase in tax-exempt income.

**BALANCE SHEET ANALYSIS**

Total assets decreased \$17.3 million or 2.4% from \$727.2 million as of December 31, 2005 to \$709.9 million as of March 31, 2006. This decrease is related to the short term nature of certain deposit accounts at year end 2005 and related fed funds balances. Offsetting this decline was an increase in portfolio loans of \$11.4 million or 1.9% from \$595.2 as of December 31, 2005 to \$606.6 as of March 31, 2006. Average loans for the first quarter of 2006 increased \$4.1 million or 0.7% to \$595.4 million compared to \$591.3 million in the fourth quarter of 2005.

The table below compares portfolio loans outstanding at March 31, 2006 and 2005 respectively and December 31, 2005. Commercial and industrial loans declined \$18.4 million from \$183.9 million at December 31, 2005 to \$165.5 million as interest-sensitive customers used excess cash to pay down floating rate lines as interest rates increased. This decline was more than offset by an increase in commercial mortgage loans of \$4.2 million or 2.6% from \$162.6 million as of December 31, 2005 to \$166.8 million as of March 31, 2006 and an increase in residential mortgage loans of \$6.6 million or 6.6% from \$99.6 million as of December 31, 2005 to \$106.2 million as of March 31, 2006. The increase in residential mortgage loans is due to Management's decision to portfolio more fixed rate loans as part of the Corporation's interest rate risk management process. The Corporation continues to focus its business development efforts on building banking relationships with privately held businesses, non-profits, high quality residential builders and owners of commercial real estate.





**Table of Contents**

Total Loans outstanding at March 31 are detailed by category as follows:

(dollars in thousands)	March 31,		December 31,
	2006	2005	2005
Real estate loans:			
Commercial mortgage loans	\$ 166,816	\$ 141,957	\$ 162,621
Home equity lines and loans	109,534	103,709	107,699
Residential mortgage loans	106,196	78,642	99,602
Construction loans	49,375	40,957	45,523
Commercial and industrial loans	165,508	183,862	170,283
Consumer loans	9,149	9,407	9,437
Total portfolio loans	\$ 606,578	\$ 558,534	\$ 595,165
Average portfolio loans	\$ 595,446	\$ 561,780	\$ 591,295

Total liabilities declined \$19.4 million from \$649.7 million at December 31, 2005 to \$630.3 million at March 31, 2006. This decline is driven by a decrease in deposits of \$28.2 million or 4.4% over the past three months to \$608.1 million at March 31, 2006 from \$636.3 million at December 30, 2005. This decrease is primarily due to the year end 2005 deposit changes that were mentioned above and the competitive environment for retaining and gathering deposits. Average deposits for the first quarter of 2006 decreased \$.7 million or 0.1% to \$599.8 million compared to \$600.5 million in the fourth quarter of 2005. Continued expansion of the retail banking footprint is anticipated with controlled *de novo* expansion in the suburban Philadelphia market. The two recently opened retail branch locations in Exton and Newtown Square are gaining market share and performing better than projected. Due to the highly competitive nature of the financial services business, the Corporation anticipates higher rate certificates of deposit will make up a greater share of total deposits than they have historically for the foreseeable future.

**Residential Mortgage Segment Activity**

(dollars in thousands)	Quarter Ended March 31,	
	2006	2005
Residential loans held in portfolio *	\$ 106,196	\$ 78,624
Mortgage originations	34,451	38,978
Mortgage loans sold:		
Servicing retained	7,010	13,787
Servicing released	7,436	20,209
Servicing retained %	48.5%	40.6%
Servicing released %	51.5%	59.4%
Loans serviced for others *	409,429	489,882
Mortgage servicing rights *	2,980	3,114
Gain on sale of loans	250	458
Loan servicing and late fees	290	339
Amortization of MSRs	\$ 86	\$ 189
Basis point yield on loans sold	173bp	135bp

\* *period end balance*



**Table of Contents****Capital**

Consolidated shareholder's equity of the Corporation was \$79.7 million or 11.2% of total assets, as of March 31, 2006, compared to \$77.5 million or 10.7% of total assets, as of December 31, 2005. The following table presents the Corporation's and Bank's capital ratios and the minimum capital requirements to be considered "Well Capitalized" by regulators as of March 31, 2006 and December 31, 2005:

	Ratio	Minimum Ratio to be Well Capitalized
<b>March 31, 2006:</b>		
Total (Tier II) Capital to Risk Weighted Assets		
Consolidated	12.73%	10%
Bank	11.71%	10%
Tier I Capital to Risk Weighted Assets		
Consolidated	11.63%	6%
Bank	10.61%	6%
Tier I Leverage Ratio (Tier I Capital to Total Quarterly Average Assets)		
Consolidated	11.53%	5%
Bank	10.52%	5%
<b>December 31, 2005:</b>		
Total (Tier II) Capital to Risk Weighted Assets		
Consolidated	12.46%	10%
Bank	11.47%	10%
Tier I Capital to Risk Weighted Assets		
Consolidated	11.38%	6%
Bank	10.38%	6%
Tier I Leverage Ratio (Tier I Capital to Total Quarterly Average Assets)		
Consolidated	11.25%	5%
Bank	10.26%	5%

Both the Corporation and the Bank exceed the required capital levels to be considered "Well Capitalized" by their respective regulators at the end of each period presented.

