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ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

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8-40214

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 1/01/08 AND ENDING 12/31/08  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER DEALER:

Sandler O'Neill & Partners, L.P.

OFFICIAL USE ONLY  
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

919 Third Avenue  
(No. and Street)

New York  
(City)

New York  
(State)

10022  
(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

May Della Pietra

212-466-7785

(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

BDO Seidman, LLP

(Name — if individual, state last, first, middle name)

100 Park Avenue  
(Address)

New York  
(City)

New York 10017  
(State) (Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not in residence in United States or any of its possessions.

SEC Mail Processing  
Section

FEB 27 2009

Washington, DC  
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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, May Della Pietra, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Sandler O'Neill & Partners, L.P., as of December 31, 2008, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

May Della Pietra  
Signature

Chief Financial Officer

Title

[Signature]  
Notary Public

LAWRENCE BUCKLEY  
Notary Public State of New York  
No. 01BU6062331  
Qualified in Nassau County  
Commission Expires 8/6/2009

This report\*\* contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Cash Flows.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation Between the Audited and Unaudited Statements of Financial Condition With Respect to Methods of Consolidation.
- (l) An Oath or Affirmation.
- (m) A Copy of the SIPC Supplemental Report.
- (n) A Report Describing any Material Inadequacies Found to Exist or Found to Have Existed Since the Date of the Previous Audit.
- (o) Independent Auditors' Report on internal control required by SEC Rule 17a-5.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



## Independent Auditors' Report

### The Partners

Sandler O'Neill & Partners, L.P.  
New York, New York

We have audited the accompanying statement of financial condition of Sandler O'Neill & Partners, L.P. as of December 31, 2008, that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Partnership's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Sandler O'Neill & Partners, L.P. as of December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

*BDO Seidman, LLP*

February 20, 2009

# Sandler O'Neill & Partners, L.P.

## Statement of Financial Condition

December 31, 2008

<b>Assets</b>	
Cash and cash equivalents	\$112,269,171
Financial instruments owned, at fair value (Notes 1, 2 and 3)	25,132,113
Due from clearing brokers (Note 2)	4,236,187
Due from related parties (Note 3)	266,187
Other assets	14,894,472
	<b>\$156,798,130</b>
<b>Liabilities and Partnership Capital</b>	
<b>Liabilities:</b>	
Financial instruments sold, not yet purchased, at fair value (Notes 1 and 2)	\$ 7,275
Commissions and bonuses payable	46,467,646
Accrued expenses and other liabilities	8,467,730
<b>Total liabilities</b>	<b>54,942,651</b>
<b>Commitments and contingencies (Notes 4 and 6)</b>	
<b>Partnership capital (Note 6)</b>	<b>101,855,479</b>
	<b>\$156,798,130</b>

*See accompanying summary of business and significant accounting policies and notes to statement of financial condition.*

# Sandler O'Neill & Partners, L.P.

## Summary of Business and Significant Accounting Policies

### Organization

Sandler O'Neill & Partners, L.P. ("Partnership") is a Delaware limited partnership. The Partnership provides brokerage and investment banking services. The Partnership is registered as a broker-dealer under the provisions of the Securities Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority ("FINRA")

The Partnership has agreements ("Agreements") with clearing brokers ("Brokers") to clear securities transactions, carry customers' accounts on a fully disclosed basis and perform certain recordkeeping functions. Accordingly, the Partnership operates under the exemptive provisions of Securities and Exchange Commission ("SEC") Rule 15c3-3(k)(2)(ii).

### Summary of Significant Accounting Policies

#### *Income Taxes*

The Partnership is organized and operates as a limited partnership and is not subject to Federal and state income taxes as a separate entity.

#### *Cash and Cash Equivalents*

Cash equivalents include all highly liquid investments with maturities of less than ninety days. Cash held at financial institutions, at times, may exceed the amount insured by the Federal Deposit Insurance Corporation or the Securities Investment Protection Corporation.

#### *Fair Value of Financial Instruments*

Investments in financial instruments owned and financial instruments sold, not yet purchased are measured at fair value. Fair value is generally based on quoted market prices. If quoted market prices are not available, fair value is determined based on other relevant factors, including dealer price quotations, price activity for equivalent instruments and valuation pricing models.

# Sandler O'Neill & Partners, L.P.

## Summary of Business and Significant Accounting Policies

On January 1, 2008, the Partnership adopted Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements." SFAS No. 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Partnership. Unobservable inputs are inputs that reflect the Partnership's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Partnership has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgement.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

# Sandler O'Neill & Partners, L.P.

## Summary of Business and Significant Accounting Policies

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Partnership in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Partnership's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Partnership uses prices and inputs that are current as of the measurement date, including during periods of market dislocation.

