

STERLING FINANCIAL CORP /WA/

Form S-4/A

January 10, 2007

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As filed with the Securities and Exchange Commission on January 10, 2007.

Registration No. 333-139222

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Amendment No. 1  
to**

**Form S-4  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

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

**WASHINGTON**  
*(State or other jurisdiction of  
incorporation or organization)*

**6719**  
*(Primary Standard Industrial  
Classification Code Number)*

**91-1572822**  
*(I.R.S. Employer  
Identification No.)*

**111 North Wall Street  
Spokane, Washington 99201  
(509) 227-5389**  
*(Address, including zip code, and telephone number,  
including area code, of registrant's principal executive offices)*

**Andrew J. Schultheis, Secretary  
Sterling Financial Corporation  
111 North Wall Street  
Spokane, Washington 99201  
(509) 227-5389**  
*(Name, address, including zip code, and telephone number,  
including area code, of agent for service)*

***Copies of communications to:***

**Andrew J. Schultheis, Esq.  
Richard A. Repp, Esq.  
Witherspoon, Kelley, Davenport & Toole, P.S.  
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**Lyman Lea, Esq.  
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Haines & Lea  
465 California Street, Suite 200  
San Francisco, California 94014  
(415) 981-1050**

**Approximate date of commencement of the proposed sale of the securities to the public:** As soon as practicable after the effective date of this Registration Statement and upon consummation of the transactions described herein.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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**Sterling Financial Corporation**

**Northern Empire Bancshares**

**To the Shareholders of Sterling Financial Corporation and Northern Empire Bancshares:**

The boards of directors of Sterling Financial Corporation ( Sterling ) and Northern Empire Bancshares ( Northern Empire ) have unanimously approved an agreement to combine our companies. If the merger is completed, Northern Empire will merge into Sterling, with Sterling being the surviving corporation. Each share of Northern Empire common stock will be converted into 0.8050 shares of Sterling common stock and \$2.71 in cash. The exchange ratio is fixed and will not be adjusted based on changes in the market prices of our common stock prior to closing, except under certain circumstances that are described in the accompanying joint proxy statement/prospectus.

The value of the merger consideration received by Northern Empire shareholders will fluctuate with the market price of Sterling common stock.

Based upon the closing price for Sterling common stock on September 15, 2006 (the last trading day prior to the public announcement of the merger) of \$33.04 per share, the 0.8050 exchange ratio plus the \$2.71 in cash represented approximately \$29.31 in value for each share of Northern Empire common stock.

Based upon the closing price for Sterling common stock on January 8, 2007 of \$33.47 per share, the 0.8050 exchange ratio plus the \$2.71 in cash represented approximately \$29.65 in value for each share of Northern Empire common stock.

We urge you to obtain current market price quotations for Sterling and Northern Empire common stock. Sterling common stock is quoted on the Nasdaq Global Select Market under the symbol STSA. Northern Empire common stock is quoted on the Nasdaq Global Market under the symbol NREB.

We cannot complete the merger unless the shareholders of both Sterling and Northern Empire approve the merger agreement. Each of our companies will hold a special meeting of shareholders to vote on the proposed merger. Your vote is very important. Whether or not you plan to attend your special meeting, please take the time to vote by completing and mailing the enclosed proxy card to us. The date of the Sterling special meeting is February 21, 2007. The date of the Northern Empire special meeting will be February 20, 2007. Notices of both meetings follow this letter. **Please vote as soon as possible to make sure that your shares are represented at the special meeting of either Sterling or Northern Empire, as applicable. If you do not vote, it will have the same effect as voting against the merger agreement.**

**The accompanying joint proxy statement/prospectus gives you important information about the proposed merger and related matters. You should read this entire document carefully, including the section entitled Risk Factors beginning on page 10, before you decide how to vote on the merger and the transactions contemplated by the merger agreement. The accompanying joint proxy statement/prospectus also incorporates important business and financial information and risk factors about Sterling that are not included in or delivered with this document. See the section Where You Can Find More Information on page 82.**

The respective boards of directors of Sterling and Northern Empire have unanimously determined that the terms of the merger agreement and the merger are fair to and in the best interests of their respective shareholders. The financial advisors for Sterling and Northern Empire have each separately determined that the merger consideration is fair from

a financial point of view to the respective shareholders of Sterling and Northern Empire. We enthusiastically join the other members of our boards of directors in recommending that you vote FOR approval of the merger.

