

TRI COUNTY FINANCIAL CORP /MD/

Form DEF 14A

April 03, 2006

**Table of Contents**

**SCHEDULE 14A INFORMATION**  
**Proxy Statement Pursuant to Section 14(a) of the Securities**  
**Exchange Act of 1934 (Amendment No. \_\_\_)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under Rule 14a-12

**TRI-COUNTY FINANCIAL CORPORATION**

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:
  
  
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3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
  
  
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1. Amount Previously Paid:

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-

**TABLE OF CONTENTS**

NOTICE OF 2006 ANNUAL MEETING OF STOCKHOLDERS

ANNUAL MEETING OF STOCKHOLDERS May 3, 2006

Voting and Revocability of Proxies

Principal Holders of Voting Securities

Proposal 1 Election Of Directors

NOMINEES FOR ELECTION OF DIRECTORS

DIRECTORS CONTINUING IN OFFICE

Corporate Governance

Director Compensation

Executive Compensation

Relationships and Transactions with the Company and the Bank

Section 16(a) Beneficial Ownership Reporting Compliance

Proposal 2 Ratification of Appointment of Auditors

Miscellaneous

Stockholder Proposals and Nominations

Appendix A

Appendix B

---

**Table of Contents**

[LETTERHEAD OF TRI-COUNTY FINANCIAL CORPORATION]

April 3, 2006

Dear Stockholder:

I am pleased to invite you to attend the annual meeting of stockholders of Tri-County Financial Corporation (the Company ) to be held in the Board Room at the main office of Community Bank of Tri-County, 3035 Leonardtown Road, Waldorf, Maryland on Wednesday, May 3, 2006 at 10:00 a.m.

The attached Notice and Proxy Statement describe the formal business to be transacted at the annual meeting. Directors and officers of the Company as well as a representative of the Company s auditors, Stegman & Company, will be present to respond to any questions stockholders may have.

Your vote is important, regardless of the number of shares you own. **On behalf of the Board of Directors, I urge you to sign, date and return the enclosed proxy card as soon as possible, even if you currently plan to attend the annual meeting.** This will not prevent you from voting in person, but will assure that your vote is counted if you are unable to attend the annual meeting.

We look forward to seeing you at the meeting.

Sincerely,

Michael L. Middleton  
*President and Chief Executive Officer*

Table of Contents

**TRI-COUNTY FINANCIAL CORPORATION  
3035 LEONARDTOWN ROAD  
WALDORF, MARYLAND 20601  
(301) 645-5601**

**NOTICE OF 2006 ANNUAL MEETING OF STOCKHOLDERS**

<b>TIME AND DATE</b>	10:00 a.m. on Wednesday, May 3, 2006
<b>PLACE .</b>	The Board Room at the main office of Community Bank of Tri-County, 3035 Leonardtown Road, Waldorf, Maryland
<b>ITEMS OF BUSINESS</b>	The election of two directors of the (1) Company;  (2) The ratification of the appointment of Stegman & Company as the independent auditors of the Company for the fiscal year ending December 31, 2006; and  (3) Such other matters as may properly come before the annual meeting or any adjournments thereof. The Board of Directors is not aware of any other business to come before the annual meeting.
<b>RECORD DATE</b>	To vote, you must have been a stockholder at the close of business on March 17, 2006.
<b>PROXY VOTING</b>	You are requested to fill in and sign the enclosed form of proxy, which is solicited by the Board of Directors, and mail it promptly in the enclosed envelope. The proxy will not be used if you attend and vote at the annual meeting in person.

**IMPORTANT: THE PROMPT RETURN OF PROXIES WILL SAVE THE CORPORATION THE EXPENSE OF FURTHER REQUESTS FOR PROXIES TO ENSURE A QUORUM. A SELF-ADDRESSED ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.**

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**Table of Contents**

**PROXY STATEMENT  
OF  
TRI-COUNTY FINANCIAL CORPORATION  
3035 LEONARDTOWN ROAD  
WALDORF, MARYLAND 20601  
(301) 645-5601  
ANNUAL MEETING OF STOCKHOLDERS  
May 3, 2006**

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Tri-County Financial Corporation ( Tri-County Financial or the Company ) to be used at the annual meeting of stockholders of the Company, which will be held in the Board Room at the main office of Community Bank of Tri-County (the Bank ), 3035 Leonardtown Road, Waldorf, Maryland on Wednesday, May 3, 2006 at 10:00 a.m. The accompanying notice of meeting and this Proxy Statement are being first mailed to stockholders on or about April 3, 2006.

**VOTING AND REVOCABILITY OF PROXIES**

**Who Can Vote at the Meeting.** You are entitled to vote your Tri-County Financial common stock if the records of the Company show that you held your shares as of the close of business on March 17, 2006. If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name and these proxy materials are being forwarded to you by your broker, bank or nominee. As the beneficial owner, you have the right to direct your broker on how to vote your shares. Your broker, bank or nominee has enclosed a voting instruction card for you to use in directing it on how to vote your shares.

As of the close of business on March 17, 2006, 1,769,028 shares of Tri-County Financial common stock were outstanding. Each share of common stock has one vote.

**Attending the Meeting.** If you are a stockholder as of the close of business on March 17, 2006, you may attend the meeting. However, if you hold your shares in street name, you will need proof of ownership to be admitted to the meeting. A recent brokerage statement or letter from a bank, broker or other nominee are examples of proof of ownership. If you want to vote your shares of Tri-County Financial common stock held in street name in person at the meeting, you will have to get a written proxy in your name from the broker, bank or other nominee who holds your shares.

**Vote Required.** The annual meeting will be held if at least a majority of the outstanding shares of common stock entitled to vote, constituting a quorum, is represented at the meeting. If you return valid proxy instructions or attend the meeting in person, your shares will be counted for purposes of determining whether there is a quorum, even if you abstain from voting. Broker non-votes also will be counted for the purpose of determining the existence of a quorum. A broker non-vote occurs when a broker, bank or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the broker, bank or other nominee does not have discretionary voting power with respect to that item and has not received voting instructions from the beneficial owner.

In voting on the election of directors, you may vote in favor of both nominees, withhold votes as to both or either nominee. There is no cumulative voting for the election of directors. Directors must be elected by an affirmative vote of a majority of the shares cast at the annual meeting. Votes that are withheld will have the same effect as a negative vote.

In voting on the ratification of the appointment of Stegman & Company as independent auditors, you may vote in favor of the proposal, vote against the proposal or abstain from voting. This proposal will

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**Table of Contents**

be decided by the affirmative vote of a majority of the shares represented at the annual meeting and entitled to vote. On this matter abstentions will have the same effect as a negative vote.

**Voting by Proxy.** This proxy statement is being sent to you by the Board of Directors of Tri-County Financial to request that you allow your shares of Tri-County Financial common stock to be represented at the annual meeting by the persons named in the enclosed proxy card. All shares of Tri-County Financial common stock represented at the meeting by properly executed, dated proxies will be voted according to the instructions indicated on the proxy card. If you sign, date and return a proxy card without giving voting instructions, your shares will be voted as recommended by the Company's Board of Directors. **The Board of Directors recommends that you vote FOR each of the nominees for director and FOR ratification of the appointment of Stegman & Company as independent auditors.**

If any matter not described in this proxy statement is properly presented at the annual meeting, the persons named in the proxy card will use their judgment to determine how to vote your shares. This includes a motion to adjourn or postpone the meeting to solicit additional proxies. If the annual meeting is postponed or adjourned, your Tri-County Financial common stock may also be voted by the persons named in the proxy card on the new meeting date, unless you have revoked your proxy. The Company does not know of any other matters to be presented at the meeting.

Stockholders who execute proxies retain the right to revoke them at any time. Unless so revoked, the shares represented by such proxies will be voted at the annual meeting and all adjournments thereof. Proxies may be revoked by written notice delivered in person or mailed to the Secretary of the Company, by the filing of a later-dated proxy before a vote being taken on a particular proposal at the annual meeting or by attending the annual meeting and voting in person. The presence of a stockholder at the annual meeting will not in and of itself revoke such stockholder's proxy.

If your Tri-County Financial common stock is held in street name, you will receive instructions from your broker, bank or other nominee that you must follow to have your shares voted. Your broker, bank or other nominee may allow you to deliver your voting instructions via the telephone or the Internet. Please see the instruction form provided by your broker, bank or other nominee that accompanies this proxy statement. If you wish to change your voting instructions after you have returned your voting instruction form to your broker, bank or other nominee, you must contact your broker, bank or other nominee.

