SANDY SPRING BANCORP INC
Form 10-Q
November 09, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2009

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____________ to

Commission File Number: 0-19065

Sandy Spring Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Maryland	52-1532952
(State of incorporation)	(I.R.S. Employer Identification Number)

17801 Georgia Avenue, Olney, Maryland	20832	301-774-6400
(Address of principal office)	(Zip Code)	(Telephone Number)

Indicate by check mark whether the registrant (1) has filed all reports required 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 filing requirements for the past 90 days.
YES x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES ¨ NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

YES ¨ NO x

The number of shares of common stock outstanding as of October 31, 2009 is 16,472,693 shares.

SANDY SPRING BANCORP, INC.
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PART I - FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENT
Sandy Spring Bancorp, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	(Unaudited) September 30, 2009	December 31, 2008
ASSETS		
Cash and due from banks	$ 42,079	$ 44,738
Federal funds sold	1,271	1,110
Interest-bearing deposits with banks	45,660	59,381
Cash and cash equivalents	89,010	105,229
Residential mortgage loans held for sale (at fair value)	10,926	11,391
Investments available-for-sale (at fair value)	807,145	291,727
Investments held-to-maturity — fair value of $146,800 (2009) and $175,908 (2008)	140,528	171,618
Other equity securities	32,773	29,146
Total loans and leases	2,334,282	2,490,646
Less: allowance for loan and lease losses	(62,937)	(50,526)
Net loans and leases	2,271,345	2,440,120
Premises and equipment, net	49,827	51,410
Other real estate owned	6,873	2,860
Accrued interest receivable	13,325	11,810
Goodwill	76,816	76,248
Other intangible assets, net	9,033	12,183
Other assets	124,790	109,896
Total assets	$ 3,632,391	$ 3,313,638
LIABILITIES		
Noninterest-bearing deposits	$ 573,601	$ 461,517
Interest-bearing deposits	2,109,886	1,903,740
Total deposits	2,683,487	2,365,257
Short-term borrowings	491,702	421,074
Other long-term borrowings	4,263	66,584
Subordinated debentures	35,000	35,000
Accrued interest payable and other liabilities	37,368	33,861
Total liabilities	3,251,820	2,921,776
STOCKHOLDERS' EQUITY		
Preferred stock—par value $1.00 (liquidation preference of $1,000 per share) shares issued and outstanding 83,094 (discount of $3,164 and $3,654, respectively)	79,930	79,440
Common stock — par value $1.00; shares authorized 49,916,906; shares issued and outstanding 16,470,078 (2009) and 16,398,523 (2008)	16,470	16,399
Warrants	3,699	3,699
Additional paid in capital	87,572	85,486
Retained earnings	193,210	214,410
Accumulated other comprehensive loss	(310)	(7,572)
Total stockholders' equity	380,571	391,862
Total liabilities and stockholders' equity	$ 3,632,391	$ 3,313,638

See Notes to Consolidated Financial Statements.

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Sandy Spring Bancorp, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share data)	2009	2008	2009	2008
Interest Income:				
Interest and fees on loans and leases	$ 31,280	$ 37,263	$ 96,579	$ 112,428
Interest on loans held for sale	121	100	654	318
Interest on deposits with banks	23	6	112	79
Interest and dividends on securities:				
Taxable	5,947	3,171	13,673	7,749
Exempt from federal income taxes	1,814	1,409	5,560	6,712
Interest on federal funds sold	-	99	3	529
TOTAL INTEREST INCOME	39,185	42,048	116,581	127,815
Interest Expense:				
Interest on deposits	8,743	9,325	28,118	32,930
Interest on short-term borrowings	3,697	3,544	10,757	9,886
Interest on long-term borrowings	343	1,092	1,831	3,214
TOTAL INTEREST EXPENSE	12,783	13,961	40,706	46,030
NET INTEREST INCOME	26,402	28,087	75,875	81,785
Provision for loan and lease losses	34,450	6,545	55,678	15,401
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	(8,048)	21,542	20,197	66,384
Noninterest Income:				
Securities gains	15	9	207	662
Service charges on deposit accounts	2,823	3,249	8,537	9,481
Gains on sales of mortgage loans	1,011	397	2,819	1,772
Fees on sales of investment products	740	820	2,062	2,547
Trust and investment management fees	2,406	2,380	7,063	7,282
Insurance agency commissions	1,048	1,282	4,138	4,725
Income from bank owned life insurance	740	742	2,176	2,183
Visa check fees	758	727	2,144	2,184
Other income	1,121	1,273	4,520	4,434
TOTAL NONINTEREST INCOME	10,662	10,879	33,666	35,270
Noninterest Expenses:				
Salaries and employee benefits	14,411	11,949	41,319	39,574
Occupancy expense of premises	2,685	2,732	8,008	8,150
Equipment expenses	1,444	1,515	4,332	4,514
Marketing	484	526	1,389	1,511
Outside data services	987	1,116	2,754	3,319
FDIC insurance	1,219	480	4,968	1,293
Amortization of intangible assets	1,048	1,103	3,150	3,344
Goodwill impairment loss	-	2,250	-	2,250
Other expenses	4,289	3,596	11,755	10,901
TOTAL NONINTEREST EXPENSES	26,567	25,267	77,675	74,856
Income (loss) before income taxes	(23,953)	7,154	(23,812)	26,798
Income tax expense (benefit)	(10,379)	1,795	(12,175)	7,583
NET INCOME (LOSS)	$ (13,574)	$ 5,359	$ (11,637)	$ 19,215

Preferred stock dividends and discount accretion		1,205		-		3,607		-
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	$	(14,779)	$	5,359	$	(15,244)	$	19,215
NET INCOME (LOSS) PER SHARE AMOUNTS:								
Basic net income (loss) per share	$	(0.83)	$	0.33	$	(0.71)	$	1.18
Basic net income (loss) per common share		(0.90)		0.33		(0.93)		1.18
Diluted net income (loss) per share	$	(0.83)	$	0.33	$	(0.71)	$	1.17
Diluted net income (loss) per common share		(0.90)		0.33		(0.93)		1.17
Dividends declared per share	$	0.12	$	0.24	$	0.36	$	0.72

See Notes to Consolidated Financial Statements.

