

SANDY SPRING BANCORP INC

Form DEFA14A

March 10, 2006

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 Pursuant to Rule 14a-11(c) or Rule 14a-12

SANDY SPRING BANCORP, INC.

(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):

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17801 Georgia Avenue
Olney, Maryland 20832
301-774-6400

March 13, 2006

Dear Shareholder:

On behalf of the Board of Directors, we are pleased to invite you to the Annual Meeting of Shareholders on Wednesday, April 19, 2006 at 3:00 p.m., at the Indian Spring Country Club, 13501 Layhill Road, Silver Spring, Maryland. The official notice of meeting and proxy statement on the following pages contain information about the meeting. The Board of Directors recommends that you vote FOR the election of the director-nominees and FOR the ratification of appointment of the independent registered public accounting firm. We have also enclosed the 2005 Annual Report, including our financial statements. In addition to the business matters contained in the proxy statement, we will review operating results for the past year and other information concerning Sandy Spring Bancorp, Inc. We believe you will find the meeting to be informative.

Even if you own only a few shares it is important that your shares be represented at the meeting and we urge you to vote your shares by returning your proxy card as soon as possible. If you have any questions, please call Ronald E. Kuykendall, Executive Vice President, General Counsel and Secretary, at 301-774-6400 or 800-399-5919.

Thank you for the cooperation and continuing support you have given this institution.

Sincerely,

/s/ W. Drew Stabler
W. Drew Stabler
Chairman of the Board

/s/ Hunter R. Hollar
Hunter R. Hollar
President and Chief Executive Officer

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SANDY SPRING BANCORP, INC.

17801 Georgia Avenue, Olney, Maryland 20832

NOTICE OF 2006 ANNUAL SHAREHOLDERS MEETING

Date: Wednesday, April 19, 2006

Time: 3:00 p.m., Eastern Time

Place: Indian Spring Country Club
13501 Layhill Road
Silver Spring, Maryland 20906

A Proxy and Proxy Statement for the Annual Meeting and the 2005 Annual Report on Form 10-K are enclosed. The Proxy Statement and Proxy are being furnished to you in connection with the solicitation of proxies by Bancorp's Board of Directors for use at the Annual Meeting.

The purposes of the Annual Meeting are:

- (1) To elect the six (6) directors named in the attached Proxy Statement, two to serve as Class II directors with terms expiring at the 2008 Annual Meeting, and four to serve as Class III directors with terms expiring at the 2009 Annual Meeting, in each case until their successors are duly elected and qualified;
- (2) To ratify the appointment of McGladrey & Pullen, LLP as the independent registered public accounting firm for the year 2006; and
- (3) To transact any other business as may properly come before the Annual Meeting.

Note: The Board of Directors is not aware of any other business to come before the Annual Meeting. Only shareholders of record of Sandy Spring Bancorp's common stock as of the close of business on March 6, 2006 will be entitled to notice of, and to vote at, the Annual Meeting, or any adjournment thereof. To grant a proxy to vote your shares, you are requested to fill in and sign the enclosed Form of Proxy and to mail it in the enclosed envelope. The Proxy will not be used if you attend and choose to vote in person at the Annual Meeting. Please vote promptly whether or not you expect to attend the Annual Meeting.

In the event that there are not sufficient votes to conduct the election of directors or to approve other business properly before the Annual Meeting, the Annual Meeting may be adjourned in order to permit further solicitation of proxies by Bancorp.

By Order of the Board of Directors,

/s/ Ronald E. Kuykendall
Ronald E. Kuykendall
Executive Vice President,
General Counsel & Secretary

March 13, 2006
Olney, Maryland

IT IS IMPORTANT THAT THE PROXY CARD BE RETURNED PROMPTLY. WHETHER OR NOT YOU PLAN TO BE PRESENT IN PERSON AT THE ANNUAL MEETING, PLEASE SIGN, DATE, AND COMPLETE THE PROXY CARD AND RETURN IT IN THE ENCLOSED ENVELOPE. NO POSTAGE IS REQUIRED IF THIS ENVELOPE IS MAILED IN THE UNITED STATES.

SANDY SPRING BANCORP, INC.

Proxy Statement

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SANDY SPRING BANCORP, INC.