Neither the Corporation nor the Bank are under any agreement with regulatory authorities, nor is Management aware of any current recommendations by the regulatory authorities, which, if such recommendations were implemented, would have a material effect on liquidity, capital resources or operations of the Corporation.

**Liquidity**

The Corporation manages its liquidity position on a daily basis as part of the daily settlement function and continuously as part of the formal asset liability management process. The Bank's liquidity is maintained by managing its core deposits as the primary source, and purchasing federal funds, selling loans in the secondary market, borrowing from the FHLB and selling securities as its secondary sources. Availability with the FHLB was approximately \$234 million as of March 31, 2006. Overnight Fed Funds lines consist of lines from six banks totaling \$48.0 million. Quarterly, ALCO reviews the Corporation's liquidity needs and reports its findings to the Risk Management Committee of the Bank's Board of Directors. As of March 31, 2006, the Bank had \$8.0 million in overnight fed funds borrowings. Alternative funding sources are being investigated to offset the results of the competitive environment that exist for deposit gathering.

**Off Balance Sheet Risk**

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the loan agreement. Total commitments to extend credit at March 31, 2006 were \$337 million.

## Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

Standby letters of credit are conditional commitments issued by the Bank to a customer for a third party. Such standby letters of credit are issued to support private borrowing arrangements. The credit risk involved in issuing standby letters of credit is similar to that involved in granting loan facilities to customers. The Corporation's obligation under standby letters of credit at March 31, 2006 amounted to \$10.226 million.

**Table of Contents**

Estimated fair values of the Corporation's off-balance sheet instruments are based on fees and rates currently charged to enter into similar loan agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. Since fees and rates charged for off-balance sheet items are at market levels when set, there is no material difference between the stated amount and the estimated fair value of off-balance sheet instruments.

**Contractual Cash Obligations of the Corporation as of March 31, 2006:**

		Within 1	2 - 3	4 - 5	After 5
(In thousands)	Total	Year	Years	Years	Years
Deposits without a stated maturity	\$ 454,680	\$ 454,680			
Consumer certificates of deposit	\$ 153,412	132,726	20,212	340	134
Operating leases	\$ 20,125	941	1,627	1,491	16,066
Purchase obligations	\$ 1,711	908	625	178	
Non-discretionary pension contributions					
Total	\$ 629,928	\$ 589,255	\$ 22,464	\$ 2,009	\$ 16,200

**Section 404 of Sarbanes Oxley Act of 2002**

The Corporation and its Management completed compliance procedures relating to Section 404 of the Sarbanes Oxley Act of 2002 ( SOX 404 ) for the fiscal year ended December 31, 2005 as documented in the Corporation's Form 10-K. Management continues to devote considerable effort in 2006 to assure compliance with all aspects of SOX 404 by December 31, 2006. External fees relating to this compliance amounted to approximately \$190,000 for 2005.

**Other Information****Opening of New Full Service Branch Offices in Newtown Square and Exton**

During the first quarter of 2004, the Bank established a new full service branch office in Newtown Square, Pennsylvania, thereby enabling the Bank to both broaden and strengthen its footprint in Delaware County, Pennsylvania. This new branch had deposits of \$21.0 million as of March 31, 2006. In March of 2005, the Bank established a new full service branch in Exton, Pennsylvania. The Exton branch had deposits of \$8.3million as of March 31, 2006. The Bank anticipates measured expansion of its branch footprint over the next few years. In addition, two new branch initiatives, one in Ardmore, Pennsylvania, which is a branch relocation, and the other in West Chester, Pennsylvania, are anticipated in the near future to complement our recently opened Exton and Newtown Square retail branch locations.

**Regulatory Matters and Pending Legislation**

Management is not aware of any current specific recommendations by regulatory authorities or proposed legislation which, if they were implemented, would have a material adverse effect upon the liquidity, capital resources, or results of operations, although the general cost of compliance with numerous and multiple federal and state laws and regulations does have, and in the future may have, an impact on the Corporation's results of operations.