/s/ Harold B. Gilkey

/s/ Deborah A. Meekins

Harold B. Gilkey  
Chairman and Chief Executive Officer  
Sterling Financial Corporation

Deborah A. Meekins  
President and Chief Executive Officer  
Northern Empire Bancshares

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the shares to be issued under this proxy statement/prospectus or passed upon the adequacy or accuracy of this proxy statement/prospectus. Any representation to the contrary is a criminal offense.**

**The securities that Sterling is offering through this proxy statement/prospectus are not savings or deposit accounts or other obligations of any bank or nonbank subsidiary of Sterling or Northern Empire, and they are not insured by the Federal Deposit Insurance Corporation, the Deposit Insurance Fund, or any other governmental agency.**

**You should rely only on the information provided or incorporated by reference in this proxy statement/prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this proxy statement/prospectus is accurate as of any date other than the date below.**

**This joint proxy statement/prospectus is dated January 10, 2007 and is first being mailed to the shareholders of Sterling and Northern Empire on or about January 17, 2007.**

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**REFERENCES TO ADDITIONAL INFORMATION**

This proxy statement/prospectus incorporates important business and financial information about Sterling and Northern Empire from other documents that are not included in or delivered with this document. This information is available to you without charge upon written or oral request. You can obtain documents relating to Sterling that are incorporated by reference in this document through the website of the Securities and Exchange Commission ( SEC ) at [www.sec.gov](http://www.sec.gov) or by requesting them in writing or by telephone from Sterling at:

Sterling Financial Corporation  
111 North Wall Street  
Spokane, Washington 99201  
Attn: Investor Relations  
(509) 227-5389

You can obtain documents related to Northern Empire through the website of the SEC at [www.sec.gov](http://www.sec.gov) or by requesting them in writing or by telephone from Northern Empire at:

Northern Empire Bancshares  
801 Fourth Street  
Santa Rosa, California 95404  
Attn: Deborah A. Meekins or Jane M. Baker  
(707) 579-2265

All website addresses given in this document are for information only and are not intended to be an active link or to incorporate any website information into this document.

Please note that copies of the documents provided to you will not include exhibits, unless the exhibits are specifically incorporated by reference into the documents or this document.

**If you would like to request documents, please do so by February 14, 2007 in order to receive them prior to Sterling's or Northern Empire's special meeting of shareholders. See the section entitled "Where You Can Find More Information" on page 81.**

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**Sterling Financial Corporation  
111 North Wall Street  
Spokane, Washington 99201**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

**Date:** February 21, 2007

**Time:** 10:00 a.m.

**Place:** 4<sup>th</sup> Floor Boardroom, Sterling Financial Corporation, 111 North Wall Street, Spokane, Washington

**TO OUR SHAREHOLDERS:**

We are pleased to notify you of and invite you to our special meeting of shareholders. At the meeting, you will be asked to vote on the following matters:

approval of the Agreement and Plan of Merger, dated as of September 17, 2006, by and between Sterling Financial Corporation and Northern Empire Bancshares. The merger agreement provides the terms and conditions under which it is proposed that Northern Empire merge with Sterling, as described in the accompanying proxy statement/prospectus;

any proposal of the Sterling board of directors to adjourn or postpone the special meeting; and

any other business that may be properly submitted to a vote at the special meeting or any adjournment or postponement of the special meeting.

