BRYN MAWR BANK CORP
Form 10-Q
May 10, 2006
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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)

Pennsylvania	**23-2434506**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer identification No.)**
801 Lancaster Avenue, Bryn Mawr, Pennsylvania	**19010**
(Address of principal executive offices)	**(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 requirements for the past 90 days. Yes x 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 x 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 x

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

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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 March 31 2006	2005
Net interest income:		
Interest income:		
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
Total interest and dividend income	10,358	8,671
Interest expense:		
Savings, NOW, and market rate accounts	821	562
Time deposits	1,301	732
Borrowings	42	9
Total interest expense	2,164	1,303
Net interest income	8,194	7,368
Loan loss provision	154	187
Net interest income after loan loss provision	8,040	7,181
Non-interest income:		
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
Total non-interest income	4,586	4,414
Non-interest expenses:		
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

Total non-interest expenses	7,845	7,384
Income before income taxes	4,781	4,211
Income taxes	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.

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

Unaudited

(dollars in thousands, except per share data)	**March 31, 2006**	**December 31, 2005**
Assets		
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)
Net portfolio loans	599,007	587,763
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
Total assets	$ 709,933	$ 727,226
Liabilities		
Deposits:		
Noninterest-bearing demand	$ 151,324	$ 168,042
Savings, NOW and market rate accounts	303,356	312,896
Time deposits	153,412	155,322
Total deposits	608,092	636,260
Borrowed funds	8,000	
Accrued interest payable	2,428	2,143
Other liabilities	11,743	11,310
Total liabilities	630,263	649,713
Shareholders equity		
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)

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.

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

(dollars in thousands)	Three Months Ended March 31 2006	2005
Operating activities:		
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)
Investing activities:		
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
Financing activities:		
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:		

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

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

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Unaudited

(dollars in thousands)	Three Months Ended March 31, 2006	2005
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
Total comprehensive income	$ 2,985	$ 2,573

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

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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**
Numerator:		
Net income available to common shareholders	$ 3,136	$ 2,802
Denominator for basic earnings per share weighted average shares outstanding	8,570,675	8,591,622
Effect of dilutive potential common shares	137,135	105,718
Denominator for diluted earnings per share 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

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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		
(dollars in thousands, except per share data)	**Using Previous Accounting**	**SFAS 123R Effects**	**As Reported**
Income before taxes	$ 4,820	$ (39)	$ 4,781
Income taxes	(1,658)	13	(1,645)
Net Income	$ 3,162	$ (26)	$ 3,136
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		
(dollars in thousands, except per share data)	**As Reported**	**Pro Forma Adjustment**	**Pro Forma If under SFAS 123**
Income before taxes	$ 4,211	$ (138)	$ 4,073
Income taxes	(1,409)	46	(1,363)
Net Income	$ 2,802	$ (92)	$ 2,710
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, 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.

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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

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:

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

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:

(dollars in thousands).	For The Three Months Ended March 31			
	Defined Benefit Pension Plans		Post-Retirement 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
Net periodic benefit cost	$ 373	$ 343	$ 61	$ 112

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.

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

(Dollars in thousands)			2006		
	Banking	Wealth Management	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%

			2005**		
	Banking	Wealth Management	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)	

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.

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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:

	March 31,
(dollars in thousands)	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:

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

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

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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:

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.

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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;

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 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.

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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.

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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 2006	December 31 2005	March 31 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

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

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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		
(dollars in thousands)	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid
Assets:						
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%
Total investment securities	38,699	360	3.77%	35,291	274	3.15%
Loans (1) (2)	598,663	9,927	6.72%	567,842	8,354	5.97%
Total interest earning assets	643,962	10,358	6.52%	610,695	8,671	5.76%
Cash and due from banks	24,332			33,357		
Allowance for loan losses	(7,524)			(7,058)		
Other assets	34,189			32,697		
Total assets	$ 694,959			$ 669,691		

			Value of Accelerated Unvested Equity(2)
Benefits Continuation(3)	$ 50,797	$ 50,797	$ 50,797
Value of Supplemental Retirement Plan(4)	$ 914,325	$ 1,828,650	$ 914,325
Excise Tax and Gross-Up			

(1) Reflects the value of the sum of Mr. Lampen s 2008 base salary ($750,000) and last paid bonus limited to 33% of base salary ($250,000) paid over a period of 24 months commencing after termination.