(Dollars in thousands)	Nine Months Ended September 30, 2009	2008
Cash flows from operating activities:		
Net income (loss)	$ (11,637)	$ 19,215
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	7,849	10,420
Provision for loan and lease losses	55,678	15,401
Charge-offs on loans and leases	(43,267)	(2,226)
Stock compensation expense	1,105	551
Deferred income tax benefit	(5,868)	(5,401)
Origination of loans held for sale	(285,116)	(136,330)
Proceeds from sales of loans held for sale	288,253	140,614
Common stock issued pursuant to West Financial Services acquisition	628	-
Gains on sales of loans held for sale	(2,672)	(1,772)
Securities gains	(207)	(662)
Gains on sales of premises and equipment	-	(66)
Net (increase) decrease in accrued interest receivable	(1,515)	2,464
Net increase in other assets	(13,083)	(344)
Net increase in accrued expenses and other liabilities	3,278	2,262
Other – net	2,675	(2,340)
Net cash (used) provided by operating activities	(3,899)	41,786
Cash flows from investing activities:		
Purchases of other equity securities	(3,628)	(8,581)
Purchases of investments available-for-sale	(719,202)	(176,327)
Proceeds from the sales of other real estate owned	788	240
Proceeds from maturities, calls and principal payments of investments held-to-maturity	31,229	56,065
Proceeds from maturities, calls and principal payments of investments available-for-sale	213,407	152,748
Net decrease (increase) in loans and leases	151,475	(206,858)
Proceeds from redemption of VISA stock	-	429
Contingent consideration payout	(2,308)	(1,620)
Expenditures for premises and equipment	(2,200)	(1,821)
Net cash used in investing activities	(330,439)	(185,725)
Cash flows from financing activities:		
Net increase (decrease) in deposits	318,230	(25,056)
Net increase in short-term borrowings	8,307	109,898
Proceeds from issuance of long-term borrowings	-	60,000
Proceeds from issuance of common stock	424	579
Dividends paid	(8,842)	(11,818)
Net cash provided by financing activities	318,119	133,603
Net decrease in cash and cash equivalents	(16,219)	(10,336)
Cash and cash equivalents at beginning of period	105,229	85,852
Cash and cash equivalents at end of period	$ 89,010	$ 75,516

(Dollars in thousands)	Nine Months Ended September 30, 2009	2008
Supplemental Disclosures:		

Interest payments	$ 41,378	$ 45,597
Income tax payments	3,920	13,715
Transfers from loans to other real estate owned	4,889	1,471
Reclassification of borrowings from long-term to short-term	62,321	725

See Notes to Consolidated Financial Statements.

Sandy Spring Bancorp, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands, except per share data)	Preferred Stock	Common Stock	Warrants	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balances at December 31, 2008	$ 79,440	$ 16,399	$ 3,699	$ 85,486	$ 214,410	$ (7,572)	$ 391,862
Comprehensive Income:							
Net income (loss)	-	-	-	-	(11,637)	-	(11,637)
Other comprehensive income, net of tax effects	-	-	-	-	-	7,262	7,262
Total Comprehensive Income							(4,375)
Cash dividends - $0.36 per share	-	-	-	-	(5,957)	-	(5,957)
Preferred stock dividends – $34.98 per share	-	-	-	-	(3,116)	-	(3,116)
Stock compensation expense	-	-	-	1,105	-	-	1,105
Discount accretion	490	-	-	-	(490)	-	-
Common stock issued pursuant to:							
Contingent consideration relating to 2005 acquisition of West Financial – 31,663 shares	-	32	-	596	-	-	628
Employee stock purchase plan – 28,909 shares	-	29	-	324	-	-	353
Director stock purchase plan – 2,988 shares	-	3	-	37	-	-	40
Restricted stock- 5,608 shares	-	5	-	(6)	-	-	(1)
DRIP plan – 2,441 shares	-	2	-	30	-	-	32
Balances at September 30, 2009	$ 79,930	$ 16,470	$ 3,699	$ 87,572	$ 193,210	$ (310)	$ 380,571
Balances at December 31, 2007	$ -	$ 16,349	$ -	$ 83,970	$ 216,376	$ (1,055)	$ 315,640
Adjustment to reflect adoption of EITF Issue 06-04 effective January 1, 2008	-	-	-	-	(1,647)	-	(1,647)
	-	16,349	-	83,970	214,729	(1,055)	313,993

Balance as of January 1, 2008 following adoption of EITF issue 06-04							
Comprehensive Income:							
Net income	-	-	-	-	19,215	-	19,215
Other comprehensive income (loss), net of tax effects and reclassification adjustment	-	-	-	-	-	(2,820)	(2,820)
Total Comprehensive Income							16,395
Cash dividends- $0.72 per share	-	-	-	-	(11,818)	-	(11,818)
Stock compensation expense	-	-	-	551	-	-	551
Common stock issued pursuant to:							
Director stock purchase plan – 1,479 shares	-	2	-	38	-	-	40
Stock option plan – 9,127 shares (16,837 shares issued less 7,710 shares retired)	-	9	-	53	-	-	62
Employee stock purchase plan- 23,748 shares	-	24	-	453	-	-	477
Balances at September 30, 2008	$ -	$ 16,384	$ -	$ 85,065	$ 222,126	$ (3,875)	$ 319,700