**Common shareholders of record at the close of business on January 12, 2007 are entitled to notice of, and to vote at, the special meeting and any adjournments or postponements of the special meeting. The required quorum for the transaction of business at the special meeting is a majority of the shares of Sterling common stock outstanding on the record date, represented in person or by proxy. For the merger agreement to be approved by Sterling shareholders, a majority of the votes cast in person or by proxy at the special meeting must vote FOR approval of the merger agreement.**

**BY ORDER OF THE BOARD OF DIRECTORS**

/s/ Andrew J. Schultheis  
Andrew J. Schultheis  
Secretary

Spokane, Washington  
January 10, 2007

**Your vote is very important**

**To ensure that your shares are voted at the special meeting, please complete, sign and date your proxy card and return it in the enclosed envelope promptly. You can also vote by telephone or through the Internet by**

**following the instructions on the proxy card. If you hold your shares in street name with a bank or broker, you must instruct the street name holder regarding how to vote your shares and you must follow the procedures set forth by your street name holder.**

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**Northern Empire Bancshares  
801 Fourth Street  
Santa Rosa, California 95404**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

**Date:** February 20, 2007

**Time:** 5:00 p.m.

**Place:** 801 Fourth Street, Santa Rosa, California

**TO OUR SHAREHOLDERS:**

We are pleased to notify you of and invite you to our special meeting of shareholders. At the meeting, you will be asked to vote on the following matters:

approval of the Agreement and Plan of Merger, dated as of September 17, 2006, by and between Sterling Financial Corporation and Northern Empire Bancshares. The merger agreement provides the terms and conditions under which it is proposed that Northern Empire merge with Sterling, as described in the accompanying proxy statement/prospectus;

any proposal of the Northern Empire board of directors to adjourn or postpone the special meeting; and

any other business that may be properly submitted to a vote at the special meeting or any adjournment or postponement of the special meeting.

**Common shareholders of record at the close of business on January 12, 2007 are entitled to notice of, and to vote at, the special meeting and any adjournments or postponements of the special meeting. The affirmative vote of the holders of a majority of the outstanding shares of Northern Empire common stock as of that date is required to approve the merger agreement.**

In limited circumstances set forth in California law, dissenters' rights of appraisal are available to Northern Empire shareholders in connection with the merger. The provisions of California law regarding dissenters' rights of appraisal are summarized in this proxy statement/prospectus under the heading Dissenters' Rights. In addition, the relevant California statutory provisions regarding dissenters' rights are attached to this document as Appendix D.

**BY ORDER OF THE BOARD OF DIRECTORS**

/s/ Patrick R. Gallaher  
Patrick R. Gallaher  
Secretary

Santa Rosa, California  
January 10, 2007

**Your vote is very important**

**To ensure that your shares are voted at the special meeting, please complete, sign and date your proxy card and return it in the enclosed envelope promptly. You can also vote by telephone or through the Internet by following the instructions on the proxy card. If you hold your shares in street name with a bank or broker, you must instruct the street name holder regarding how to vote your shares and you must follow the procedures set forth by your street name holder.**

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**QUESTIONS AND ANSWERS ABOUT THE MERGER**

The following are some of the questions that you, as a shareholder of either Sterling or Northern Empire, may have and answers to those questions. These questions and answers, as well as the following summary, are not meant to be a substitute for the information contained in the remainder of this document, and this information is qualified in its entirety by the more detailed descriptions and explanations contained elsewhere in this document. We urge you to read this document in its entirety prior to making any decision with respect to the vote of your Sterling or Northern Empire common stock on the merger agreement.

*Q1: Why do Sterling and Northern Empire want to merge?*

A1: We are proposing to merge because we believe the combined company will be a stronger, more competitive company.

*Q2: What will Northern Empire shareholders receive in the merger?*

A2: Northern Empire shareholders will receive, in exchange for each share of Northern Empire common stock they hold, consideration equal to 0.8050 shares of Sterling common stock and \$2.71 in cash as well as cash in lieu of fractional shares. Because the market price of Sterling common stock is subject to fluctuation, the value of the shares of Sterling common stock that you receive in the merger may increase or decrease prior to and after the merger.

