

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

Current report filing

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FILER

STERLING FINANCIAL CORP /WA/

CIK: **891106** | IRS No.: **911572822** | State of Incorporation: **WA** | Fiscal Year End: **1231**

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SIC: **6036** Savings institutions, not federally chartered

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

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): November 6, 2011

STERLING FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Washington

(State or other jurisdiction of
Incorporation or organization)

001-34696

(Commission File Number)

91-1572822

(I.R.S. Employer
Identification No.)

111 North Wall Street, Spokane, Washington 99201

(Address of principal executive offices) (Zip Code)

(509) 458-3711

(Registrant's telephone number, including area code)

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

INFORMATION TO BE INCLUDED IN THE REPORT

Item 8.01. Other Events

On November 7, 2011, Sterling Financial Corporation ("Sterling") announced that its wholly-owned subsidiary, Sterling Savings Bank (the "Bank"), entered into a Purchase and Assumption Agreement, dated as of November 6, 2011 (the "Agreement"), with First Independent Investment Group, Inc. (the "Company") and its wholly-owned subsidiary, First Independent Bank ("FIB" and, together with FIB's wholly-owned subsidiaries, the "Seller"). The Agreement provides for the purchase of specific assets and operations of Seller, including certain of FIB's loans, owned real property and real property leases and FIB's wealth management business, by the Bank and the assumption of specific liabilities of Seller, including all of Seller's deposits, by the Bank (the "P&A Transaction"). The overall consideration will consist of an initial payment at the closing of the P&A Transaction (the "Closing"), with the balance of the potential overall consideration to be paid 12 months and 18 months from the Closing.

The initial payment at Closing will consist of the sum of (i) a cash payment of \$8.0 million, (ii) the aggregate book value of FIB's loans, less FIB's allowance for loan losses, (iii) the face amount of FIB's cash on hand, (iv) the aggregate market value of FIB's investment securities and (v) the aggregate net book value of certain other FIB assets, which aggregate amount shall be reduced by the aggregate balance of FIB's deposits, borrowings and accrued liabilities assumed (the "Initial Purchase Price").

In addition to payment of the Initial Purchase Price, at the Closing, the Bank is required to deposit an aggregate of \$17.0 million into an escrow account, which funds shall be available to provide for (i) an initial potential payment of up to \$7.0 million (the "First Contingent Premium Payment") as of a date 12 months following the Closing and (ii) a final potential payment of up to \$10.0 million (the "Final Contingent Premium Payment") as of a date 18 months following the Closing. The amount of the First Contingent Premium Payment is dependent on the achievement of certain metrics that relate to the performance of (i) FIB's loans which are acquired by the Bank, (ii) the retention of FIB's deposits assumed by the Bank and (iii) the gross income earned on FIB's wealth management accounts acquired by the Bank. The amount of the Final Contingent Premium Payment is dependent on the achievement of certain metrics that relate solely to the performance of FIB's loans acquired. The obligation to make any First Contingent Premium Payment or any Final Contingent Premium Payment is subject to the prior satisfaction in full of any indemnification obligations of the Company and the Seller that are owed to the Bank.

Completion of the proposed P&A Transaction is subject to the receipt of all requisite approvals from the Federal Deposit Insurance Corporation and the Washington Department of Financial Institutions. The P&A Transaction is expected to close during the first quarter of 2012, subject to the receipt of all necessary regulatory approvals and the satisfaction of certain other closing conditions.

The full text of a press release announcing the execution of the Agreement issued on November 7, 2011 is attached as Exhibit 99.1 to this Current Report on Form 8-K. Sterling is also furnishing the slide presentation that it intends to present to certain investors beginning on November 7, 2011. The slides are included as Exhibit 99.2 to this report. The information in Exhibits 99.1 and 99.2 shall not be deemed to be "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Item 9.01. Financial Statements and Exhibits.