**Participants in the Bank's ESOP.** If you participate in the Community Bank of Tri-County Employee Stock Ownership Plan (the ESOP), you will receive a voting instruction form that reflects all shares you may direct the ESOP trustees to vote on your behalf under the plan. Under the terms of the ESOP, the trustees vote all shares held by the ESOP, but each ESOP participant may direct the trustees how to vote the shares of common stock allocated to his or her account. The trustees, subject to the exercise of their fiduciary duties, will vote all unallocated shares of Company common stock held by the ESOP and allocated shares for which no voting instructions are received in the same proportion as shares for which they have received timely voting instructions. The deadline for returning your voting instructions to the plan's trustees is April 26, 2006.



**Table of Contents****PRINCIPAL HOLDERS OF VOTING SECURITIES**

The following table sets forth, as of March 17, 2006, certain information as to those persons who were beneficial owners of more than 5% of the Company's outstanding shares of common stock and as to the shares of common stock beneficially owned by each director, each executive officer named in the summary compensation table and by all executive officers and directors of the Company as a group. Persons and groups owning in excess of 5% of the common stock are required to file certain reports regarding such ownership with the Company and the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended. Management knows of no person, other than those set forth in the table below, who owned more than 5% of the outstanding shares of common stock as of March 17, 2006. All beneficial owners listed in the table have the same address as the Company. Unless otherwise indicated, each of the named individuals has sole voting power and sole investment power with respect to the shares shown. Share ownership reflects the three for two stock split effected December 29, 2005 in the form of a 50% stock dividend.

Name of Beneficial Owners	Number of Shares Owned (Excluding Options)(1)	Number of Shares That May Be Acquired Within 60 Days by Exercising Options	Percent of Shares of Common Stock Outstanding (2)
C. Marie Brown	61,460 (3)	38,369	5.52%
Gregory C. Cockerham	36,598	35,358	3.99%
Louis P. Jenkins, Jr.	2,475	12,037	*
Michael L. Middleton	182,989 (4)	51,825	12.90%
William J. Pasenelli	3,540	23,595	1.51%
Herbert N. Redmond, Jr.	4,549	21,900	1.48%
James R. Shepherd	1,562	9,262	*
A. Joseph Slater, Jr.	5,225	10,275	*
H. Beaman Smith	66,960 (5)	20,275	4.88%
All Directors, Executive Officers and Nominees as a Group (9 persons)	365,358	222,896	29.53%
Community Bank of Tri-County Employee Stock Ownership Plan (6)	123,589		6.99%

\* Less than 1% of the shares outstanding

(1) Includes shares allocated to the account of the individuals under the Community Bank of Tri-County Employee Stock Ownership Plan, with respect to which the individual has voting but not investment power as

follows: Ms. Brown  
17,465 shares;  
Mr. Cockerham 15,800  
shares; Mr.  
Middleton 25,121  
shares; and  
Mr. Pasenelli 1,667  
shares.

- (2) Based upon 1,769,028 shares of Company common stock outstanding, plus, for each individual or group, the number of shares of Company common stock that each individual or group may acquire through the exercise of options within 60 days.
- (3) Includes 18,000 shares owned by Ms. Brown's husband.
- (4) Includes 46,234 shares owned by Mr. Middleton's wife and 2,808 shares owned by individual retirement account of Mr. Middleton's wife.
- (5) Includes 10,777 shares owned by Mr. Smith's wife.
- (6) Includes 7,528 shares held in a suspense account for future allocation and/or distribution among participants as the loan used to purchase the shares is repaid. The ESOP trustees vote all allocated shares in accordance with the instructions of the participating

employees.

Unallocated shares and shares for which no instructions have been received are voted by the trustees , subject to the exercise of their fiduciary duties, in the same proportion as shares for which they have received timely voting instructions.

**Table of Contents**

**PROPOSAL 1 ELECTION OF DIRECTORS**

Tri-County Financial's Board of Directors currently consists of seven members. The Company's Articles of Incorporation provide that directors are to be elected for terms of three years, approximately one-third of whom are to be elected annually. Since the Company is trading on the OTC Electronic Bulletin Board, there is no independence requirement for the Company's directors. However, if the Company were to apply the current listing standards of the Nasdaq Stock Market, each of the directors would be considered independent, except for C. Marie Brown, Michael L. Middleton and H. Beaman Smith, who are not independent because they are employees of the Company and the Bank.

The Board of Directors has nominated Herbert N. Redmond, Jr. and A. Joseph Slater, Jr. to serve for an additional three-year term and until their successors are elected and qualified. It is intended that the persons named in the proxies solicited by the Board will vote for the election of the named nominees.

If any nominee is unable to serve, the shares represented by all valid proxies will be voted for the election of such substitute nominee as the Board of Directors may recommend. Alternatively, the Board of Directors may adopt a resolution to reduce the size of the Board. At this time, the Board knows of no reason why any nominee might be unable to serve.

Information regarding the nominees and the directors continuing in office is provided below. Unless otherwise stated, each individual has held his or her current occupation for the last five years. The age indicated in each biography is as of December 31, 2005. There are no family relationships among the directors or executive officers. The indicated period for service as a director includes service as a director of Community Bank of Tri-County.

**NOMINEES FOR ELECTION OF DIRECTORS**

The following nominees are standing for election for terms ending in 2009:

**Herbert N. Redmond, Jr.** is the Senior Vice President and Manager of the St. Mary's County office of the D.H. Steffens Company, which provides civil engineering, land planning and land surveying services. He is a member of the Leonardtown Rotary and serves on the special activities committee. He also serves as a member of the St. Mary's County Building Officials and Code Administrators Appeals Boards and is a member of the St. Mary's County Historical Society. Mr. Redmond serves on the vestry of Christ Church Chaptico and on the scholarships awards committee of the Maryland Society of Surveyors. Age 65. Director since 1997.

**A. Joseph Slater, Jr.** has served as the President and CEO of the Southern Maryland Electric Cooperative, which is one of the ten largest electrical distribution cooperatives in the country since December 2002. From January 2000 to December 2002, Mr. Slater served as Vice President of the National Rural Electric Cooperative Association. Mr. Slater also serves on the Board of the Maryland Chamber of Commerce and numerous other civic organizations. Mr. Slater holds an MBA in Finance from George Washington University and a BS in Accounting from Shepherd University. Age 52. Director since 2003.

**DIRECTORS CONTINUING IN OFFICE**

The following directors have terms ending in 2007:

**C. Marie Brown** has been associated with the Bank for over 30 years and serves as its Chief Operating Officer. Ms. Brown is an alumna of Charles County Community College with an associates of arts degree in management development. She is a supporter of the Handicapped and Retarded Citizens of Charles County, a member of the Zonta Club of Charles County and serves on various administrative committees of the Hughesville Baptist Church. Age 63. Director since 1991.

**Table of Contents**

**Louis P. Jenkins, Jr.** the principal of Jenkins Law Firm, LLC, located in La Plata, Maryland. Prior to entering private practice, Mr. Jenkins served as an Assistant State's Attorney in Charles County, Maryland from 1997 to 1999. In addition to his private practice, Mr. Jenkins serves as Court Auditor for the Circuit Court for Charles County, Maryland. Mr. Jenkins currently serves on the Board of Directors of the Civista Health Foundation and has previously served as a board member of several other public service organizations including the Southern Maryland Chapter of the American Red Cross, Charles County Chamber of Commerce and the Charles County Bar Association. Age 34. Director since 2000.

**Michael L. Middleton** is President and Chief Executive Officer of the Company and the Bank. Mr. Middleton joined the Bank in 1973 and served in various management positions until 1979 when he became President of the Bank. Mr. Middleton is a Certified Public Accountant and holds a Masters of Business Administration. From January 1996 to December 2004, Mr. Middleton served on the Board of Directors of the Federal Home Loan Bank of Atlanta, serving as Chairman of the Board from January 2004 to December 2004. He also served as its Board Representative to the Council of Federal Home Loan Banks. Mr. Middleton has served on the Board of Directors of the Federal Reserve Bank, Baltimore Branch, since January 2004. Age 58. Director since 1979.