*Q3: What is being voted on at the Sterling special meeting?*

A3: Sterling shareholders will be asked to vote on the approval of the merger as well as other business that may be properly submitted to a vote at the special meeting or any adjournment or postponement of the special meeting.

*Q4: Who is entitled to vote at the Sterling special meeting?*

A4: Sterling shareholders of record at the close of business on January 12, 2007, are entitled to receive notice of and to vote on matters that come before the special meeting and any adjournments or postponements of the special meeting. However, a Sterling shareholder may only vote his or her shares if he or she is present in person or is represented by proxy at the special meeting.

*Q5: What is being voted on at the Northern Empire special meeting?*

A5: Northern Empire shareholders will be asked to vote on the approval of the merger as well as other business that may be properly submitted to a vote at the special meeting or any adjournment or postponement of the special meeting.

*Q6: Who is entitled to vote at the Northern Empire special meeting?*

A6: Northern Empire shareholders of record at the close of business on January 12, 2007, are entitled to receive notice of and to vote on matters that come before the special meeting and any adjournments or postponements of the special meeting. However, a Northern Empire shareholder may only vote his or her shares if he or she is present in person or is represented by proxy at the special meeting.

*Q7: How do I vote?*

A7: Please carefully read and consider the information contained in this joint proxy statement/prospectus. Then, please mail your completed and signed proxy card in the enclosed return envelope as soon as possible so that your shares may be voted at the special meeting of shareholders for either Sterling or Northern Empire. You can also vote by telephone or through the Internet by following the instructions on the proxy card. If you hold your shares in street name with a bank or broker, you must instruct the street name holder regarding how to vote your shares, and you must follow the procedures set forth by your street name holder. Sterling or Northern Empire shareholders may also attend their respective special meeting and vote in person. However, even if you are planning to attend the special meeting of either Sterling or Northern Empire, we request that you complete, sign and return your proxy card. For more detailed information, please see the sections entitled The Special Meeting of Sterling Shareholders or The Special Meeting of Northern Empire Shareholders beginning on pages 26 and 30, respectively.

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*Q8: How many votes do I have?*

A8: Each share of Sterling common stock that you own as of the record date entitles you to one vote. As of the close of business on January 8, 2007, there were 42,085,948 outstanding shares of Sterling common stock. As of that date, 6.08% of the outstanding shares of Sterling common stock was held by directors and executive officers of Sterling and their respective affiliates.

Each share of Northern Empire common stock that you own as of the record date entitles you to one vote. As of the close of business on January 10, 2007, there were 11,013,017 outstanding shares of Northern Empire common stock. As of that date, 15.9% of the outstanding shares of Northern Empire common stock was held by directors and executive officers of Northern Empire and their respective affiliates.

*Q9: What constitutes a quorum at Sterling's or Northern Empire's special meeting?*

A9: The presence of the holders of a majority of the shares entitled to vote at the Sterling and Northern Empire special meetings constitutes a quorum. Presence may be in person or by proxy. Your shares will be considered part of the quorum if you return a signed and dated proxy card, or if you attend the special meeting in person.