(d) The following exhibits are being furnished herewith:

<u>Exhibit No.</u>	<u>Exhibit Description</u>
99.1	Press release of Sterling Financial Corporation dated November 7, 2011.
99.2	Slide presentation of Sterling Financial Corporation dated November 7, 2011.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STERLING FINANCIAL CORPORATION

(Registrant)

November 7, 2011

Date

By: /s/ Patrick J. Rusnak

Patrick J. Rusnak

Chief Financial Officer

EXHIBIT INDEX

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**Sterling Financial Corporation and First Independent Investment Group Announce Agreement for Sterling
Subsidiary to Acquire the Banking Operations of First Independent Bank**
Expands and accelerates Sterling's growth strategy in Portland/Vancouver
Adds strong deposit franchise and customer relationships
Enhances wealth management and adds trust operations

SPOKANE, Wash.--(BUSINESS WIRE)--November 7, 2011--Sterling Financial Corporation (NASDAQ:STSA) (the "Company") and First Independent Investment Group ("FIIG") today announced that the Company's subsidiary, Sterling Savings Bank ("Sterling"), has entered into a purchase and assumption agreement with FIIG's wholly-owned subsidiary, First Independent Bank ("First Independent"), to acquire certain assets and liabilities, including all deposits, and the banking operations of First Independent. The transaction, which has been approved by the boards of directors of Sterling, FIIG and First Independent and the shareholders of FIIG and First Independent, will accelerate Sterling's growth strategy and extend its presence in the Portland/Vancouver market.

Under the terms of the agreement, Sterling will initially pay a premium of \$8 million in addition to the net value of the acquired assets and assumed liabilities at the time of closing. Sterling has agreed to pay First Independent an additional premium of up to \$17 million over an 18-month period following closing based on the credit performance of the acquired loans and the amount of any reductions in core deposits and wealth management income. First Independent will retain approximately \$49 million of existing loans and \$34 million of other assets identified by Sterling, which Sterling did not seek to acquire. Sterling will assume all of First Independent's deposits and certain customary obligations relating to its banking business, but no other material liabilities in the transaction.

Greg Seibly, President and Chief Executive Officer of Sterling Financial Corporation said, “We are pleased to welcome First Independent employees and clients into the Sterling family. First Independent is an important strategic addition for Sterling, which is one of the leading community banks in the Pacific Northwest. First Independent provides an attractive opportunity to acquire a healthy community bank franchise within our identified strategic growth footprint along the I-5 corridor.”

Jeanne Firstenburg, President and Chief Operating Officer of First Independent said, “We made the difficult decision to sell First Independent because we believe it is the best way to ensure Southwest Washington has a community-focused bank. While the Firstenburg family has invested significantly in the bank, additional outside capital is essential to create a franchise capable of competing in the marketplace. After exploring various options, the family chose to offer First Independent to Sterling, a well-capitalized, Washington-based organization that understands community banking. Sterling also has a proven record of supporting its communities through corporate sponsorships, contributions and volunteerism - all things very dear to the Firstenburg family and First Independent. We are confident that our clients, employees and communities will be in good hands.”

Seibly added, “First Independent’s low-cost core deposit funding base, along with its high quality loan portfolio and top-notch community banking and wealth management teams is attractive to us as we advance within key markets. The transaction is financially compelling and moves Sterling to the next stage of the growth strategy that began with our 2010 recapitalization.”

With the acquisition of First Independent’s fully-integrated wealth management services, including trust and asset management, Sterling will now add trust services to its product offering. “We expect these product enhancements will not only be a source of additional non-interest revenue, but also provide significant benefits with both customer acquisition and retention,” said Seibly.

This acquisition will add to Sterling's existing franchise approximately \$691 million in principally core deposits, \$455 million of assets under management from First Independent's wealth and trust businesses and 14 branches in Washington's Clark and Skamania counties and two offices in Portland, Ore. The transaction is expected to be completed in early 2012, and is subject to regulatory approval and other customary closing conditions.

The Company expects the transaction to be accretive to EPS in 2012.

Sterling was advised by the investment banking firm of Barclays Capital and the law firm of Patton Boggs LLP. First Independent Bank was advised by the investment banking firm of Sandler O'Neill & Partners and the law firm of Lane Powell PC.