(2) Reflects the value of any unvested stock options or restricted stock and related dividends that vested upon the event using the closing price of the Company s Common Stock on December 31, 2008 ($13.62) and related dividends. The executive also had vested but unexercised stock options on that date. See Outstanding Equity Awards at 2008 Fiscal Year-End on page 18.

(3) Reflects the value of premium payments to be made for life insurance, medical, dental and disability plans for 24 months at the Company s cost, based on 2008 premiums.

(4) This amount includes amounts that the named executive officer accrued under the Supplemental Retirement Plan as of December 31, 2008, which are disclosed in the Pension Benefits table on page 20.

J. Bryant Kirkland III

	Termination by Company without Cause or by Named Executive Officer with Good Reason or Disability	Death	Termination by Company for Cause or Voluntary Termination by Named Executive Officer Without Good Reason	Termination by Company without Cause or by Named Executive Officer with Good Reason upon a Change in Control
Cash Severance(1)	$ 925,000	$ 925,000		$ 925,000
Acceleration of Long Term Incentive Grants at Target				
Value of Accelerated Unvested Equity(2)				
Benefits Continuation(3)	$ 24,918	$ 24,918		$ 24,918
Value of Supplemental Retirement Plan(4)	$ 141,340	$ 621,898		$ 141,340
Excise Tax and Gross-Up				

(1) Reflects the value of the sum of Mr. Kirkland s 2008 base salary ($375,000) and last paid bonus limited to 25% of base salary ($87,500) paid over a period of 24 months commencing after termination.

(2) Reflects the value of any unvested stock options or restricted stock and related dividends that vested upon the event using the closing price of the Company s Common Stock on December 31, 2008 ($13.62) and related dividends. The executive also had vested but unexercised stock options on that date. See Outstanding Equity Awards at 2008 Fiscal Year-End on page 18.

(3) Reflects the value of premium payments to be made for life insurance, medical, dental and disability plans for 24 months at the Company s cost, based on 2008 premiums.

(4) This amount includes amounts that the named executive officer accrued under the Supplemental Retirement Plan as of December 31, 2008, which are disclosed in the Pension Benefits table on page 20.

Marc N. Bell

Termination by	Termination by

	Company without Cause or by Named Executive Officer with Good Reason or Disability	Death	Termination by Company for Cause or Voluntary Termination by Named Executive Officer Without Good Reason	Company without Cause or by Named Executive Officer with Good Reason upon a Change in Control
Cash Severance(1)	$ 987,500	$ 987,500		$ 987,500
Acceleration of Long Term Incentive Grants at Target				
Value of Accelerated Unvested Equity(2)				
Benefits Continuation(3)	$ 45,091	$ 45,091		$ 45,091
Value of Supplemental Retirement Plan(4)	$ 259,347	$ 881,780		$ 259,347
Excise Tax and Gross-Up				

(1) Reflects the value of the sum of Mr. Bell s 2008 base salary ($400,000) and last paid bonus limited to 25% of base salary ($93,750) paid over a period of 24 months commencing after termination.

(2) Reflects the value of any unvested stock options or restricted stock and related dividends that vested upon the event using the closing price of the Company s Common Stock on December 31, 2008 ($13.62) and related dividends. The executive also had vested but unexercised stock options on that date. See Outstanding Equity Awards at 2008 Fiscal Year-End on page 18.

(3) Reflects the value of premium payments to be made for life insurance, medical, dental and disability plans for 24 months at the Company s cost, based on 2008 premiums.

(4) This amount includes amounts that the named executive officer accrued under the Supplemental Retirement Plan as of December 31, 2008, which are disclosed in the Pension Benefits table on page 20.