*Q10: Why is my vote important?*

A10: If you are not present, by proxy or in person, at the special meeting, it will be more difficult for Sterling and Northern Empire to obtain the necessary quorum to hold their respective special meetings. In addition, if you fail to vote, by proxy or in person, it will have the same effect as a vote against approval of the merger agreement. The required quorum for the transaction of business at the Sterling and Northern Empire special meetings is a majority of the shares of Sterling and Northern Empire common stock, respectively, outstanding on the record date, represented in person or by proxy. For the merger agreement to be approved by Sterling shareholders, a majority of the votes cast in person or by proxy at the special meeting must vote FOR approval of the merger agreement. In addition, a majority of the outstanding shares of Northern Empire common stock entitled to vote at the Northern Empire special meeting must approve the merger agreement. If you are the record holder of your shares (meaning a stock certificate has been issued in your name and/or your name appears on either Sterling's or Northern Empire's stock ledger, as applicable) and you sign and return a proxy card but do not indicate how you want to vote, your proxy will be counted as a vote in favor of approval of the merger agreement. If your shares are held in street name with a broker or other street name holder, your street name holder will vote your shares on the merger agreement proposal *only* if you provide instructions to it on how to vote. For Northern Empire shareholders, failure to properly instruct the street name holder or instructions to the street name holder to abstain from voting will have the same effect as a vote against the merger agreement. For Sterling shareholders, failure to properly instruct the street name holder or instructions to the street name holder to abstain from voting will have the effect of reducing the number of votes required to approve the merger agreement.

*Q11: What is the recommendation of the Sterling and Northern Empire boards of directors?*

A11: The boards of directors of both Sterling and Northern Empire unanimously recommend a vote FOR approval of the merger agreement.

*Q12: Has either Sterling or Northern Empire obtained a fairness opinion with respect to the merger?*

A12:



Yes. Sterling and Northern Empire each obtained a fairness opinion with respect to the merger. Sterling retained the services of Keefe, Bruyette and Woods, Inc. ( KBW ), financial services industry consultants. KBW delivered its opinion dated September 17, 2006, to the board of directors of Sterling that, subject to certain assumptions, limitations and qualifications stated therein, the common stock and cash consideration to be given by Sterling in exchange for acquiring Northern Empire was fair to Sterling and its shareholders from a financial point of view. KBW confirmed its fairness opinion as of January 10, 2007. KBW will receive a fee, plus expenses, in connection with its issuance of the fairness opinion. See The Merger

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Opinion of Sterling's Financial Advisor.

Northern Empire retained the services of Sandler O'Neill & Partners, L.P. ( Sandler O'Neill ), financial services industry consultants. Sandler O'Neill delivered its opinion dated September 15, 2006, to the board of directors of Northern Empire that, subject to certain assumptions, limitations and qualifications stated therein, the consideration to be received by Northern Empire shareholders was fair to Northern Empire shareholders from a financial point of view. Sandler O'Neill confirmed its fairness opinion as of January 10, 2007. Sandler O'Neill will receive a fee, plus expenses, in connection with its issuance of the fairness opinion. See The Merger Opinion of Northern Empire's Financial Advisor.

*Q13: What if I return my proxy but do not mark it to show how I am voting?*

A13: If your proxy card is signed and returned without specifying your choice, your shares will be voted FOR approval of the merger agreement in accordance with the recommendation of the Sterling or Northern Empire board of directors, as applicable.

*Q14: Can I change my vote after I have mailed my signed proxy card?*

A14: Yes. You can change your vote by revoking your proxy at any time before it is exercised at the special meeting for either Sterling or Northern Empire. You can revoke your proxy in one of three ways:

notify Sterling's or Northern Empire's corporate secretary, as applicable, in writing before the applicable special meeting that you are revoking your proxy,

submit another proxy with a later date prior to the special meeting, or

vote in person at the special meeting.

*Q15: What regulatory approvals are required to complete the merger?*

A15: In order to complete the merger, Sterling must first obtain the prior approval of the Board of Governors of the Federal Reserve System ( Federal Reserve Board or FRB ). In addition, the acquisition of Northern Empire is subject to the receipt of prior approval from the Office of Comptroller of Currency, or OCC, the Federal Deposit Insurance Corporation, or FDIC, and the Washington Department of Financial Institutions, or WDFI. Applications for prior approval of the merger by the Federal Reserve Board, the OCC, the FDIC and the WDFI were filed on or about December 11, 2006.