Conference Call

The Company will be hosting an investor conference call to discuss the transaction on Monday, November 7, 2011 at 9 a.m. PST. The conference call will be hosted by the Sterling management team. To participate in the conference call, domestic callers should dial 1-630-395-0228 approximately five minutes before the scheduled start time. You will be asked by the operator to identify yourself and provide the password "STERLING" to enter the call. An investor presentation related to the acquisition will be available at the Company's website (www.sterlingfinancialcorporation-spokane.com) prior to the conference call.

Forward-Looking Statements

Certain statements in this press release, including, without limitation, statements as to the impact of the purchase and assumption transaction, statements as to the Company's or Sterling's management beliefs, expectations or opinions, and all other statements in this press release, other than historical facts, are "forward-looking statements" and are intended to be covered by the safe harbor provided by the Private Securities Litigation Reform Act of 1995. When used in this release, the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions are generally intended to identify forward-looking statements. Actual results may differ materially from the results discussed in these forward-looking statements because such statements are inherently subject to significant assumptions, risks and uncertainties, many of which are difficult to predict and are generally beyond the Company's control. These risks and uncertainties include, but are not limited to, the ability of Sterling and First Independent to complete the proposed purchase and assumption transaction on the terms summarized above or other acceptable terms, or at all, due to a number of factors, including the receipt of required regulatory approvals or the satisfaction of other customary closing conditions. Other factors that could cause actual conditions, events or results to differ significantly from those described in the forward-looking statements may be found under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K, as updated periodically in the Company's periodic filings with the Securities and Exchange Commission, which are available online at www.sec.gov. The Company disclaims any intent or obligation to publicly update or revise any forward-looking statements, regardless of whether new information becomes available, future developments occur or otherwise.

About Sterling Financial

Sterling Financial Corporation of Spokane, Wash., is the bank holding company for Sterling Savings Bank, a state chartered and federally insured commercial bank. Sterling offers banking products and services, mortgage lending, and investment products to individuals, small businesses, commercial organizations and corporations. As of September 30, 2011, the Company had assets of \$9.18 billion and operated 178 depository branches throughout Washington, Oregon, Idaho, Montana and California. Visit the Company's website at www.sterlingfinancialcorporation-spokane.com.

About First Independent Bank

First Independent Investment Group of Vancouver, Wash., is the bank holding company for First Independent Bank, a state chartered and federally insured commercial bank. In 2010, the Bank celebrated its 100-year anniversary. First Independent serves SW Washington and Portland residents and businesses from 14 branches and offices in the region and through a variety of online and mobile banking services. As of September 30, 2011, First Independent had assets of \$792 million. Information about First Independent is available at www.firstindy.com, or <http://blog.firstindy.com>.

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cara.coon@sterlingsavings.com

or

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Stacey Graham, 360-619-4484 or 503-805-6758

stacey.graham@firstindy.com

or

Investor contact

Patrick Rusnak, 509-227-0961

Daniel Byrne, 509-458-3711

STERLING

Financial Corporation

Ticker: STSA
Spokane, Washington

www.sterlingfinancialcorporation-spokane.com

Acquisition of Selected Assets and Operations and Assumption of Deposits of First Independent Bank

November 7, 2011

Safe Harbor

In the course of our presentation, we may discuss matters that are deemed to be forward-looking statements, which are intended to be covered by the safe harbor for "forward-looking statements" provided by the Private Securities Litigation Reform Act of 1995 (the "Reform Act")⁽¹⁾. Forward-looking statements involve substantial risks and uncertainties, many of which are difficult to predict and are generally beyond our control. Actual results may differ materially and adversely from projected results. We assume no obligation to update any forward-looking statements (including any projections) to reflect any changes or events occurring after the date hereof. Additional information about risks of achieving results suggested by any forward-looking statements may be found in Sterling's 10-K, 10-Q and other SEC filings, including under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

This presentation contains certain non-GAAP financial measures.

(1) The Reform Act defines the term "forward-looking statements" to include: statements of management plans and objectives, statements regarding the future economic performance, and projections of revenues and other financial data, among others. The Reform Act precludes liability for oral or written forward-looking statements if the statement is identified as such and accompanied by "meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those made in the forward-looking statements."