Ronald J. Bernstein

	Termination by Company without Cause or by Named Executive Officer with Good Reason or Disability	Death	Termination by Company for Cause or Voluntary Termination by Named Executive Officer Without Good Reason	Termination by Company without Cause or by Named Executive Officer with Good Reason upon a Change in Control
Cash Severance(1)	$ 1,659,918	$ 1,659,918		$ 1,659,918
Acceleration of Long Term Incentive Grants at Target				
Value of Accelerated Unvested Equity(2)	$ 265,920	$ 265,920		$ 265,920
Benefits Continuation(3)	$ 31,554	$ 31,554		$ 31,554
Value of Retirement Benefits(4)	$ 1,872,080	$ 3,209,281		$ 1,872,080
Excise Tax and Gross-Up				

(1) Reflects the value of the sum of Mr. Bernstein s 2008 base salary ($829,959) paid over a period of 24 months commencing after termination.

(2) Reflects the value of any unvested stock options or restricted stock (14,470 shares) and related dividends that vested upon the event using the closing price of the Company s Common Stock on December 31, 2008 ($13.62) and related dividends. The executive also had vested but unexercised stock options on that date. See Outstanding Equity Awards at 2008 Fiscal Year-End on page 18.

(3) Reflects the value of premium payments to be made for life insurance, medical, dental and disability plans for 24 months at the Company s cost, based on 2008 premiums.

(4) This amount includes amounts that the named executive officer accrued under the Supplement Retirement Plan as of December 31, 2008, which is disclosed in the Pension Benefits table on page 20. The amount does not include the value of Mr. Bernstein s monthly payment of $372 at age 65 under the Qualified Plan, which is disclosed in the Pension Benefits payable on page 20 because lump sum payments are not generally available to participants in the Qualified Plan. If the lump sum option had been available to Mr. Bernstein in the Qualified

Plan, the amounts shown would have been increased by approximately $32,800.

Compensation of Directors

Each of the non-management directors receives:

- annual cash retainer fee of $35,000;
- $2,500 per annum for each committee membership ($5,000 for the committee chairman);
- $1,000 per meeting for each Board meeting attended in person or by telephone;
- $500 per meeting for each committee meeting attended in person or by telephone;
- periodic grants of restricted shares;
- reimbursement for reasonable out-of-pocket expenses incurred in serving on our Board; and
- access to our health, dental and life insurance coverage.

No stock options of Common Stock were granted to the non-management directors in 2008.

In June 2007, the Company granted 11,025 restricted shares of Common Stock under the 1999 Plan to each of its four non-management directors. The stock grant will vest in three equal annual installments commencing on the first anniversary of the date of grant based on continued service as a director, subject to earlier vesting upon death, disability or the occurrence of a change in control.

The table below summarizes the compensation the Company paid to the non-management directors for the year ended December 31, 2008.

NON-MANAGEMENT DIRECTOR COMPENSATION IN FISCAL YEAR 2008

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Changes in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Henry C. Beinstein	$ 57,000	$ 66,033				$ 4,038(2)	$ 127,071
Robert J. Eide	$ 59,500	$ 66,033				$ 1,388(2)	$ 126,921
Jeffrey S. Podell	$ 51,000	$ 66,033				$ 4,633(2)	$ 121,166
Jean E. Sharpe	$ 51,500	$ 66,033				$ 17,808(3)	$ 135,341

(1) Represents the dollar amount recognized for financial statement reporting purposes (excluding forfeitures) for the year ended December 31, 2008, in accordance with SFAS 123(R), for grants of restricted stock under the 1999 Plan, rather than an amount paid to or realized by the non-management director. In June 2007, the Company granted 11,025 restricted shares of Common Stock, respectively, to each non-management director. The stock s closing price on such date was $17.97 per share.

(2) Represents life insurance premiums paid by the Company.

(3) Represents health and life insurance premiums paid by the Company.