The following directors have terms ending in 2008:

**James R. Shepherd** has been the Business Development Officer for the Calvert County Department of Economic Development. From 1971 to 1994, Mr. Shepherd was a business owner in Calvert County. Mr. Shepherd holds an MS degree in Management from the University of Maryland and a BA from Roanoke College. Mr. Shepherd serves in numerous civic and charitable organizations. Age 61. Director since 2003.

**H. Beaman Smith** is the Secretary/Treasurer of the Company, President of Accoware, a computer software company, and Vice President of Fry Plumbing Company of Washington, D.C. Mr. Smith holds a Masters Degree and BS from the University of Maryland. Mr. Smith is a director of the Maryland 4-H Foundation. Age 60. Director since 1986.

**CORPORATE GOVERNANCE**

**General.** Tri-County Financial periodically reviews its corporate governance policies and procedures to ensure that the Company meets the highest standards of ethical conduct, reports results with accuracy and transparency and maintains full compliance with the laws, rules and regulations that govern Tri-County Financial's operations. As part of this periodic corporate governance review, the Board of Directors reviews and adopts best corporate governance policies and practices for Tri-County Financial.

**Code of Ethics.** Tri-County Financial has adopted a Code of Ethics that is designed to ensure that the Company's directors and employees meet the highest standards of ethical conduct. The Code of Ethics, which applies to all employees and directors, addresses conflicts of interest, the treatment of confidential information, general employee conduct and compliance with applicable laws, rules and regulations. In addition, the Code of Ethics is designed to deter wrongdoing and promote honest and ethical conduct, the avoidance of conflicts of interest, full and accurate disclosure and compliance with all applicable laws, rules and regulations.

**Meeting and Committees of the Board of Directors.** The Board of Directors conducts its business through meetings of the Board and through activities of its committees. During 2005, the Board of Directors held 8 meetings. No Director of the Company attended fewer than 75% of the total meetings of the Board of Directors and committees on which such Board member served during the period he or she served on the Board.

**Table of Contents**

The following table identifies our standing committees and their members as of March 17, 2006.

	<b>Director</b>	<b>Audit Committee</b>	<b>Governance Committee</b>
C. Marie Brown			
Louis P. Jenkins, Jr.			X*
Michael L. Middleton			
Herbert N. Redmond, Jr.		X*	
James R. Shepherd		X	X
A. Joseph Slater, Jr.		X	
H. Beaman Smith			X
<i>Number of Meetings in 2005</i>		7	2

**\*Chairman**

The Company's Audit Committee meets with the Company's independent auditors in connection with their annual audit and reviews the Company's accounting and financial reporting policies and practices. All of the members of the Audit Committee are independent as defined under the listing standards of the Nasdaq Stock Market. The Board of Directors has determined that the Audit Committee does not have a member who is an audit committee financial expert as defined under the rules and regulations of the Securities and Exchange Commission. While the Board recognizes that no individual Board member meets the qualifications required of an audit committee financial expert, the Board believes that appointment of a new director to the Board and to the Audit Committee at this time is not necessary as the level of financial knowledge and experience of the current members of the Audit Committee, including the ability to read and understand fundamental financial statements, is cumulatively sufficient to discharge adequately the Audit Committee's responsibilities. The Audit Committee acts under a written charter adopted by the Board of Directors, a copy of which is attached as *Appendix A* to this proxy statement. The report of the Audit Committee required by the rules of the Securities and Exchange Commission is included in this proxy statement. See *Audit Committee Report*.

The Company's Nominating Committee is its Governance Committee. The Governance Committee selects nominees for election as directors. All of the members of the Governance Committee are independent as defined under the listing standards of the Nasdaq Stock Market, except for Mr. Smith, who is an employee of the Company and the Bank. The Governance Committee operates under a written charter that governs its composition and responsibilities, a copy which is attached as *Appendix B* to this proxy statement.

In its deliberations, the Governance Committee considers a candidate's knowledge of the banking business and involvement in community, business and civic affairs, and also considers whether the candidate would adequately represent of the Company's market area. Any nominee for director made by the Governance Committee must be highly qualified with regard to some or all the attributes listed in the preceding sentence. In searching for qualified director candidates to fill vacancies on the Board, the Governance Committee solicits its current directors for the names of potential qualified candidates. The Governance Committee may also ask its directors to pursue their business contacts for the names of potentially qualified candidates. The Governance Committee would then consider the potential pool of director candidates, select the top candidate based on the candidates' qualifications and the Governance Committee's

needs, and conduct a thorough investigation of the proposed candidate's background to ensure there is no past history that would cause the candidate not to be qualified to serve as a director of the Company. If a stockholder has submitted a proposed nominee, the Governance Committee would consider the proposed nominee, along with any other proposed nominees recommended by individual directors, in the

**Table of Contents**

same manner in which the Governance Committee would evaluate nominees for director recommended by the Board of Directors.

The Governance Committee will consider recommendations for directorships submitted by stockholders. Stockholders who wish the Governance Committee to consider their recommendations for nominees for the position of director should submit their recommendations in writing to the Governance Committee in care of the Secretary, Tri-County Financial Corporation, 3035 Leonardtown Road, Waldorf, Maryland 20601. Each written recommendation must set forth (1) the name of the recommended candidate, (2) the number of shares of stock of the Company that are beneficially owned by the stockholder making the recommendation and by the recommended candidate, and (3) a detailed statement explaining why the stockholder believes the recommended candidate should be nominated for election as a director. In addition, the stockholder making such recommendation must promptly provide any other information reasonably requested by the Governance Committee. To be considered by the Governance Committee for nomination for election at an annual meeting of stockholders, the recommendation must be received by January 1 preceding that annual meeting. Recommendations by stockholders that are made in accordance with these procedures will receive the same consideration given to other candidates recommended by directors or executive management.

The Company does not have a separate compensation committee. The Governance Committee considers compensation matters and makes recommendations to the Board of Directors. The final determination on compensation matters is made by the full Board of Directors.

**Board Policies Regarding Communications With the Board of Directors.** The Board of Directors maintains a process for stockholders to communicate with the Board of Directors. Stockholders wishing to communicate with the Board of Directors should send any communication to Secretary, Tri-County Financial Corporation, 3035 Leonardtown Road, Waldorf, Maryland 20601. Any communication must state the number of shares beneficially owned by the stockholder making the communication. The Secretary will forward such communication to the full Board of Directors or to any individual director or directors to whom the communication is addressed unless the communication is unduly hostile, threatening, illegal or similarly inappropriate, in which case the Secretary has the authority to discard the communication or take appropriate legal action regarding the communication.

**Attendance at Annual Meetings.** The Company does not have a policy regarding Board member attendance at annual meetings of stockholders. All of the Company's directors attended the Company's 2005 annual meeting of stockholders.



**Table of Contents****DIRECTOR COMPENSATION**

**Cash Retainer and Meeting Fees For Non-Employee Directors.** The following tables set forth the applicable retainers and fees that will be paid to non-employee directors for their service on the Board of Directors of the Company and the Board of Directors of the Bank.

***Board of Directors of Tri-County Financial:***

Annual Retainer	\$8,000
Fee per Board Meeting (Regular or Special)	\$500 (\$225 per telephone meeting)
Fee per Committee Meeting:	
Audit Committee	\$325 (\$225 per telephone meeting)
Governance Committee	\$325 (\$225 per telephone meeting)
Additional Fee per Audit Committee Meeting for Chairman of Audit Committee	\$100

***Board of Directors of the Bank:***

Annual Retainer	\$3,500
Fee per Board Meeting (Regular or Special)	\$650 (\$225 per telephone meeting)
Fee per Committee Meeting:	
Executive Committee	\$425 (\$225 per telephone meeting)
ALCO Committee	\$425 (\$225 per telephone meeting)
Credit Review Committee	\$425 (\$225 per telephone meeting)
401(k) Review Committee	\$425 (\$225 per telephone meeting)

If more than one meeting of the Bank, the Company or any committee is held on any given day, the aggregate fees cannot exceed \$1,400 per day. Additionally, for his service as Secretary and Treasurer of the Company, Mr. Smith receives an annual salary of \$15,000.

**Non-Employee Director Compensation.** The following table sets forth the total cash and equity compensation paid to our non-employee directors for their service on the Board of Directors of the Company and the Board of Directors of the Bank during 2005.

