

STERLING FINANCIAL CORP /WA/  
Form 10-Q  
May 03, 2010  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
FOR THE QUARTERLY PERIOD ENDED March 31, 2010

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. 0-20800

**STERLING FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

Washington  
(State or other jurisdiction of  
incorporation or organization)

111 North Wall Street, Spokane, Washington 99201

(Address of principal executive offices) (Zip Code)

(509) 458-3711

(Registrant's telephone number, including area code)

91-1572822  
(I.R.S. Employer

Identification No.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Edgar Filing: STERLING FINANCIAL CORP /WA/ - Form 10-Q

Yes  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 (§232.405 of this chapter) 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  Non-accelerated filer  Smaller reporting company   
(Do not check if a 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

<u>Class</u>	<u>Outstanding as of April 27, 2010</u>
Common Stock (\$1.00 par value)	52,178,573

**Table of Contents**

**STERLING FINANCIAL CORPORATION**

**FORM 10-Q**

**For the Quarter Ended March 31, 2010**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I - Financial Information</u></b>	<b>1</b>
Item 1 <u>Financial Statements (Unaudited)</u>	1
<u>Consolidated Balance Sheets</u>	1
<u>Consolidated Statements of Income</u>	2
<u>Consolidated Statements of Cash Flows</u>	3
<u>Consolidated Statements of Comprehensive Income</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	46
Item 4 <u>Controls and Procedures</u>	46
<b><u>PART II - Other Information</u></b>	<b>47</b>
Item 1 <u>Legal Proceedings</u>	47
Item 1a <u>Risk Factors</u>	47
Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	52
Item 3 <u>Defaults Upon Senior Securities</u>	52
Item 4 <u>(Reserved)</u>	52
Item 5 <u>Other Information</u>	52
Item 6 <u>Exhibits</u>	52
<u>Signatures</u>	53

**Table of Contents****PART I Financial Information****Item 1 Financial Statements****STERLING FINANCIAL CORPORATION****Consolidated Balance Sheets****(Unaudited)**

	March 31, 2010	December 31, 2009
	(Dollars in thousands)	
<b>ASSETS:</b>		
Cash and cash equivalents:		
Interest bearing	\$ 909,102	\$ 424,008
Non-interest bearing	146,566	140,775
<b>Total cash and cash equivalents</b>	<b>1,055,668</b>	<b>564,783</b>
Restricted cash	14,050	8,223
Investment securities and mortgage-backed securities ( MBS ):		
Available for sale	1,969,609	2,160,325
Held to maturity	16,788	17,646
Loans receivable, net	6,745,370	7,344,199
Loans held for sale (at fair value: \$152,065 and \$189,185)	153,342	190,412
Accrued interest receivable	39,084	43,869
Other real estate owned, net ( OREO )	103,973	83,272
Office properties and equipment, net	89,281	92,037
Bank-owned life insurance ( BOLI )	164,235	164,743
Core deposit intangibles	20,603	21,827
Mortgage servicing rights, net	12,813	12,062
Prepaid expenses and other assets, net	169,751	174,025
<b>Total assets</b>	<b>\$ 10,554,567</b>	<b>\$ 10,877,423</b>
<b>LIABILITIES:</b>		
Deposits	\$ 7,625,139	\$ 7,775,190
Advances from Federal Home Loan Bank ( FHLB )	1,267,026	1,337,167
Securities sold subject to repurchase agreements and funds purchased	1,025,385	1,049,146
Other borrowings	248,282	248,281
Cashiers checks issued and payable	5,324	6,443
Borrowers reserves for taxes and insurance	2,768	2,283
Accrued interest payable	18,689	22,245
Accrued expenses and other liabilities	116,493	113,419
<b>Total liabilities</b>	<b>10,309,106</b>	<b>10,554,174</b>
<b>SHAREHOLDERS EQUITY:</b>		
Preferred stock, \$1 par value; \$1,000 stated value; 10,000,000 shares authorized; 303,000 shares issued and outstanding	294,665	294,136
Common stock, \$1 par value; 750,000,000 shares authorized; 52,176,282 and 52,211,090 shares issued and outstanding	52,176	52,211

Edgar Filing: STERLING FINANCIAL CORP /WA/ - Form 10-Q

Additional paid-in capital	910,997	910,663
Accumulated other comprehensive loss:		
Unrealized gains on investment securities and MBS available-for-sale, net of deferred income taxes of (\$15,504) and (\$9,518)	26,425	16,284
Accumulated deficit	(1,038,802)	(950,045)
<b>Total shareholders' equity</b>	<b>245,461</b>	<b>323,249</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 10,554,567</b>	<b>\$ 10,877,423</b>

See notes to consolidated financial statements.