Strategically Compelling, Low Risk and Financially Attractive Transaction

- ❑ Improves Sterling's deposit market share in the Portland-Vancouver MSA to #7 from #12 (largest market in Oregon)
- ❑ Relatively low risk transaction
 - Seller retaining non-strategic assets (selected loans and other assets)
 - In-market transaction with achievable synergies
 - Retention of key executives
- ❑ Enhances Sterling's business mix
 - Transaction and Money Market Demand accounts represent 76% of total
 - Addition of wealth management, trust and brokerage services
 - Adds business lending teams in Portland-Vancouver MSA
- ❑ Improves Sterling's overall asset quality and deposit costs
- ❑ Attractive pricing (1.2% deposit premium) and returns (accretive to earnings in first full year post-closing⁽¹⁾)
- ❑ Transaction size and structure provides Sterling the flexibility to pursue potential future acquisitions

⁽¹⁾ Excluding one-time restructuring charges.

Transaction Highlights and Summary

Transaction Structure

- ❑ Sterling Savings Bank to purchase only selected assets and operations and assume deposits of First Independent Bank
 - Seller retaining certain loans (some are impaired), other assets and non-deposit liabilities
- ❑ Purchase and assumption transaction structure limits credit risk and preserves Sterling's DTA

Transaction Terms

- ❑ Sterling Savings Bank to pay \$8 million cash premium to net asset value at close
- ❑ Additional earnout of up to \$17 million paid over 18 months based on credit and other performance metrics
 - Earnout is incrementally value accretive to Sterling
- ❑ Due diligence completed
- ❑ Regulatory approval required – FDIC and Washington DFI
- ❑ No additional approvals required from Sterling or First Independent shareholders
- ❑ Anticipated closing in early 2012

First Independent Bank Overview



- ❑ Founded in 1910 and headquartered in Vancouver, Washington
- ❑ Largest family-owned, locally managed community bank in Portland-Vancouver area
 - 9th largest bank by deposits in Portland-Vancouver MSA
- ❑ Majority of deposit customers have been with bank more than 10 years
- ❑ Attractive wealth management, trust and brokerage businesses
 - AUM of \$455mm as of September 30, 2011
- ❑ Operates in Portland-Vancouver area with 14 branches
- ❑ Total Assets: \$792 million
- ❑ Total Net Loans: \$459mm
- ❑ Total Deposits: \$691mm (87% core deposits)
 - Cost of interest-bearing deposits of 0.41%

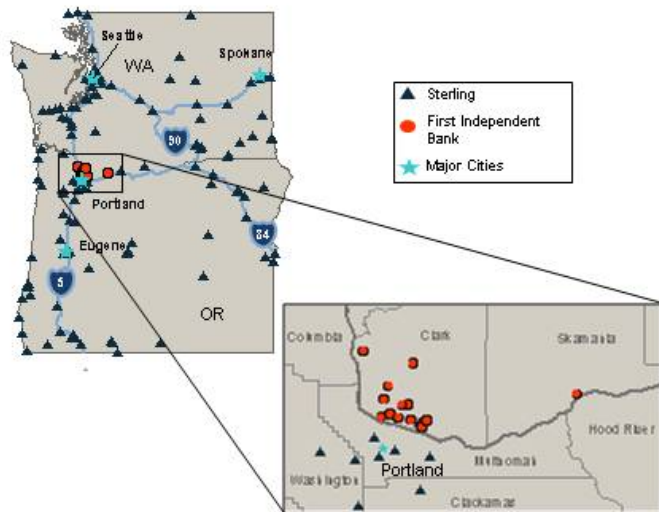
Note: Financial data is for the quarter ended September 30, 2011

First Independent Deposit Franchise

Improves Sterling's deposit market share to a top 10 position in the Portland-Vancouver market – demographically attractive MSA along I-5 corridor

Pro Forma Branch Map

(\$ in millions)	Sterling	First Independent	Sterling Pro Forma
Branches	176	14	190
Total Deposits per Branch	\$37.1	\$49.6	\$38.0