Proxy Statement

Annual Meeting of Shareholders
April 19, 2006

Solicitation, Voting, and Revocability of Proxies

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Sandy Spring Bancorp, Inc. ("Bancorp") to be used at the 2006 Annual Meeting of Shareholders. The Annual Meeting will be held on Wednesday, April 19, 2006, at 3:00 p.m. Eastern Time at the Indian Spring Country Club, 13501 Layhill Road, Silver Spring, Maryland. The Notice of Annual Meeting, the Form of Proxy, and this Proxy Statement are being first mailed together on or about March 20, 2006, to shareholders of record as of the close of business on March 6, 2006.

If the enclosed Form of Proxy is properly executed and returned to Bancorp in time to be voted at the Annual Meeting, the shares represented by it will be voted in accordance with the instructions marked on the form. **Executed but unmarked proxies will be voted FOR Proposal I to elect the six director-nominees of Bancorp's Board of Directors as directors; and FOR Proposal II to ratify the appointment of the independent registered public accounting firm.** Proxies marked as abstentions and shares held in street name that have been designated by brokers on proxies as not voted will not be counted as votes cast, but will be counted for purposes of determining a quorum at the Annual Meeting. Bancorp does not know of any other matters that are to come before the Annual Meeting except for incidental, procedural matters. If any other matters are properly brought before the Annual Meeting, the persons named in the accompanying proxy will vote the shares represented by each proxy on such matters as determined by a majority of the Board of Directors.

The presence of a shareholder at the Annual Meeting will not automatically revoke that shareholder's proxy. However, shareholders may revoke a proxy at any time prior to its exercise by filing with Ronald E. Kuykendall, Executive Vice President, General Counsel and Secretary, a written notice of revocation; by delivering to Bancorp a duly executed proxy bearing a later date; or by attending the Annual Meeting and voting in person.

Many shareholders whose shares are held in an account at a brokerage firm or bank will have the option to submit their proxies or voting instructions electronically through the Internet or by telephone. Shareholders should check their proxy card or voting instructions forwarded by their broker, bank or other holder of record to see which options are available. Shareholders submitting proxies or voting instructions via the Internet should understand that there may be costs associated with electronic access, such as usage charges from Internet access providers and telephone companies, that would be borne by the shareholder. To revoke a proxy previously submitted electronically through the Internet or by telephone, a shareholder may simply submit a new proxy at a later date before the taking of the vote at the Annual Meeting, in which case, the later submitted proxy will be recorded and the earlier proxy will be revoked.

The cost of soliciting proxies will be borne by Bancorp. In addition to the solicitation of proxies by mail, Bancorp also may solicit proxies personally or by telephone or telegraph through its directors, officers, and regular employees. Bancorp also will request persons, firms, and corporations holding shares in their names or in the name of nominees that are beneficially owned by others to send proxy materials to and obtain proxies from those beneficial owners and will reimburse the holders for their reasonable expenses in doing so.

The securities that can be voted at the Annual Meeting consist of shares of common stock, par value \$1.00 per share (the "Common Stock"), of Bancorp. Each share entitles its owner to one vote on all matters. The close of business on March 6, 2006 has been fixed by the Board of Directors as the record date for determination of shareholders entitled to vote at the Annual Meeting. There were approximately 2,219 record holders of the Common Stock as of February 8, 2006. The number of shares outstanding on February 8, 2006 was approximately 14,797,402. The presence, in person or by proxy, of at least a majority of the total number of outstanding shares of Common Stock is necessary to constitute a quorum at the Annual Meeting.

A copy of the Annual Report on Form 10-K for the year ended December 31, 2005, as filed with the Securities and Exchange Commission ("SEC"), but excluding exhibits, is provided with this proxy statement. Shareholders may obtain a copy of the exhibits to the Annual Report on Form 10-K by writing Ronald E. Kuykendall, Executive Vice President, General Counsel and Secretary, at Sandy Spring Bancorp, Inc., 17801 Georgia Avenue, Olney, Maryland 20832. Shareholders also may access a copy of the Form 10-K including exhibits on the SEC Website at www.sec.gov or through the Company's Investor Relations Website maintained at www.sandyspringbank.com.

Shareholders whose shares are held in a brokerage firm or bank and who share the same address may receive only one Annual Report on Form 10-K and one Proxy Statement, unless the shareholder has provided contrary instructions. Shareholders who wish to receive separate copies of the Annual Report on Form 10-K or the Proxy Statement or who wish to receive separate copies of future annual reports and proxy statements, and shareholders sharing an address who received multiple copies of these documents but wish to request delivery of single copies of them should follow the instructions provided by the shareholders' brokerage firms or banks or contact Mr. Kuykendall at the above address or by phone at 301-774-6400 or 800-399-5919.

