

BRYN MAWR BANK CORP
Form 10-Q
November 08, 2006

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 September 30, 2006

Commission File Number 0-15261

Bryn Mawr Bank Corporation

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

23-2434506
(I.R.S. Employer
identification No.)

801 Lancaster Avenue, Bryn Mawr, Pennsylvania
(Address of principal executive offices)

19010
(Zip Code)

Registrant's telephone number, including area code (610) 525-1700

Not Applicable

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

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

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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 October 31, 2006
Common Stock, par value \$1	8,609,931

BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

FORM 10-Q

QUARTER ENDED September 30, 2006

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PART I. FINANCIAL INFORMATION**ITEM 1. Financial Statements****BRYN MAWR BANK CORPORATION AND SUBSIDIARIES****Consolidated Statements of Income****Unaudited**

(dollars in thousands, except per share data)	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Net interest income:				
Interest income:				
Interest and fees on loans	\$ 11,418	\$ 9,438	\$ 31,961	\$ 26,613
Interest on federal funds sold	44	64	128	125
Interest on interest bearing deposits with banks	11	44	24	65
Interest and dividends on investment securities	544	288	1,347	853
Total interest and dividend income	12,017	9,834	33,460	27,656
Interest expense:				
Savings, NOW, and market rate accounts	1,029	770	2,784	1,980
Time deposits	2,303	1,013	5,250	2,614
Borrowings	295	5	552	41
Total interest expense	3,627	1,788	8,586	4,635
Net interest income	8,390	8,046	24,874	23,021
Provision for loan and lease losses	258	209	621	589
Net interest income after provision for loan and lease losses	8,132	7,837	24,253	22,432
Non-interest income:				
Fees for wealth management services	3,013	2,972	9,181	8,593
Service charges on deposits	388	408	1,164	1,201
Loan servicing and late fees	271	321	843	999
Net gain on sale of loans	268	456	772	1,378
Other operating income	623	568	1,777	1,723
Total non-interest income	4,563	4,725	13,737	13,894
Non-interest expenses:				
Salaries and wages	4,109	4,414	11,772	11,678
Employee benefits	887	998	3,336	3,076
Occupancy and bank premises	636	564	1,902	1,701
Furniture, fixtures, and equipment	486	488	1,444	1,446
Advertising	187	195	660	683
Amortization of mortgage servicing rights	88	115	258	513
Professional fees	285	318	791	917
Other operating expenses	1,152	1,095	3,414	3,421
Total non-interest expenses	7,830	8,187	23,577	23,435
Income before income taxes	4,865	4,375	14,413	12,891

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Income taxes		1,630	1,499	4,905	4,425
Net income	\$	3,235	\$ 2,876	\$ 9,508	\$ 8,466
Basic earnings per common share	\$	0.38	\$ 0.34	\$ 1.11	\$ 0.99
Diluted earnings per common share	\$	0.37	\$ 0.33	\$ 1.09	\$ 0.98
Dividends declared per share	\$	0.12	\$ 0.11	\$ 0.34	\$ 0.31
Weighted-average basic shares outstanding		8,575,170	8,555,037	8,574,420	8,565,311
Dilutive potential common shares		109,995	107,699	110,044	99,596
Adjusted weighted-average dilutive shares		8,685,165	8,662,736	8,684,464	8,664,907