In February, 2006, Congress passed the Federal Deposit Insurance Reform Act of 2005. This legislation will merge the Bank Insurance Fund and the Savings Association Insurance Fund into one fund, increase insurance coverage for retirement accounts to \$250,000, adjust the maximum deposit insurance for inflation after March 31, 2010 and give the FDIC greater flexibility in setting insurance assessments.

**Effects of Inflation**

Inflation has some impact on the Corporation's operating costs. Unlike many industrial companies, however, substantially all of the Corporation's assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on the Corporation's performance than the general level of inflation. Over short periods of time, interest rates may not necessarily move in the same direction or in the same magnitude as prices of goods and services.



**Table of Contents**

Effect of Government Monetary Policies

The earnings of the Corporation are and will be affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. An important function of the Federal Reserve Board is to regulate the money supply and interest rates. Among the instruments used to implement those objectives are open market operations in United States government securities and changes in reserve requirements against member bank deposits. These instruments are used in varying combinations to influence overall growth and distribution of bank loans, investments, and deposits, and their use may also affect rates charged on loans or paid for deposits.

The Corporation is a member of the Federal Reserve System and, therefore, the policies and regulations of the Federal Reserve Board have a significant effect on its deposits, loans and investment growth, as well as the rate of interest earned and paid, and are expected to affect the Corporation's operations in the future. The effect of such policies and regulations upon the future business and earnings of the Corporation cannot be predicted.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

There has been no material change in the Corporation's assessment of its sensitivity to market risks since its presentation in the 2005 Annual Report on Form 10-K filed with the SEC.

**Item 4. CONTROLS AND PROCEDURES**

As of the end of the period covered by the report, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer, Frederick C. Peters II, and Chief Financial Officer, J. Duncan Smith, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures are effective in timely alerting them to material information relating to the Corporation (including its consolidated subsidiaries) required to be included in the Corporation's periodic SEC filings.

There have not been any changes in the Corporation's internal controls over financial reporting during the quarter ended March 31, 2006 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.



**Table of Contents****PART II OTHER INFORMATION.****Item 1. Legal Proceedings.**

None.

**Item 1A. Risk Factors.**

There have been no material changes to the risk factors disclosed in the Corporation's 2005 Annual Report on Form 10K.

**Item 2.**

The following tables present the shares repurchased by the Corporation during the first quarter of 2006 <sup>(1) (2) (3)</sup>:

Period		Total Number of shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs
January 1, 2006	January 31, 2006	None			38,994
February 1, 2006	February 28, 2006	12,911	\$ 21.24	10,000	28,994*
March 1, 2006	March 31, 2006	31,000	21.87	31,000	419,000
Total		43,911	\$ 21.68	41,000	419,000

Notes to this table:

- (1) The Corporation was authorized in 2003 to repurchase an amount of Corporation stock not to exceed the lesser of \$7.500 million or 4% of the then outstanding shares of common stock, or 348,094 shares (the 2003 Program). During February 2006, the Corporation repurchased 10,000 shares of Corporation stock under the 2003 Program, having an average cost of \$21.10 per share. The 2003 Program was terminated on February 24, 2006 when a new stock repurchase program was adopted. All shares purchased through the 2003 Program were accomplished in open market transactions.
- (2) On February 24, 2006, the Board of Directors of the Corporation adopted a new stock repurchase program (the 2006 Program) under which the Corporation may repurchase up to 450,000 shares of the Corporation's common stock, not to exceed \$10 million and terminated the 2003 Program. The 2006 Program was publicly announced in a Press Release dated February 24, 2006. There is no expiration date on the 2006 Program and the Corporation has no plans for an early termination of the 2006 Program. All shares purchased through the 2006 Program were accomplished in open market transactions.
- (3) In February, 2006, 2,911 shares were purchased by the Corporation's Thrift Plan and deferred compensation plan through open market transactions by the Corporation's Wealth Management Division investment personnel.

\* The Corporation did not repurchase the 28,994 shares remaining to be purchased under the 2003 Program because of the adoption of the 2006 Program.

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Submission of Matters to Vote of Security Holders**

None

**Item 5. Other Information**

None

**Item 6. Exhibits**

**Table of Contents**

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.

Bryn Mawr Bank Corporation

Date: May 10, 2006

By: **/s/ FREDERICK C. PETERS II**  
**Frederick C. Peters II**  
**President & Chief Executive Officer**

Date: May 10, 2006

By: **/s/ J. DUNCAN SMITH**  
**J. Duncan Smith**  
**Treasurer & Chief Financial Officer**

**Table of Contents**

**Form 10-Q**

**Index to Exhibits**

**a) Exhibits**

**Exhibit 31.1 - Certification of the Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a) or Rule 15d-14(a).**

**Exhibit 31.2 - Certification of the Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a) or Rule 15d-14(a).**

**Exhibit 32.1 - Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

**Exhibit 32.2 - Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

Form 10-Q