### *Exchange-Traded Equity Securities*

Exchange-traded equity securities are generally valued based on quoted prices from the exchange. To the extent these securities are actively traded, valuation adjustments are not applied and they are categorized in Level 1 of the fair value hierarchy.

### *Exchange-Traded Preferred Stock and Trust Preferred Securities*

Exchange-traded equity securities are generally valued based on quoted prices from the exchange. Certain thinly exchange-traded preferred stock and trust preferred securities are categorized in Level 3 of the fair value hierarchy.

# Sandler O'Neill & Partners, L.P.

## Summary of Business and Significant Accounting Policies

### *U.S. Government and Agency Securities*

U.S. government and agency securities include to-be-announced ("TBA") securities and mortgage pass-through certificates. TBA securities are generally valued using quoted market prices or are benchmarked thereto. Fair value of mortgage pass-through certificates is determined via a simulation model, which considers different rate scenarios and historical activity to calculate a spread to the comparable TBA security. U.S. government and agency securities and mortgage pass-through certificates are generally categorized in Level 1 of the fair value hierarchy.

### *Portfolio Funds*

Investments in portfolio funds are valued at their net asset value as reported by the underlying funds in accordance with their respective agreements.

The assets of the investments in portfolio funds consist principally of readily marketable securities, which are valued at quoted market prices. However, because the Partnership does not directly invest in the underlying securities of the investment funds, and due to restrictions on the transferability and timing of withdrawals from the portfolio funds, the amounts realized upon liquidation could differ from such reported values.

The investments are included in Level 3 of the fair value hierarchy.

### *Financial Instruments Sold, Not Yet Purchased*

The Partnership has sold financial instruments that it does not own and will, therefore, be obligated to purchase such financial instruments at a future date. A gain, limited to the price at which the Partnership sold the financial instruments short, or a loss, potentially unlimited in amount, will be recognized upon the termination of a short sale. The Partnership has recorded this obligation in the statement of financial condition at the year end fair value of the financial instruments. There is an element of market risk in that, if the financial instruments sold short increase

# Sandler O'Neill & Partners, L.P.

## Summary of Business and Significant Accounting Policies

in value, it will be necessary to purchase the financial instruments sold short at a cost in excess of the obligation reflected in the statement of financial condition.

### *Use of Estimates*

The preparation of the statement of financial condition in conformity with accounting principles generally accepted in the United States of America requires the Partnership to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the statement of financial condition. Actual results could differ from those estimates.

### *New Accounting Pronouncement*

In June 2006, the Financial Accounting Standards Board (the "FASB") issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes", which establishes that a tax position taken or expected to be taken in a tax return is to be recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. On December 30, 2008, the FASB released an amendment to FIN 48 allowing private entities to defer implementation until fiscal years beginning after December 15, 2008. As a result, management has elected to defer implementation of FIN 48 until January 1, 2009. It is the Partnership's policy to evaluate its tax positions on a regular basis. The adoption of FIN 48 is not expected to have a material impact on the Partnership's results of operations or its financial position.

# Sandler O'Neill & Partners, L.P.

## Notes to Statement of Financial Condition

### 1. Financial Instruments

The Partnership's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with SFAS No. 157.

Assets and liabilities measured at fair value as of December 31, 2008.

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance
<b>Assets</b>				
Financial instruments owned:				
Exchange-traded equity securities	\$ 1,461,154	\$ -	\$ -	\$ 1,461,154
U.S. government and agency securities	10,171,528	-	-	10,171,528
Trust preferred securities	-	-	5,159,623	5,159,623
Preferred stock	-	-	1,080,000	1,080,000
Investments in portfolio companies	-	-	7,259,808	7,259,808
Total financial instruments owned	\$11,632,682	\$ -	\$13,499,431	\$25,132,113
<b>Liabilities</b>				
Financial instruments sold, not yet purchased:				
Exchange-traded equity securities	\$ 7,275	\$ -	\$ -	\$ 7,275
Total financial instruments sold, not yet purchased	\$ 7,275	\$ -	\$ -	\$ 7,275

# Sandler O'Neill & Partners, L.P.

## Notes to Statement of Financial Condition

Changes in Level 3 assets are measured at fair value on a recurring basis for the year ended December 31, 2008.