*Q16: Do I have dissenters' or appraisal rights with respect to the merger?*

A16: Under California law, the shareholders of Northern Empire have dissenters' rights of appraisal under limited circumstances. The provisions of California law regarding dissenters' rights of appraisal are summarized in this proxy statement/prospectus under the heading Dissenters' Rights. In addition, the relevant California statutory provisions regarding dissenters' rights are attached to this document as Appendix D.

The shareholders of Sterling do not have dissenters' or appraisal rights in connection with the proposed acquisition of Northern Empire.

*Q17: What are the material U.S. federal income tax consequences of the merger to me?*

A17: The merger will qualify for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, referred to herein as the Code. As a result, we expect that, for U.S. federal income tax purposes, Northern Empire shareholders receiving part cash and part Sterling common stock generally will recognize gain, but not loss, equal to the lesser of (i) the excess, if any, of the fair market value of the Sterling common stock and the amount of cash received over the adjusted tax basis in the Northern Empire common stock exchanged in the merger or (ii) the amount of cash received in the merger.

For further information concerning U.S. federal income tax consequences of the merger, please see the

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section entitled *The Merger – Material United States Federal Income Tax Considerations of the Merger* beginning on page 54 of this joint proxy statement/prospectus.

*Q18: What risks should I consider before I vote on the merger?*

A18: We encourage you to read carefully the detailed information about Sterling, Northern Empire and the merger contained and incorporated by reference in this document, including the section entitled *Risk Factors* beginning on page 10.

*Q19: When do you expect to complete the merger?*

A19: We are working to complete the merger by no later than April 2, 2007. We must first obtain the necessary regulatory approvals and the approval of Sterling's and Northern Empire's shareholders at their respective special meetings. We cannot assure you as to if and when all the conditions to the merger will be met nor can we predict the exact timing. It is possible we will not complete the merger.

*Q20: Whom should I contact with questions or to obtain additional copies of this document?*

A20: Sterling Financial Corporation  
111 North Wall Street  
Spokane, Washington 99201  
Attn: Investor Relations  
(509) 227-5389

Northern Empire Bancshares  
801 Fourth Street  
Santa Rosa, California 95404  
Attn: Deborah A. Meekins or Jane M. Baker  
(707) 579-2265

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**SUMMARY**

This summary highlights selected information about the merger but may not contain all of the information that may be important to you. You should carefully read this entire document and the other documents to which this document refers for a more complete understanding of the matters being considered at the Sterling and Northern Empire special meetings. See the section entitled "Where You Can Find More Information" beginning on page 82. Unless we have stated otherwise, all references in this document to Sterling are to Sterling Financial Corporation, all references to Northern Empire are to Northern Empire Bancshares, and all references to the merger agreement are to the Agreement and Plan of Merger, dated as of September 17, 2006, between Sterling and Northern Empire, a copy of which is attached as Appendix A to this document. In this document, we often refer to the combined company, which means, following the merger, Sterling and its subsidiaries, including Northern Empire's sole subsidiary, Sonoma National Bank (Sonoma). References to we, us and our in this document mean Sterling and Northern Empire together.

**The Companies**

Sterling Financial Corporation  
111 North Wall Street  
Spokane, Washington 99201  
Attn: Investor Relations  
(509) 227-5389

Sterling Financial Corporation (Sterling) is a bank holding company, the significant operating subsidiaries of which are Sterling Savings Bank and Golf Savings Bank. The principal operating subsidiaries of Sterling Savings Bank are Action Mortgage Company (Action Mortgage), INTERVEST-Mortgage Investment Company (INTERVEST) and Harbor Financial Services, Inc. (Harbor Financial). Sterling Savings Bank commenced operations in 1983 as a Washington State-chartered federally insured stock savings and loan association headquartered in Spokane, Washington. On July 8, 2005, Sterling Savings Bank converted to a commercial bank. The main focus of Golf Savings Bank, a Washington State-chartered savings bank acquired by Sterling in July 2006, is the origination and sale of single-family residential mortgage loans.