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

BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

Unaudited

	September 30,	December 31,
(dollars in thousands, except per share data)	2006	2005
Assets		
Cash and due from banks	\$ 23,921	\$ 33,896
Interest bearing deposits with banks	544	405
Federal funds sold		32,341
Investment securities available for sale, at fair value (amortized cost of \$51,789 and \$34,014 as of September 30, 2006 and December 31, 2005, respectively)	51,399	33,397
Loans held for sale	7,621	2,765
Portfolio loans and leases	667,105	595,165
Less: Allowance for loan and lease losses	(8,025)	(7,402)
Net portfolio loans and leases	659,080	587,763
Premises and equipment, net	15,479	14,622
Accrued interest receivable	3,857	3,265
Deferred income taxes	1,694	709
Mortgage servicing rights	2,924	2,982
Other assets	16,724	15,081
Total assets	\$ 783,243	\$ 727,226
Liabilities		
Deposits:		
Noninterest-bearing demand	145,872	168,042
Savings, NOW and market rate accounts	282,707	312,896
Time deposits	179,712	155,322
Wholesale deposits	29,963	
Total deposits	638,254	636,260
Borrowed funds	46,300	
Accrued interest payable	3,586	2,143
Other liabilities	10,809	11,310
Total liabilities	698,949	649,713
Shareholders equity		
Common stock, par value \$1; authorized 25,000,000 shares; issued 11,308,004 and 11,221,899 shares as of September 30, 2006 and December 31, 2005 respectively and outstanding of 8,575,253 and 8,556,255 shares as of September 30, 2006 and December 31, 2005, respectively	11,309	11,222
Paid-in capital in excess of par value	9,358	7,888
Accumulated other comprehensive income, net of taxes	(495)	(643)
Retained earnings	89,522	82,930
	109,694	101,397
Less: Common stock in treasury at cost 2,732,751 and 2,665,644 shares as of September 30, 2006 and December 31, 2005 respectively	(25,400)	(23,884)

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Total shareholders' equity	84,294	77,513
Total liabilities and shareholders' equity	\$ 783,243	\$ 727,226
Book value per share	\$ 9.83	\$ 9.06

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

BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Unaudited

(dollars in thousands)	Nine Months Ended September 30	
	2006	2005
Operating activities:		
Net income	\$ 9,508	\$ 8,466
Adjustments to reconcile net income to net cash (used) provided by operating activities:		
Provision for loan and lease losses	621	589
Provision for depreciation and amortization	1,096	1,147
Loans originated for resale	(52,563)	(102,297)
Proceeds from loans sold	48,479	103,574
Gain on sale of loans	(772)	(1,378)
Provision for deferred income taxes (benefit)	(1,065)	(843)
Change in tax receivable		(354)
Change in accrued interest receivable	(592)	(326)
Change in accrued interest payable	1,443	(789)
Change in mortgage servicing rights, net	58	180
Other	(690)	4,267
Net cash provided by operating activities	5,523	12,236
Investing activities:		
Purchases of investment securities available for sale	(24,858)	(5,499)
Proceeds from maturity of investment securities	5,627	5,238
Proceeds from sale of investment securities available for sale		377
Net portfolio loan and lease (originations) repayments	(71,938)	(26,891)
Purchases of premises and equipment	(1,878)	(1,548)
Change in OREO	25	(20)
Net cash used by investing activities	(93,022)	(28,343)
Financing activities:		
Net decrease in demand and savings deposits	(52,358)	(23,100)
Net increase in time deposits	54,353	26,792
Dividends paid	(2,916)	(2,658)
Purchases of treasury stock	(1,559)	(1,780)
Change in borrowed funds	46,300	
Proceeds from exercise of stock options	1,502	662
Net cash provided by financing activities	45,322	(84)
Decrease in cash and cash equivalents	(42,177)	(16,191)
Cash and cash equivalents at beginning of period	66,642	55,242
Cash and cash equivalents at end of period	\$ 24,465	\$ 39,051
Supplemental cash flow information:		
Income taxes paid	\$ 5,412	\$ 3,171
Interest paid	\$ 7,143	\$ 5,424

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

BRYN MAWR BANK CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income**Unaudited**

(dollars in thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Net income	\$ 3,235	\$ 2,876	\$ 9,508	\$ 8,466
Other comprehensive income:				
Unrealized holding gain (loss) on available-for-sale securities	699	(243)	227	(299)
Deferred income tax (expense) benefit on unrealized holding gain (loss) on available for sale securities	(245)	85	(79)	105
Total comprehensive income	\$ 3,689	\$ 2,718	\$ 9,656	\$ 8,272

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

BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 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.

Certain prior period amounts have been reclassified to conform to current period presentation.