<b>Director</b>	<b>Cash</b>	<b>Stock Option Awards (1)</b>
Louis P. Jenkins, Jr.	\$28,125	6,000

Herbert N. Redmond, Jr.	\$28,000	6,000
James R. Shepherd	\$30,100	6,000
A. Joseph Slater, Jr.	\$30,275	6,000
H. Beaman Smith	\$28,525	6,000

(1) The number of options granted to each director has been adjusted to reflect the three for two stock split effected December 29, 2005 in the form of a 50% stock dividend. All options awarded to the directors were immediately vested and exercisable at an exercise price of \$33.43 per share.

**Table of Contents**

**Director Retirement Plan.** The Bank maintains a retirement plan for members of the Board of Directors of the Bank (the Directors Plan ). Under the Directors Plan, each non-employee director of the Bank will receive an annual retirement benefit for ten years following his termination of service on the Bank s Board in an amount equal to the product of his Benefit Percentage, his Vested Percentage, and \$3,500. A participant s Benefit Percentage is 0% for less than five years of service, 33<sup>1</sup>/<sub>3</sub>% for five to nine years of service, 66<sup>2</sup>/<sub>3</sub>% for 10 to 14 years of service, and 100% for 15 or more years of service. A participant s Vested Percentage equals ~~33~~ 33% if the participant was serving on the Board on January 1, 1995 (the Effective Date ), increases to ~~66~~ 66% if the participant completes one year of service after the Effective Date, and becomes 100% if the participant completes a second year of service after the Effective Date. However, if a participant retires from service on the Board due to disability (as determined by the Board of Directors of the Bank) or for any reason after attaining age 65, the participant s Vested Percentage will become 100% regardless of his years of service. A participant s vested percentage will also become 100% in the event of a change in control (as defined in the Directors Plan). If a participant terminates service on the Board due to disability, the Bank will pay the participant each year for ten years an amount equal to the product of his Benefit Percentage and \$3,500. The Directors Plan also provides death benefits to a participant s surviving spouse under certain conditions.

The Directors Plan also establishes a deferred compensation program for members of the Board of Directors of the Bank. Under the Directors Plan, Directors of the Bank may elect to defer all or any portion of the fees and/or salary otherwise payable to him or her in cash for any calendar year in which the Directors Plan is in effect. Deferred amounts will be credited to a bookkeeping account in the participant s name, which will also be credited annually with the greater of: (1) the investment return that would have resulted if such deferred amounts had been invested in savings accounts having a return equal to the highest interest rate that the Bank pays on certificates of deposit, which rate is adjusted on each January 1st; or (2) the consolidated return on equity of the Company for the calendar year as determined under generally accepted accounting principles. Participants may determine the time and form of benefit payments and may cease future deferrals at any time. Changes in participant elections generally become effective only as of the following January 1st, except that (1) elections designating a beneficiary or ceasing future contributions will be given immediate effect, and (2) participants may change elections as to the timing or form of distributions only with respect to subsequently deferred compensation.

**Table of Contents****EXECUTIVE COMPENSATION**

**Summary Compensation Table.** The following table sets forth the cash and noncash compensation awarded to or earned in the last three years by the chief executive officer of the Company and each other executive officer who earned in excess of \$100,000 in salary and bonus in 2005 (the **Named Executive Officers** ). The table does not include certain additional benefits, the aggregate amounts of which do not exceed 10% of salary and bonus for the **Named Executive Officers**.

<b>Name and Principal Position</b>	<b>Year</b>	<b>Annual Compensation</b>		<b>Long-Term Compensation Awards</b>	<b>All Other Compensation (2)</b>
		<b>Salary</b>	<b>Bonus (1)</b>	<b>Securities Underlying Options</b>	
Michael L. Middleton <i>President and Chief Executive Officer</i>	2005	\$250,000	\$ 82,500	4,025	\$ 76,843
	2004	198,991	129,210	8,962	53,270
	2003	188,000	86,527	4,691	36,281
C. Marie Brown <i>Executive Vice President and Chief Operating Officer</i>	2005	\$175,000	\$ 43,750	3,704	\$ 61,365
	2004	142,892	57,644	5,149	43,631
	2003	135,000	49,707	2,545	32,284
Gregory C. Cockerham <i>Executive Vice President and Chief Lending Officer</i>	2005	\$172,500	\$ 43,125	3,651	\$ 32,921
	2004	132,308	68,729	4,768	26,165
	2003	125,000	46,025	2,282	19,036
William J. Pasenelli <i>Executive Vice President and Chief Financial Officer</i>	2005	\$170,000	\$ 42,500	3,599	\$ 23,953
	2004	127,016	44,184	4,577	16,900
	2003	120,000	48,415	2,362	11,974

(1) Represents bonuses paid pursuant to the Bank's Executive Incentive Compensation Plan (the **Incentive Plan** ), under which the Bank establishes a bonus pool equal to 10% of net income after taxes (but before deduction of bonuses payable under the **Incentive Plan**) multiplied by a multiplier equal to the average of:

(i) the percentage

obtained when the Company's return on equity ( ROE ) is divided by the median ROE of a peer group comprised of commercial banks in the fifth Federal Reserve district;

(ii) the percentage obtained when the median percentage of noncurrent to gross loans of the peer group is divided by the percentage of the Bank's noncurrent to gross loans; and

(iii) the percentage increase in the Company's earnings-per-share from the previous year ( EPS Increase ) divided by the targeted EPS Increase for the year established by the Board. In no event will the third component exceed 150%, and it will be deemed to be 0% if the percentage, as so computed, is less than 50%. The multiplier shall not exceed 1.0. The bonus pool is allocated among officers in proportion to the ratio a designated percentage of their base salary (the Allocation Base ) bears to the total

Allocation Bases of all participating officers. In addition, stock options with a value, as measured by the Company for purposes of compliance with the reporting requirements of FASB Statement No. 123, equal to 50% of the bonus to which the participant is entitled under the Incentive Plan will be awarded. Measures of performance may be adjusted at the discretion of the Board of Directors.

- (2) Details of the amounts reported in the All Other Compensation column for 2005 are provided in the table below.

<b>Item</b>	<b>Mr. Middleton</b>	<b>Ms. Brown</b>	<b>Mr. Cockerham</b>	<b>Mr. Pasenelli</b>
Directors fees	\$ 24,200	\$ 24,200	\$	\$
Market value of allocations under the employee stock ownership plan	21,830	17,517	16,581	8,642
Employer contribution to 401(k) plan	8,400	8,400	8,400	7,000
Imputed income under split-dollar life insurance arrangement	22,106	11,094	7,831	8,197
Reimbursement of payroll taxes for supplemental retirement benefits	307	154	109	114
<b>Total</b>	<b>\$ 76,843</b>	<b>\$ 61,365</b>	<b>\$ 32,921</b>	<b>\$ 23,953</b>

**Table of Contents**

**Option Grants in Fiscal Year 2005.** The following table contains information concerning the grants of stock options during the year ended December 31, 2005 to the Named Executive Officers. All such options were granted under the Tri-County Financial Corporation 2005 Equity Compensation Plan and were fully vested at the date of grant. The number of options granted to each executive has been adjusted to reflect the three for two stock split effected December 29, 2005 in the form of a 50% stock dividend.

Name	Number of Securities Underlying Options Granted	Percent of Total Options Grants to Employees in Fiscal Year	Exercise Price	Expiration Date
Michael L. Middleton	4,024	13.63%	\$33.43	December 19, 2015
C. Marie Brown	3,703	12.54%	33.43	December 19, 2015
Gregory C. Cockerham	3,651	12.37%	33.43	December 19, 2015
William J. Pasenelli	3,598	12.19%	33.43	December 19, 2015

**Aggregated Option Exercises in Fiscal Year 2005 and Year-End Option Values.** The following table sets forth information concerning exercises of stock options by the Named Executive Officers during the year ended December 31, 2005, as well as the value of options held by such persons at the end of the fiscal year. The numbers of options exercised and held by each executive have been adjusted to reflect the three for two stock split effected December 29, 2005 in the form of a 50% stock dividend.

Name	Shares Acquired on Exercise	Value Realized (1)	Number of Securities Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised In-the-Money Options at Fiscal Year-End (1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Michael L. Middleton	4,500	\$ 71,380	54,825		\$850,124	\$
C. Marie Brown	3,777	83,463	38,369		613,205	
Gregory C. Cockerham	3,701	106,815	35,358		559,852	
William J. Pasenelli			23,595		303,767	

(1) Based on the difference between the exercise price and the fair market value of the underlying securities on the date of exercise

or at fiscal  
year-end, as the  
case may be.