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 – Principles of Consolidation and Basis of Presentation

The unaudited Consolidated Financial Statements include the accounts of Sandy Spring Bancorp (“the Company”) and its wholly owned subsidiary, Sandy Spring Bank (“the Bank”) and its subsidiaries, Sandy Spring Insurance Corporation, The Equipment Leasing Company, and West Financial Services, Inc. Consolidation has resulted in the elimination of all significant intercompany accounts and transactions. In the opinion of Management, all adjustments (comprising only normal recurring accruals) necessary for a fair presentation of the results of the interim periods have been included. These statements should be read in conjunction with the financial statements and accompanying notes included in Sandy Spring Bancorp's 2008 Annual Report on Form 10-K. There have been no significant changes to the Company’s accounting policies as disclosed in the 2008 Annual Report on Form 10-K. The results shown in this interim report are not necessarily indicative of results that may be expected for any future quarters or for the year ending December 31, 2009.

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America and to general practices within the financial services industry. Certain reclassifications have been made to amounts previously reported to conform to those amounts used in the current classifications. These reclassifications have no effect on stockholders’ equity or net income as previously reported. Subsequent events have been evaluated through November 6, 2009, which is the date the financial statements were available to be issued.

Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks and federal funds sold (which have original maturities of three months or less).

Note 2 - New Accounting Pronouncements

Adopted Accounting Pronouncements

The Company applies the guidance by the Financial Accounting Standards Board (“FASB”) Accounting Standards Topic (“ASC”) 820-10-35 regarding the measurement of the fair value of a liability. This guidance is effective for the first reporting period subsequent to August 2009. The guidance provides clarification regarding what techniques may be used to measure the fair value of a liability when a quoted price for a liability in an active market is not available. It further clarifies that an adjustment to the fair value is not required due to the existence of a restriction that prevents the transfer of the liability.

The Company accounts for other-than-temporary impairment (“OTTI”) of debt securities and uses the criteria used to assess the collectability of cash flows to determine potential OTTI under the provision of FASB ASC 320-10-65. This topic is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 31, 2009. This topic modifies the presentation of OTTI losses and increases the frequency of and expands existing disclosure requirements. The Company’s adoption of this accounting standard in the second quarter of 2009 did not have a material impact on the Company’s financial position, results of operations or cash flows.

The Company applies the guidance provided by FASB ASC 820-10-65 relating to the use of judgment in evaluating the relevance of inputs when determining fair value, estimating fair values when the volume and level of activity for an asset or liability decreased significantly and identifying transactions that are not orderly. The Company’s adoption of this accounting standard in the second quarter of 2009 did not have a material impact on the Company’s financial position, results of operations or cash flows.

Required disclosures about the fair value of the Company's financial instruments for interim reporting periods are outlined in FASB ASC 825-10-65. These disclosures are effective for interim periods ending after June 15, 2009. The adoption of the disclosure requirements in the second quarter of 2009 did not have a material impact on the Company's financial position, results of operations or cash flows.

The Company includes non-forfeitable rights to dividends or dividend equivalents on unvested shared based payment awards on participating securities in the earnings allocation when computing earnings per share ("EPS") as outlined in FASB ASC 260-10. These EPS computation requirements are effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior period per share data presented must be adjusted retrospectively. The adoption of these EPS calculation requirements did not have a material impact on the Company's financial position, results of operations or cash flows.

The Company applies the general standards of accounting for and disclosure of events that occurred after the balance sheet date but before financial statements are issued or are available to be issued as outlined by FASB ASC 855. These accounting and disclosure requirements are effective for interim or annual financial periods ending after June 15, 2009 and shall be applied prospectively. There are two types of subsequent events that must be evaluated: recognized and non-recognized subsequent events. An entity must recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. An entity may not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but that arose after the balance sheet date but prior to the issuance of the financial statements. Certain non-recognized subsequent events may be of such a nature that they must be disclosed to keep the financial statements from being misleading. The adoption of these accounting and disclosure standards did not have an impact on the Company's financial position, results of operations or cash flows.

Pending Accounting Pronouncements

In December 2008, the FASB issued FASB staff position ("FSP") FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets." This FSP amends SFAS No. 132(revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits", to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan ("FSP FASB 132(R)-1"). The FSP is effective for financial statements issued for fiscal years ending after December 15, 2009. The FSP requires employers to disclose information about fair value measurements of plan assets that would be similar to the currently required disclosures about fair value measurements. The Company does not expect that the adoption of this FSP will have a material impact on its financial position, results of operations or cash flows

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140" ("SFAS No. 166"). The disclosure requirements apply to transfers that occur both before and after the effective date of the statement. SFAS No. 166 is effective as of the beginning of a reporting entity's first annual reporting period beginning after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. This statement changes the derecognition guidance for transferors of financial assets, including entities that sponsor securitizations, to align that guidance with the original intent of FASB Statement No. 140, "Accounting for the Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." In addition, on and after the effective date, existing qualifying special-purpose entities must be evaluated for consolidation by the reporting entity.