PROPOSAL I : Election of Directors

The Board of Directors has set the total number of directors at fourteen, in accordance with Bancorp's Articles of Incorporation and Bylaws. Bancorp's Articles of Incorporation divide the directors into three classes, as nearly equal in number as possible. In general, the term of office of only one class of directors expires in each year, and their successors are elected for terms of three years and until their successors are elected and qualified. At the Annual Meeting a total of four director-nominees will be elected for three-year terms and two director-nominees will be elected for two-year terms. With respect to the election of directors, each shareholder of record on the record date is entitled to one vote for each share of Common Stock held. A plurality of all the votes cast at the Annual Meeting will be sufficient to elect a nominee as a director.

Information as to Nominees and Incumbent Directors

The following table sets forth the names of the Board of Directors' six nominees for election as directors. Also shown is certain other information, some of which has been obtained from Bancorp's records and some of which has been supplied by the nominees and continuing directors, with respect to their principal occupations during at least the past five years, their ages at December 31, 2005, the periods during which they have served as directors, and the positions they currently hold with Bancorp. It is the intention of the persons named in the proxy to vote the shares represented by each properly executed proxy for the election as directors of the two nominees listed below for terms of two years and four nominees listed below for terms of three years unless otherwise directed by the shareholder. The Board of Directors believes that each of the nominees will stand for election and will serve if elected as director. If any person nominated by the Board of Directors fails to stand for election or is unable to accept election, the proxies will be voted for the election of such other person or persons as the Board of Directors may recommend.

Incumbent Class II □ Director-Nominees for Terms to Expire at the 2008 Annual Meeting:

Name	Age	Position(s) Held with Bancorp	Member of Board Since(1)	Current Term Expires
Mark E. Friis	50	Director	2005	2006
Pamela A. Little	51	Director	2005	2006

Incumbent Class III □ Director-Nominees for Terms to Expire at the 2009 Annual Meeting:

Name	Age	Position(s) Held with Bancorp	Member of Board Since⁽¹⁾	Current Term Expires
Susan D. Goff	60	Director	1994	2006
Robert L. Mitchell	69	Director	1991	2006
Robert L. Orndorff, Jr.	49	Director	1991	2006
David E. Rippeon	56	Director	1997	2006

Continuing Directors:**Incumbent Class I Directors:**

Solomon Graham	62	Director	1994	2007
Gilbert L. Hardesty	65	Director	1997	2007
Charles F. Mess	67	Director	1987	2007
Lewis R. Schumann	62	Director	1994	2007
W. Drew Stabler	68	Chairman of the Board of Directors	1986	2007

Incumbent Class II Directors:

John Chirtea	68	Director	1990	2008
Hunter R. Hollar	57	President, Chief Executive Officer and Director	1990	2008
Craig A. Ruppert	52	Director	2002	2008

(1) The Boards of Directors of Bancorp and its principal subsidiary, Sandy Spring Bank (the "Bank"), are composed of the same persons. Includes term of office as a director of the Bank prior to the formation of Bancorp as the holding company for the Bank in January 1988.

The principal occupation(s) and business experience of each nominee and director of Bancorp for at least the last five years are shown below:

Director-Nominees:

Mark E. Friis is President and Chief Executive Officer and senior principal of Rodgers Consulting, Inc., a land planning and engineering firm.

Susan D. Goff is a retired executive, formerly employed by Mid-Atlantic Medical Services, Inc., a health maintenance organization.

Pamela A. Little is Chief Financial Officer of Athena Innovative Solutions, Inc.

Robert L. Mitchell is Chairman and Chief Executive Officer of Mitchell and Best Group, LLC, which is engaged in home building and real estate development.

Robert L. Orndorff, Jr. is President of RLO Contractors, Inc., an excavating contractor.

David E. Rippeon is President and Chief Executive Officer of Gaithersburg Equipment Company and Frederick Equipment Company, a tractor and equipment dealership.

Incumbent Directors:

John Chirtea is a Real Estate Consultant who is retired from LCOR, a real estate development company.