The number of  
shares exercised  
have been  
adjusted for the  
three for two  
stock split  
effective  
December 29,  
2005, in the  
form of a 50%  
stock dividend.

**Employment Agreements.** The Bank maintains an employment agreement with Mr. Middleton, which currently provides for an annual salary of \$250,000, subject to annual increases to reflect cost of living adjustments. The agreement provides for Mr. Middleton's employment for a period of five years, subject to annual one-year extensions. The agreement provides for termination for cause or upon certain events specified in the agreement. The agreement is also terminable by the Bank without cause, in which case Mr. Middleton would be entitled to compensation as in effect on the date of termination up to the expiration date of the agreement payable in a lump sum or in periodic payments (at the option of Mr. Middleton), plus full life, health, disability and other benefits as in effect on the date of termination up to the expiration date of the agreement.

If following a change in control of the Company or the Bank, as defined in the agreement (1) Mr. Middleton voluntarily terminates his employment for any reason within the 30-day period beginning on the date of a change of control, (2) Mr. Middleton voluntarily terminates employment within 90 days of an event that occurs during the period which begins on the date six months before a change of control and ends on the later of the second anniversary of the change of control or the expiration of the employment agreement, and which event constitutes good reason, as defined in the employment agreement, or (3) the Bank terminates Mr. Middleton's employment for any reason other than for just cause, as defined in the agreement, then Mr. Middleton shall be entitled to receive an amount equal to 2.99 times the average annual compensation payable by the Bank and includable in Mr. Middleton's gross income for the most recent five taxable years. In addition, Mr. Middleton would be entitled to be reimbursed for excise taxes imposed on any



**Table of Contents**

excess parachute payments, as defined in Section 280G of the Internal Revenue Code of 1986, made under the employment agreement and under any other plans, programs or agreements (such as the Salary Continuation Agreement described below), as well as any additional excise and income taxes imposed as a result of such reimbursement. A change of control refers to certain enumerated events, including the acquisition of ownership of 25% or more of the Company's common stock by any person or group. The agreement provides, among other things, for annual review of compensation, for participation in an equitable manner in any stock option plan or incentive plan to the extent authorized by the Bank's Board of Directors for its key management employees and for participation in pension, group life insurance, medical coverage and in other employee benefits applicable to executive personnel.

The Bank maintains similar employment agreements with Ms. Brown and Messrs. Cockerham and Pasenelli, except that those agreements do not include any provision for an excess parachute payment tax reimbursement. Ms. Brown's agreement provides for a current annual salary of \$175,000, Mr. Cockerham's agreement provides for a current annual salary of \$172,500 and Mr. Pasenelli's provides for a current annual salary of \$170,000, subject to annual increases to reflect cost of living adjustments. Each agreement has a three-year term with a provision for extension for an additional year annually if determined by the Board. Each agreement provides for a change in control payment equal to two times the officer's five-year average annual compensation in circumstances similar to those in which Mr. Middleton would receive a change in control payment.

**Salary Continuation Agreements.** The Bank and Mr. Middleton entered into a Salary Continuation Agreement. The Bank is presently funding its obligations to Mr. Middleton pursuant to the Salary Continuation Agreement through a life insurance policy that the Bank owns and with respect to which it is the sole death beneficiary. Pursuant to his Salary Continuation Agreement, if Mr. Middleton terminates employment with the Bank on or after his 62<sup>nd</sup> birthday, or within 24 months subsequent to a change in control (as defined in his Employment Agreement), or terminates employment on account of a disability, he will be entitled to receive \$10,671 per month for 180 months commencing on his 65<sup>th</sup> birthday (or his termination of employment, if later). If Mr. Middleton's employment is terminated for reasons other than disability before his 62<sup>nd</sup> birthday, the monthly amount payable to him for 180 months commencing on his 65<sup>th</sup> birthday will be \$10,671 multiplied by a fraction, the numerator of which is the number of years of service completed by Mr. Middleton at the time of his termination of employment, and the denominator of which is the number of years of service he would have completed had he remained employed with the Bank until his 62<sup>nd</sup> birthday. Mr. Middleton may elect that his pension commence immediately following termination of employment prior to his 65<sup>th</sup> birthday, provided that he make such election at least 13 months before his termination of employment. If Mr. Middleton makes such election, his pension will be reduced on the basis of an interest factor equal to the five-year Treasury Constant Maturity Rate (but not greater than 6% annually). If Mr. Middleton dies while an employee of the Bank, or after termination of employment, but before the date on which his pension would have become payable, his designated beneficiary will receive \$10,671 per month for 180 months commencing as of the first day of the month following his death. If Mr. Middleton dies after payment of his pension has commenced, his designated beneficiary will receive the balance of the 180 monthly payments. Mr. Middleton will forfeit his entitlement to all benefits under the Salary Continuation Agreement if his employment with the Bank is terminated for cause as specified in his Employment Agreement. In addition, Mr. Middleton would be entitled to be reimbursed for excise taxes imposed on any excess parachute payments, as defined in Section 280G of the Internal Revenue Code, made under the Salary Continuation Agreement and under any other plans, programs or agreements (such as the Employment Agreement), as well as any additional excise and income taxes imposed as a result of such reimbursement.

The Bank entered into similar Salary Continuation Agreements with Ms. Brown and Messrs. Cockerham and Pasenelli. Their Salary Continuation Agreements are identical to Mr. Middleton's Salary Continuation Agreement, except (1) the full monthly benefit for Ms. Brown and Messrs. Cockerham and Pasenelli is \$3,627, \$6,020 and \$6,176, respectively; (2) the full monthly benefit is payable if termination of

**Table of Contents**

employment occurs on or after age 65, on account of disability, or within 12 months subsequent to a change in control; and (3) they do not include any provision for an excess parachute payment tax reimbursement.

The Company has entered into Guaranty Agreements with each of the Named Executive Officers pursuant to which it has agreed to be jointly and severally liable for amounts payable under their employment agreements.

**RELATIONSHIPS AND TRANSACTIONS WITH THE COMPANY AND THE BANK**

The Bank has followed a policy of offering loans to its officers, directors and employees for the financing and improvement of their personal residences as well as consumer loans. These loans are made in the ordinary course of business and upon substantially the same terms, including collateral, interest rate and origination fees, as those prevailing at the time for comparable transactions, and do not involve more than the normal risk of collectibility or present any unfavorable features.

Louis P. Jenkins, Jr. is the principal of Jenkins Law Firm, LLC, which performed legal services for the Bank and its borrowers during fiscal year 2005 and is expected to perform similar services during the current fiscal year. Herbert N. Redmond, Jr. is a Vice President of D.H. Steffens Company, which performed engineering services for the Bank during 2005 and is expected to perform similar services during the current fiscal year.

**SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Pursuant to regulations promulgated under the Securities Exchange Act, the Company's officers, directors and persons who own more than 10% of the outstanding common stock are required to file reports detailing their ownership and changes of ownership in such common stock, and to furnish the Company with copies of all such reports. Based solely on its review of the copies of such reports received during the past fiscal year or with respect to the last fiscal year or written representations from such persons that no annual reports of changes in beneficial ownership were required, the Company believes that during 2005, all of its officers, directors and all of its stockholders owning in excess of 10% of the outstanding common stock have complied with the reporting requirements, except for one late report filed by each of Ms. Brown and Messrs. Cockerham, Jenkins, Middleton, Pasenelli, Redmond, Shepherd, Slater and Smith, each with regard to an award of stock options.

**PROPOSAL 2 RATIFICATION OF APPOINTMENT OF AUDITORS**

Stegman & Company, which was the Company's independent auditing firm for 2005, has been retained by the Audit Committee of the Board of Directors to be the Company's auditors for 2006, subject to ratification by the Company's stockholders. A representative of Stegman & Company is expected to be present at the annual meeting and will have the opportunity to make a statement if he or she desires to do so and will be available to respond to appropriate questions.

The appointment of the auditors must be ratified by a majority of the votes cast by the stockholders of the Company at the annual meeting. **The Board of Directors recommends that stockholders vote FOR the ratification of the appointment of auditors.**

The following table sets forth the fees billed to the Company for the fiscal years ending December 31, 2005 and 2004.

**Table of Contents**

	2005	2004
Audit Fees	\$65,226	\$55,163
Audit Related Fees		
Tax Fees (1)	10,700	7,538
All Other Fees (2)	3,000	3,000

(1) Consists of tax filing and tax related compliance and other advisory services.