The results of operations for the three and nine month periods ended September 30, 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. The effects of stock options are excluded from the computation of diluted earnings per share in periods in which the effect would be antidilutive. 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 September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Numerator:				
Net income available to common shareholders	\$ 3,235	\$ 2,876	\$ 9,508	\$ 8,466
Denominator for basic earnings per share - weighted average shares				
outstanding	8,575,170	8,555,037	8,574,420	8,565,311
Effect of dilutive potential common shares	109,995	107,699	110,044	99,596
Denominator for diluted earnings per share - adjusted weighted average				
shares outstanding	8,685,165	8,662,736	8,684,464	8,664,907
Basic earnings per share	\$ 0.38	\$ 0.34	\$ 1.11	\$ 0.99
Diluted earnings per share	\$ 0.37	\$ 0.33	\$ 1.09	\$ 0.98
Antidilutive shares excluded from computation of average dilutive earnings per share	2,250	3,250	3,250	3,250

3. Allowance for Loan and Lease Losses:

The allowance for loan and lease losses is established through a provision for loan and lease losses charged as an expense. Loans are charged against the allowance for loan and lease losses when Management believes that the principal is uncollectible. The allowance for loan and lease losses is maintained at a level that Management believes is sufficient to absorb estimated probable credit losses. Note 1, Summary of Significant

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Accounting Policies Allowance for Loan and lease losses, included in the Corporation's 2005 Annual Report on Form 10-K contains additional information about Management's determination of the adequacy of the allowance for loan and lease losses.

4. Stock Based Compensation:

The Corporation adopted SFAS No. 123R effective January 1, 2006. SFAS 123R establishes accounting for stock-based awards exchanged for employee services. Accordingly, stock based compensation cost is 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. The fair value of stock option grants is determined using the Black-Scholes pricing model. The assumptions necessary for the calculation of the fair value are expected life of options, annual volatility of stock price, risk free interest rate and annual dividend yield. 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 and the nine month periods ended September 30, 2006 as follows:

(dollars in thousands, except per share data)	Three Months Ended			Nine Months Ended		
	September 30, 2006			September 30, 2006		
	Using Previous SFAS 123R Accounting	Effects	As Reported	Using Previous SFAS 123R Accounting	Effects	As Reported
Income before taxes	\$ 4,867	\$ (2)	\$ 4,865	\$ 14,470	\$ (57)	\$ 14,413
Income taxes	1,631	1	1,630	4,925	20	4,905
Net income	\$ 3,236	\$ (1)	\$ 3,235	\$ 9,545	\$ (37)	\$ 9,508
Basic earnings per share	\$.38		\$.38	\$ 1.11		\$ 1.11
Diluted earnings per share	\$.37		\$.37	\$ 1.10	(.01)	\$ 1.09

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 and nine month periods ended September 30, 2005 is as follows:

(dollars in thousands, except per share data)	Three Months Ended			Nine Months Ended		
	September 30, 2005			September 30, 2005		
	As Reported	Pro Forma Adjustment	Pro Forma If Under SFAS 123	As Reported	Pro Forma Adjustment	Pro Forma If Under SFAS 123
Income before taxes	\$ 4,375	\$ (50)	\$ 4,325	\$ 12,891	\$ (1,374)	\$ 11,517
Income taxes	1,499	17	1,482	4,425	474	3,951
Net income	\$ 2,876	\$ (33)	\$ 2,843	\$ 8,466	\$ (900)	\$ 7,566
Basic earnings per share	\$.34	(.01)	\$.33	\$.99	(.11)	\$.88
Diluted earnings per share	\$.33		\$.33	\$.98	(.10)	\$.87

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 September 30, 2006 there are 17,439 shares available for future grant. The option price is set at the closing price for the stock on the day preceding issuance of grants as

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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, 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.

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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 pre-tax charge which the Corporation expects to avoid in 2006 and 2007 amounts to approximately \$253,000 (\$193,000 in 2006 and \$60,000 in 2007) based on the original vesting periods. During 2006 all grants were issued with a three year vesting period. 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 generally issue option related shares from authorized but unissued shares.