Compensation Committee Interlocks and Insider Participation

No member of the Company s Compensation Committee is, or has been, an employee or officer of the Company other than Ms. Sharpe who joined the Compensation Committee in March 2009. Ms. Sharpe retired as an officer of the Company in 1993. During 2008, (i) no member of the Company s Compensation Committee had any relationship with the Company requiring disclosure under Item 404 of Regulation S-K; and (ii) none of the Company s executive officers served on the compensation committee (or equivalent) or board of directors of another entity whose executive officer(s) served on the Company s Compensation Committee or board of directors.

Audit Committee Report

The audit committee report shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933 or under the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

Management is responsible for the Company s internal controls and the financial reporting process, including its financial statements and management s assessment of the effectiveness of the Company s internal control over financial reporting. PricewaterhouseCoopers LLP, the Company s independent registered certified public accounting firm, issues opinions on the conformity of the Company s audited financial statements with generally accepted accounting principles and on the effectiveness of the Company s internal control over financial reporting. The audit committee reviews these processes on behalf of the board of directors. In this context, the committee has reviewed and discussed with management and PricewaterhouseCoopers LLP the audited financial statements for the year ended December 31, 2008, management s assessment of the effectiveness of the Company s internal control over financial reporting and the evaluation by PricewaterhouseCoopers LLP of the Company s internal control over financial reporting.

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The audit committee has discussed with PricewaterhouseCoopers LLP the matters required to be discussed by Statement of Auditing Standards No. 61, *Communication with Audit Committees*, as modified or supplemented, which includes, among other items, matters related to the conduct of the audit of the Company s financial statements. The audit committee also has received written disclosures and the letter from PricewaterhouseCoopers LLP required by applicable requirements of the Public Company Accounting Oversight Board regarding PricewaterhouseCoopers LLP s communications with the audit committee concerning independence, and has discussed with PricewaterhouseCoopers LLP its independence from the Company. The audit committee has also considered whether the provision of the services described under the caption Audit Fees and Non-Audit Fees is compatible with maintaining the independence of the independent auditors.

Based on the review and discussions referred to above, the audit committee recommended to the board of directors that the audited financial statements and management s assessment of the effectiveness of the Company s internal control over financial reporting be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission.

This report is submitted by the audit committee of the Company.

Henry C. Beinstein, Chairman
Robert J. Eide
Jeffrey S. Podell
Jean E. Sharpe

Audit and Non-Audit Fees

The audit committee reviews and approves audit and permissible non-audit services performed by PricewaterhouseCoopers LLP, as well as the fees charged by PricewaterhouseCoopers LLP for such services. In accordance with Section 10A(i) of the Securities Exchange Act, before PricewaterhouseCoopers LLP is engaged to render audit or non-audit services, the engagement is approved by the audit committee. All of the services provided and fees charged by PricewaterhouseCoopers LLP in 2008 and 2007 were pre-approved by the audit committee.

Audit Fees. The aggregate fees billed by PricewaterhouseCoopers LLP for professional services for the audit of the annual financial statements of the Company and its consolidated subsidiaries, audit of internal control over financial reporting under Sarbanes-Oxley Section 404, audits of subsidiary financial statements, reviews of the financial statements included in the Company s quarterly reports on Form 10-Q, comfort letters, consents and review of documents filed with the SEC were $1,996,466 for 2008 and $2,225,851 for 2007.

Audit-Related Fees. No fees were billed by PricewaterhouseCoopers LLP for audit-related professional services in 2008 and 2007.

Tax Fees. The aggregate fees billed by PricewaterhouseCoopers LLP for professional services for tax services were $60,050 in 2008 and $31,400 in 2007. The services were primarily for federal and state tax advice.

All Other Fees. The aggregate fees billed by PricewaterhouseCoopers LLP for other services were $6,000 in 2008 and $4,500 in 2007. These amounts consisted of licensing of accounting research software.

Pre-Approval Policies and Procedures

The Audit Committee has adopted a policy that requires advance approval of all audit, audit-related, tax and other services performed by the independent registered certified public accounting firm. The policy provides for pre-approval by the Audit Committee of specifically defined audit and non-audit services. Unless the specific service has been previously pre-approved with respect to that year, the Audit Committee must approve the permitted service before the independent registered certified public accounting firm is engaged to perform it. The Audit Committee approved all services provided by PricewaterhouseCoopers LLP.