Deposit Market Share: Portland-Vancouver MSA

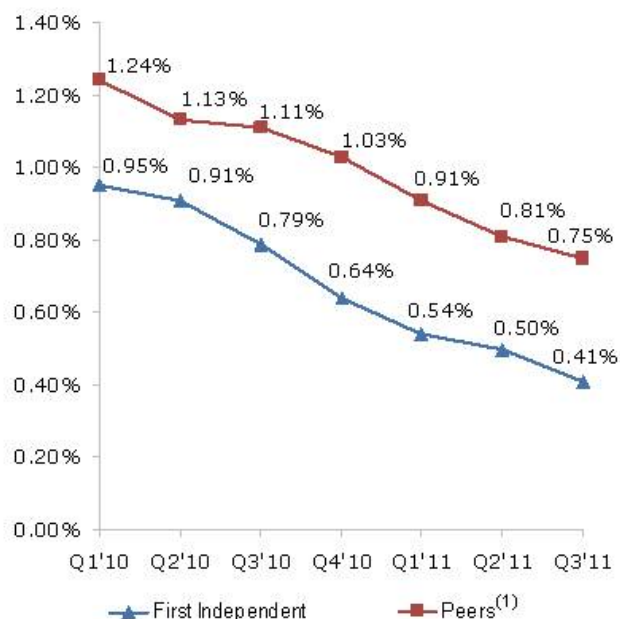
Rank	Institution	Deposits (\$ in millions)	Deposit Market Share %
1	Bank of America	\$8,552	23.2
2	U.S. Bancorp	7,589	20.6
3	Wells Fargo	6,241	16.9
4	JPMorgan Chase	3,105	8.4
5	KeyCorp	2,488	6.7
6	Umpqua	1,617	4.4
PF 7	Sterling Pro Forma	1,102	3.0
7	BNP Paribas / BancWest	912	2.5
8	West Coast Bancorp	842	2.3
9	First Independent Bank	695	1.9
10	Riverview Bancorp	619	1.7
11	Washington Federal	441	1.2
12	Sterling	407	1.1
13	HomeStreet	300	0.8
14	First Federal S&LA of McMinnville	285	0.8
15	Banner	266	0.7

Source: SNL Financial. Deposit market share data as of June 30, 2011. Market demographics data as of June 30, 2010.

First Independent Deposit Composition

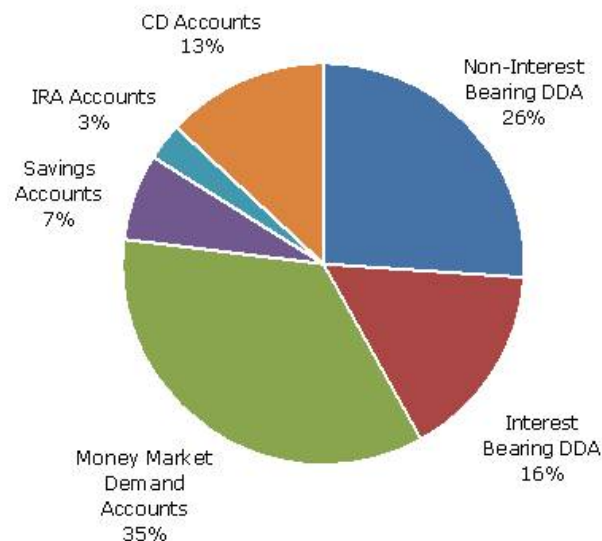
First Independent's low cost, high quality deposit base improves Sterling's existing funding profile

Cost of Interest-Bearing Deposits



Deposit Composition

Balance of \$691mm as of September 30, 2011



Source: SNL Financial.

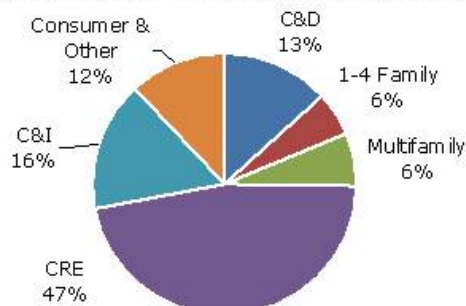
(1) Peers defined as banks in Washington and Oregon with asset size greater than \$500 million and less than \$5 billion.

