

STERLING FINANCIAL CORP /WA/  
Form 10-Q  
August 07, 2012  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended JUNE 30, 2012

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.....001-34696

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STERLING FINANCIAL CORPORATION  
(Exact name of registrant as specified in its charter)

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Washington 91-1572822  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
111 North Wall Street, Spokane, Washington 99201  
(Address of principal executive offices) (Zip Code)  
(509) 358-8097  
(Registrant’s telephone number, including area code)

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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. 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  (Do not check if a smaller reporting company) 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:

Class	Outstanding as of July 31, 2012
Common Stock	62,127,106



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STERLING FINANCIAL CORPORATION  
CONSOLIDATED BALANCE SHEETS (UNAUDITED)  
(in thousands, except shares)

	June 30, 2012	December 31, 2011
<b>ASSETS:</b>		
Cash and cash equivalents:		
Interest bearing	\$ 320,860	\$ 382,330
Noninterest bearing	95,772	88,269
Total cash and cash equivalents	416,632	470,599
Restricted cash	38,060	20,629
Investments and mortgage-backed securities ("MBS"):		
Available for sale	2,119,008	2,547,876
Held to maturity	1,726	1,747
Loans held for sale (at fair value: \$199,879 and \$223,638)	226,907	273,957
Loans receivable, net	5,926,575	5,341,179
Accrued interest receivable	31,306	32,826
Other real estate owned, net ("OREO")	55,801	81,910
Properties and equipment, net	86,556	84,015
Bank-owned life insurance ("BOLI")	176,593	174,512
Goodwill	22,577	0
Other intangible assets, net	22,656	12,078
Mortgage servicing rights, net	26,516	23,102
Deferred tax asset, net	285,141	0
Other assets, net	163,459	128,807
Total assets	\$9,599,513	\$9,193,237
<b>LIABILITIES:</b>		
Deposits:		
Noninterest bearing	\$ 1,539,786	\$ 1,211,628
Interest bearing	5,256,988	5,274,190
Total deposits	6,796,774	6,485,818
Advances from Federal Home Loan Bank ("FHLB")	205,470	405,609
Securities sold under repurchase agreements and funds purchased	1,006,324	1,055,763
Junior subordinated debentures	245,292	245,290
Accrued interest payable	5,981	22,575
Accrued expenses and other liabilities	118,878	99,625
Total liabilities	8,378,719	8,314,680
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, 10,000,000 shares authorized; no shares outstanding	0	0
Common stock, 151,515,151 shares authorized; 62,124,551 and 62,057,645 shares outstanding, respectively	1,966,307	1,964,234
Accumulated other comprehensive income	67,102	61,115
Accumulated deficit	(812,615)	(1,146,792)
Total shareholders' equity	1,220,794	878,557
Total liabilities and shareholders' equity	\$9,599,513	\$9,193,237

See notes to consolidated financial statements.



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STERLING FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)  
(in thousands, except share amounts)

	Three Months Ended		Six Months Ended		
	June 30,		June 30,		
	2012	2011	2012	2011	
Interest income:					
Loans	\$85,537	\$79,735	\$165,378	\$160,122	
MBS	12,936	19,928	28,271	39,962	
Investments and cash equivalents	2,517	2,684	5,306	5,500	
Total interest income	100,990	102,347	198,955	205,584	
Interest expense:					
Deposits	9,921	15,216	21,023	32,510	
Short-term borrowings	1,825	111	4,031	190	
Long-term borrowings	10,334	12,213	20,638	24,334	
Total interest expense	22,080	27,540	45,692	57,034	
Net interest income	78,910	74,807	153,263	148,550	
Provision for credit losses	4,000	10,000	8,000	20,000	
Net interest income after provision for credit losses	74,910	64,807	145,263	128,550	
Noninterest income:					
Fees and service charges	14,131	12,946	26,871	25,507	
Mortgage banking operations	24,652	10,794	40,816	21,121	
Loan servicing fees	(471	) 709	1,909	1,810	
BOLI	3,769	1,578	5,515	3,310	
Gains on sales of securities	9,321	8,297	9,463	14,298	
Other-than-temporary impairment credit losses on securities (1)	(6,819	) 0	(6,819	) 0	
Charge on prepayment of debt	(2,664	) 0	(2,664	) 0	
Gains (losses) on other loan sales	2,811	471	3,411	(879	)
Other	11	(460	) (2,174	) (850	)
Total noninterest income	44,741	34,335	76,328	64,317	
Noninterest expense	87,607	91,587	176,256	179,895	
Income before income taxes	32,044	7,555	45,335	12,972	
Income tax benefit	288,842	0	288,842	0	
Net income	\$320,886	\$7,555	\$334,177	\$12,972	
Earnings per share - basic	\$5.17	\$0.12	\$5.38	\$0.21	
Earnings per share - diluted	\$5.13	\$0.12	\$5.33	\$0.21	
Weighted average shares outstanding - basic	62,112,936	61,943,851	62,095,670	61,937,353	
Weighted average shares outstanding - diluted	62,610,054	62,312,224	62,648,152	62,320,028	

(1) The other-than-temporary impairment recognized in earnings during the second quarter of 2012 did not have a portion recognized in accumulated other comprehensive income. See Note 3.

See notes to consolidated financial statements.

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STERLING FINANCIAL CORPORATION  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)  
 (in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	\$320,886	\$7,555	\$334,177	\$12,972
Other comprehensive income (loss):				
Change in unrealized gains on investments and MBS available for sale	7,714	36,651	12,312	38,594
Realized net gains reclassified from other comprehensive income	(2,502	) (8,297	) (2,644	) (14,298
Less deferred income tax provision	(3,681	) (3,826	) (3,681	) (2,384
Net other comprehensive income (loss)	1,531	24,528	5,987	21,912
Comprehensive income	\$322,417	\$32,083	\$340,164	\$34,884

See notes to consolidated financial statements.

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STERLING FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
(in thousands)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$334,177	\$12,972
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	8,000	20,000
Net gain on sales of loans	(42,969	) (13,434
Net gain on sales of investments and MBS	(9,463	) (14,298
Net gain on mortgage servicing rights	(1,143	) (5,115
Other-than-temporary impairment on securities	6,819	0
Stock based compensation	1,837	1,959
(Gain) loss on OREO	(1,605	) 10,564
Release of DTA valuation allowance	(288,842	) 0
Increase in cash surrender value of BOLI	(5,390	) (3,310
Depreciation and amortization	22,192	19,122
Change in:		
Accrued interest receivable	5,050	2,069
Prepaid expenses and other assets	(32,479	) 1,742
Accrued interest payable	(16,728	) 2,801
Accrued expenses and other liabilities	7,276	(10,257
Proceeds from sales of loans originated for sale	1,205,473	871,842
Loans originated for sale	(1,158,269	) (828,385
Net cash provided by operating activities	33,936	68,272
Cash flows from investing activities:		
Change in restricted cash	(17,431	) 249
Net change in loans	(243,657	) (169,304
Proceeds from sales of loans	20,515	31,899
Purchase of investment securities	(2,534	) (2,000
Proceeds from maturities of investment securities	17,505	294
Proceeds from sale of investment securities	179,235	30,987
Purchase of MBS	(72,032	) (242,841
Principal payments received on MBS	314,414	229,210
Proceeds from sales of MBS	183,636	353,444
Office properties and equipment, net	(4,647	) (9,595
Improvements and other changes to OREO	(1,250	) (5,061
Proceeds from sales of OREO	51,515	155,566
Net change in cash and cash equivalents fr		