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Equity Compensation Plan Information

The following table summarizes information about the options, warrants and rights and other equity compensation under the Company s equity plans as of December 31, 2008.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)		Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders(1)	5,496,194	$	11.14	5,170,146
Equity compensation plans not approved by security holders				
Total	5,496,194	$	11.14	5,170,146

(1) Includes options to purchase shares of the Company s Common Stock under the following stockholder-approved plans: 1998 Long-Term Incentive Plan and Amended and Restated 1999 Long-Term Incentive Plan.

Certain Relationships and Related Party Transactions

The board of directors has adopted a written policy for the review and approval of transactions between the Company and its directors, director nominees, executive officers, greater than five percent beneficial owners and their immediate family members. The policy covers any related party transaction that meets the minimum threshold for disclosure in the Company s proxy statement under the relevant Securities and Exchange Commission rules. The Audit Committee is responsible for reviewing and, if appropriate, approving or ratifying any related party transactions. In determining whether to approve, disapprove or ratify a related party transaction, the Audit Committee will take into account, among other factors it deems appropriate, (i) whether the transaction is on terms no less favorable to the Company than terms that would have been reached with an unrelated third party, (ii) the extent of the interest of the related party in the transaction and (iii) the purpose and the potential benefits to the Company of the transaction.

The related party transactions described in this proxy statement entered into before this policy was adopted were approved by the board of directors or audit committee.

In August 2006, the Company invested $25,000,000 in Icahn Partners, LP, a privately managed investment partnership, of which Mr. Icahn is the portfolio manager and the controlling person of the general partner, and manager of the partnership. In September 2007, the Company invested an additional $25,000,000. The Company recorded a loss of $15,000,000 in 2008 associated with Icahn Partners performance.

As of the record date, Jefferies was the beneficial owner of 5.9% of the Common Stock. Jefferies or its affiliates have from time to time provided investment banking, general financing and banking services to the Company and its affiliates, for which they have received customary compensation. No fees were paid by the Company paid to Jefferies and its affiliates in 2008. Jefferies or its affiliates may provide similar services in the future. Affiliates of Jefferies owned convertible notes of the Company in 2008.

On November 1, 2006, the Company invested $10,000,000 in Jefferies Buckeye Fund, LLC, a privately managed investment partnership, of which Jefferies Asset Management, LLC is the portfolio manager. In April 2008, the Company elected to withdraw its investment in Jefferies Buckeye Fund, LLC and recorded a loss of $567,038 in 2008 associated with the Buckeye Fund s performance.

In September 2006, the Company entered into an agreement with Ladenburg Thalmann Financial Services Inc. (LTS) pursuant to which the Company agreed to make available to LTS the services of Richard Lampen, the Company s Executive Vice President, to serve as the President and Chief Executive Officer of LTS and to provide certain other financial and accounting services, including assistance with complying with Section 404 of the Sarbanes-Oxley Act of 2002. In consideration for such services, LTS had agreed to pay the Company an annual fee of $250,000 plus reimbursement of expenses and will indemnify the Company. The agreement is terminable by

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either party upon 30 days prior written notice. Various executive officers and directors of the Company serve as members of the Board of Directors of LTS. In December 2007, LTS and Vector entered into an amendment to the agreement to amend the fees payable thereunder as follows: (i) a special management fee payment of $150,000 for 2007 (resulting in a total payment of $400,000 for 2007), (ii) an increase in the annual fee from $250,000 to $400,000 effective January 1, 2008 and (iii) an increase in the annual fee from $400,000 to $600,000, effective July 1, 2008 (payment of $500,000 for 2008). For 2008, LTS paid compensation of $150,000 to each of Mr. Lorber, the President of the Company, who serves as Vice Chairman of LTS, and to Mr. Lampen, the Executive Vice President of the Company, who serves as President and CEO of LTS.