SFAS No. 166 eliminates the concept of a qualifying special purpose entity ("QSPE"). The statement eliminates any reference to a QSPE and requires a transferor to evaluate transfers to such entities under the amended guidance. SFAS No. 166 also introduces the concept of a participating interest. A participating interest is defined as a proportionate interest ownership interest in a financial asset in which the cash flows from the asset are allocated to the participating interest holders in proportion to their ownership share.

Additionally, the SFAS No. 166 significantly modifies the conditions required for a transfer of a financial asset or a participating interest therein to qualify as a sale. SFAS No. 166 also changes the measurement guidance for transfers of financial assets in that it requires that a transferor recognize and initially measure at fair value any servicing assets, servicing liabilities, and any other assets obtained and liabilities incurred in a sale. The statement amends the disclosure requirements that will allow financial statement users to understand the nature and extent of the transferor's continuing involvement with financial assets that have been transferred. The Company does not expect that the adoption of this statement will have a material impact on its financial position, results of operations or cash flows.

In June 2009, the FASB issued SFAS No. 167, “Amendments to FASB Interpretation No.46(R)” (“SFAS No. 167”). This statement is effective as of the beginning of a reporting entity’s first annual reporting period that begins after November 15, 2009 and for interim periods within the first annual reporting period. Earlier application is prohibited. The objective of this Statement is to improve the accounting and disclosure of any involvement with variable interest entities (“VIEs”). SFAS No. 167 eliminates the existing approach for identifying the primary beneficiary of a VIE. It changes that approach with an analysis to determine if an enterprise’s variable interests give it a controlling financial interest in the VIE. The statement also expands the disclosure requirements for an enterprise that has a variable interest in a VIE. The Company does not expect that the adoption of this statement will have a material impact on its financial position, results of operations or cash flows.

In June 2009, the FASB issued SFAS No. 168, “The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB No. 162” (“SFAS No. 168”). This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. SFAS No. 168 modifies the hierarchy of generally accepted accounting principles (“GAAP”) to include two levels of GAAP: authoritative and nonauthoritative to be applied by nongovernmental entities. Authoritative GAAP will include all rules and interpretive releases of the Securities and Exchange Commission (“SEC”). Subsequent to the effective date of the SFAS No. 168, all references to GAAP will conform to the codification standards. Management has determined that this guidance does not impact the financial statements of the Company.

Note 3 – Investments

Portfolio quality discussion

At September 30, 2009, any unrealized losses associated with AAA-rated U.S. Government Agencies are caused by changes in interest rates and are not considered credit related as the contractual cash flows of these investments are either explicitly or implicitly backed by the full faith and credit of the U.S. government. Unrealized losses that are related to the prevailing interest rate environment will decline over time and recover as these securities approach maturity. The municipal securities portfolio segment is not experiencing any significant credit problems at September 30, 2009 and the Company believes it will receive all contractual cash flows due on this portfolio. The mortgage-backed securities portfolio at September 30, 2009 is composed entirely of either the most senior tranches of GNMA collateralized mortgage obligations ($106.6 million), or GNMA, FNMA or FHLMC mortgage-backed securities ($283.7 million). Any associated unrealized losses are caused by changes in interest rates and are not considered credit related as the contractual cash flows of these investments are either explicitly or implicitly backed by the full faith and credit of the U.S. government. Unrealized losses that are related to the prevailing interest rate environment will decline over time and recover as these securities approach maturity. Trust preferred securities are comprised of the senior tranches of three securities. The Company has received all payments on a timely basis. At September 30, 2009, the Company believes that the credit quality of these securities remains adequate to absorb further economic declines. The unrealized losses on this portfolio are the result of illiquidity and reduced demand for these securities resulting in widening credit spreads. Marketable equity securities are composed almost entirely of FHLB stock and Federal Reserve Bank stock, at cost. With respect to the FHLB stock, the Company has received the most recent quarterly dividend that was due. The Company has determined through a comprehensive earnings and liquidity review that there have been no other events that would result in a significant adverse effect on the fair value of the FHLB stock and that the par value of this investment will ultimately be recovered.

Investments available-for-sale

The amortized cost and estimated fair values of investments available-for-sale for the periods indicated are as follows:

	As of September 30, 2009				As of December 31, 2008			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agencies	$ 376,992	$ 4,242	$ (18)	$ 381,216	$ 135,418	$ 2,003	$ (101)	$ 137,320
State and municipal	27,772	1,817	(1)	29,588	2,663	78	(41)	2,700
Mortgage-backed	382,363	7,557	(262)	389,658	144,638	1,358	(920)	145,076
Trust preferred	7,841	167	(1,675)	6,333	7,890	24	(1,633)	6,281
Total debt securities	794,968	13,783	(1,956)	806,795	290,609	3,463	(2,695)	291,377
Marketable equity securities	350	-	-	350	350	-	-	350
Total investments available-for-sale	$ 795,318	$ 13,783	$ (1,956)	$ 807,145	$ 290,959	$ 3,463	$ (2,695)	$ 291,727

Gross unrealized losses and fair value by length of time that the individual available-for-sale securities have been in an unrealized loss position for the periods indicated are as follows:

As of September 30, 2009			Continuous Unrealized Losses Existing for:		
(In thousands)	Number of securities	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
U.S. government agencies	2	$ 9,975	$ 18	$ -	$ 18
State and municipal	1	199	-	1	1
Mortgage-backed	16	32,964	221	41	262
Trust preferred	3	6,017	24	1,651	1,675
Total	22	$ 49,155	$ 263	$ 1,693	$ 1,956