Sterling provides personalized, quality financial services and Perfect Fit banking products to its customers consistent with its Hometown Helpful philosophy. Sterling believes that its dedication to personalized service has enabled it to grow both its retail deposit base and its lending portfolio in the western United States. With \$8.91 billion in total assets at September 30, 2006, Sterling originates loans and attracts Federal Deposit Insurance Corporation (FDIC) insured deposits from the general public through 145 financial service centers located throughout the west. In addition, Sterling originates loans through Golf Savings Bank and Action Mortgage residential loan production offices and through INTERVEST commercial real estate lending offices in the west. Sterling also markets fixed income and equity products, mutual funds, fixed and variable annuities and other financial products through Harbor Financial service representatives located throughout Sterling's financial service center network. As of September 30, 2006, Sterling had total assets of \$8.91 billion, net loans receivable of \$6.24 billion, deposits of \$5.95 billion and shareholders' equity of \$608.7 million. On November 30, 2006, Sterling completed the acquisition of FirstBank NW Corp. (FirstBank), which included the merger of FirstBank's wholly owned banking subsidiary with and into Sterling Savings Bank. As of September 30, 2006, FirstBank had total assets of \$884.2 million, net loans receivable of \$671.2 million, deposits of \$633.4 million and shareholders' equity of \$82.8 million. Sterling trades on the Nasdaq Global Select Market under the symbol of STSA.

Northern Empire Bancshares

801 Fourth Street  
Santa Rosa, California 95404  
Attn: Deborah A. Meekins or Jane M. Baker  
(707) 579-2265

Northern Empire was incorporated as a California corporation on June 8, 1982 for the purpose of becoming a bank holding company of Sonoma. Northern Empire is a bank holding company registered under the Bank Holding Company Act of 1956 and is subject to supervision by the Board of Governors of the Federal Reserve System. On

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April 27, 2000, Northern Empire also elected to become a financial holding company under the Gramm-Leach-Bliley Act of 1999. Northern Empire's sole subsidiary is Sonoma and its activities are the commercial banking activities engaged in through Sonoma and some lending through loan participations with Sonoma. As of September 30, 2006, Northern Empire had total assets of \$1.37 billion, net loans receivable of \$1.21 billion, deposits of \$962.1 million and shareholders' equity of \$121.5 million.

Sonoma was organized as a national banking association on March 27, 1984 and commenced operations on January 25, 1985. It currently has twelve banking offices operating in Sonoma, Marin and Contra Costa Counties, California. As a national bank, Sonoma is subject to supervision, regulation and regular examination by the Office of the Comptroller of Currency ( OCC ). It is also a member of the Federal Reserve System and, as such, is subject to applicable provisions of the Federal Reserve Act and regulations issued thereunder. The deposits of Sonoma are insured by the FDIC, and Sonoma is therefore subject to applicable provisions of the Federal Deposit Insurance Act and regulations of the FDIC. Sonoma is also subject to applicable provisions of California law, insofar as they do not conflict with or are not pre-empted by Federal law. The statutes and regulations administered by these agencies govern most aspects of Sonoma's business, including required reserves against deposits, loans, investments, dividends, deposit insurance premiums, mergers and acquisitions, the establishment of new branches and other banking facilities, disclosure obligations to depositors and borrower and customer privacy.

Sonoma engages in the general commercial banking business. It accepts checking and savings deposits, offers money market deposit accounts and certificates of deposit, makes secured and unsecured commercial, construction, other installment and term loans, and offers other customary banking services. Sonoma makes commercial loans guaranteed by the Small Business Administration, ( SBA ), which may be sold in the secondary market.

Within Sonoma's Loan Department are groups of lenders specializing in commercial, construction and SBA lending. SBA loans are funded by Sonoma and then Sonoma may, at its option, sell the portion of the loan guaranteed by the SBA (generally 75% to 85% of the total loan amount, depending on the purpose and term of the loan). When a SBA loan is sold