**Table of Contents****STERLING FINANCIAL CORPORATION****Consolidated Statements of Income (Loss)****(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(Dollars in thousands, except per share data)</b>	
<b>Interest income:</b>		
Loans	\$ 96,976	\$ 126,923
MBS	19,826	29,880
Investments and cash equivalents	2,690	3,328
<b>Total interest income</b>	<b>119,492</b>	<b>160,131</b>
<b>Interest expense:</b>		
Deposits	27,451	48,314
Short-term borrowings	2,111	4,651
Long-term borrowings	15,040	18,818
<b>Total interest expense</b>	<b>44,602</b>	<b>71,783</b>
<b>Net interest income</b>	<b>74,890</b>	<b>88,348</b>
Provision for credit losses	(88,556)	(65,865)
<b>Net interest income (expense) after provision for credit losses</b>	<b>(13,666)</b>	<b>22,483</b>
<b>Non-interest income:</b>		
Fees and service charges	13,035	13,840
Mortgage banking operations	11,232	13,308
Loan servicing fees	1,146	(467)
BOLI	2,295	1,406
Gains on sales of securities	1,911	10,565
Other	(4,322)	(2,026)
<b>Total non-interest income</b>	<b>25,297</b>	<b>36,626</b>
<b>Non-interest expenses</b>	<b>95,977</b>	<b>79,988</b>
<b>Loss before income taxes</b>	<b>(84,346)</b>	<b>(20,879)</b>
Income tax benefit	0	436
<b>Net loss</b>	<b>(84,346)</b>	<b>(20,443)</b>
Preferred stock dividend	(4,412)	(4,347)
<b>Net loss available to common shareholders</b>	<b>\$ (88,758)</b>	<b>\$ (24,790)</b>
<b>Earnings (loss) per share - basic</b>	<b>\$ (1.71)</b>	<b>\$ (0.48)</b>
<b>Earnings (loss) per share - diluted</b>	<b>\$ (1.71)</b>	<b>\$ (0.48)</b>

Edgar Filing: STERLING FINANCIAL CORP /WA/ - Form 10-Q

Weighted average shares outstanding - basic	51,980,024	51,896,149
Weighted average shares outstanding - diluted	51,980,024	51,896,149

See notes to consolidated financial statements.

**Table of Contents****STERLING FINANCIAL CORPORATION****Consolidated Statements of Cash Flows****(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(Dollars in thousands)</b>	
<b>Cash flows from operating activities:</b>		
Net loss	\$ (84,346)	\$ (20,443)
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Provision for credit losses and OREO	95,219	69,776
Accretion of deferred gain on sale of branches	(67)	(201)
Net gain on sales of loans, investments and MBS	(13,487)	(22,712)
Stock based compensation	294	497
Excess tax benefit from stock based compensation	0	40
Stock issuances relating to direct stock purchase	5	9
Loss at foreclosure and gain on sale of OREO	13,152	8,976
Other losses	415	1,699
Increase in cash surrender value of BOLI	(2,295)	(1,542)
Depreciation and amortization	8,744	6,756
<b>Change in:</b>		
Accrued interest receivable	4,785	2,973
Prepaid expenses and other assets	4	33,157
Cashiers checks issued and payable	(1,119)	(4,302)
Accrued interest payable	(3,556)	(2,531)
Accrued expenses and other liabilities	(741)	9,440
Proceeds from sales of loans originated for sale	695,258	572,574
Loans originated for sale	(676,879)	(559,883)
<b>Net cash provided by operating activities</b>	<b>35,386</b>	<b>94,283</b>
<b>Cash flows from investing activities:</b>		
Change in restricted cash	(5,827)	161
Loans funded and purchased	(51,248)	(694,437)
Loan principal received	515,780	657,125
Proceeds from sales of other loans	6,425	0
Purchase of investment securities	(1,750)	(231,594)
Proceeds from maturities of investment securities	2,972	137,323
Proceeds from sale of investment securities	7,728	78,851
Proceeds from sale - MBS	44,579	108,131
Purchase of MBS	(18,047)	(327,874)
Principal payments on MBS	170,041	156,165
Purchase of office properties and equipment	(848)	(3,681)
Sales of office properties and equipment	0	7
Improvements and other changes to OREO		