As of December 31, 2008			Continuous Unrealized Losses Existing for:		
(In thousands)	Number of securities	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
U.S. government agencies	2	$ 14,898	$ 101	$ -	$ 101
State and municipal	4	1,131	41	-	41
Mortgage-backed	30	66,640	911	9	920
Trust preferred	6	4,950	1,633	-	1,633
Total	42	$ 87,619	$ 2,686	$ 9	$ 2,695

Approximately 86% of the bonds carried in the available-for-sale investment portfolio experiencing unrealized losses as of September 30, 2009 were rated AAA, 1% were rated B, 3% were rated BBB+ and 10% were rated CC. Approximately 94% of the bonds carried in the available-for-sale investment portfolio experiencing losses as of December 31, 2008 were rated AAA, 4% were rated B+ and 2% were not rated. The securities representing the unrealized losses in the available-for-sale portfolio as of September 30, 2009 and December 31, 2008 all have modest duration risk (2.54 years in 2009 and 2.41 years in 2008), low credit risk, and minimal loss (approximately 3.96% in 2009 and 2.98% in 2008) when compared to book value. The unrealized losses that exist are the result of changes in market interest rates that have occurred subsequent to the original purchase and not considered credit related. These factors coupled with the fact that the Company has both the intent and sufficient liquidity to hold these investments for an adequate period of time, which may be maturity, to allow for any anticipated recovery in fair value substantiates that the unrealized losses in the available-for-sale portfolio are temporary.

The amortized cost and estimated fair values of investment securities available-for-sale at September 30, 2009 and December 31, 2008 by contractual maturity are shown on the following page. The Company has allocated mortgage-backed securities into the four maturity groupings shown using the expected average life of the individual securities based upon statistics provided by independent third party industry sources. Expected maturities will differ from contractual maturities as borrowers may have the right to prepay obligations with or without prepayment penalties.

There were no sales of investments available-for-sale during 2009 or 2008.

	September 30, 2009		December 31, 2008	
(In thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 204,274	$ 203,739	$ 99,232	$ 99,677
Due after one year through five years	549,710	560,165	190,302	190,625
Due after five years through ten years	40,984	42,891	1,075	1,075
Due after ten years	-	-	-	-
Total debt securities available for sale	$ 794,968	$ 806,795	$ 290,609	$ 291,377

At September 30, 2009 and December 31, 2008, investments available-for-sale with a book value of $212.5 million and $217.2 million, respectively, were pledged as collateral for certain government deposits and for other purposes as required or permitted by law. The outstanding balance of no single issuer, except for U.S. Agencies and Corporations securities, exceeded ten percent of stockholders' equity at September 30, 2009 and December 31, 2008.

Investments held-to-maturity

The amortized cost and estimated fair values of investments held-to-maturity for the periods indicated are as follows:

	As of September 30, 2009				As of December 31, 2008			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
State and municipal	$ 139,904	$ 6,233	$ (3)	$ 146,134	$ 170,871	$ 4,415	$ (159)	$ 175,127
Mortgage-backed	624	42	-	666	747	34	-	781
Total investments held-to-maturity	$ 140,528	$ 6,275	$ (3)	$ 146,800	$ 171,618	$ 4,449	$ (159)	$ 175,908

Gross unrealized losses and fair value by length of time that the individual held-to-maturity securities have been in a continuous unrealized loss position for the periods indicated are as follows:

As of September 30, 2009			Continuous Unrealized Losses Existing for:		
(In thousands)	Number of securities	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
State and municipal	3	$ 657	$ 3	$ -	$ 3
Total	3	$ 657	$ 3	$ -	$ 3

As of December 31, 2008			Continuous Unrealized Losses Existing for:		
(In thousands)	Number of securities	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
State and municipal	14	$ 10,658	$ 159	$ -	$ 159
Total	14	$ 10,658	$ 159	$ -	$ 159

All of the bonds carried in the held-to-maturity investment portfolio experiencing continuous unrealized losses as of September 30, 2009, were rated AAA. As of December 31, 2008, approximately 16% of such bonds were rated AAA and approximately 84% were rated AA. The securities representing the unrealized losses in the held-to-maturity portfolio had duration risk of 12.28 years in 2009 compared to 6.27 years in 2008. These securities have low credit risk and minimal unrealized losses (approximately 0.51% in 2009 and 1.47% in 2008) when compared to book value. The unrealized losses that exist are the result of changes in market interest rates since the original purchase. These factors coupled with the Company’s intent and ability to hold these investments for a sufficient period of time, which may be maturity, to allow for any anticipated recovery in fair value substantiates that the unrealized losses in the held-to-maturity portfolio are temporary.

The amortized cost and estimated fair values of debt securities held to maturity at September 30, 2009 and December 31, 2008 by contractual maturity are shown below. Expected maturities will differ from contractual maturities as borrowers may have the right to prepay obligations with or without prepayment penalties.

(In thousands)	September 30, 2009 Amortized Cost	September 30, 2009 Estimated Fair Value	December 31, 2008 Amortized Cost	December 31, 2008 Estimated Fair Value
Due in one year or less	$ 42,965	$ 43,708	$ 55,231	$ 55,941
Due after one year through five years	90,582	95,591	108,406	111,718
Due after five years through ten years	898	936	1,997	2,043
Due after ten years	6,083	6,565	5,984	6,206
Total debt securities held-to-maturity	$ 140,528	$ 146,800	$ 171,618	$ 175,908

At September 30, 2009 and December 31, 2008, investments held to maturity with a book value of $116.4 million and $140.6 million, respectively, were pledged as collateral for certain government deposits and for other purposes as required or permitted by law. The outstanding balance of no single issuer, except for U.S. Agency and Corporations securities, exceeded ten percent of stockholders' equity at September 30, 2009 or December 31, 2008.