Solomon Graham is founder, President, and Chief Executive Officer of Quality Biological, Inc., a biotechnology firm providing reagents for medical research.

Gilbert L. Hardesty is a retired bank executive, having served as President of Crestar Bank in Annapolis from June 1994 to June 1997 and as President of Annapolis Federal Savings Bank from April 1986 to June 1994.

Hunter R. Hollar is President and Chief Executive Officer of Bancorp and the Bank.

Charles F. Mess, M.D. is practicing Physician of Potomac Valley Orthopedic Associates Chtd.

Craig A. Ruppert is President and owner of The Ruppert Companies, comprised of nursery and landscaping, business investment and management, and commercial real estate development and management businesses.

Lewis R. Schumann is a Partner in the Rockville, Maryland law firm of Miller, Miller and Canby, Chtd.

W. Drew Stabler is a Partner in Sunny Ridge Farm, a crop and livestock operation.

The Board of Directors recommends a vote "FOR" each of the nominees named above as a director of Bancorp.

Corporate Governance and Other Matters

During 2005, each of Bancorp's and the Bank's Boards of Directors held twelve regular meetings.

The average attendance was 98% for meetings of Bancorp's and the Bank's Boards of Directors. All incumbent directors attended 75% or more of the aggregate of (a) the total number of meetings of the Boards of Directors and (b) the total number of meetings held by all committees on which they served during the period of their service during the year.

Bank directors who are not employed by the Bank receive an annual retainer of \$12,500 (\$25,000 for the Chairman), plus \$6,000 for Audit Committee Chairman and \$4,000 for all other Committee Chairmen and fees of \$1,000 for attendance at each meeting of the Board of Directors. Directors also receive \$800 for each committee meeting. Bancorp directors who are not employed by Bancorp do not receive any additional compensation (beyond compensation received for service as bank directors) except as follows. Such directors receive fees of \$1,000 for attendance at each meeting of Bancorp's Board of Directors not held in conjunction with a meeting of the Bank's Board of Directors. Bancorp directors are also eligible to receive non-incentive stock options under Bancorp's 2005 Stock Plan. These options have a maximum term of 10 years and an exercise price that may not be less than 100% of the fair market value of the common stock on the date of grant. Director options are included in the computation of share dilution. Options for 24,132 shares were granted in 2005 to directors who were not employees of Bancorp or any of its subsidiaries, based upon their meeting attendance, at an exercise price of \$38.13. Under the Director's Stock Purchase Plan, directors may elect to apply from 50% to 100% of their annual retainers to purchase newly issued Bancorp common stock at market value.

Directors of the Bank are eligible to defer all or a portion of their fees under Director Fee Deferral Agreements between the Bank and individual directors. Amounts deferred accrue interest at the prime rate. Except in the case of death or financial emergency, deferred fees and accrued interest are payable only following termination of a director's service on the board. The Director Fee Deferral Agreements also provide for benefits that may exceed deferred fees and accrued interest in the event a party dies while a director of the Bank, but only to the extent the Bank owns an insurance policy in effect on the director's life at the time of death that pays a greater amount than the total of deferred fees and accrued interest.

Bancorp's Board of Directors has standing Audit, Executive, Human Resources and Nominating Committees. The Executive Committee performs the functions of a corporate governance committee. The Human Resources Committee performs the functions of a compensation committee. The functions, composition, and number of meetings for these committees in 2005 were as follows:

Audit Committee—The Audit Committee is composed of John Chirtea, Chairman, Mark E. Friis, Gilbert L. Hardesty, Pamela A. Little, Charles F. Mess, David E. Rippeon and Craig A. Ruppert. The Audit Committee is appointed by the Board to assist the Board in monitoring the integrity of the financial statements and of financial reporting, including the proper operation of internal and disclosure controls and procedures in accordance with the Sarbanes-Oxley Act of 2002, compliance with legal and regulatory requirements and the independence and performance of internal and external auditors. The audit committee reviews the Forms 10-K and 10-Q prior to filing. All members of the committee are “independent” as defined in applicable law, regulations of the Securities and Exchange Commission (“SEC”), the Federal Deposit Insurance Act and related regulations (the “FDIA”), and the Listing Standards of the NASDAQ Stock Market, Inc., (the “Listing Standards”). Members of the committee also meet all other applicable requirements of the SEC, FDIA, and Listing Standards for financial, accounting or related expertise. The Board of Directors has determined that Mr. Hardesty and Mr. Ruppert qualify as audit committee financial experts under the Listing Standards and applicable securities regulations. During 2005, four meetings were held.