(2) Consists of presentation at directors retreat.

The Audit Committee's charter provides that the Audit Committee will approve in advance any non-audit service permitted by the Securities Exchange Act, including tax services, that its independent auditors renders to the Company, unless such prior approval may be waived because of permitted exceptions under the Securities Exchange Act, including but not limited to the 5% *de minimis* exception. The Audit Committee may delegate to one or more members of the Audit Committee the authority to grant pre-approvals for auditing and allowable non-auditing services, which decision shall be presented to the full Audit Committee at its next scheduled meeting for ratification. During the fiscal years ended December 31, 2005 and 2004 the Audit Committee approved 100% of all audit-related, tax and other fees.

**Table of Contents**

**Audit Committee Report**

*Notwithstanding anything to the contrary set forth in any of the Company's previous filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate future filings, including this proxy statement, in whole or in part, the following report of the Audit Committee shall not be incorporated by reference into any such filings.*

The Audit Committee of the Board of Directors is responsible for developing and monitoring the Company's audit program. Additionally, the Audit Committee selects the auditors and reviews their independence and their annual audit. The Audit Committee also receives and reviews the reports and findings and other information presented to them by the Company's officers regarding financial reporting and practices. The Audit Committee is comprised of three directors, each of whom is independent under the Nasdaq Stock Market listing standards. The Audit Committee acts under a written charter adopted by the Board of Directors, a copy of which is attached as *Appendix A* to this proxy statement.

The Audit Committee reviewed and discussed the annual financial statements with management and the independent auditors. As part of this process, management represented to the Audit Committee that the financial statements were prepared in accordance with generally accepted accounting principles. The Audit Committee also received and reviewed written disclosures and a letter from the auditors concerning their independence as required under applicable standards for auditors of public companies. The Audit Committee discussed with the auditors the contents of such materials, the auditors' independence and the additional matters required under Statement on Auditing Standards No. 61. Based on such review and discussions, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2005 for filing with the Securities and Exchange Commission.

The Audit Committee's responsibility is to monitor and review the Company's financial reporting process, including its system of internal controls and the preparation of consolidated financial statements. It is not the duty or the responsibility of the Audit Committee to conduct auditing or accounting reviews. The Audit Committee's oversight does not provide it with an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or policies, or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee's considerations and discussions with management and the independent auditors do not assure that the Company's financial statements are presented in accordance with generally accepted accounting principles, that the audit of the Company's financial statements has been carried out in accordance with generally accepted auditing standards or that the Company's independent accountants are in fact independent.

**Audit Committee**

Herbert N. Redmond, Jr.

James R. Shepherd

A. Joseph Slater, Jr.

15

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**Table of Contents**

**MISCELLANEOUS**

The Company will pay the cost of this proxy solicitation. The Company will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of the common stock. In addition to conducting solicitations by mail, directors, officers and regular employees of the Company may solicit proxies personally or by telegraph or telephone without additional compensation.

The Company's 2005 Annual Report to Stockholders, including financial statements, accompanies this proxy statement. Such Annual Report is not to be treated as a part of the proxy solicitation material nor as having been incorporated herein by reference. **A copy of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 as filed with the Securities and Exchange Commission will be furnished without charge to stockholders as of March 17, 2006, upon written request to the Secretary, Tri-County Financial Corporation, 3035 Leonardtown Road, Waldorf, Maryland 20601.**

**STOCKHOLDER PROPOSALS AND NOMINATIONS**

To be eligible for inclusion in the Company's proxy materials for next year's annual meeting of stockholders, any stockholder proposal to take action at such meeting must be received at the Company's main office at 3035 Leonardtown Road, Waldorf, Maryland 20601 no later than December 5, 2006. If next year's annual meeting is held on a date more than 30 calendar days from May 3, 2007, a stockholder proposal must be received by a reasonable time before the Company begins to print and mail its proxy solicitation materials. Any stockholder proposals will be subject to the requirements of the proxy rules adopted by the Securities and Exchange Commission.

Stockholder proposals, other than those submitted above and nominations must be submitted in writing, delivered or mailed by first class United States mail, postage prepaid, to the secretary of the Company not fewer than 30 days nor more than 60 days prior to any such meeting; provided, however, that if notice or public disclosure of the meeting is given fewer than 40 days before the meeting, such written notice shall be delivered or mailed to the Secretary of the Company not later than the close of the 10th day following the day on which notice of the meeting was mailed to stockholders.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ H. Beaman Smith  
H. Beaman Smith  
*Secretary*

Waldorf, Maryland  
April 3, 2006

**Table of Contents**

**Appendix A**

**AUDIT COMMITTEE  
CHARTER**

The Board of Directors of Tri-County Financial Corporation (the Company ) has constituted and established an audit committee (the Committee ) with authority, responsibility, and specific duties as described in this Audit Committee Charter.

**Committee Mission:** The primary responsibility of the Committee is to oversee the Company's financial reporting process on behalf of the Board of Directors and report the results of these activities to the Board. Management of the Company is responsible for preparing the Company's financial statements, and the independent auditors retained by the Committee are responsible for auditing those financial statements. The Committee in carrying out its responsibilities believes its policies and procedures should remain flexible, in order to best react to overall changing conditions and circumstances. The Committee should take the appropriate actions to set the overall corporate policy for quality financial reporting, sound business risk management policies and ethical behavior.

**A. COMPOSITION**

The Committee shall consist of at least three directors, each of whom shall be independent as defined by applicable Nasdaq Listing Standards and free from any relationship that, in the opinion of the Board of Directors, as evidenced by its annual selection of such Committee members, would interfere with the exercise of independent judgment as a Committee member. A member will not be considered independent if he or she accepts directly or indirectly any consulting, advisory or compensatory fee from the Company or Community Bank of Tri-County or any subsidiary thereof or is affiliated with the Company, Community Bank of Tri-County or any subsidiary thereof. Each Committee member shall be able to read and understand financial statements (including the Company's balance sheet, income statement and cash flow statement). Additionally, at least one member of the Committee shall have past employment experience in finance or accounting, requisite professional certification in accounting or any comparable experience or background that results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. The Committee shall use its best efforts to have a member that is an audit committee financial expert as defined by SEC Regulations.

The members of the Committee shall be elected by the Board annually or until their successors shall be duly elected and qualified. Unless a Chairman is elected by the full Board, the members of the Committee may designate a chairman by a majority vote of the full Committee membership.

**B. MISSION STATEMENT AND PRINCIPAL FUNCTIONS**

The Committee shall have access to all records of the Company and shall have and may exercise such powers as are appropriate to its purpose. The Committee shall perform the following functions:

- (1) Review the accounting policies used by the Company for financial reporting and tax purposes and consider any significant changes in accounting policies that are proposed by management or required by regulatory or professional authorities.
  - (2) Review the Company's audited financial statements and related footnotes and the Management's Discussion and Analysis portion of the annual report on Form 10-K prior to the filing of such report with the SEC.
  - (3) Review the Company's unaudited financial statements and related footnotes and the Management Discussion and Analysis portion of the Company's Form 10-Q for each interim quarter and instruct management of the Company to ensure that the independent auditors also reviews the Company's interim financial statements before the Company files its quarterly reports on Form 10-Q with the SEC.
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**Table of Contents**