Other equity securities for the periods indicated are as follows:

(In thousands)	September 30, 2009	December 31, 2008
Federal Reserve Bank stock	$ 7,531	$ 5,037
Federal Home Loan Bank of Atlanta stock	25,167	24,034
Atlantic Central Bank stock	75	75
Total	$ 32,773	$ 29,146

Note 4 – Stock Based Compensation

At September 30, 2009, the Company had two stock-based compensation plans in existence, the 1999 Stock Option Plan (expired but having outstanding options that may still be exercised) and the 2005 Omnibus Stock Plan, which is described below.

The Company's 2005 Omnibus Stock Plan ("Omnibus Plan") provides for the granting of non-qualifying stock options to the Company's directors, and incentive and non-qualifying stock options, stock appreciation rights and restricted stock grants to selected key employees on a periodic basis at the discretion of the Board. The Omnibus Plan authorizes the issuance of up to 1,800,000 shares of common stock of which 1,184,750 are available for issuance at September 30, 2009, has a term of ten years, and is administered by a committee of at least three directors appointed by the Board of Directors. Options granted under the plan have an exercise price which may not be less than 100% of the fair market value of the common stock on the date of the grant and must be exercised within seven to ten years from the date of grant. The exercise price of stock options must be paid for in full in cash or shares of common stock, or a combination of both. The Stock Option Committee has the discretion when making a grant of stock options to impose restrictions on the shares to be purchased upon the exercise of such options. Options granted under the expired 1999 Stock Option Plan remain outstanding until exercised or they expire. The Company generally issues authorized but previously unissued shares to satisfy option exercises.

During 2009, 73,560 stock options were granted, subject to a three year vesting schedule with one third of the options vesting each year on the anniversary date of the grant. Additionally, 97,008 shares of restricted stock were granted, subject to a five year vesting schedule with one fifth of the shares vesting each year on the grant date anniversary. Compensation expense is recognized on a straight-line basis over the vesting period of the respective stock option or restricted stock grant. The fair value method for expense recognition of employee awards resulted in stock compensation expense of approximately $1.1 million and $0.6 million for the nine month periods ended September 30, 2009 and 2008, respectively. The fair values of all of the options granted have been estimated using a binomial option-pricing model.

For the nine months ended September 30, 2009, no stock options have been exercised resulting in no intrinsic value for options exercised during this period. The total intrinsic value of options exercised during the nine months ended September 30, 2008 was $0.2 million.

A summary of share option activity for the six month period ended September 30, 2009 is reflected in the table below:

(In thousands, except per share data):	Number of Common Shares	Weighted Average Exercise Share Price	Weighted Average Contractual Remaining Life(Years)	Aggregate Intrinsic Value (in thousands)
Balance at January 1, 2009	973,730	$ 33.51		$ 112
Granted	73,560	12.01		314
Exercised	-	-		-
Forfeited or expired	(176,684)	32.13		(37)
Balance at September 30, 2009	870,606	$ 31.98	4.0	$ 389
Exercisable at September 30, 2009	707,846	$ 34.13	3.6	$ 91
Weighted average fair value of options granted during the year		$ 3.22		

A summary of the status of the Company's nonvested options and restricted stock as of September 30, 2009, and changes during the nine month period then ended, is presented below:

(In dollars, except share data):	Number of Shares	Weighted Average Grant-Date Fair Value
Nonvested options at January 1, 2009	134,010	$ 5.15
Granted	73,560	3.22
Vested	(35,289)	4.55
Forfeited or expired	(9,521)	4.23
Nonvested options at September 30, 2009	162,760	$ 4.46

(In dollars, except share data):	Number Of Shares	Weighted Average Grant-Date Fair Value
Restricted stock at January 1, 2009	41,202	$ 29.91
Granted	97,008	12.01
Vested	(5,608)	24.65
Forfeited or expired	(3,292)	22.51
Restricted stock at September 30, 2009	129,310	$ 16.90

Total unrecognized compensation cost related to nonvested share-based compensation arrangements was approximately $2.3 million as of September 30, 2009. That cost is expected to be recognized over a weighted average period of approximately 3.2 years.

Note 5 - Per Share Data

The calculations of net income (loss) per common share for the three and nine month periods ended September 30, 2009 and 2008 are reflected in the following table. Basic net income (loss) per common share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding and does not include the impact of any potentially dilutive common stock equivalents. The diluted income (loss) per common share calculation method is derived by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding adjusted for the dilutive effect of common stock equivalents.

(Dollars and amounts in thousands, except per share data)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Basic:				
Net income (loss)	$ (13,574)	$ 5,359	$ (11,637)	$ 19,215
Less: Dividends - preferred stock	1,205	-	3,607	-
Net income (loss) available to common stockholders	$ (14,779)	$ 5,359	$ (15,244)	$ 19,215
Basic EPS shares	16,467	16,380	16,439	16,367
Basic net income (loss)	$ (0.83)	$ 0.33	$ (0.71)	$ 1.18
Basic net income (loss) per common share	$ (0.90)	$ 0.33	$ (0.93)	$ 1.18
Diluted:				
Net income (loss)	$ (13,574)	$ 5,359	$ (11,637)	$ 19,215
Less: Dividends - preferred stock	1,205	-	3,607	-
Net income (loss) available to common stockholders	$ (14,779)	$ 5,359	$ (15,244)	$ 19,215
Basic EPS shares	16,467	16,380	16,439	16,367
Dilutive common stock equivalents	-	39	-	52
Dilutive EPS shares	16,467	16,419	16,439	16,419
Diluted net income (loss) per share	$ (0.83)	$ 0.33	$ (0.71)	$ 1.17
Diluted net income (loss) per common share	$ (0.90)	$ 0.33	$ (0.93)	$ 1.17
Antidilutive shares	789	909	961	924