Executive Committee—The Executive Committee is composed of W. Drew Stabler, Chairman, Solomon Graham, Gilbert L. Hardesty, Hunter R. Hollar, Robert L. Mitchell, Robert L. Orndorff, Jr. and Lewis R. Schumann. In addition to conducting board business between regular monthly meetings, the Executive Committee serves the function of a corporate governance committee. It provides oversight and guidance to the Board of Directors to ensure that the structure, policies, and processes of the Board and its committees facilitate the effective exercise of the Board's role in the governance of the Company. The committee reviews and evaluates the policies and practices with respect to the size, composition, independence and functioning of the Board and its committees and reflects those policies and practices in the Corporate Governance Policy and the written charter, which is available on the Investor Relations area of Bancorp's Website at www.sandyspringbank.com. During 2005, thirteen meetings were held.

Human Resources (Compensation) Committee—The Human Resources Committee is composed of Robert L. Mitchell, Chairman, John Chirtea, Susan D. Goff, Charles F. Mess, Robert L. Orndorff, Jr., David E. Rippeon and W. Drew Stabler. Members of the committee are independent directors within the meaning of the Listing Standards. The Human Resources Committee recommends salaries and other compensation for executive officers, conducts an annual review of the salary budget, considers other compensation and benefit plans and makes recommendations to the Board, deals with matters of personnel policy and, with the Stock Option Committee, administers the 2005, 1999 and 1992 Stock Option Plans. During 2005, four meetings were held. In 2005, no Bancorp executive officer served as a member of the compensation committee of another entity that had an executive officer who served as a Bancorp director, and no Bancorp executive officer served as a director of another entity that had an executive officer serving on Bancorp's Human Resources Committee.

Nominating Committee—The Nominating Committee is composed of Robert L. Orndorff, Jr., Chairman, Solomon Graham, Gilbert L. Hardesty, David E. Rippeon, Craig A. Ruppert and W. Drew Stabler. Members of the committee are independent directors within the meaning of the Listing Standards. The Nominating Committee makes recommendations to the Board of Directors with respect to nominees for election as directors. In exercising its responsibilities, the Nominating Committee considers general, minimum criteria and particular goals and needs of Bancorp for additional competencies or characteristics. Each director of Bancorp is expected to exhibit the highest standards in exercising his or her duty of loyalty, care and commitment to all shareholders and to protect the values and legacy of the organization. Additionally, directors must manage themselves well in their personal department and display their ability to challenge the thinking of others and to influence them with constructive approaches. Directors must be able to read and act on financial information including, but not limited to, balance sheets, income statements and cash flow analyses. Finally, directors need to be able to apply informed judgment and long term, conceptual and systemic thinking to all decisions. The Board gathers input from all directors prior to the recruitment of a new director in order to form a collective picture of the competencies needed. The Board also values diversity and seeks to include women and members of minority groups as well as to maintain a range of thinking and personality styles. The Board of Directors of Bancorp has adopted a written charter for the Nominating Committee and a Corporate Governance Policy that also relates to director nominees and the nominating process. The Charter and Policy are available on the Investor Relations area of Bancorp's Website at www.sandyspringbank.com. The Nominating Committee encourages suggestions for nominees to the Board from the Chief Executive Officer, the Chairman of the Board, other Directors, and from shareholders, and is responsible for the evaluation of such suggestions. Shareholders may communicate such

suggestions for nominees to the Nominating Committee in care of Bancorp's Secretary. Please see "Shareholder Proposals and Communications" on page 20. Five meetings of the Nominating Committee were held during 2005.

Code of Business Conduct

Bancorp's Board of Directors has adopted a Code of Business Conduct applicable to all directors, officers, and employees of Bancorp and its subsidiaries that sets forth the legal and ethical standards that govern the conduct of business performed by Bancorp and its subsidiaries. The Code of Business Conduct includes a Code of Ethics established pursuant to Section 406 of the Sarbanes-Oxley Act of 2002, related SEC regulations, and the Listing Standards. The Code of Business Conduct is available on the Investor Relations area of Bancorp's website at www.sandyspringbank.com.