The following table provides information about options outstanding for the three months ended September 30, 2006:

	Three Months Ended		
		September 30, 2006 Weighted Average	Weighted Average Grant
	Shares	Exercise Price	Date Fair Value
Options outstanding June 30, 2006	856,683	\$ 17.70	\$ 3.81
Granted			
Forfeited			
Expired			
Exercised	4,855	\$ 18.26	\$ 4.00
Options outstanding September 30, 2006	851,828	\$ 17.69	\$ 3.80

The following table provides information about options outstanding for the nine months ended September 30, 2006:

	Nine Months Ended		
		September 30, 2006 Weighted Average	Weighted Average Grant
	Shares	Exercise Price	Date Fair Value
Options outstanding December 31, 2005	934,308	\$ 17.44	\$ 3.74
Granted	3,625	\$ 21.83	\$ 5.90
Forfeited			
Expired			
Exercised	86,105	\$ 15.15	\$ 3.17
Options outstanding September 30, 2006	851,828	\$ 17.69	\$ 3.80

The following table provides information about unvested options for the three months ended September 30, 2006:

Three Months Ended September 30, 2006	
Shares	Weighted Average Grant

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		Date Fair Value	
Unvested options June 30, 2006	3,625	\$	5.90
Granted			
Vested			
Forfeited			
Unvested options September 30, 2006	3,625	\$	5.90

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The following table provides information about unvested options for the nine months ended September 30, 2006:

	Nine Months Ended September 30, 2006 Weighted	
	Average Grant	
	Shares	Date Fair Value
Unvested options December 31, 2005	33,334	\$ 3.98
Granted	3,625	\$ 5.90
Vested	(33,334)	\$ 3.98
Forfeited		
Unvested options September 30, 2006	3,625	\$ 5.90

The total compensation cost on unvested stock options is estimated to be \$19 thousand and to be recognized over the remaining 33 month vesting period.

Proceeds, related tax benefits realized from options exercised, and intrinsic value of options exercised during the nine month periods ended September 30, 2006 and 2005 were as follows:

(Dollars in thousands)	2006	2005
Proceeds from strike price of value of options exercised	\$ 1,305	\$ 539
Related tax benefit recognized	197	123
Proceeds of options exercised	\$ 1,502	\$ 662

The intrinsic value of the options exercised during the nine months ended September 30, 2006 and 2005 was \$564,000 and \$350,000, respectively.

The following table provides information about options outstanding and exercisable options at September 30, 2006:

	Outstanding	Exercisable
Number	851,828	848,203
Weighted average exercise price	\$ 17.69	\$ 17.67
Aggregate intrinsic value (dollars in thousands)	\$ 3,756	\$ 3,755
Weighted average remaining contractual life (in years)	6.6	6.6

The weighted average remaining contractual life for options outstanding and weighted average exercise price per share for exercisable options at September 30, 2006 were as follows:

	Outstanding Weighted Average			Exercisable	
	Remaining Contractual Life (in years)	Weighted Average Exercise Price	Exercise Price	Shares	Weighted Average Exercise Price
Exercise Price					
Shares					

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\$ 8.45	\$10.75	51,200	2.9	\$	10.07	51,200	\$	10.07
\$12.25	\$15.15	170,200	3.3		13.33	170,200		13.33
\$16.25	\$18.91	350,700	7.3		18.35	350,700		18.35
\$19.11	\$22.68	279,728	8.4		20.92	276,103		20.90
		851,828	6.6	\$	17.69	848,203	\$	17.67

There were no options granted during the three months ended September 30, 2006. For the three months ended September 30, 2005, the fair value was determined at the date of the grants using a Black-Scholes option-pricing model and the following assumptions:

	2005 Grant dated 7/1/05
Expected average risk free interest rate	3.90%
Expected average life (in years)	6
Expected volatility	20.41%
Expected dividend yield	2.12%

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 and nine months ended September 30, 2006 and 2005:

	For the Three Months				For the Nine Months			
	Ended September 30				Ended September 30			
	Pension Benefits		Post Retirement Benefits		Pension Benefits		Post Retirement Benefits	
	2006	2005	2006	2005	2006	2005	2006	2005
Service cost	\$ 247	\$ 292	\$ 3	3	\$ 893	\$ 876	\$ 9	\$ 9
Interest cost	400	413	10	35	1,268	1,238		