Note 6 – Comprehensive Income (Loss)

The components of total comprehensive income (loss) for the periods indicated are as follows:

(In thousands)	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net income (loss)	$ (11,637)	$ 19,215
Investments available-for-sale:		
Net change in unrealized gains (losses) on investments available-for-sale	10,852	(2,733)
Related income tax expense (loss)	(4,328)	1,088
Net investment gains (losses) reclassified into earnings	207	(662)
Related income tax (expense) benefit	(82)	265
Net effect on other comprehensive income (loss) for the period	6,649	(2,042)
Defined benefit pension plan:		
Amortization of prior service costs	-	(1,589)
Related income tax benefit (expense)	-	634
Recognition of unrealized gain	1,020	295
Related income tax benefit (expense)	(407)	(118)
Net effect on other comprehensive income (loss) for the period	613	(778)
Total other comprehensive income (loss)	7,262	(2,820)

Comprehensive income (loss)	$ (4,375)	$	16,395

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The activity in accumulated other comprehensive income for the periods indicated:

(In thousands)	Defined Benefit Pension Plan	Unrealized Gains (Losses) on Investments Available-for-Sale	Total
Balance at December 31, 2007	$ (2,097)	$ 1,042	$ (1,055)
Period change, net of tax	(778)	(2,042)	(2,820)
Balance at September 30, 2008	$ (2,875)	$ (1,000)	$ (3,875)

(In thousands)	Defined Benefit Pension Plan	Unrealized Gains (Losses) on Investments Available-for-Sale	Total
Balance at December 31, 2008	$ (8,033)	$ 461	$ (7,572)
Period change, net of tax	613	6,649	7,262
Balance at September 30, 2009	$ (7,420)	$ 7,110	$ (310)

Note 7 - Pension, Profit Sharing, and Other Employee Benefit Plans

Defined Benefit Pension Plan

The Company has a qualified, noncontributory, defined benefit pension plan covering substantially all employees. Benefits after January 1, 2005, are based on the benefit earned as of December 31, 2004, plus benefits earned in future years of service based on the employee's compensation during each such year. On November 14, 2007, the Company informed employees that the plan would be frozen for new and existing entrants after December 31, 2007. All benefit accruals for employees were frozen as of December 31, 2007 based on past service and thus future salary increases will no longer affect the defined benefit provided by the plan, although additional vesting may continue to occur.

The Company's funding policy is to contribute amounts to the plan sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended. In addition, the Company contributes additional amounts as it deems appropriate based on benefits attributed to service prior to the date of the plan freeze. The Plan invests primarily in a diversified portfolio of managed fixed income and equity funds. The Company has not yet determined the amount of its 2009 contribution to the plan.

Net periodic benefit cost for the periods indicated includes the following components:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2009	2008	2009	2008
Interest cost on projected benefit obligation	$ 361	$ 356	$ 1,076	$ 1,066
Expected return on plan assets	(300)	(326)	(942)	(978)
Amortization of prior service cost	-	(1,501)	-	(1,589)
Recognized net actuarial loss	342	97	1,020	295
Net periodic benefit cost	$ 403	$ (1,374)	$ 1,154	$ (1,206)

Cash and Deferred Profit Sharing Plan

The Company has a qualified Cash and Deferred Profit Sharing Plan that includes a 401(k) provision with a Company match. The 401(k) provision is voluntary and covers all eligible employees after ninety days of service. Employees contributing to the 401(k) provision receive a matching contribution of 100% of the first 3% of compensation and 50% of the next 2% of compensation subject to employee contribution limitations. The Company match vests immediately. The Plan permits employees to purchase shares of Sandy Spring Bancorp, Inc. common stock with their 401(k) contributions, Company match, and other contributions under the Plan. Profit sharing contributions and the Company match are included in noninterest expenses and totaled $1.0 million and $1.1 million for the nine month periods ended September 30, 2009 and 2008, respectively, and $0.3 million and $0.4 million for the three month periods ended September 30, 2009 and 2008, respectively.

The Company has a short-term incentive plan named the Sandy Spring Leadership Incentive Plan which provides a cash bonus to key members of management based on the Company's financial results using a weighted formula. Payments under this plan to senior executive officers may be limited under the Emergency Economic Stabilization Act of 2008, as amended. The expense for this plan is included in noninterest expenses. There was no expense recognized for the nine and three months ended September 30, 2009. The expense recognized for the nine month periods ended September 30, 2008 was $0.4 million. There was no expense for the three month period ended September 30, 2008.

Executive Incentive Retirement Plan

In past years, the Company had Supplemental Executive Retirement Agreements ("SERAs") with its executive officers providing for retirement income benefits as well as pre-retirement death benefits. Retirement benefits payable under the SERAs, if any, were integrated with other pension plan and Social Security retirement benefits expected to be received by the executive. The Company accrued the present value of these benefits over the remaining number of years to the executives' retirement dates. Effective January 1, 2008, these agreements were replaced with a defined contribution plan, the "Executive Incentive Retirement Plan" or "the Plan". Benefits under the SERAs were reduced to a fixed amount as of December 31, 2007, and those amounts accrued were transferred to the new plan on behalf of each participant. Additionally, under the new Plan, officers designated by the board of directors earn a deferral bonus which is accrued annually based on the Company's financial performance compared to a selected group of peer banks. For current participants, accruals after January 1, 2008 vest immediately. Amounts transferred to the Plan from the SERAs on behalf of each participant continue to vest based on years of service. Allocations to executive officers for 2009 and subsequent periods may be subject to restrictions pursuant to the Emergency Economic Stabilization Act of 2008, as amended. The Company had expenses related to the new Plan of $0.3 million and $0.4 million for the nine months ended September 30, 2009 and 2008, respectively, and $0.1 million and $0.2 million for the three month periods ended September 30, 2009 and 2008, respectively.