Stock Ownership of Directors and Executive Officers

The following table sets forth information as of February 8, 2006 (the latest practicable date), with respect to the shares of Common Stock beneficially owned by each director continuing in office and nominee for director of Bancorp, by certain executive officers of Bancorp, and by all directors and executive officers of Bancorp as a group.

<u>Name</u>	<u>Amount and Nature of Beneficial Ownership (1)(2)(3)</u>	<u>Percentage of Common Stock Outstanding</u>
John Chirtea	45,297	*
Mark E. Friis	1,763	*
Susan D. Goff	9,075	*
Solomon Graham	14,173	*
Gilbert L. Hardesty	13,124	*
Hunter R. Hollar	132,108	*
Pamela A. Little	263	*
Charles F. Mess	18,146	*
Robert L. Mitchell	23,837	*
Robert L. Orndorff, Jr.	173,140	1.17%
David E. Rippeon	21,050	*
Craig A. Ruppert	32,506	*
Lewis R. Schumann	94,521	*
W. Drew Stabler	63,206	*
Frank H. Small	71,234	*
R. Louis Caceres	21,525	*
Daniel J. Schrider	24,164	*
Ronald E. Kuykendall	20,194	*
All directors and executive officers as a group (21 persons)	853,986	5.80%

* Less than 1%.

(1) Under the rules of the SEC, an individual is considered to "beneficially own" any share of Common Stock which he or she, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise, has or shares: (1) voting power, which includes the power to vote, or to direct the voting of, such security; and/or (2) investment power, which includes the power to dispose, or to direct the disposition, of such security. In addition, an individual is deemed to be the beneficial owner of any share of Common Stock of which he or she has the right to acquire voting or investment power within 60 days of March 6, 2006. Includes 358,423 shares of Common Stock subject to outstanding options which are exercisable within 60 days of March 6, 2006. Of this total, the "Named Executive Officers," Hunter R. Hollar, Frank H. Small, R. Louis Caceres, Daniel J. Schrider and Ronald E. Kuykendall hold options to purchase 108,284 shares, 64,284 shares, 20,946 shares, 21,548 shares, and 18,865 shares of Common Stock, respectively. Other executive officers (who are not "Named Executive Officers")

and directors hold options for 59,356 shares which are exercisable within 60 days. Beneficial ownership also includes 861 shares, 3,595 shares, and 1,210 shares of Common Stock owned by Mr. Hollar, Mr. Small, and Mr. Schrider, respectively, and 7,290 shares of Common Stock owned by executive officers who are not "Named Executive Officers," as participants in Bancorp's Cash and Deferred Profit Sharing Plan. In addition, Mr. Small owns 355 shares, Mr. Schrider owns 520 shares, Mr. Caceres owns 207 and Mr. Kuykendall owns 1,329 shares and executive officers who are not "Named Executive Officers" own 1,994 shares in the Employee Stock Purchase Plan which are reflected in beneficially owned shares. Under the Employee Stock Purchase Plan, shares are placed under option and are purchased at 85% of their fair market value on the exercise date through monthly payroll deductions of not less than 1% or more than 10% of cash compensation paid in the month.

(2) Includes shares owned directly by directors and executive officers of Bancorp as well as shares held by their spouses and minor children and trusts of which certain directors are trustees. Also includes 77,484 shares held by a trust for which Mr. Schumann is trustee, but in which he has no pecuniary interest.

(3) Only whole shares appear in the table. Fractional shares that may arise from participation in the dividend reinvestment plan are not shown.

Owners of More Than 5% of Bancorp's Common Stock

Beneficial owners of more than 5% of the common stock are required to file certain ownership reports under the federal securities laws. The following table shows the common stock beneficially owned by the person who has filed a report reporting beneficial ownership that exceeds 5% of Bancorp's outstanding common stock at March 6, 2006.

<u>Name</u>	<u>Amount and Nature of Beneficial Ownership⁽¹⁾</u>	<u>Percentage of Shares Outstanding⁽²⁾</u>
T. Rowe Price Associates, Inc. (3)	1,121,330	7.6%

(1) Beneficial ownership is defined by rules of the Securities and Exchange Commission, and includes shares that the person has or shares voting or investment power over. A decision to disclaim beneficial ownership or to include shares held by others is made by the shareholder, not by Bancorp.

(2) Calculated by Bancorp based upon shares reported as beneficially owned by the listed persons and shares of Bancorp common stock outstanding at February 14, 2006.