Relatively Clean Acquired Loan Portfolio

By removing certain impaired loans, Sterling is acquiring a clean loan portfolio

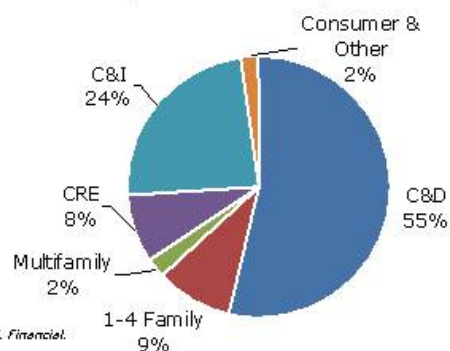
Loan Portfolio Composition

Gross Balance of \$474mm as of September 30, 2011



Composition of Loans Being Retained by Seller

Balance of \$49mm as of September 30, 2011



Source: SNL Financial

- ❑ \$49mm of loans will be retained by seller
 - Impaired loans
 - Overlapping and related credit exposure
- ❑ Estimated gross credit mark of 9.5% or \$40mm on remaining \$425mm of gross loans
 - Net credit mark of 6.1% or \$26mm
- ❑ Additionally, \$18mm of other assets (headquarters, branch properties, BOLI, etc.) being retained by seller

Low Risk Transaction with Integration Plan in Place

- ❑ In footprint transaction
- ❑ Compatible community bank culture
- ❑ Retention of key First Independent executives
- ❑ Extensive due diligence process completed
 - Leveraged local market insight into customers and competitors
 - Experienced credit workout group reviewed 70% of loan portfolio
 - In-depth examination of loan and investment portfolio, deposit composition, branch locations and wealth management business
- ❑ Readily achievable synergies (~26% cost savings)
- ❑ Sterling Savings Bank has past experience with acquisition integration
- ❑ Plan to convert systems and operational platform to Sterling standards by the end of Q2 2012

Financially Attractive Transaction

- Consideration:**
- ❑ Sterling Savings Bank to pay \$8.0 million cash premium to net asset value
 - Using on balance sheet cash from Sterling Savings Bank
 - No STSA common stock issuance
 - ❑ Additional earnout of up to \$17.0 million paid over 18 months based on credit and other performance metrics
- Deposit Premium:**
- ❑ 1.2% deposit premium⁽¹⁾
- Accretion:**
- ❑ EPS accretion of 4-6% in first full year post-closing
- Synergies:**
- ❑ \$8.2mm (pre-tax) run-rate cost synergies (~26% of First Independent's annualized noninterest expense base)
- Pro Forma Capital:**
- ❑ Holding company pro forma Tier 1 leverage in excess of 10.0%
- Restructuring Charge:**
- ❑ Pre-tax restructuring charge of \$7.8mm

⁽¹⁾ Deposit premium of 3.5% if the entire earnout is paid out.

Pro Forma Franchise

(\$ in millions)

Financial Highlights	Sterling Financial	First Independent	Pro Forma
Assets	\$9,176	\$710 ⁽¹⁾	\$9,886
Gross Loans	5,615	425 ⁽¹⁾	6,039
Deposits	6,479	691	7,170
Branches	176	14	190
NPAs / Assets	4.74%	-	~4.40%
Tier 1 Leverage	11.1%	12.0%	~10.0%

- ❑ Seller retaining \$49mm in impaired and / or non-strategic loans, and \$18mm in other assets (headquarters, branch properties, BOLI, etc.)
- ❑ Additional credit mark on acquired loan portfolio further minimizes potential credit issues

Note: Financial data is for the quarter ended September 30, 2011.

(1) Asset and loan figures adjusted for non-strategic assets being retained by seller. Does not reflect purchase accounting adjustments.

Key Takeaways

- ❑ Improves Sterling's deposit market share in the Portland-Vancouver MSA
- ❑ Lower risk transaction
 - Seller retaining non-strategic assets
 - In-market transaction with achievable synergies
 - Retention of key executives
- ❑ Enhances Sterling's business mix
 - Positive transaction account composition
 - Addition of wealth management, trust and brokerage services
 - Addition of business lending teams
 - Provides platform for further development in a key strategic market
- ❑ Attractive deposit franchise with low cost deposit base and high quality loans
- ❑ Financially attractive returns
- ❑ Transaction size and structure provides Sterling the flexibility to pursue potential future acquisitions

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Ticker: STSA
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