In October 2008, the Company acquired for $4,000,000 an approximate 11% interest in Castle Brands Inc. (NSYE Amex: ROX), a publicly traded developer and importer of premium branded spirits, as part of a $15,000,000 private placement. Mr. Beinstein serves as an independent director of Castle. The Company s Executive Vice President, Richard J. Lampen, is serving as Castle s interim President and Chief Executive Officer. In October 2008, the Company entered into an agreement with Castle where the Company agreed to make available the services of Mr. Lampen as well as other financial and accounting services. Castle paid the Company $22,011 for the year ended December 31, 2008 related to the agreement and pays the Company at a rate of $100,000 per year in 2009. A subsidiary of LTS received a fee of $250,000 for investment banking services paid by Castle in connection with the closing of the private placement.

The Company has made investments in entities where Dr. Phillip Frost, the beneficial owner of approximately 8.1% of the Common Stock, has a relationship. These include the following: (i) two investments in 2006 and 2008 totaling approximately $6,000,000 for 5,057,110 shares in OPKO Inc. (NYSE Amex: OPK) and its predecessor eXegenics Inc.; (ii) a $500,000 investment in 2008 for 2,259,796 shares in Cardo Medical Inc. (OTC BB: CDOM); (iii) a $500,000 investment in 2008 in Cocrystal Discovery Inc. (one half to be funded within 18 months of the investment); and (iv) the $4,000,000 investment in 2008 in Castle discussed above. Dr. Frost is a director, executive officer and/or more than 10% shareholder in these entities. Additional investments in entities where Dr. Frost has a relationship may be made in the future.

Mr. Lorber serves as a consultant to Hallman & Lorber. During 2008, Mr. Lorber and Hallman & Lorber and its affiliates received ordinary and customary insurance commissions aggregating approximately $221,000 on various insurance policies issued for the Company and its subsidiaries and investees. Hallman & Lorber and its affiliates have continued to provide services to the Company in 2009.

INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP has been the independent registered certified public accounting firm for the Company since December 1986 and will serve in that capacity for the 2009 fiscal year unless the audit committee deems it advisable to make a substitution. It is expected that one or more representatives of such firm will attend the annual meeting and be available to respond to any questions. These representatives will be given an opportunity to make statements at the annual meeting if they desire.

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MISCELLANEOUS

Annual Report

The Company has mailed, with this proxy statement, a copy of the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 to each stockholder as of the record date. If a stockholder requires an additional copy of such Annual Report, the Company will provide one, without charge, on the written request of any such stockholder addressed to the Company s secretary at Vector Group Ltd., 100 S.E. Second Street, 32nd Floor, Miami, Florida 33131.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires directors and executive officers of the Company, as well as persons who beneficially own more than 10% of a registered class of the Company s equity securities, to file reports of initial beneficial ownership and changes in beneficial ownership on Forms 3, 4 and 5 with the SEC. These persons are also required by SEC regulations to furnish the Company with copies of all reports that they file. As a practical matter, the Company assists its directors and officers by monitoring transactions and completing and filing Section 16 reports on their behalf.

To the Company s knowledge, based solely on review of the copies of such reports furnished to the Company and representations that no other reports were required, during and with respect to the fiscal year ended December 31, 2008, all reporting persons have timely complied with all filing requirements applicable to them.

Communications with Directors

Any stockholder and other interested parties wishing to communicate with any of the Company s directors regarding the Company may write to the director, c/o the Company s secretary at Vector Group Ltd., 100 S.E. Second Street, 32nd Floor, Miami, Florida 33131. The secretary will forward these communications directly to the director(s) in question. The independent directors of the Board review and approve this communication process periodically to ensure effective communication with stockholders and other interested parties.

Although the Company does not have a policy with regard to Board members attendance at the annual meeting of stockholders, all of the directors are invited to attend such meeting. Three of the Company s directors were in attendance at the Company s 2008 annual meeting.