(3) The address of T. Rowe Price Associates, Inc., is 100 East Pratt Street, Baltimore, MD 21202.

Executive Compensation

Summary Compensation Table

The following table sets forth the cash and noncash compensation for each of the last three years awarded to or earned by (i) the Chief Executive Officer, and (ii) each of the four other most highly compensated executive officers of Bancorp whose salary and bonus earned in 2005 exceeded \$100,000 (the "Named Executive Officers").

Name and Principal Position in 2005	Year	Annual Compensation Salary	Annual Compensation Bonus	Long-Term Compensation Stock Option Grants (Shares)	All Other Compensation ^(*)
Hunter R. Hollar	2005	\$ 405,000	\$ 264,018	22,500	\$ 9,450
President and Chief Executive Officer of Bancorp and the Bank	2004	397,593	0	18,650	0
	2003	371,923	120,055	16,950	1,750
Frank H. Small	2005	285,000	163,760	11,875	9,450
Executive Vice President and Chief Operating Officer of Bancorp and the Bank	2004	280,556	0	11,250	0
	2003	257,885	67,234	10,325	1,167
Daniel J. Schrider	2005	210,000	104,034	6,395	9,450
Executive Vice President and Chief Credit Officer of the Bank	2004	210,000	0	6,625	0
	2003	160,000	53,810	5,000	931
R. Louis Caceres	2005	210,000	103,995	6,395	9,450
Executive Vice President of the Bank	2004	210,000	7,979	6,050	0
	2003	140,531	89,592	5,000	1,167
Ronald E. Kuykendall	2005	190,000	68,400	6,395	8,635
Executive Vice President, General Counsel & Secretary of Bancorp and the Bank	2004	185,970	0	6,050	0
	2003	174,138	32,869	5,000	1,016

* Amounts shown in this column pertain to deferred compensation under Bancorp's Cash and Deferred Profit Sharing Plan. The amount of indirect compensation in the form of personal benefits received in 2005 by Messrs. Hollar, Small, Schrider, Caceres, and Kuykendall did not exceed 10% of the annual compensation paid to each such executive officer.

Equity Compensation Plans. Bancorp maintains equity compensation plans to attract, retain, and motivate key officers of Bancorp and the Bank by providing them with a stake in the success of Bancorp as measured by the value of its shares.

The 2005 Omnibus Stock Plan (the "2005 Stock Plan"), which was approved by the shareholders at the 2005 Annual Meeting of Shareholders, authorizes the issuance of up to 1,800,000 shares of Common Stock and other stock based awards over its 10 year term, after which date no awards may be granted. The plan provides that the Stock Option Committee may grant stock options, stock appreciation rights (SARs) and restricted stock to directors and key employees designated by the committee. The Stock Option Committee is comprised of all disinterested (outside) directors (i.e., all directors other than Mr. Hollar). As of February 8, 2006, options for 249,061 shares were outstanding under the 2005 Stock Plan. No SARs or restricted stock awards have yet been granted under this plan.

The 2005 Stock Plan replaced the 1999 Stock Option Plan ("the 1999 Option Plan"), which was terminated except with respect to options that were outstanding on the plan's termination date. The 1999 Option Plan, which was approved by the shareholders at the 1999 Annual Meeting of Shareholders and amended at the 2002 Annual

Meeting, authorized the issuance of up to 1,600,000 shares of Common Stock, subject to certain adjustments for changes in Bancorp's capital structure. The 1999 Option Plan had a term of 10 years from its effective date (February 24, 1999) after which date no stock options could be granted. As of February 8, 2006, options for 701,187 shares were outstanding under the 1999 Option Plan. The 1999 Option Plan replaced a plan adopted in 1992 (the "1992 Option Plan"), which was terminated except with respect to options that were outstanding on the plan's termination date. As of February 8, 2006, options for 54,225 shares were outstanding under the 1992 Option Plan.

Under the Option Plans, the maximum option term is 10 years from the date of grant. Options granted under the Option Plans prior to 1996 were immediately exercisable upon grant. Options granted from 1996 through 2005 were exercisable as follows: one-third upon the date of grant, one-third upon the first anniversary of the date of grant, and one-third upon the second anniversary of the date of grant. The exercise price of a stock option may not be less than 100% of the fair market value of the Common Stock on 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 under the 1999 Plan to impose restrictions on the shares to be purchased in exercise of such options.