- (4) Study the format and timeliness of financial reports presented to the public or used internally and, when indicated, recommend changes for appropriate consideration by management.
- (5) Meet and discuss with the Company's legal counsel, as appropriate, legal matters that may have a significant impact on the Company or its financial reports.
- (6) Ensure that management has been diligent and prudent in establishing accounting provisions for probable losses or doubtful values and in making appropriate disclosures of significant financial conditions or events.
- (7) Review and reassess the adequacy of this Charter annually and confirm annually that the responsibilities outlined in this charter are carried out. Evaluate the committee's and individual members' performance at least annually.
- (8) Discuss generally with management the Company's earnings press releases.
- (9) Appoint, compensate, retain and oversee the work of the independent auditors employed (including resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report with respect to the Company or preparing other audit, review or attest services for the Company; such independent auditors shall be duly registered with the Public Accounting Oversight Board; and, such independent auditors shall report directly to the Committee.
- (10) Approve in advance any non-audit service permitted by the Act, including tax services, that its independent auditors renders to the Company, unless such prior approval may be waived because of permitted exceptions under the Act, including but not limited to the 5% *de minimis* exception.
- (11) To the extent required by applicable regulations, disclose in periodic reports filed by the Company with the SEC, approval by the Committee of allowable non-audit services to be performed for the Company by its independent auditors.
- (12) Delegate to one or more members of the Committee the authority to grant pre-approvals for auditing and allowable non-auditing services, which decision shall be presented to the full Committee at its next scheduled meeting for ratification.
- (13) Receive a timely report from its independent auditors performing the audit of the Company, which details: (1) all critical accounting policies and practices to be used in the audit; (2) all alternate presentation and disclosure of financial information within generally accepted accounting principles that have been discussed with management officials of the Company, ramifications of the use of such alternative disclosure and the treatment preferred by the independent auditors; and (3) other material written communications between the independent auditors and the management of the Company, including, but not limited to, any management letter or scheduled or unadjusted differences.
- (14) Meet with management and independent auditors to (a) discuss the scope of the annual audit, (b) discuss the annual audited financial statements including disclosures made in Management's Discussion and Analysis portion of the Company's annual report on Form 10-K, (c) discuss any significant matter arising from the audit or report as disclosed to the Committee by management or the independent auditors, (d) review the form of opinion the independent auditors propose to render with respect to the audited annual financial statements, (e) discuss significant changes to the Company's auditing and accounting principles, policies, or procedures proposed by management or the independent auditors, (f) inquire of the independent auditors of significant risks or exposures, if any, that have come to the attention of the independent auditors and any difficulties encountered in conducting the audit, including any restrictions on the scope of activities or access to requested information and any

significant disagreement with management.

- (15) Ensure that the independent auditors submit to the Committee written disclosures and the letter from the  
A-2
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**Table of Contents**

- independent auditors required by Independence Standards Board Standard No. 1 Independence Discussions with Audit Committees, and discuss with the independent auditors their independence.
- (16) Discuss with the independent auditors the matters required to be discussed by SAS 61 Communication with Audit Committees and SAS 90 Audit Committee Communications, which include:
- (a) methods used to account for significant unusual transactions;
  - (b) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus;
  - (c) the process used by management in formulating particularly sensitive accounting estimates and the basis for the auditor's conclusions regarding the reasonableness of those estimates;
  - (d) disagreements with management over the application of accounting principles, the basis for management's accounting estimates, and the disclosures in the financial statements; and
  - (e) information regarding the auditor's judgment about quality, not just acceptability, of the Company's auditing principles.
- (17) Engage independent counsel and other advisers, as the Committee may determine in its sole discretion to be necessary and appropriate, to carry out the Committee's duties.
- (18) Be provided with appropriate funding by the Company, as determined by the Committee, for payment of:
- (a) compensation to any independent auditors engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company;
  - (b) compensation to any advisers employed by the audit committee under Section 17 above; and
  - (c) ordinary administrative expenses of the audit committee that are necessary or appropriate in carrying out its duties.
- (19) Obtain from the independent auditors, at least annually, a formal written statement delineating all relationships between the independent auditors and the Company, and at least annually discuss with the independent auditors any relationship or services which may impact the independent auditors' objectivity or independence, and take appropriate actions to ensure such independence.
- (20) Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters.
- (21) Review management's assessment of the effectiveness of internal control over financial reporting and the attestation report submitted by the independent auditors to ensure that appropriate suggestions for improvement are promptly considered with respect to the Company's internal control over financial reporting.
- (22) Establish procedures for the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
- (23) Have the authority to investigate allegations of managerial misconduct by its executives or any other matters related to the financial operations of the Company.
- (24) Prepare a report for inclusion in the Company's annual meeting proxy statement, in accordance with applicable rules and regulations.

- (25) Review with management and the Director of Internal Audit the Internal Audit Charter, the scope and timing of upcoming internal audit reviews and staffing and organization structure of the Internal Audit Function. The Committee will review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors *Standards for the Professional Practice of Internal Auditing*.

A-3

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**Table of Contents**

**C. MEETINGS**

Meetings of the Committee will be held at least quarterly and such other times as shall be required by the Chairman of the Board, or by a majority of the members of the Committee. All meetings of the Committee shall be held pursuant to the Bylaws of the Company with regard to notice, quorum, voting and waiver thereof. The Chairman of the Audit Committee shall be responsible for meeting with or designating another Committee member to meet with the Company's independent auditors either in person or by telephone at their request to discuss the Company's interim financial statements. Written minutes pertaining to each meeting shall be filed with the Company's Secretary and an oral report shall be presented by the Committee at each Board meeting.

At the invitation of the Chairman of the Committee, the meetings shall be attended by the President and Chief Executive Officer, the Chief Financial and Accounting Officer, Director of Internal Audit, the representatives of the independent auditors, and such other persons whose attendance is appropriate to the matters under consideration.

Approved by Committee as of February 27, 2006.

A-4

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**Table of Contents**

**Appendix B**

**CHARTER  
OF THE  
GOVERNANCE COMMITTEE  
OF THE  
BOARD OF DIRECTORS OF  
TRI-COUNTY FINANCIAL CORPORATION  
AS APPROVED BY THE BOARD OF DIRECTORS  
ON FEBRUARY 4, 2004**

**AND AS AMENDED BY THE COMMITTEE ON FEBRUARY 24, 2006**

**I. AUTHORITY AND COMPOSITION**

The Committee is established pursuant to Article II, Section 14 of the Bylaws of Tri-County Financial Corporation (the Corporation) and Article IX of the Articles of Incorporation of the Corporation. Committee members shall be appointed annually by the Board and may be replaced by the Board. The Committee may appoint a Secretary, who need not be a Director. The Committee Chairman shall be appointed by the Board.

The Committee shall consist of at least three directors, each of whom shall be independent as defined by applicable Nasdaq Listing Standards.

**II. PURPOSE OF THE COMMITTEE**

The Committee's purpose is to assist the Board in promoting the best interests of the Corporation and its shareholders through the implementation of sound corporate governance principles and practices.

**III. RESPONSIBILITIES OF THE COMMITTEE**

- (a) Identify potential candidates for nomination as Directors on an ongoing basis, consistent with the Committee's established criteria, including consideration of prospective candidates proposed by security holders in accordance with established procedures;
  - (b) Recommend to the Board the number of Directors to be elected and a slate of nominees for election as Directors at the Corporation's annual meeting of shareholders;
  - (c) Recommend to the Board persons to be appointed as Directors in the interval between annual meetings of the Corporation's shareholders;
  - (d) Recommend to the Board standards for determining outside director independence consistent with NASD Rule 4200(a)(15) and other legal or regulatory corporation governance requirements and review and assess these standards on a periodic ongoing basis;
  - (e) Review the size and composition of the Board, including the qualifications and independence of the members of the Board and its various committees on a regular basis and make any recommendations the Committee members may deem appropriate from time to time concerning any recommended changes in the composition of the Board and its committees;
  - (f) Oversee the Corporation's director orientation and continuing education programs;
  - (g) Recommend the compensation and benefits of outside, nonemployee Directors to the Board as the Committee deems appropriate;
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**Table of Contents**

- (h) Recommend to the Board a retirement policy for Directors and a policy relating to Directors who have experienced a change in the job responsibilities they held at the time they became a Director;
- (i) Recommend to the Board such changes to the Board's Committee structure and Committee functions as the Committee deems advisable;
- (j) Confirm that each standing Committee of the Board has a Charter in effect and that such Charter is reviewed at least annually by its Committee;
- (k) Review shareholder proposals duly and properly submitted to the Corporation and recommend appropriate action to the Board;
- (l) Review any proposed amendments to the Corporation's Articles of Incorporation and Bylaws and recommend appropriate action to the Board;
- (m) Review and assess the Corporation's compliance with the corporate governance requirements established under federal securities and banking laws and regulations, state corporate law, exchange listing standards or otherwise as applicable to each of the Corporation and its subsidiaries and controlled affiliates;
- (n) Monitor the Board's and the Corporation's compliance with any commitments made to the Corporation's regulators or otherwise regarding changes in corporate governance practices;
- (o) Recommend to the Board such additional actions related to corporate governance matters as the Committee may deem necessary or advisable from time to time, including establishing management development and succession plans;
- (p) Review and assess the quality and clarity of the information provided to the Board and the Committee and make recommendations to management as the Committee deems appropriate from time to time for improving such materials;
- (q) Evaluate the effectiveness of the Board's oversight of management activities and the major operations of the Corporation and its subsidiaries and controlled affiliates;
- (r) Review and assess the Board's effectiveness in monitoring exceptions to Board-approved policies and guidelines;
- (s) Review Board and committee processes for assessing the adequacy and completeness of their respective minutes, the process for the review and approval of such minutes and the retention of such minutes and any related materials presented to the Board of its committees for review; and
- (t) Receive comments from all Directors and report annually to the Board with an assessment of the Board's performance, to be discussed with the full Board near or following the end of each fiscal year.