Stockholder Proposals for the 2009 Annual Meeting

Proposals of stockholders intended to be presented at the 2009 annual meeting of stockholders of the Company and included in the Company s proxy statement for that meeting pursuant to Rule 14a-8 of the Exchange Act must be received by the Company at its principal executive offices, 100 S.E. Second Street, 32nd Floor, Miami, Florida 33131, Attention: Marc N. Bell, Secretary, on or before December 15, 2009 in order to be eligible for inclusion in the Company s proxy statement relating to that meeting. Notice of a stockholder proposal submitted outside the processes of Rule 14a-8 will be considered untimely unless submitted by March 15, 2010.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIAL FOR THE STOCKHOLDER MEETING TO BE HELD ON JUNE 2, 2009

A copy of this proxy statement, the enclosed proxy card and the 2008 Annual Report of Vector Group Ltd., together with directions to the meeting, can be found at the website address: www.vectorgroupltd.com/invest.asp.

HOUSEHOLDING OF ANNUAL MEETING MATERIALS

Some banks, brokers, broker-dealers and other similar organizations acting as nominee record holders may be participating in the practice of householding proxy statements and annual reports. This means that only one copy of this proxy statement and the Annual Report may have been sent to multiple shareholders in your household. If you would prefer to receive separate copies of a proxy statement or Annual Report for other shareholders in your household, either now or in the future, please contact your bank, broker, broker-dealer or other similar organization serving as your nominee. Upon written or oral request to Vector Group Ltd., 100 S.E. Second Street, 32nd Floor, Miami, Florida 33131, or via telephone at 305-579-8000, we will provide separate copies of the Annual Report and/or this proxy statement.

Other Matters

All information in this proxy statement concerning the Common Stock has been adjusted to give effect to the 5% stock dividends paid to the stockholders of the Company on September 30, 1999, September 28, 2000, September 28, 2001, September 27, 2002, September 29, 2003, September 29, 2004, September 29, 2005, September 29, 2006, September 28, 2007 and September 29, 2008.

The board knows of no other matters which will be presented at the annual meeting. If, however, any other matter is properly presented at the annual meeting, the proxy solicited by this proxy statement will be voted in accordance with the judgment of the person or persons holding such proxy.

By Order of the Board of Directors,

Howard M. Lorber
President and Chief Executive Officer

Dated: April 15, 2009

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VECTOR GROUP LTD.
PROXY

SOLICITED BY THE BOARD OF DIRECTORS FOR USE AT THE 2009 ANNUAL MEETING OF STOCKHOLDERS OF VECTOR GROUP LTD.

The undersigned stockholder of Vector Group Ltd. (the Company) hereby constitutes and appoints each of Marc N. Bell and J. Bryant Kirkland III attorney and proxy of the undersigned, with power of substitution, to attend, vote and act for the undersigned at the 2009 Annual Meeting of Stockholders of the Company, a Delaware corporation, to be held at the Bank of America Tower, 100 S.E. Second Street, 19^{th} Floor Auditorium, Miami, Florida 33131 on Tuesday, June 2, 2009 at 11:00 a.m. local time, and at any adjournments or postponements thereof, with respect to the following on the reverse side of this proxy card and, in their discretion, on such other matters as may properly come before the meeting and at any adjournments or postponements thereof.

(Continued and to be signed on the reverse side.)

The Board of Directors recommends a vote FOR the election of directors. PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE x

Item 1. Election of Directors:

FOR ALL NOMINEES	o
WITHHOLD AUTHORITY FOR ALL NOMINEES	o
FOR ALL EXCEPT (See instructions below)	o

Nominees: Bennett S. LeBow, Howard M. Lorber, Ronald J. Bernstein, Henry C. Beinstein, Robert J. Eide, Jeffrey S. Podell and Jean E. Sharpe

INSTRUCTION: To withhold authority to vote for any individual nominee(s), mark FOR ALL EXCEPT and fill in the circle next to each nominee you wish to withhold, as shown here: x

The shares represented by this proxy will be voted in the manner directed by the undersigned stockholder. If not otherwise directed, this proxy will be voted FOR the election of the nominees.

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method. o

Signature of Stockholder __________________ Date ________ Signature of Stockholder __________________ Date ________

NOTE: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.