Note 8 - Segment Reporting

The Company operates in four operating segments—Community Banking, Insurance, Leasing, and Investment Management. Each of the operating segments is a strategic business unit that offers a specific set of products and services. The Insurance, Leasing, and Investment Management segments are businesses that were acquired in previous years in acquisition transactions. The accounting policies of the segments are the same as those described in Note 1 to the Consolidated Financial Statements included in the 2008 Annual Report on Form 10-K. However, the segment data reflect intersegment transactions and balances.

The Community Banking segment is conducted through Sandy Spring Bank and involves delivering a broad range of financial products and services, including various loan and deposit products to both individuals and businesses. Parent company income is included in the Community Banking segment, as the majority of parent company activities are related to this segment. Major revenue sources include net interest income, gains on sales of mortgage loans, trust income, fees on sales of investment products and service charges on deposit accounts. Expenses include personnel, occupancy, marketing, equipment and other expenses. Included in Community Banking expenses are noncash charges associated with amortization of intangibles related to the acquired entities totaling $0.8 million and $0.6 million for the three month periods ended September 30, 2009 and 2008, respectively. For the nine month periods ended September 30, 2009 and 2008, the amortization related to acquired entities totaled $2.4 million and $2.5 million, respectively.

The Insurance segment is conducted through Sandy Spring Insurance Corporation, a subsidiary of the Bank, and offers annuities as an alternative to traditional deposit accounts. In addition, Sandy Spring Insurance Corporation operates the Chesapeake Insurance Group and Wolfe and Reichelt Insurance Agency, general insurance agencies located in Annapolis, Maryland, and Neff & Associates, located in Ocean City, Maryland. Major sources of revenue are insurance commissions from commercial lines and personal lines. Expenses include personnel and support charges. Included in insurance expenses are non-cash charges associated with amortization of intangibles totaling $0.1 million for both the three month periods ended September 30, 2009 and 2008, respectively. For the nine month periods ended September 30, 2009 and 2008, respectively, amortization related to acquired entities totaled $0.2 million and $0.3 million.

The Leasing segment is conducted through The Equipment Leasing Company, a subsidiary of the Bank that provides leases for essential commercial equipment used by small to medium sized businesses. Equipment leasing is conducted through vendor relations and direct solicitation to end-users located primarily in states along the east coast from New Jersey to Florida. The typical lease is categorized as a financing lease and is characterized as a "small ticket" by industry standards, averaging less than $100 thousand, with individual leases generally not exceeding $500 thousand. Major revenue sources include interest income. Expenses include personnel and support charges.

The Investment Management segment is conducted through West Financial Services, Inc., a subsidiary of the Bank that was acquired in October 2005. This asset management and financial planning firm, located in McLean, Virginia, provides comprehensive financial planning to individuals, families, small businesses and associations including cash flow analysis, investment review, tax planning, retirement planning, insurance analysis and estate planning. West Financial has approximately $695.0 million in assets under management as of September 30, 2009. Major revenue sources include noninterest income earned on the above services. Expenses include personnel and support charges. Included in investment management expenses are non-cash charges associated with amortization of intangibles totaling $0.2 million for both of the three month periods ended September 30, 2009 and 2008, and $0.6 million for both of the nine month periods ended September 30, 2009 and 2008.

Information about operating segments and reconciliation of such information to the Consolidated Financial Statements is reflected in the following tables for the periods indicated:

	Three Months Ended September 30, 2009					
(In thousands)	Community Banking	Insurance	Leasing	Investment Mgmt.	Inter-Segment Elimination	Total
Interest income	$ 38,823	$ 2	$ 551	$ 1	$ (192)	$ 39,185
Interest expense	12,785	-	190	-	(192)	12,783
Provision for loan and lease losses	34,450	-	-	-	-	34,450
Noninterest income	8,302	1,224	88	1,201	(153)	10,662
Noninterest expenses	24,563	1,174	126	857	(153)	26,567
Income (loss) before income taxes	(24,673)	52	323	345	-	(23,953)
Income tax expense (benefit)	(10,653)	21	118	135	-	(10,379)
Net income (loss)	$ (14,020)	$ 31	$ 205	$ 210	$ -	$ (13,574)
Assets	$ 3,644,641	$ 12,348	$ 28,147	$ 11,931	$ (64,676)	$ 3,632,391

	Three Months Ended September 30, 2008					
(In thousands)	Community Banking	Insurance	Leasing	Investment Mgmt.	Inter-Segment Elimination	Total
Interest income	$ 41,618	$ 8	$ 730	$ 6	$ (314)	$ 42,048
Interest expense	13,975	-	300	-	(314)	13,961
Provision for loan and lease losses	6,545	-	-	-	-	6,545
Noninterest income	8,292	1,474	128	1,137	(152)	10,879
Noninterest expenses	21,033	1,273	2,301	812	(152)	25,267
Income (loss) before income taxes	8,357	209	(1,743)	331	-	7,154
Income tax expense (benefit)	2,355	88	(778)	130	-	1,795
Net income (loss)	$ 6,002	$ 121	$ (965)	$ 201	$ -	$ 5,359