**With respect to the responsibilities listed above, the Committee shall:**

- (a) Report regularly to the Board on its activities;
- (b) Maintain minutes of its meetings and records relating to those meetings and the Committee's activities;
- (c) Have the sole authority to retain and terminate any search firm to be used to identify Director candidates and to approve the search firm's fees and other retention terms;

- (d) Have authority to obtain advice and assistance from internal or external legal, accounting or other advisors;
- (e) Form and delegate authority to subcommittees of one or more Committee members when appropriate;

B-2

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**Table of Contents**

- (f) Review and reassess the adequacy of this Charter annually and recommend to the Board any proposed changes to this Charter; and
- (g) Annually review the Committee's own performance.

**IV. GENERAL**

In performing their responsibilities, Committee members are entitled to rely in good faith on information, opinions, reports or statements prepared or presented by:

- (a) One or more officers and employees of the Corporation whom the Committee member reasonably believes to be reliable and competent in the matters presented;
- (b) Counsel, independent auditors, or other persons as to matters which the Committee member reasonably believes to be within the professional or expert competence of such person; or
- (c) Another committee of the Board as to matters within its designated authority which committee the Committee member reasonably believes to merit confidence.

**V. MEETINGS**

Meetings of the Committee will be held at such times as shall be determined by the Chairman of the Board or by a majority of the members of the Committee. All meetings of the Committee shall be held pursuant to the Bylaws of the Company with regard to notice, quorum, voting and waiver thereof. Written minutes pertaining to each meeting shall be filed with the Company's Secretary and an oral report shall be presented by the Committee at each Board meeting.

B-3

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Table of Contents

**REVOCABLE PROXY  
TRI-COUNTY FINANCIAL CORPORATION  
ANNUAL MEETING OF STOCKHOLDERS MAY 3, 2006  
THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS**

The undersigned hereby appoints James R. Shepherd and H. Beaman Smith with full powers of substitution in each, to act as attorneys and proxies for the undersigned to vote all shares of common stock of Tri-County Financial Corporation (the Company) that the undersigned is entitled to vote at the 2006 annual meeting of stockholders to be held in the Board Room at the main office of Community Bank of Tri-County, 3035 Leonardtown Road, Waldorf, Maryland on Wednesday, May 3, 2006 at 10:00 a.m. and at any and all adjournments thereof, as follows:

Should the undersigned be present and elect to vote at the annual meeting or at any adjournment thereof and after notification to the Secretary of the Company at the annual meeting of the stockholder's decision to terminate this proxy, then the power of said attorneys and proxies shall be deemed terminated and of no further force and effect.

**THIS PROXY WILL BE VOTED AS DIRECTED, BUT IF NO INSTRUCTIONS ARE SPECIFIED, THIS PROXY WILL BE VOTED FOR THE NOMINEES LISTED. IF ANY OTHER BUSINESS IS PRESENTED AT SUCH ANNUAL MEETING, THIS PROXY WILL BE VOTED BY THOSE NAMED IN THIS PROXY AS DIRECTED BY THE BOARD OF DIRECTORS. AT THE PRESENT TIME THE BOARD OF DIRECTORS KNOWS OF NO OTHER BUSINESS TO BE PRESENTED AT THE ANNUAL MEETING. THIS PROXY ALSO CONFERS DISCRETIONARY AUTHORITY ON THE PROXY HOLDERS TO VOTE WITH RESPECT TO APPROVAL OF THE MINUTES OF THE PRIOR ANNUAL MEETING OF STOCKHOLDERS, THE ELECTION OF ANY PERSON AS DIRECTOR WHERE THE NOMINEE IS UNABLE TO SERVE OR FOR GOOD CAUSE WILL NOT SERVE, AND MATTERS INCIDENT TO THE CONDUCT OF THE 2006 ANNUAL MEETING.**

Continued, and to be signed and dated, on reverse side.

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**Table of Contents**

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**DETACH PROXY CARD HERE**

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x

- o Mark, Sign, Date and Return Proxy Card Promptly Using the Enclosed Envelope

**Votes must be indicated (x) in Black or Blue ink.**

**The Board of Directors recommends a vote FOR each of the listed proposals.**

**1. ELECTION OF DIRECTORS**

- FOR all nominees o listed below
- WITHHOLD AUTHORITY to vote o for all nominees listed below.
- \*EXCEPTIONS o

Nominees: Herbert N. Redmond, Jr. and A. Joseph Slater, Jr.

**(INSTRUCTIONS: To withhold authority to vote for any individual nominee, mark the Exceptions box and write that nominee s name in the space provided below.)**

\*Exceptions

**2. THE RATIFICATION OF THE APPOINTMENT OF STEGMAN & COMPANY AS AUDITORS FOR THE FISCAL YEAR ENDING DECEMBER 31, 2006**

FOR

AGAINST

ABSTAIN

o

o

o

The undersigned acknowledges receipt from the Company prior to the execution of this proxy of notice of the annual meeting, a proxy statement for the Annual Meeting and the Company s 2005 Annual Report.

Please sign exactly as your name appears on the enclosed card. When signing as attorney, executor, administrator, trustee or guardian, please give your full title. If shares are held jointly, each holder should sign.

Date

Share Owner sign here

Co-Owner sign here

**Table of Contents**

**VOTE AUTHORIZATION FORM  
COMMUNITY BANK OF TRI-COUNTY  
EMPLOYEE STOCK OWNERSHIP PLAN AND TRUST  
TRI-COUNTY FINANCIAL CORPORATION  
Annual Meeting of Stockholders May 3, 2006**

With respect to all shares of common stock of Tri-County Financial Corporation (the Company) which are allocated to the account of the undersigned pursuant to the Community Bank of Tri-County Employee Stock Ownership Plan and Trust (the ESOP), the undersigned hereby directs Herbert N. Redmond, Jr. and Louis P. Jenkins, Jr. as Trustees of the Trust established under the ESOP, to vote such shares at the Annual Meeting of Stockholders (the Meeting), to be held at the Community Bank of Tri-County, Waldorf, Maryland, on Wednesday, May 3, 2006 at 10:00 a.m., local time, and at any and all adjournments thereof as follows:

**The Board of Directors recommends a vote FOR the listed propositions.**

You are to vote my shares as follows:

x PLEASE MARK VOTES AS IN THIS EXAMPLE

**1. ELECTION OF DIRECTORS**

**FOR** all nominees  **WITHHOLD AUTHORITY** to vote  **\*EXCEPTIONS**   
listed below for all nominees listed below.

Nominees: Herbert N. Redmond, Jr. and A. Joseph Slater, Jr.

**(INSTRUCTIONS: To withhold authority to vote for any individual nominee, mark the Exceptions box and write that nominee's name in the space provided below).**

\*Exceptions:

**2. THE RATIFICATION OF THE APPOINTMENT OF STEGMAN & COMPANY AS AUDITORS FOR THE FISCAL YEAR ENDING DECEMBER 31, 2006**

FOR  AGAINST  ABSTAIN

Participant's Name \_\_\_\_\_ Shares Allocated to Participant's Account under the Employee Stock Ownership Plan and Trust \_\_\_\_\_

The undersigned acknowledges receipt from the Company prior to the execution of this vote authorization form of the Notice of Annual Meeting, a Proxy Statement for the Annual Meeting and the Company's 2005 Annual Report. I hereby authorize Herbert N. Redmond, Jr. and Louis P. Jenkins, Jr. as ESOP, to vote the shares of the Company's Common Stock allocated to my account under the ESOP at the Meeting in accordance with the instructions given above.

Dated: \_\_\_\_\_, 2006

SIGNATURE OF PARTICIPANT

**Please complete this direction form, sign, date and return it to the Company, Attn: Christy Lombardi, at 3035 Leonardtown Rd., Waldorf, MD 20601 by April 26, 2006.**