The Committee also has the authority to cancel stock options outstanding under the Option Plans with the consent of the optionee and to grant new options at a lower exercise price in the event that the fair market value of the Common Stock at any time prior to the exercise of the outstanding stock options falls below the exercise price of such option. However, no awards under the 2005 Stock Plan may be repriced or exchanged for awards with lower exercise prices without the approval of shareholders.

The following table presents disclosure regarding stock based plans in existence at December 31, 2005, consisting of the 1992 option plan, the 1999 option plan (each expired but having outstanding options that may still be exercised), and the 2005 Stock Plan each of which was approved by the shareholders.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a) (c)
Equity compensation plans approved by security holders(1)	1,004,473	\$33.08	1,550,939
Equity compensation plans not approved by security holders	0	0	0
Total	1,004,473	\$33.08	1,550,939

(1) Consists of the Option Plans.

Option Grants in 2005

The following table contains information concerning the grant of stock options under the Option Plans to the Chief Executive Officer and each of the other "Named Executive Officers." The Option Plans do not provide for the grant of stock appreciation rights.

Individual Grants

Name	Options Granted (Number of Shares) ⁽¹⁾	% of Total Options Granted to Employees in Year	Exercise or Base Price (\$ per Share) ⁽²⁾	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%	10%
Hunter R. Hollar	22,500	10.00%	\$ 38.13	12/14/2012	\$ 349,262	\$ 813,928
Frank H. Small	11,875	5.28	\$ 38.13	12/14/2012	184,333	429,573
Daniel J. Schrider	6,395	2.84	\$ 38.13	12/14/2012	99,268	231,336
R. Louis Caceres	6,395	2.84	\$ 38.13	12/14/2012	99,268	231,336
Ronald E. Kuykendall	6,395	2.84	\$ 38.13	12/14/2012	99,268	231,336

(1) Options granted during 2005 are exercisable as follows: one-third upon the date of grant, one-third upon the first anniversary of the date of grant, and one-third upon the second anniversary of the date of grant.

(2) In each case, the exercise price is equal to the fair market value of the Common Stock on the date of grant.

Aggregated Option Exercises in 2005 and Year End Option Values

The following table sets forth information concerning the exercise of options by the Chief Executive Officer and the other "Named Executive Officers" during 2005 and the value of options held by these individuals at December 31, 2005.

Name	Shares Acquired on Exercise (Number of Shares)	Value Realized ⁽¹⁾	Number of Unexercised Options at Year End Exercisable/Unexercisable (Number of Shares)	Value of Unexercised In-the-Money Options at Year End ⁽¹⁾ Exercisable/Unexercisable
Hunter R. Hollar	4,500	\$116,415	108,284/21,217	\$812,996/\$0
Frank H. Small	3,000	65,850	64,284/11,667	600,251/0
Daniel J. Schrider	0	0	21,548/6,471	92,086/0
R. Louis Caceres	0	0	20,946/6,280	66,417/0
Ronald E. Kuykendall	3,750	70,650	18,865/6,280	28,647/0

(1) The difference between the fair market value of the underlying securities at exercise or year end and the exercise or base price.

Pension Plan Table

The table below shows estimated annual benefits payable upon retirement to persons in the specified remuneration and years-of-service categories. The benefits are provided on a 10-year certain and life basis and are not subject to deduction for Social Security or other offset amounts. The benefits shown are based on years of service after December 31, 2000 only and assume a constant salary for all future years. The benefit that the participant had earned as of December 31, 2000, is based on the final average salary formula in effect prior to January 1, 2001 and must be added to the benefit shown.

Annual Earnings	Post 12/31/00 Years of Credited Service at Retirement							
	5	10	15	20	25	30	35	40
\$ 25,000	\$ 2,187	\$ 4,375	\$ 6,562	\$ 8,750	\$ 10,937	\$ 13,125	\$ 15,312	\$ 17,500
75,000	6,562	13,125	19,687	26,250	32,812	39,375	45,937	52,500
125,000	10,937	21,875	32,812	43,750	54,687	65,625	76,562	87,500
150,000	13,125	26,250	39,375	52,500	65,625	78,750	91,875	105,000
175,000	15,313	30,625	45,938	61,250	76,563	91,875	107,188	122,500
210,000 or more								