	Beginning balance	Realized gains or (losses)	Unrealized gains (losses)	Total realized and unrealized gains (losses)	Purchases, sales, other settlements and issuances, net	Net transfers in and/or out of level	Ending balance
<b>Assets</b>							
Financial instruments owned:							
Trust preferred securities	\$ -	\$ -	\$ (170,911)	\$ (170,911)	\$5,330,534	\$ -	\$5,159,623
Preferred stock	-	-	(35,801)	(35,801)	1,115,801	-	1,080,000
Investments in portfolio companies	8,685,670	-	(2,125,862)	(2,125,862)	700,000	-	7,259,808

# Sandler O'Neill & Partners, L.P.

## Notes to Statement of Financial Condition

2. **Clearing Agreements**
- The Partnership has clearing agreements with three brokerage firms to carry its account as a customer of the clearing firms and the accounts of its customers. The brokers have custody of the Partnership's financial instruments and, occasionally, cash balances which may be due from these brokers.
- These financial instruments and/or cash positions serve as collateral for any amounts due to the brokers or as collateral for financial instruments sold short or financial instruments purchased on margin. The financial instruments and/or cash positions also serve as collateral for potential defaults of the Partnership's customers which are carried on the books and records of the clearing firms.
- The Partnership is subject to credit risk if the brokers are unable to repay balances due or deliver financial instruments in their custody.
3. **Related Party Transactions**
- The Partnership pays certain general and administrative expenses on behalf of affiliates for which it is reimbursed.
- The Partnership at December 31, 2008 has approximately a \$3,900,000 in investments in portfolio companies of a related party which is included in financial instruments owned, at fair value.
4. **Commitments and Contingencies**
- Litigation*
- The Partnership is a defendant in various legal actions arising out of its activities as a broker-dealer. While predicting the outcome of litigation is inherently very difficult, and the ultimate resolution, range of loss and impact on operating results cannot be reliably estimated, management believes, based upon its understanding of the facts and the advice of applicable legal counsel, that it has meritorious defenses for all such actions and it intends to defend each of these vigorously, and that resolution of these actions will not have a materially adverse effect on the Partnership's financial position.

# Sandler O'Neill & Partners, L.P.

## Notes to Statement of Financial Condition

### *Customer Transactions*

In the normal course of business, the Partnership executes as agent transactions on behalf of its customers. If the agency transactions do not settle because of failure to perform by either the customer or the counterparty, the Partnership may be obligated to discharge the obligation of the nonperforming party and, as a result, may incur a loss if the market value of the financial instruments differs from the contract amount.

The Partnership does not anticipate nonperformance by customers or counterparties in the above situations. The Partnership's policy is to monitor its market exposure and counterparty risk. In addition, the Partnership has a policy of reviewing the credit standing of each counterparty and customer with which it conducts business.

### *Operating Leases*

The Partnership leases office space and equipment under noncancellable lease agreements expiring through 2012. Minimum rental payments approximate:

<i>Year ending December 31,</i>	
2009	\$ 3,273,000
2010	3,241,000
2011	2,928,000
2012	697,000
	<hr/>
	\$10,139,000

### **5. Profit Sharing Plan**

The Partnership has a profit sharing plan under Section 401(k) of the Internal Revenue Code ("Code") covering substantially all of its employees. Participants may contribute a percentage of compensation, but not in excess of the maximum allowed under the Code. The plan provides for a discretionary contribution by the Partnership.

# Sandler O'Neill & Partners, L.P.

## Notes to Statement of Financial Condition

**6. Regulatory Net  
Capital  
Requirements**

The Partnership is subject to the SEC Uniform Net Capital Rule, which requires the maintenance of minimum regulatory net capital and requires that the ratio of aggregate indebtedness to regulatory net capital, both as defined, shall not exceed 15 to 1. As of December 31, 2008, the Partnership had regulatory net capital of approximately \$83,928,000 and a minimum regulatory net capital requirement of approximately \$3,662,000. The regulatory net capital ratio of the Partnership was .65 to 1.

**Sandler O'Neill & Partners, L.P.**

**Statement of Financial Condition**  
December 31, 2008

# Sandler O'Neill & Partners, L.P.

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**Sandler O'Neill & Partners, L.P.**

**Report on Internal Control Pursuant to  
Securities and Exchange Commission**

**Rule 17a-5**

**Year Ended December 31, 2008**

# Sandler O'Neill & Partners, L.P.

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## Independent Auditors' Report on Internal Control Required by Securities and Exchange Commission Rule 17a-5

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The Partners  
Sandler O'Neill & Partners, L.P.  
New York, New York

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In planning and performing our audit of the financial statements and supplemental schedules of Sandler O'Neill & Partners, L.P. ("Partnership") as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Partnership's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of the Partnership's internal control.

N.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Partnership including consideration of control activities for safeguarding securities. This study included tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Partnership does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Partnership in any of the following:

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(A)

C

1. Making quarterly securities examinations, counts, verifications, and comparisons and the recordation of differences required by Rule 17a-13.
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.



The management of the Partnership is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Partnership has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related



regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Partnership's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2008 to meet the SEC's objectives.

This report is intended solely for the information and use of management, the SEC, the Financial Industry Regulatory Authority and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountants

*BDO Seidman, LLP*

New York, New York

February 20, 2009